FIBI FIRST INTERNATIONAL BANK OF ISRAEL

Financial Statements as of March 31, 2020

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REPORT OF THE BOARD OF DIRECTORS AND MANAGEMENT AS OF MARCH 31, 2020

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

GENERAL OVERVIEW, OBJECTIVES AND STRATEGY

Description of the Bank Group's activity

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

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

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

The Bank operates through three principal business divisions:

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

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

THE RATING OF THE BANK BY RATING AGENCIES

On April 27, 2020 S&P Maalot ratified the issuer rating of the Bank at ilAAA/Stable and its subordinate debt notes at ilAA+ and the rating of the subordinate debt notes with a loss absorption mechanism at ilAA-.

FORWARD-LOOKING INFORMATION

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

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

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

CONDENSED PRINCIPAL FINANCIAL INFORMATION AND PRINCIPAL EXECUTION INDICES

Principal financial ratios	For the three months ended		For the year ended
	2020	2019	2019
			in %
Execution indices			
Return on equity attributed to shareholders of the Bank[(1)]	**8.2%**	9.3%	10.5%
Return on average assets[(1)]	**0.47%**	0.54%	0.63%
Ratio of equity capital tier 1	**10.28%**	10.53%	10.81%
Leverage ratio	**5.52%**	5.71%	5.81%
Liquidity coverage ratio	**130%**	132%	128%
Ratio of total income to average assets[(1)]	**2.8%**	3.0%	3.0%
Ratio of interest income, net to average assets [(1)]	**1.8%**	1.9%	1.9%
Ratio of fees to average assets [(1)]	**1.0%**	0.9%	0.9%
Efficiency ratio	**62.2%**	67.2%	64.4%
Credit quality indices			
Ratio of provision for credit losses to credit to the public	**1.15%**	1.02%	1.05%
Ratio of impaired debts or in arrears of 90 days or more to credit to the public	**1.07%**	0.92%	1.08%
Ratio of provision for credit losses to total impaired credit to the public	**146%**	156%	131%
Ratio of net write-offs to average total credit to the public [(1)]	**0.15%**	0.06%	0.10%
Ratio of expenses for credit losses to average total credit to the public [(1)]	**0.71%**	0.17%	0.16%

Principal data from the statement of income	For the three months ended	
	2020	2019
		NIS million
Net profit attributed to shareholders of the Bank	**171**	183
Interest Income, net	**658**	635
Expenses from credit losses	**157**	36
Total non-Interest income	**366**	367
Of which: Fees	**368**	320
Total operating and other expenses	**637**	673
Of which: Salaries and related expenses	**379**	402
Dismissals expenses	**2**	18
Primary net profit per share of NIS 0.05 par value (NIS)	**1.70**	1.82

Principal data from the balance sheet			As of
	31.3.20	31.3.19	31.12.19
			NIS million
Total assets	**149,531**	136,983	141,110
of which: Cash and deposits with banks	**41,933**	34,108	37,530
Securities	**10,824**	11,338	10,995
Credit to the public, net	**90,028**	86,353	87,899
Total liabilities	**140,624**	128,445	132,186
of which: Deposits from the public	**126,977**	115,349	120,052
Deposits from banks	**1,129**	1,064	1,137
Bonds and subordinated capital notes	**3,754**	4,270	3,674
Capital attributed to the shareholders of the Bank	**8,542**	8,208	8,568

Additional data			As of
	31.3.20	31.3.19	31.12.19
Share price (0.01 NIS)	**8,676**	8,642	9,989
Dividend per share (0.01 NIS)	**125**	105	410

(1) Annualized.

Principal Risks to which the Bank is exposed

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

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

Additional information is detailed in the financial statements for 2018.

Developing risks

Developing risks are risks which may be created in new areas, or new risk centers developing in existing risks, which stem, inter alia, from changes in the environment affecting areas of banking activity, including the regulatory, competitive, digital and additional environments.

The principal developing risks are the strategic/business model risk, regulatory risk,cyber and data protection risks, information technology risk, cross-border risks and fair banking risk. Starting with the present quarter, a macro-economic risk has been added, which includes the impact of the spreading of the Coronavirus. For additional details regarding developing risks – see the Risk Report on the Internet website of the Bank.

Impact of the spreading of the Coronavirus

The Corona virus began to spread in China at the end of 2019, continuing afterwards to spread globally. Governments around the world, including Israel, adopted in response defensive measures, such as limiting passage between countries, isolation and reduction in human gatherings, lockups, limits on operation of private businesses, government and local authority services, and more. The spreading of the virus and the said defensive measures are causing material economic damage and negative trends to the global and domestic economies as well as impairment to world and the domestic capital markets.

Towards the end of the first quarter of the year, due to the spreading of the virus, the economy came to a nearly complete standstill, this following the severe restrictions imposed by the Ministry of Health, which had an adverse effect on the macto-economic situation in the market, and which, in particular, had caused the steep rise in unemployment and the slowdown in economic activity. Trading on stock exchanges around the world recorded high fluctuations and steep downward trends, although recently, the market had rectified itself and a positive trend is observable. The implications on the operation of the Bank of the situation discussed above, including growth in credit risk and liquidity difficulties of borrowers in the different operating segments, are expected to continue.

In order to confront the said effects, central banks, including Bank of Israel, have lowered interest rates for the short term. These reductions are expected to reduce the financing income of the Bank. Additional changes in interest rates may respectively affect the interest income of the Bank.

In order to continue maintaining business continuity, the Bank continues to operate, while protecting the health of employees and customers and strictly following the rules of the Ministry of Health and Bank of Israel. In addition, the bank has adopted a line of measures for maintaining essential workforce for cases of emergency, inter alia, by means of split-up of units, distance working, and creation of "capsules" or team work, while strictly conducting risk management and controls, while acting in accordance with an operational lineup plan for the gradual return to normal.

Management of the Bank and the Board of Directors conduct ongoing follow-up over all subjects and risks stemming from the crisis, its implications and financial effects on the Bank, including the effects on credit and liquidity risks, the "nostro" portfolio, dealing rooms, etc. Since the stage of identification of the Corona crisis, the Bank has maintained higher liquidity balances, both in foreign and local currency, than the balances held in regular business situations. Furthermore, a high liquidity coverage ratio has been maintained in all segments over and above the regulatory and internal specifications. The liquidity ratio amounted in the first quarter of the year to an average of 130%. Deposits of the public amounted at March 31, 2020, to NIS 126,977 million, in comparison to NIS 120,052 million at the end of 2019, an increase at the rate of 5.8%, explained mostly by the movement of Bank customers from the capital market to deposits, due to the implications of the spreading of the Corona virus.

During this period, customers have increased the direct banking transactions. Therefore, the Bank provided additional services on these channels, alongside the relief granted by Bank of Israel, while adapting monitoring and controls.

Reduction in prices of marketable assets, changes in interest graphs in Israel and around the world and in bond margins, have created an adverse effect on the value of the marketable assets of the Bank. During the quarter, the value of the equities portfolio dropped by NIS 41 million, and an impairment of a nature other than temporary was recorded in the available-for-sale bond portfolio in the amount of NIS 18 million. Moreover, the balance of the other comprehensive profit was reduced by NIS 72 million, explained by the reduction of NIS 161 million in the value of the available-for-sale portfolio (mostly in respect of Israel Government bonds), and in contrast an increase in the other comprehensive profit of NIS 89 million in respect of employee rights.

On background of the spreading of the Corona virus and in order to secure the ability of Banks to continue the offer of credit, The Supervisor of Banks, in the framework of a Provisional Instruction, reduced on March 31, 2020, the capital requirements of banks for a period of six months, with an option for extention. Accordingly, the Bank's minimum Tier I equity capital ratio and the minimum overall capital ratio required by the Supervisor of Banks on a consolidated basis, at March 31, 2020 and for the period of the Provisional Instruction, are 8.30% and 11.80%, respectively (instead of 9.31% and 12.81% prior to the Provisional Instruction). In an announcement published by the Supervisor of Banks with respect to the Provisional Instruction, boards of directors of banks are requested, inter alia, to re-examine their dividend policies, with the aim of diverting the capital resources freed as a result of the reduction in capital requirements, towards increasing credit and not to dividend distribution. On background of the Supervisor's announcement and in order to allow for the implementation of the purpose of the Instruction, the Board of Directors of the Bank held a discussion on April 16, 2020, regarding the dividend policy and resolved that the Bank shall refrain from the distribution of dividends to its shareholders during the period of the Provisional Instruction, which terminates on September 30, 2020. It is clarified that the dividend distribution policy remains unchanged. The Board of Directors of the Bank shall continue to discuss the continued implementation of the dividend distribution policy of the Bank in the light of developments in the crisis and the impact thereof on the economy and on the Bank, and would be entitled to examine the resolution regarding implementation of dividend distribution and modify it at its discretion.

The Tier one capital ratio at March 31, 2020, amounted to 10.28% in comparison to 10.81% at December 31, 2019, and the leverage ratio amounted to 5.52% in comparison to 5.81% at December 31, 2019. The reduction is explained by the rise in risk assets, stemming mainly from the growth in credit to the public.

The Bank monitors the financial condition of borrowers and during the past quarter made changes to terms of loans, including deferral of repayment dates and extension of repayment periods, which, according to Bank of israel guidelines are not classified as restructure of a troubled debt. In the wake of the crisis and in view of guidelines of bank of israel, the Bank has determined several criteria for the treatment of applications by customers for deferral or spreading of loan repayments. During the month of March 2020, loan repayments (principal and interest) in the amount of NIS 86 million, were deferred, as detailed in the Chapter "Credit risk", below. Additionasl repayments were deferred in the second quarter of 2020.

The Bank has examined the business and private credit models, and updated the parameters for the granting of loans in view of the crisis. Additionally, a series of steps have been taken in order to assist customers, through the fund guaranteed by the State in aid of businesses hit by the effects of the Corona crisis, or through other means based on a series of reliefs published by bank of Israel.

On background of the spreading of the virus, its effect on the macro-economic environment and the considerable uncertainty caused by it, the Bank foresees a growth in credit loss expenses. In view of the state of uncertainty, the Bank has decided to increase the collective loan losses provision for this quarter, by way of updating the qualitative adjustments in computing the collective provision, in order to reflect the possible growth in the specific provision, which might emerge in future quarters. The total credit loss expenses amounted to NIS 157 million, of which NIS 130 million for the collective credit loss expense, in contrast to a collective credit loss expense of NIS 26 million, in the corresponding quarter last year.

As stated, it is not possible to assess the full impact of the event and their scope on the Bank, due to the uncertainty as to the length of period of the virus spreading event, the measures that would be taken to curb the spreading and their force, as well as the uncertainty regarding the derivative effects on economic activity, on trends in the capital markets and different financial measures that would be adopted in the matter (by governments, central banks and regulators).

Estimates made by the Bank regarding the possible implications of the spreading of the Corona virus and its effect on the markets comprise forward looking information, as defined by the Securities Act, 1968, based, inter alis, on information, third party publications and assessments in the hands of the Bank at the present date. Such estimates are uncertain and may materialize in a materially different manner than that described above, inter alia, in consequence of the scope of the spreading of the virus, the reaction of governments and central banks and the length of period of the event.

In the course of the quarter ended March 31, 2020, no material change has occurred in the internal control over financial reporting, which materially affected or is reasonably expected to materially affect internal control over financial reporting, including the potential impact of the Coronavirus event on the financial reporting systems and on the disclosure control layout.

For additional details of the effect of the spreading of the Corona virus, see Note 16 to the financial statements and the Risk Report on the Internet website of the Bank.

Objectives and Strategy

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

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

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

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

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

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

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

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

EXPLANATION AND ANALYSIS OF RESULTS AND BUSINESS POSITION

EXPLANATION AND ANALYSIS OF RESULTS AND BUSINESS POSITION

TRENDS, EVENTS, DEVELOPMENTS AND MATERIAL CHANGES

PRINCIPAL ECONOMIC DEVELOPMENTS

Following are the principal economic developments, which impacted the economic environment in which the Israeli banking sector operated in the first quarter of 2020.

At the opening of the year 2020, the Israeli economy was marked by positive macro-economic data, good growth data, low unemployment rate and high financial stability with a low public debt level and high foreign currency balances. However, with the spreading of the Corona virus during the first quarter of 2020, the Government of Israel imposed widespread restrictions on individuals and businesses, as a result of which, beginning with the second half of March 2020, the economic activity of many sectors came to a halt, and a significant slowdown was noticed in the activity of the Israeli and global economies.

Growth

The latest nonfinancial economic activity indicators published for the fourth quarter of 2019, prior to the Coronavirus crisis, continued to be positive indicating growth of the gross domestic product (GDP) in the fourth quarter of 2019, at the rate of 4.6% (on an annualized basis). The Coronavirus crisis interrupted the growth trend and the economy has transformed into contraction. In accordance with data of the Central Bureau of Statistics ("CBS") published recently, the GDP declined by 7.1% in the first quarter of 2020 (annualized), being directly affected by the Coronavirus crisis and by the measures taken by the Government to curb the spreading of the virus, causing the slowdown in economic activity. Furthermore, the steep decrease in the import of motor vehicles increased the decline in the GDP, in comparison with the fourth quarter of 2019 (a decline of 4.6% in the GDP after elimination of the import of vehicles). The published data indicates that the business GDP declined by 9.1%, the private consumption expenses declined by 20.3% and the import of goods and services declined by 27.5%.

On May 25, 2020, on background of the increasing pace of the actual lifting of the health restrictions quicker than expected, the Research Division of Bank of Israel updated its forecasts, according to which, starting with the second half of the year, the economy is expected to enter a gradual and long recovery process, so that the GDP for 2020 is expected to contract by 4.5% (as compared to the previous forecast of 5.3%), while a growth at the rate of 6.8% is expected in 2021 (as compared with 8.7% in the previous forecast).

Bank of Israel's Composite State-of-the-Economy Index, rose during the first quarter of 2020 by only 0.3% (in March alone the Index fell by 0.1%) in comparison with 1.1% in the corresponding period last year and 3.4% in the whole of 2019. The significant slowdown in the present quarter is mostly affected by the state of the economy following the crisis and is considerably lower than the rate of growth in the Index in the past two years, which was consistent with the low unemployment rate.

Credit risk of the economy

The level of risk of the Israeli economy, as reflected by the ratings awarded by the rating agencies and the capital markets, is low.

The international rating company Fitch ratified in March 2019 the credit rating of the State of Israel at the level of "A+" with the same stable outlook.

The international rating agency S&P ratified in May 2020 the credit rating of the State of Israel at a level of "AA-" with the same stable outlook. The rating agency noted that despite the fiscal challenges created by the Coronavirus crisis and the lengthy political crisis, it is expected that the commitment for fiscal discipline would increase with the formation of the new Government and would contribute to the continuation of a responsible macro-economic policy.

The international rating agency Moody's lowered at the end of April 2020 the credit rating outlook of the State of Israel from a level of "A1" with a positive outlook to "A1" with a stable outlook. The lowering of the outlook happened on background of the assessment that the credit rating would not be raised in the coming months and stemmed from two principal factors: the accelerated growth in the budgetary deficit due to the Coronavirus crisis, and the weakness in the budgetary policy of the Government in view of the growing political polarization. Notwithstanding the above, the ratification of the rating reflects a strong growth potential in the middle and long term.

State budget

In view of the severe crisis and the spreading of the Corona virus, the Government was compelled to expend cosiderable amounts towards the curbing of the spread of the virus, the treatment of contaminated persons and the need to support the economy in the effort to overcome the crisis.

A deficit of NIS 28.3 billion was measured in the period from January to April 2020, in comparison to a deficit of NIS 14.2 billion measured in the corresponding period last year. The cumulative deficit for the past twelve months amounted to 4.8% of the GDP. In April 2020 alone, a deficit of NIS 14.9 billion was measured, in comparison to NIS 4.9 billion in the corresponding month last year. The originally targeted deficit for the year 2020, prior to the crisis, moved between 3% to 3.3% of the GDP.

Inflation

The inflationary environment in the economy is still relatively low, when in the first quarter of 2020, the Consumer Price Index (Index "for the month") decreased by 0.1%, as compared to an increase of 0.5% in the corresponding period last year, while the "known" Index decreaed by 0.5% as compared to a decrease of 0.3% in the corresponding period last year.

In accordance with the update of the Research Division of Bank of Israel of May 25, 2020, the inflationary delineation for the coming months is expected to be low, and following the crisis, the inflation is expected to be even lower, both on background of the steep decline in the price of oil and other commodities, the rise in unemployment and its effect on wages, and as a result of the possible restraining of the growth rate of property rentals. According to these estimates, the inflation in 2020 would amount to a negative rate of 0.5% (as compared to a negative rate of 0.8% previously estimated), while in 2021, it would reach a positive rate of 0.7% (as compared to 0.9% previously estimated).

Housing market

Recent publications reflect an increase in housing prices. According to the Housing Price Index published in April 2020 by the Central Bureau of Statistics (hereinafter – "the CBS") prices of apartments recorded a rise of 0.6% in the months of January-February 2020, in comparison with transactions effected in the months of December 2019-January 2020. Prices of transactions in the months of January-February 2020 rose by 3.9% in comparison with the corresponding months last year.

Labor market

The Coronavirus crisis significantly affected the labor market, which until the outbreak of the crisis demonstrated vigor. The crisis has not yet been fully reflected in the data published by the CBS, which reported that the rate of unemployment in the first quarter of 2020 amounted to 3.1% (for the 25-64 age group), in comparison with 3.2% in the fourth quarter of 2019. This rate is not compatible with the updated estimates of the Research Division of Bank of Israel stating an unemployment rate of 6.3% for 2020 and 6.7% for 2021. The difference stems mainly from the fact that many employees in the economy have been suspended on unpaid leave or have been retired in the wake of the crisis, but are not recorded as unemployed in accordance with the definition of the CBS. In accordance with data of the CBS, out of the total employed personnel, only 55% have been fully employed, while the number of employees on temporary absence from their workplace increased to 23% in March 2020, as compared to only 7% in February . The number of employment seekers, including employees on unpaid leave, increased to 1.1 million persons, comprising approximately a quarter of the workforce in Israel.

Exchange rate

The exchange rate of the shekel as against the US dollar rose by 3.1% in the first quarter of 2020, while highly fluctuating. The exchange rate as against the Euro rose by 0.6%.

Bank of Israel interest rate

In view of the Coronavirus crisis, which has disrupted the growth trend in the economy, Bank of Israel lowered the interest rate in April 2020, to a level of 0.1%, and decided on additional measures, which include the granting of monetary loans to banks conditional upon extending credit to small businesses, enlarging the program by which repurchase transactions ("Ripo") are conducted with financial institutions so as to include also corporate bonds as collateral, in addition to the plan for the purchase of government bonds declared by bank of Israel, this also in order to stabilize he markets.

According to an updated estimate of the Research Division of Bank of Israel of May 2020, the interest rate is expected to amount in the coming year to a range of between 0% and 0.1%.

The global environment

The global economic activity continued to slowdown on background of Coronavirus effect. The purchase managers' Index in industry around the world indicates a contraction to the lowest level for the past eleven years. In March 2020, following the crisis, the capital markets in Israel and around the world were jolted when the equities indices on the principal markets fell at an average rate of 30%, while thereafter, most of them rose again and offset a part of the drop, on background of measures taken by central banks and governments. Returns on the government and corporate bonds markets were most volatile and risk margins increased sharply. Acording to estimates of international bodies, the global product is expected to contract in 2020 by a significant rate and a decline is also expected in global trading. The International Monetary Fund foresees that the global product would contract in 2020 by 3%. In the first quarter of 2020, the Eurozone recorded a steep decline in the product of 14% (on an annualized basis), when in France, Spain and Italy the rate of decline was relatively high in ranges between 19% and 23%.

In China, the slowdown in the spreading of the virus enabled the authorities to reduce restrictions on the population, and the data for the first quarter of 2020 indicate at this stage a gradual return of economic activity.

In the USA, where restrictions of travel and economic activity had been imposed at a relatively late stage, the product contracted in the first quarter of 2020 by 4.8% (annualized). The effect of the crisis led to a leap in unemployment in April 2020 to an historical record of 14.7%, in comparison to a low of 3.5%, prior to the crisis.

The spreading of the virus has led in response to the steep lowering of interest rates by the central banks, and to the adoption of different expansionary measures and the supply of liquidity to the markets. Goverments around the world announced wide scope plans for the expansion of public expenditure, compensation for those hit by the crisis, and extension of credit to the business sector. The slowdown in economic activity led to steep reductions in commodity prices, and the price of oil dropped by tens of percentages, also on the background of disagreement among the principal oil producing countries with respect to the cuts in production. The said reductions were toned down later on.

Capital market

The principal equities indices of the domestic capital market recorded reductions in the first quarter of 2020, on background of the reduction on world markets and the spread of the Corona virus. The TA-35 Index dropped by 21% and the TA-125 Index dropped at a similar rate. The General Bond Index dropped by 4.5%.

The trading turnover in equities on the local Stock Exchange recorded an increase in volume during the first quarter of 2020, being toned down subsequent to balance sheet date.

Around the world, downwards trends in the capital markets increased in the wake of the crisis, so that the S&P-500 Index dropped by 20% during the first quarter of 2020. In Europe, the Eurostocks-600 Index dropped by 23% and the developing countries Index (the EM-MSCI Index) dropped by 24%.

Price increases were recorded on the capital markets subsequent to balance sheet date, on background of the steps taken by central banks and governments around the world.

MATERIAL DEVELOPMENTS IN REVENUES, EXPENSES AND OTHER COMPREHENSIVE INCOME

PROFIT AND PROFITABILLITY

Net profit attributed to the shareholders of the Bank amounted to NIS 171 million in the first quarter of 2020, as compared to NIS 183 million in the same period last year, a decrease of 6.6%.

The return of net profit to the capital attributed to the shareholders of the Bank (annualized) amounted to 8.2% in the period January-March 2020, as compared to 9.3% in the same period last year and 10.5% in 2019.

Condensed statement of income

	For the three months ended March 31,		
	2020	**2019**	**change**
		NIS million	%
Net financing earnings(1)	**655**	681	(3.8)
Expenses from credit losses	**157**	36	336.1
Net financing earnings after Expenses from credit losses	**498**	645	(22.8)
Fees	**368**	320	15.0
Other income	**1**	1	-
Operating and other expenses	**637**	673	(5.3)
Profit before taxes	**230**	293	(21.5)
Provision for taxes on profit	**48**	111	(56.8)
The bank's share in profit of equity-basis investee, after taxes	**(2)**	10	(120.0)
Net profit:			
Before attribution to non-controlling interests	**180**	192	(6.3)
Attributed to non-controlling interests	**(9)**	(9)	-
Attributed to shareholders of the Bank	**171**	183	(6.6)
Net return on equity attributed to the Bank's shareholders	**8.2%**	9.3%	

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

DEVELOPMENT IN INCOME AND EXPENSES

The Net Financing earnings

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

Set out below is the composition of net financing earnings:

	2020				2019
	Q1	Q4	Q3	Q2	Q1
					NIS million
Interest income	**715**	748	699	911	727
Interest expenses	**57**	88	57	246	92
Net interest income	**658**	660	642	665	635
Non-interest financing income (expenses)	**(3)**	50	63	66	46
Net financing earnings	**655**	710	705	731	681
Elimination of non-current activities:					
Reconciliations to fair value of derivative instruments	**-**	1	(4)	2	(5)
Income (expenses) from realization and reconciliations to fair value of bonds	**(9)**	3	-	5	4
Earnings (losses) from investments in shares	**(48)**	16	33	15	7
Total non-current activities	**(57)**	20	29	22	6
Financing earnings from current activity(1)	**712**	690	676	709	675

(1) Of which in respect of changes in the CPI- an expense of NIS 16 million in the first quarter of 2020, in comparison with an expense of NIS 4 million in the same period last year.

The financing earnings from current activity amounted to NIS 712 million, compared with NIS 675 million in the corresponding period last year. The increase stemmed from a rise in the volume of the business activity and residential loans, and from an increase in income from the dealing rooms due to an increase in the volume of transactions derived from the volatility of the markets, following the spearding of the Coronavirus.

Set out below are main data regarding interest income and expenses:

	For the three months ended March 31,	
	2020	2019
		in %
Income rate on asset bearing interest	**2.31**	2.45
Expense rate on liabilities bearing interest	**0.32**	0.54
Total interest spread	**1.99**	1.91
Ratio between net interest income and assets bearing interest balance	**2.12**	2.14

For details regarding the report on rates of interest income and expenses of the Bank and of its consolidated subsidiaries and the analysis of changes in interest income and expenses, see Appendix 1 to the Chapter "Corporate governance".

Losses from investment in shares whuch amounted to NIS 48 million include unrealized losses in the amount of NIS 41 million, derived from the decrease in market value of shares traded on the capital market due to the spreading of the Coronavirus crisis. After balance sheet date, certain recovery in the fonancial markets occurred, which moderated these effects, and as at May 26, 2020, unrealized losses from shares amounted to NIS 24 million.

Expenses from realization and adjustments to fair value of bonds in the amount of NIS 9 million include provision for impairment in the amount of NIS 18 million, in respect of an impairment of other than temporary nature also deriving from the decreases in the securities exchange prices, as stated above.

Expenses from credit losses amounted to NIS 157 million in the first three months of 2020 compared with NIS 36 million in the same period last year.

The increase in the expenses in respect of credit losses derives mainly from the effects on the macro-economic environment as a result of the spreading of the Coronavirus and due to the uncertainty as to its effect on the borrowers position.

In view of the state of uncertainty, the Bank has decided to increase the collective loan losses provision for this quarter, by way of updating the qualitative adjustments in computing the collective provision, in order to reflect the possible growth in the specific provision, which might emerge in future quarters. In addition, the collective loan loss provision increased also as a result from the increase in the volume of troubled debts due to the spreading of the Coronavirus.

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

	For the three months ended March 31,	
	2020	**2019**
		NIS million
Individual expense in respect of credit losses	**54**	64
Decrease in individual expense in respect of credit losses and collection of debts written off in accounting	**(27)**	(54)
Individual expense, net in respect of credit losses	**27**	10
Collective expense in respect of credit losses	**130**	26
Total expenses in respect of credit losses	**157**	36
Of which:		
Expenses in respect of commercial credit	**124**	18
Expenses (income) in respect of housing credit	**4**	(1)
Expenses in respect of other private credit	**29**	19
Ratio of individual expense in respect of credit losses to average total credit to the public[(1)]	**0.12%**	0.05%
Ratio of collective expense in respect of credit losses to average total credit to the public[(1)]	**0.59%**	0.12%
Ratio of total expenses in respect of credit losses to average total credit to the public[(1)]	**0.71%**	0.17%

(1) Annualized.

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

Fees totaled NIS 368 million in the first three months of 2020, compared with NIS 320 million in the same period last year, an increase of 10.5%. Most of the increase derives from a rise in income from the activity in the capital market, explained by an increase in the volume of transactions in the stock exchange, and from an increase in income from exchange differences due to a rise in the volume of activity and the volatility in the currencies exchange rate, due to the Coronavirus crisis.

Set out below are details of fees income:

	For the three months ended	
	March 31, 2020	March 31, 2019
		NIS million
Account management	**57**	57
Credit cards	**25**	25
Transactions in the capital market	**184**	153
Conversion differentials	**54**	35
Fees from financing transactions	**20**	22
Other Fees	**28**	28
Total Fees	**368**	320

Operating and other expenses totaled NIS 637 million in the first three months of 2020, compared with NIS 673 million in the same period last year, a decrease of 5.3%.
Set out below are details of operating and other expenses:

	For the three months ended	
	March 31, 2020	March 31, 2019
		NIS million
Salaries and related expenses excluding bonus expenses	**379**	392
Bonuses	**-**	10
Maintenance and depreciation of premises and equipment	**86**	92
Amortization of intangible assets	**24**	23
Expenses in respect of the merger of Otsar Hahayal	**-**	6
Dismissals	**2**	18
Other expenses except dismissals and reductions	**146**	132
Total operating and other expenses	**637**	673

Salaries and related expenses totaled NIS 379 million in the first three months of 2020, compared with NIS 402 million in the same period last year, a decrease of 5.7%, explained mainly by decrease in salaries due to reduction in the manpower position in the Group and from a decrease in bonuses, partialy offset by increase in salaries.

Maintenance and depreciation of buildings and equipment expenses amounted to NIS 86 million in comparison to NIS 92 million in the same period last year, a decrease of 6.5%, stemming from reduction in the volume of the real estate assets in the Group due to the efficiency measures.

Other expenses totaled NIS 148 million in the first three months of 2020, compared with NIS 156 million in the same period last year, a decrease of 5.1%, stemming mainly from a decrease in dismissal expenses due to early retirement of employees, in the same period last year. This reduction was partially offset by an increase in commission expenses in the capital market.

The provision for taxes on operating earnings amounted to NIS 48 million compared with NIS 111 million in the same period last year. The effective tax rate as a proportion of earnings before taxes amounted to 20.9%, compared with the statutory tax rate of 34.2%. The decrease in tax expenses and the effective tax rate derives from income from taxes in respect of previous years, in the amount of NIS 35 million, in the current quarter.

The Bank's share in the operating loss of investee company after the tax effect amounted to NIS 2 million, compared with a profit of NIS10 million, in the same period last year. The decrease in the Bank's share in the perating profit of investee company derives from the decline in the earnings of Israel Credit Cards Ltd, which were affected mainly from an increase in the provision for credit losses, in light of the anticipated growth in the future of the volume of write-offs of commercial credit due to the spreading of the Coronavirus and its implications.

The total comprehensive profit attributed to the shareholders of the Bank amounted to NIS 99 million. This amount was affected by the net profit for the period attributed to the shareholders of the Bank of NIS 171 million, by other comprehensive profit in respect of employees' benefits in an amount of NIS 89 million and by other comprehensive loss in respect of adjustments of available-for-sale bonds in an amount of NIS 161 million.

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

The consolidated balance sheet as of March 31, 2020 amounted to NIS 149,531 million compared with NIS 136,983 million as of March 31, 2019 and NIS 141,110 million as of December 31, 2019, an increase of 9.2% and 6.0%, respectively.

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

	March 31, 2020	December 31, 2019	Change
		NIS million	%
Credit to the public, net	**90,028**	87,899	2.4
Securities	**10,824**	10,995	(1.6)
Cash and deposits with banks	**41,933**	37,530	11.7
Deposits from the public	**126,977**	120,052	5.8
Bonds and subordinated capital notes	**3,754**	3,674	2.2
Shareholders' equity	**8,542**	8,568	(0.3)

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

	March 31, 2020	December 31, 2019	Change
		NIS million	%
Off-balance sheet financial instruments excluding derivatives:			
Documentary credit	**105**	135	(22.2)
Guarantees and other liabilities	**7,363**	7,551	(2.5)
Unutilized credit lines for derivatives instruments	**2,193**	2,268	(3.3)
Unutilized revolving credit and other on-call credit facilities	**9,648**	9,463	2.0
Unutilized credit lines for credit card facilities and Facilities for the lending of securities	**8,675**	8,200	5.8
Irrevocable commitments to grant credit, not yet executed and commitments to issue guarantees	**6,499**	6,708	(3.1)
Total	**34,483**	34,325	0.5

Derivative financial instruments:

	March 31, 2020			December 31, 2019		
	Positive fair value	Negative fair value	Face value	Positive fair value	Negative fair value	Face value
						NIS million
Interest contracts	**264**	**522**	**21,136**	249	384	21,290
Currency contracts	**1,429**	**1,208**	**93,407**	391	414	74,927
Contracts in respect of shares	**857**	**857**	**38,797**	450	450	44,337
Commodities and other contracts	**1**	**1**	**86**	1	1	156
Total	**2,551**	**2,588**	**153,426**	1,091	1,249	140,710

Credit to the public, net as of March 31, 2020 amounted to NIS 90,028 million compared with NIS 87,899 million as of December 31, 2019, an increase of 2.4%.

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

	As of				Segment's share of credit to the public as of	
	March 31, 2020	**December 31, 2019**		**Change**	**March 31, 2020**	**December 31, 2019**
		NIS million	NIS million	%	%	%
Local currency						
- Non-linked	**74,554**	73,316	1,238	1.7	**82.8**	83.4
- CPI-linked	**10,243**	10,273	(30)	(0.3)	**11.4**	11.7
Foreign currency (including f-c linked)	**4,601**	3,664	937	25.6	**5.1**	4.2
Non-monetary items	**630**	646	(16)	(2.5)	**0.7**	0.7
Total	**90,028**	87,899	2,129	2.4	**100.0**	100.0

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

			As of		Change
	March 31, 2020	**March 31, 2019**	**December 31, 2019**	**March 31, 2019**	**December 31, 2019**
			NIS million	%	
Large business segment	**18,141**	17,515	17,280	3.6	5.0
Medium business segment	**5,883**	5,694	5,539	3.3	6.2
Small and minute business segment	**17,913**	17,082	17,264	4.9	3.8
Household segment excluding housing loans	**21,569**	21,332	21,835	1.1	(1.2)
Housing loans	**26,274**	24,468	25,583	7.4	2.7
Private banking segment	**58**	54	67	7.4	(13.4)
Institutional entities	**1,237**	1,101	1,261	12.4	(1.9)
Total	**91,075**	87,246	88,829	4.4	2.5
Of which: consumer credit excluding housing loans and credit cards					
Household segment	**18,379**	18,015	18,196	2.0	1.0
Private banking segment	**33**	22	33	50.0	-
Total	**18,412**	18,037	18,229	2.1	1.0

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

Total credit risk to the public amounted to NIS 126,645 million on March 31, 2020 compared with NIS 123,687 million on December 31, 2019, an increase of 2.4%.

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

Sector	As of March 31, 2020		As of December 31, 2019		
	Total credit risk	Sector's share in total credit risk	Total credit risk	Sector's share in total credit risk	Change
	NIS million	%	NIS million	%	%
Financial services (including holding companies)	**14,296**	**11.3**	14,940	12.1	(4.3)
Construction and real estate	**16,755**	**13.2**	16,433	13.3	2.0
Industry	**11,022**	**8.7**	10,020	8.1	10.0
Commerce	**8,653**	**6.8**	7,854	6.3	10.2
Private customer, including housing loans	**63,018**	**49.8**	61,878	50.0	1.8
Others	**12,901**	**10.2**	12,562	10.2	2.7
Total	**126,645**	**100.0**	123,687	100.0	2.4

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

		As of March 31, 2020			
Borrower no.	Sector of the economy	Balance-sheet credit risk (*)	Off-balance-sheet credit risk	Aggregate credit risk	Aggregate credit risk after permitted deductions
					NIS million
1.	Industry	**524**	**443**	**967**	**967**
2.	Financial services	**701**	**-**	**701**	**701**
3.	Financial services	**373**	**319**	**692**	**469**
4.	Electricity and water supply	**387**	**214**	**601**	**601**
5.	Commerce	**571**	**11**	**582**	**582**
6.	Financial services	**512**	**61**	**573**	**106**

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

* Including credit to the public after net accounting write-offs, investment in bonds and other assets in respect of derivative instruments.

The investment in securities as of March 31, 2020 totaled NIS 10,824 million compared with NIS 10,995 million at the end of 2019, a decrease of 1.6%.

Set out below is the composition of the portfolio:

	As of		Share of total securities	
	March 31, 2020	**December 31, 2019**	**March 31, 2020**	**December 31, 2019**
		NIS million		%
Government bonds	**8,539**	8,379	**78.9**	76.2
Banks' bonds (1)	**590**	649	**5.4**	5.9
Other bonds (corporate and asset-backed)	**872**	885	**8.1**	8.0
Other bonds (corporate and asset-backed) guaranteed by governments	**503**	743	**4.6**	6.8
Shares (2)	**320**	339	**3.0**	3.1
Total	**10,824**	10,995	**100.0**	100.0

(1) The balance includes bonds that were issued by banks' issuing companies.
Of which: Banks' foreign-currency bonds guaranteed by foreign governments in the amount of NIS 469 million (December 31, 2019 - NIS 615 million).

(2) Investment in shares includes inter alia investment in private equity funds in the amount of NIS 85 million, investment in foreign currency shares of NIS 71 million, investment in permanent capital bonds in the amount NIS 21 million and investment in shares traded on the Tel Aviv Stock Exchange amounting to NIS 111 million (31.12.19 - investment in private equity funds in the amount of NIS 89 million, investment in foreign currency shares of NIS 92 million and investment in shares traded on the Tel Aviv Stock Exchange amounting to NIS 124 million).

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

	As of				Segment's share of total securities	
	March 31, 2020	**December 31, 2019**		**Change**	**March 31, 2020**	**December 31, 2019**
		NIS million	NIS million	%	%	%
Local currency						
- Non-linked	**4,345**	3,634	711	19.6	**40.1**	33.0
- CPI-linked	**346**	349	(3)	(0.9)	**3.2**	3.2
Foreign currency denominated & linked	**5,813**	6,673	(860)	(12.9)	**53.7**	60.7
Non-monetary items	**320**	339	(19)	(5.6)	**3.0**	3.1
Total	**10,824**	10,995	(171)	(1.6)	**100.0**	100.0

Set out below are the sources for the price quotations which the Bank used for determining the fair value of securities on March 31, 2020:

	Price quoted in active market	**Indicative price***	**Counter-party price****	**Total**
				NIS million
Shares and private investment funds	**198**	**32**	**90**	**320**
Local currency government bonds	**4,083**	**-**	**-**	**4,083**
Local currency corporate bonds	**315**	**293**	**-**	**608**
Non-asset backed foreign-currency and f-c linked bonds	**123**	**5,334**	**-**	**5,457**
MBS bonds	**-**	**356**	**-**	**356**
Total	**4,719**	**6,015**	**90**	**10,824**
% of portfolio	**43.6**	**55.6**	**0.8**	**100.0**

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

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

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

	As of	
	March 31, 2020	**December 31, 2019**
		NIS million
Israel (incl. Israel Government - 31.3.20 - NIS 3,505 million, 31.12.19 - NIS 3,092 million)	**3,631**	3,220
USA (incl. USA Government - 31.3.20 - NIS 950 million, 31.12.19 - NIS 1,957 million)	**1,098**	2,071
France	**22**	183
Canada	**57**	10
Germany (incl. Germany Government or guaranteed by it)	**225**	432
Far East, Australia and others (4 countries; 31.12.19 - 3 countries)	**99**	83
Europe (3 countries, 31.12.19 - 2 countries)	**325**	296
Total	**5,457**	6,295

It should be noted that there is no issuer (except the Israel Government and USA Government) whose bond balance exceeds 5% of the shareholders' equity of the Bank.

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

	As of	
	March 31, 2020	**December 31, 2019**
		NIS million
Electricity and water	**145**	148
Construction and real estate	**215**	204
Financial services	**74**	75
Banks	**33**	9
Industry	**29**	50
Commerce	**35**	54
Transportation	**57**	97
Hotels, hospitality and food services	**16**	11
Public and community services	**4**	4
Total	**608**	652

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

- **Non-asset-backed bonds denominated in or linked to foreign currency**-amounting to NIS 5,457 million (Dollar 1,531 million) (includes foreign corporations in an amount of NIS 876 million, foreign currency denominated Israel Government bonds amounting to NIS 3,505 million, foreign currency denominated bonds of Israeli corporations, mostly traded abroad, amounting to NIS 126 million and bonds of foreign governments amounting to NIS 950 million). All of the foreign bonds are investment grade and is rated A or higher; 2% of the exposure is to leading banking and financial institutions in OECD countries. This portfolio is diversified, in a manner whereby exposure to any single issuer (which is not a government) does not exceed 5% of the total foreign currency bond portfolio. The duration (average term-to-maturity) of the foreign currency bond portfolio is 4 years. The balance of unrealized gross losses (included in shareholders' equity under reconciliations to fair value in respect of the presentation of bonds available for sale) as of the report date in respect of this portfolio amounted to NIS 154 million (Dollar 43 million) compared with gross earnings of NIS 59 million (Dollar 17 million) on December 31, 2019.
- **Mortgage Backed Securities (MBS)** - amount to NIS 356 million (Dollar 100 million).

  Of these, NIS 355 million (Dollar 100 million) were issued by Ginnie Mae, which is wholly owned by the US government. The balance of NIS 1 million (Dollar 0.3 million) was issued by the US federal agencies Fannie Mae and Freddie Mac.

  Set out below is a sensitivity analysis as of March 31, 2020 of the effect of changes in the interest rate on the rate of early repayments and the fair value of the MBS portfolio (including economic hedging of interest rate swaps):

	Change in rate of early repayments	Change in fair value
	Percentage points	Dollar million
Increase of 200 base points	**(16.4)**	**(3.2)**
Increase of 100 base points	**(11)**	**(1.0)**
Decrease of 100 base points	**6.7**	**0.2**
Decrease of 200 base points	**7.1**	**0.1**

The balance of losses, net (before the tax effect), included in other cumulative comprehensive profit, in respect of the difference between the fair value of bonds included in the available-for-sale portfolio and their amortized cost, as of March 31, 2020, amounted to NIS 167 million (mostly Israeli Government bonds).

As of May 20, 2020, the difference between the fair value of the bonds included in the available-for-sale portfolio and their amortized cost, amounted to a loss (before the tax effect) of NIS 44 million.

Cash and deposits at banks on March 31, 2020 totaled NIS 41,933 million compared with NIS 37,530 million at the end of 2019, an increase of 11.7%

Deposits from the public on March 31, 2020 totaled NIS 126,977 million compared with NIS 120,052 million at the end of 2019, an increase of 5.8%, derived mainly from the transfer of investment of capital market customers to deposits, due to the spraeding of the Coronavirus implications.

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

		As of			Segment's share of total deposits from the public on	
	March 31, 2020	**December 31, 2019**		**Change**	**March 31, 2020**	**December 31, 2019**
		NIS million	NIS million	%	%	%
Local currency						
- Non-linked	**99,603**	94,780	4,823	5.1	**78.4**	79.0
- CPI-linked	**4,276**	5,315	(1,039)	(19.5)	**3.4**	4.4
Foreign currency denominated & linked	**22,467**	19,309	3,158	16.4	**17.7**	16.1
Non-monetary items	**631**	648	(17)	(2.6)	**0.5**	0.5
Total	**126,977**	120,052	6,925	5.8	**100.0**	100.0

Deposits from the public by segment of activity

			As of		Change
	March 31, 2020	**March 31, 2019**	**December 31, 2019**	**March 31, 2019**	**December 31, 2019**
			NIS million		%
Large business segment	**15,055**	8,784	11,018	71.4	36.6
Medium business segment	**5,805**	5,052	5,491	14.9	5.7
Small and minute business segment	**20,450**	17,928	19,157	14.1	6.7
Household segment	**59,194**	50,532	51,572	17.1	14.8
Private banking segment	**9,360**	7,843	7,734	19.3	21.0
Institutional entities	**17,113**	25,210	25,080	(32.1)	(31.8)
Total	**126,977**	115,349	120,052	10.1	5.8

Securities portfolios belonging to customers of the Bank Group

The total of the securities portfolios of customers of the Bank Group as of March 31, 2020, amounted to NIS 278 billion, as compared to NIS 342 billion at the end of 2019, a decrease of 18.7%, deriving, among other, from prices decline in the markets.

Bonds and subordinated capital notes amounted at March 31, 2020 to NIS 3,754 million, as compared with NIS 3,674 million at December 31, 2019, an increase of 2.2%.

On February 10, 2020, the First International Issuance Ltd., issued on public placement bonds, at par value of NIS 800 million in proceeds of NIS 814 million. The proceeds of the placements were deposited at the Bank. The Bank commited to fullfil the terms of the issued bonds.

CAPITAL AND CAPITAL ADEQUACY

The capital attributed to the shareholders of the Bank amounted on March 31, 2020 to NIS 8,542 million, as compared with NIS 8,568 million on December 31, 2019%.

For detailes regarding the development of the other comprehensive profit, see the Chapter "Material developments in income, expenditure and in other comprehensive profit".

CAPITAL ADEQUACY

Minimum capital ratios

The Bank implement Proper Conduct of Banking Business Directives Nos. 201-211 in the metter of "Measurement and capital adequacy" as were amended in order to reconcile them with the Basel guidelines. These instruction require that the ratio of Tier I equity capital to weighted average risk assets should be no less than 9% and the ratio of comprehensive capital to average risk assets should be no less than 12.5% for all banking corporations, the total consolidated stated assets of which does not exceeds 24% of total stated assets of the banking sector (including the Bank).

To these minimal capital ratios an additional capital requirement was added at a rate reflecting 1% of the outstanding balance of housing loans at the reporting date.

On background of the spreading of the Corona virus and as part of the adjustment to Proper Banking Management directives and in order to secure the ability of Banks to continue the offer of credit, The Supervisor of Banks, in the framework of a Provisional Instruction, concerning the update of directive 201, which includes a reduction of 1% of the capital requirements of banks and an update to directive 329 which cancel the demand of additional 1% on housing loans that were granted during the period of the crisis, for a period of six months, with an option for another six months' extention. After these periods, if relevant, the Bank will have to present progressive delineation for the reaccumulation of the capital, as much as was eroded, over a period of two years.

In consequence thereof, the minimum Tier I equity capital ratio and the minimum comprehensive capital ratio required on a consolidated basis by the Supervisor of Banks, based on data as of the reporting date, are 8.30% and 11.80%, respectively.

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

- In a regular business situation - Tier I equity capital will be no less than 8.30%, and the ratio of the comprehensive capital will be np less than 11.80%.
- In stress situations - the ratio of Tier I equity capital shall not be less than 6.50%, and the ratio of comprehensive capital shall not be less than 9.00%.

Basel 3 guidelines

According to the transitional instructions, the capital instruments no longer qualified as regulatory capital shall be recognized up to a maximum of 80% on January 1, 2014, this maximum level being reduced by an additional 10% until January 1, 2022. Accordingly, as from January 1, 2020 the maximum rate of instruments qualified as regulatory capital amounts to 20%.

Operational Efficiency

On January 12, 2016, Bank of Israel issued a letter, in the matter of "operational efficiency of the banking sector in Israel". In accordance with the letter, the board of directors of banking corporation has to outline a multi-annual program for the improvement of efficiency.

A banking corporation that conforms with the terms of the letter would be entitled to a relief, whereby it may spread, by the "straight line" method, over a period of five years, the effect of the cost of the program. On December 16, 2019 the Supervisor of Banks published a letter that extends the effectiveness of these guidelines until December 31, 2021.

- On November 17, 2016, the Board of Directors of the Bank approved the update of the strategic program of the Group concerning the efficiency measures aspect, the cost of which was estimated at NIS 207 million (before the tax effect). Were it not for the said relief, the implementation of the efficiency measures, as of March 31, 2020 would have reduced the capital adequacy ratios by 0.06%.
- In the course of 2018, the Board of Directors of the Bank resolved to introduce additional efficiency measures at Otsar Hahayal, a merger decision was taken in the third quarter of 2018, and on January 1, 2019, Otsar Hahayal was merged with and into the Bank. The said decisions as well as their expected implications have surpassed the original efficiency program of the Group from 2016. In respect of these actions the Group recorded a provision for increased severance compensation in the amount of NIS 82 million (net amount of NIS 53 million after the tax effect). Were it not for the said relief, the implementation of the efficiency measures, as of March 31, 2020 would have reduced the capital adequacy ratios by additional 0.05%.

Implementation of the instructions

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

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

			As of
		March 31, 2020	**December 31, 2019**
1.	**Capital for calculation of capital ratio, after deduction and supervisory adjustments**		
	Tier 1 capital, after deductions and supervisory adjustments	**8,749**	8,785
	Tier 2 capital	**2,393**	2,345
	Total capital	**11,142**	11,130
2.	**Weighted balances of risk assets**		
	Credit risk	**77,221**	73,862
	Market risk	**1,192**	875
	Operational risk	**6,696**	6,512
	Total weighted balances of risk assets	**85,109**	81,249
3.	**Ratio of capital to risk assets**		
	Ratio of tier 1 equity capital to risk assets	**10.28%**	10.81%
	Total ratio of capital to risk assets	**13.09%**	13.70%
	Minimal ratio of equity capital tier 1 required by the Supervisor of banks	**8.30%**	9.31%
	Minimal ratio of capital required by the Supervisor of Banks	**11.80%**	12.81%

The Tier I equity capital ratio as of March 31, 2020, amounted to 10.28% in comparison with 10.81% on December 31, 2019. The ratio of comprehensive capital to risk components as of March 31, 2020, amounted to 13.09%, in comparison with 13.70% on December 31, 2019.

The comprehensive capital as of March 31, 2020 amounted to NIS 11,142 million, in comparison with NIS 11,130 million on December 31, 2019. The capital base was affected from earnings of NIS 171 million and from other comprehensive income from employees' benefits in the amount of NIS 89 million. This increase was offset by dividend paid in the amount of NIS 125 million and other comprehensive loss in respect of presentation of available for sale bonds at fair value in the amount of NIS 161 million.

The risk assets as of March 31, 2020 amounted to NIS 85,109 million as compared with NIS 81,249 million on December 31, 2019, an increase in the amount of NIS 3,860 million derived mainly from an increase in credit risks and from the implementation of a new accounting standard in the matter of leasing, which was implemented starting from January 1, 2020. The implementation of the new rules was reflected in a decrease in Tier 1 capital ratio and total capital ratio in the rate of 0.06% and 0.08%, respectively. This, as a result of weighing the risk assets in respect of right of use assets deriving from operating leases which were recognized in the balance sheet at the rate of 100%.

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

	March 31, 2020	December 31, 2019
		In percent
Bank Massad Ltd.		
Ratio of Tier 1 capital to risk assets	**13.64%**	13.50%
Ratio of overall capital to risk assets	**14.70%**	14.52%

Leverage ratio in accordance with instructions of the Supervisor of Banks - The Bank implements the Proper Conduct of Banking Business Directive No. 218 in the matter of Leverage ratio. The leverage ratio is expressed in percentages and is defined as the ratio between capital measurement and exposure measurement. Capital for the purpose of measuring the leverage ratio is the Tier I equity capital, as defined in Proper Conduct of Banking Business Directive No. 202, taking into consideration the prescribed transitional arrangements. In accordance with the Directive, a banking corporation should attain a leverage ratio of no less than 5% on a consolidated basis, for a banking corporation, the total consolidated stated assets of which is up to 24% of total stated assets of the banking sector as a whole (including the Bank). The leverage ratio of the Bank as of March 31, 2020, amounts to 5.52%, compared to 5.81% as of December 31, 2019.

DIVIDEND DISTRIBUTION POLICY

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

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

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

It should be noted that in addition to the provisions of the Companies Law, dividend distribution by the Bank is subject to additional restrictions that are detailed in Note 24A.b. to the financial statements for the year 2019.

Following are details regarding dividends distributed by the Bank, as from the year 2017:

Declaration date	Payment date	Total dividend paid	Dividend per share
		NIS million	NIS
15 March 2017	2 April 2017	70	0.7
23 May 2017	14 June 2017	70	0.7
14 August 2017	31 August 2017	70	0.7
14 November 2017	3 December 2017	100	1.00
5 March 2018	21 March 2018	95	0.95
28 May 2018	5 June 2018	60	0.60
14 August 2018	2 September 2018	100	1.00
20 November 2018	9 December 2018	100	1.00
12 March 2019	20 March 2019	105	1.05
28 May 2019	17 June 2019	85	0.85
13 August 2019	29 August 2019	110	1.10
26 November 2019	12 December 2019	110	1.10
15 March 2020	31 March 2020	125	1.25

On the background of the letter of the Supervisor of Banks, dated March 29, 2020, addressed to all the commercial banks and with respect to the Provisional Instruction dated March 31, 2020, amending Proper Conduct of Banking Business directive 201, in which boards of directors of banks are requested, inter alia, to re-examine their dividend policies, on the background of the Corona virus crisis and the uncertainty deriving from it. The Board of Directors of the Bank held a discussion on April 16, 2020, regarding the dividend policy and resolved that the Bank shall refrain from the distribution of dividends to its shareholders during the period of the Provisional Instruction, which terminates on September 30, 2020. It is clarified that the dividend distribution policy remains unchanged. The Board of Directors of the Bank shall continue to discuss the continued implementation of the dividend distribution policy of the Bank in light of developments in the crisis and the impact thereof on the economy and on the Bank, and would be entitled to examine the resolution regarding implementation of dividend distribution and modify it at its discretion.

SUPERVISORY SEGMENTS OF OPERATIONS

The reporting on segments of activity is in accordance with the format and classification set in the Directive of the Reporting to the Public of the Supervisor of Banks. This reporting is materialy defferent from the segments of activity used by the Bank according to Management approach, which are detailed in Note 11A to the financial statements. The supervisory segements of activity are reported in a uniform format that was set by the Supervision of Banks to the entire banking system, and they are based on the customers characteristics, such as: the volume of assets protfolio- for private customers, or the business turnover- for business customers.
For the definitions of the supervisory segements of activity and for details regarding main instructions, estimates and principals of reporting, see Note 11 to the financial statements.
For details regarding segments of activity according to management's approach, see Note 11A to the financial statements.

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

a. Total income*

	For the three months ended March 31,			Segment's share of total income	
	2020	**2019**	**Change**	**31.3.20**	**31.3.19**
		NIS million	%		%
Large business	**98**	97	1.0	**9.6**	9.7
Medium business	**61**	62	(1.6)	**6.0**	6.2
Small and minute business	**256**	238	7.6	**25.0**	23.7
Household	**474**	445	6.5	**46.3**	44.4
Private banking	**30**	27	11.1	**2.9**	2.7
Institutional entities	**78**	68	14.7	**7.6**	6.8
Financial management	**27**	65	(58.5)	**2.6**	6.5
Total	**1,024**	1,002	2.2	**100.0**	100.0

b. Net profit (loss) attributed to the shareholders of the bank

	For the three months ended March 31,	
	2020	**2019**
		NIS million
Large business	**(3)**	41
Medium business	**23**	7
Small and minute business	**48**	43
Household	**51**	31
Private banking	**9**	6
Institutional entities	**22**	13
Financial management	**21**	42
Total	**171**	183

* Including net interest income and non-interest income.

c. Average balance sheet balances*

	Total assets				
	For the three months ended March 31,			% of total assets	
	2020	2019	Change	31.3.20	31.3.19
		NIS million	%	%	%
Large business	**17,572**	17,431	0.8	**19.7**	20.5
Medium business	**5,533**	5,544	(0.2)	**6.2**	6.5
Small and minute business	**17,361**	16,449	5.5	**19.5**	19.3
Household	**46,973**	44,708	5.1	**52.7**	52.5
Private banking	**53**	45	17.8	**0.1**	0.1
Institutional entities	**1,621**	908	78.5	**1.8**	1.1
Total	**89,113**	85,085	4.7	**100.0**	100.0

	Total liabilities				
	For the three months ended March 31,			% of total liabilities	
	2020	2019	Change	31.3.20	31.3.19
		NIS million	%	%	%
Large business	**12,672**	7,987	58.7	**10.6**	7.1
Medium business	**5,250**	4,968	5.7	**4.4**	4.4
Small and minute business	**19,517**	18,024	8.3	**16.3**	16.0
Household	**52,776**	50,075	5.4	**44.0**	44.4
Private banking	**7,802**	7,787	0.2	**6.5**	6.9
Institutional entities	**21,882**	23,887	(8.4)	**18.2**	21.2
Total	**119,899**	112,728	6.4	**100.0**	100.0

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

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

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

	For the three months ended March 31, 2020				For the three months ended March 31, 2019			
	Small and minute business	Medium business	Large business	Total	Small and minute business	Medium business	Large business	Total
								NIS million
Net interest income	**167**	**41**	**71**	**279**	161	43	69	273
Non-interest income	**89**	**20**	**27**	**136**	77	19	28	124
Total income	**256**	**61**	**98**	**415**	238	62	97	397
Expenses (income) from credit losses	**39**	**5**	**80**	**124**	12	21	(17)	16
Operating and other expenses	**154**	**25**	**37**	**216**	157	29	42	228
Net profit (loss) attributed to the shareholders of the Bank	**48**	**23**	**(3)**	**68**	43	7	41	91
Average balance of assets	**17,361**	**5,533**	**17,572**	**40,466**	16,449	5,544	17,431	39,424
Balance of credit to the public at the end of the reported period	**17,913**	**5,883**	**18,141**	**41,937**	17,082	5,694	17,515	40,291
Average balance of liabilities	**19,517**	**5,250**	**12,672**	**37,439**	18,024	4,968	7,987	30,979
Balance of deposits from the public at the end of the reported period	**20,450**	**5,805**	**15,055**	**41,310**	17,928	5,052	8,784	31,764

Main changes in the result of activity in the first three months of 2020 compared with the same period last year

Total net interest income amounted to NIS 279 million, compared with NIS 273 million in the same period last year, an increase of 2.2%, which derived mainly from an increase in the volume of activity and from an increase in income from deposits taking activity.

Non-interest income amounted to NIS 136 million, compared to NIS 124 million in the corresponding period last year, an increase of 9.7%, which derived mainly from an increase in the income from capital market activity, due to the increase in the turnover in the stock exchange and from an increase in conversion differences due to an increase in the activity turnover as a result of the Corona crisis.

Expenses in respect of cresit losses amounted to NIS 124 million, in comparison with NIS 16 million in the same period last year. Most of the increase is explained y the collective provision for credit losses which mainly derived from the implication of the Corona virus crisis, which as a consequent thereof and in light of the uncertainty condition occuring, the Bank updated the qualitative adjutsments in calculating the collective provision.

The operating and other expenses, amounted to NIS 216 million, in comparison with 228 million in the same period last year, a decrease of 5.3%.

The net profit attributed to the shareholders of the Bank in respect of the business segments, amounted to NIS 68 million, in comparison with NIS 91 million, a decrease of 25.3%, explained by the increase in the expenses for credit losses, as stated above.

Average balance of credit to the public amounted to NIS 40,466 million, in comparison with NIS 39,424 million in the same period last year, an increase of 2.6%.

Credit to the public as of March 31, 2020 amounted to NIS 41,937 million, in comparison with NIS 40,291 million on March 31, 2019, an increase of 4.1%.

Average balance of deposits from the public amounted to NIS 37,439 million, in comparison with NIS 30,979 million in the same period last year, an increase of 20.9%.

Deposits from the public as of March 31, 2020 amounted to NIS 41,310 million, in comparison with NIS 31,764 million on March 31, 2019, an increase of 30.1%.

PRIVATE INDIVIDUALS SEGMENTS - HOUSEHOLDS AND PRIVATE BANKING

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

	For the three months ended March 31, 2020			For the three months ended March 31, 2019		
	household	private banking	Total	household	private banking	Total
						NIS million
Net interest income	**318**	**9**	**327**	308	10	318
Non-interest income	**156**	**21**	**177**	137	17	154
Total income	**474**	**30**	**504**	445	27	472
Expenses from credit losses	**33**	**-**	**33**	18	-	18
Operating and other expenses	**353**	**17**	**370**	370	17	387
Net profit attributed to the shareholders of the Bank	**51**	**9**	**60**	31	6	37
Average balance of assets	**46,973**	**53**	**47,026**	44,708	45	44,753
Balance of credit to the public at the end of the reported period	**47,843**	**58**	**47,901**	45,800	54	45,854
Average balance of liabilities	**52,776**	**7,802**	**60,578**	50,075	7,787	57,862
Balance of deposits from the public at the end of the reported period	**59,194**	**9,360**	**68,554**	50,532	7,843	58,375

Main changes in the result of activity in the first three months of 2020 compared with the same period last year

Total net interest income amounted to NIS 327 million, as compared with NIS 318 million in the corresponding period last year, an increase of 2.8%, which mainly derived from an increase in the volume of activity and from an increase in the spread in housing loans activity.

Non-interest income amounted to NIS 177 million, in comparison with NIS 154 million in the corresponding period last year, an increase of 14.9% which mainly derived from an increase in the income from capital markets activity due to the increase in the turnovers in the stock exchange.

Operating and other expenses amounted to NIS 370 million, as compared to NIS 387 million in the corresponding period last year, a decrease of 4.4%.

The net profit attributed to the shareholders of the Bank in respect of the private individuals segment, which includes households and private banking, amounted to NIS 60 million, compared with NIS 37 million in the corresponding period last year.

Average balance of credit to the public amounted to NIS 47,026 million, in comparison with NIS 44,753 million in the same period last year, an increase of 5.1%.

Credit to the public as of March 31, 2020 amounted to NIS 47,901 million, in comparison with NIS 45,854 million on March 31, 2019, an increase of 4.5%.

Average balance of deposits from the public amounted to NIS 60,578 million, in comparison with NIS 57,862 million in the same period last year, an increase of 4.7%.

Deposits from the public as of March 31, 2020 amounted to NIS 68,554 million, in comparison with NIS 58,375 million on March 31, 2019, an increase of 17.4%.

FINANCIAL MANAGEMENT SEGMENT

Total income attributed to this segment amounted to NIS 27 million in the first three months of 2020 compared with NIS 65 million in the corresponding period last year.
The net earnings of the Financial Management Segment amounted to NIS 21 million compared with NIS 42 million in the corresponding period last year.

Following are the main factors affecting the decrease in net earnings in the Financial Management Segment:

- A decrease in gains from investment in shares and bonds in the amount of NIS 68 million, of which NIS 41 million in respect of unrealized losses from investment in shares, derived from a decline of the value of shares as a result of the position of the financial markets, on the background of the Corona crisis, and from other than temporary impairment in respect of bonds in the amount of NIS 18 million.
- A decrease in the share of the Bank in the earnings of ICC in the amount of NIS 12 million.

On the other side, tax income in respect of previous years attributed to this segment, partially offset these effects.

PRINCIPAL INVESTEE COMPANIES

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

The Bank's investment in Massad amounted to NIS 380 million on March 31, 2020.

Total assets of Massad on March 31, 2020 amounted to NIS 9,420 million compared with NIS 8,694 million on December 31, 2019, an increase of 8.4%.

Shareholders' equity of Massad on March 31, 2020, totaled NIS 744 million compared with NIS 726 million on December 31, 2019, an increase of 2.5%.

Net earnings of Massad totaled NIS 18.1 million compared with NIS 18.6 million in the same period last year, a decrease of 2.7%.

The Bank's share in Massad's operating results amounted to NIS 9.4 million compared with NIS 9.5 million in the same period last year.

Net return on equity amounted to 10.3% compared with 11.7% in the same period last year. The ratio of capital to risk assets amounted to 14.70%, compared with 14.52% at the end of 2019. The Tier 1 capital ratio amounted to 13.64% compare with 13.50% at the end of 2019.

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

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

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

The Bank's investment in ICC amounted to NIS 603 million on March 31, 2020.

The ratio of capital to risk assets on March 31, 2020 amounted to 14.1%, compared with 14.0% at the end of 2019.

The Bank's share in the net earnings of ICC before the tax effect amounted to a loss of NIS 2.0 million compared with a profit of NIS 11.3 million in the same period last year, a decrease of 87.6%.

The decrease in profit is mainly explained by an increase in the provision for credit losses, in light of the anticipated increase in the volume of write-offs of the consumer credit due the spreading of the Corina virus and its implications.

See note 9 regarding motions for approval of class actions against ICC and the assessments issued by the Value Added Tax director to ICC.

REVIEW OF RISKS

REVIEW OF RISKS

This chapter was written in great detail in the financial statements for 2019. Therefore, it should be read together with the chapter of the risk review published in the annual reports for 2019. Additional information about the risks can be found on the report on risks and additional supervisory reporting in the Bank's internet website.

General

a. The Group's activity is accompanied by exposure to risks, the most significant of which are: credit risk (including concentration of economy segments and borrowers), market risk, for which the main risk is the interest risk (cross system risk), liquidity risk, operational risk including cyber and information security risk and information technology risk, compliance risk and AML risk, strategy risk, legal risk and reputation risk. Members of the Board of Management are responsible for management of these risks. With respect to credit risk, market risk and operational risk, a regulatory requirement for capital adequacy in accordance with the Pillar 1 Basel directives exists. Within the ICAAP process, the Group performs an in-depth process of identifying additional risks focal and challenging the risks focal identified in the first pillar. If needed the Group makes an additional capital allocation in respect of Pillar 1 risks and other risks.

b. The Group's risk management policy is directed at achieving the strategic and business objectives defined by the Group and at increasing its earnings expectancy by developing areas of specialization at the Group, exploiting economies of diversity and scale, keeping to the levels of risk which have been approved, and by operating suitable management, control and reporting mechanisms.

c. The overall risk perceptive of the Group is in line with the regulatory framework set by the Supervisor of Banks and in line with the Sound Practices of the Basel Committee, based on the principal that every banking activity involving risk, the following will be defined and characterized: risk policy and appetite, limitations for bordering and defining the volume of exposure, control and auditing circles, reporting arrangement and earnings estimation mechanism, its measurement and reporting according to acceptable standard.

d. Risk management and control at the Group are implemented by means of a suitable infrastructure of control, supervision, review and auditing mechanisms, and are applied via three lines of defense: The first line of defense consists of those responsible for the creation and management of risk. The second line is maintained by units of the Risk Management Division and Chief Accountant by means of independent control. The third line consists of the internal and external auditing functions.

e. Chief Risk Manager, Mr. Eli Cohen, CPA, member of Management in charge of the risk management division and across the organization risk management infrastructure.

f. Those responsible for risk management at the Group are:

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

   The Strategic risk is managed by Mr. Bentzi Adiri CPA, head of resources division.

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

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

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

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

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

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

g. Additional risks to which the Bank is exposed- regulatory and legislative risks - are managed and supervised as part of overall business management members of the Board of Management and department heads in the areas for which they are responsible.

h. Risk management is carried out at each banking subsidiary in the Group separately, in accordance with the policy determined by the subsidiary's board of directors on the basis of Group policy, and on the basis of Group risk management methodology with an emphasis on the special nature of the subsidiary's activity. A Chief Risk Manager was appointed at the banking subsidiary, subordinate to the subsidiary's CEO and guided professionally by the Bank's Chief Risk Manager.

i. Every quarter, the Risk Management Division, which is independent of the risk-taking units, compiles a risks document which is presented to the Management of the Bank, the Risk Management Committee and the Board of Directors of the Bank.

j. The risks document contains an examination of all the risks to which the Bank Group is exposed in the course of its activity, with details of the findings at the specific risk level as well as the results of stress scenarios that were conducted.

   Presented in the document is the Chief Risk Manager's review of the risk management situation at the group and of the effectiveness and the quality of the risk management. Also reviewed in the document are developments in the business environment and in the financial markets, and the measures taken by the division with respect to the main process involved with the different types of risks and special action which the division took during the relevant quarter.

k. The Bank applies stress scenarios for reviewing capital adequacy. In this respect, the Bank examines the effect of the materialization of risk on the capital base and the ratio of capital to risk assets. The scenarios which the Bank operates are forward looking and are used as an additional tool for risk management and for indication for the capital required for loss absorbent in case of major crisis. The importance of the stress scenarios come into effect in the planning of capital.

For discussion of the risk appetite and risk management principles, see reference in the description of principal risks, presented in the financial statements for the year 2019.

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

CREDIT RISK

Credit risk is the risk borrowers' inability or counterparty's inability to fulfill their obligations to the Bank.
The Group implements the standard approach, within the implementation of the Basel Directives, with respect to the exposure to credit risk. Within Pillar 2 the capital allocation of Pillar 1 is challenged, and if required, a complementary capital allocation is carried in respect of the credit risks.

Effect of the spreading of the Corona virus

The spreading of the Corona virus has led to a material adverse effect on the activity of the Israeli economy, to which the operations of the Bank are exposed. Therefore, it is expected to have implications on the business of the Bank, including in respect of the rise in credit risk and liquidity difficulties of borrowers, both in the business sector and in the private sector, as well as in respect of the slowdown in economic activity.
At this stage, the ability of customers to withstand the impact is still unknown, being affected by different developments in the market, which depend on many factors, such as Government and Bank of Israel support, and which have not yet been concluded and are expected to affect trends in the near period and in the long-term.

Significant exposures to borrower groups

As of March 31, 2020 there is no borrower group which its indebtness on consolidated basis, after deductions of permissible deduction according to section 5 of directive 313, exceeds 15% of the bank's capital, calculated according to directive of Proper Conduct of Banking Business regulation concerning measurement and capital adequacy.

Changes in terms of debts within the framework of confrontation with the Corona virus

In view of the spread of the Corona virus and its possible implications on the condition of the economy and of borrowers, and with the aim of encouraging banking corporations to act towards the stabilization of borrowers who are not able, or who may not be able to honor their contractual repayment commitments due to the Corona crisis, Bank of Israel has published focal points for the treatment of debts the terms of which had been changed. The letter states that changes in terms of loans do not automatically lead to the classification of such loans as restructured troubled debts, when due to the Coronavirus event, short-term changes are made to the repayment terms of loan, which previously had not been in default. It is further stated that a borrower is considered a performing borrower if he is in default of less than thirty days at date of application of the changes.
For details regarding the guidelines of the Supervisor of Banks within the framework of the confrontation with the effects of the Coronavirus event, see Note 1D (3) to the condensed financial statements.

Additional information regarding debts, the terms of which had been changed within the framework of the confrontation with the effects of the Coronavirus event, and which were not classified as restructured troubled debts:

		March 31, 2020
		(unaudited)
	Balance of credit repayment of which is deferred	**Balance of repayments actually deferred**
		NIS million
Borrowers activity in Israel		
Commercial	**228**	**14**
Private individuals - housing loans	**3,531**	**65**
Private individuals - others	**130**	**7**
Total	**3,889**	**86**

Credit quality and problematic credit risk

Problematic credit risk, including off-balance-sheet components, totaled NIS 2,077 million as of March 31, 2020, compared with NIS 1,859 million at the end of 2019, an increase of 11.7%

The ratio of problematic credit risk to total credit risk at the group as of amounted to 1.6% at the end of march 2020, compared to 1.5% at the end of 2019. 20.1% of problematic credit risk at the group are attributed to the manufacturing sector, 11.8% to the real estate sector, 12.5% to the commerce sector, and 26.2% to the private customers including housing loans. The ratio of problematic credit risk to total credit to the public amounted to 2.0%, compared to 1.9% at the end of 2019.

For additional information in respect of credit quality see note 12B(1) to the financial statements.

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

	March 31, 2020				March 31, 2019			
	Commercial	Housing	Private	Total	Commercial	Housing	Private	Total
								NIS million
Credit risk in credit granting rating(1)								
Balance sheet credit risk	**43,591**	**25,709**	**20,327**	**89,627**	41,531	23,927	19,590	85,048
Off-balance sheet credit risk	**16,793**	**1,954**	**13,211**	**31,958**	17,409	1,679	12,079	31,167
Total credit risk in credit granting rating	**60,384**	**27,663**	**33,538**	**121,585**	58,940	25,606	31,669	116,215
credit risk not in credit granting rating:								
Non problematic	**1,493**	**341**	**820**	**2,654**	1,435	344	1,094	2,873
Problematic(2)	**1,307**	**225**	**310**	**1,842**	1,056	198	371	1,625
Special supervision(3)	**641**	**215**	**84**	**940**	514	188	190	892
Inferior	**72**	**-**	**73**	**145**	76	-	78	154
Impaired	**594**	**10**	**153**	**757**	466	10	103	579
Total balance sheet credit risk	**2,800**	**566**	**1,130**	**4,496**	2,491	542	1,465	4,498
Off-balance sheet credit risk	**443**	**3**	**118**	**564**	561	-	157	718
Total credit risk not in credit granting rating	**3,243**	**569**	**1,248**	**5,060**	3,052	542	1,622	5,216
Of which: non-impaired debts in arrears of 90 days or more	**36**	**194**	**27**	**257**	28	169	29	226
Total overall credit risk of the public	**63,627**	**28,232**	**34,786**	**126,645**	61,992	26,148	33,291	121,431
Non-performing assets								
Impaired debts - not accruing interest income	**534**	**5**	**121**	**660**	440	10	78	528

	December 31, 2019			
	Commercial	Housing	Private	Total
				NIS million
Credit risk in credit granting rating(1)				
Balance sheet credit risk	41,405	25,037	20,411	86,853
Off-balance sheet credit risk	17,476	2,217	12,277	31,970
Total credit risk in credit granting rating	58,881	27,254	32,688	118,823
credit risk not in credit granting rating:				
Non problematic	1,330	321	942	2,593
Problematic(2)	1,112	225	318	1,655
Special supervision(3)	476	215	99	790
Inferior	79	-	73	152
Impaired	557	10	146	713
Total balance sheet credit risk	2,442	546	1,260	4,248
Off-balance sheet credit risk	486	3	127	616
Total credit risk not in credit granting rating	2,928	549	1,387	4,864
Of which: non-impaired debts in arrears of 90 days or more	37	186	26	249
Total overall credit risk of the public	61,809	27,803	34,075	123,687
Non-performing assets				
Impaired debts - not accruing interest income	523	10	117	650

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

Changes in impaired debts in respect of credit to the public

	For the three months ended March 31, 2020			For the three months ended March 31, 2019			For the year ended December 31, 2019		
	Commercial	Private	Total	Commercial	Private	Total	Commercial	Private	Total
						NIS million			NIS million
Balance of impaired debts at beginning of period	**553**	**156**	**709**	367	100	467	367	100	467
Classified as impaired during the period	**74**	**24**	**98**	156	27	183	369	104	473
Removed from impaired classification	**-**	**-**	**-**	-	-	-	(3)	-	(3)
Accounting write-offs	**(30)**	**(5)**	**(35)**	(25)	(4)	(29)	(77)	(14)	(91)
Collection of debts	**(38)**	**(17)**	**(55)**	(37)	(10)	(47)	(103)	(34)	(137)
Balance of impaired debts at end of period	**559**	**158**	**717**	461	113	574	553	156	709
Of which: movement in problematic restructured debts									
Balance of restructured debts at beginning of the period	**140**	**108**	**248**	150	83	233	150	83	233
Debts restructured during the period	**46**	**17**	**63**	28	18	46	85	71	156
Accounting write-offs of restructured debts	**(4)**	**(4)**	**(8)**	(2)	(4)	(6)	(39)	(14)	(53)
Collection of restructured debts	**(14)**	**(8)**	**(22)**	(12)	(7)	(19)	(56)	(32)	(88)
Balance of problematic restructured debts at end of period	**168**	**113**	**281**	164	90	254	140	108	248
Changes in provision for credit losses in respect of impaired debts									
Balance of provision for credit losses at the beginning of the period	**169**	**35**	**204**	121	23	144	121	23	144
Increase in provisions	**41**	**12**	**53**	37	5	42	146	27	173
Collection and write-offs	**(37)**	**(8)**	**(45)**	(18)	(3)	(21)	(98)	(15)	(113)
Balance of provision for credit losses at the end of the period	**173**	**39**	**212**	140	25	165	169	35	204

	For the three months ended March 31		For the year ended December 31
	2020	**2019**	**2019**
Risk Indices			
Ratio of impaired credit to the public or in arrears of 90 days + to total credit to the public	**1.07%**	0.92%	1.08%
Of which:			
Ratio of impaired credit to the public to total credit to the public	**0.79%**	0.66%	0.80%
Ratio of non-impaired credit to the public in arrears of 90 days+ to total credit to the public	**0.28%**	0.26%	0.28%
Ratio of problematic credit risk in respect of the public to overall credit risk in respect of the public	**1.64%**	1.53%	1.50%
Ratio of expenses for credit losses to average total credit to the public*	**0.71%**	0.17%	0.16%
Ratio of net write-offs in respect of credit to the public to average total credit to the public*	**0.15%**	0.06%	0.10%
Ratio of provision for credit losses in respect of credit to the public to credit to the public	**1.15%**	1.02%	1.05%
Ratio of provision for credit losses in respect of credit to the public to total impaired credit to the public	**146.0%**	155.6%	131.2%
Ratio of provision for credit losses in respect of credit to the public to impaired credit to the public plus credit to the public in arrears of 90 days or more	**107.5%**	111.6%	97.1%
Ratio of net write-offs in respect of credit to the public to provision for credit losses in respect of credit to the public*	**13.2%**	6.0%	8.9%

* Annualized.

Additional information regarding credit risk

With the outbreak of the Corona virus, which had caused material impairment to business activity in Israel and around the world and which affected most economic sectors, the Bank acted to locate risk centers in its credit portfolio and monitor customers which might be affected by the crisis. This in order to determine ways of operation and adopt measures to minimize credit risk.

The analysis of credit by segments of operation and by economic sectors indicates that the sectors identified as those which might be significantly affected by the crisis are business services (including, inter alia, travel agencies, tour organizers, manpower placement companies), hotels, catering and food services, energy, trading, entertainment and leisure and communication. Households may also be hit by the crisis, mainly in view of the steep growth in the rate of employment seekers and the economic and employment uncertainty. Notwithstanding the above, the Bank does not foresee, at this stage, a growth in troubled debts of households.

Total credit risk according to economic sectors
(NIS million)

							March 31, 2020
					Credit losses (2)		
	Total credit risk(1)	Of which: Credit execution rating (3)	Of which: Problematic credit risk (4)	Of which: Impaired credit risk	Expenses (income) for credit losses	Net accounting write-offs	Provision for Credit losses
In respect of borrowers in Israel							
Public-Commercial:							
Industry	10,933	10,193	417	202	50	18	222
Construction and Real estate - construction (5)	10,183	9,902	144	56	11	1	80
Construction and Real estate - real estate activities	6,548	6,290	93	85	8	1	29
Commerce	8,653	8,084	259	95	-	1	157
Financial services	13,205	13,145	15	6	(2)	(2)	22
Other business services	12,739	11,412	597	269	56	7	178
Total commercial (6)	62,261	59,026	1,525	713	123	26	688
Private individuals - housing loans	28,232	27,663	224	5	4	(1)	126
Private individuals - others	34,786	33,538	320	156	29	8	296
Total public - activity in Israel	125,279	120,227	2,069	874	156	33	1,110
Banks and Israeli government in Israel	10,243	10,243	-	-	-	-	-
Total activity in Israel	135,522	130,470	2,069	874	156	33	1,110
In respect of borrowers abroad							
Total public - activity abroad	1,366	1,358	8	8	1	-	1
Banks and foreign governments abroad	4,572	4,572	-	-	-	-	-
Total activity abroad	5,938	5,930	8	8	1	-	1
Total	141,460	136,400	2,077	882	157	33	1,111

NOTES:
(1) Balance sheet credit risk and off-balance sheet credit risk, including in respect of derivative instruments. Includes debts (2), bonds, securities borrowed, assets in respect of derivative instruments and credit risk in off balance sheet instruments as were calculated in respect of limitations of a borrower of NIS 95,233, 10,504, 82, 2,551 and 33,090 million, respectively.
(2) Including in respect of off-balance sheet credit instruments (presented in the balance sheet under the item "other liabilities").
(3) Credit risk wherein the credit rating at the date of the report, congruent with the credit rating for the execution of new credit, according to the policy of the Bank.
(4) Balance sheet and off-balance sheet credit risk that is impaired, substandard, or under special supervision, including in respect of housing loans for which a provision based on the extent of arrears exists, and housing loans for which a provision based on the extent of arrears does not exist, which are in arrears of 90 days or more.
(5) Including balance sheet credit risk amounting to NIS 173 million and non-utilized credit facilities amounting to NIS 87 million, in respect of loans extended to certain purchasing groups currently in the process of construction.
(6) The balance of commercial debts includes housing loans in the amount of NIS 2,883 million, combined in the transaction and collateral position of commercial borrowers or those extended to certain purchasing groups currently in the process of constructions.

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

(NIS million)

	March 31, 2019						
					Credit losses (2)		
	Total credit risk(1)	Of which: Credit execution rating (3)	Of which: Problematic credit risk (4)	Of which: Impaired credit risk	Expenses (income) for credit losses	Net accounting write-offs	Provision for Credit losses
In respect of borrowers in Israel							
Public-Commercial:							
Industry	10,082	9,359	403	214	(10)	(1)	169
Construction and Real estate - construction (5)	10,023	9,599	176	55	7	4	79
Construction and Real estate - real estate activities	5,913	5,632	90	78	1	-	23
Commerce	8,482	7,840	387	138	40	20	183
Financial services	13,935	13,793	14	2	(4)	(4)	25
Other business services	12,148	11,317	192	88	7	3	81
Total commercial (6)	60,583	57,540	1,262	575	41	22	560
Private individuals - housing loans	26,148	25,606	198	10	(1)	-	118
Private individuals - others	33,291	31,669	387	103	19	14	276
Total public - activity in Israel	120,022	114,815	1,847	688	59	36	954
Banks and Israeli government in Israel	9,307	9,307	-	-	-	-	-
Total activity in Israel	129,329	124,122	1,847	688	59	36	954
In respect of borrowers abroad							
Total public - activity abroad	1,409	1,401	7	7	(23)	(23)	1
Banks and foreign governments abroad	4,291	4,291	-	-	-	-	-
Total activity abroad	5,700	5,692	7	7	(23)	(23)	1
Total	135,029	129,814	1,854	695	36	13	955

NOTES:

(1) Balance sheet credit risk and off-balance sheet credit risk, including in respect of derivative instruments. Includes debts (2), bonds, securities borrowed, assets in respect of derivative instruments and credit risk in off balance sheet instruments as were calculated in respect of limitations of a borrower of NIS 90,143, 11,109, 664, 941 and 32,172 million, respectively.

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

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

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

(5) Including balance sheet credit risk amounting to NIS 297 million and non-utilized credit facilities amounting to NIS 130 million, in respect of loans extended to certain purchasing groups currently in the process of construction.

(6) The balance of commercial debts includes housing loans in the amount of NIS 2,809 million, combined in the transaction and collateral position of commercial borrowers or those extended to certain purchasing groups currently in the process of constructions.

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

(NIS million)

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

NOTES:

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

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

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

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

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

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

Counter-party credit risk management

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

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

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

External credit rating(5)	As of March 31, 2020			As of December 31, 2019		
	Balance-sheet credit risk(2)	Current Off-balance-sheet credit risk(3)	Aggregate credit risk	Balance-sheet credit risk(2)	Current Off-balance-sheet credit risk(3)	Aggregate credit risk
			NIS million			NIS million
AAA to AA-	**1,029**	**2**	**1,031**	528	2	530
A+ to A-	**2,325**	**41**	**2,366**	1,403	47	1,450
BBB+ to BBB-	**79**	**2**	**81**	76	16	92
BB+ to B-	**76**	**-**	**76**	41	-	41
Total credit exposure to foreign financial institutions	**3,509**	**45**	**3,554**	2,048	65	2,113
Of which: Balance of problem loans (4)	**-**	**-**	**-**	-	-	-

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

GENERAL NOTES:
a. Credit positions and problematic loans balances are presented after deduction of the provision for credit losses.
b. The credit positions do not include exposures to financial institutions that have an explicit and full government guarantee, and do not include investments in asset-backed securities.
c. For further information regarding the composition of credit positions in respect of derivative instruments against banks and (local and foreign) dealers/brokers, see Note 10 to the financial statements. Off-balance-sheet credit risk in respect of transactions in derivative financial instruments which were conducted with foreign financial institutions as calculated for the purpose of borrower indebtedness restrictions totaled NIS 362 million on March 31, 2020 (December 31, 2019 - NIS 304 million).

Following the Corona virus crisis an increase in the Bank's credit exposures was observed, mainly due to an increase in the surplus of foreign currency balances of the Bank as well as an increase in the collateral demand and clearing balances, due to an increase in the securities turnover of the Bank's customers. Most of the exposure is to foreign financial institutions with high financial resilience, which most of them are included in investment grade A- and above. During the first quarter these financial institutions did not lose their external grading.
The credit spreads in respect of these financial institutions, to which the Bank has material credit exposures, increased during the first quarter of 2020. The credit spreads increased from a level of 0.30%-0.55% to a level of 0.50%-1.50%, however most of these spreads were reduced until April 30, 2020 to a level of 0.50%-0.85%.

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

Most of the Group's present credit exposure (96%) is attributed to leading financial institutions in OECD countries, which are graded AAA to A-, and 29% of the total exposure is rated in the range between AAA to AA-.

The Group's balance-sheet credit exposure to foreign financial institutions includes an NIS 109 million investment in foreign currency bonds.
The bonds portfolio, included in the foreign financial institutions exposure, is deversified and all these bonds are investment grade bonds, and are rated A- or higher.
The average duration of the portfolio is 3 years.
In addition, balance-sheet credit risk includes NIS 2.8 billion of deposits placed with foreign banks, mainly for a short period of a day to a week.

As of March 31, 2020 there is no country in which the credit exposure to sovereigns of the Bank group exceeding 15% of the Bank's equity capital, which amounted to NIS 1,670 million (as defined in Proper Conduct of Banking Business Regulation No. 202 concerning capital components).

Exposure to foreign countries

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

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

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

	As at March 31, 2020		
	Balance sheet exposure(2)	**Off Balance sheet exposure(2)(3)**	**Total**
United States	**3,055**	**39**	**3,094**
UK	**1,545**	**219**	**1,764**
Other	**1,735**	**256**	**1,991**
Total exposure to foreign countries	**6,335**	**514**	**6,849**
Off which: Total exposure to PIGS countries (Portugal, Italy, Greece and Spain)	**21**	**6**	**27**
Off which: Total exposure to LDC countries	**194**	**45**	**239**
Off which: Total exposure to countries with liquidity problems	**4**	**1**	**5**

	As at December 31, 2019		
	Balance sheet exposure(2)	**Off Balance sheet exposure(2)(3)**	**Total**
United States	3,601	68	3,669
Other	2,711	408	3,119
Total exposure to foreign countries	6,312	476	6,788
Off which: Total exposure to PIGS countries (Portugal, Italy, Greece and Spain)	18	4	22
Off which: Total exposure to LDC countries	140	47	187
Off which: Total exposure to countries with liquidity problems	4	2	6

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

(1) On the basis of final risk, after effect of guarantees, liquid collateral and credit derivatives.
(2) Balance sheet and off-balance sheet credit risk are presented before the effect of provision for credit losses and before the effect of deductible collateral for the purpose of indebtedness of borrower and group of borrowers.
(3) Off-balance sheet credit risk as calculated for the purpose of the limits on indebtedness of borrower.

Risks in the Housing loans portfolio

Credit policy at the Bank Group regarding mortgages

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

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

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

Volume of housing loans

	For the three months ended March 31		
	2020	**2019**	**Change**
		NIS million	%
Housing loans extensions			
Loans from bank funds	**1,520**	980	55.1
Loans from treasury funds	**8**	5	60.0
Grants from treasury funds	**4**	2	100.0
Total new loans	**1,532**	987	55.2
Refinanced loans from bank funds	**251**	77	226.0
Total extensions	**1,783**	1,064	67.6

	As at March 31,		
	2019	**2018**	**Change**
		NIS million	%
Balance of housing loans, net			
Loans from bank funds	**26,319**	24,645	6.8
Loans from treasury funds*	**312**	354	(11.9)
Grants from treasury funds*	**33**	24	37.5
Total balance of housing loans	**26,664**	25,023	6.6

* These amounts are not included in the balance sheet balances

Loan to value

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

The portfolio of housing loans extended from the Bank's sources on March 31, 2020 included 70% of credit granted at an LTV of up to 60% compared to 71% on March 31, 2019. 94% of total loans were granted at an LTV of up to 75%, compared with 95% in the same period last year.

Housing loan extensions from the Bank's sources in the first three months of 2019 included 70% of credit granted at an LTV of up to 60%, compared with 75% in the same period last year. All loan extensions were granted at an LTV of up to 75%, compared with 100% in the same period last year.

Debt-income ratio

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

The portfolio of housing loans extended from the Bank's sources as of March 31, 2020 included 89% of credit granted at a debt-income ratio of up to 35%, compared with 87% in the same period last year. 98% of the credit was extended to borrowers on the basis of a debt-income ratio of up to 50%, compared with 97% in the same period last year.

Housing loan extensions from the Bank's sources in the first three months of 2020 included 94% of credit granted at a debt-income ratio of up to 35% compared with 91% in the same period last year. All of the credit was extended to borrowers on the basis of a debt-income ratio of up to 50% compared to similar to the same period last year.

Floating-rate loans

The portfolio of housing loans from the Bank's sources as of March 31, 2020 includes 61% of credit that was granted at floating-rate interest and amounts to NIS 16,022 million.

Housing loan extensions from the Bank's sources in the first three months of 2020 include NIS 494 million of credit granted at floating-rate interest of up to five years constituting 33% of extentions. An amount of NIS 314 million is floating-rate credit five years, constituting 21% of extentions .

Long-term loans

The portfolio of housing loans from the Bank's sources as of March 31, 2020 includes 83% of credit whose redemption period as of the report date is up to 25 years and amounts to NIS 22,020 million.

Housing loan extensions from the Bank's sources in the first three months of 2020 include 72% of credit whose redemption period as of the report date is up to 25 years and amounts to NIS 1,099 million.

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

	For residential purposes											Secured by a residential apartment	Total
	Unlinked segment				CPI-linked segment				Foreign-currency linked segment		Total		
	Fixed-rate		Floating rate		Fixed-rate		Floating rate		Floating rate				
	Balance	Rate	Balance	Rate	Balance	Rate	Balance	Rate	Balance	Rate	Balance	Balance	Balance
	NIS million	%	NIS million	%	NIS million	%	NIS million	%	NIS million	%	NIS million	NIS million	NIS million
31.3.20	**6,821**	**26.8**	**11,069**	**43.4**	**3,286**	**12.9**	**4,277**	**16.8**	**18**	**0.1**	**25,471**	**848**	**26,319**
31.12.19	6,489	26.1	10,869	43.7	3,246	13.1	4,215	17.0	20	0.1	24,839	853	25,692

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

	Three months 2020	Three months 2019	2019	2018	2017	2016
Total housing loan extensions (NIS million)	**1,520**	980	4,374	4,149	3,756	4,337
Rate of change in housing loan extensions compared with previous year	**55.1%**	(2.4%)	5.4%	10.5%	(13.4%)	(9.6%)
Rate of expense (income) on credit losses relative to mortgages at the Bank's risk	**0.05%**	(0.03%)	0.01%	-	(0.01%)	0.01%
Cumulative rate of allowance for credit losses relative to mortgages at the Bank's risk	**0.49%**	0.50%	0.49%	0.50%	0.51%	0.55%

Effect of the spreading of the Corona virus on residential credit

In March 2020, the bank started the treatment of borrowers, who had encountered difficulties following the Coronavirus crisis, and who had applied for changes in the terms of their loans. The treatment included deferral of repayment of residential loans for a period of up to three months to the tune of NIS 65 million, this in accordance with that stated in Note 1C (3) to the financial statements. In accordance with an outline formed in conjunction with Bank of Israel, the Bank continued a similar treatment with a possible deferral of repayments for a period of up to six months.

Furthermore, Bank of Israel has published regulatory relief related to Proper Conduct of Banking Business Directive No. 329 in the matter of "restrictions on the granting of residential loans". In accordance with the said relief, the Bank may approve a residential loan that is not intended to finance the purchase of a right in real estate, up to a financing level of 70%, in contrast to the present limit of 50%, subject to the declaration of the borrower that the loan is not intended for the purpose of purchasing an apartment as an investment. Moreover, under certain circumstances, the Bank may rely on the income of the borrower for the three months preceding his being suspended on unpaid leave or downgraded to a part-time position due to the Coronavirus crisis.

Private individuals credit risk (excluding housing loans and derivative instruments)

General

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

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

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

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

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

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

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

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

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

79% of the balance of the credit risk to private individuals is in respect of customers with fixed income credited to the account in an amount exceeding NIS 10 thousands.

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

			As of		Change
	31.3.20	**31.3.19**	**31.12.19**	**31.3.19**	**31.12.19**
			NIS million		%
Current account and utilized balances of credit cards	**4,880**	5,088	5,448	(4.1)	(10.4)
Other loans	**16,574**	15,986	16,221	3.7	2.2
Total balance credit risk	**21,454**	21,074	21,669	1.8	(1.0)
Unutilized current account credit lines	**4,681**	4,200	4,273	11.5	9.5
Unutilized credit lines in credit cards	**7,334**	6,636	6,851	10.5	7.1
Other off-balance credit risks	**1,299**	1,361	1,265	(4.6)	2.7
Total off-balance credit risk	**13,314**	12,197	12,389	9.2	7.5
Total credit risk	**34,768**	33,271	34,058	4.5	2.1
Average volume of credit, including overdrafts, credit cards and loans	**21,024**	21,394	20,655	(1.7)	1.8

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

			As of		Change
	31.3.20	**31.3.19**	**31.12.19**	**31.3.19**	**31.12.19**
			NIS million		%
Impaired credit risks	**156**	103	148	51.5	5.4
Unimpaired problematic credit risk	**164**	284	180	(42.3)	(8.9)
Non-problematic credit risk	**34,448**	32,884	33,730	4.8	2.1
Total credit risk	**34,768**	33,271	34,058	4.5	2.1
Of which: unimpaired debts in arrears of 90 days or more	**27**	29	26	(6.9)	3.8
Balance of restructured debts out of the problematic credit	**113**	90	108	25.6	4.6
Expense rate of credit losses out of total credit to the public*	**0.54%**	0.36%	0.32%		

*annualized

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

				March 31, 2020
Fixed income credited to the account*	**Total financial assets** lower than NIS 50 K**	**Total financial assets** higher than NIS 50 K**	**Balance sheet Credit risk**	**Off-balance sheet credit risk**
NIS thousands				NIS million
No fixed income	**409**	**30**	**439**	**199**
Up to 10	**3,853**	**439**	**4,292**	**2,452**
From 10 to 20	**5,018**	**1,269**	**6,287**	**3,677**
Over 20	**6,051**	**4,385**	**10,436**	**6,986**
Total	**15,331**	**6,123**	**21,454**	**13,314**

				March 31, 2019
Fixed income credited to the account*	**Total financial assets** lower than NIS 50 K**	**Total financial assets** higher than NIS 50 K**	**Balance sheet Credit risk**	**Off-balance sheet credit risk**
NIS thousands				NIS million
No fixed income	320	27	347	158
Up to 10	4,449	584	5,033	2,558
From 10 to 20	4,859	1,392	6,251	3,423
Over 20	5,671	3,772	9,443	6,058
Total	15,299	5,775	21,074	12,197

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

* Fixed income credited to the account as defined in the reporting instruction to the Supervisor of Banks No.836 (which includes actual salary in average calculation of the last 12 months, total annuities, cash deposits and check deposits).

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

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

	Balance sheet credit risk		
	March 31, 2020	March 31, 2019	December 31, 2019
Period to redemption			NIS million
Up to one year	**5,446**	5,297	6,012
From one to three years	**3,036**	2,997	3,019
From three to five years	**4,894**	4,579	4,822
From five to seven years	**2,731**	2,827	2,730
Over seven years	**5,347**	5,374	5,086
Total	**21,454**	21,074	21,669

Distribution by size of credit to the borrower*

	March 31, 2020			March 31, 2019			December 31, 2019		
Credit range to the borrower	Balance sheet credit risk	Off-balance sheet credit risk	Total credit risk**	Balance sheet credit risk	Off-balance sheet credit risk	Total credit risk**	Balance sheet credit risk	Off-balance sheet credit risk	Total credit risk**
NIS thousands			NIS million			NIS million			NIS million
Up to 10	**244**	**654**	**898**	254	609	863	277	631	908
From 10 to 20	**363**	**857**	**1,220**	385	768	1,153	403	816	1,219
From 20 to 40	**1,052**	**1,975**	**3,027**	1,094	1,748	2,842	1,136	1,874	3,010
From 40 to 80	**2,882**	**3,353**	**6,235**	2,977	2,929	5,906	3,054	3,150	6,204
From 80 to 150	**5,687**	**3,377**	**9,064**	5,669	2,894	8,563	5,873	3,125	8,998
From 150 to 300	**6,748**	**2,345**	**9,093**	6,540	2,081	8,621	6,728	2,141	8,869
Over 300	**4,478**	**753**	**5,231**	4,155	1,168	5,323	4,198	652	4,850
Total	**21,454**	**13,314**	**34,768**	21,074	12,197	33,271	21,669	12,389	34,058

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

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

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

	March 31, 2020	March 31, 2019	December 31, 2019
	Balance sheet credit risk	Balance sheet credit risk	Balance sheet credit risk
Type of credit	NIS million	NIS million	NIS million
Current account	**1,665**	1,739	1,775
Credit card	**3,215**	3,349	3,673
Credit carrying variable interest	**15,944**	*15,382	*15,581
Credit carrying fixed interest	**630**	*604	*640
Total	**21,454**	21,074	21,669

*Reclassified

Collateral

Credit range to the borrower	March 31, 2020 Balance sheet credit risk	Off-balance sheet credit risk	Total credit risk	March 31, 2019 Balance sheet credit risk	Off-balance sheet credit risk	Total credit risk	December 31, 2019 Balance sheet credit risk	Off-balance sheet credit risk	Total credit risk
			NIS million			NIS million			NIS million
Total credit secured by collateral*	**3,971**	**945**	**4,916**	4,203	1,199	5,402	4,107	1,125	5,232
* Of which:									
Non-liquid collateral	**3,556**	**918**	**4,474**	3,484	957	4,441	3,434	877	4,311
Liquid collateral	**415**	**27**	**442**	719	242	961	673	248	921

Description of operations

A. The underwriting of credit to private individuals

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

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

B. The manner of supervising and monitoring risk characteristics

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

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

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

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

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

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

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

Construction and real estate sector risks

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

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

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

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

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

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

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

		March 31,	December 31,
	2020	**2019**	**2019**
			NIS million
Overall credit risk[(1)]			
Projects not yet completed			
Of which: Open land	**2,037**	2,002	2,123
Property under construction	**4,584**	4,527	4,467
Completed building projects	**4,395**	4,332	4,255
Other[(2)]	**5,715**	5,075	5,564
Total	**16,731**	15,936	16,409

(1) Of which: credit secured by housing property in the amount of NIS 5,257 million, Credit secured by industrial property in the amount of NIS 732 million and credit secured by commercial property in the amount of 5,027 million (31.3.19 - NIS 5,201 million, NIS 503 million and NIS 5,157 million, 31.12.19 - NIS 5,107 million, NIS 634 million and NIS 5,104 million respectively).

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

Leveraged Finance

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

The criteria according to which the Bank defines credit as leveraged finance were set in a conservative manner.

Additional information can be found in the financial statements for 2019.

As of March 31, 2020 total aggregate balances (balance sheet credit and off-balance sheet credit net of provisions for credit losses and deductible collateral) considered as leveraged finance, amounted to NIS 524 million, compared to NIS 703 million on March 31, 2019 and NIS 587 million at the end of 2019.

MARKET RISK

Market risk (financial risk) is the actual or future existence of a risk to a loss or impairment derived from a change in the economic value of financial instrument, certain portfolio or a group of portfolios and on an aggregate level, due to changes in prices, rates, margins and other parameters in the financial markets. Including: interest risk, currency risk, inflation risk, securities prices risk and volatility risk.

Methodology for the estimation of exposure to market risk

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

Interest exposure

Interest risk is the actual or future existence of a risk to the Group's income or capital deriving from movement in interest rates, effecting the Bank's earnings by changes in net income, and the value of the Bank's assets, liabilities and off-balance-sheet instruments, since the fair value of future cash-flows (and in certain cases the cash-flows themselves) changes when the interest rates are changing. The main shapes of the interest risk to which the Bank is exposued to are: risk of repricing, yield curve risk, basis risk and option risk. Interest risks in respect of the entire portfolio are the dominant risks to which the Bank is exposed in all matters relating to their effect on the fair value of assets and liabilities and its effect on earnings. The Bank manages the interest risks in accordance with the Bank of Israel directive 333, a specific directive in the area of interest risk management with emphasis on the banking portfolio. The Bank implemented policy for the management of interest risk, in accordance with the regulations.

Analysis of sensitivity to the effect of exposure to interest rate adjustments based on the fair value of financial instruments

Set out below is information on assets and liabilities that are exposed to changes in interest rates on the basis of their fair value, including a sensitivity analysis of the effect of theoretical changes in the interest rate on the fair value of financial instruments, excluding non monetary items, according to accounting rules:

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

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

	March 31, 2020			March 31, 2019			December 31, 2019		
	NIS	Foreign currency	Total	NIS	Foreign currency	Total	NIS	Foreign currency	Total
			NIS million			NIS million			NIS million
Adjusted fair value, net [1]	**7,549**	**(370)**	**7,179**	7,253	(41)	7,212	7,580	84	7,664
Of which: banking portfolio	**7,587**	**(764)**	**6,823**	6,897	129	7,026	7,748	(122)	7,626

Additional details as to the assumptions used to calculate the adjusted fair value of the financial instruments, see note 14A to the financial statements.

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

	March 31, 2020			March 31, 2019			December 31, 2019		
	NIS(5)	Foreign currency	Total	NIS(5)	Foreign currency	Total	NIS(5)	Foreign currency	Total
			NIS million			NIS million			NIS million
Parallel changes									
Parallel increase of 1%	**(18)**	**(10)**	**(28)**	(90)	(21)	(111)	(67)	(35)	(102)
Of which: banking portfolio	**(4)**	**-**	**(4)**	(91)	(19)	(110)	(58)	(20)	(78)
Parallel decrease of 1%	**77**	**5**	**82**	120	12	132	146	26	172
Of which: banking portfolio	**64**	**(4)**	**60**	123	8	131	138	14	152
Non-parallel changes									
Steeping(2)	**(180)**	**(3)**	**(183)**	(233)	14	(219)	(187)	(2)	(189)
Flattening(3)	**195**	**(15)**	**180**	152	13	165	194	(16)	178
Interest increase in short term	**145**	**(20)**	**125**	93	3	96	142	(30)	112
Interest decrease in short term	**(81)**	**1**	**(80)**	(108)	28	(80)	(41)	14	(27)

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

3. Effect of scenarios of changes in interest rate on interest income, net and non-interest income: (6)

	March 31, 2020			March 31, 2019			December 31, 2019		
	Interest income	Non-interest income	Total(4)	Interest income	Non-interest income	Total(4)	Interest income	Non-interest income	Total(4)
			NIS million			NIS million			NIS million
Parallel changes									
Parallel increase of 1%	**343**	**10**	**353**	293	11	304	304	6	310
Of which: banking portfolio	**342**	**-**	**342**	292	-	292	304	-	304
Parallel decrease of 1%	**(657)**	**(10)**	**(667)**	(557)	(11)	(568)	(583)	(6)	(589)
Of which: banking portfolio	**(656)**	**-**	**(656)**	(557)	-	(557)	(583)	-	(583)

(1) Fair value of financial instruments, excluding non-financial items and after the effect of liability in respect to employees' rights and attribution of demand deposits to periods.
(2) Steeping- decline of interest in the short term and increase in interest in the long term.
(3) Flattening- Increase in interest in short term and decline in interest in the long term.
(4) After offsetting effects.
(5) Components for which a negative interest environment in taken into account- financial derivative instruments, assets and liabilities in the CPI segment and bonds in the foreign currency segment.
(6) In interest decline scenarios reflecting negative interest, the effect of the scenario on interest income, net was calculated according to deferent assumptions.
(7) The update of the statistical model for the forecast of balances in respect of demand deposits increased the fair value in the amount of NIS 96 million.

Disclosure regarding preparations for the discontinuation of use of the LIBOR

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

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

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

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

Principal risks and preparations made by the Bank in respect thereof

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

The following risks had been mapped at this stage:

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

Accounting implications

The discontinuation of use of the LIBOR and transition to alternative interest indices, are expected to have different accounting implications in a number of areas, including discounting rates - transition to alternative interest indices might lead to changes in discounting rates used as input in different models for the purpose of valuation of different assets and liabilities, such as: financial instruments, leasing, derivatives and impairment of nonfinancial assets.

See note 1c(2) in respect of mitigation with respect to the effects of the reference interest rates reform on financial reporting.

Basis exposure

Actual basis exposure

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

	Actual basis exposure		% of the capital	
	As of March 31,	As of December 31,	As of March 31,	As of December 31,
	2020	**2019**	**2020**	**2019**
Non-linked local currency	**3,322**	3,959	**37**	44
CPI-linked local currency	**3,467**	2,780	**39**	31
Foreign currency and f-C linked	**(408)**	38	**(5)**	-

Sensitivity of capital to changes in the exchange rate

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

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

Set out below is the sensitivity of the Bank's capital to theoretical changes in the exchange rates of the principal currencies as of March 31, 2020 (NIS millions).

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

Percentage change in exchange rate	Dollar	Euro
5% decrease	**15**	**(2)**
10% decrease	**31**	**(7)**
5% increase	**(10)**	**(1)**
10% increase	**(14)**	**(1)**

NOTES:

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

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

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

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

Sensitivity of capital to changes in the CPI

The Bank operates in the CPI market by extending uses such as loans, mortgages and the purchase of bonds and by raising CPI linked funds. In addition, the Bank performs CPI forward transactions on behalf of its customers and itself.
The Bank is not exposed in its forward activity to material CPI risks.

Set out below is the sensitivity of the Bank's capital to theoretical changes in the CPI as of March 31, 2020 (NIS millions). The measurement refers to the effect of changes on capital and includes activity in balance-sheet and off-balance-sheet instruments:

Percentage change in CPI	
3% decrease	**(108)**
3% increase	**93**

Management of risks in derivative financial instruments

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

	As of March 31, 2020			As of December 31, 2019		
	Derivatives not for trading	Derivatives for trading	Total	Derivatives not for trading	Derivatives for trading	Total
Hedging transactions:						
Interest rate contracts	**3,448**	**-**	**3,448**	2,911	-	2,911
Other transactions:						
Interest rate contracts	**940**	**16,748**	**17,688**	969	17,410	18,379
Foreign currency contracts	**16,518**	**76,889**	**93,407**	12,882	62,045	74,927
Contracts on shares, share indexes, commodities and other contracts	**-**	**38,883**	**38,883**	-	44,493	44,493
Total derivative financial instruments	**20,906**	**132,520**	**153,426**	16,762	123,948	140,710

LIQUIDITY RISK

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

Effect of the spreading of the Corona virus

The spreading of the Corona virus has led in reaction, to the short-term lowering of interest rates by central banks and to the adoption of different monetary expansion measures and the provision of liquidity to the markets.

Starting with the identification stage of the Coronavirus crisis, the Bank has maintained high liquidity balances, both in foregn and local currencies, in comparison with balances maintained in the ordinary course of business. Furthermore, a high liquidity coverage ratio has been maintained, exceeding the regulatory and internal levels in respect of all segments.

The Bank continues to maintain a high liquidity coverage ratio.

The liquidity coverage ratio of the Bank group for the three months ended March 31, 2020, amounted to 130%, in comparison to 128% in the three months period ended on December 31, 2019. The minimum liquidity coverage ratio required by the Supervisor of Banks amounts to 100%.

For additional information regarding the liquidity coverage ratio, see Note 8 to the financial statements.

Liquidity position and the composition of assets and liabilities

The liquidity assets at the group, which includes cash, deposits at the Bank of Israel, deposits at banks and liquid securities, amounted to NIS 51.5 billion on March 31, 2020, compared with NIS 47.3 billion at the end of 2019. Of this amount, the balance of cash, deposits with the Bank of Israel and deposits with banks accounted for NIS 41.9 billion, and NIS 9.6 billion were invested in securities, principally Israel government bonds.

The ratio of deposits from the public to credit to the public on March 31, 2020 amounted to 140.9% compared with 136.6% on December 31, 2019.

At the end of March 2020, deposits from the public, bonds and subordinated notes totaled NIS 130.7 billion compared with NIS 123.7 billion at the end of 2019.

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

The Bank has sources in a short-medium contructual duration, which the Bank anticipates that they will be held for a long time.The uses are both for short term and medium- long term.

In general the exposures in the foreign currency segment are low (see the chapter on market risk).

The CPI exposure of the Bank's group amounted to NIS 3,467 million as of March 31, 2020.

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

	As of March 31, 2020	As of December 31, 2019
		NIS million
1	**1,919**	2,721
2	**1,640**	2,439
3	**1,482**	2,089

OTHER RISKS

For information regarding other risks, among others, the operational risks and the way they are managed (including business continuity, data security and cyber events), compliance risk, anti money laundering and terror finance risk (including cross border risks), finance risk, legal risk, reputation risk and strategy risk- see the chapter on risk review in the annual financial statements of the Bank for 2019 and the risk report on the Bank's website.

DISCUSSION OF RISK FACTORS

For discussion in risk factors see the chapter of risk review in the annual financial statements of the Bank for 2019.
No change occurred in the level of risk factors during the first quarter of 2020 compared with the table published in the annual financial statements for 2019, except for:

- Borrower and collateral quality risk and the total credit risk – the risk estimate has been temporarily raised to the "Medium" level in view of the continuing Coronavirus crisis, concerns regarding recession and slowdown and the steep rise in unemployment, which may lead to difficulties in the repayment ability and cash flows of customers in the different operating segments, in particular in those economic sectors that were significantly hit by the crisis. All this may adversely affect the quality of borrowers, and accordingly, the credit loss expenses.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES, CONTROLS AND PROCEDURES

General

The estimates and assessments regarding critical accounting policy matters were made in accordance with the best knowledge and judgment of the professional entities engaged in their preparation, and that they were applied in an appropriate manner in the financial statements of the Bank.
A review of the significant areas, which in the opinion of the Bank Management consist critical accounting policies, are detailed in the Director's report for the annaual financial statements for 2019 and no change has occurred.

CONTROLS AND PROCEDURES

ASSESSMENT OF CONTROLS AND PROCEDURES CONCERNING DISCLOSURE IN THE FINANCIAL REPORT

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

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

Enclosed with the financial statements are declarations by the CEO of the Bank and the Chief Accountant, each one separately, concerning the assessment of controls and procedures in the matter of disclosure.

The Management of the Bank, in cooperation with the CEO of the Bank and the Chief Accountant, assessed for March 31, 2020 the effectiveness of the controls and procedures in the matter of disclosure by the Bank. On the basis of this assessment, the CEO of the Bank and the Chief Accountant concluded that as at the end of this report period, the controls and procedures in the matter of disclosure by the Bank were effective for the purpose of recording, processing, summarizing and reporting the information which the Bank is required to disclose in the report in accordance with the Supervisor of Banks' directives for reporting to the public, and at the time determined in those directives.

During the first quarter ending on March 31, 2020, no change occurred in the Bank's internal control over financial reporting which exerted a material effect, or which can reasonably be expected to exert a material effect on the Bank's internal control over financial reporting.

Jacob Sitt
Acting Chairman of the Board

Smadar Barber-Tsadik
Chief Executive Officer

Nachman Nitzan
Executive Vice President,
Chief Accountant

Tel Aviv, May 31, 2020

CERTIFICATION

I, Smadar Barber-Tsadik, declare that:

1. I have reviewed the quarterly report of the First International Bank of Israel Ltd. (hereinafter: "the Bank") for the quarter ended March 31, 2020 (hereinafter: "the Report").
2. Based on my knowledge, the Report contains no incorrect presentation of a material fact, and there is no presentation of a material fact missing from the Report that is necessary so that the presentations included therein, in light of the circumstances under which such presentations were included, are not misleading with regard to the period covered by the Report.
3. Based on my knowledge, the financial statements and other financial information included on the Report correctly reflect the financial condition, results of operations, changes in shareholders' equity, and cash flows of the Bank, in all material aspects, for the dates and periods covered in the Report.
4. I, and others at the Bank making this declaration, are responsible for the establishment and application of controls and procedures with regard to the Bank's disclosure (1) and internal control of financial reporting (1). furthermore:
   A. We have established such controls and procedures or caused such controls and procedures to be established under our supervision, aimed at ensuring that material information pertaining to the Bank, including its consolidated corporations, is brought to our knowledge by others at the Bank and at such corporations, in particular during the preparation of the Report.
   B. We have established such internal controls of financial reporting or caused such internal control of financial reporting to be established under our supervision, intended to provide a reasonable degree of confidence with regard to the reliability of the financial reporting, and that the financial reports for external purposes are prepared in accordance with generally accepted accounting principles and with the directives and guidelines of the Supervisor of Banks.
   C. We have assessed the effectiveness of the controls and procedures concerning disclosure at the Bank, and we have presented our findings with regard to the effectiveness of the controls and procedures concerning disclosure, as at the end of the period covered in the Report, based on our assessment; and
   D. We have disclosed in the Report any change in the internal control of financial reporting at the Bank that occurred during the fourth quarter, and that had a material effect, or could reasonably be expected to have a material effect, on the internal control of financial reporting at the Bank; and
5. I, and others at the Bank making this declaration, have disclosed to the auditor, to the Board of Directors, and to the Audit Committee of the Board of Directors of the Bank, based on our most current assessment of the internal control of financial reporting;
   A. Any significant deficiencies or material weaknesses in the establishment or application of internal control of financial reporting that can reasonably be expected to impair the Bank's ability to record, process, summarize, or report financial information; and
   B. Any fraud, whether material or immaterial, in which the Board of Management was involved, or in which other employees were involved who have significant role in the internal control of financial reporting at the Bank.

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

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

Tel-Aviv, May 31, 2020

Smadar Barber-Tsadik
Chief Executive Officer

CERTIFICATION

I, Nachman Nitzan, declare that:

1. I have reviewed the quarterly report of the First International Bank of Israel Ltd. (hereinafter: “the Bank”) for the quarter ended March 31, 2020 (hereinafter: “the Report”).
2. Based on my knowledge, the Report contains no incorrect presentation of a material fact, and there is no presentation of a material fact missing from the Report that is necessary so that the presentations included therein, in light of the circumstances under which such presentations were included, are not misleading with regard to the period covered by the Report.
3. Based on my knowledge, the financial statements and other financial information included on the Report correctly reflect the financial condition, results of operations, changes in shareholders' equity, and cash flows of the Bank, in all material aspects, for the dates and periods covered in the Report.
4. I, and others at the Bank making this declaration, are responsible for the establishment and application of controls and procedures with regard to the Bank's disclosure [(1)] and internal control of financial reporting [(1)]. furthermore:
   A. We have established such controls and procedures or caused such controls and procedures to be established under our supervision, aimed at ensuring that material information pertaining to the Bank, including its consolidated corporations, is brought to our knowledge by others at the Bank and at such corporations, in particular during the preparation of the Report.
   B. We have established such internal controls of financial reporting or caused such internal control of financial reporting to be established under our supervision, intended to provide a reasonable degree of confidence with regard to the reliability of the financial reporting, and that the financial reports for external purposes are prepared in accordance with generally accepted accounting principles and with the directives and guidelines of the Supervisor of Banks.
   C. We have assessed the effectiveness of the controls and procedures concerning disclosure at the Bank, and we have presented our findings with regard to the effectiveness of the controls and procedures concerning disclosure, as at the end of the period covered in the Report, based on our assessment; and
   D. We have disclosed in the Report any change in the internal control of financial reporting at the Bank that occurred during the fourth quarter, and that had a material effect, or could reasonably be expected to have a material effect, on the internal control of financial reporting at the Bank; and
5. I, and others at the Bank making this declaration, have disclosed to the auditor, to the Board of Directors, and to the Audit Committee of the Board of Directors of the Bank, based on our most current assessment of the internal control of financial reporting;
   A. Any significant deficiencies or material weaknesses in the establishment or application of internal control of financial reporting that can reasonably be expected to impair the Bank's ability to record, process, summarize, or report financial information; and
   B. Any fraud, whether material or immaterial, in which the Board of Management was involved, or in which other employees were involved who have significant role in the internal control of financial reporting at the Bank.

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

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

Tel-Aviv, May 31, 2020

Nachman Nitzan
Executive Vice President,
Chief Accountant

FINANCIAL STATMENTS

Somekh Chaikin
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AUDITORS' REVIEW TO THE SHAREHOLDERS' OF THE FIRST INTERNATIONAL BANK OF ISRAEL LTD.

Introduction

We have reviewed the accompanying financial information of The First International Bank of Israel Ltd. and its subsidiaries (hereinafter- "the Bank"), comprising of the condensed consolidated interim balance sheet as of March 31, 2020 and the related condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the three months period then ended. The Board of directors and Management are responsible for the preparation and presentation of this interim financial information in accordance with generally accepted accounting principles in Israel (Israeli GAAP) for interim accounting and in accordance with the directives and guidelines of the Supervisor of Banks. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

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

Conclusion

Based on our review nothing has come to our attention that causes us to believe that the accompanying financial information was not prepared, in all material respect, in accordance with generally accepted accounting principles in Israel (Israeli GAAP) for interim accounting and in accordance with the directives and guidelines of the Supervisor of Banks.

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

Somekh Chaikin
Certified Public Accountants (Isr.)

May 31, 2020

CONSOLIDATED STATEMENT OF INCOME

(NIS million)

	NOTE	For the three months ended March 31 2020 (unaudited)	For the three months ended March 31 2019 (unaudited)	For the year ended December 31 2019 (audited)
Interest Income	2	**715**	727	3,085
Interest Expenses	2	**57**	92	483
Interest Income, net		**658**	635	2,602
Expenses from credit losses	6,12	**157**	36	138
Net Interest Income after expenses from credit losses		**501**	599	2,464
Non- Interest Income				
Non-Interest Financing income (expenses)	3	**(3)**	46	225
Fees		**368**	320	1,286
Other income		**1**	1	9
Total non- Interest income		**366**	367	1,520
Operating and other expenses				
Salaries and related expenses		**379**	402	1,601
Maintenance and depreciation of premises and equipment		**86**	92	353
Amortizations and impairment of intangible assets		**24**	23	92
Other expenses		**148**	156	608
Total operating and other expenses		**637**	673	2,654
Profit before taxes		**230**	293	1,330
Provision for taxes on profit		**48**	111	478
Profit after taxes		**182**	182	852
The bank's share in profit (loss) of equity-basis investee, after taxes		**(2)**	10	51
Net profit:				
Before attribution to non-controlling interests		**180**	192	903
Attributed to non-controlling interests		**(9)**	(9)	(38)
Attributed to shareholders of the Bank		**171**	183	865
				NIS
Primary profit per share attributed to the shareholders of the Bank				
Net profit per share of NIS 0.05 par value		**1.70**	1.82	8.62

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

Jacob Sitt
Acting Chairman of the Board

Smadar Barber-Tsadik
Chief Executive Officer

Nachman Nitzan
Executive Vice President,
Chief Accountant

Tel-Aviv, 31 May, 2020

STATEMENT OF COMPREHENSIVE INCOME(1)

(NIS million)

	For the three months ended March 31		For the year ended December 31
	2020	**2019**	**2019**
	(unaudited)	(unaudited)	(audited)
Net profit before attribution to non-controlling interests	**180**	192	903
Net profit attributed to non-controlling interests	**(9)**	(9)	(38)
Net profit attributed to the shareholders of the Bank	**171**	183	865
Other comprehensive income (loss) before taxes**:**			
Adjustments of available for sale bonds to fair value, net	**(247)**	66	101
Adjustments of liabilities in respect of employee benefits(2)	**139**	(8)	(74)
Other comprehensive income (loss) before taxes	**(108)**	58	27
Related tax effect	**36**	(20)	(9)
Other comprehensive income (loss) before attribution to non-controlling interests, after taxes	**(72)**	38	18
Less other comprehensive income (loss) attributed to non-controlling interests	**-**	1	(2)
Other comprehensive income (loss) attributed to the shareholders of the Bank, after taxes	**(72)**	37	20
Comprehensive income before attribution to non-controlling interests	**108**	230	921
Comprehensive income attributed to non-controlling interests	**(9)**	(10)	(36)
Comprehensive income attributed to the shareholders of the Bank	**99**	220	885

(1) See note 4.

(2) Mostly reflects adjustments in respect of actuarial assessments as of the end of the period regarding defined benefits pension plans, of amounts recorded in the past in other comprehensive profit.

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

CONSOLIDATED BALANCE SHEET

(NIS million)

	NOTE	31.3.20 (unaudited)	31.3.19 (unaudited)	31.12.19 (audited)
Assets				
Cash and deposits with banks		**41,933**	34,108	37,530
Securities(4)	5	**10,824**	11,338	10,995
Securities which were borrowed		**82**	664	9
Credit to the public	6,12	**91,075**	87,246	88,829
Provision for Credit losses	6,12	**(1,047)**	(893)	(930)
Credit to the public, net		**90,028**	86,353	87,899
Credit to the government		**1,114**	676	1,039
Investments in investee company		**603**	617	605
Premises and equipment		**989**	1,011	996
Intangible assets		**246**	231	248
Assets in respect of derivative instruments	10	**2,551**	941	1,091
Other assets(2)		**1,161**	1,044	698
Total assets		**149,531**	136,983	141,110
Liabilities and Shareholders' Equity				
Deposits from the public	7	**126,977**	115,349	120,052
Deposits from banks		**1,129**	1,064	1,137
Deposits from the Government		**553**	779	353
Bonds and subordinated capital notes		**3,754**	4,270	3,674
Liabilities in respect of derivative instruments	10	**2,586**	1,021	1,247
Other liabilities(1)(3)		**5,625**	5,962	5,723
Total liabilities		**140,624**	128,445	132,186
Capital attributed to the shareholders of the Bank		**8,542**	8,208	8,568
Non-controlling interests		**365**	330	356
Total equity		**8,907**	8,538	8,924
Total liabilities and shareholders' equity		**149,531**	136,983	141,110

(1) Of which: provision for credit losses in respect of off-balance sheet credit instruments in the amount of NIS 64 million and NIS 62 million and NIS 57 million at 31.3.20, 31.3.19 and 31.12.19, respectively.

(2) Of which: other assets measured at fair value in the amount of NIS 78 million and NIS 312 million and NIS 42 million at 31.3.20, 31.3.19 and 31.12.19, respectively.

(3) Of which: other liabilities measured at fair value in the amount of NIS 111 million and NIS 536 million and NIS 47 million at 31.3.20, 31.3.19 and 31.12.19, respectively.

(4) Regarding amounts measured at fair value, see note 14B.

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

STATEMENT OF CHANGES IN EQUITY

(NIS million)

	For the three months ended March 31, 2020 (unaudited)					
	Share capital and premium (1)	Accumulated other comprehensive loss	Retained earnings (2)	Total	Non-controlling interests	Total equity
Balance as at December 31, 2019 (audited)	**927**	**(131)**	**7,772**	**8,568**	**356**	**8,924**
Net profit for the period	**-**	**-**	**171**	**171**	**9**	**180**
Dividend	**-**	**-**	**(125)**	**(125)**	**-**	**(125)**
Other comprehensive loss, net after tax effect	**-**	**(72)**	**-**	**(72)**	**-**	**(72)**
Balance as at March 31, 2020	**927**	**(203)**	**7,818**	**8,542**	**365**	**8,907**

	For the three months ended March 31, 2019 (unaudited)					
	Share capital and premium (1)	Accumulated other comprehensive income (loss)	Retained earnings (2)	Total	Non-controlling interests	Total equity
Balance as at December 31, 2018 (audited)	927	(159)	7,325	8,093	320	8,413
Cumulative effect of the initial implementation of US accepted accounting principals(3)	-	8	(8)	-	-	-
Adjusted balance as at January 1, 2019 after the initial implementation	927	(151)	7,317	8,093	320	8,413
Net profit for the period	-	-	183	183	9	192
Dividend	-	-	(105)	(105)	-	(105)
Other comprehensive income, net after tax effect	-	37	-	37	1	38
Balance as at March 31, 2019	927	(114)	7,395	8,208	330	8,538

	For the year ended December 31, 2019 (audited)					
	Share capital and premium (1)	Accumulated other comprehensive income (loss)	Retained earnings (2)	Total	Non-controlling interests	Total equity
Balance as at December 31, 2018	927	(159)	7,325	8,093	320	8,413
Cumulative effect of the initial implementation of US accepted accounting principals(3)	-	8	(8)	-	-	-
Adjusted balance as at January 1, 2019 after the initial implementation	927	(151)	7,317	8,093	320	8,413
Net profit for the year	-	-	865	865	38	903
Dividend	-	-	(410)	(410)	-	(410)
Other comprehensive income (loss), after tax effect	-	20	-	20	(2)	18
Balance as at December 31, 2019	927	(131)	7,772	8,568	356	8,924

(1) Including share premium of NIS 313 million (as from 1992 onwards).
(2) Including an amount of NIS 2,391 million which cannot be distributed as dividend.
(3) Cumulative effect of the initial implementation regarding financial instruments of US accepted accounting standards at banks in respect of financial instruments (ASU 2016-01).

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

STATEMENT OF CASH FLOWS
(NIS million)

	For the three months ended March 31,		For the year ended December 31
	2020	2019	2019
	(unaudited)	(unaudited)	(audited)
Cash flows from operating activities:			
Net profit for the period	**180**	192	903
Adjustments to reconcile cash provided by operating activities:			
The Bank's share in loss (profit) of equity-basis investee	**2**	(10)	(51)
Depreciation of premises and equipment	**16**	18	69
Amortization of intangible assets	**24**	23	92
Gain on sale of premises and equipment	**-**	-	(3)
Expenses from credit losses	**157**	36	138
Loss (gain) from sale of available for sale bonds and not for trading shares and provision for impairment of available-for-sale bonds	**16**	(8)	(28)
Realized and non-realized loss from adjustment to fair value of trading securities	**-**	3	14
Realized and non-realized loss (gain) from adjustment to fair value of not for trading shares	**41**	(6)	(59)
Deferred taxes, net	**(41)**	(6)	(25)
Defined benefit of pension and severance pay plans	**11**	37	92
Adjustments of exchange rate differences	**134**	(189)	(561)
Dividend received from an affiliated company	**-**	-	56
Net change in current assets:			
Trading securities	**(123)**	308	418
Other assets	**(57)**	61	445
Assets in respect of derivative instruments	**(1,601)**	403	198
Net change in current liabilities:			
Other liabilities	**540**	1,206	(861)
Liabilities in respect of derivative instruments	**1,339**	(273)	(47)
Accumulation differences included in investing and financing activities	**12**	(46)	(18)
Net cash from operating activity	**650**	1,749	772
Cash flows for investing activity			
Change in Deposits in banks	**(247)**	(44)	(78)
Change in Securities borrowed	**(73)**	199	854
Change in Credit to the public	**(3,179)**	(2,060)	(5,001)
Change in Credit to the government	**(79)**	24	(339)
Purchase of available for sale bonds and not for trading shares	**(2,172)**	(1,376)	(6,380)
Proceeds from redemption of bonds held to maturity	**137**	77	193
Proceeds from sale of available for sale bonds and not for trading shares	**1,097**	808	2,678
Redemption of available for sale bonds	**1,077**	1,349	4,526
Acquisition of premises and equipment	**(9)**	(6)	(49)
Proceeds of sale of premises, equipment and other assets	**-**	-	9
Investment in intangible assets	**(21)**	(15)	(101)
Net cash for investing activity	**(3,469)**	(1,044)	(3,688)

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

STATEMENT OF CASH FLOWS (CONT'D)
(NIS million)

	For the three months ended March 31,		For the year ended December 31
	2020	2019	2019
	(unaudited)	(unaudited)	(audited)
Cash flows from financing activity			
Change in Deposits from the public	**7,404**	3,789	10,251
Change in Deposits from banks	**(51)**	(53)	39
Change in Deposits from the government	**(499)**	(830)	696
Issue of bonds and subordinate debt notes	**814**	-	711
Redemption of bonds and subordinate debt notes	**(717)**	(662)	(2,053)
Dividend paid to shareholders	**(125)**	(105)	(410)
Net cash from financing activity	**6,826**	2,139	9,234
Increase in cash	**4,007**	2,844	6,318
Cash balances at beginning of period	**37,275**	31,126	31,126
Effect of changes in exchange rates on cash balances	**149**	(83)	(169)
Cash balances at end of period	**41,431**	33,887	37,275
Interest and taxes paid and/or received:			
Interest received	**852**	841	3,185
Interest paid	**(235)**	(178)	(781)
Dividends received	**3**	2	15
Income tax paid	**(106)**	(72)	(547)
Income tax received	**45**	42	56

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - PRINCIPAL ACCOUNTING POLICIES

A. General

The first International bank of Israel Ltd. (hereinafter - "the Bank") is an Israeli corporation. The condensed consolidated interim financial statements of the Bank as of March 31, 2020, include those of the Bank and of its consolidated companies and an affiliated company (hereinafter - "the Group"). The condensed consolidated interim financial statements are prepared in accordance with generaly accepted accounting principles in Israel (Israeli GAAP) as well as in accordance with directives and guidelines of the Supervisor of Banks, and do not include all the information required in full annual financial statements. The condensed statements should be read together with the financial statements as of and for the year ended December 31, 2019, and the related notes thereto (hereinafter - "the Annual Report").The accounting policy of the Group applied in these condensed consolidated interim financial statements, is the same policy applied in the Annual Report, with the exception of that stated in subsection "C" below.

In accordance with the guidelines of the Supervisor of Banks, publication of condensed financial statements is made on the basis of consolidated financial statements only. The condensed consolidated interim financial statements were approved for publication by the Board of Directors on May 31, 2020.

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

B. Use of estimates

Preparation of the condensed interim consolidared financial statements in accordance with generally accepted accounting principles in Israel (Israeli GAAP) and the directives and guidelines of the Supervisor of Banks, requires Management to use judgment in making estimates and assumptions which affect the implementation of the accounting policy and the reported amounts of assets and liabilities and the amounts of income and expenses. It should be noted that actual results may differ from these estimates.

Upon the formation of accounting estimates used in the preparation of the financial statements of the Bank, Management is required to make assumptions as to circumstances and events which involve uncertainty. The assessments as well as the assumptions supporting them are consistent with those used in the formation of the annual financial statements.

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

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

Starting with the periods beginning on January 1, 2020, the Bank implements new accounting standards and instructions regarding the matters detailed below:

1. Reporting by banks and credit card companies in Israel in accordance with US accepted accounting principles in the matter of leasing;
2. Updated Standard 04-2020 of the Codification introducing mitigation in respect of the effect of the reform regarding the reference interest rates upon financial reporting;
3. Regulatory emphasis on the accounting treatment of debts and on reporting to the public in view of the Coronavirus crisis.

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

(1) Reporting by banking corporations and credit card companies in Israel in accordance with US accepted accounting principles in the matter of leasing

The Supervisor of Banks issued a letter on July 1, 2018, in the matter of reporting by banking corporations and credit card companies in Israel in accordance with US accepted accounting principles with respect to leasing, which adopts the accounting principles accepted by US banks in the matter of leasing, and inter alia, the presentation, measurement and disclosure rules determined by Item 842 of the Codification with respect to "leasing".

A summary of the principal changes expected in the accounting treatment in financial statements of banking corporations following the application of Item 842 of the Codification, as stated in the letter, determines, inter alia, as follows: banking corporations that lease assets for periods exceeding twelve months shall recognize them in the balance sheet, even where the lease is classified as an operating lease; in the case of an operating lease, a "right of use asset" shall be recorded in the balance sheet reflecting the right of a bank to use the leased asset, while on the other hand a liability in respect of an operating lease will be recorded; moreover, a sale and lease-back transaction of an asset made by a bank may in certain cases be considered as an accounting sale transaction, subject to the existence of certain terms detailed in Item 842 of the Codification.

The new instructions are being applied as from January 1, 2020, by way of adjusted retroactive application, while recognizing the cumulative effect thereof in the opening balance of retained earnings at date of initial application.

Upon the initial application, a banking corporation shall act in accordance with the transitional instructions stated in the accounting principles accepted by US banks in these matters, mutatis mutandis. The above stated includes a retroactive restatement of the comparative data, where this is required regarding these matters.

The Bank has adopted the new instructions as from January 1, 2020, by way of adjusted retroactive application, recognizing the cumulative effect thereof in retained earning at date of initial application, with no rerstatement of the comparative data.

As permitted by the transitional instructions of the Standard, the Bank has chosen the following mitigating instructions:

- maintaining the assumptions regarding the existence of a lease and its classification as an operating or a financial lease with respect to all agreements in effect at date of initial application as well as maintaining the assumptions regarding qualification for the capitalization of primary direct expenses, which had been determined in the period prior to the date of initial application, in accordance with the provisions of the present standards.
- Using the possibility of hindsight for the purpose of determining the period of the lease, where the lease agreement contains the option of extension or cancellation and assessment of impairment in value of the right of use assets.

In accordance with the new instructions, in respect of agreements in which the Bank is the lessee, at date of initial recognition, the Bank has recognized a liability in the amount equal to the present value of the future lease fees during the lease period (such payments do not include variable lease fees that do not depend on the CPI or on the rate of interest), and correspondingly recognized a right of use asset in the amount of the liability in respect of the lease, adjusted for lease fees paid in advance or which have accrued, net of lease incentives, and with the addition of direct expenses incurred on the lease.

Furthermore, as made possible by the provisions of the Standard, the Bank has chosen to apply the following mitigating instructions:

- Use of the practical relief of not separating non-lease components, such as services or maintenance, from the lease components, treating them as a single lease component.
- Use of the practical relief, according to which, short-term leases of up to one year are treated so that the lease fees are recognized in profit and loss by the straight line method over the lease period, with no recognition of a right of use asset and/or a liability for lease in the financial condition report.

- Applying the provisions of the Standard to a lease portfolio having similar characteristics (regarding size and composition), in respect of which it is reasonably anticipated by the Bank that the application of the lease model to this portfolio would not be materially different from the separate application of the model to each lease contained in the portfolio.

Application of the new instruction has led to an increase of NIS 425 million in the balance of right of use assets and to a corresponding increase of NIS 425 million in the balance of liabilities for leases as of January 1, 2020. Notwithstanding the above, the application of the new instructions had no material effect on profit and loss.

In accordance with the reporting format, as determined in the public reporting instructions, the Bank has recognized right of use assets in respect of operating leases in the item "Other assets", and liabilities for leases (both financial and operating) in the item "Other liabilities". Furthermore, application of the new instructions has led to a decline in the Tier I equity capital ratio and in the comprehensive capital ratio at rates of 0.06% and 0.08%, respectively, as of January 1, 2020, being the result of weighting the risk assets in respect the right of use stemming from operating leases, which are recognized in the balance sheet at the rate of 100%. In addition, application of the new instructions has led to a decline in the leverage ratio of the Bank as of January 1, 2020, at the rate of 0.02%.

(2) Updated Standard 04-2020 of the Codification introducing mitigation in respect of the effect of the reform regarding the reference interest rates upon financial reporting

The FASB published on March 22, 2020 an update of the Standard introducing mitigation with respect to the effects of the reference interest rates reform on financial reporting, comprising an update of Item 848 of the Codification in the matter of the reference interest rates reform (hereinafter – "the update"). In accordance with the reference interest rate reform, the inter-bank interest rates (the IBOR rates) shall be abolished and replaced by observable alternative reference interest rates, or by rates which are based on actual transactions, which would be less open to manipulation. This update follows the update of Standard ASU 2018-16, which took effect as from January 1, 2019, regarding the addition of the OIS rate (Overnight Index Swap) that is based on the SOFR rate (Secured Overnight Financing Rate) to the list of benchmark interest rates in the US, qualified for use for accounting hedge purposes.

Among other things, the Standard allows, as follows:

- To treat contract modifications that affect the amount and timing of contractual cash flows stemming from the discontinuation of the use of reference interest rates following the reform, as a continuation of existing contracts with no further analysis, as an alternative to modification accounting.
- To refrain from conducting a re-examination of embedded derivatives defined as clearly and closely connected to the economic characteristics and risks of the host contract.
- To change (for all types of hedge contracts) the critical terms of the designated hedging instrument with no cancellation of the designation of the hedge relations, as well as conduct assessments of the effectiveness of the hedge relations, in a way where the potential sources for ineffectiveness would not be taken into consideration in the assessment.
- For the nonrecurring decision to sell and/or reclassify bonds included in the held-to-redemption portfolio to the available-for-sale portfolio or to the trading portfolio, with respect to bonds classified as held-to-redemption prior to January 1, 2020, and which are connected to interest rates affected by the reference interest rates reform.

Entities are permitted to apply these instructions as from the interim financial statements for the first quarter of 2020, or at any date thereafter. The update may not be applied to the modifications, as stated, made after December 31, 2022. Exceptions for the above stated are in respect of:

- Fair value hedge: certain aspects of the mitigation may be applied during the remaining life of the hedge relations, also in the period subsequent to December 31, 2022; and
- Cash flow hedge (mitigation in assessing effectiveness of hedge relations): an entity is required to discontinue applying the mitigating instructions at the earliest of the following dates: (1) the date on which both the hedging

instrument and the hedged item no longer relate to the interest rates expected to be abolished; (2) January 1, 2023; or (3) date on which the entity decides to discontinue applying the said mitigation.

The new instructions are being implemented by the Bank as from January 1 2020, by way of "from now onwards". The Bank has chosen to apply the following mitigating instructions:

- With respect to modifications to contracts, which affect the amount and timing of contractual cash flows stemming from the discontinuation of use of reference interest rates following the reform, the Bank has chosen the treatment of continuation of existing contracts with no further analysis, as an alternative to modification accounting.
- With respect to the examination of separation of embedded derivatives from the host contract, the Bank has chosen not to conduct a re-examination of embedded derivatives defined as clearly and closely connected to the economic characteristics and risks of the host contract.

(3) Regulatory emphasis on the accounting treatment of debts and on reporting to the public in view of the Coronavirus crisis.

On April 21, 2020, Bank of Israel issued a letter in the matter of "the Coronavirus event – regulatory emphasis regarding the treatment of debts and reporting to the public".

In view of the outbreak of the Coronavirus, the Supervisor of Banks has adopted guidelines and mitigating measures prescribed by the supervisory authorities in the US, including a number of guidelines regarding accounting treatment, among which are:

Changes in loan terms

- Where a banking corporation takes action in order to stabilize borrowers, who are not in default with respect to their existing loans, whether the action relates to a single borrower or is taken within the framework of a plan for performing borrowers facing short-term financial or operating problems due to the Coronavirus event, as a general rule, such an action shall not be considered as a restructure of a troubled debt. In view of this, debts, the terms of which had been modified, such as: Deferrals of repayment dates, waiver of interest in arrears and extension of repayment periods, have not been classified as a restructure of a troubled debt, where the following conditions exist:
- The modification was made due to the Coronavirus event;
- The borrower was not in default on date of application of the modification plan;
- The modification applies for a short period (up to six months).

In this respect, it is clarified that borrowers are considered to be not in default if they are in default of less than thirty days in relation to their contractual terms at date of application of the modification plan. Moreover, where the modification of the terms of the debt led to a delay in repayment that is not short-term, the debt is not classified as a restructured troubled debt, if it had been renewed at an interest rate identical to the interest rate determined for a new debt of similar risk.

- With respect to residential loans treated by the length of default method, where the short-term deferral of repayment was granted in respect of a debt that was not a troubled debt prior to the deferral date, as a general rule, the deferral does not require classification of the debt as a restructured debt.

Determination of a default situation

In respect of debts, which prior to the Coronavirus event had not been in default, and have been granted a deferral following this event, the Bank is not required to classify such debts as debts in default due to this deferral. Moreover, where repayment has been deferred due to the Coronavirus event, in the case of debts that had been in default prior to the deferral, an adjustment was made to the default status in existence prior to the deferral, so that in fact the debt status remained at a standstill for the period of the repayment deferral.

Classification of troubled debts, including impaired debts not accruing interest income and accounting write-offs

In accordance with the said letter of Bank of Israel, during the period of short-term arrangements, these loans, as a general rule, were not reported as not accruing interest income. This, with the exception of debts in respect of which new information had been gathered regarding deterioration in their repayment prospects, where the Bank acted in accordance with the public reporting instructions in the matter of classification of troubled debts and accounting write-offs.

As part of the confrontation with the Coronavirus situation, and in continuation of the regulatory emphasis as to the accounting treatment of debts, the Bank has made, during the past quarter, changes to the terms of debts, including deferral of repayment dates, waiver of interest in arrears and extension of repayment periods, which were not classified as restructure of a troubled debt. Furthermore, see Note 16 regarding the impact of the spread of the Coronavirus.

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

(1) Adoption of updates to accounting principles accepted by US banks – provisions for credit losses and additional instructions

The Supervisor of Banks issued a letter on March 28, 2019, in the matter of "Adoption of updates to accounting principles accepted by US banks – provisions for credit losses and additional instructions". The letter requires the implementation of the accounting principles accepted by US banks with respect to provisions for credit losses, financial instruments, including derivatives and hedge activity as well as leases. The initial implementation shall be in accordance with the transitional instructions determined in the US rules.

The letter adopts the US accepted accounting principles in the matter of provisions for expected credit losses, published within the framework of updating standard ASU 2017-13. The aim of the new rules is to improve the quality of reporting the financial condition of a banking corporation by means of advance recognition of provisions for credit losses, in a manner that strengthens the counter-recurrence in the conduct of the provisions for credit losses, supporting a quicker response by the banks to the deterioration in the quality of credit to borrowers, and the reinforcement of the bond between credit risk management and the way in which such risks are being reflected in financial statements, while basing it on existing methods and processes.

The principal changes expected in the accounting treatment in financial statements of banking corporations, following the implementation of these rules, are, inter alia, as follows: the provision for credit losses shall be calculated according to the loss expected over the life of the credit, instead of assessing the loss caused but not yet identified; in assessing the provision for credit losses, significant use should be made of forward -looking information reflecting reasonable forecasts as to future economic events; providing wider disclosure of the impact of the date of extending the credit on the quality of credit of the credit portfolio; changes in the manner of recording impairment of bonds classified as available-for-sale; also, the new rules for the calculation of the provision for credit loss shall apply to credit (including residential loans), bonds held to redemption and to exposure to certain off-balance sheet credit.

The standard is to be applied as from January 1, 2021 and thereafter. As a general rule, the new rules are to be applied by way of recognition in retained earnings of the cumulative effect of the rules at date of their initial application.

The Bank is preparing for the implementation of the letter. Preparations made by the Bank include, inter alia, mapping of the new instructions and their possible implications on the Bank; review of the practices applying at present to the management of credit risk and to the assessment of the provision for credit losses, in order to identify processes that might be used for the purpose of the application of the new rules. Identification of the challenges and the ways to be used in order to face such challenges, as well as examination of the changes required for the modification of the models used for assessing credit losses.

On July 4, 2019, the Supervisor of Banks issued a draft letter regarding the "application of US accepted accounting principals in the matter of anticipated credit losses", which includes integration of the new rules in the public reporting instructions, deferral of the initial application date of the new rules to January 1, 2022, and a parallel run as from January 1, 2021. Furthermore, the Supervisor of Banks has published a draft "questions and answers file in the matter of application of the new rules regarding anticipated credit losses", which is intended to assist banking corporations in the process of preparations for the implementation of the new rules. Moreover, on April 20, 2020, the Supervisor of Banks informed that in view of the difficulties created by the Coronavirus event, Banks are permitted not to submit to the Board of Directors the report for the first quarter regarding the progress made by the project for the implementation of the new rules in this matter, as was required in the letter. In addition, Bank of Israel clarified that it intends to announce further on, the deferral of the beginning date for the parallel run of the new rules by one or two quarters, in accordance with developments.

(2) Amendment of Standard ASU 2018-14 in the matter of changes in disclosure requirements regarding defined benefit plans

On August 28, 2018, the US Financial Accounting Standard Board ("FASB") published Amendment ASU 2018-14 regarding the disclosure framework - changes in disclosure requirements regarding defined benefit plans, comprising an update of Item 715-20 of the Codification in the matter of compensation-retirement benefits-defined benefits plans-general (hereinafter - "the Amendment"). The aim of the Amendment is to improve the effectiveness of disclosure provided in notes to financial statements, as well as reduce the costs involved in the preparation of the required notes.

The changes contained in the Amendment abolish disclosures that are useless, clarify specific disclosure requirements, as well as add disclosure requirements identified as relevant.

The principal changes are, inter alia, as follows: it is no longer required to present an assessment of the amounts included in other comprehensive income expected to be removed from other cumulative comprehensive income in the following year and charged to profit and loss as an expense; it is no longer required to present the amount of the future annual benefits that are covered by insurance contracts, including pension contracts, as well as any significant transactions between the entity, or related parties and the plan; a new requirement is added for the provision of details regarding the reasons for material profits or losses related to changes during the period in the liability regarding defined benefit; also clarified are the disclosure requirements in respect of entities having two or more plans.

The provisions of the Amendment apply to public entities in the United States starting with annual periods beginning after December 15, 2020. Earlier adoption of the rules is permitted also for interim periods. Upon initial application it is required to implement the changes by way of retroactive application.

The Bank is studying the effect of the new rules upon its financial statements.

(3) Update ASU 2018-13 of the standard in the matter of changes in the disclosure requirements regarding the measurement of fair value

The US Financial Accounting Standard Board ("FASB") published on August 28, 2018, ASU 2019-13 in the matter of disclosure framework - changes in the disclosure requirements regarding the measurement of fair value, comprising an update of Item 820 of the Codification regarding measurement of fair value (hereinafter - "the update"). The purpose of the update is to improve the effectiveness of disclosure in notes to financial statements as well as reduce the cost involved in the preparation of the required notes.

The amendments included in the update, eliminate disclosure that is useless, clarify specific disclosure requirements and add disclosure requirements found as relevant.

The principal amendments are, inter alia, as follows: the requirement for presentation of the amounts and reasons for the transfers between levels 1 and 2 of the fair value hierarchy has been eliminated; also eliminated is the requirement for information regarding the policy of the entity determining when transfers between levels are considered as effected; also eliminated is the requirement to present a description of the process of measurement of the fair value at level 3; within the framework of the requirement to provide a verbal description of the sensitivity to changes in unobservable data for recurring measurements of fair value classified at level 3 in the fair value scale; the term "sensitivity" has been changed to "uncertainty" in order to emphasize that the required information relates to uncertainty; a requirement has been added for the presentation of the unrealized changes in other comprehensive income during the reported period in respect of assets held at the end of that period.

The instructions contained in the update apply to US public entities beginning with annual periods beginning after December 15, 2019. In accordance with a circular letter of the Supervisor of Banks in the matter of "improving the usefulness of reports to the public by banking corporations for the years 2019 and 2020", which had been formed on the basis of the updated Standard 2018-13 of the Codification, the initial application date was deferred to January 1, 2021. Prior adoption is permissible also for interim periods. Upon initial application it is required to apply the instructions by way of retroactive application, with the exception of the additional disclosure requirements and the updated disclosure requirement regarding uncertainty in the measurement of fair value at level 3, the application thereof would be from now onwards.
The Bank is studying the effect of the new instructions upon its financial statements.

(4) Update ASU 2019-12 of the standard in the matter of simplification of the accounting treatment of taxes on income

The US Financial Accounting Standard Board ("FASB") published on December 18, 2019, ASU 2019-12 in the matter simplification of the accounting treatment of taxes on income, comprising an update of Item 740 of the Codification with respect to taxes on income (hereinafter – "the update"). The aim of the update is the reduction of complexity of the US accepted accounting principles, while maintaining the usefulness of the information provided to users of financial statements.
The modifications introduced by the update simplify the accounting treatment of taxes on income, by removal of exceptions, changing of existing guidelines contained in the Standard, as well as addition of new guidelines.
The principal items modified by the update are, inter alia: allocation of tax expenses or tax benefits among continuing operations, discontinued operations, other comprehensive profit and items recognized directly in shareholders' equity; recognition of deferred tax liabilities in respect of timing differences subject to tax in respect of investment in a foreign affiliated company; computation of tax income from cumulative losses in interim financial statements; the manner of recognizing the effect of changes in tax laws or of changes in tax rates in interim financial statements; assessment of the growth in the tax base of goodwill, when determining the treatment thereof as part of a business combination or as a separate transaction.
The instructions contained in the update apply to US public entities beginning with annual periods beginning after December 15, 2020. Prior adoption is permissible also for interim periods.
Upon initial application, it is required to apply the changes by way of "from now onwards", except for the recognition of deferred tax liabilities in respect of investment in a foreign affiliated company, the application thereof would be by way of adjusted retroactive application, while recognizing the cumulative effect in the opening balance of retained earnings.
The Bank is studying the effect of the new instructions on its financial statements.

NOTE 2 - INTEREST INCOME AND EXPENSES

(NIS million)

		For the three months ended March 31 (unaudited)	
		2020	**2019**
A.	**Interest income (expenses)** (1)		
	From credit to the public	**660**	653
	From credit to the Government	**(3)**	(2)
	From deposits with banks	**3**	7
	From deposits with Bank of Israel and cash	**18**	16
	From bonds(2)	**37**	53
	Total interest income	**715**	727
B.	**Interest expenses (income)**		
	On deposits from the public	**60**	74
	On deposits from the Government	**1**	1
	On deposits from banks	**1**	1
	On bonds and subordinated capital notes	**(5)**	15
	On other liabilities	**-**	1
	Total interest expenses	**57**	92
	Total interest income, net	**658**	635
C.	**Details on net effect of hedging derivative instruments on interest income and expenses**		
	Interest expenses (3)	**(5)**	(2)
D.	**Details of interest income from bonds on cumulative basis**		
	Held to maturity	**7**	7
	Available for sale	**30**	46
	Held for trading	**-**	-
	Total included in interest income	**37**	53

(1) Including effect of hedging relation.

(2) Including Interest income on mortgage-backed bond (MBS) in the amount of NIS 2 million (31.3.2019 - NIS 2 million).

(3) Details of effect of hedging derivative instruments on subsection A.

NOTE 3 - NON-INTEREST FINANCING INCOME

(NIS million)

	For the three months ended March 31 (unaudited)	
	2020	**2019**
A. Non-interest financing income (expenses) in respect of non-trading activities		
1. From activity in derivative instruments[1]		
Total from activity in derivative instruments	**184**	(153)
2. From investments in bonds		
Profits from sale of bonds available for sale[2]	**8**	7
Provision for impairment of available-for-sale bonds[2]	**(18)**	-
Total from investment in bonds	**(10)**	7
3. Net exchange differences	**(134)**	189
4. From investment in shares		
Gains from sale of shares not for trading	**-**	1
Losses from sale of shares not for trading	**(6)**	-
Unrealized gains (losses)[3]	**(41)**	6
Total from investment in shares	**(47)**	7
Total non-interest financing income in respect of non-trading activities	**(7)**	50

(1) Excluding effect of hedging relation.
(2) Reclassified from cumulative other comprehensive income.
(3) Including profits and losses from measurement according to fair value of shares in respect of which fair value exist and adjustment of shares in respect of which fair value does not exist.

	For the three months ended March 31 (unaudited)	
	2020	**2019**
B. Net income (expenses) in respect of non-interest financing activity for trading[3]		
Net income (expenses) in respect of other derivative instruments	**4**	(1)
Net realized and unrealized gains (losses) from adjustments to fair value of bonds held for trading[1]	**1**	(3)
Net realized and unrealized losses from adjustments to fair value of shares held for trading[2]	**(1)**	-
Total non-interest financing income (expenses) from trading activities[4]	**4**	(4)
Total non-interest financing income (expenses)	**(3)**	46
Details on non-interest financing income (expenses) in respect of trading activities, by risk exposure		
Interest rate exposure	**(1)**	5
Exposure to shares	**1**	2
Foreign currency exposure	**4**	(11)
Total	**4**	(4)

(1) Of which losses in respect of trading bonds held at balance sheet date in the amount of NIS 1 million for the three months ended March 31, 2020 (31.3.19 - losses in the amount of NIS 1 million).
(2) No gains/losses exist in respect of trading shares on hand at balance sheet date.
(3) Including exchange differences arising from trading activity.
(4) See Note 2 for details on income from investment in trading bonds.
(5) See Note 2 for disclosure of the net effect of hedge derivative instruments on interest income and expenses.

NOTE 4 - CUMULATIVE OTHER COMPREHENSIVE INCOME (LOSS)

(NIS million)

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

	Other comprehensive income (loss) before attribution to non-controlling interests				
	Adjustment in respect of reporting available for sale bonds in fair value	Adjustments in respect of employee benefits	Total	Other comprehensive income (loss) attributed to non-controlling interests	Other comprehensive income (loss) attributed to the Bank's shareholders
Balance as of December 31, 2019 (audited)	**53**	**(199)**	**(146)**	**(15)**	**(131)**
Net change during the period	**(163)**	**91**	**(72)**	**-**	**(72)**
Balance as of March 31, 2020 (unaudited)	**(110)**	**(108)**	**(218)**	**(15)**	**(203)**
Balance as of December 31, 2018 (audited)	(22)	(150)	(172)	(13)	(159)
Cumulative effect in respect of initial application of US accepted accounting standards*	8	-	8	-	8
Adjusted balance as of January 1, 2019 after initial application	(14)	(150)	(164)	(13)	(151)
Net change during the period	43	(5)	38	1	37
Balance as of March 31, 2019 (unaudited)	29	(155)	(126)	(12)	(114)
Balance as of December 31, 2018 (audited)	(22)	(150)	(172)	(13)	(159)
Cumulative effect in respect of initial application of US accepted accounting standards*	8	-	8	-	8
Adjusted balance as of January 1, 2019 after initial application	(14)	(150)	(164)	(13)	(151)
Net change during 2019	67	(49)	18	(2)	20
Balance as of December 31, 2019 (audited)	53	(199)	(146)	(15)	(131)

* Cumulative effect in respect of initial application of US accepted accounting standards for banks in respect of financial instruments (ASU 2016-01).

NOTE 4 - CUMULATIVE OTHER COMPREHENSIVE INCOME (LOSS) (CONT'D)

(NIS million)

B. Changes in the components of cumulative other comprehensive income (loss) before and after tax effect

	For the three months ended March 31 (unaudited)						For the year ended December 31, 2019 (audited)		
	2020			2019					
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Changes in the components of cumulative other comprehensive income (loss) before attribution to minority interests									
Adjustments in respect of presentation of available for sale bonds according to fair value									
Unrealized net gains (losses) from adjustments to fair value	**(115)**	**39**	**(76)**	126	(43)	83	238	(81)	157
Gains in respect of available for sale bonds reclassified to income statement (1)	**(132)**	**45**	**(87)**	(60)	20	(40)	(137)	47	(90)
Net change during the period	**(247)**	**84**	**(163)**	66	(23)	43	101	(34)	67
Employee benefits:									
Net actuarial gain (loss) for the period	**132**	**(45)**	**87**	(30)	10	(20)	(139)	47	(92)
Net losses reclassified to the statement of profit and loss (2)	**7**	**(3)**	**4**	22	(7)	15	65	(22)	43
Net change during the period	**139**	**(48)**	**91**	(8)	3	(5)	(74)	25	(49)
Changes in the components of cumulative other comprehensive income (loss) attributed to minority interests									
Total change during the period	**-**	**-**	**-**	2	(1)	1	(4)	2	(2)
Changes in the components of cumulative other comprehensive income (loss) attributed to the Bank's shareholders									
Total change during the period	**(108)**	**36**	**(72)**	56	(19)	37	31	(11)	20

(1) The amount before tax is reported in the statement of income in the item non-interest financing income. For additional details see note 3.

(2) The amount before tax is reported in the statement of income in the item employee benefits, see note 7A.

NOTE 5 - SECURITIES

(NIS million)

	March 31, 2020 (unaudited)				
A. Debentures held to maturity	**Book value**	**Amortized cost**	**Unrealized gains from adjustment to fair value**	**Unrealized losses from adjustment to fair value**	**Fair value** (1)
Of Israeli government	**1,694**	**1,694**	**75**	**1**	**1,768**
Of financial institutions in Israel	**87**	**87**	**-**	**-**	**87**
Of others in Israel	**235**	**235**	**17**	**2**	**250**
Total debentures held to maturity	**2,016**	**2,016**	**92**	**3**	**2,105**

			Cumulative other comprehensive income		
B. Bonds available for sale	**Book value**	**Amortized cost**	**Profits**	**Losses**	**Fair value** (1)
Of Israeli government	**5,668**	**5,814**	**7**	**153**	**5,668**
Of foreign governments	**950**	**941**	**9**	**-**	**950**
Of financial institutions in Israel	**35**	**39**	**-**	**4**	**35**
Of foreign financial institutions	(6)**558**	**561**	**1**	**4**	**558**
Mortgage backed (MBS) securities	(5)**356**	**348**	**8**	**-**	**356**
Of others in Israel	(7)**375**	**400**	**1**	**26**	**375**
Of foreign others	**318**	**324**	**1**	**7**	**318**
Total bonds available for sale	**8,260**	**8,427**	(2)**27**	(2)**194**	**8,260**

C. Investment in not for trading shares	**Book value**	**cost**	**Unrealized gains from adjustment to fair value**	**Unrealized losses from adjustment to fair value**	**Fair value** (1) (4)
Not for trading shares	**320**	**360**	(3)**2**	(3)**42**	**320**
Of which: shares, the fair value of which is not ready determinable	**122**	**122**	**-**	**-**	**122**
Total not for trading securities	**10,596**	**10,803**	**121**	**239**	**10,685**

D. Bonds held for trading	**Book value**	**Amortized cost (in shares cost)**	**Unrealized gains from adjustment to fair value**	**Unrealized losses from adjustment to fair value**	**Fair value** (1)
Of Israeli government	**227**	**228**	**-**	**1**	**227**
Of financial institutions in Israel	**1**	**1**	**-**	**-**	**1**
Total trading bonds	**228**	**229**	(3)**-**	(3)**1**	**228**
Total securities	**10,824**	**11,032**	**121**	**240**	**10,913**

Notes: Details of results of investment activity in bonds and in shares - see note 2 and note 3.

(1) The fair value of securities is generally based on market price, which does not necessarily reflect the price obtained in the event of sale of securities in large volumes.

(2) Included in equity in the item "Adjustments in respect of presentation of available-for-sale bonds at fair value".

(3) Recorded in the Statement of Income.

(4) Regarding shares which do not have available fair value, in this column presented cost less impairment adjusted upwards or downwards to observable prices in similar or identical investments of the same issue.

(5) Securities issued by GNMA and guaranteed by US government in the amount of NIS 355 million and securities issued by FNMA & FHLMC in amount of NIS 1 million.

(6) Including securities owned by a government in the amount of NIS 378 million securities owned by a government and have specified government guarantee in the amount of NIS 91 million.

(7) Including impaired bonds accruing interest income in amount of NIS 40 million.

NOTE 5 - SECURITIES (CON'T)

(NIS million)

	March 31, 2019 (unaudited)				
A. Debentures held to maturity	**Book value**	**Amortized cost**	**Unrealized gains from adjustment to fair value**	**Unrealized losses from adjustment to fair value**	**Fair value (1)**
Of Israeli government	1,427	1,427	41	-	1,468
Of financial institutions in Israel	52	52	1	-	53
Of others in Israel	249	249	31	-	280
Total debentures held to maturity	1,728	1,728	73	-	1,801

B. Bonds available for sale	**Book value**	**Amortized cost (in shares cost)**	**Cumulative other comprehensive income**		**Fair value (1)**
			Profits	**Losses**	
Of Israeli government	5,201	5,159	45	3	5,201
Of foreign governments	1,992	1,992	-	-	1,992
Of financial institutions in Israel	49	50	-	1	49
Of foreign financial institutions	(6)483	483	-	-	483
Mortgage backed (MBS) securities	(5)425	427	3	5	425
Of others in Israel	(7)411	407	6	2	411
Of foreign others	599	597	2	-	599
Total bonds available for sale	9,160	9,115	(2)56	(2)11	9,160

C. Investment in not for trading shares	**Book value**	**cost**	**Unrealized gains from adjustment to fair value**	**Unrealized losses from adjustment to fair value**	**Fair value (1) (4)**
Not for trading shares	223	225	(3)3	(3)5	223
Of which: shares, the fair value of which is not ready determinable	136	136	-	-	136
Total not for trading securities	11,111	11,068	132	16	11,184

D. Securities held for trading	**Book value**	**Amortized cost (in shares cost)**	**Unrealized gains from adjustment to fair value**	**Unrealized losses from adjustment to fair value**	**Fair value (1)**
Bonds -					
Of Israeli government	174	174	-	-	174
Of financial institutions in Israel	35	35	-	-	35
Of foreign financial institutions	4	4	-	-	4
Of others in Israel	8	8	-	-	8
Total trading debentures and bonds	221	221	-	-	221
Shares -	6	6	-	-	6
Total trading securities	227	227	(3)-	(3)-	227
Total securities	11,338	11,295	132	16	11,411

Notes: Details of results of investment activity in bonds and in shares - see note 2 and note 3.

(1) The fair value of securities is generally based on market price, which does not necessarily reflect the price obtained in the event of sale of securities in large volumes.

(2) Included in equity in the item "Adjustments in respect of presentation of available-for-sale securities at fair value".

(3) Recorded in the Statement of Income.

(4) Regarding shares which do not have available fair value, in this column presented cost less impairment adjusted upwards or downwards to observable prices in similar or identical investments of the same issue.

(5) Securities issued by GNMA and guaranteed by US government in the amount of NIS 422 million and securities issued by FNMA & FHLMC in amount of NIS 3 million.

(6) Including securities owned by a government in the amount of NIS 243 million securities owned by a government and have specified government guarantee in the amount of NIS 166 million.

(7) Including impaired bonds accruing interest income in amount of NIS 5 million.

NOTE 5 - SECURITIES (CON'T)

(NIS million)

					December 31, 2019 (audited)
A. Debentures held to maturity	**Book value**	**Amortized cost**	**Unrealized gains from adjustment to fair value**	**Unrealized losses from adjustment to fair value**	**Fair value (1)**
Of Israeli government	1,751	1,751	93	-	1,844
Of financial institutions in Israel	56	56	1	-	57
Of others in Israel	241	241	30	-	271
Total debentures held to maturity	2,048	2,048	124	-	2,172

			Cumulative other comprehensive income		
B. Bonds available for sale	**Book value**	**Amortized cost (in shares cost)**	**Profits**	**Losses**	**Fair value (1)**
Of Israeli government	4,577	4,508	69	-	4,577
Of foreign governments	1,956	1,955	1	-	1,956
Of financial institutions in Israel	43	42	1	-	43
Of foreign financial institutions	(6)640	639	1	-	640
Mortgage backed (MBS) securities	(5)378	377	2	1	378
Of others in Israel	(7)431	424	10	3	431
Of foreign others	478	477	1	-	478
Total bonds available for sale	8,503	8,422	(2)85	(2)4	8,503

C. Investment in not for trading shares	**Book value**	**cost**	**Unrealized gains from adjustment to fair value**	**Unrealized losses from adjustment to fair value**	**Fair value (1) (4)**
Not for trading shares	339	288	(3)52	(3)1	339
Of which: shares, the fair value of which is not ready determinable	129	129	-	-	129
Total not for trading securities	10,890	10,758	261	5	11,014

d. Bonds held for trading	**Book value**	**Amortized cost (in shares cost)**	**Unrealized gains from adjustment to fair value**	**Unrealized losses from adjustment to fair value**	**Fair value (1)**
Of Israeli government	95	95	-	-	95
Of financial institutions in Israel	4	4	-	-	4
Of others in Israel	6	6	-	-	6
Total trading bonds	105	105	(3)-	(3)-	105
Total securities	10,995	10,863	261	5	11,119

Notes: Details of results of investment activity in bonds and in shares - see note 2 and note 3.

(1) The fair value of securities is generally based on market price, which does not necessarily reflect the price obtained in the event of sale of securities in large volumes.

(2) Included in equity in the item "Adjustments in respect of presentation of available-for-sale securities at fair value".

(3) Recorded in the Statement of Income.

(4) Regarding shares which do not have available fair value, in this column presented cost less impairment adjusted upwards or downwards to observable prices in similar or identical investments of the same issue.

(5) Securities issued by GNMA and guaranteed by US government in the amount of NIS 377 million and securities issued by FNMA & FHLMC in amount of NIS 1 million.

(6) Including securities owned by government in the amount of NIS 453 million and securities owned and have specified government guarantee in the amount of NIS 162 million.

(7) Including impaired bonds accruing interest income in amount of NIS 4 million.

NOTE 5 - SECURITIES (CON'T)
(NIS million)

E. Fair value and unrealized losses, according to period and rate of impairment of bonds held to maturity and of available-for-sale bonds being in an unrealized loss position

	March 31, 2020 (unaudited)							
	Less than 12 months(1)				12 months and above(2)			
	Fair Value	Unrealized losses 0-20%(3)	Unrealized losses 20-40%(4)	Unrealized losses Total	Fair Value	Unrealized losses 0-20%(3)	Unrealized losses 20-40%(4)	Unrealized losses Total
Bonds held for redemption								
Of Israeli government	**209**	**1**	**-**	**1**	**-**	**-**	**-**	**-**
Of others in Israel	**9**	**1**	**1**	**2**	**-**	**-**	**-**	**-**
Total bonds held for redemption	**218**	**2**	**1**	**3**	**-**	**-**	**-**	**-**
Available for-sale bonds								
Of Israeli government	**4,581**	**153**	**-**	**153**	**-**	**-**	**-**	**-**
Of Israeli financial institutions	**-**	**-**	**-**	**-**	**16**	**-**	**4**	**4**
Of foreign financial institutions	**88**	**4**	**-**	**4**	**-**	**-**	**-**	**-**
Of others in Israel	**283**	**15**	**5**	**20**	**30**	**1**	**5**	**6**
Of foreign others	**162**	**7**	**-**	**7**	**-**	**-**	**-**	**-**
Total bonds available for sale	**5,114**	**179**	**5**	**184**	**46**	**1**	**9**	**10**

	March 31, 2019 (unaudited)							
	Less than 12 months(1)				12 months and above(2)			
	Fair Value	Unrealized losses 0-20%(3)	Unrealized losses 20-40%(4)	Unrealized losses Total	Fair Value	Unrealized losses 0-20%(3)	Unrealized losses 20-40%(4)	Unrealized losses Total
Available for-sale Bonds								
Of Israeli government	604	3	-	3	-	-	-	-
Of Israeli financial institutions	-	-	-	-	20	1	-	1
Mortgage backed (MBS) securities	-	-	-	-	252	5	-	5
Of others in Israel	44	1	-	1	68	1	-	1
Total bonds available for sale	648	4	-	4	340	7	-	7

	December 31, 2019 (audited)							
	Less than 12 months(1)				12 months and above(2)			
	Fair Value	Unrealized losses 0-20%(3)	Unrealized losses 20-40%(4)	Total	Fair Value	Unrealized losses 0-20%(3)	Unrealized losses 20-40%(4)	Total
Available for-sale bonds								
Mortgage backed (MBS) securities	-	-	-	-	77	1	-	1
Of others in Israel	-	-	-	-	42	3	-	3
Total bonds available for sale	-	-	-	-	119	4	-	4

(1) Investments in an unrealized loss position less than 12 months.
(2) Investments in an unrealized loss position more than 12 months.
(3) Investments which their unrealized loss constitutes up to 20% of their amortized cost.
(4) Investments which their unrealized loss constitutes between 20% to 40% of their amortized cost.
(5) Amortized cost of bonds held for redemption amounts to NIS 221 million.

NOTE 6 - CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES

(NIS million)

1. Debts(1), credit to the public and provision for credit losses

	March 31, 2020 (unaudited)					
	Credit to the public					
	Commercial	Housing	Other private	Total	Banks and Governments	Total
Recorded balance:						
Debts examined on an individual basis	**37,739**	**-**	**378**	**38,117**	**4,158**	**42,275**
Debts examined on a collective basis	**5,608**	**26,274**	**21,076**	**52,958**	**-**	**52,958**
Of which: according to the extent of arrears	**173**	**26,256**	**-**	**26,429**	**-**	**26,429**
Total	**43,347**	**26,274**	**21,454**	**91,075**	**4,158**	**95,233**
Of which:						
Debts restructuring	**168**	**-**	**113**	**281**	**-**	**281**
Other impaired debts	**391**	**5**	**40**	**436**	**-**	**436**
Total impaired debts	**559**	**5**	**153**	**717**	**-**	**717**
Debts in arrears of 90 days or more	**36**	**194**	**27**	**257**	**-**	**257**
Other problematic debts	**677**	**25**	**126**	**828**	**-**	**828**
Total problematic debts	**1,272**	**224**	**306**	**1,802**	**-**	**1,802**
Provision for credit losses:						
In respect of debts examined on an individual basis	**571**	**-**	**42**	**613**	**-**	**613**
In respect of debts examined on a collective basis	**66**	**126**	**242**	**434**	**-**	**434**
Of which: according to the extent of arrears	**2**	**126**	**-**	**128**	**-**	**128**
Total	**637**	**126**	**284**	**1,047**	**-**	**1,047**
Of which: in respect of impaired debts	**173**	**-**	**39**	**212**	**-**	**212**

	March 31, 2019 (unaudited)					
	Credit to the public					
	Commercial	Housing	Other private	Total	Banks and Governments	Total
Recorded balance:						
Debts examined on an individual basis	36,260	-	316	36,576	2,897	39,473
Debts examined on a collective basis	5,444	24,468	20,758	50,670	-	50,670
Of which: according to the extent of arrears	297	24,459	-	24,756	-	24,756
Total	41,704	24,468	21,074	87,246	2,897	90,143
Of which:						
Debts restructuring	164	-	90	254	-	254
Other impaired debts	297	10	13	320	-	320
Total impaired debts	461	10	103	574	-	574
Debts in arrears of 90 days or more	28	169	29	226	-	226
Other problematic debts	563	19	238	820	-	820
Total problematic debts	1,052	198	370	1,620	-	1,620
Provision for credit losses:						
In respect of debts examined on an individual basis	443	-	33	476	-	476
In respect of debts examined on a collective basis	67	118	232	417	-	417
Of which: according to the extent of arrears	2	118	-	120	-	120
Total	510	118	265	893	-	893
Of which: in respect of impaired debts	140	-	25	165	-	165

(1) Credit to the public, credit to governments, deposits with banks and other debts, excluding bonds and securities borrowed.

NOTE 6 - CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

	December 31, 2019 (audited)					
	Credit to the public					
	Commercial	Housing	Other private	Total	Banks and Governments	Total
Recorded balance:						
Debts examined on an individual basis	36,094	-	340	36,434	3,173	39,607
Debts examined on a collective basis	5,483	25,583	21,329	52,395	-	52,395
Of which: according to the extent of arrears	233	25,566	-	25,799	-	25,799
Total	41,577	25,583	21,669	88,829	3,173	92,002
Of which:						
Debts restructuring	140	-	108	248	-	248
Other impaired debts	413	10	38	461	-	461
Total impaired debts	553	10	146	709	-	709
Debts in arrears of 90 days or more	37	186	26	249	-	249
Other problematic debts	518	32	143	693	-	693
Total problematic debts	1,108	228	315	1,651	-	1,651
Provision for credit losses:						
In respect of debts examined on an individual basis	485	-	38	523	-	523
In respect of debts examined on a collective basis	60	121	226	407	-	407
Of which: according to the extent of arrears	2	121	-	123	-	123
Total	545	121	264	930	-	930
Of which: in respect of impaired debts	169	-	35	204	-	204

NOTE 6 - CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

2. Change in provision for credit losses

	For the three months ended March 31, 2020 (unaudited)					
	Credit to the public					
	Commercial	Housing	Other private	Total	Banks and Governments	Total
Change in provision for credit losses - Debts						
Provision for credit losses at beginning of the year (audited)	**545**	**121**	**264**	**930**	**-**	**930**
Expenses in respect of credit losses	**118**	**4**	**28**	**150**	**-**	**150**
Accounting write-offs	**(45)**	**-**	**(31)**	**(76)**	**-**	**(76)**
Collection of debts written off in accounting in previous years	**19**	**1**	**23**	**43**	**-**	**43**
Net accounting write-offs	**(26)**	**1**	**(8)**	**(33)**	**-**	**(33)**
Provision for credit losses at end of the period	**637**	**126**	**284**	**1,047**	**-**	**1,047**
Changes in provision in respect of off-balance sheet credit instruments						
Provision at beginning of the year (audited)	**46**	**-**	**11**	**57**	**-**	**57**
Increase in the provision	**6**	**-**	**1**	**7**	**-**	**7**
Provision in respect of off-balance sheet credit instruments at end of the period	**52**	**-**	**12**	**64**	**-**	**64**
Total provision for credit losses - debts and off-balance sheet credit instruments	**689**	**126**	**296**	**1,111**	**-**	**1,111**

	For the three months ended March 31, 2019 (unaudited)					
	Credit to the public					
	Commercial	Housing	Other private	Total	Banks and Governments	Total
Change in provision for credit losses - Debts						
Provision for credit losses at beginning of the year (audited)	489	119	260	868	-	868
Expenses in respect of credit losses	20	(1)	19	38	-	38
Accounting write-offs	(54)	(1)	(28)	(83)	-	(83)
Collection of debts written off in accounting in previous years	55	1	14	70	-	70
Net accounting write-offs	1	-	(14)	(13)	-	(13)
Provision for credit losses at end of the period	510	118	265	893	-	893
Changes in provision in respect of off-balance sheet credit instruments						
Provision at beginning of the year (audited)	53	-	11	64	-	64
Decrease in the provision	(2)	-	-	(2)	-	(2)
Provision in respect of off-balance sheet credit instruments at end of the period	51	-	11	62	-	62
Total provision for credit losses - debts and off-balance sheet credit instruments	561	118	276	955	-	955

NOTE 7 - DEPOSITS FROM THE PUBLIC

(NIS million)

A. Classes of deposits by place of origin and type of depositor In Israel

	March 31, 2020	March 31, 2019	December 31, 2019
		(unaudited)	(audited)
Demand			
- Non- bearing interest	**55,489**	46,716	47,692
- Bearing interest	**17,507**	19,477	17,765
Total demand	**72,996**	66,193	65,457
Fixed-term	**53,981**	49,156	54,595
Total deposits in Israel*	**126,977**	115,349	120,052
*Of which:			
Deposits of private individuals	**68,554**	58,375	59,306
Deposits of institutional entities	**17,113**	25,210	25,080
Deposits of corporates and others	**41,310**	31,764	35,666

B. Deposits of the public by size

	March 31, 2020	March 31, 2019	December 31, 2019
Maximum amount of deposit		(unaudited)	(audited)
Up to 1	**50,555**	45,381	46,064
From 1 to 10	**33,848**	27,165	27,842
From 10 to 100	**16,213**	14,311	14,703
From 100 to 500	**5,998**	6,582	6,146
Over 500	**20,363**	21,910	25,297
Total	**126,977**	115,349	120,052

NOTE 7A - EMPLOTYEE RIGHTS

(NIS million)

A. SIGNIFICANT BENEFITS

1. Pension and Severance Pay

A part of the Group's liabilities for severance pay and pensions is covered by current deposits, in the name of the employees, with provident and pension funds or by the purchase of insurance policies. The liability for severance pay and pension included in the balance sheet represents the portion of the liabilities which is not covered by deposits and/or insurance policies, as stated above. This liability is measured on an actuarial basis, using actuarial and other assumptions, including the discounting rate, the rate of increase in wages, increased severance pay, mortality and retirement rates. Additional provision for severance pay in respect of additional efficiency measures (such as organizational structural changes) were recorded as an expense on non-actuarial basis.

2. Staff Long-Service Awards

Part of the employees in the Group are entitled to a special seniority award ("jubilee award") after having completed a defined period of employment at the Group. This liability is measured on an actuarial basis using actuarial and other assumptions, including the discounting rate, the rate of increase in salaries, mortality and retirements rates.

3. Benefit in respect of nonutilized sick leave

Employees of the Bank are entitled to a benefit in respect of nonutilized accumulated sick leave. Towards the retirement date, this benefit is convertible into vacation days to be actually utilized, based on a determined convertion formula. This liability is measured on an actuarial basis using actuarial and other assumptions, including the discounting rate, the rate of increase in salaries, mortality and retirements rates.

4. Other post-employment benefits

Certain senior officers are entitled upon their retirement for a non-competition award.

5. Other post-retirement benefits

Employees of the group are entitled to certain post-retirement benefits. These benefits include: holiday gifts, newspapers, vacations, etc. Employees of a consolidated subsidiary are entiltled to an award upon reaching retirement age in respect of unutilized sick leave. These liabilities are measured on an actuarial basis using actuarial and other assumptions, including the discounting rate, mortality and retirement rates.

6. Vacation pay

Employees of the Bank are entitled by law and by labor agreements to paid annual vacation. The provision for vacation pay is calculated on the basis of the most recent salary amounts of employees and the vacation days accumulated in their favor, with the addition of the required related expenses.

B. See note 33.F. to the annual financial statements for 2019 as to the employment agreements of the Bank's CEO and the Chairman of the Board of Directors.

NOTE 7A - EMPLOTYEE RIGHTS (CON'T)

(NIS million)

C. Defined benefits severance pay and pension schemes

(1) Liabilities and financing situation

	Severance pay, and pension schemes			Other post-retirement benefits		
	For the three months ended March 31,		For the year ended December 31,	For the three months ended March 31,		For the year ended December 31,
	2020	2019	2019	2020	2019	2019
		(unaudited)	(audited)		(unaudited)	(audited)
						(NIS million)
A. Change in liability regarding anticipated benefits						
Liability regarding anticipated benefit at beginning of period	**927**	1,109	1,109	**207**	152	152
Cost of service	**5**	5	20	**1**	1	4
Cost of interest	**4**	8	24	**1**	2	6
Actuarial loss (profit)	**(122)**	37	125	**(47)**	13	50
Update of liability**	**-**	-	17	**-**	-	-
Benefits paid	**(30)**	(119)	(370)	**(1)**	(1)	(5)
Other, including loss from reduction and structural changes	**-**	6	2	**-**	-	-
Liability regarding anticipated benefit at end of period	**784**	1,046	927	**161**	167	207
Liability regarding cumulative benefit at end of period	**709**	988	855	**161**	167	205
B. Change in fair value of assets of the scheme and the financing situation of the scheme						
Fair value of assets of the scheme at beginning of period	**415**	655	655	**-**	-	-
Actual return on assets of the scheme	**(34)**	24	54	**-**	-	-
Update of assets of the scheme**	**-**	-	17	**-**	-	-
Deposits in the scheme by the Bank	**2**	3	9	**-**	-	-
Benefits paid	**(26)**	(124)	(320)	**-**	-	-
Fair value of assets of the scheme at end of period	**357**	558	415	**-**	-	-
Financing situation - net liability recognized at end of period*	**427**	488	512	**161**	167	207

* Included in the item "other liabilities".

** Derives from actuary addition in respect of assets exceeding 100% of severance provisions.

	Severance pay, and pension schemes			Other post-retirement benefits		
	For the three months ended March 31,		For the year ended December 31,	For the three months ended March 31,		For the year ended December 31,
	2020	2019	2019	2020	2019	2019
		(unaudited)	(audited)		(unaudited)	(audited)
						(NIS million)
C. Amounts recognized in the consolidated balance sheet						
Amounts recognized in the item "other liabilities"	**427**	488	512	**161**	167	207
Net liability recognized at end of period	**427**	488	512	**161**	167	207
D. Amounts recognized in other cumulative comprehensive loss, before the tax effect						
Actuarial loss, net	**113**	175	204	**27**	41	75
Closing balance in other cumulative comprehensive profit	**113**	175	204	**27**	41	75

NOTE 7A - EMPLOTYEE RIGHTS (CON'T)

(NIS million)

(2) Expense for the period

	Severance pay, and pension schemes			Other post-retirement benefits		
	For the three months ended March 31,		For the year ended December 31,	For the three months ended March 31,		For the year ended December 31,
	2020	2019	2019	2020	2019	2019
		(unaudited)	(audited)		(unaudited)	(audited)
						(NIS million)
A. Cost components of net benefit recognized in profit and loss						
Cost of service	**5**	5	20	**1**	1	4
Cost of interest	**4**	8	24	**1**	2	6
Anticipated return on assets of the scheme	**(3)**	(3)	(14)	**-**	-	-
Amortization of non-recognized amounts:						
Net actuarial loss	**4**	4	14	**1**	-	3
Other, including loss from reduction or dismissal and structural changes	**2**	24	50	**-**	-	-
Capitalization of software costs	**(1)**	(1)	(3)	**-**	-	-
Total cost of benefits, net	**11**	37	91	**3**	3	13
B. Changes in assets of the scheme and in liability for benefits recognized in other comprehensive (profit) loss, before the tax effect						
Net actuarial loss (gain) for the period	**(85)**	16	85	**(47)**	13	50
Amortization of actuarial loss	**(4)**	(4)	(14)	**(1)**	-	(3)
Dismissal	**(2)**	(18)	(48)	**-**	-	-
Total recognized in other comprehensive profit	**(91)**	(6)	23	**(48)**	13	47
Total net cost of benefit	**11**	37	91	**3**	3	13
Total net cost of benefit for the period recognized in other comprehensive profit	**(80)**	31	114	**(45)**	16	60

	Severance pay, and pension schemes	Other post-retirement benefits
		(NIS million)
C. Assessment of amounts included in other cumulative comprehensive profit expected to be amortized from other cumulative comprehensive profit to the statement of profit and loss as an expense (income) in 2020, before the tax effect		
Net actuarial loss	**24**	**4**
Total amount expected to be amortized from other cumulative comprehensive profit	**24**	**4**

NOTE 7A - EMPLOTYEE RIGHTS (CON'T)
(NIS million)

(3) Assumptions

A. **Assumptions on the basis of weighted average used to determine the liability in respect of the benefits and for the measurement of the net cost of benefits**

	Severance pay, and pension schemes			Other post-retirement benefits		
		March 31,	December 31,		March 31,	December 31,
	2020	2019	2019	2020	2019	2019
		(unaudited)	(audited)		(unaudited)	(audited)
						(NIS million)
1. Principal guidelines used to determine the liability for benefits						
Discounting rate	**2.0**	1.3	0.4	**2.3**	1.9	1.0

	Severance pay, and pension schemes			Other post-retirement benefits		
	For the three months ended March 31,		For the year ended December 31,	For the three months ended March 31,		For the year ended December 31,
	2020	2019	2019	2020	2019	2019
		(unaudited)	(audited)		(unaudited)	(audited)
						(NIS million)
2. Principal guidelines used to measure the net cost of benefits for the period						
Discounting rate	**0.4**	1.9	0.6-1.9	**1.0**	2.4	1.3-2.4

B. **Effect of a one percentage point change on the liability in respect of the anticipated benefit, before the tax effect**

						One percentage point growth
	Severance pay, and pension schemes			Other post-retirement benefits		
		March 31,	December 31,		March 31,	December 31,
	2020	2019	2019	2020	2019	2019
		(unaudited)	(audited)		(unaudited)	(audited)
			(NIS million)			(NIS million)
Discounting rate	**(56)**	(57)	(71)	**(24)**	(26)	(34)

						One percentage point decline
	Severance pay, and pension schemes			Other post-retirement benefits		
		March 31,	December 31,		March 31,	December 31,
	2020	2019	2019	2020	2019	2019
		(unaudited)	(audited)		(unaudited)	(audited)
			(NIS million)			(NIS million)
Discounting rate	**67**	69	88	**32**	34	46

C. Cash flows

(1) Deposits

	Forecast	Actual deposits		
		For the three months ended March 31,		For the year ended December 31,
	*2020	2020	2019	2019
	(unaudited)		(unaudited)	(audited)
	(NIS million)			(NIS million)
Deposits	**9**	**2**	3	9

* Assessment of amounts which the Bank expects to deposit with a defined benefit pension scheme during 2020.

NOTE 8 - CAPITAL ADEQUACY ACCORDING TO DIRECTIVE OF THE SUPERVISOR OF BANKS

A. Basel 3 guidelines

The bank implements Proper Banking Management Directives Nos. 201-211 in the matter of measurement and capital adequacy, as reported by the Supervision of Banks and within the framework of the file of questions and answers.

Basel 3 instructions were implemented from January 1, 2014, in a gradual manner, in accordance with the transitional instructions stated in Proper Banking Management Directive No, 299 in the matter of measurement and capital adequacy - regulatory capital - transitional instructions. According to the transitional instructions, the capital instruments no longer qualified as regulatory capital shall be recognized up to a maximum of 80% (from their balance in the supervisory capital as of December 31, 2013) on January 1, 2014, this maximum level being reduced by an additional 10% until January 1, 2022. Accordingly, as of January 1, 2020 the maximum rate of instruments qualified as regulatory capital amounts to 20%.

(1) Capital adequacy goals

In accordance with Proper Banking Management Directives and the amendment of the Supervision of Banks dated March 1, 2020 regarding the minimum capital ratios, the Bank, the total assets of which on a consolidated basis is up to 24% of total assets of the banking sector in Israel, is required to attain a minimum Tier I equity capital ratio of 9%, and a minimum comprehensive capital ratio of 12.5%. In addition, as from January 1, 2015, a new capital demand was added to the minimum capital ratios, at a rate reflecting 1% of the outstanding balance of residential loans at date of reporting.

On background of the spreading of the Corona virus and as part of the adjustment to Proper Banking Management directives and in order to secure the ability of Banks to continue the offer of credit, The Supervisor of Banks, in the framework of a Provisional Instruction, concerning the update of directive 201, which includes a reduction of 1% of the capital requirements of banks and an update to directive 329 which cancel the demand of additional 1% on housing loans that were granted during the period of the crisis, for a period of six months, with an option for another six months' extention. After these periods, if relevant, the Bank will have to present progressive delineation for the reaccumulation of the capital, as much as was eroded, over a period of two years.

In light of the abovementioned, the capital requirements applicable to the Bank as from the financial statements for March 31, 2020 are:

	Minimum capital ratio required		
Minimum capital ratios	**As of March 31, 2019**	**From 31.3.20 until 30.9.20**	**From 30.9.20 until 31.3.22**
Teir 1 equity capital ratio	9%	8%	The lower of: - The Bank's capital ratio as of 30.9.20 - The Bank's minimal capital ratio before the period of the provisional instruction
Compehensive capital ratio	12.5%	11.5%	
Addition in respect of residential loans	1% of the outstanding balance of residential loans at date of the reporting	1% of the outstanding balance of residential loans at date of the reporting except for loans extended during the period of the provisional instruction	

For the outstanding balance of the residential loans see note 12.B.3.

The Group has capital targets approved by the Board of Director and reflect suitable capital level when taking into consideration the risk profile and risk apetite.

The internal capital goals, as determined by the Board of Directors, and which are not lower than the regulatory requirements, are as follows:

- In the ordinary course of business - Tier I equity capital ratio of not lower than 8.30% and comprehensive capital ratio of not lower than 11.80%.
- In stress situations - Tier I equity capital ratio of not lower than 6.50% and comprehensive capital ratio of not lower than 9.00%.

NOTE 8 - CAPITAL ADEQUACY, LEVERAGE AND LIQUIDITY ACCORDING TO DIRECTIVE OF THE SUPERVISOR OF BANKS (CONT'D)

(NIS million)

(2) Following are details regarding risk assets, the regulatory capital and capital ratios calculated in accordance with Proper Conduct of Banking Business Directives No. 201-211, regarding "measurement and capital adequacy", and in accordance with Directive 299 regarding the "regulatory capital - transitional instructions":

	March 31, 2020	March 31, 2019	December 31, 2019
	(unaudited)	(unaudited)	(audited)
a. Consolidated			
1. Capital for calculation of capital ratio			
Tier 1 capital, after supervisory adjustments and deductions	**8,749**	8,434	8,785
Tier 2 capital after deductions	**2,393**	2,603	2,345
Total overall capital	**11,142**	11,037	11,130
2. Weighted balances of risk assets			
Credit risk	(2)**77,221**	(2)73,000	(2)73,862
Market risk	**1,192**	620	875
Operational risk	**6,696**	6,504	6,512
Total weighted balances of risk assets	**85,109**	80,124	81,249
			percent
3. Ratio of capital to risk assets			
Ratio of tier 1 capital to risk assets	**10.28%**	10.53%	10.81%
Total ratio of capital to risk assets	**13.09%**	13.77%	13.70%
Minimal ratio of equity capital tier 1 required by the Supervisor of banks	(1)**8.30%**	(1)9.31%	(1)9.31%
Minimal ratio of capital required by the Supervisor of Banks	(1)**11.80%**	(1)12.81%	(1)12.81%
			percent
B. Significant Subsidiary			
Bank Massad Ltd.			
Ratio of tier 1 capital to risk assets	**13.64%**	13.22%	13.50%
Total ratio of capital to risk assets	**14.70%**	14.29%	14.52%
Minimal ratio of equity capital tier 1 required by the Supervisor of banks	**8.00%**	9.00%	9.00%
Minimal ratio of capital required by the Supervisor of Banks	**11.50%**	12.50%	12.50%

NOTE 8 - CAPITAL ADEQUACY, LEVERAGE AND LIQUIDITY ACCORDING TO DIRECTIVE OF THE SUPERVISOR OF BANKS (CONT'D)

(NIS million)

(3) Capital components for computation of capital ratio (consolidated)

	March 31, 2020	March 31, 2019	December 31, 2019
	(unaudited)	(unaudited)	(audited)
A. Equity capital tier 1			
Capital attributed to shareholders	**8,542**	8,208	8,568
Differences between capital attributed to shareholders and equity capital tier 1			
Minority interests	**237**	215	233
Total equity capital tier 1 before regulatory adjustments and deductions	**8,779**	8,423	8,801
Regulatory adjustments and deductions:			
Intangible assets	**(99)**	(102)	(100)
Regulatory adjustments and other deductions- equity capital tier 1	**(10)**	(4)	(5)
Total regulatory adjustments and deductions before adjustments in respect of efficiency measures - equity capital tier 1	**(109)**	(106)	(105)
Total adjustments in respect of efficiency measures- Tier 1 equity capital	**79**	117	89
Total equity capital tier 1 after regulatory adjustments and deductions	**8,749**	8,434	8,785
B. Tier 2 capital			
Tier 2 capital: instruments before deductions	**1,499**	1,818	1,564
Tier 2 capital: provisions before deductions	**894**	785	781
Total tier 2 capital before deductions	**2,393**	2,603	2,345
Deductions:			
Total deductions- tier 2 capital	**-**	-	-
Total tier 2 capital	**2,393**	2,603	2,345

	March 31, 2020	March 31, 2019	December 31, 2019
	(unaudited)	(unaudited)	(audited)
(4) Effect of transitional instructions on equity capital tier 1			
Ratio of capital to risk assets			
Ratio of tier 1 equity capital to risk assets before effect of adjustments in respect of efficiency measures	**10.17%**	10.36%	10.68%
Effect of adjustments in respect of efficiency measures	**0.11%**	0.17%	0.13%
Ratio of tier 1 equity capital to risk assets	**10.28%**	10.53%	10.81%

(1) Minimal capital ratio required until March 31, 2020 are 9.0% and 12.5%, respectively. Starting from that date and during the period of the provisional instruction (see section A.1. above) are 8.0% and 11.5% respectively. To these relations was added capital requirement of 1% of housing loans balance for the reporting date, except for housing loans granted in the period from 19.3.20 until 31.3.20, the balance of which amount to NIS 9 million.

(2) An amount of NIS 108 million were deducted from the average balances of risk assets in respect of adjustments regarding the efficiency measures.

* The data in this Note are presented in accordance with Proper Conduct of Banking Business Directives No. 202 regarding "measurement and capital adequacy- regulatory capital". In addition, the said data include adjustments in respect of efficiency measures, as stated in the letter of the Supervisor of Banks dated January 12, 2016, in the matter of "operational efficiency of the banking sector in Israel" (hereinafter - "adjustments in respect of efficiency measures"), which are being reduced gradually over 5 years period.
For additional details in respect of the effect of the transitional directives and the adjustment regarding efficiency measures see 4 above.

NOTE 8 - CAPITAL ADEQUACY, LEVERAGE AND LIQUIDITY ACCORDING TO DIRECTIVE OF THE SUPERVISOR OF BANKS (CONT'D)

(5) Factors that might materially affect the capital adequacy of the Bank and of its significant subsidiaries

(5a.) Capital components subject to fluctuations

The Bank manages the capital adequacy ratio with the aim of adhering to the minimal capital requirements of the Supervisor of Banks. The capital of the Bank is subject to changes, inter alia, in respect of the factors detailed below:

- Actuarial changes due to changes in the interest rate used to compute the liabilities of the Bank or in other actuarial assumptions, such as: mortality rates, retirement etc.
- The effect of changes in interest rate and interest spread on the adjustments to fair value of available for sale bonds.
- Effect of changes in the CPI and exchange rate on the balances of the assets.

Following is an analysis of the impact of such changes on the Tier I equity capital of the Bank as of March 31, 2020:

	Effect of a change of NIS 100 million in Tier I equity capital	Effect of a change of NIS 1 billion in total risk assets
		percent
The Bank (consolidated data)	**0.12**	**0.12**
Massad Bank	**1.85**	**2.13**

(6) Efficiency

The Supervisor of Banks published a letter on January 12, 2016, in the matter of "operational efficiency of the banking sector in Israel". In accordance with the letter, the Board of Directors of the Bank has to outline a multiannual program for the increase in efficiency. A banking corporation that complies with the provisions of the letter shall be entitled to a relief, whereby, for the purpose of calculating the capital adequacy, the effect of the cost of this program may be spread by the "straight line" method over five years. On December 16, 2019 the Supervisor of Banks published a letter that extends the effectiveness of these guidelines until December 31, 2021.

(1) On November 17, 2016, the Board of Directors of the Bank approved the update of the strategic program of the Group concerning the efficiency measures aspect. These efficiency measures include, inter alia, the continuation of expanding operations by digital means; the reduction in the number of branches and improvements in work processes at the branches and at head office. The efficiency measures include a reduction in the floor area used by the Bank as well as a gradual reduction in the workforce position of the Bank's group of an average of approximately 130 employees per year, in total, a reduction of approximately 650 employees until the end of 2020.

The Bank has received from the Supervisor of Banks an approval in principle for the spreading of the cost of these measures over five years by the "straight line" method, for the purpose of computing the capital adequacy.

The cost of benefits to employees within the framework of the efficiency measures implemented in the years 2016 and until 2020, is estimated at NIS 207 million, before the tax effect. The impact of the efficiency measures on the ratio of equity to risk components is recognized, as stated, in installments over five years, and is estimated at December 31, 2019, to be lower by 0.06%.

(2) In the course of 2018, the Board of Directors of the Bank resolved to introduce additional efficiency measures at Otsar Hahayal, a merger decision was taken in the third quarter of the year, and on January 1, 2019, Otsar Hahayal was merged with and into the Bank. The said decisions as well as their expected implications have surpassed the original efficiency program of the Group from 2016. In respect of these actions the Group recorded a provision for increased severance compensation in the amount of NIS 82 million (net amount of NIS 53 million after the tax effect).

The impact of the efficiency measures on the ratio of equity to risk components is recognized, as stated, in installments over five years, and is estimated at December 31, 2019, to be lower by 0.05%.

NOTE 8 - CAPITAL ADEQUACY, LEVERAGE AND LIQUIDITY ACCORDING TO DIRECTIVE OF THE SUPERVISOR OF BANKS (CONT'D)

(7) Application of accounring standard in respect of leasing

On January 1, 2020 the started to implement the new instruction concerning leasing. The implementation of the new instructions decreased the teir 1 equity capital ratio and comprehensive capital ratio in rate of 0.06% and 0.08% respectively, this as a result of weighing the risk assets in respect of right of use assets derived from operating leases which were recognized in the balance sheet in a rate of 100%.

B. Leverage ratio in accordance with instructions of the Supervisor of Banks

The Bank implements Proper Banking Management Directive No. 218 in the matter of leverage ratio. The Directive states a simple and transparent leverage ratio that is not risk based, which would serve as a supplementary and reliable measurement of the risk based capital requirements, and which is intended to restrict the accumulation of leverage at a banking corporation.

The leverage ratio is expressed in percentages, and is defined as the ratio between the measurement of capital and the measurement of exposure. Capital for the purpose of measuring leverage is the Tier I capital as defined in Proper Banking Management Directive No. 202, taking into consideration the determined transitional arrangements. The total measurement of exposure of the Bank is the total of the balance sheet exposures, exposure to derivatives and to transactions financing the purchase of securities and off-balance sheet items.

In accordance with the Directive, a banking corporation shall maintain a leverage ratio of not less than 5% on a consolidated basis, for a banking corporation, the total stated consolidated assets of which comprises up to 24% of the total stated assets of the banking industry, including the Bank.

	March 31, 2020 (unaudited)	March 31, 2019 (unaudited)	December 31, 2019 (audited)
	NIS million		
A. Consolidated			
Tier 1 capital*	**8,749**	8,434	8,785
Total exposures	**158,486**	147,691	151,120
			percent
Leverage ratio	**5.52%**	5.71%	5.81%
B. Significant Subsidiaries			
Bank Massad Ltd.			
Leverage ratio	**7.29%**	7.48%	7.68%
Minimal Leverage ratio required by the Supervisor of banks	**5.00%**	5.00%	5.00%

* For the effect in respect of the efficiency program, see note A(4) above.

(3) Application of accounring standard in respect of leasing

On January 1, 2020 the started to implement the new instruction concerning leasing. The implementation of the new instructions decreased the leverage ratio in a rate of 0.02% as a result of weighing the risk assets in respect of right of use assets derived from operating leases which were recognized in the balance sheet in a rate of 100%.

NOTE 8 - CAPITAL ADEQUACY, LEVERAGE AND LIQUIDITY ACCORDING TO DIRECTIVE OF THE SUPERVISOR OF BANKS (CONT'D)

C. Reporting the liquidity coverage ratio in accordance with instructions of the Supervisor of Banks

The Bank implements Proper Conduct of Banking Business Directive No. 221 in the matter of "liquidity coverage ratio". The Directive adopts the recommendations of the Basel Committee in the matter of liquidity coverage ratio as regards the banking industry in Israel. The liquidity coverage ratio examines a range of thirty days in a stress test, and is intended to ensure that a banking corporation shall have an inventory of high quality liquid assets serving the liquidity needs of the corporation within that period of time, as well as the anticipated cash outflows in the stress test, as defined in the Directive for the thirty calendar days.

	For the three months ended		
	March 31,	March 31,	December 31
	2020	2019	2019
	(unaudited)	(unaudited)	(audited)
			percent
A. Consolidated*			
Liquidity coverage ratio	**130%**	132%	128%
B. The bank*			
Liquidity coverage ratio	**130%**	132%	127%
C. Significant Subsidiary*			
Bank Massad Ltd.			
Liquidity coverage ratio	**209%**	179%	213%
Minimal liquidity coverage ratio required by the Supervisor of banks***	**100%**	100%	100%

* In terms of simple averages of daily observations during the reported quarter.

D. Dividends

On March 15, 2020, the Board of Directors of the Bank resolved on a cash dividend distribution to the shareholders of the Bank in a total amount of NIS 125 million. The determining date for the payment of the dividend was March 24, 2020, and the payment date was March 31, 2020.

	For the three months ended		For the year ended
	March 31,	March 31,	December 31
	2020	2019	2019
	(unaudited)	(unaudited)	(audited)
			NIS million
Dividend declared and paid by the Bank	**125**	105	410

On the background of the letter of the Supervisor of Banks, dated March 29, 2020, addressed to all the commercial banks and with respect to the Provisional Instruction dated March 31, 2020, amending Proper Conduct of Banking Business directive 201, in which boards of directors of banks are requested, inter alia, to re-examine their dividend policies, on the background of the Corona virus crisis and the uncertainty deriving from it. The Board of Directors of the Bank held a discussion on April 16, 2020, regarding the dividend policy and resolved that the Bank shall refrain from the distribution of dividends to its shareholders during the period of the Provisional Instruction, which terminates on September 30, 2020. It is clarified that the dividend distribution policy remains unchanged. The Board of Directors of the Bank shall continue to discuss the continued implementation of the dividend distribution policy of the Bank in light of developments in the crisis and the impact thereof on the economy and on the Bank, and would be entitled to examine the resolution regarding implementation of dividend distribution and modify it at its discretion.

NOTE 9 - COMMITMENTS AND CONTINGENT LIABILITIES
(NIS million)

Other contingent liabilities and special commitments

		March 31, 2020 (unaudited)	March 31, 2019 (unaudited)	December 31 2019 (audited)
A.	Improvements to premises and acquisition of new premises, equipment and software	**7**	8	10
	Commitments to invest in private investment funds	**45**	36	46

B. The Bank and its investees have leased premises and equipment on a long-term basis. The rentals payable in the future subject to linkage terms (partly to the CPI and partly to foreign currency), are as follows:

	March 31, 2020 (unaudited)	March 31, 2019 (unaudited)	December 31 2019 (audited)
First year	***53**	*55	73
Second year	**70**	70	67
Third year	**62**	65	59
Fourth year	**55**	58	52
Fifth year	**51**	51	47
Sixth year and thereafter	**222**	254	211
Total	**513**	553	509

* For the period until the end of the calendar year

C. The Bank Group (the Bank and its subsidiary companies) is a party to legal proceedings, including motions for approval of class actions. In the opinion of Management of the Bank and Managements of the consolidated companies, based on legal opinions regarding the prospects of the actions, including the motions for approval of class actions, as detailed in this section, adequate provisions have been included in the financial statements, where required, to cover losses which might be sustained as a result of these actions.

For details of legal actions, including motions for approval of class action suits, see Note 25G to the financial statements for 2019.

Following is a motion for approval of a class action suit brought against the Bank, the amount claimed therein is material.

On May 7, 2020, the Bank received notice of a motion for approval of a class action suit against the Bank in the matter of the charging of agent commission in respect of transactions in securities. The Plaintiff claims that with respect to each transaction of the purchase/sale of securities, the Bank charges a commission named by it "agent commission", despite the fact that such a commission does not appear in the pricelist of the Bank, and therefore is being charged illegally. It is further argued by the Plaintiff that, to the extent that the matter involves a third party expense (which the Bank is entitled to collect in accordance with the pricelist), the Bank must present the rate of the commission and the manner of its computation, which it refrains from doing so. The Plaintiff notes that it is unable to estimate the total amount of the claim; however, it alleges that the personal damage caused to it in respect of each transaction amounts to NIS 2. Accordingly, as alleged by it, the total damage caused to the class during the seven years prior to the date of the action, amounts to tens of millions of NIS, if not more. As argued in the action, similar actions had been served against other banks.

The additional amount of exposure of the Bank and of the Bank's subsidiary companies as of March 31, 2020, in respect of pending legal actions, which according to estimates of the Bank, the possibility of their materialization, in whole or in part, is not remote, and in respect of which no provision has been recorded, totals NIS 46 million.

D. Moreover, pending against the Bank is a motion for approval of a class action, the amount claimed therein is material, as described hereunder. In the opinion of Management of the Bank, based on Counsel's opinion, it is not possible at this stage to assess the prospect of this action and no provision has been included in respect thereof.

On November 26, 2019, the Bank received an action brief together with a motion for approval of the action as a class action. The Plaintiff argues that an amendment to the commission fees rules entered into effect on November 1, 2017, which required banks in Israel to publish in Appendix "E" to the pricelist of the Bank a reduced pricelist applying to online transactions (namely, transactions made with no direct interface with a bank clerk). The Plaintiff further claims that Bank of Israel had instructed the banks that the discount required to be granted to the customer in respect of an online transaction, should be at least at the rate of 10% and alternatively 3%. The Plaintiff claims that as of date of filing of this action, and in respect of a part of the transactions detailed below, the Bank did not at all state in Appendix "E" to its pricelist, a commission rate applying to online transactions, and that in respect of all the online transactions detailed below, the Bank charges a commission fee as if the transaction had been made through a direct interface with a bank clerk, or charges a commission fee that is higher than the rate stated in the pricelist (for a transaction which is not online), or does not grant the customer the said discount, as instructed by Bank of Israel. The transactions in question are as follows: (1) Transfer of foreign currency from or to an account (any kind of foreign currency transfer including transfers from an account in Israel and an account abroad). (2) Purchase/sale/redemption of securities (shares and bonds) traded on the Tel Aviv Stock Exchange and/or purchase/sale/ redemption of securities (shares, bonds, mutual funds and options traded abroad). The Plaintiff did not state the amount of the claim, but argues that it is a considerable amount in the region of millions of NIS, and probably even higher.

E. 1. Following are details of claims against an affiliated company, Israel Credit Cards Ltd. ("ICC"), including motions for approval of class actions, the amount claimed therein is material. In the opinion of the Management of ICC, based inter alia on legal opinions, adequate provisions in respect of such claims are included in the financial statements, where required.

(a) On June 8, 2016, an amended motion for approval of an action as a class action was filed with the Central District Court against three clearing agents, among which is ICC (hereinafter - "the amended motion"). The amended motion replaces a previous motion submitted on April 28, 2014.

The motion refers to two alleged binding arrangements with respect to immediate debit cards ("debit cards") and to "prepaid" cards. The first binding arrangement, as argued by the Plaintiffs, is the rate of the cross commission charged in respect of transactions made by debit cards and prepaid cards. The second binding arrangement, as argued by the Plaintiffs, is the unlawful withholding of funds due to trading houses for periods of approximately twenty days after the clearing agents had received the money.

A review of the economic opinion, to which the amended motion refers, shows that the amount of the claim is composed of the following main types of damage: an amount of NIS 13.5 million per year for the years 2007-2015 in respect of the damage stemming from the existence of an alleged binding arrangement regarding the amount of the cross commission payable in immediate debit card transactions; an amount of NIS 5.3 million per year, for the years 2007-2015, in respect of the damage stemming from the existence of an alleged binding arrangement regarding the date for the transfer of funds to trading houses in respect of immediate debit card transactions; an amount of between NIS 418 million and NIS 683 million per year for the years 2007-2015, in respect of the damage stemming from underuse of immediate debit cards due to the alleged two binding arrangements, as above.

On March 12, 2017, a preliminary hearing of the motion was held. In its decision, the Court stated that the matter of the cross-commission in respect of the "debit" and the "pre-paid" cards, is apparently included in a verdict given by the Competition Tribunal (formerly "Anti-Trust Tribunal"), and therefore any claim raised against the determination of the cross-commission, should be raised using procedures relating to the said verdict. In view of this, the Court deferred the hearing of the motion for a class action until after the matter is settled by the Competition Tribunal.

On October 16, 2017, an action requesting declaratory relief was filed with the Competition Tribunal. Within the framework of this action, the Tribunal is requested to state that when giving the verdict which approved the cross-commission arrangement, such arrangement did not include immediate debit cards and prepaid cards. The clearing agents, including ICC, have filed a motion for the in limine dismissal of the action, and on October 16, 2018, the Competition Tribunal ruled that the motion for in limine dismissal of the action requesting declaratory relief Order is admitted.

On November 29, 2018, an appeal was filed with the Supreme Court against the verdict of the Competition Tribunal, and on June 18, 2019, the Supreme Court ruled for the rejection of the Appeal.

On December 23, 2018, the Plaintiffs filed a plea with the Supreme Court sitting as a high Court of Justice, against the Competition Commissioner (formerly "Anti-Trust commissioner"), in which the Court is requested to instruct the Commissioner to act in order to clarify, cancel or change the verdict of the Competition Tribunal. The State filed its response on May 22, 2019, and the hearing of the plea was fixed for July 16, 2020.

(b) On May 2, 2018, ICC received notice of an action and a motion for its approval as a class action suit, filed with the Tel Aviv-Yafo District Court.

It is alleged in the action that ICC had unlawfully increased the amounts of clearing commission charged to trading houses. The motion for approval relies, inter alia, on the decision of the Tel Av-Yafo District Court in a similar case, wherein a motion for approval of an action as a class action, filed against another company, had been approved.

The Plaintiffs assess their personal damage at NIS 4,036. They did not state an amount regarding the damage to the group, but assessed it at "tens of millions of NIS". ICC had responded to the motion for approval, and the Plaintiffs responded to ICC's response. A preliminary hearing of the case was held on January 15, 2020, and in the meantime the parties accepted the recommendation of the Court to conduct mediation proceedings between them.

(c) On May 6, 2018, ICC received notice of an action together with a motion for approval of the action as a class action suit, filed with the Tel Aviv-Yafo District Court. As argued in the action, which was served against ICC and against an additional company and its former holding bank, ICC did not provide proper disclosure regarding everything relating to the manner of charging interest by it. The plaintiff assesses his personal damage at NIS 38.54 and the total damage for the group at NIS 181 million. On March 5, 2019, ICC responded to the motion for approval.

(d) On July 22, 2018, an action was filed with the Tel Aviv-Yafo District Court together with a motion for approval of the action as a class action, against ICC and against additional clearing agents. The subject matter of the action is transactions considered "no document transactions" (mainly transactions effected by telephone) made by members of the class with trading houses operating in the "direct marketing" field. It is claimed in the action that such trading houses utilized the weakness of the senior citizen population, unlawfully charging their credit cards in respect of many transactions, as well as charging them with additional amounts that had not been approved by them. The Plaintiff argues that the clearing agents are engaged in clearing agreements with the "direct marketing" trading houses, thus enabling them to operate. The Plaintiff states the amount of the damage for the whole class, which he purports to represent, at NIS 900 million. On March 25, 2019, ICC filed its response to the motion. A preliminary hearing of the case was held on January 7, 2020, at the conclusion of which, the Court instructed the representative of the Plaintiffs to prepare a short list of the documents required for disclosure and review. The short list was submitted by the Plaintiff on January 26, 2020, and on March 8, 2020, ICC filed its response to the short list. The Court ruled that the plaintiff has to file its reaction to the response to the amended disclosure request by June 10, 2020.

(e) A Plea was filed on December 9, 2018, with the Supreme Court sitting as a High Court of Justice, against Bank of Israel, the Competition Commissioner and three clearing agents, including ICC, in which the Appellants seeks relief through the cancellation of the Banking Order (Customer service)(Supervision over cross-clearing service for transactions made by use of a charge card and of an immediate debit card), 2018. The Appellants argue that the Order should be abolished and that it should be determined that the clearing agents may not earn profits from the cross-commission, which, as argued, is intended to cover only the costs of the issuer. ICC filed its response to the Plea on August 19, 2019. The hearing of the Plea is fixed for July 13, 2020.

2. The amount of exposure in respect of legal actions filed against ICC, the possibility of their materialization, in whole or in part, is reasonably possible, totals NIS 177 million.

3. A motion for approval of a class action suit is pending against ICC, as discussed below. ICC states in its report that in the opinion of the Management of ICC, based on its Counsel's opinion, it is not possible, at this stage, to assess the prospects of the case, and accordingly no provision has been recorded in respect thereof.

   On May 14, 2020, an action was filed against ICC with the District Court – Central Region, together with a motion for approval of the action as a class action suit. It is argued in the action, that the notice that had been sent to the Plaintiff regarding the future charge of card fees was defective in a way that requires decision that the notice was not in compliance with the disclosure required by Law. The Plaintiffs states its personal monetary damage at NIS 13.5 and the nonmonetary damage at NIS 100, but does not state the amount of the damage to the whole class.

4. On December 14, 2016, the Director of Value Added Tax (hereinafter - "the VAT Director") issued to ICC VAT assessments for charge periods from January 2012 to August 2016. The sum charged in the assessments, including interest and linkage increments, amounts to NIS 48 million. ICC disputes the position of the VAT Director, and is of the opinion that it has good arguments supporting its position. On March 9, 2017, ICC filed an appeal against these assessments. To the best knowledge of ICC, assessments in this matter have also been received by its competitors.

   On March 8, 2018, ICC received the decision of the VAT Director rejecting the appeal and also increasing the amount charged in the assessments to NIS 75 million (including interest and linkage increments). If the position of ICC would be rejected by the Court, it may be liable in respect of the issues raised in the VAT assessment, also for periods following the period of the assessment. On January 31, 2019, ICC filed an appeal against the said decision with the District Court Central District. On November 3, 2019, the Supreme Court approved an agreed motion for the consolidation of the hearing of the appeal with those of the appeals filed by competitors of ICC. A preliminary hearing was held on March 5, 2020. ICC estimates the amount of exposure to this case, in respect of which no provision is included in its financial statements, at NIS 146 million.

NOTE 10 - DERIVATIVE FINANCIAL INSTRUMENTS - VOLUME, CREDIT RISKS AND MATURITY DATES

(NIS million)

A. Volume of activity on a consolidated basis

1. For value of derivatives

	March 31, 2020 (unaudited)			March 31, 2019 (unaudited)			December 31, 2019 (audited)		
	Not trading derivatives	Trading derivatives	Total	Not trading derivatives	Trading derivatives	Total	Not trading derivatives	Trading derivatives	Total
Interest contracts									
Forward and Futures Contracts	**18**	**2,555**	**2,573**	105	6,304	6,409	21	3,162	3,183
Options written	**-**	**237**	**237**	-	-	-	-	552	552
Options purchased	**-**	**237**	**237**	-	-	-	-	552	552
SWAPS(1)	**4,370**	**13,719**	**18,089**	4,068	15,101	19,169	3,859	13,144	17,003
Total(2)	**4,388**	**16,748**	**21,136**	4,173	21,405	25,578	3,880	17,410	21,290
Of which: Hedging derivatives(3)	**3,448**	**-**	**3,448**	3,136	-	3,136	2,911	-	2,911
Foreign currency contracts									
Forward and Futures Contracts(4)	**15,794**	**47,432**	**63,226**	12,124	25,999	38,123	12,605	35,127	47,732
Options written	**196**	**14,731**	**14,927**	643	11,264	11,907	31	13,215	13,246
Options purchased	**311**	**14,726**	**15,037**	645	11,818	12,463	31	13,703	13,734
SWAPS	**217**	**-**	**217**	252	-	252	215	-	215
Total	**16,518**	**76,889**	**93,407**	13,664	49,081	62,745	12,882	62,045	74,927
Contracts on shares									
Forward and Futures Contracts	**-**	**13,471**	**13,471**	-	10,492	10,492	-	12,347	12,347
Options written	**-**	**12,687**	**12,687**	-	13,868	13,868	-	16,030	16,030
Options purchased(5)	**-**	**12,639**	**12,639**	-	13,735	13,735	-	15,960	15,960
Total	**-**	**38,797**	**38,797**	-	38,095	38,095	-	44,337	44,337
Commodities and other contracts									
Forward and Futures Contracts	**-**	**86**	**86**	-	39	39	-	72	72
Options written	**-**	**-**	**-**	-	-	-	-	42	42
Options purchased	**-**	**-**	**-**	-	-	-	-	42	42
Total	**-**	**86**	**86**	-	39	39	-	156	156
Total face value	**20,906**	**132,520**	**153,426**	17,837	108,620	126,457	16,762	123,948	140,710

(1) Of which: SWAPS the Bank is paying fixed interest in an amount of NIS 11,342 million (31.3.19 - NIS 11,899 million, 31.12.19 - NIS 10,338 million).
(2) Of which: NIS-CPI swap contracts in an amount of NIS 673 million (31.3.19 - NIS 681 million, 31.12.19 - NIS 686 million).
(3) The Bank performs protection transactions by IRS derivatives in order to hedge the accounting fair value of bonds. These transactions hedge the interest risk imbedded in foreign currency bonds having fixed interest and long duration.
(4) Of which: foreign currency swap spot contracts in an amount of NIS 2,272 million (31.3.19 - NIS 1,361 million, 31.12.19 - NIS 2,677 million).
(5) Of which: Traded on the Stock Exchange in an amount of NIS 12,557 million (31.3.19 - NIS 13,571 million, 31.12.19 - NIS 15,878 million).

NOTE 10 - DERIVATIVE FINANCIAL INSTRUMENTS - VOLUME, CREDIT RISKS AND MATURITY DATES (CONT'D)

(NIS million)

A. Volume of activity on a consolidated basis (CONT'D)

.2 Gross fair value of derivative instruments

	March 31, 2020 (unaudited)					
	Gross amount of assets in respect of derivative instruments			Gross amount of liabilities in respect of derivative instruments		
	Not trading derivatives	Trading derivatives	Total	Not trading derivatives	Trading derivatives	Total
Interest contracts	**2**	**262**	**264**	**275**	**247**	**522**
Of which: Hedging derivatives	**-**	**-**	**-**	**257**	**-**	**257**
Foreign currency contracts	**174**	**1,255**	**1,429**	**64**	**1,144**	**1,208**
Contracts on shares	**-**	**857**	**857**	**-**	**857**	**857**
Commodities and other contracts	**-**	**1**	**1**	**-**	**1**	**1**
Total assets/liabilities in respect of derivatives gross[(1)]	**176**	**2,375**	**2,551**	**339**	**2,249**	**2,588**
Amounts offset in the balance sheet	**-**	**-**	**-**	**-**	**-**	**-**
Balance sheet balance	**176**	**2,375**	**2,551**	**339**	**2,247**	**2,586**
Of which: not subject to net settlement arrangement or similar arrangements	**-**	**-**	**-**	**-**	**-**	**-**

	March 31, 2019 (unaudited)					
	Gross amount of assets in respect of derivative instruments			Gross amount of liabilities in respect of derivative instruments		
	Not trading derivatives	Trading derivatives	Total	Not trading derivatives	Trading derivatives	Total
Interest contracts	16	230	246	82	226	308
Of which: Hedging	14	-	14	66	-	66
Foreign currency contracts	57	363	420	40	401	441
Contracts on shares	-	275	275	-	275	275
Total assets/liabilities in respect of derivatives gross[(1)]	73	868	941	122	902	1,024
Amounts offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance	73	868	941	122	899	1,021
Of which: not subject to net settlement arrangement or similar arrangements	-	-	-	-	-	-

	December 31, 2019 (audited)					
	Gross amount of assets in respect of derivative instruments			Gross amount of liabilities in respect of derivative instruments		
	Not trading derivatives	Trading derivatives	Total	Not trading derivatives	Trading derivatives	Total
Interest contracts	3	246	249	146	238	384
Of which: Hedging	1	-	1	122	-	122
Foreign currency contracts	77	314	391	22	392	414
Contracts on shares	-	450	450	-	450	450
Commodities and other contracts	-	1	1	-	1	1
Total assets/liabilities in respect of derivatives gross[(1)]	80	1,011	1,091	168	1,081	1,249
Amounts offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance	80	1,011	1,091	168	1,079	1,247
Of which: not subject to net settlement arrangement or similar arrangements	-	-	-	-	-	-

(1) Of which: Gross fair value of liabilities in respect of embedded derivatives in an amount of NIS 2 million (31.3.19 - NIS 3 million, 31.12.19 - NIS 2 million).

NOTE 10 - DERIVATIVE FINANCIAL INSTRUMENTS - VOLUME, CREDIT RISKS AND MATURITY DATES (CONT'D)

(NIS million)

B. Accounting Hedge

General

The Bank is exposued to market risks, including basis risks and interest risks. Basis risk is the exsisting or future risk to the income or capital of the Group which can materialize as a result from changes in the CPI or the exchange rates of foreign currency due to the difference between the value of the assets to the value of the liabilities. Interest risk is the risk to the earnings or capital deriving from flactuations in the interest rates. Changes in the interest rates affect the Bank's earnings by change in net earnings, and the value of the Bank's assets, its liabilities and off balance sheet instruments, since the present value of future cash flows (and even the cash flows themselves) changes when a change occur in the interest rates. As part of the overall strategy of the Bank to manage the level of exposure to basis and interest risks, the Bank uses derivative instruments such as foreign currency and CPI forwards, foreign currency options and interest rate swaps (swaping fixed interest rate with variable interest rate). The Bank have derivativies designated and qualified as fair value hedges.

If a derivative is not designated as qualified hedging, the derivative is stated according to fair value and changes in the fair value are stated on a current basis in the profit and loss statement.

NOTE 10 - DERIVATIVE FINANCIAL INSTRUMENTS - VOLUME, CREDIT RISKS AND MATURITY DATES (CONT'D)

(NIS million)

Fair value hedges

The Bank designates certain derivatives as fair value hedges. The change in the fair value of the derivatives, hedging the exposure to changes in the fair value of the underlying of the asset, is recognized on a currect basis in the profit and loss statement, as well as the change in the fair value of the hedged instrument, which can be attributed to the hedged risk.

	For the three months ended March 31, 2020	For the three months ended March 31, 2019	For the year ended December 31, 2019
		(unaudited)	(audited)
			Interest income (expenses)
1. Effect of accounting of fair value Hedge on profit (loss)			
Profit from fair value Hedge			
Interest contracts			
- Hedged items	**146**	53	105
- Hedging derivatives	**(151)**	(54)	(115)

	For the three months ended March 31, 2020 (unaudited)		For the three months ended March 31, 2019 (unaudited)		For the year ended December 31, 2019 (audited)	
		Cumulative fair value adjustments increasing the book value		Cumulative fair value adjustments increasing the book value		Cumulative fair value adjustments increasing the book value
	Book value	Existing hedge relation	Book value	Existing hedge relation	Book value	Existing hedge relation
2. Items Hedged by fair value Hedge						
Securities- debt instruments classified as available for sale	**3,697**	**252**	3,323	47	3,185	105

	For the three months ended March 31, 2020	For the three months ended March 31, 2019	For the year ended December 31, 2019
		(unaudited)	(audited)
			Profit (loss) recognized in income (expenses) from activity in derivative instruments(1)
3. Effect of derivatives which were not designated as hedging instruments on statement of income			
Derivatives which were not designated as hedging instruments			
Interest contracts	**1**	(9)	(15)
Foreign currency contracts	**185**	(146)	(410)
Contracts on shares	**2**	1	6

(1) Included in the item non-interest financing income (expenses).

NOTE 10 - DERIVATIVE FINANCIAL INSTRUMENTS - VOLUME, CREDIT RISKS AND MATURITY DATES (CONT'D)

(NIS million)

C. Credit risk in respect of derivatives instruments, according to transaction counterparty

	March 31, 2020 (unaudited)					
	Exchanges	Banks	Dealers/ brokers	Government and central banks	Others	Total
Balance sheet balance of assets in respect of derivative instruments	**294**	**665**	**158**	**268**	**1,166**	**2,551**
Gross amounts not offset in the balance sheet:						
Credit risk mitigation in respect of financial instruments	**-**	**(499)**	**(29)**	**-**	**(482)**	**(1,010)**
Credit risk mitigation in respect of cash collateral received	**-**	**(55)**	**-**	**-**	**(311)**	**(366)**
Net amount of assets in respect of derivative instruments	**294**	**111**	**129**	**268**	**373**	**1,175**
Off balance sheet credit risk in respect of derivative instruments (2)	**-**	**435**	**50**	**31**	**1,017**	**1,533**
Off balance sheet credit risk mitigation	**-**	**(230)**	**(9)**	**-**	**(541)**	**(780)**
Net off balance sheet credit risk in respect of derivative instruments	**-**	**205**	**41**	**31**	**476**	**753**
Total credit risk in respect of derivative instruments	**294**	**316**	**170**	**299**	**849**	**1,928**
Balance sheet balance of liabilities in respect of derivative instruments (1)	**210**	**988**	**576**	**25**	**789**	**2,588**
Gross amounts not offset in the balance sheet:						
Financial instruments	**-**	**(499)**	**(29)**	**-**	**(143)**	**(671)**
Cash collateral which was attached by a lien	**-**	**(283)**	**(12)**	**-**	**(71)**	**(366)**
Net amount of liabilities in respect of derivative instruments	**210**	**206**	**535**	**25**	**575**	**1,551**

	March 31, 2019 (unaudited)*					
	Exchanges	Banks	Dealers/ brokers	Government and central banks	Others	Total
Balance sheet balance of assets in respect of derivative instruments	120	396	75	4	346	941
Gross amounts not offset in the balance sheet:						
Credit risk mitigation in respect of financial instruments	-	(206)	(15)	-	(100)	(321)
Credit risk mitigation in respect of cash collateral received	-	(73)	(20)	-	(102)	(195)
Net amount of assets in respect of derivative instruments	120	117	40	4	144	425
Off balance sheet credit risk in respect of derivative instruments (2)	-	298	52	4	951	1,305
Off balance sheet credit risk mitigation	-	(134)	(4)	-	(625)	(763)
Net off balance sheet credit risk in respect of derivative instruments	-	164	48	4	326	542
Total credit risk in respect of derivative instruments	120	281	88	8	470	967
Balance sheet balance of liabilities in respect of derivative instruments (1)	116	309	151	-	448	1,024
Gross amounts not offset in the balance sheet:						
Financial instruments	-	(206)	(15)	-	(33)	(254)
Cash collateral which was attached by a lien	-	(49)	-	-	-	(49)
Net amount of liabilities in respect of derivative instruments	116	54	136	-	415	721

NOTE 10 - DERIVATIVE FINANCIAL INSTRUMENTS - VOLUME, CREDIT RISKS AND MATURITY DATES (CONT'D)

(NIS million)

C. Credit risk in respect of derivatives instruments, according to transaction counterparty (cont'd)

	December 31, 2019 (audited)					
	Exchanges	Banks	Dealers/ brokers	Government and central banks	Others	Total
Balance sheet balance of assets in respect of derivative instruments	120	446	141	1	383	1,091
Gross amounts not offset in the balance sheet:						
Credit risk mitigation in respect of financial instruments	-	(269)	(17)	-	(142)	(428)
Credit risk mitigation in respect of cash collateral received	-	(25)	(4)	-	(115)	(144)
Net amount of assets in respect of derivative instruments	120	152	120	1	126	519
Off balance sheet credit risk in respect of derivative instruments (2)	-	315	39	-	1,040	1,394
Off balance sheet credit risk mitigation	-	(152)	(6)	-	(704)	(862)
Net off balance sheet credit risk in respect of derivative instruments	-	163	33	-	336	532
Total credit risk in respect of derivative instruments	120	315	153	1	462	1,051
Balance sheet balance of liabilities in respect of derivative instruments (1)	97	390	203	-	559	1,249
Gross amounts not offset in the balance sheet:						
Financial instruments	-	(269)	(17)	-	(85)	(371)
Cash collateral which was attached by a lien	-	(64)	-	-	-	(64)
Net amount of liabilities in respect of derivative instruments	97	57	186	-	474	814

* Reclassified.

(1) The fair value of derivative instruments subject to netting agreements, as well as derivative instruments received as collateral in government bonds, shares received as collateral and corporate bonds received as collateral amounts to NIS 671 million, NIS 161 million, NIS 177 million and NIS 1 million, respectively (31.3.19 - derivative instruments subject to netting agreements NIS 254 million, government bonds received as collateral NIS 35 million shares received as collateral NIS 31 million and in corporate bonds NIS 1 million, 31.12.19 - derivative instruments subject to netting agreements NIS 371 million, in government bonds NIS 54 million and in shares NIS 3 million).

(2) The difference, if positive, between total amounts in respect of derivative instruments (including in respect of derivative instruments having a negative fair value) as computed for the purpose of limitations on indebtedness of a single borrower, before credit risk mitigation, to the total balance of assets in respect of derivative instrument of the borrower.

NOTE 10 - DERIVATIVE FINANCIAL INSTRUMENTS - VOLUME, CREDIT RISKS AND MATURITY DATES (CONT'D)

(NIS million)

D. Maturity dates (stated value amounts): Balance on consolidated basis

	March 31, 2020 (unaudited)				
	Up to 3 months	from 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Interest rate contracts -					
- NIS - CPI	**-**	**508**	**166**	**-**	**674**
- Other	**2,938**	**3,668**	**10,090**	**3,766**	**20,462**
Foreign currency contracts	**69,870**	**22,986**	**543**	**8**	**93,407**
Contracts of shares	**34,771**	**3,619**	**407**	**-**	**38,797**
Commodities and other contracts	**70**	**16**	**-**	**-**	**86**
Total	**107,649**	**30,797**	**11,206**	**3,774**	**153,426**

	March 31, 2019 (unaudited)				
	Up to 3 months	from 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Total	93,671	15,373	13,858	3,555	126,457

	December 31, 2019 (audited)				
	Up to 3 months	from 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Total	99,157	26,585	11,679	3,289	140,710

NOTE 11 - SUPERVISORY SEGMENTS OF OPERATION

A. Definitions

- **Private individuals** - individuals including those conducting a joint account, who at the reporting date have no indebtedness to the bank, or where their indebtedness has been classified to the "Private individuals - housing and other loans" segment.
- **Private banking segment** - private individuals the balance of their financial asset portfolio, on a consolidated basis, held with the bank (including monetary deposits, securities portfolios and other financial assets) exceeds NIS 3 million.
- **Households** - private individuals, excluding customers included in the private banking segment.
- **Business** - a customer not included in the "private individual" definition and who is not an institutional body or a banking corporation.
- **Business turnover** - annual sales turnover or volume of annual income.
- **Minute business** - a business the annual turnover of which is less than NIS 10 million.
- **Small business** - a business the annual turnover of which is higher than or equal to NIS 10 million and is lower than NIS 50 million.
- **Middle-market business** - a business the annual turnover of which is higher than or equal to NIS 50 million and is lower than NIS 250 million.
- **Large business** - a business the annual turnover of which is higher than or equal to NIS 250 million.
- **Institutional entities**- as defined in the Regulation of Engagement in Investment Consulting activity, Investment Marketing and Investment Portfolio Management Act, including provident funds, pension funds, further education funds, mutual trust funds, ETF's, insurance companies and stock exchange members managing customers funds.

Where the income turnover of business customer does not represents its volume of activity, the activity of the business customer was classified according to the said below: where the total indebtness of the business customer is equal to or exceeds NIS 100 million, the customer was classified to large business segment. In addition, in previous periods, in business accounts operating in the capital market the classification to customers segments is in accordance to the value of the assets in the balance sheet or average value of the assets in the Bank and in business account in the real estate area the classification is in accordance to the value of the assets in the balance sheet or the volume of the credit lines. Starting with the first quarter of 2020, business customer operating in the capital market or in the real estate segment, which indebtness is less than NIS 100 million, the classification to customers' segments is made in accordance to the value of assets in the balance sheet. Comparative data of assets and liabilties were reclassified. Comparative data concerning income and expenses were not reclassified frm reasons of materiality.

- **Financial management segment** - includes trading and asset and liability management operations as defined in the Directives of the Supervisor of Banks. The segment includes the Bank's share in the earning of ICC.

NOTE 11 - SUPERVISORY SEGMENTS OF OPERATION

Principles for apportioning operating results among the different segments

- Net interest income-includes:
  - The financial margin between borrowing and lending activity, which is calculated as the spread between the interest obtained or paid and the average prices of money for the Bank, which derive from the duration of assets or liabilities in the relevant linkage segments.
  - Interest on the weighted capital attributed to the segment (on the basis of the risk assets attributed to each segment).
  - The customer segments are charged with the excess financing costs (over and above the cost of raising sources) of the capital notes attributed to the segment.
- Expenses on credit losses - Expenses on credit losses which were recorded in respect of its customers are attributed to each segment of activity.
- Non-interest income - Commission income, non-interest financing income and other income deriving from its customers' activity are charged to each segment of activity.
- Operating expenses - Attributed to each segment of activity are the direct expenses at the branches of the Bank and the head office deriving from the provision of services to the segment's customers, according to loading methodology, as follow:
  - Direct costs include:
    - Salary and organization expenses in the branches- are loaded on the basis of the "activity index" standard, which translates activity with customers into labor inputs.
    - Computer expenses at the branches- are loaded in accordance with the number of transactions carried out by the customers.
    - Salary, organization and computer expenses of the business units at head office- are loaded in accordance with loading parameters, corresponding with the nature of activity of the customer (such as: distribution of credit balances, number and volume of transactions).
  - The indirect expenses including the expenses of the head office and computer expenses of the back-office divisions and the general computer expenses which are not classified- these expenses are loaded in accordance to the nature of the expense. Most of the indirect expenses are loaded according to the distribution of the direct expenses, and the remaining expenses according to the distribution of income.
- Taxes on income - The provision for taxes on the earnings of each segment is calculated in accordance with the statutory rate of tax, with certain adjustments deriving from such factors as unrecognized expenses.
- Minority interest in net earnings - The charging of minority interest in the different segments of activity is calculated on the basis of the net earnings of subsidiaries with minority interest, as these earnings are attributed to the different segments of activity.

NOTE 11 - SUPERVISORY SEGMENTS OF OPERATION (CON'T)
(NIS million)

B. Operational supervision segment information

	For the three months ended March 31, 2020 (Unaudited)									
	Activity in Israel									
	Households									
	Total	Of which: Housing loans	Of which: credit cards	Private banking	Small and minute businesses	Medium businesses	Large businesses	Institutional entities	Financial Management	Total
										(NIS million)
Interest income from external	292	128	4	-	187	51	126	6	53	715
Interest expense from external	27	-	-	9	13	1	14	3	(10)	57
Net interest income (expenses)										
- From external	265	128	4	(9)	174	50	112	3	63	658
- Inter - segment	53	(40)	(1)	18	(7)	(9)	(41)	14	(28)	-
Total net interest income	318	88	3	9	167	41	71	17	35	658
Non-interest income (expenses)	156	3	21	21	89	20	27	61	(8)	366
Total income	474	91	24	30	256	61	98	78	27	1,024
Expenses from credit losses	33	4	-	-	39	5	80	-	-	157
Operating and other expenses	353	40	13	17	154	25	37	46	5	637
Operating profit (loss) before taxes	88	47	11	13	63	31	(19)	32	22	230
Provision for taxes (tax saving) on operating profit	31	17	4	4	14	7	(16)	10	(2)	48
Operating profit (loss) after taxes	57	30	7	9	49	24	(3)	22	24	182
Bank's share in operating loss of investee company after tax effect	-	-	-	-	-	-	-	-	(2)	(2)
Net profit (loss):										
Before attribution to non-controlling interests	57	30	7	9	49	24	(3)	22	22	180
Attributed to non-controlling interests	(6)	-	-	-	(1)	(1)	-	-	(1)	(9)
Net profit (loss) attributed to shareholders of the Bank	51	30	7	9	48	23	(3)	22	21	171
Average balance of assets(1)	46,973	26,002	2,770	53	17,361	5,533	17,572	1,621	51,017	140,130
of which: Investee Company(1)	-	-	-	-	-	-	-	-	603	603
of which: Average balance of credit to the public(1)	46,973	26,002	2,770	53	17,361	5,533	17,572	1,621	-	89,113
Balance of credit to the public	47,843	26,274	3,190	58	17,913	5,883	18,141	1,237	-	91,075
Balance of impaired debts	158	5	-	-	238	43	278	-	-	717
Balance in arrears over 90 days	221	194	-	-	21	3	12	-	-	257
Average balance of liabilities(1)	53,745	356	70	7,850	20,048	5,437	13,543	22,039	8,517	131,179
of which: Average balance of deposits from the public(1)	52,776	-	-	7,802	19,517	5,250	12,672	21,882	-	119,899
Balance of deposits from the public	59,194	-	-	9,360	20,450	5,805	15,055	17,113	-	126,977
Average balance of risk assets(1)(2)	32,354	14,202	3,174	232	17,381	6,558	17,650	1,489	7,515	83,179
Balance of risk assets(2)	32,055	14,423	3,816	230	18,882	6,753	17,945	1,584	7,660	85,109
Average balance of assets under management(1)(3)	33,718	-	-	17,559	16,246	3,599	11,765	230,752	-	313,639
Segmentation of net interest income:										
- Earnings from credit - granting activity	269	89	3	-	148	37	67	5	-	526
- Earnings from deposits - taking activity	51	-	-	9	20	4	5	12	-	101
- Other	(2)	(1)	-	-	(1)	-	(1)	-	35	31
Total net interest income	318	88	3	9	167	41	71	17	35	658

(1) Average balances computed on the basis of balances at the beginning of the quarter or as at the beginning of the month.
(2) Risk assets - as computed for the purpose of capital adequacy.
(3) Managed assets - including assets of provident funds, further education funds, mutual funds and securities of customers.

NOTE 11 - SUPERVISORY SEGMENTS OF OPERATION (CON'T)
(NIS million)

B. Operational supervision segment information (CON'T)

	For the three months ended March 31, 2019 (Unaudited)*									
	Activity in Israel									
	Households									
	Total	Of which: Housing loans	Of which: credit cards	Private banking	Small and minute businesses	Medium businesses	Large businesses	Institutional entities	Financial Management	Total
										(NIS million)
Interest income from external	338	136	4	-	166	47	100	3	73	727
Interest expense from external	33	-	-	12	18	4	15	16	(6)	92
Net interest income (expenses)										
- From external	305	136	4	(12)	148	43	85	(13)	79	635
- Inter - segment	3	(59)	(1)	22	13	-	(16)	35	(57)	-
Total net interest income	308	77	3	10	161	43	69	22	22	635
Non-interest income	137	4	20	17	77	19	28	46	43	367
Total income	445	81	23	27	238	62	97	68	65	1,002
Expenses (income) from credit losses	18	(1)	-	-	12	21	(17)	2	-	36
Operating and other expenses	370	37	14	17	157	29	42	45	13	673
Operating profit before taxes	57	45	9	10	69	12	72	21	52	293
Provision for taxes on operating profit	20	16	3	4	25	4	31	8	19	111
Operating profit after taxes	37	29	6	6	44	8	41	13	33	182
Bank's share in operating profit of investee company after tax effect	-	-	-	-	-	-	-	-	10	10
Net profit:										
Before attribution to non-controlling interests	37	29	6	6	44	8	41	13	43	192
Attributed to non-controlling interests	(6)	-	-	-	(1)	(1)	-	-	(1)	(9)
Net profit attributed to shareholders of the Bank	31	29	6	6	43	7	41	13	42	183
Average balance of assets(1)	44,708	24,384	2,638	45	16,449	5,544	17,431	908	50,541	135,626
of which: Investee Company(1)	-	-	-	-	-	-	-	-	612	612
of which: Average balance of credit to the public(1)	44,708	24,384	2,638	45	16,449	5,544	17,431	908	-	85,085
Balance of credit to the public	45,800	24,468	3,317	54	17,082	5,694	17,515	1,101	-	87,246
Balance of impaired debts	113	10	-	-	219	53	189	-	-	574
Balance in arrears over 90 days	198	169	-	-	21	4	3	-	-	226
Average balance of liabilities(1)	51,678	621	122	7,796	18,715	5,274	8,796	23,939	10,958	127,156
of which: Average balance of deposits from the public(1)	50,075	-	-	7,787	18,024	4,968	7,987	23,887	-	112,728
Balance of deposits from the public	50,532	-	-	7,843	17,928	5,052	8,784	25,210	-	115,349
Average balance of risk assets(1)(2)	31,265	13,329	3,082	206	16,259	6,653	16,779	1,116	7,353	79,631
Balance of risk assets(2)	31,000	13,330	3,648	210	16,717	6,686	17,028	1,037	7,446	80,124
Average balance of assets under management(1)(3)	34,824	-	-	15,876	15,157	3,816	13,526	227,111	-	310,310
Segmentation of net interest income:										
- Earnings from credit - granting activity	257	79	3	-	141	38	66	2	-	504
- Earnings from deposits - taking activity	55	-	-	10	22	6	5	20	-	118
- Other	(4)	(2)	-	-	(2)	(1)	(2)	-	22	13
Total net interest income	308	77	3	10	161	43	69	22	22	635

* Reclassified. See A on page 119.
(1) Average balances computed on the basis of balances at the beginning of the quarter or as at the beginning of the month.
(2) Risk assets - as computed for the purpose of capital adequacy.
(3) Managed assets - including assets of provident funds, further education funds, mutual funds and securities of customers.

NOTE 11 - SUPERVISORY SEGMENTS OF OPERATION (CON'T)
(NIS million)

B. Operational supervision segment information (CON'T)

	For the year ended December 31, 2019 (audited)*									
	Activity in Israel									
	Households									
	Total	Of which: Housing loans	Of which: credit cards	Private banking	Small and minute businesses	Medium businesses	Large businesses	Institutional entities	Financial Management	Total
										(NIS million)
Interest income from external	1,669	670	15	14	670	164	265	16	287	3,085
Interest expense from external	172	-	-	52	87	17	67	77	11	483
Net interest income (expenses)										
- From external	1,497	670	15	(38)	583	147	198	(61)	276	2,602
- Inter - segment	(253)	(349)	(2)	76	58	26	82	136	(125)	-
Total net interest income	1,244	321	13	38	641	173	280	75	151	2,602
Non-interest income	549	14	84	68	304	77	118	190	214	1,520
Total income	1,793	335	97	106	945	250	398	265	365	4,122
Expenses from credit losses	72	3	-	-	35	12	18	1	-	138
Operating and other expenses	1,443	156	57	65	622	114	167	184	59	2,654
Operating profit before taxes	278	176	40	41	288	124	213	80	306	1,330
Provision for taxes on operating profit	95	60	14	14	98	46	93	27	105	478
Operating profit after taxes	183	116	26	27	190	78	120	53	201	852
Bank's share in operating profit of investee company after tax effect	-	-	-	-	-	-	-	-	51	51
Net profit:										
Before attribution to non-controlling interests	183	116	26	27	190	78	120	53	252	903
Attributed to non-controlling interests	(24)	-	(1)	-	(5)	(3)	-	-	(6)	(38)
Net profit attributed to shareholders of the Bank	159	116	25	27	185	75	120	53	246	865
Average balance of assets(1)	45,476	24,871	2,798	50	16,653	5,623	16,599	1,039	50,865	136,305
of which: Investee Company(1)	-	-	-	-	-	-	-	-	605	605
of which: Average balance of credit to the public(1)	45,476	24,871	2,798	50	16,653	5,623	16,599	1,039	-	85,440
Balance of credit to the public	47,418	25,583	3,639	67	17,264	5,539	17,280	1,261	-	88,829
Balance of impaired debts	156	10	-	-	220	35	298	-	-	709
Balance in arrears over 90 days	212	186	-	-	20	4	13	-	-	249
Average balance of liabilities(1)	52,093	525	106	7,619	19,232	5,225	10,527	23,365	9,516	127,577
of which: Average balance of deposits from the public(1)	50,896	-	-	7,611	18,660	4,968	9,861	22,825	-	114,821
Balance of deposits from the public	51,572	-	-	7,734	19,157	5,491	11,018	25,080	-	120,052
Average balance of risk assets(1)(2)	31,559	13,620	3,151	213	16,470	6,649	16,406	1,070	7,652	80,019
Balance of risk assets(2)	31,758	14,056	3,805	218	16,844	6,448	16,880	1,159	7,942	81,249
Average balance of assets under management(1)(3)	35,493	-	-	17,337	16,139	3,993	13,001	236,423	-	322,386
Segmentation of net interest income:										
- Earnings from credit - granting activity	1,046	330	13	-	562	157	270	10	-	2,045
- Earnings from deposits - taking activity	215	-	-	38	88	20	21	66	-	448
- Other	(17)	(9)	-	-	(9)	(4)	(11)	(1)	151	109
Total net interest income	1,244	321	13	38	641	173	280	75	151	2,602

* Reclassified. See A on page 119.
(1) Average balances computed on the basis of balances at the beginning of the quarter or as at the beginning of the month.
(2) Risk assets - as computed for the purpose of capital adequacy.
(3) Managed assets - including assets of provident funds, further education funds, mutual funds and securities of customers.

NOTE 11A - ACTIVITY SEGMENTS BASED ON MANAGEMENT'S APROACH

A. General

1. Instructions of the Supervisor of Banks state that a banking corporation, the operating segments of which per Management's approach, materially differ from the regulatory segments of activity, shall, in addition, provide disclosure regarding operating segments according to Management's approach ("administrative operating segments"), in accordance with accounting principles accepted by US banks in the matter of segments of operation (ASC 280-10).
2. The distribution to segments of operation in accordance with Management's approach is made according to criteria detailed in item 3 below. This distribution is used by the chief operational decision maker at the Bank for the purpose of determining the work plan, taking decisions and analyzing the business results of the Group. Management of the Bank and the Board of Directors are considered as the chief operational decision maker at the Bank.
3. The Bank has identified the following administrative operating segments:
   - **Banking Division - housing loans** - the segment is responsible for providing housing credit services to customers in this segment.
   - **Banking Division - Private customers** - the segment includes all activities of private banking customers and households' customers of the Banking Division branches. In addition, the segment includes the customers of Pagi sub-division, with similar characteristics.
   - **Banking Division - other** - the segment includes all activities of small businesses and commercial customers of the Banking Division branches. In addition, the segment includes the customers of Pagi sub-division, with similar characteristics.
   - **Corporate Division - corporate customers** - The corporate department of the Division coordinates all activities of large and international corporate customers, having a credit facility of NIS 40 million and over, or an income turnover of NIS 200 million and over, as well as the activity of borrower in complex credit areas, such as: communication, diamonds, construction projects, factoring and such like.
   - **Corporate Division - commercial customers** - The commercial department handles customers having a credit facility of between NIS 5 million and up to NIS 40 million, and an income turnover of between NIS 25 million and up to NIS 200 million and the customers of the branches of the corporate division, which are not under authority of the branches' managers. In addition, the segment includes the customers of Pagi sub-division, with similar characteristics.
   - **Corporate Division - other** - Bank customers in the business branches subordinated to the corporate division.
   - **Customer Assets Division** - The Division is responsible for the Bank's activity with all customers in operations involving the capital market, foreign currency and deposits and the overall activities of institutional entities.
   - **Financial Management** - The segment includes the results of operations concerning the asset and liability management of the Bank, including management of market and liquidity risk management in general, the results of management of the "nostro" securities portfolio of the Bank, including activity with other banks and with Bank of Israel. The segment includes also the Bank's share in the earnings of Israel Credit Cards Ltd.
   - **Subsidiary companies** - The segment includes the results of operation of its subsidiary Massad Bank.

NOTE 11A - ACTIVITY SEGMENTS BASED ON MANAGEMENT'S APROACH (CON'T)

- **Adjustments:**

A part of the results of operations with customers of the Bank is recorded in more than one operating segment, as detailed below:

- The results of operation in the capital market product, which includes securities activity of customers, the distribution of pension products and deposits from the public, as well as the foreign currency product, are included both in the Customer Assets Division segment and in the Banking Division segments (except for mortgages) or in any one of the Corporate Division segments.
- The results of operation of certain commercial customers under the responsibility of the Corporate Division are included both in the Corporate Division-commercial customers segment and in the Banking Division-other segment.
- The results of operation of certain small business customers under the responsibility of the Banking Division are included both in the Banking Division-other segment and in the Corporate Division-other segment.
- The results of operation of certain commercial customers under the responsibility of the Customer Assets Division are included both in the Customer Assets Division segment and in the Banking Division segments (except mortgages) or in any one of the Corporate Division segments.

The duplicity in the recording of the results of operation as described above is eliminated in the adjustments column.
The adjustments column includes also the elimination of inter-company balances.

For detail regarding the principles of the distribution of the results of operation between the different segments of activity, see note 11.

NOTE 11A - ACTIVITY SEGMENTS BASED ON MANAGEMENT'S APROACH (CON'T)

(NIS million)

	Banking Division			Corporate Division		
	Housing loans	Private customers	Other	Corporate customers	Commercial customers	Other
Net interest income	**90**	**203**	**112**	**116**	**70**	**17**
Non-interest income	**3**	**171**	**57**	**65**	**22**	**6**
Total income	**93**	**374**	**169**	**181**	**92**	**23**
Expenses (income) in respect of credit losses	**3**	**27**	**16**	**97**	**12**	**(1)**
Operating and other expenses	**42**	**311**	**111**	**72**	**41**	**7**
Operating profit before taxes	**48**	**36**	**42**	**12**	**39**	**17**
Provision for taxes on operating profit	**10**	**7**	**9**	**-**	**7**	**3**
Operating profit after taxes	**38**	**29**	**33**	**12**	**32**	**14**
Bank's share in operating profit of investee company after taxes	**-**	**-**	**-**	**-**	**-**	**-**
Net profit						
Before attribution to non-controlling interests	**38**	**29**	**33**	**12**	**32**	**14**
Attributed to non-controlling interests	**-**	**-**	**-**	**-**	**-**	**-**
Attributed to shareholders of the Bank	**38**	**29**	**33**	**12**	**32**	**14**
Average balance of assets(1)	**25,821**	**18,928**	**9,661**	**24,328**	**9,182**	**1,314**
Balance of credit to the public at the end of the reported period	**26,550**	**19,242**	**10,476**	**25,231**	**9,210**	**998**
Balance of deposits from the public at the end of the reported period	**-**	**66,018**	**16,973**	**26,050**	**5,739**	**12,660**

	Banking Division			Corporate Division		
	Housing loans	Private customers	Other	Corporate customers	Commercial customers	Other
Net interest income	79	206	112	116	72	22
Non-interest income	4	150	53	54	20	6
Total income	83	356	165	170	92	28
Expenses (income) in respect of credit losses	(2)	22	14	(25)	25	4
Operating and other expenses	40	327	113	75	52	7
Operating profit before taxes	45	7	38	120	15	17
Provision for taxes on operating profit	16	3	14	47	5	6
Operating profit after taxes	29	4	24	73	10	11
Bank's share in operating profit of investee company after taxes	-	-	-	-	-	-
Net profit						
Before attribution to non-controlling interests	29	4	24	73	10	11
Attributed to non-controlling interests	-	-	-	-	-	-
Attributed to shareholders of the Bank	29	4	24	73	10	11
Average balance of assets(1)	24,303	17,961	9,796	23,054	9,125	1,023
Balance of credit to the public at the end of the reported period	24,809	19,002	9,955	23,540	9,339	1,162
Balance of deposits from the public at the end of the reported period	-	56,778	15,384	19,630	5,073	18,542

(1) Average balance calculated on the basis of balances at the beginning of the quarter or the beginning of the month.

For the three months ended March 31, 2020 (unaudited)					
			Adjustments		
Customer Asset Division	Financial management	Subsidiary companies	Total	Of which: operation in the capital market products	Total
107	31	61	(149)	(107)	658
240	(7)	22	(213)	(189)	366
347	24	83	(362)	(296)	1,024
(3)	-	8	(2)	(3)	157
210	5	46	(208)	(172)	637
140	19	29	(152)	(121)	230
28	4	11	(31)	(25)	48
112	15	18	(121)	(96)	182
-	(2)	-	-	-	(2)
112	13	18	(121)	(96)	180
-	-	(9)	-	-	(9)
112	13	9	(121)	(96)	171
6,012	48,741	7,316	(11,114)	(6,012)	140,189
4,635	-	5,070	(10,337)	(4,635)	91,075
121,615	-	7,687	(129,765)	(121,615)	126,977

For the three months ended March 31, 2019 (unaudited)					
			Adjustments		
Customer Asset Division	Financial management	Subsidiary companies	Total	Of which: operation in the capital market products	Total
121	13	60	(166)	(121)	635
188	53	12	(173)	(151)	367
309	66	72	(339)	(272)	1,002
1	-	1	(4)	1	36
208	13	50	(212)	(168)	673
100	53	21	(123)	(105)	293
35	19	10	(44)	(38)	111
65	34	11	(79)	(67)	182
-	10	-	-	-	10
65	44	11	(79)	(67)	192
-	-	(9)	-	-	(9)
65	44	2	(79)	(67)	183
6,263	48,348	6,802	(11,049)	(6,263)	135,626
6,492	-	4,783	(11,836)	(6,492)	87,246
109,738	-	6,812	(116,608)	(109,738)	115,349

NOTE 11A - ACTIVITY SEGMENTS BASED ON MANAGEMENT'S APROACH (CON'T)

(NIS million)

	Banking Division			Corporate Division		
	Housing loans	Private customers	Other	Corporate customers	Commercial customers	Other
Net interest income	331	810	446	421	283	95
Non-interest income	14	591	210	194	80	35
Total income	345	1,401	656	615	363	130
Expenses (income) in respect of credit losses	1	71	71	(42)	42	10
Operating and other expenses	163	1,291	459	263	182	50
Operating profit before taxes	181	39	126	394	139	70
Provision for taxes on operating profit	61	13	43	157	47	24
Operating profit after taxes	120	26	83	237	92	46
Bank's share in operating profit of investee company after taxes	-	-	-	-	-	-
Net profit						
Before attribution to non-controlling interests	120	26	83	237	92	46
Attributed to non-controlling interests	-	-	-	-	-	-
Attributed to shareholders of the Bank	120	26	83	237	92	46
Average balance of assets(1)	25,255	18,297	9,806	21,952	9,242	1,415
Balance of credit to the public at the end of the reported period	25,872	19,326	9,875	23,006	9,352	1,383
Balance of deposits from the public at the end of the reported period	-	56,147	16,559	22,349	5,852	20,024

(1) Average balance calculated on the basis of balances at the beginning of the quarter or the beginning of the month.

	For the year ended December 31, 2019 (audited)					
				Adjustments		
	Customer Asset Division	Financial management	Subsidiary companies	Total	Of which: operation in the capital market products	Total
	457	132	246	(619)	(457)	2,602
	755	214	90	(663)	(620)	1,520
	1,212	346	336	(1,282)	(1,077)	4,122
	(1)	-	11	(25)	1	138
	791	58	200	(803)	(634)	2,654
	422	288	125	(454)	(444)	1,330
	143	98	46	(154)	(150)	478
	279	190	79	(300)	(294)	852
	-	51	-	-	-	51
	279	241	79	(300)	(294)	903
	-	-	(38)	-	-	(38)
	279	241	41	(300)	(294)	865
	5,753	48,206	6,952	(10,573)	(5,753)	136,305
	6,221	-	5,116	(11,322)	(6,221)	88,829
	115,128	-	6,962	(122,969)	(115,128)	120,052

NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES

(NIS million)

A. Debts[1] and off-balance sheet credit instruments

Provision for credit losses

1. Change in provision for credit losses

	For the three months ended March 31, 2020 (unaudited)					
	Credit to the public					
	Commercial	Housing	Other private	Total	Banks and Governments	Total
Change in provision for credit losses - Debts						
Provision for credit losses at beginning of the year (audited)	**545**	**121**	**264**	**930**	**-**	**930**
Expenses in respect of credit losses	**118**	**4**	**28**	**150**	**-**	**150**
- Accounting write-offs	**(45)**	**-**	**(31)**	**(76)**	**-**	**(76)**
- Collection of debts written off in accounting in previous years	**19**	**1**	**23**	**43**	**-**	**43**
Net accounting write-offs	**(26)**	**1**	**(8)**	**(33)**	**-**	**(33)**
Provision for credit losses at end of the period	**637**	**126**	**284**	**1,047**	**-**	**1,047**
Changes in provision in respect of off-balance sheet credit instruments						
Provision at beginning of the year (audited)	**46**	**-**	**11**	**57**	**-**	**57**
Increase in the provision	**6**	**-**	**1**	**7**	**-**	**7**
Provision in respect of off-balance sheet credit instruments at end of the period	**52**	**-**	**12**	**64**	**-**	**64**
Total provision for credit losses - debts and off-balance sheet credit instruments	**689**	**126**	**296**	**1,111**	**-**	**1,111**

	For the three months ended March 31, 2019 (unaudited)					
	Credit to the public					
	Commercial	Housing	Other private	Total	Banks and Governments	Total
Change in provision for credit losses - Debts						
Provision for credit losses at beginning of the year (audited)	489	119	260	868	-	868
Expenses in respect of credit losses	20	(1)	19	38	-	38
Accounting write-offs	(54)	(1)	(28)	(83)	-	(83)
Collection of debts written off in accounting in previous years	55	1	14	70	-	70
Net accounting write-offs	1	-	(14)	(13)	-	(13)
Provision for credit losses at end of the period	510	118	265	893	-	893
Changes in provision in respect of off-balance sheet credit instruments						
Provision at beginning of the year (audited)	53	-	11	64	-	64
Decrease in the provision	(2)	-	-	(2)	-	(2)
Provision in respect of off-balance sheet credit instruments at end of the period	51	-	11	62	-	62
Total provision for credit losses - debts and off-balance sheet credit instruments	561	118	276	955	-	955

(1) Credit to the public, credit to governments, deposits with banks and other debts, excluding bonds and securities borrowed.

NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

A. Debts* and off-balance sheet credit instruments (Cont'd)

2. Additional information regarding the method of calculating the provision for credit losses in respect of debts[(1)] and the underlying debts[(1)]

	March 31, 2020 (unaudited)					
	Credit to the public					
	Commercial [(3)]	Housing	Other private	Total	Banks and Governments	Total
Recorded debt balance of debts[(1)]						
Examined on an individual basis	**37,739**	**-**	**378**	**38,117**	**4,158**	**42,275**
Examined on a collective basis	**5,608**	**26,274**	**21,076**	**52,958**	**-**	**52,958**
Of which: provision for which was calculated according to the extent of arrears	**173**	**26,256**	**-**	**26,429**	**-**	**26,429**
Total debts	**43,347**	**26,274**	**21,454**	**91,075**	**4,158**	**95,233**
Provision for credit losses in respect of debts[(1)]						
Examined on an individual basis	**571**	**-**	**42**	**613**	**-**	**613**
Examined on a collective basis	**66**	**126**	**242**	**434**	**-**	**434**
Of which: provision for which was calculated according to the extent of arrears	**2**	[(2)]**126**	**-**	**128**	**-**	**128**
Total provision for credit losses	**637**	**126**	**284**	**1,047**	**-**	**1,047**

	March 31, 2019 (unaudited)					
	Credit to the public					
	Commercial [(3)]	Housing	Other private	Total	Banks and Governments	Total
Recorded debt balance of debts[(1)]						
Examined on an individual basis	36,260	-	316	36,576	2,897	39,473
Examined on a collective basis	5,444	24,468	20,758	50,670	-	50,670
Of which: provision for which was calculated according to the extent of arrears	297	24,459	-	24,756	-	24,756
Total debts	41,704	24,468	21,074	87,246	2,897	90,143
Provision for credit losses in respect of debts[(1)]						
Examined on an individual basis	443	-	33	476	-	476
Examined on a collective basis	67	118	232	417	-	417
Of which: provision for which was calculated according to the extent of arrears	2	[(2)]118	-	120	-	120
Total provision for credit losses	510	118	265	893	-	893

NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

A. Debts* and off-balance sheet credit instruments (Cont'd)

2. Additional information regarding the method of calculating the provision for credit losses in respect of debts(1) and the underlying debts(1) (Cont'd)

	December 31, 2019 (audited)					
	Credit to the public					
	Commercial (3)	Housing	Other private	Total	Banks and Governments	Total
Recorded debt balance of debts(1)						
Examined on an individual basis	36,094	-	340	36,434	3,173	39,607
Examined on a collective basis	5,483	25,583	21,329	52,395	-	52,395
Of which: provision for which was calculated according to the extent of arrears	233	25,566	-	25,799	-	25,799
Total debts	41,577	25,583	21,669	88,829	3,173	92,002
Provision for credit losses in respect of debts(1)						
Examined on an individual basis	485	-	38	523	-	523
Examined on a collective basis	60	121	226	407	-	407
Of which: provision for which was calculated according to the extent of arrears	2	(2)121	-	123	-	123
Total provision for credit losses	545	121	264	930	-	930

(1) Credit to the public, credit to governments, deposits with banks and other debts, excluding bonds and securities borrowed.

(2) Includes the provision exceeding the amount required according to the method of the extent of arrears, calculated on a collective basis in the amount of approximately NIS 91 million (31.3.19 - NIS 85 million, 31.12.19 - NIS 89 million).

(3) The balance of commercial debts includes housing loans in the amount of NIS 2,883 million, combined in the framework of transaction and collateral of the commercial borrowers or that have been granted to purchase groups at construction stages (31.3.19 - NIS 2,809 million, 31.12.19 - NIS 2,718 million).

NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

B.Debts(1)

1. Credit quality and arrears

	March 31, 2020 (unaudited)					
		Problematic(2)			Unimpaired debts - additional information	
	Non-problematic	Unimpaired	Impaired (3)	Total	In arrears of 90 days or more(4)	In arrears of 30 to 89 days(5)
Borrower activity in Israel						
Public - commercial						
Construction and real estate - construction	**5,272**	**44**	**38**	**5,354**	**13**	**11**
Construction and real estate - real estate activities	**5,742**	**8**	**35**	**5,785**	**1**	**7**
Financial services	**6,529**	**8**	**6**	**6,543**	**-**	**10**
Commercial - other	**24,061**	**653**	**472**	**25,186**	**22**	**42**
Total commercial	**41,604**	**713**	**551**	**42,868**	**36**	**70**
Private individuals - housing loans	**26,050**	(6)**219**	**5**	**26,274**	**194**	**217**
Private individuals - others	**21,148**	**153**	**153**	**21,454**	**27**	**51**
Total public - activity in Israel	**88,802**	**1,085**	**709**	**90,596**	**257**	**338**
Banks in Israel	**777**	**-**	**-**	**777**	**-**	**-**
Israeli government	**1,114**	**-**	**-**	**1,114**	**-**	**-**
Total activity in Israel	**90,693**	**1,085**	**709**	**92,487**	**257**	**338**
Borrower activity abroad						
Public - commercial						
Construction and real estate	**13**	**-**	**8**	**21**	**-**	**-**
Other commercial	**458**	**-**	**-**	**458**	**-**	**-**
Total commercial	**471**	**-**	**8**	**479**	**-**	**-**
Private individuals	**-**	**-**	**-**	**-**	**-**	**-**
Total public - activity abroad	**471**	**-**	**8**	**479**	**-**	**-**
Banks abroad	**2,267**	**-**	**-**	**2,267**	**-**	**-**
Governments abroad	**-**	**-**	**-**	**-**	**-**	**-**
Total activity abroad	**2,738**	**-**	**8**	**2,746**	**-**	**-**
Total public	**89,273**	**1,085**	**717**	**91,075**	**257**	**338**
Total banks	**3,044**	**-**	**-**	**3,044**	**-**	**-**
Total governments	**1,114**	**-**	**-**	**1,114**	**-**	**-**
Total	**93,431**	**1,085**	**717**	**95,233**	**257**	**338**

(1) Credit to the public, credit to government, deposits with banks and other debts, excluding bonds and securities borrowed.

(2) Credit risk that is impaired, substandard, or under special supervision, including in respect of housing loans for which a provision based on the extent of arrears exists, and housing loans for which a provision based on the extent of arrears does not exist, which are in arrears of 90 days or more.

(3) In general, impaired debts do not accrue interest income. For information regarding certain impaired debts restructured in troubled debt restructuring, see Note 12.B.2.c. below.

(4) Classified as unimpaired problematic debts, accruing interest income.

(5) Accruing interest income Debts in arrears of 30 to 89 days, in the amount of approximately NIS 58 million (31.3.19 - NIS 107 million) were classified as unimpaired problematic debts.

(6) Includes a balance of housing loans, in the amount of approximately NIS 14 million (31.3.19 - NIS 8 million) with provision based on the extent of arrears, for which an arrangement has been signed for the borrower's repayment of the amounts in arrears, where a change has been made in the repayment, schedule with regard to the balance of the loan not yet due for repayment.

NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

B.Debts[1] (Cont'd)

1. Credit quality and arrears (Cont'd)

	March 31, 2019 (unaudited)					
		Problematic[2]			Unimpaired debts - additional information	
	Non-problematic	Unimpaired	Impaired [3]	Total	In arrears of 90 days or more[4]	In arrears of 30 to 89 days[5]
Borrower activity in Israel						
Public - commercial						
Construction and real estate - construction	4,800	62	39	4,901	5	7
Construction and real estate - real estate activities	5,131	12	26	5,169	-	3
Financial services	8,642	11	2	8,655	-	-
Commercial - other	21,847	506	387	22,740	23	41
Total commercial	40,420	591	454	41,465	28	51
Private individuals - housing loans	24,270	[6]188	10	24,468	169	220
Private individuals - others	20,704	267	103	21,074	29	56
Total public - activity in Israel	85,394	1,046	567	87,007	226	327
Banks in Israel	945	-	-	945	-	-
Israeli government	676	-	-	676	-	-
Total activity in Israel	87,015	1,046	567	88,628	226	327
Borrower activity abroad						
Public - commercial						
Construction and real estate	-	-	-	-	-	-
Other commercial	232	-	7	239	-	-
Total commercial	232	-	7	239	-	-
Private individuals	-	-	-	-	-	-
Total public - activity abroad	232	-	7	239	-	-
Banks abroad	1,276	-	-	1,276	-	-
Governments abroad	-	-	-	-	-	-
Total activity abroad	1,508	-	7	1,515	-	-
Total public	85,626	1,046	574	87,246	226	327
Total banks	2,221	-	-	2,221	-	-
Total governments	676	-	-	676	-	-
Total	88,523	1,046	574	90,143	226	327

NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

B.Debts(1) (Cont'd)

1. Credit quality and arrears (Cont'd)

	December 31, 2019 (audited)					
		Problematic(2)			Unimpaired debts - additional information	
	Non-problematic	Unimpaired	Impaired (3)	Total	In arrears of 90 days or more(4)	In arrears of 30 to 89 days(5)
Borrower activity in Israel						
Public - commercial						
Construction and real estate - construction	5,240	29	41	5,310	14	15
Construction and real estate - real estate activities	5,273	14	21	5,308	1	4
Financial services	7,985	6	3	7,994	-	25
Commercial - other	21,692	506	480	22,678	22	34
Total commercial	40,190	555	545	41,290	37	78
Private individuals - housing loans	25,355	(6)218	10	25,583	186	218
Private individuals - others	21,354	169	146	21,669	26	57
Total public - activity in Israel	86,899	942	701	88,542	249	353
Banks in Israel	964	-	-	964	-	-
Israeli government	1,039	-	-	1,039	-	-
Total activity in Israel	88,902	942	701	90,545	249	353
Borrower activity abroad						
Public - commercial						
Construction and real estate	14	-	8	22	-	-
Other commercial	265	-	-	265	-	-
Total commercial	279	-	8	287	-	-
Private individuals	-	-	-	-	-	-
Total public - activity abroad	279	-	8	287	-	-
Banks abroad	1,170	-	-	1,170	-	-
Governments abroad	-	-	-	-	-	-
Total activity abroad	1,449	-	8	1,457	-	-
Total public	87,178	942	709	88,829	249	353
Total banks	2,134	-	-	2,134	-	-
Total governments	1,039	-	-	1,039	-	-
Total	90,351	942	709	92,002	249	353

(1) Credit to the public, credit to government, deposits with banks and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.
(2) Credit risk that is impaired, substandard, or under special supervision, including in respect of housing loans for which a provision based on the extent of arrears exists, and housing loans for which a provision based on the extent of arrears does not exist, which are in arrears of 90 days or more.
(3) In general, impaired debts do not accrue interest income. For information regarding certain impaired debts restructured in troubled debt restructuring, see Note 12.B.2.c. below.
(4) Classified as unimpaired problematic debts, accruing interest income.
(5) Accruing interest income Debts in arrears of 30 to 89 days, in the amount of approximately NIS 135 million were classified as unimpaired problematic debts.
(6) Includes a balance of housing loans, in the amount of approximately NIS 12 million with provision based on the extent of arrears, for which an arrangement has been signed for the borrower's repayment of the amounts in arrears, where a change has been made in the repayment, schedule with regard to the balance of the loan not yet due for repayment.

NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

Credit quailty - the status of debts in arrears

The credit risk policy of the Bank defines principal indicators for the examination of credit quality, among which are the default situation, rating of the customer, status of the collateral etc. The status of debts in arrears is monitored routinely, and serves as one of the key indicators of credit quality. The status of debts in arrears is determined based on actual days of arrears. Debts which are evaluated on an individual basis, are treated as nonperforming debts (debts not accruing interest income) after 90 days of arrears. In addition, debts restructuring of problematic debts, are treated as impaired debts. With regard to debts evaluated on a collective basis, the status of arrears effects the classification of the debt (the classification is more severe for more extensive arrears) and mostly after 150 days of arrears, the Bank performs an accounting write-off of the debt up to the extent of the collateral. With regard to housing loans, with the exception of loans without quarterly or monthly payments, the Bank establishes an allowance according to the method of the extent of arrears. It is noted, the in light of Bank of Israel instructions dated April 21, 2020 and as part of the efforts to assist borrowers in difficulties, debt arrangements which were made as a result of the Corona event and in order to stabilize borrowers which are not in arrears, in which the terms of the debt were changed, specifically the original repayment dates were postponed, were not taken into account when determining the default status or the classification of the debts.

For additional information regarding the balance of the actual postponed repayments, see note 16 in respect of the effects of the spreading of the Corona virus.

NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

B. Debts [1](Cont'd)

2. Additional information regarding impaired debts

					March 31, 2020 (unaudited)
A. Impaired debts and the individual provision	Balance(2) of impaired debts for which an individual provision exists(3)	Individual provision(3)	Balance(2) of impaired debts for which no individual provision exists(3)	Total Balance(2) of impaired debts	Balance of contractual principal of impaired debts
Borrower activity in Israel					
Public - commercial					
Construction and real estate - construction	**25**	**10**	**13**	**38**	**863**
Construction and real estate - real estate activities	**23**	**3**	**12**	**35**	**854**
Financial services	**6**	**-**	**-**	**6**	**1,065**
Commercial - other	**447**	**160**	**25**	**472**	**1,947**
Total commercial	**501**	**173**	**50**	**551**	**4,729**
Private individuals - housing loans	**-**	**-**	**5**	**5**	**6**
Private individuals - others	**140**	**39**	**13**	**153**	**190**
Total public - activity in Israel	**641**	**212**	**68**	**709**	**4,925**
Banks in Israel	**-**	**-**	**-**	**-**	**-**
Israeli government	**-**	**-**	**-**	**-**	**-**
Total activity in Israel	**641**	**212**	**68**	**709**	**4,925**
Borrower activity abroad					
Public - commercial					
Construction and real estate	**-**	**-**	**8**	**8**	**8**
Other commercial	**-**	**-**	**-**	**-**	**15**
Total commercial	**-**	**-**	**8**	**8**	**23**
Private individuals	**-**	**-**	**-**	**-**	**-**
Total public - activity abroad	**-**	**-**	**8**	**8**	**23**
Banks abroad	**-**	**-**	**-**	**-**	**-**
Government abroad	**-**	**-**	**-**	**-**	**-**
Total activity abroad	**-**	**-**	**8**	**8**	**23**
Total public	**641**	**212**	**76**	**717**	**4,948**
Total banks	**-**	**-**	**-**	**-**	**-**
Total governments	**-**	**-**	**-**	**-**	**-**
Total(*)	**641**	**212**	**76**	**717**	**4,948**
(*) Of which:					
Measured at the present value of cash flows	**633**	**212**	**36**	**669**	
Debts in troubled debt restructuring	**251**	**80**	**30**	**281**	

(1) Credit to the public, credit to governments, deposits with banks, and other debts, excluding bonds and securities borrowed.
(2) Recorded debt balance.
(3) Individual provision for credit losses.

NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

B. Debts[(1)] (Cont'd)

2. Additional information regarding impaired debts (Cont'd)

	March 31, 2019 (unaudited)				
A. Impaired debts and the individual provision	Balance[(2)] of impaired debts for which an individual provision exists[(3)]	Individual provision[(3)]	Balance[(2)] of impaired debts for which no individual provision exists[(3)]	Total Balance[(2)] of impaired debts	Balance of contractual principal of impaired debts
Borrower activity in Israel					
Public - commercial					
Construction and real estate - construction	24	8	15	39	797
Construction and real estate - real estate activities	5	2	21	26	735
Financial services	2	1	-	2	924
Commercial - other	352	129	35	387	1,886
Total commercial	383	140	71	454	4,342
Private individuals - housing loans	-	-	10	10	11
Private individuals - others	93	25	10	103	198
Total public - activity in Israel	476	165	91	567	4,551
Banks in Israel	-	-	-	-	-
Israeli government	-	-	-	-	-
Total activity in Israel	476	165	91	567	4,551
Borrower activity abroad					
Public - commercial					
Construction and real estate	-	-	-	-	-
Other commercial	-	-	7	7	24
Total commercial	-	-	7	7	24
Private individuals	-	-	-	-	-
Total public - activity abroad	-	-	7	7	24
Banks abroad	-	-	-	-	-
Government abroad	-	-	-	-	-
Total activity abroad	-	-	7	7	24
Total public	476	165	98	574	4,575
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total(*)	476	165	98	574	4,575
(*) Of which:					
Measured at the present value of cash flows	464	164	43	507	
Debts in troubled debt restructuring	222	75	32	254	

NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

B. Debts(1) (Cont'd)

2. Additional information regarding impaired debts (Cont'd)

	December 31, 2019 (audited)				
A. Impaired debts and the individual provision	Balance(2) of impaired debts for which an individual provision exists(3)	Individual provision(3)	Balance(2) of impaired debts for which no individual provision exists(3)	Total Balance(2) of impaired debts	Balance of contractual principal of impaired debts
Borrower activity in Israel					
Public - commercial					
Construction and real estate - construction	30	10	11	41	901
Construction and real estate - real estate activities	8	2	13	21	809
Financial services	3	1	-	3	1,023
Commercial - other	449	156	31	480	2,108
Total commercial	490	169	55	545	4,841
Private individuals - housing loans	-	-	10	10	11
Private individuals - others	132	35	14	146	252
Total public - activity in Israel	622	204	79	701	5,104
Banks in Israel	-	-	-	-	-
Israeli government	-	-	-	-	-
Total activity in Israel	622	204	79	701	5,104
Borrower activity abroad					
Public - commercial					
Construction and real estate	-	-	8	8	8
Other commercial	-	-	-	-	15
Total commercial	-	-	8	8	23
Private individuals	-	-	-	-	-
Total public - activity abroad	-	-	8	8	23
Banks abroad	-	-	-	-	-
Government abroad	-	-	-	-	-
Total activity abroad	-	-	8	8	23
Total public	622	204	87	709	5,127
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total(*)	622	204	87	709	5,127
(*) Of which:					
Measured at the present value of cash flows	614	204	40	654	
Debts in troubled debt restructuring	217	42	31	248	

(1) Credit to the public, credit to governments, deposits with banks, and other debts, excluding bonds and securities borrowed.
(2) Recorded debt balance.
(3) Individual provision for credit losses.

NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

B. Debts[1] (Cont'd)

2. Additional information regarding impaired debts (Cont'd)

	For the three months ended March 31					
	2019			2018		
	(unaudited)			(unaudited)		
B. Average balance and interest income	Average balance of impaired debts[2]	Interest income recorded[3]	Of which: recorded on a cash basis	Average balance of impaired debts[2]	Interest income recorded[3]	Of which: recorded on a cash basis
Borrower activity in Israel						
Public - commercial						
Construction and real estate - construction	**41**	**-**	**-**	38	-	-
Construction and real estate - real estate activities	**24**	**-**	**-**	25	-	-
Financial services	**3**	**-**	**-**	1	-	-
Commercial - other	**431**	**-**	**-**	342	1	-
Total commercial	**499**	**-**	**-**	406	1	-
Private individuals - housing loans	**8**	**-**	**-**	8	-	-
Private individuals - others	**131**	**-**	**-**	99	1	-
Total public - activity in Israel	**638**	**-**	**-**	513	2	-
Banks in Israel	**-**	**-**	**-**	-	-	-
Israeli government	**-**	**-**	**-**	-	-	-
Total activity in Israel	**638**	**-**	**-**	513	2	-
Borrower activity abroad						
Public - commercial						
Construction and real estate	**4**	**-**	**-**	-	-	-
Other commercial	**5**	**-**	**-**	8	-	-
Total commercial	**9**	**-**	**-**	8	-	-
Private individuals	**-**	**-**	**-**	-	-	-
Total public - activity abroad	**9**	**-**	**-**	8	-	-
Banks abroad	**-**	**-**	**-**	-	-	-
Government abroad	**-**	**-**	**-**	-	-	-
Total activity abroad	**9**	**-**	**-**	8	-	-
Total public	**647**	**-**	**-**	521	2	-
Total banks	**-**	**-**	**-**	-	-	-
Total governments	**-**	**-**	**-**	-	-	-
Total	**647**	[4]**-**	**-**	521	[4]2	-

(1) Credit to the public, credit to governments, deposits with banks and other debts, excluding bonds and securities borrowed.
(2) Average recorded debt balance of impaired debts to the public in the reported period
(3) Interest income recognized in the reported period in respect of the average balance of impaired debts, during the period of time in which the debts have been classified as impaired.
(4) If the impaired debts were accruing interest in respect of the original terms, an interest income in the amount of NIS 8 million was recorded for three months ended March 31, 2020 (for three months ended March 31, 2019 - NIS 7 million).

NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

B. Debts[1] (Cont'd)

2. Additional information regarding impaired debts (Cont'd)

	March 31, 2020 (unaudited)				
	Recorded debt balance				
C. Troubled debt restructuring	Not accruing interest income	accruing[2] in arrears of 90 days or more	accruing [2] in arrears of 30 to 89 days	Accruing[2], not in arrears	Total[3]
Borrower activity in Israel					
Public - commercial					
Construction and real estate - construction	**12**	**-**	**-**	**1**	**13**
Construction and real estate - real estate activities	**2**	**-**	**-**	**3**	**5**
Financial services	**1**	**-**	**-**	**1**	**2**
Commercial - other	**120**	**-**	**-**	**20**	**140**
Total commercial	**135**	**-**	**-**	**25**	**160**
Private individuals - housing loans	**-**	**-**	**-**	**-**	**-**
Private individuals - others	**81**	**-**	**-**	**32**	**113**
Total public - activity in Israel	**216**	**-**	**-**	**57**	**273**
Banks in Israel	**-**	**-**	**-**	**-**	**-**
Israeli government	**-**	**-**	**-**	**-**	**-**
Total activity in Israel	**216**	**-**	**-**	**57**	**273**
Borrower activity abroad					
Public - commercial					
Construction and real estate	**8**	**-**	**-**	**-**	**8**
Other commercial	**-**	**-**	**-**	**-**	**-**
Total commercial	**8**	**-**	**-**	**-**	**8**
Private individuals	**-**	**-**	**-**	**-**	**-**
Total public - activity abroad	**8**	**-**	**-**	**-**	**8**
Banks abroad	**-**	**-**	**-**	**-**	**-**
Governments abroad	**-**	**-**	**-**	**-**	**-**
Total activity abroad	**8**	**-**	**-**	**-**	**8**
Total public	**224**	**-**	**-**	**57**	**281**
Total banks	**-**	**-**	**-**	**-**	**-**
Total governments	**-**	**-**	**-**	**-**	**-**
Total	**224**	**-**	**-**	**57**	**281**

(1) Credit to the public, credit to governments, deposits with banks, and other debts, excluding bonds and securities borrowed.
(2) Accruing interest income.
(3) Included in impaired debts.

NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

B. Debts[1] (Cont'd)

2. Additional information regarding impaired debts (Cont'd)

	March 31, 2019 (unaudited)				
	Recorded debt balance				
C. Troubled debt restructuring	Not accruing interest income	accruing [2] in arrears of 90 days or more	accruing [2] in arrears of 30 to 89 days	Accruing[2], not in arrears	Total[3]
Borrower activity in Israel					
Public - commercial					
Construction and real estate - construction	11	-	-	1	12
Construction and real estate - real estate activities	2	-	-	4	6
Financial services	1	-	-	-	1
Commercial - other	121	-	-	16	137
Total commercial	135	-	-	21	156
Private individuals - housing loans	-	-	-	-	-
Private individuals - others	65	-	-	25	90
Total public - activity in Israel	200	-	-	46	246
Banks in Israel	-	-	-	-	-
Israeli government	-	-	-	-	-
Total activity in Israel	200	-	-	46	246
Borrower activity abroad					
Public - commercial					
Construction and real estate	-	-	-	-	-
Other commercial	8	-	-	-	8
Total commercial	8	-	-	-	8
Private individuals	-	-	-	-	-
Total public - activity abroad	8	-	-	-	8
Banks abroad	-	-	-	-	-
Governments abroad	-	-	-	-	-
Total activity abroad	8	-	-	-	8
Total public	208	-	-	46	254
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	208	-	-	46	254

(1) Credit to the public, credit to governments, deposits with banks, and other debts, excluding bonds and securities borrowed.
(2) Accruing interest income.
(3) Included in impaired debts.

NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

B. Debts(1) (Cont'd)

2. Additional information regarding impaired debts (Cont'd)

	December 31, 2019 (audited)				
	Recorded debt balance				
C. Troubled debt restructuring (Cont'd)	Not accruing interest income	accruing (2) in arrears of 90 days or more	accruing (2) in arrears of 30 to 89 days	Accruing(2), not in arrears	Total(3)
Borrower activity in Israel					
Public - commercial					
Construction and real estate - construction	8	-	-	4	12
Construction and real estate - real estate activities	3	-	-	4	7
Financial services	2	-	-	-	2
Commercial - other	89	-	-	22	111
Total commercial	102	-	-	30	132
Private individuals - housing loans	-	-	-	-	-
Private individuals - others	79	-	-	29	108
Total public - activity in Israel	181	-	-	59	240
Banks in Israel	-	-	-	-	-
Israeli government	-	-	-	-	-
Total activity in Israel	181	-	-	59	240
Borrower activity abroad					
Public - commercial					
Construction and real estate	8	-	-	-	8
Other commercial	-	-	-	-	-
Total commercial	8	-	-	-	8
Private individuals	-	-	-	-	-
Total public - activity abroad	8	-	-	-	8
Banks abroad	-	-	-	-	-
Governments abroad	-	-	-	-	-
Total activity abroad	8	-	-	-	8
Total public	189	-	-	59	248
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	189	-	-	59	248

(1) Credit to the public, credit to governments, deposits with banks, and other debts, excluding bonds and securities borrowed.
(2) Accruing interest income.
(3) Included in impaired debts.

NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

B. Debts(1) (Cont'd)

2. Additional information regarding impaired debts (Cont'd)

	Restructuring made					
	For the three months ended March 31					
	2020			2019		
				(unaudited)		
C. Troubled debt restructuring (Cont'd)	**Number of contracts**	**Debt balance before restructuring**	**Debt balance after restructuring**	**Number of contracts**	**Debt balance before restructuring**	**Debt balance after restructuring**
Borrower activity in Israel						
Public - commercial						
Construction and real estate - construction	**5**	**1**	**1**	10	2	2
Construction and real estate - real estate activities	**4**	**2**	**2**	1	1	1
Financial services	**-**	**-**	**-**	-	-	-
Commercial - other	**58**	**43**	**43**	110	25	25
Total commercial	**67**	**46**	**46**	121	28	28
Private individuals - housing loans	**-**	**-**	**-**	-	-	-
Private individuals - others	**341**	**17**	**17**	368	18	18
Total public - activity in Israel	**408**	**63**	**63**	489	46	46
Banks in Israel	**-**	**-**	**-**	-	-	-
Israeli government	**-**	**-**	**-**	-	-	-
Total activity in Israel	**408**	**63**	**63**	489	46	46
Borrower activity abroad						
Public - commercial						
Construction and real estate	**-**	**-**	**-**	**-**	**-**	**-**
Other commercial	**-**	**-**	**-**	-	-	-
Total commercial	**-**	**-**	**-**	-	-	-
Private individuals	**-**	**-**	**-**	-	-	-
Total public - activity abroad	**-**	**-**	**-**	-	-	-
Banks abroad	**-**	**-**	**-**	-	-	-
Governments abroad	**-**	**-**	**-**	-	-	-
Total activity abroad	**-**	**-**	**-**	-	-	-
Total public	**408**	**63**	**63**	489	46	46
Total banks	**-**	**-**	**-**	-	-	-
Total governments	**-**	**-**	**-**	-	-	-
Total	**408**	**63**	**63**	489	46	46

(1) Credit to the public, credit to governments, deposits with banks and other debts, excluding bonds and securities that were borrowed.

NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

B. Debts(1) (Cont'd)

2. Additional information regarding impaired debts (Cont'd)

	Restructuring made and failed (2)			
	For the three months ended March 31			
	2020		2019	
			(unaudited)	
c. **Troubled debt restructuring** (Cont'd)	Number of contracts	Balance of debt recorded	Number of contracts	Balance of debt recorded
Borrower activity in Israel				
Public - commercial				
Construction and real estate - construction	**10**	**5**	5	2
Construction and real estate - real estate activities	**-**	**-**	-	-
Financial services	**1**	**-**	1	-
Commercial - other	**47**	**2**	46	4
Total commercial	**58**	**7**	52	6
Private individuals - housing loans	**-**	**-**	-	-
Private individuals - others	**181**	**5**	132	4
Total public - activity in Israel	**239**	**12**	184	10
Banks in Israel	**-**	**-**	-	-
Israeli government	**-**	**-**	-	-
Total activity in Israel	**239**	**12**	184	10
Borrower activity abroad				
Public - commercial				
Construction and real estate	**-**	**-**	-	-
Other commercial	**-**	**-**	-	-
Total commercial	**-**	**-**	-	-
Private individuals	**-**	**-**	-	-
Total public - activity abroad	**-**	**-**	-	-
Banks abroad	**-**	**-**	-	-
Governments abroad	**-**	**-**	-	-
Total activity abroad	**-**	**-**	-	-
Total public	**239**	**12**	184	10
Total banks	**-**	**-**	-	-
Total governments	**-**	**-**	-	-
Total	**239**	**12**	184	10

(1) Credit to the public, credit to governments, deposits with banks and other debts, excluding bonds and securities that were borrowed.

(2) Debts that became debts in arrears of 30 days or more during the reported period which were restructured as a problematic debt during the 12 months that preceded the date in which they became debts in arrears.

NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

B. Debts(1) (Cont'd)

3. Additional information regarding housing loans

Year-end balances by financing ratio (LTV) (*), repayment type, and interest type

	March 31, 2020 (unaudited)			
	Balance of housing loans			Total Off-balance sheet credit risk
	Total	Of which: bullet and balloon	OF which: floating interest rate	
First lien financing rate				
- Up to 60%	**17,916**	**237**	**10,708**	**1,301**
- Over 60%	**7,881**	**79**	**4,801**	**655**
Secondary lien or no lien	**477**	**132**	**386**	**2**
Total	**26,274**	**448**	**15,895**	**1,958**

	March 31, 2019 (unaudited)			
	Balance of housing loans			Total Off-balance sheet credit risk
	Total	Of which: bullet and balloon	OF which: floating interest rate	
First lien financing rate				
- Up to 60%	16,996	268	10,212	1,106
- Over 60%	7,061	71	4,464	574
Secondary lien or no lien	411	111	389	-
Total	24,468	450	15,065	1,680

	December 31, 2019 (audited)			
	Balance of housing loans			Total Off-balance sheet credit risk
	Total	Of which: bullet and balloon	OF which: floating interest rate	
First lien financing rate				
- Up to 60%	17,495	235	10,516	1,481
- Over 60%	7,625	71	4,705	738
Secondary lien or no lien	463	127	368	1
Total	25,583	433	15,589	2,220

* Ratio of the approved credit facility, when the facility was provided, to the value of the asset, as approved by the Bank when the facility was provided. The LTV ratio constitute an additional indication of the Bank for assessing the customer's risk in time of approving the credit facility.

NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

C. Off-balance sheet financial instruments

	Balance of contracts[1]			Balance of provision for credit losses		
	31.3.20	**31.3.19**	**31.12.19**	**31.3.20**	**31.3.19**	**31.12.19**
	(unaudited)	(unaudited)	(audited)	(unaudited)	(unaudited)	(audited)
Transactions the balance of which represents credit risk:						
Documentary credit	**105**	461	135	**-**	1	-
Guarantees securing credit	**887**	893	914	**7**	7	6
Guarantees to home purchasers	**2,318**	2,720	2,325	**4**	5	5
Guarantees and other liabilities	**3,950**	4,055	4,140	**23**	24	20
Unutilized credit lines for derivatives instruments	**2,193**	2,369	2,268	**-**	-	-
Unutilized revolving credit and other on-call credit facilities	**9,648**	9,561	9,463	**14**	13	13
Irrevocable commitments to grant credit, not yet executed	**4,706**	4,830	5,197	**5**	4	4
Unutilized credit lines for credit card facilities	**8,485**	7,471	7,923	**5**	4	4
Facilities for the lending of securities	**190**	402	277	**-**	-	-
Required guarantees and collateral in respect of the Stock Exchange and Maof Clearing Houses	**208**	145	172	**-**	-	-
Commitments to issue guarantees	**1,793**	1,213	1,511	**6**	4	5

(1) Balance of contracts or their stated amounts at the end of the period, before provision for credit losses.

NOTE 13 - ASSETS AND LIABILITIES ACCORDING TO LINKAGE BASES

(NIS million)

	March 31, 2020 (unaudited)						
	Israeli currency		Foreign currency[1]				
	Non-linked	Linked to the consumer price index	U.S. dollar	Euro	Other	Non-monetary items[2]	Total
Assets							
Cash and deposits with banks	**38,557**	**-**	**2,881**	**289**	**206**	**-**	**41,933**
Securities	**4,345**	**346**	**4,217**	**1,596**	**-**	**320**	**10,824**
Securities which were borrowed	**82**	**-**	**-**	**-**	**-**	**-**	**82**
Credit to the public, net[3]	**74,554**	**10,243**	**3,761**	**691**	**149**	**630**	**90,028**
Credit to the government	**443**	**621**	**50**	**-**	**-**	**-**	**1,114**
Investee company	**-**	**-**	**-**	**-**	**-**	**603**	**603**
Premises and equipment	**-**	**-**	**-**	**-**	**-**	**989**	**989**
Intangible assets and goodwill	**-**	**-**	**-**	**-**	**-**	**246**	**246**
Assets in respect of derivative instruments	**695**	**44**	**831**	**93**	**29**	**859**	**2,551**
Other assets	**666**	**2**	**9**	**6**	**-**	**478**	**1,161**
Total assets	**119,342**	**11,256**	**11,749**	**2,675**	**384**	**4,125**	**149,531**
Liabilities							
Deposits from the public	**99,603**	**4,276**	**18,281**	**3,185**	**1,001**	**631**	**126,977**
Deposits from banks	**562**	**-**	**454**	**36**	**77**	**-**	**1,129**
Deposits from the Government	**503**	**-**	**47**	**2**	**1**	**-**	**553**
Bonds and subordinated capital notes	**238**	**3,516**	**-**	**-**	**-**	**-**	**3,754**
Liabilities in respect of derivative instruments	**660**	**10**	**923**	**125**	**11**	**857**	**2,586**
Other liabilities	**5,419**	**71**	**20**	**2**	**2**	**111**	**5,625**
Total liabilities	**106,985**	**7,873**	**19,725**	**3,350**	**1,092**	**1,599**	**140,624**
Difference	**12,357**	**3,383**	**(7,976)**	**(675)**	**(708)**	**2,526**	**8,907**
Non-hedging derivatives							
Derivative instruments (not including options)	**(8,471)**	**84**	**6,843**	**877**	**667**	**-**	**-**
Options in the money, net (in terms of underlying asset)	**(272)**	**-**	**404**	**(132)**	**-**	**-**	**-**
Options out of the money, net (in terms of underlying asset)	**(292)**	**-**	**435**	**(143)**	**-**	**-**	**-**
Total	**3,322**	**3,467**	**(294)**	**(73)**	**(41)**	**2,526**	**8,907**
Options in the money, net (present value of stated amount)	**(430)**	**-**	**548**	**(118)**	**-**	**-**	**-**
Options out of the money, net (present value of stated amount)	**(1,809)**	**-**	**1,640**	**82**	**87**	**-**	**-**

(1) Including linked to foreign currency.
(2) Including derivatives instruments which their underlying assets represent non-monetary item.
(3) After deduction of provisions for credit losses attributed to the linkage base.

NOTE 13 - ASSETS AND LIABILITIES ACCORDING TO LINKAGE BASES (CONT'D)

(NIS million)

	March 31, 2019 (unaudited)						
	Israeli currency		Foreign currency(1)				
	Non-linked	Linked to the consumer price index	U.S. dollar	Euro	Other	Non-monetary items(2)	Total
Assets							
Cash and deposits with banks	32,528	-	1,177	212	191	-	34,108
Securities	3,596	608	5,142	1,750	13	229	11,338
Securities which were borrowed	664	-	-	-	-	-	664
Credit to the public, net(3)	71,522	10,215	3,222	816	107	471	86,353
Credit to the government	56	620	-	-	-	-	676
Investee company	-	-	-	-	-	617	617
Premises and equipment	-	-	-	-	-	1,011	1,011
Intangible assets and goodwill	-	-	-	-	-	231	231
Assets in respect of derivative instruments	284	52	291	31	8	275	941
Other assets	726	1	12	4	-	301	1,044
Total assets	109,376	11,496	9,844	2,813	319	3,135	136,983
Liabilities							
Deposits from the public	88,649	5,857	16,225	3,052	1,093	473	115,349
Deposits from banks	772	-	238	50	4	-	1,064
Deposits from the Government	585	120	72	1	1	-	779
Bonds and subordinated capital notes	469	3,801	-	-	-	-	4,270
Liabilities in respect of derivative instruments	392	14	259	79	5	272	1,021
Other liabilities	5,379	157	74	4	7	341	5,962
Total liabilities	96,246	9,949	16,868	3,186	1,110	1,086	128,445
Difference	13,130	1,547	(7,024)	(373)	(791)	2,049	8,538
Non-hedging derivatives							
Derivative instruments (not including options)	(8,177)	93	6,542	702	840	-	-
Options in the money, net (in terms of underlying asset)	(118)	-	333	(216)	1	-	-
Options out of the money, net (in terms of underlying asset)	111	-	(8)	(104)	1	-	-
Total	4,946	1,640	(157)	9	51	2,049	8,538
Options in the money, net (present value of stated amount)	(167)	-	371	(207)	3	-	-
Options out of the money, net (present value of stated amount)	170	-	74	(249)	5	-	-

(1) Including linked to foreign currency.
(2) Including derivatives instruments which their underlying assets represent non-monetary item.
(3) After deduction of provisions for credit losses attributed to the linkage base.

NOTE 13 - ASSETS AND LIABILITIES ACCORDING TO LINKAGE BASES (CONT'D)

(NIS million)

	December 31, 2019 (audited)						
	Israeli currency		Foreign currency(1)				
	Non-linked	Linked to the consumer price index	U.S. dollar	Euro	Other	Non-monetary items(2)	Total
Assets							
Cash and deposits with banks	36,131	-	1,067	175	157	-	37,530
Securities	3,634	349	4,975	1,698	-	339	10,995
Securities which were borrowed	9	-	-	-	-	-	9
Credit to the public, net(3)	73,316	10,273	2,968	607	89	646	87,899
Credit to the government	415	624	-	-	-	-	1,039
Investee company	-	-	-	-	-	605	605
Premises and equipment	-	-	-	-	-	996	996
Intangible assets and goodwill	-	-	-	-	-	248	248
Assets in respect of derivative instruments	425	50	107	40	18	451	1,091
Other assets	649	4	10	1	-	34	698
Total assets	114,579	11,300	9,127	2,521	264	3,319	141,110
Liabilities							
Deposits from the public	94,780	5,315	15,124	3,059	1,126	648	120,052
Deposits from banks	885	-	225	18	9	-	1,137
Deposits from the Government	308	1	42	1	1	-	353
Bonds and subordinated capital notes	476	3,198	-	-	-	-	3,674
Liabilities in respect of derivative instruments	499	12	174	102	11	449	1,247
Other liabilities	5,536	75	32	4	1	75	5,723
Total liabilities	102,484	8,601	15,597	3,184	1,148	1,172	132,186
Difference	12,095	2,699	(6,470)	(663)	(884)	2,147	8,924
Non-hedging derivatives							
Derivative instruments (not including options)	(8,182)	81	6,346	842	913	-	-
Options in the money, net (in terms of underlying asset)	144	-	(7)	(137)	-	-	-
Options out of the money, net (in terms of underlying asset)	(98)	-	114	(16)	-	-	-
Total	3,959	2,780	(17)	26	29	2,147	8,924
Options in the money, net (present value of stated amount)	255	-	(32)	(223)	-	-	-
Options out of the money, net (present value of stated amount)	(1,103)	-	704	399	-	-	-

(1) Including linked to foreign currency.
(2) Including derivatives instruments which their underlying assets represent non-monetary item.
(3) After deduction of provisions for credit losses attributed to the linkage base.

NOTE 14A - BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS

(NIS million)

					March 31, 2020 (unaudited)
	Stated in the Balance Sheet				Fair value[1]
		(1)	(2)	(3)	Total
Financial assets					
Cash and deposits with banks	**41,933**	**707**	**41,222**	**5**	**41,934**
Securities[2]	**10,824**	**4,813**	**6,004**	**96**	**10,913**
Securities which were borrowed	**82**	**-**	**82**	**-**	**82**
Credit to the public, net	**90,028**	**2,399**	**298**	**87,540**	**90,237**
Credit to the government	**1,114**	**-**	**299**	**808**	**1,107**
Assets in respect of derivative instruments	**2,551**	**1,110**	**919**	**522**	**2,551**
Other financial assets	**240**	**78**	**-**	**162**	**240**
Total financial assets	[3]**146,772**	**9,107**	**48,824**	**89,133**	**147,064**
Financial liabilities					
Deposits from the public	**126,977**	**3,068**	**90,693**	**32,626**	**126,387**
Deposits from Banks	**1,129**	**-**	**1,118**	**15**	**1,133**
Deposits from the Government	**553**	**47**	**462**	**53**	**562**
Bonds and non-convertible subordinated capital notes	**3,754**	**3,560**	**-**	**103**	**3,663**
Liabilities in respect of derivative instruments	**2,586**	**1,120**	**1,450**	**16**	**2,586**
Other financing liabilities	**4,457**	**111**	**470**	**3,869**	**4,450**
Total financial liabilities	[3]**139,456**	**7,906**	**94,193**	**36,682**	**138,781**
Off balance sheet financial instruments					
Transaction were the balance represents credit risk	**33**	**-**	**-**	**33**	**33**
In addition, the liability in respect of employee rights, gross - pension and severance pay[4]	**784**	**-**	**-**	**784**	**784**

(1) Level 1 - fair value measurements using prices quoted in an active market.
Level 2 - fair value measurements using other significant observable data.
Level 3 - fair value measurements using significant unobservable data.

(2) For further details of the stated balance and the fair value of securities, see Note 5, "Securities".

(3) Of which: assets of NIS 13,714 million and liabilities of NIS 5,814 million, the stated balance of which is identical to their fair value (instruments reflected in the balance sheet at fair value). For further information regarding instruments measured at fair value on a recurring basis and on a non-recurring basis, see note 14B-14D.

(4) The liability in shown gross, without taking into account the plan assets managed against it.

NOTE 14A - BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONT'D)

(NIS million)

					March 31, 2019 (unaudited)
	Stated in the				Fair value[1]
	Balance Sheet	(1)	(2)	(3)	Total
Financial assets					
Cash and deposits with banks	34,108	729	33,388	11	34,128
Securities[2]	11,338	4,208	7,067	136	11,411
Securities which were borrowed	664	-	664	-	664
Credit to the public, net	86,353	3,580	284	82,852	86,716
Credit to the government	676	-	52	624	676
Assets in respect of derivative instruments	941	445	353	143	941
Other financial assets	556	312	-	244	556
Total financial assets	[3]134,636	9,274	41,808	84,010	135,092
Financial liabilities					
Deposits from the public	115,349	3,941	80,305	30,521	114,767
Deposits from Banks	1,064	-	1,052	17	1,069
Deposits from the Government	779	394	332	61	787
Bonds and non-convertible subordinated capital notes	4,270	3,919	-	459	4,378
Liabilities in respect of derivative instruments	1,021	465	542	14	1,021
Other financing liabilities	4,584	536	308	3,738	4,582
Total financial liabilities	[3]127,067	9,255	82,539	34,810	126,604
Off balance sheet financial instruments					
Transaction were the balance represents credit risk	35	-	-	35	35
In addition, the liability in respect of employee rights, gross - pension and severance pay[4]	1,046	-	-	1,046	1,046

(1) Level 1 - fair value measurements using prices quoted in an active market.
Level 2 - fair value measurements using other significant observable data.
Level 3 - fair value measurements using significant unobservable data.

(2) For further details of the stated balance and the fair value of securities, see Note 5, "Securities".

(3) Of which: assets of NIS 14,307 million and liabilities of NIS 5,894 million, the stated balance of which is identical to their fair value (instruments reflected in the balance sheet at fair value). For further information regarding instruments measured at fair value on a recurring basis and on a non-recurring basis, see note 14B-14D.

NOTE 14A - BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONT'D)

(NIS million)

	December 31, 2019 (audited)				
	Stated in the Balance Sheet				Fair value[1]
		(1)	(2)	(3)	Total
Financial assets					
Cash and deposits with banks	37,530	682	36,843	4	37,529
Securities[2]	10,995	4,249	6,768	102	11,119
Securities which were borrowed	9	-	9	-	9
Credit to the public, net	87,899	3,379	327	84,926	88,632
Credit to the government	1,039	-	35	1,001	1,036
Assets in respect of derivative instruments	1,091	539	359	193	1,091
Other financial assets	178	42	-	136	178
Total financial assets	[3]138,741	8,891	44,341	86,362	139,594
Financial liabilities					
Deposits from the public	120,052	4,032	84,362	31,463	119,857
Deposits from Banks	1,137	-	1,136	4	1,140
Deposits from the Government	353	-	306	55	361
Bonds and non-convertible subordinated capital notes	3,674	3,597	-	149	3,746
Liabilities in respect of derivative instruments	1,247	540	695	12	1,247
Other financing liabilities	4,315	47	471	3,794	4,312
Total financial liabilities	[3]130,778	8,216	86,970	35,477	130,663
Off balance sheet financial instruments					
Transaction were the balance represents credit risk	33	-	-	33	33
In addition, the liability in respect of employee rights, gross - pension and severance pay [4]	927	-	-	927	927

(1) Level 1 - fair value measurements using prices quoted in an active market.
Level 2 - fair value measurements using other significant observable data.
Level 3 - fair value measurements using significant unobservable data.

(2) For further details of the stated balance and the fair value of securities, see Note 5, "Securities".

(3) Of which: assets of NIS 13,330 million and liabilities of NIS 5,328 million, the stated balance of which is identical to their fair value (instruments reflected in the balance sheet at fair value). For further information regarding instruments measured at fair value on a recurring basis and on a non-recurring basis, see note 14B-14D.

(4) The liability in shown gross, without taking into account the plan assets managed against it.

NOTE 14A - BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONT'D)

(NIS million)

A. Fair value of financial instruments.

The Note includes information regarding the fair value of financial instruments. There is no quotable “market value” for most of the financial instruments of the Bank since they are not traded in an active market. Therefore, the fair value is derived by accepted pricing models, such as discounting future cash flows at interest rates reflecting the credit risk inherent in the financial instrument.

Determination of fair value, estimated by discounting future cash flows and determining the relative interest rates is subjective. Furthermore, the fair value estimations for most of the financial instruments does not necessarily indicate the realizable value on the reporting date. The estimated fair value was calculated according to interest rates prevailing on balance sheet date and does not consider interest rate fluctuations. Given other interest rate assumptions fair value estimates may differ materially. This is mainly the case where financial instruments have fixed interest rates or do not bear interest.

In addition, in determining fair value, commissions to be received or paid as a result of the said transactions and tax effects, in respect of the gap between the fair value and the balances at the balance sheet, were not taken into consideration.

Furthermore, the difference between the balance sheet and the fair value amounts may not be realized as the Bank may hold the instruments until maturity. As a result of all of these it is necessary to emphasize that the data included in this note does not reflect the net worth of the Bank as a going concern. Also, as a result of the wide range of possible estimation techniques and methods, care should be taken when comparing fair value of different banks.

(NIS million)

B. Principal methods and assumptions used for the calculation of the fair value estimates of financial instruments

Marketable securities - According to their value in the principal market. Where there are several markets on which the instrument is traded, the assessment is made according to the most beneficial market.

Credit to the public - The fair value of the credit to the public balance was estimated according to discounting the future cash flows in an appropriate discount rate. The balance was separated into homogenous categories. The receipts in each category were discounted at a discount rate which reflects the risk inherent in the category. In general, this discount rate is determined according to the interest at which the Bank transacts similar business at the reporting date.

The fair value of impaired debts is assessed using discount rates that reflect the high credit risk inherent in such debts.

Anticipated future cash flows in respect of impaired debts and other debts have been assessed after deducting the effect of accounting write-offs and of provisions for credit losses in respect of the debts.

Accounting write-offs and provisions for credit losses are attributed, where possible, to periods in which these debts had been classified (example: where the provision was assessed on a specific basis, by the present value of future cash flows). In the absence of such data, accounting write-offs and provisions for credit losses are attributed proportionally to the outstanding balance of credit according to maturity periods at end of the period.

Cash flows in respect of mortgages have been assessed according to the premature repayment forecast, which is based on a statistical model.

Deposits and subordinate capital notes - By discounting future cash flows according to interest rates used by the Group in raising similar deposits, or issuing similar capital notes (if a quoted price on an active market is not available) at reporting date. As regards bonds and subordinate debt notes that are traded as an asset on an active market, fair value is based upon quoted market prices or on traders' quotations regarding a similar liability traded as an asset on an active market.

Cashflows with respect to demand deposits (current accounts) were distributed based on statistical model for forecasting stable balances.

On March 31, 2020 an update to the model was performed, which caused an increase in the fair value in the amount of NIS 96 million.

Derivative financial instruments - Derivative financial instruments for which an active market exists have been estimated at market value, and where several active markets exist, have been estimated according to the most beneficial market.

Derivative financial instruments for which no active market exists have been calculated according to models which are used by the Group in current activity and take into account the inherent risks of the financial instrument (market risk, credit risk, etc.).

Off-balance sheet financial instruments and transactions the balance of which represents credit risk - the fair value has been assessed in accordance with commission earned in similar transactions at the reporting date, adjusted in respect of the remaining period of the transaction and the credit quality of the counterparty.

NOTE 14B - ITEMS MEASURED AT FAIR VALUE

(NIS million)

A. Items measured at fair value on a recurrent basis

	March 31, 2020 (unaudited)				
	Fair-value measurements using -				
	Prices quoted in an active market (level 1)	Other significant observable inputs (level 2)	Significant unobservable inputs (level 3)	Effect of netting agreements	Balance sheet balance
Assets					
Bonds available for sale	**2,539**	**5,721**	**-**	**-**	**8,260**
Shares not for trading	**198**	**-**	**-**	**-**	**198**
Trading Securities	**228**	**-**	**-**	**-**	**228**
Assets in respect of derivative instruments	**1,110**	**919**	**522**	**-**	**2,551**
Others	**2,477**	**-**	**-**	**-**	**2,477**
Total assets	**6,552**	**6,640**	**522**	**-**	**13,714**
Liabilities					
Liabilities in respect of derivative instruments	**1,120**	**1,452**	**16**	**-**	**2,588**
Others	**3,226**	**-**	**-**	**-**	**3,226**
Total liabilities	**4,346**	**1,452**	**16**	**-**	**5,814**

	March 31, 2019 (unaudited)				
	Fair-value measurements using -				
	Prices quoted in an active market (level 1)	Other significant observable inputs (level 2)	Significant unobservable inputs (level 3)	Effect of netting agreements	Balance sheet balance
Assets					
Bonds available for sale	2,370	6,790	-	-	9,160
Shares not for trading	87	-	-	-	87
Trading Securities	223	4	-	-	227
Assets in respect of derivative instruments	445	353	143	-	941
Others	3,892	-	-	-	3,892
Total assets	7,017	7,147	143	-	14,307
Liabilities					
Liabilities in respect of derivative instruments	465	545	14	-	1,024
Others	4,870	-	-	-	4,870
Total liabilities	5,335	545	14	-	5,894

	December 31, 2019 (audited)				
	Fair-value measurements using -				
	Prices quoted in an active market (level 1)	Other significant observable inputs (level 2)	Significant unobservable inputs (level 3)	Effect of netting agreements	Balance sheet balance
Assets					
Bonds available for sale	2,033	6,470	-	-	8,503
Shares not for trading	210	-	-	-	210
Trading Securities	105	-	-	-	105
Assets in respect of derivative instruments	539	359	193	-	1,091
Others	3,421	-	-	-	3,421
Total assets	6,308	6,829	193	-	13,330
Liabilities					
Liabilities in respect of derivative instruments	540	697	12	-	1,249
Others	4,079	-	-	-	4,079
Total liabilities	4,619	697	12	-	5,328

NOTE 14B - ITEMS MEASURED AT FAIR VALUE (CONT'D)

(NIS million)

B. Items measured at fair value on a non-recurrent basis

	March 31, 2020 (unaudited)				
	Level 1	Level 2	Level 3	Total fair value	Total profit (loss) for the three months ended March 31, 2020
Investment in shares	**-**	**25**	**-**	**25**	**(1)**
Impaired credit the collection of which is contingent on collateral	**-**	**-**	**34**	**34**	**(1)**

	March 31, 2019 (unaudited)				
	Level 1	Level 2	Level 3	Total fair value	Total profit (loss) for the three months ended March 31, 2019
Impaired credit the collection of which is contingent on collateral	-	-	47	47	(1)

	December 31, 2019 (audited)				
	Level 1	Level 2	Level 3	Total fair value	Total profit (loss) for the year ended December 31, 2019
Investment in shares	-	27	-	27	2
Impaired credit the collection of which is contingent on collateral	-	-	35	35	(13)

NOTE 14C - CHANGES IN ITEMS MEASURED AT FAIR VALUE ON A RECURRENT BASIS INCLUDED IN LEVEL 3

(NIS million)

	For the three months ended March 31, 2020 (unaudited)							
	Fair value as at December 31, 2019	Profits (losses) realized and unrealized Included in the profit and loss statement (1)	Purchases	Payments	Transfers to level 3, gross	Transfer from level 3, gross	Fair value as at March 31, 2020	Unrealized profits (losses) in respect of instruments held as at March 31, 2020
Assets								
Assets in respect of derivative instruments	**193**	**875**	**18**	**(564)**	**-**	**-**	**522**	**372**
Liabilities								
Liabilities in respect of derivative instruments	**12**	**(4)**	**-**	**-**	**-**	**-**	**16**	**(4)**

	For the three months ended March 31, 2019 (unaudited)							
	Fair value as at December 31, 2018	Profits (losses) realized and unrealized Included in the profit and loss statement (1)	Purchases	Payments	Transfers to level 3, gross	Transfer from level 3, gross	Fair value as at March 31, 2019	Unrealized profits (losses) in respect of instruments held as at March 31, 2019
Assets								
Assets in respect of derivative instruments	252	92	17	(218)	-	-	143	7
Liabilities								
Liabilities in respect of derivative instruments	13	(1)	-	-	-	-	14	(1)

	For the year ended December 31, 2019 (unaudited)							
	Fair value as at December 31, 2018	Profits (losses) realized and unrealized Included in the profit and loss statement (1)	Purchases	Payments	Transfers to level 3, gross	Transfer from level 3, gross	Fair value as at December 31, 2019	Unrealized profits (losses) in respect of instruments held as at December 31, 2019
Assets								
Assets in respect of derivative instruments	252	766	68	(893)	-	-	193	75
Liabilities								
Liabilities in respect of derivative instruments	13	(1)	-	(2)	-	-	12	-

(1) Realized profits (losses) are included in the profit and loss statement in the item non interest financing income.

NOTE 14D - QUANTITATIVE INFORMATION ON ITEMS MEASURED AT FAIR VALUE INCLUDED IN LEVEL 3

	As of March 31, 2020 (unaudited)				
	Value Assessment technique	Unobservable inputs	Fair value	Average	Range
			(NIS million)		in %
A. Items measured at fair value on a recurrent basis					
Assets					
Assets in respect of derivative instruments:					
Interest rate contract: NIS-CPI	Discounted cash flow	CPI linked interest	**7**	**(0.06)**	**(0.09)-0.03**
Interest rate contract: other	Discounted cash flow	Counter-party credit risk	**8**	**1.49**	**1.30-1.55**
Foreign currency contracts	Discounted cash flow	1. CPI-linked interest	**44**	**(0.51)**	**(1.40) -(0.44)**
		2. Counter-party credit risk	**463**	**1.17**	**0.90-4.94**
Liabilities					
Liabilities in respect of derivative instruments:					
Interest rate contract: NIS-CPI	Discounted cash flow	CPI-linked interest	**6**	**(0.06)**	**(0.09)-0.03**
Foreign currency contracts	Discounted cash flow	CPI-linked interest	**10**	**(0.63)**	**(0.90) -(0.44)**
B. Items measured at fair value on a non-recurrent basis					
Impaired credit the collection of which is contingent on collateral	Collaterals value		**34**		

	As of March 31, 2019 (unaudited)				
	Value Assessment technique	Unobservable inputs	Fair value	Average	Range
			(NIS million)		in %
A. Items measured at fair value on a recurrent basis					
Assets					
Assets in respect of derivative instruments:					
Interest rate contract: NIS-CPI	Discounted cash flow	CPI linked interest	2	(0.90)	(4.15) -(0.63)
Interest rate contract: other	Discounted cash flow	Counter-party credit risk	10	1.45	1.10-1.75
Foreign currency contracts	Discounted cash flow	1. CPI-linked interest	50	(1.28)	(5.50) -(0.63)
		2. Counter-party credit risk	81	1.32	0.90-4.72
Liabilities					
Liabilities in respect of derivative instruments:					
Interest rate contract: NIS-CPI	Discounted cash flow	CPI-linked interest	2	(0.83)	(0.89) -(0.63)
Foreign currency contracts	Discounted cash flow	CPI-linked interest	12	(1.42)	(5.31) -(0.63)
B. Items measured at fair value on a non-recurrent basis					
Impaired credit the collection of which is contingent on collateral	Collaterals value		47		

NOTE 14D - QUANTITATIVE INFORMATION ON ITEMS MEASURED AT FAIR VALUE INCLUDED IN LEVEL 3 (CONT'D)

	As of December 31, 2019 (audited)				
	Value Assessment technique	Unobservable inputs	Fair value	Average	Range
			(NIS million)		in %
A. Items measured at fair value on a recurrent basis					
Assets					
Assets in respect of derivative instruments:					
Interest rate contract: NIS-CPI	Discounted cash flow	CPI linked interest	1	(1.06)	(1.13) -(0.85)
Interest rate contract: other	Discounted cash flow	Counter-party credit risk	16	1.44	1.30-1.55
Foreign currency contracts	Discounted cash flow	1. CPI-linked interest	50	(1.16)	(1.49) -(0.60)
		2. Counter-party credit risk	126	1.45	0.90-5.00
Liabilities					
Liabilities in respect of derivative instruments:					
Interest rate contract: NIS-CPI	Discounted cash flow	CPI-linked interest	-	(1.06)	(1.13) -(0.86)
Foreign currency contracts	Discounted cash flow	CPI-linked interest	12	(1.29)	(1.49) -(1.14)
B. Items measured at fair value on a non-recurrent basis					
Impaired credit the collection of which is contingent on collateral	Collaterals value		35		

Qualitative information in respect of items measured at fair value included in level 3

- Interest linked to the CPI- a change in the forecasted inflation rate will affect the fair value of CPI transaction, so an Increase (decrease) in the forecasted inflation rate will lead to an increase (decrease) in the fair value in accordance to the Bank's CPI position.
- Counter-party credit risk- a change in the credit risk of the counter-party to the transaction, so when the credit risk of the counter-party will be high/low, the value of the transaction will be high/low.

NOTE 15 - TAXES ON INCOME

In respect of the aforesaid in note 8 to the financial statements for 2019, after setteling the remained disagreement between the Bank and the Tax Authority, the Bank received in March 2020 final tax assessments for the years 2014- 2017. As a result, the Bank recorded in the current quarter tax income in respect of previous years in the amount of NIS 35 million.

NOTE 16 - EFFECT OF THE SPREADING OF THE CORONAVIRUS

The Coronavirus had spread at a fast pace around the world during the first quarter of 2020, and in response governments, including the Government of Israel, have adopted defensive measures, such as restrictions on passage between countries, isolation measures, reduction of human gatherings and traffic, lockup, restriction on operations of private businesses and of governmental and local services and more. The spreading of the virus and the said defensive measures result in material economic impairment and in negative trends in the global economy and the economy of Israel, as well as to harm being caused to the global and local capital markets. In response, governments and central banks around the world and in Israel are adopting diverse measures, including grants, loans, involvement in the capital markets, short-term reductions in interest rates, and more.

The spread of the virus led to a material adverse effect on the activity of the Israeli economy, to which the activity of the Bank is exposed, and which has existing and expected implications on the business of the Bank, including in respect of the increase in credit risk and in liquidity difficulties of borrowers, both in the business segment and in the private segment, and in respect of the slowdown in economic activity. Furthermore, the short-term lowering of the interest rates by the central banks, those that had been implemented already and additional lowering that may be announced, have an effect on the reduction in the future financing income and interest rates of the Bank. This, in addition to the decline in prices of marketable assets and changes in bond margins creating an adverse effect on the value of the marketable assets of the Bank, as well as other effects. From the operating standpoint and the business continuity standpoint the Bank adopted a series of processes and means, including distance working, dilution and/or split-up of units, changes in the format of operation of branches and activity regarding customers, deferral of mortgage and loan repayments, and more.

On background of the spreading of the Coronavirus and in order to ensure the ability of banks to continue and offer credit, the Supervisor of Banks reduced on March 31, 2020, the capital requirements of banks, within the framework of a Provisional Instruction for a period of six months with option for extension.

For additional details regarding the Directives of the Supervisor of Banks, capital adequacy goals and dividends, see Note 8, above.

In this quarter, following the spreading of the virus, the Bank recorded a growth in credit loss expenses in the amount of NIS 129 million. Most of the growth stems from the increase in scope of the collective provision in the amount of NIS 122 million, as well as in the increase in the specific provision of NIS 7 million.

In this respect, it is noted that, following the Coronavirus event, the Bank deferred on March 2020 loan repayments (principal and/or interest), which in accordance with Note 1C (3) above had not been classified as restructure of troubled debts, in the amount of NIS 86 million.

The reduction in prices of marketable assets, changes in interest graphs in Israel and abroad and in bond margins, have adversely affected the value of marketable assets of the Bank. During the quarter, the value of the equities portfolio of the Bank declined by NIS 41 million, and a decline of a nature other than temporary, in the amount of NIS 18 million, was recorded in the value of the available-for-sale bonds portfolio. In addition, an amount of NIS 161 million was recorded in other comprehensive loss in respect of available for sale bonds. On the other hand, an amount of NIS 89 million was recorded in other comprehensive profit, stemming mostly from the rise in the discounting rate used for the measurement of the actuarial liability of the Bank in respect of employee rights. As stated, it is not possible, at this stage, to estimate the full impact and scope of this event upon the Bank. This, due to the uncertainty as to the length of the spreading period of the virus, the steps taken to stop the spreading and their effectiveness, as well as uncertainty regarding the resulting implications on economic activity, trends in the capital market, and different fiscal measures that would be applied in this respect by governments, central banks and regulators.

LIST OF TABLES - CORPORATE GOVERNANCE

Corporate Governance, Additional Information and Appendix

CORPORATE GOVERNANCE

DISCLOSURE OF THE INTERNAL AUDITOR

Details regarding the Internal Auditor of the Bank (which also serves as the Internal Auditor in Massad Bank), including the working plan of the internal auditor department, conduct of the audit and the internal audit reports, were published in the annual financial statements for 2019.
The report of the internal audit for the year 2019 was discussed in the audit committee of the Bank on March 17, 2020.

MEETINGS OF THE BOARD OF DIRECTORS AND ITS COMMITTEES

During January-March 2020, the Bank's Board of Directors held 10 meetings in plenary session and 14 meetings of its various Board Committees.

TRANSACTIONS WITH INTERESTED PARTIES

a. Amendments to the Securities Regulations (Periodic and immediate reports), 1970 - Reporting of transactions with controling interests

No changes occurred during the reported period in the rules regarding the reporting of transactions with controlling interests, as detailed in the Chapter on corporate governance, transactions with interested parties, contained in the financial statements for the year 2018.

b. Determination of criteria regarding transactions of the Bank with interested parties

No changes occurred during the reported period in the said criteria, as detailed in the Chapter on corporate governance, transactions with interested parties, contained in the financial statements for the year 2018.

c. Transactions with controlling interests or where the controlling interests have a personal interest therein, which were approved during the reported year in accordance with Section 270(4) and/or 267A of the Companies Act (including framework transactions that are still in effect at date of reporting and transactions approved under the Companies Regulations (Relief for transactions with interested parties), 2000 (hereinafter - "the Relief Regulations"):

For details of the transactions see the Chapter on corporate governance, transactions with interested parties, contained in the financial statements for the year 2019.

d. Additional information on transactions with interested parties

Set out below is a collation of data concerning banking transactions that were conducted by the Bank and companies under its control with the controlling owners at the Bank (including their relatives and companies in which controlling owners at the Bank are interested parties), including data concerning transactions conforming to the criteria that were determined with respect to negligible transactions, contained in the financial statements for the year 2018 (NIS thousand):

Indebtedness	Credit	Investment in bonds	Fair value of derivatives	Total balance-sheet monetary indebtedness	Unutilized credit balance	Guarantees granted by Bank for securing credit to a controlling owner or to a party related thereto	Guarantees granted to Bank by controlling owner in favor of third party	Indebtedness of controlling owner in respect of transactions in derivatives	Total
									NIS thousand
Indebtedness of others(1)									
March 31, 2020	**157**	**-**	**-**	**157**	**503**	**-**	**-**	**-**	**660**
December 31, 2019	127	-	-	127	533	-	-	-	660

Deposits	March 31, 2020		December 31, 2019	
	Balance on balance-sheet date	Highest balance during period(3)	Balance on balance-sheet date	Highest balance during period(3)
		NIS thousand		NIS thousand
Deposits of others(1)	**2,687**	**3,745**	2,421	22,157

(1) Relatives of controlling shareholders of the Bank. As the term relative is defined in the Banking Law (licensing)-1981.
(2) On the basis of balances at the end of each day.

DETAILS OF THE OWNERS OF CONTROL IN THE BANK

FIBI Holdings Ltd. owns 48.34% of the issued share capital and voting rights in the Bank (a rate comprising the control core in accordance with the control permit granted by Bank of Israel). The controlling shareholders of FIBI are Mr. Zadik Bino and his children, Nessrs. Gil Bino, Hadar Bino-Shmueli and Daphna Bino-Or (hereinafter - "the Bino Family), Messrs. Michael and Helen Abeles and Messrs. Barry Lieberman, Casey Lieberman-Harris, Lee Lieberman and Joshua Lieberman (each of the said groups through corporations under their full control: Binohon Ltd., Instanz No. 2 Ltd. and Dolphin Energies Ltd.). The controlling shareholders are party to various arrangements concerning their holdings in FIBI, and indirectly, at the Bank, as detailed in the Chapter "Details regarding the stakeholders in the Bank" in the financial report for 2019.

In accordance with FIBI's reports as of March 31, 2020, the holdings of the controlling stakeholders in FIBI (in equity and voting) are as follows: Binohon – 28.54%, Instanz No. 2 Ltd. – 11.68% and Dolphin Energies Ltd - 11.68% (the holdings of all shareholders in FIBI comprise the control core in accordance with the control permit granted by Bank of Israel).

ADDITIONAL INFORMATION

LEGISLATION AND REGULATORY INITIATIVES

Following are summarized details of the provisions of laws and regulatory initiatives, which were published and/or entered into effect during the reported year, and which materially affect or might affect the operations of the Bank. The Bank is studying the overall significance of the said provisions and initiatives regarding the income and expenses of the Bank, as well as the long-term business and operating implications.

A part of the initiatives may have an adverse effect on the income of the Bank and/or its expenses. This effect cannot be quantified at this stage, due to dependence of different factors, including customer behavior, competitors' activity and additional regulatory changes, and, of course, the scope of effect of the Corona pandemic, while with respect to legislation not yet finalized, it is also not possible to assess whether it would be in fact be enacted and what would be its final content.

A PERIOD OF EMERGENCY – THE CORONAVIRUS CRISIS

Proper Conduct of Banking Business Directive No 250 – modifications to Proper Conduct of Banking Business Directives for the purpose of confronting the Coronavirus crisis (Provisional instructions)

The instruction was first published on March 19, 2020 (since updated several times) on background of the outbreak of the Coronavirus. It includes a series of mitigating instructions the aim of which was to allow banking corporations the required business flexibility in this period and provide assistance to households and businesses in the evolving exceptional circunstances. The Directive is in force until September 30, 2020, and the Supervisor of Banks, with approval of the Governor, may extend its validity for an additional period not to exceed six months ("the period of the provisional instruction"). In addition to that, specific relief has been granted regarding different matters, inter alia, with regards to certain reporting duties to the Supervisor in this period, to deferral of certain dates stated in Proper Conduct of Banking Business Directives, and to the deferral of dates of entry into effect of different instructions.

The modifications and proposed changes cover a considerable variety of subjects, which had changed and are changing frequently in accordance with needs arising from the confrontation with the crisis and its implications.

Presented hereunder are some of the principal mitigating instructions determined by the Provisional Instruction and/or by specific guidelines of the Supervisor of Banks:

- Reduced regulatory capital requirements by one percentage point for the period of the Provisional Instructions and thereafter, if relevant, banks would be required to present an outline for the gradual renewal of the capital accumulation, if eroded, over a period of two years (for details regarding this matter, see Note 8A(1) to the financial statements).
- Banking corporations have been instructed to review their dividend distribution policy and that for the acquisition of their own shares (for details regarding this matter, see Note 8D to the financial statements).
- Permitting banks to use electronic communication means for the holding of board of directors' meetings instead of personal appearance of members, as well as allowing the chairmen of the boards and their committees to determine dates and frequencies of meetings for discussion of required subjects at their discretion and taking into consideration developing risks, while mitigating the requirements for the minimum number of meetings stated in the instruction as well as the dates for approval and distribution of draft minutes of meetings.
- Increasing the maximum amount of credit allocated to the construction and real estate sector from 20% to 22% of total indebtedness of the public, which would remain in effect until the end of twenty-four months from date of expiry of the Provisional Instruction period, on condition that the rate of indebtedness should not exceed the rate existing at date of expiry of the Provisional Instruction period.

- It has been determined that the rate of branches open for business shall not be lower than the rate stated in the Instruction, and that the services provided by them would be cash withdrawals and the deposit of cash and checks only. Other services would be provided by appointment only and subject to their availability at the branch. The said rate has been updated from time to time, starting with 15% and reaching 50%, until the announcement of Bank of Israel on May 10, 2020, that all branches of the banking system would be open for business by May 13, 2020, providing all services that had been provided by them prior to the Corona crisis.
- Relief has been granted in the matter of management of credit facilities in current accounts, and the field of action of banks in treatment of deviations from such facilities has been widened, on background of expected cash flow difficulties of customers.
- Banks have been granted the possibility of approving residential loans not intended for the purchase of rights in real estate up to a financing level of 70%, subject to the declaration of the borrower that the loan is not intended to serve the purchase of an additional apartment, certain mitigating terms have been set at different dates with respect to the granting of residential loans (issue of letters of intension, settlement confirmations and notice of purchased on behalf of the bank in cases where the insurance policy presented does not agree with the requirements of the bank), mitigating terms have been set with respect to the ratio of repayment to income limitation, allowing banks to take into consideration, for the purpose of assessing income, subject to certain conditions, the average amount of income of the borrower in the three months prior to his being suspended on unpaid leave or being downgraded to a part-time employment, the bank having to determine a total limit regarding the volume of credit extended under these mitigating terms. It has been further determined that the additional capital requirement at the rate of one percentage point, shall not apply to residential loans approved as from March 19, 2020 and until the end of the provisional Instruction period.
- An extension was granted for submitting financial statements required of the extension of credit to borrowers in accordance with Proper Conduct of Banking Business directive o. 311.
- The documentation requirements upon a change in terms of an existing loan have been mitigated.
- Banks have been given the possibility to induce customers to join the online banking services by means of the online approach, as well as using the online banking channels to inform customers, who do not own a debit card, of the possibility of issuance of debit cards to them.
- The duty of recording conversations has been mitigated in certain circumstances, so that entering an online banking agreement, entering an agreement authorizing instructions by telephone, and the marketing of credit to retail customers may be documented using alternative means where recording is not possible.
- Relief has been granted regarding the manner of responding to customer complaints and to the delivery of notice regarding their right to object to the response. It was also determined that in exceptional circumstances, it would be possible to publish a notice to all customers with respect to the extension of the date and the reason for the delay, using online means.
- The definition of a "senior citizen" has been updated so that the minimum age for entitlement to priority in obtaining telephonic response has been reduced to 70 (instead of 75).
- The limit on the amount of a single check that may be deposited using the mobile phone has been raised from NIS 20 thousand to NIS 50 thousand.
- The period for responding to the request of a customer to close his account has been extended from five days to fourteen days from the date on which the customer had fulfilled the requirements determined by Proper Conduct of Banking Business Directive No. 432.
- It has been made possible for banks to receive instructions from customers to cancel authorization to charge an account, or an authorization for charging an account by telephone, subject to documentation of the conversation.
- It has been made possible to obtain a documented consent of the customer (including by telephone) to a debt arrangement.

- The requirement to conduct a security review, at least once every eighteen months, in respect of high-risk systems and online banking systems, has been deferred.
- Guidelines were issued on April 21, 2020, regarding "points of emphasis in reports to the public for the first quarter of 2020", including the possibility of deferring the publication of financial statements for one month, with a corresponding notice to the Supervisor of Banks.

The Securities Authority and the Capiatl Market Authority

A number of reliefs and relief proposals have been published, intended in principle to allow and/or ease the provision of services to customers by digital means, with no need for a personal meeting (including for the purpose of enrolling customers for investment consulting services and the initial charachterization of customer needs for the purpose of investment consulting; providing pension consulting) as well as deferral of dates (mostly for clarifying customer needs and for delivery of different reports required by law). In this respect, a Memorandum for Amendment of the Act has been published, proposing that a banking corporation would be permitted to provide pension consulting through the telephone or by digital means.

Emergency Regulations

In the matter of accessibility of financial services – Emergency Regulations (The new Corona virus) (Accessibility of financial services), 2020, were published on April 7, 2020, determining rules aimed at easing the signing of a debit card agreement. Relief in this respect was also determined in the Provisional Instruction by way of amendment of Proper Conduct of Banking Business Directive No. 411 regarding identification duty. In addition, the said Emergency regulations allow the issuance of debit cards also to customers who are subject to special limits in accordance with the Debt Execution Act.

The Emergency Regulations (Dishonored checks), 2020, published on March 22, 2020, included an additional declaration regarding a dangerous contagious dedease, to the definition of "Emergency period declaration" stated in the Dishonored Checks Act, thus empowering Bank of Israel to instruct banks to suspend limitations on customers and their bank accounts regarding dishonored checks due to lack of sufficient funds, during the period from March 4, 2020 and until June 22, 2020. Such an instruction was issued by Bank of Israel on March 23, 2020.

Different Regulators have, in view of the crisis, determined different procedures for conducting banking operations at a distance, this subject to arrangements approved, inter alia, by the Custodian General, the Registrar of Lands, the Registrar of Liens, the Registrar of Companies and the Commissioner of the Sales Act in accordance with the Sales Act (Apartments) (Securing the investment of purchasers of apartments), 1974.

It is noted, that special legal proceedings in emergency situations have been determined in respect of Courts of Law, and monthly payment dates applying to certain debtors have been deferred according to the announcements by the Official Receiver and the Commissioner of Insolvency Proceedings and Economic Recovery.

On background of of the crisis, releif has been granted with respect to reporting dates and handling dates for public complaints in accordance with the Credit Data Act, 2016, and clarifications have been published concerning the reporting by sources, including banking corporations, as to the relief granted for the repayment of loans, in accordance with the said Act.

BANKING

Payment Services Act, 2019

The Act, which was published on January 9, 2019, with the aim of creating comprehensive and uniform regulation in the matter of payment services and payment means, while providing consumer protection to customers, had been modified to technological developments and is also based on European regulation in this field. The Act replaces the Charge Cards Act, 1986, and it applies to different providers of services, including banks, credit card companies, clearing agents and payment applications, on physical and non-physical means of payment, and on a variety of payment services, including the issue of payment means, clearing of payment transactions and management of a payment account (for the payer or the beneficiary) as well as payment services within the framework of certain operations conducted in current accounts.
The principal issues regulated in the Act relate to instructions in the matter of a payment services contract, proper disclosure and forbiddance of misleading, a payment transaction, stopping the use of payment means, misuse of payment means, authorization for charging an account and the manner of executing payment orders. Also determined in the Act are criminal sanctions and monetary sanctions in respect of certain violations of its provisions and forbiddance of the subjecting of its provisions unless it is in favor of the customer (except for certain Sections regarding customers of a certain class). The Act applies also to payment means issued prior to its effective date, and states instructions for the amendment of existing payment services agreements. The Act takes effect one year after its date of publication ("the original date"), and the Minister of Justice has the authority to instruct deferral of the original date for up to one additional year.
On February 18, 2020, the effective date of the Act was deferred to October 14, 2020, with retroactive effect as from January 9, 2020 (the original date of entry into effect of the Act).

Proper Conduct of Banking Business Directive No. 359A - Outsourcing

The Directive, effective as from March 31, 2020 (with the possibility of earlier adoption) determines principles for the transfer to outsourcing, on a continuous basis, of material operations included in the line of business of the banking corporation in accordance with the Banking Act (Licensing), while minimizing exposure to potential risks. The Directive imposes duties in the matter on the Board of Directors, Management and the internal audit, and, inter alia, requires due diligence review of the provider of the service, regularizing the outsourcing by way of a written agreement and formation of a comprehensive program for the management of outsourcing risks as well as a business continuity plan. The Directive forbids the outsourcing of duties of the Board of Directors and senior Management, and states conditions for the outsourcing of decisions requiring discretion as regards different matters, including the opening or closing of customer accounts and underwriting activity regarding loans. The Directive also states terms for the outsourcing of an initiated approach to households offering credit and the possibility of banking corporations to engage brokers has been enlarged.
On April 7, 2020, an update was published deferring the initial application date of the Directive from March 31, 2020 to September 30, 2020, permitting the prior application thereof. The Bank has elected the earlier adoption of the contents of the Directive and it applies to it Since May 2020.

INCREASE IN COMPETITION

Amendment No. 27 to the Banking Act (Customer srvice) regarding the transfer of a customer between banks

The Amendment, which was published on March 22, 2018, as part of the Economic Program Act (Legislation amendments for the implementation of the economic policy for the 2019 budget year), 2018, require banks to allow the transfer of the financial activity of a customer from the bank, in which it is being conducted ("the bank of origin") to another bank ("the accepting bank") in an online, convenient, reliable and secured manner, with no charge to the customer in respect of such operation, and within seven business days from the date on which the bank of origin received from the accepting bank notice of approval of the customer's request.

The Governor of Bank of Israel, with the consent of the Minister of Finance, may determine that the said instructions shall not apply to certain banks (a bank having a low volume of operations, the value of its assets not exceeding 5% of the total assets of all banks, and also an online bank), or determine that the instructions shall apply at the end of a period to be determined by the Governor, or that they shall apply to such banks only as an accepting bank or as a bank of origin.

The Act takes effect at the end of three years from date of publication thereof (with the possibility of deferment for two additional periods of six months each).

In accordance with the draft Economic Program Regulations (Legislation amendments for the implementation of the economic policy for the 2019 budget year) (Deferral of application of Chapter "B"), 2020, it is proposed to defer the effective date of the Amendment by six months, to September 22, 2021.

Proper Conduct of Banking Business Directive No. 448 - the online transfer between banks of the financial activity of a customer, published on December 16, 2019, details the rules that the bank of origin and the accepting bank have to apply with respect to the handling of the request of a customer for the transfer of his account. The date of entry into effect of this Directive shall correspond to the the date of entry into effect of the said Amendment to the Banking Act (Customer service).

The Banking Rules (Customer service) (Transfer between banks of the financial activity of customers), which were published on December 17, 2019, state the classes of accounts and the classes of financial operations to which the said Amendment applies.

Proper Conduct of Banking Business Directive No. 368 - application in Israel of the open banking Standard

In accordance with the Increase in Competition and Decrease in Centralization in the Banking Market in Israel Act (Legislation amendments), 2017, a banking corporation is required, at the request of a customer, to enable a supplier of a cost comparison service to observe the financial information of that customer existing in the hands of a banking corporation. Concurrently with the formation process of the legislation required to enable the above requirement, Bank of Israel published this Directive on February 24, 2020, in view of the great importance it sees in the implementation of open banking and in its potential effect on financial services and on the way these are consumed by customers, and this, alongside the exposure of all players in the system and customers to many more risks. The Directive applies to banks and to credit card companies, and the infrastructure of open banking shall be open to third parties once the legislation in the matter is completed and the regulation would apply to them.

The Directive includes provisions in matters of corporate governance, in the manner in which the consent of the customer, as a source of information or as manager of a payment account, is obtained, rules regarding the level of service, principles for the management of data protection risk and cyber defense, duties applying to banks and to credit card companies choosing to provide services of information consumer or of payments initiator, the manner of treating approaches by customers and the reports required for supervision.

The effective date of the Directive has been deferred to March 31, 2021, on background of the Coronavirus event, except for the matter of delivery of information regarding charge cards, placing a one-time payment order in shekel and providing information regarding the status of a payment order, as stated, which effective date has been deferred to January 10, 2021; and in the matter of delivery of information regarding savings and deposit accounts, credit and securities, which effective date has been deferred to March 31, 2022.

THE CAPITAL MARKET

Terms of the General Permit under Section 49A of the Securities Act

The Securities Authority has published terms for a general permit under Section 49A of the Securities Act, 1968, which, when fulfilled, the Chairman of the Securities Authority may permit a person to offer securities trading services by means of a securities trading system operated by a stock exchange outside Israel, if he finds that no harm shall be caused by it to the interests of the investor public in Israel.

The permit shall be granted based upon a declaration of the person requesting the permit that he complies with the relevant terms for receiving a permit to offer the said services.

On March 31, 2020, the requested permit was granted to the Bank by the Chairperson of the Securities Authority, and the Bank is preparing in accordance therewith.

LEGAL PROCEEDINGS

With respect to material legal actions pending against the Bank and against its consolidated subsidiaries, see Note 9 to the financial statements.

THE RATING OF THE BANK BY RATING AGENCIES

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

- On June 26, 2019, Midrug raised the evaluation of the Bank's internal financial stability to aa2.il/stable outlook, the Bank's long-term deposits and the senior debt to Aaa.il/stable outlook rating, its subordinate debt notes to Aa1.il/stable outlook, its subordinate capital notes to Aa2.il(hyb)/stable outlook rating, and its subordinate debt notes with a loss absorption mechanism to Aa3.il (hyb)/stable outlook rating. The Bank's short-term deposits remained at the rating of P-1.il
- On April 27, 2020, S&P Maalot ratified the issuer rating of the Bank at ilAAA/Stable, its subordinate debt notes at ilAA+ and the rating of the subordinate debt notes with a loss absorption mechanism at ilAA-.
- On December 19, 2019, the international rating agency Moody's raised the rating of deposits with the Bank to "Prime-1/A2", and changed the rating outlook to "stable".

EMPLOYEE COMPENSATION POLICY

For disclosure in the matter of employees' compensation policy, see the document "Disclosure according to Pillar III of Basel and additional information regarding risk" for the year 2019, available for perusal on the Internet.

INVOLVEMENT AND CONTRIBUTION TO THE COMMUNITY

The Bank continues to act in three central areas within the framework of the flagship program "Believing in you" with the aim of enlarging the field of voluntary activity among its employees, while creating social involvement with added value.

- Children and youth in risk situation - activity focuses on youth in risk situations who were expelled from different programs, with a view of providing them with the possibility of changing direction and live a normative life in the Israeli society. As part of the program, youth are being integrated into business ventures and different programs that combine study with work and promotion of business entrepreneurship with the help of development of qualifications and skills, while creating social involvement with added value, such as enterprises created by the Bank with different associations and diverse activities of employees with youths in risk situation:

  Unistream - Activity and training of young persons from social and geographic peripheral areas for integration into the business and entrepreneurship world alongside social responsibility, leadership and empowerment of youth. The program also uses tools belonging to the financial education world. The Bank adopts several groups and concurrently participate in events and activity of the association all over the country.

  Fidel - An enterprise for the education and social integration of youth belonging to the Ethiopian community. The program provides educational and social tools for strengthening the feeling of identity and relationship and the learning excellence and leadership capabilities.

  Fathers and sons on the field - father and sons teams creating a joint, exciting and significant meeting by means of a football game, in order to strengthen the bond and communication between them, for the creation of solidness and prevention of risky behavior, encouragement of sport activities and a healthy way of life.
- Female business entrepreneurship - involvement and accompaniment of learning groups for business entrepreneurship for women, while concentrating on enrichment and provision of tools in various subjects, such as: financial awareness, business entrepreneurship, management and excellence skills, and through personal support, tutoring and adoption of groups in various frames. The Bank operates with several associations in the field, including seminars and enrichment.
- Specific activity among special populations and sectors - the Bank encourages and supports volunteers from among Bank employees, interested in taking part in the project and contribute from their time, experience and expertise, in favor of needy populations and additional sectors. In this framework, the Bank and its subsidiary companies contribute to different associations and organizations in favor of assistance to populations coming from social and geographic peripheral areas, by cooperating in joint study, digital financial education, volunteering, assistance regarding food packages, language studies and rehabilitating social activity.

APPENDIX

APPENDIX 1 -
RATES OF INTEREST INCOME AND EXPENSES AND ANALYSIS OF CHANGES IN INTEREST INCOME AND EXPENSES

A. Average balances and interest rates - assets

	For the three months ended March 31, 2020			For the three months ended March 31, 2019		
	Average balance(1)	Interest income	Rate of income	Average balance(1)	Interest income (expense)	Rate of income (expense)
		NIS million	%		NIS million	%
Assets bearing interest						
Credit to the public(2)(5)						
- In Israel	**82,706**	**660**	**3.23**	79,122	653	3.34
Total	**82,706**	**660**	**3.23**	79,122	653	3.34
Credit to the Government						
- In Israel	**856**	**(3)**	**(1.39)**	674	(2)	(1.18)
Total	**856**	**(3)**	**(1.39)**	674	(2)	(1.18)
Deposits with banks						
- In Israel	**2,224**	**3**	**0.54**	2,271	7	1.24
- Outside Israel	**28**	**-**	**-**	14	-	-
Total	**2,252**	**3**	**0.53**	2,285	7	1.23
Deposits with central banks						
- In Israel	**28,671**	**18**	**0.25**	25,022	16	0.25
Total	**28,671**	**18**	**0.25**	25,022	16	0.25
Securities borrowed						
- In Israel	**32**	**-**	**-**	819	-	-
Total	**32**	**-**	**-**	819	-	-
Held to maturity and available for sale bonds(3)						
- In Israel	**10,264**	**37**	**1.45**	11,468	53	1.86
Total	**10,264**	**37**	**1.45**	11,468	53	1.86
Trading bonds						
- In Israel	**140**	**-**	**-**	380	-	-
Total	**140**	**-**	**-**	380	-	-
Total assets bearing interest	**124,921**	**715**	**2.31**	119,770	727	2.45
Debtors regarding credit cards non-bearing interest	**2,763**			2,670		
Other assets non-bearing interest(4)	**12,457**			13,169		
Total assets	**140,141**			135,609		
Total assets bearing interest attributed to activity outside Israel	**28**	**-**	**-**	14	-	-

APPENDIX 1 - RATES OF INTEREST INCOME AND EXPENSES AND ANALYSIS OF CHANGES IN INTEREST INCOME AND EXPENSES (CONT'D)

B. Average balances and interest rates - liabilities and capital

	For the three months ended March 31, 2020			For the three months ended March 31, 2019		
	Average balance (1)	Interest expense	Rate of expense	Average balance (1)	Interest expense	Rate of expense
		NIS million	%		NIS million	%
Liabilities bearing interest						
Deposits from the public						
- In Israel						
Demand	**17,801**	**5**	**0.11**	17,337	7	0.16
Fixed-term	**49,133**	**55**	**0.45**	44,944	67	0.60
Total	**66,934**	**60**	**0.36**	62,281	74	0.48
Deposits from the Government						
- In Israel	**163**	**1**	**2.48**	237	1	1.70
Total	**163**	**1**	**2.48**	237	1	1.70
Deposits from banks						
- In Israel	**952**	**1**	**0.42**	910	1	0.44
Total	**952**	**1**	**0.42**	910	1	0.44
Bonds						
- In Israel	**3,767**	**(5)**	**(0.53)**	4,573	15	1.32
Total	**3,767**	**(5)**	**(0.53)**	4,573	15	1.32
Other liabilities						
- In Israel	**19**	**-**	**-**	239	1	1.68
Total	**19**	**-**	**-**	239	1	1.68
Total liabilities bearing interest	**71,835**	**57**	**0.32**	68,240	92	0.54
Deposits from the public non-bearing interest	**52,965**			50,447		
Creditors in respect of credit cards non-bearing interest	**2,580**			2,628		
Other liabilities non-bearing interest (6)	**3,826**			5,841		
Total liabilities	**131,206**			127,156		
Total capital resources	**8,935**			8,453		
Total liabilities and capital resources	**140,141**			135,609		
Interest spread			**1.99**			1.91
Net return on assets bearing interest (7)						
- In Israel	**124,893**	**658**	**2.12**	119,756	635	2.14
- Outside Israel	**28**	**-**	**-**	14	-	-
Total	**124,921**	**658**	**2.12**	119,770	635	2.14
Total liabilities bearing interest attributed to activity outside Israel	**-**	**-**	**-**	-	-	-

APPENDIX 1 -
RATES OF INTEREST INCOME AND EXPENSES AND ANALYSIS OF CHANGES IN INTEREST INCOME AND EXPENSES (CONT'D)

C. Average balances and income rates - additional information on interest bearing assets and liabilities attributed to activity in Israel

	For the three months ended March 31, 2020			For the three months ended March 31, 2019		
	Average balance(1)	Income (expense) interest	Income (expense) ratio	Average balance (1)	Income (expense) interest	Income (expense) ratio
		NIS million	%		NIS million	%
Non-linked Israeli currency						
Total assets bearing interest	**102,663**	**625**	**2.46**	96,422	601	2.52
Total liabilities bearing interest	**55,674**	**(40)**	**(0.29)**	50,615	(36)	(0.28)
Interest spread			**2.17**			2.24
Israeli currency linked to the CPI						
Total assets bearing interest	**10,296**	**27**	**1.05**	10,766	42	1.57
Total liabilities bearing interest	**7,296**	**10**	**0.55**	9,424	(16)	(0.68)
Interest spread			**1.60**			0.89
Foreign currency (including linked to f-c)						
Total assets bearing interest	**11,934**	**63**	**2.13**	12,568	84	2.70
Total liabilities bearing interest	**8,865**	**(27)**	**(1.22)**	8,201	(40)	(1.97)
Interest spread			**0.91**			0.73
Total activity in Israel						
Total assets bearing interest	**124,893**	**715**	**2.31**	119,756	727	2.45
Total liabilities bearing interest	**71,835**	**(57)**	**(0.32)**	68,240	(92)	(0.54)
Interest spread			**1.99**			1.91

APPENDIX 1 -
RATES OF INTEREST INCOME AND EXPENSES AND ANALYSIS OF CHANGES IN INTEREST INCOME AND EXPENSES (CONT'D)

D. Analysis of changes in interest income and expenses

	For the three months ended March 31, 2020 compared with the same period last year		
	Increase (decrease) due to the change		
	Quantity	Price	Net change
			NIS million
Interest bearing assets			
Credit to the public			
- In Israel	**29**	**(22)**	**7**
Total	**29**	**(22)**	**7**
Other interest-bearing assets			
- In Israel	**2**	**(21)**	**(19)**
Total	**2**	**(21)**	**(19)**
Total interest income	**31**	**(43)**	**(12)**
Interest bearing liabilities			
Deposits from the public			
- In Israel			
Demand	**-**	**(2)**	**(2)**
Fixed-term	**5**	**(17)**	**(12)**
Total	**5**	**(19)**	**(14)**
Other interest-bearing liabilities			
- In Israel	**1**	**(22)**	**(21)**
Total	**1**	**(22)**	**(21)**
Total interest expenses	**6**	**(41)**	**(35)**
Total interest income less interest expenses	**25**	**(2)**	**23**

NOTES:
(1) On the basis of monthly opening balances, excluding the non-linked Shekel segment in which calculated on daily balances.
(2) Before deduction of the average balance of provisions for credit losses including impaired debts which are non-bearing interest income.
(3) From the average balance of available for sale bonds was deducted the average balance of unrealized gains from adjustments to fair value of bonds, included in other comprehensive profit in the item "adjustments to fair value of available for sale securities" for the three months ended on March 31, 2020 in the amount of NIS 48 million, (for the three months ended March 31, 2019 balance of NIS 17 million, was deducted).
(4) Including derivative instruments, other non-bearing interest assets and after deduction of provision for credit losses.
(5) Fees in the amount of NIS 51 million and NIS 45 million were included in interest income for the three months ended March 31, 2020 and March 31, 2019, respectively.
(6) Including derivative instruments.
(7) Net return- net interest income to total interest bearing assets.
(8) Change attributed to quantity was calculated by multiplying the price in the reported period by the change in the quantity in the compared periods.
Change attributed to price was calculated by multiplying the quantity in the previous period by the change in the price in the compared periods.