



Oded Eran, who served as Chairman of the Board at the Bank for the last three and a half years, passed away in June.

Oded was one of the leading attorneys in Israel, and was one of the most influential people in the Israeli business community.

Oded's contribution to the advancement of the business activities of the Bank and of its community and social action was immense.

Beyond his extensive activities in the business realm, we will remember Oded, at heart, as a man of justice, values, and law, with rare intelligence, insight, and integrity – but most of all, as a leader, whose constant inspiration and highest priority was social action and contribution to the community.

His door was always open to listen, advise, help, and contribute; there was a place in his heart for every employee, for each initiative, and for any person.

We will cherish the memory of Oded, and we will continue to be inspired by his values and his way of life.

May his memory be a blessing.

Bank Hapoalim

Condensed Quarterly Financial Statements
as at June 30, 2020



**Q2
20**

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This is a translation of the Hebrew report and has been prepared for convenience only.
In case of any discrepancy, the Hebrew version will prevail.

Bank Hapoalim

Report of the Board of Directors
and Board of Management
as at June 30, 2020



**Q2
20**

Report of the Board of Directors and Board of Management

as at June 30, 2020

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1. General review, objectives, and strategy

At the meeting of the Board of Directors held on August 12, 2020, it was resolved to approve and publish the unaudited consolidated financial statements of Bank Hapoalim B.M. and its consolidated subsidiaries as at June 30, 2020.

1.1. Forward-looking information

Some of the information in these reports that does not refer to historical facts (even if it is based on processing of historical data) constitutes forward-looking information, as defined in the Securities Law, 1968. The actual results of the Bank may differ materially from those included in forward-looking information, including, among other factors, as a result of changes in capital markets in Israel and globally, macro-economic changes, changes in geopolitical conditions, regulatory changes, accounting changes, changes in taxation rules, and other changes not under the Bank's control, which may lead to the failure of estimates to materialize and/or to changes in the Bank's business plans. Forward-looking information is marked by words or phrases such as "forecast," "plan," "objective," "risk estimate," "scenario," "stress scenario," "risk assessment," "correlation," "distribution," "we believe," "expect," "predict," "estimate," "intends," "plans," "aims," "may change," "should," "can," "will," or similar expressions. Such forward-looking expressions involve risk and uncertainty, because they are based on management's estimates regarding future events, which include changes in the following parameters, among others: economic conditions, public tastes, interest rates in Israel and overseas, inflation rates, new legislation and regulation in the area of banking and the capital market, exposure to financial risks, the financial stability of borrowers, the behavior of competitors, aspects related to the Bank's image, technological developments, manpower-related matters, and other areas that affect the activity of the Bank and the environment in which it operates, the materialization of which is uncertain by nature.

This information reflects the Bank's current viewpoint with regard to future events, which is based on estimates, and is therefore subject to risks and uncertainty, as well as to the possibility that expected events or developments may not materialize at all or may only partially materialize, or even that actual developments may be the opposite of expectations.

The information presented below is based, among other things, on information known to the Bank and based, among other things, on publications by various entities, such as the Central Bureau of Statistics, the Ministry of Finance, the Bank of Israel, the Ministry of Construction and Housing, and other entities that publish data and estimates regarding the Israeli and global capital markets.

1.2. Condensed financial information

As detailed below, the financial results in the first half of 2020 were primarily influenced by the spread of the coronavirus, which caused sharp contraction of global economic activity, worsening of the condition of the economy and of borrowers, and increased volatility in the markets, among other effects.

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Table 1-1: Condensed financial information and principal performance indicators over time

	For the three months ended		For the six months ended		For the year ended December 31 2019
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019	
Main performance indicators					
Return of net profit on equity attributed to shareholders of the Bank ⁽¹⁾	1.41%	9.26%	1.72%	9.01%	4.62%
Return of net profit on equity attributed to shareholders of the Bank excluding extraordinary items ⁽¹⁾⁽²⁾	1.71%	8.48%	2.51%	8.63%	7.13%
Return of net profit from continued operations on equity attributed to shareholders of the Bank ⁽¹⁾	1.41%	7.61%	2.30%	7.70%	3.86%
Return of net profit from continued operations on equity attributed to shareholders of the Bank excluding extraordinary items ⁽¹⁾⁽³⁾	1.71%	8.33%	2.51%	8.06%	6.72%
Return on average assets ⁽¹⁾	0.11%	0.77%	0.14%	0.74%	0.39%
Ratio of income to average assets	0.48%	0.58%	1.01%	1.09%	2.17%
Efficiency ratio – cost-income ratio from continued operations	57.89%	57.49%	57.24%	58.32%	66.44%
Efficiency ratio – cost-income ratio excluding extraordinary items from continued operations ⁽³⁾	57.39%	55.46%	56.80%	57.26%	58.13%
Financing margin from regular activity ⁽¹⁾⁽⁴⁾	1.96%	2.39%	2.11%	2.31%	2.26%
Liquidity coverage ratio ⁽⁵⁾	131%	127%	131%	127%	121%
As at June 30					
	2020	2019			December 31
Ratio of common equity Tier 1 capital to risk components ⁽⁶⁾	11.23%	11.97%			11.53%
Ratio of total capital to risk components ⁽⁶⁾	14.23%	15.27%			14.64%
Leverage ratio ⁽⁶⁾	6.97%	7.94%			7.61%

- (1) Calculated on an annualized basis.
 - (2) Does not include expenses in respect of the update of the provision in connection with the investigation of the Bank Group's business with American customers and FIFA, the effect of the closure of the private-banking activity overseas, net profit or loss from the separation from Isracard, and loss from impairment in respect of the Bank's investment in Bank Pozitif.
 - (3) Does not include expenses in respect of the update of the provision in connection with the investigation of the Bank Group's business with American customers and FIFA, the effect of the closure of the private-banking activity overseas, and loss from impairment in respect of the Bank's investment in Bank Pozitif.
 - (4) Financing profit from regular activity (see [the Report of the Board of Directors and Board of Management, in the section "Material developments in income, expenses, and other comprehensive income"](#)) divided by total financial assets after allowance for credit losses, net of non-interest bearing balances in respect of credit cards.
 - (5) For additional information, see [the section "Liquidity and refinancing risk,"](#) below.
 - (6) For additional information, see [the section "Capital, capital adequacy, and leverage,"](#) below.

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Table 1-1: Condensed financial information and principal performance indicators over time (continued)

	For the three months ended		For the six months ended		For the year ended December 31
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019	2019
Main credit quality indicators					
Allowance for credit losses as a percentage of credit to the public					
	2.00%	1.37%	2.00%	1.37%	1.58%
Impaired debts and debts in arrears of 90 days or more as a percentage of credit to the public	1.70%	1.30%	1.70%	1.30%	1.80%
Net charge-offs as a percentage of average credit to the public ⁽¹⁾	0.32%	0.13%	0.29%	0.15%	0.12%
Provision for credit losses as a percentage of average credit to the public ⁽¹⁾	1.49%	0.44%	1.30%	0.30%	0.44%
NIS millions					
Main profit and loss data					
Net profit attributed to shareholders of the Bank	133	871	325	1,692	1,799
Net profit attributed to shareholders of the Bank excluding extraordinary items ⁽²⁾	161	800	474	1,621	2,778
Net profit from continued operations attributed to shareholders of the Bank	133	720	434	1,450	1,503
Net profit from continued operations attributed to shareholders of the Bank excluding extraordinary items ⁽³⁾	161	786	474	1,516	2,619
Net interest income	2,166	2,466	4,358	4,743	9,319
Provision for credit losses	1,128	319	1,937	440	1,276
Net financing profit*	2,359	2,632	4,857	4,998	9,878
Non-interest income	988	999	2,179	1,891	3,889
Of which: fees	746	804	1,609	1,589	3,240
Operating and other expenses	1,826	1,992	3,742	3,869	8,776
Of which: salaries and related expenses	963	**1,035	1,925	**2,086	**4,108
Total income	3,154	3,465	6,537	6,634	13,208
Net earnings per ordinary share (in NIS)					
Net profit attributed to shareholders of the Bank	0.10	0.65	0.24	1.27	1.13

* Net financing profit includes net interest income and non-interest financing income (expenses).

** Reclassified.

(1) Calculated on an annualized basis.

(2) Does not include expenses in respect of the update of the provision in connection with the investigation of the Bank Group's business with American customers and FIFA, the effect of the closure of the private-banking activity overseas, net profit or loss from the separation from Isracard, and loss from impairment in respect of the Bank's investment in Bank Pozitif.

(3) Does not include expenses in respect of the update of the provision in connection with the investigation of the Bank Group's business with American customers and FIFA, the effect of the closure of the private-banking activity overseas, and loss from impairment in respect of the Bank's investment in Bank Pozitif.

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Table 1-1: Condensed financial information and principal performance indicators over time (continued)

	June 30		December 31	
	2020	2019	2019	
	NIS millions			
Main balance sheet data				
Total assets	499,280	454,247	463,688	
Of which: Cash and deposits with banks	113,033	72,913	88,122	
Securities	66,513	71,116	59,486	
Net credit to the public	293,700	288,623	292,940	
Net problematic credit risk	8,513	7,549	8,787	
Net impaired balance sheet debts	2,691	2,205	3,034	
Credit to the public not accruing interest income (NPL)	3,570	2,376	3,867	
Total liabilities	461,226	414,698	425,467	
Of which: Deposits from the public	400,816	352,112	361,645	
Deposits from banks	3,418	3,034	3,520	
Bonds and subordinated notes	25,196	30,080	26,853	
Shareholders' equity	38,024	39,503	38,181	
Additional data				
Share price at end of period (in NIS)	20.6	26.4	28.7	
		For the three months ended	For the six months ended	For the year ended December 31
		June 30, 2020	June 30, 2019	June 30, 2020
				June 30, 2019
Total dividend per share (in agorot)*	-	-	**53.94	-
Ratio of fees to average assets	0.15%	0.18%	0.34%	0.35%
				0.71%

* According to the date of declaration.

** Paid as a dividend in kind, in shares; calculated based on the value of Isracard shares on March 8, 2020 (NIS 1091).

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1.3. Condensed description of the principal risks to which the Bank is exposed

The Bank performs comprehensive examinations to assess the risks to which it is exposed and to estimate the materiality of such risks. Within the ICAAP (the Internal Capital Adequacy Assessment Process), the Bank defined the following risks as material risks: credit risk, concentration risk, market risk, investment risk, operational risk (including IT risk and cyber risk), counterparty risk, interest-rate risk in the banking book, liquidity risk, reputational risk, strategic and competitive risk, regulatory risk, and compliance risk. Other risks to which the Bank is exposed are handled directly as part of the management of its business: legal risk, economic risk, and environmental risk. The spread of the coronavirus is an event with material macro-economic implications, affecting the ways in which the Bank works as well as the potential for materialization of various risks, including credit risk, market risks, and operational risk. At this stage, there is uncertainty regarding the duration of the event and its future impacts on the activity of the global economy, the local economy, the customers of the Bank, and the Bank itself. For additional information, see [the section "Effect of the spread of the coronavirus"](#) and [the section "Review of risks," below](#); [the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at June 30, 2020](#); and [the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2019](#).

1.4. Objectives and business strategy

In late 2019, the Board of Management and Board of Directors of the Bank approved updates to the strategic plan; within this process, the objectives and business strategy for 2020-2022 were established. The objectives and business strategy were determined based on an examination of changes in the global economy, changes in the business environment in Israel, regulatory processes, and the intensification of the competitive environment in which the Bank operates, in all areas of its activity.

The strategic plan has been updated according to the key trends affecting the banking industry, including customers' growing willingness to consume simple financial services through digital channels, regulatory measures aimed at increasing competition in the banking system, significant investments in fintech companies, and the entry of significant technological players into activity with customers in the financial arena.

In addition to these changes, the strategic plan was built while also taking into consideration possible future scenarios for the banking industry, as published by the Basel Committee on Banking in February 2018. The Bank adopted the Basel scenarios as a methodology for the analysis of the future competitive environment and for the selection of the most probable reference scenario for the banking industry in Israel. In view of the differences between the competitive environments of the private customer segment and the business customer segment, the Bank estimates that different scenarios are likely to materialize in the different segments of activity.

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The global and Israeli banking systems are influenced by a matrix of factors, primarily changes in customers' habits, tightened regulation, and the growing impact of technology. These shifts have led to more intense competition, from traditional players as well as a varied multitude of new players. The Bank estimates that the "distributed bank" scenario, in which financial services are distributed among banks and technological players, has a high probability of realization, gradually, over a period of years, in the retail-banking sector (private customers and small businesses). This scenario may involve collaborations forming between players through various activity models.

According to the estimates of the Bank, in corporate and commercial banking, the value added that large technology companies can offer business clients is relatively limited, and the threat posed by tech giants in these customer segments is therefore remote. Thus, the Bank estimates that there is a high probability that the "better bank" scenario will materialize in the corporate-banking sector. In this scenario, existing banks will undergo comprehensive modernization and digitization; they will use new technologies to improve their systems, renew customer interfaces, create added value, and offer advanced services. Some business models will change, but customer relationships and core activity will be maintained.

Objectives

The strategic plan focuses on seven overarching objectives:

1. Increase return on equity.
2. Retain market share in key markets.
3. Maintain the profitability level of key products.
4. Improve operational efficiency.
5. Increase customers' digital-banking activity.
6. Strengthen customer loyalty.
7. Reinforce employee commitment and motivation.

For more extensive information regarding the strategy of the Bank and its expression in the various areas of the Bank's activity, see [the section "Objectives and business strategy"](#) in the Report of the Board of Directors and Board of Management for 2019.

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The coronavirus has spread rapidly around the world over the last few months; in response, many governments, including the government of Israel, have taken defensive measures such as restriction of international travel, quarantines, reduction of congregation, and restrictions of the activity of businesses. The measures taken by the government also have an extensive impact on the Bank's engagement with its customers, on its business with them, and on the resulting risks.

In view of the spread of the coronavirus, the Board of Management and Board of Directors of the Bank held strategic discussions during the second quarter. The Board of Management and Board of Directors resolved to continue the implementation of the strategic plan approved in late 2019, while updating work plans for 2020 with the aim of accelerating the implementation of processes to support the activity of the Bank during this period, including expansion of the range of banking services available for consumption by customers of the Bank through various channels, without the need to visit a branch in person; expansion of the range of channels for communication with the Bank, with a focus on continued development of digital solutions; transition to reception by scheduled appointment in the branch network; development of infrastructures enabling Bank employees to work remotely; and acceleration of the implementation of the efficiency plan reported on January 8, 2020.

The Bank is acting in accordance with the instructions, while adapting its distribution systems to the delivery of banking services within the restrictions that have been imposed and in compliance with the directives of the Ministry of Health.

For additional information regarding the impacts of the coronavirus outbreak, see [Section 2.1.3](#).

The Bank's approved work plans and the working assumptions on which they are based refer to the Bank's future activities; therefore, the above information in this section with regard to the Bank's action plans and intentions is "forward-looking information."

The strategic plan sets ambitious goals for each of the Bank's activities, yet in any planning, especially in planning several years ahead, and all the more so during periods of changes and turmoil in the global economy and in the world financial system, a considerable degree of uncertainty must be taken into consideration. Various diverse factors may prevent the assumptions on which the strategic plan is based from materializing, or may prevent them from materializing in full, and may prevent the realization or full realization of future plans. Notable such factors are the business environment in Israel and globally, as well as macro conditions. Special importance should be accorded to the condition of the global economy; to the economic situation (including in connection with the coronavirus crisis) and the political and security situation in Israel and in the region; and to regulatory changes.

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2. Explanation and analysis of results and business position

2.1. Trends, events, developments, and material changes

2.1.1. Economic and financial review

Developments in the global economy

The coronavirus pandemic led to extensive restrictions of movements of residents, and shut down the activity of many economic sectors, primarily in the area of services. Global activity and trade consequently fell sharply in the first half of 2020, while the percentage of job seekers soared. Beginning in mid-April, many countries began easing their lockdown policies, allowing a gradual resumption of economic activity; however, sectors such as tourism, hospitality, culture, and entertainment returned to only minimal levels of activity. While the improvement in economic activity after the lifting of the lockdown has been considerable, activity levels worldwide remain lower than before the crisis. The United States economy contracted at an annualized rate of 32.9% in the second quarter of 2020; the Eurozone economies contracted at an average annualized rate of 40.3% in this quarter. China, which was the first country to emerge from lockdown, saw gradual recovery in economic activity in the second quarter of 2020, as the spread of the virus slowed and restrictions were reduced. Forecasts of international institutions were adjusted downward during the second quarter of 2020. The updated forecast of the International Monetary Fund for 2020 is a decrease of 8.0% in GDP in the United States, 10.2% in Europe, and 4.9% globally.

Countries have acted resolutely to prevent the health crisis from also becoming a financial crisis, avert a credit crunch, and assist households and businesses. Public expenditures grew substantially; the consequence of this policy is expected to be a sharp increase in government debt. Monetary policy globally remained highly expansionary. After lowering interest rates to near zero in the first quarter, the central banks stepped up their purchases of financial assets, including corporate bonds.

Economic activity in Israel

The number of new coronavirus cases began to decrease in April 2020, and the economy gradually reopened in May 2020. The reopening of the economy led to a renewed increase in daily cases, to a higher level than in early April 2020; the government then reapplied some of the restrictions, although no general lockdowns were imposed. Flights to and from Israel have not yet resumed normal schedules. Under these circumstances, economic activity is greatly restricted, particularly in the service sectors. Although shopping centers are open, contagion fears have led to lower shopper traffic. Credit-card purchases were down by approximately 10% in June, compared with the beginning of this year. The Bank of Israel estimates that GDP will contract by approximately 6% this year. The Central Bureau of Statistics estimates the broad unemployment rate, which includes employees on unpaid leave and those who stopped seeking work during the period of the coronavirus, at 11.5% in June 2020, down from 23.0% in May 2020. This rate rose again in the first half of July 2020, to 12.3%. According to the survey by the Central Bureau of Statistics, the number of workers dismissed increased in most sectors of the economy, not necessarily those hurt directly by the restrictions. The government has extended the eligibility period for unemployment benefits to June 2021, and expanded the assistance program for self-employed people and for businesses. The Bank of Israel has announced that it will be possible to defer mortgage payments until the end of the year, and consumer credit payments for periods of up to six months.

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Fiscal and monetary policy

The government enlarged the assistance programs for households and businesses during the second quarter, through direct expenditures as well as state-backed loans. Concurrently, tax revenues decreased sharply. The process of coping with the crisis is expected to arise the budget deficit to a high level of approximately 14% of GDP, according to forecasts by the Bank of Israel. The increase in the deficit and in government debt have not affected funding prices, which remain very low. Thus far, the Knesset has not passed the state budget for 2020. The government is therefore operating according to the budget of the previous year, with coronavirus expenses as an exception.

The Bank of Israel lowered the interest rate to 0.1% on April 6, 2020, and adopted additional monetary tools to increase liquidity in the financial markets and the supply of credit. By the end of June 2020, the Bank of Israel had purchased government bonds in the amount of NIS 23.4 billion. The use of some monetary tools, such as repurchase transactions with bonds as collateral and NIS/USD swap transactions, decreased in light of the change in trend in the capital markets and the high liquidity in the financial markets, in both Israeli and foreign currency. On July 6, 2020, the Bank of Israel announced a plan to purchase corporate bonds rated A- or higher for NIS 15 billion.

Inflation and exchange rates

The "known" consumer price index fell by 0.2% in the second quarter of 2020. The CPI for June 2020 decreased by 0.1%. Over the last year, the CPI fell sharply, by 1.1%. The steep drop in energy prices and the appreciation of the shekel are some of the reasons for the negative inflation, joined in the last few months by the effects of the coronavirus. The outbreak of the pandemic has made it impossible to measure index items such as overseas travel and hotel stays. In some cases it is also difficult to measure prices of tradable goods, particularly during lockdowns. As of July 2020, implied inflation expectations in the capital market for the coming year are close to zero. The Bank estimates that the sharp increase in the unemployment rate will maintain inflation at a very low level in the coming period.

The shekel appreciated by 2.8% against the US dollar in the second quarter, and by 1.6% against the currency basket. The sharp declines in capital markets around the world in March led to liquidity shortages in dollars in the markets, and to a steep depreciation of the shekel. The Bank of Israel began performing USD/NIS swaps, in which it uses its foreign-currency reserves to increase liquidity and reduce the dollar interest rate in the local market. This measure stabilized the market and tempered the sharp depreciation. The steep capital-market gains in the second quarter reduced the need for collateral in dollars, and the Bank of Israel gradually scaled back the swap transactions. As of the end of June 2020, the balance of the swap transactions executed by the Bank of Israel stood at USD 4.5 billion. The Bank of Israel acquired foreign currency at a volume of USD 4.1 billion during the second quarter.

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Financial and capital markets

The turmoil in global markets in March 2020 led to sharp declines in global equity markets. Since then, following a series of policy measures by governments and central banks, stock markets have recovered, with most indices partly offsetting the decline. The S&P 500 index rose by 20% in the second quarter, and fell by 4.0% in the first half.

The STOXX Europe 600 index rose by 13%, while the TA-125 index rose by only 3.8%; this index fell by 13.5% in the first half (all in local currencies). The disparity between the stock indices mainly reflects their composition by sector; indices with higher proportions of technology stocks showed improved performance. Risk spreads of corporate bonds, which expanded sharply in the first quarter, also contracted significantly in the second quarter. Daily turnovers in shares and convertibles in Tel Aviv rose sharply in the first quarter, to NIS 2,880 million, and cooled to NIS 1,777 million in the second quarter, still approximately 10% higher than the 2019 average. The highly expansionary monetary policies globally maintained long-term bond yields at very low levels. In the United States, yields of ten-year government bonds fell from 1.92% at the end of 2019 to 0.7% at the end of the first quarter of 2020, and 0.65% at the end of the second quarter. Volatility of yields in Israel was severe, with the yield of ten-year government bonds falling from 0.94% at the end of 2019 to 0.4% during the month of March, and rising to 1.1% at the end of the first quarter. After the intervention of the Bank of Israel, the yield moderated to 0.64% at the end of the second quarter.

Table 2-1: Changes in the CPI and in exchange rates

	For the three months ended June 30		For the six months ended June 30		For the year 2019
	2020	2019	2020	2019	
Rate of increase (decrease) in "known" CPI	(0.2%)	1.5%	(0.7%)	1.2%	0.3%
Rate of increase (decrease) in USD exchange rate	(2.8%)	(1.8%)	0.3%	(4.9%)	(7.8%)
Rate of increase (decrease) in CHF exchange rate	(1.2%)	0.3%	1.9%	(3.8%)	(6.1%)
Rate of increase (decrease) in EUR exchange rate	(0.4%)	(0.4%)	0.1%	(5.4%)	(9.6%)
Rate of increase (decrease) in TRY exchange rate	(6.6%)	(3.6%)	(12.8%)	(12.6%)	(18.0%)

Data regarding the Bank of Israel interest rate

	June 30, 2020	March 31, 2020	December 31, 2019	September 30, 2019	June 30, 2019
Interest rate at end of period	0.10%	0.25%	0.25%	0.25%	0.25%

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2.1.2. Top and emerging risks

Based on the recommendations of the FSB (Financial Stability Board), a top risk is defined as a development currently occurring in the business environment of the Bank that may adversely affect the Bank's results over the course of the coming year. By contrast, with respect to an emerging risk, there is greater uncertainty regarding the timing of materialization of the risk as an occurrence with a material effect on the strategy of the Bank.

The management of risks at the Bank Group is described extensively in the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2019, and in the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at June 30, 2020.

The Board of Management and Board of Directors of the Bank have discussed the effect of the top and emerging risks described below on the Bank; from time to time, they examine the need to adjust business strategy to such developments.

- **Compliance risk:** Pursuant to Proper Conduct of Banking Business Directive 308, compliance risk also includes risks related to the fairness of the Bank towards its customers, conflicts of interest, the prohibition of money laundering and financing of terrorism, provision of advice to customers, protection of privacy (excluding information-technology aspects), taxation aspects relevant to products or services for customers, or directives of a similar nature. The materialization of this risk on the global level is reflected in the continuing investigations of banks around the world and in the fines imposed on them in connection with the violation of laws or regulations, such as in the areas of assisting tax evasion, the prevention of terrorism financing, money laundering, and investigations of corruption. The Bank Group's business with American customers and the issue of FIFA were investigated by the authorities in the United States; resolutions between the Bank Group and the DOJ and additional United States authorities were recently approved and announced, which brought these investigations to conclusion. For details, see [Note 10D](#) and 10E to the Condensed Financial Statements.
- **Macroeconomic environment:** The activity of the Bank is dependent on the business environment, in Israel and globally. The condition of the global economy; significant changes in monetary policies and interest-rate curves; market volatility; changes in prices of financial assets in Israel and worldwide, and in real-estate prices; and the economic, political, and security situation in Israel and in the region have the potential to affect the activity of the Bank. The Bank's multi-annual strategic plan includes certain assumptions regarding the macro-economic environment, taking into consideration the existing risks in the global and Israeli economy, and balances risk and return considerations. The Bank is evaluating and examining its strategic plan in view of the changes in the macroeconomic environment.

The coronavirus crisis has material macroeconomic implications, affecting the ways in which the Bank works as well as the potential for materialization of various risks, including credit risk, market risks, and operational risk. At this stage, there is uncertainty regarding the duration of the crisis and its future impacts on the activity of the global economy, the local economy, the customers of the Bank, and the Bank itself, and correspondingly on the various risks. For details, see [the section "Economic and financial review,"](#) above, and the section "Effect of the coronavirus crisis," below.

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- **Regulatory environment in Israel and overseas:** International regulatory reforms have implications for the business of the Bank, in Israel and globally. In Israel, several regulatory initiatives have been formulated over the last few years, with the primary aim of increasing competition in the banking system in Israel; several additional regulatory initiatives are in the process of being generated. The regulatory initiatives and trends, and specifically the separation of the Bank from the credit-card companies and the significant changes in this area of activity, as well as the mobility of bank accounts and open API, may affect the banking system in general and the Bank in particular. At this stage, it is too early to estimate all of the effects of these changes on the Bank. For details regarding the Law for Increasing Competition and Reducing Concentration in the Banking Market in Israel, 2017, see [Note 16](#) to the Condensed Financial Statements.
- **Information security and cyber incident risk:** Increasing cyber threats to financial institutions have led to the channeling of resources in the banking industry to cope with this risk. The Bank applies frequent controls in all channels in order to prevent harmful penetration, activation of malicious software, and information leakage. The lines of defense consist of a large number of advanced information-security systems, deployed internally in the Bank's network as well as externally as a perimeter defense. Due to the spread of the coronavirus, there has been a significant process of transition of employees to remote work, as well as additional changes in modes of activity of the Bank, concurrently with an increase in threats. The cyber defense units have developed a response in order to reduce the risks, as detailed in the section "Operational risk," below.
- **Competitive and strategic risk:** New competition from big tech companies (Apple, Google, Facebook, Amazon, and others) and fintech companies, alongside the entry of new technologies, changes in customer behavior, and new business models in the financial sphere, may significantly affect the banking system, in Israel and worldwide, in the medium to long term. Concurrently, regulatory and competitive changes in the domestic arena, with an emphasis on measures aimed at increasing competition in the retail credit market, such as the Credit Data Law, which took effect in April 2019, bank account switching, and open API, may affect the business results of the Bank. The Bank has formulated a strategic plan for 2020-2022, encompassing action in the areas of innovation, technology, the structure of its operations, and more, in order to respond to all such threats.

For details regarding legal proceedings, see [Note 10](#) to the Condensed Financial Statements.

For details regarding material regulatory initiatives with an effect on the activity of the Bank during the reported period, see [Note 16](#) to the Condensed Financial Statements.

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2.1.3. Effect of the coronavirus crisis

The coronavirus spread rapidly around the world during the first quarter of 2020; in response, governments, including in Israel, took defensive measures such as restriction of international travel, quarantines, reduction of congregation and movement, lockdowns, restrictions of the activity of private businesses and of government and municipal services, and more. During the second quarter, as the pace of the spread of the virus slowed, economies began to gradually reopen, in Israel and globally. Towards the end of the second quarter and early in the third quarter, the spread of the virus reaccelerated in Israel, leading the government to apply various defensive measures again. The spread of the virus and the defensive measures taken have caused material economic damage and negative trends in the global economy and in the Israeli economy, and hurt global capital markets and the local market in the first quarter. In response, governments and central banks worldwide, including in Israel, have taken various measures, including grants, loans, intervention in capital markets, and more.

The coronavirus crisis has caused material worsening of activity in the economy in Israel, to which the activity of the Bank is exposed, and it has and is expected to have impacts on the business of the Bank, including due to an increase in credit risk and in liquidity problems of borrowers, in both the corporate and private sectors, and due to the deceleration of economic activity. The reduction of short-term interest rates by the central banks – the rate cuts already performed as well as probable additional reductions – also has the effect of reducing the future financing income and interest income of the Bank. This adds to the risk of decreases in prices of tradable assets and the changes in bond spreads, which have an adverse effect on the value of the tradable assets of the Bank, and additional effects.

It is not possible to estimate the scope of the future spread of the virus, or the responses of governments and central banks, in terms of the restrictions to be imposed on the economy as well as the measures to support and stimulate economic activity, or the reaction of the economies and the markets. It is also not possible to estimate or quantify the duration and extent of the crisis, or its future impact on the global economy, the Israeli economy, the customers of the Bank, and the Bank itself.

The Bank has established a dedicated committee of the Board of Management to address the financial crisis in the context of the coronavirus crisis, headed by the CEO of the Bank. The committee, as well as the Board of Management Committee on Risk Management and Compliance, regularly reviews various scenarios for the progression of the crisis and its financial effects on the Bank; the effects of the crisis on credit risks and counterparty credit risks in respect of customers, banks, and others; and its effects on liquidity, the investment portfolio, the dealing room, and more. These matters are also frequently discussed by the Board of Directors of the Bank. The Bank also established working committees that updated some of its strategic plans, specifically recommending acceleration of work plans in various areas. The outline for the update and the plans were approved by the Board of Directors.

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Accordingly, as part of the Bank's preparations for the consequences of the coronavirus crisis, and in order to assess its potential effects, various scenarios for the progression of a series of economic parameters are being examined and used by the Bank to estimate the impacts on the Bank. In the baseline scenario, the Bank assumes that certain restrictions on economic activity will remain in place at least until the end of 2020. GDP contracted sharply in the first two quarters of 2020; according to the scenario, recovery is expected in the third quarter, arrested in the fourth quarter. In the baseline scenario of the Bank, GDP contracts by approximately 7.5% in the full year of 2020, while the quarterly unemployment rate (including unpaid leave) rises to approximately 16% at its peak. The Bank of Israel interest rate remains at 0.1% throughout 2020 in this scenario. These estimates and scenarios are continuously updated based on various forecasts, the economic plans of the government, and events in Israel and worldwide.

On the operational level, and on the level of business continuity, the Bank has applied a series of processes and measures, including remote work, reducing and/or splitting unit personnel, changes in the manner of operation of branches and in activity with customers, deferral of mortgage and loan payments, and more, in accordance with the instructions of the government and of the Ministry of Health, and the changes in regulation by the Bank of Israel, in particular Temporary Proper Conduct of Banking Business Directive 250 of the Banking Supervision Department, which is updated from time to time. In general, the operational risks, including cyber risks, related to the crisis and its effects have been analyzed, and controls and appropriate measures to minimize risk are being considered and implemented accordingly. However, the changing ways of operating due to the coronavirus crisis entail a certain increase in operational risk, in the broad sense, such as technological risks and cyber risks, fraud and embezzlement risks, malfunctions due to high pressure of banking activity or staff shortages, non-availability of external suppliers, and more.

In view of the coronavirus crisis, and in order to ensure the ability of the banks to continue to offer credit, on March 31, 2020, the Banking Supervision Department reduced credit requirements for banks, under a temporary order, for a period of six months, with an option for extension. Accordingly, the minimum common equity Tier 1 capital ratio and the minimum total capital ratio required of the Bank by the Banking Supervision Department, on a consolidated basis, as at June 30, 2020, stand at 9.26% and 12.76%, respectively (instead of 10.26% and 13.76% prior to the temporary order). In the statement issued by the Supervisor of Banks in connection with the temporary order, she asked boards of directors of banks, among other matters, to reexamine their dividend policies, with the intention of using the capital resources released as a result of the reduced capital requirements to increase credit, rather than for distribution. Following the statement of the Supervisor of Banks, in order to allow realization of the purpose of the directive, the Board of Directors of the Bank resolved, on March 31, 2020, to adjust the target common equity Tier 1 capital ratio to 9.5%, and further resolved that, taking into consideration the existing distribution policy of the Bank, in light of the uncertainty in macroeconomic conditions, and in order to fulfill the purpose of the Temporary Order and of the policy of the Banking Supervision Department, until the end of the period of the Temporary Order and until conditions are clearer, the Bank would continue to refrain from performing distributions from ongoing earnings. For further details regarding the directives of the Supervisor of Banks, capital-adequacy targets, and dividends, see [the section "Capital, capital adequacy, and leverage"](#) in the Report of the Board of Directors and Board of Management.

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The common equity Tier 1 capital ratio as at June 30, 2020, decreased to 11.23%, while the leverage ratio decreased to 6.97%, compared with a common equity Tier 1 capital ratio of 11.53% and a leverage ratio of 7.61% on December 31, 2019, mainly due to the effects of the coronavirus crisis, including an increase in customers' business credit needs and an increase in the allowance for credit losses; the decrease in capital resulting from the distribution of the remaining shares of Isracard as a dividend in kind to shareholders; and additional effects, as detailed in Section 2.3.2 of the Report of the Board of Directors and Board of Management.

Due to the coronavirus crisis, the Bank recorded an increase in the provision for credit losses in the first half of 2020, in a total amount of approximately NIS 1,622 million. Most of the increase resulted from an increase in the collective allowance, in the amount of approximately NIS 1,409 million, including in respect of housing loans. This increase is further to an increase in the provision for credit losses in the amount of approximately NIS 676 million recorded in [the annual financial statements for 2019](#) (published in the second half of March 2020, after the spread of the coronavirus), which included the effects of the spread of the virus known at that time. The total increase in the provision for credit losses in respect of the spread of the coronavirus amounts to approximately NIS 2,298 million up to this point. For details regarding the scenarios and the effect thereof on credit risk, and regarding the exposure and credit risk by economic sector, see [the section "Credit risk,"](#) below. In this context, note that due to the coronavirus crisis, loan payments (principal and/or interest) in the amount of approximately NIS 2,318 million were deferred by June 30, 2020, as detailed in the section "Credit risk," below.

The coronavirus crisis has led to an increase in the risk of activity with foreign banks, including an increase in credit risks and settlement risks with such banks. The Bank is examining this risk and managing it continually; see [the section "Credit risk,"](#) below.

The volatility in the financial markets in the first quarter led to an increase in risk estimates of the activity of the dealing room of the Bank and of its customers. The calmer markets in the second quarter resulted in decreases in most of these risk estimates. Market and liquidity risk indicators also point to calming relative to the end of the first quarter. However, in the absence of a medical solution to COVID-19, the conditions that led to the financial and economic crisis still prevail, and may cause further worsening of the Israeli and global economy, possibly weighing on the markets in the future. The average consolidated liquidity ratio of the Bank was 131% in the quarter ended June 30, 2020.

While decreases in prices of tradable assets, and changes in interest-rate curves in Israel and globally and in bond spreads, exerted a negative effect on the value of the tradable assets of the Bank in the first quarter, the markets and the value of these assets recovered in the second quarter. The value of the share portfolio and the available-for-sale bond portfolio rose by approximately NIS 871 million during the second quarter, offsetting the declines of the first quarter (NIS 705 million). The effect of this increase on capital is mitigated by the allocation to capital of offsetting effects, mainly arising from the closing of the credit spreads used to determine the discount rate of employee benefit liabilities; the effect of the decrease in the discount rate led to an increase in the actuarial liability and to a corresponding decrease in capital in the amount of approximately NIS 519 million (compared with an increase in capital of NIS 662 million in the first quarter). For details regarding the effect on market risks, see [the section "Market risks,"](#) below.

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As noted, at this stage it is not possible to assess the full effects of the coronavirus crisis on the Bank or the extent thereof, due to uncertainty regarding the duration of the crisis of the spread of the virus, the measures to be taken to stop its spread, and the severity of such measures, as well as uncertainty regarding the consequent impacts on economic activity, capital-market trends, and various financial measures to be applied by governments, central banks, and regulators in this area ([see Section B.4 in the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks for 2019](#)); for further details, see [the sections concerning risk below](#).

The estimates of the Bank regarding the possible effects of the spread of the coronavirus and its impact on the markets constitute forward-looking information, as defined in the Securities Law, 1968, which is based, among other matters, on information and publications of third parties, and on estimates available to the Bank at this time. Such estimates are uncertain, and may materialize in a manner materially different from the foregoing statements, depending, among other matters, on the extent of the spread of the virus, the response of the governments and the central banks, and the duration of the crisis.

2.1.4. External auditors

Ziv Haft (BDO), CPA (Isr.) and Somekh Chaikin (KPMG), CPA (Isr.) serve as the joint auditors of the Bank. The firm Haft & Haft, which merged into Ziv Haft in 2000, began serving as the external auditor of the Bank in 1921. Somekh Chaikin began serving as an auditor of the Bank in 1998.

Occasionally, the external auditor finds it appropriate to diverge from the uniform format by including an emphasis-of-matter paragraph, directing attention to a particular matter that has a significant effect on the financial statements and is included in a note to the financial statements.

The external auditors have emphasized the section in Note 10B(b) concerning exposure to class-action suits filed against the Bank Group, and Notes 10D and 10E concerning the conclusion of the investigation of the Bank Group's business with American customers and regarding FIFA.

2.2. Material developments in income, expenses, and other comprehensive income

As detailed below, the financial results, beginning in the month of March 2020, were influenced by the spread of the coronavirus, which caused sharp contraction of global economic activity, worsening of the condition of the economy and of borrowers, and increased volatility in the markets, among other effects.

Net profit attributed to shareholders of the Bank totaled NIS 325 million in the first half of 2020, compared with NIS 1,692 million in the same period last year.

Net return on equity attributed to shareholders of the Bank was approximately 1.7% in the first half of 2020, compared with approximately 9.0% in the same period last year.

Net profit from continued operations attributed to shareholders of the Bank totaled NIS 434 million in the first half of 2020, compared with profit in the amount of NIS 1,450 million in the same period last year.

Net return on equity from continued operations attributed to shareholders of the Bank was approximately 2.3% in the first half of 2020, compared with approximately 7.7% in the same period last year.

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Table 2-2: Condensed statement of profit and loss

	For the three months ended		Change	For the six months ended		Change		
	June 30, 2020			June 30, 2020				
	NIS millions			NIS millions				
Interest income	2,532	3,730	(32.1%)	5,074	6,555	(22.6%)		
Interest expenses	(366)	(1,264)	(71.0%)	(716)	(1,812)	(60.5%)		
Net interest income	2,166	2,466	(12.2%)	4,358	4,743	(8.1%)		
Non-interest financing income	193	166	16.3%	499	255	95.7%		
Net financing profit*	2,359	2,632	(10.4%)	4,857	4,998	(2.8%)		
Provision for credit losses	1,128	319	253.6%	1,937	440	340.2%		
Net financing profit after provision for credit losses	1,231	2,313	(46.8%)	2,920	4,558	(35.9%)		
Fees and other income	795	833	(4.6%)	1,680	1,636	2.7%		
Operating and other expenses	1,826	1,992	(8.3%)	3,742	3,869	(3.3%)		
Profit from continued operations before taxes	200	1,154	(82.7%)	858	2,325	(63.1%)		
Provision for taxes on profit from continued operations	73	441	(83.4%)	436	890	(51.0%)		
Profit from continued operations after taxes	127	713	(82.2%)	422	1,435	(70.6%)		
The Bank's share in profits of equity-basis investees, after taxes	1	4		2	4	(50.0%)		
Net profit from continued operations	128	717	(82.1%)	424	1,439	(70.5%)		
Net profit (loss) from a discontinued operation	-	151	(100.0%)	(109)	242	(145.0%)		
Net profit								
Before attribution to non-controlling interests	128	868	(85.3%)	315	1,681	(81.3%)		
Loss (profit) attributed to non-controlling interests	5	3	66.7%	10	11	(9.1%)		
Attributed to shareholders of the Bank	133	871	(84.7%)	325	1,692	(80.8%)		
Return of net profit	1.4%	9.3%	(84.8%)	1.7%	9.0%	(81.1%)		

* The profit and loss items above are presented in a different format than in the condensed statement of profit and loss, in order to allow better analysis of the financial results. This change is expressed in the reclassification of non-interest financing income, from the item of "non-interest income (expenses)" to the item of "net financing profit."

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2.2.1. Developments in income and expenses

Net financing profit

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 – exchange-rate differences and profit from the sale of securities, among other things – which serve as an integral element of the Bank's exposure management. Income from derivatives includes, among other things, the effects of the time value in the fair value of derivatives, which offset balance sheet interest exposures, as well as the effects of the rate of change in the known CPI on derivatives balances, which offset CPI exposures in respect of balance sheet balances.

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Table 2-3: Composition of net financing profit

	For the three months ended		Change	For the six months ended		Change		
	June 30, 2020			June 30, 2020				
	NIS millions			NIS millions				
Interest income	2,532	3,730	(32.12%)	5,074	6,555	(22.59%)		
Interest expenses	(366)	(1,264)	(71.04%)	(716)	(1,812)	(60.49%)		
Net interest income	2,166	2,466	(12.17%)	4,358	4,743	(8.12%)		
Non-interest financing income	193	166	16.27%	499	255	95.69%		
Total reported financing profit	2,359	2,632	(10.37%)	4,857	4,998	(2.82%)		
Excluding effects not from regular activity:								
Income from realization and adjustments to fair value of bonds	95	76	25.00%	122	53	130.19%		
Profit (loss) from investments in shares	36	95	(62.11%)	(86)	250	(134.40%)		
Adjustment to fair value of investment in affiliate	(18)	-	-	(7)	-	-		
Gains in respect of loans sold	-	1		-	1			
Adjustments to fair value of derivative instruments ⁽¹⁾	(27)	(77)	(64.94%)	(18)	(174)			
Financing income (expenses) from tax hedging of investments overseas and hedges of currency exposures of non-monetary items ⁽²⁾	(48)	(35)	37.14%	39	(100)			
Total effects not from regular activity	38	60	(36.67%)	50	30	66.67%		
Total income from regular financing activity ⁽³⁾	2,321	2,572	(9.76%)	4,807	4,968	(3.24%)		

- (1) The effect of the measurement of profit and loss in derivative instruments constituting part of the Bank's asset and liability management strategy on a fair-value basis, versus measurement on an accrual basis.
- (2) This item includes the effects of hedging of currency exposures of non-monetary items and the effect of hedging the asymmetry in the tax liability in respect of exchange-rate differences in investments in subsidiaries overseas, which are not included in the income base for the calculation of the provision for tax, in contrast to exchange-rate differences in respect of financing sources. The Bank hedges against tax exposure in respect of investments overseas by establishing surplus financing sources against such investments.
- (3) Financing profit excluding extraordinary effects, and excluding effects arising mainly from the timing of recording in accounting.
Of which in respect of the effects of changes in the CPI: an expense in the amount of NIS 36 million in the second quarter of 2020, compared with an expense in the amount of NIS 158 million in the second quarter of 2019. An expense in the amount of NIS 106 million in the first half of 2020, compared with income in the amount of NIS 125 million in the first half of 2019.

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Income from regular financing activity totaled NIS 4,807 million in the first half of 2020, compared with a total of NIS 4,968 million in the same period last year. The decrease resulted from a decrease in financial spreads of deposits, due to a decrease in the dollar interest rate, and from a decrease in income from linkage differentials, due to changes in the rate of the known CPI between the periods. The volume of consumer retail credit also decreased. However, income from the activity of the dealing room increased, due to an increase in the volume of transactions as a result of the volatility in the market resulting from the coronavirus crisis, and the volume of business activity and housing credit increased.

Total reported financing income amounted to NIS 4,857 million in the first half of 2020, compared with a total of NIS 4,998 million in the same period last year. The decrease resulted from a decrease in profit from regular financing activity, as noted above, and from losses from investment in shares, which resulted from a decline in the market value of the shares in the capital market in the first quarter, due to the coronavirus crisis, partly offset by an increase in market value in the second quarter. By contrast, profit increased due to a change in the differences between the fair value of derivatives that are part of the asset and liability management of the Bank and the measurement of the same assets on an accrual basis. In addition, profits from investment in bonds increased, mainly in the second quarter, and income from exchange-rate differences increased, mainly due to hedging of currency exposures of non-monetary items.

Table 2-4: Principal data regarding interest income and expenses

	For the three months ended				For the six months ended			
	June 30, 2020		June 30, 2019		June 30, 2020		June 30, 2019	
	Interest income (expenses)	Rate of income (expense)						
NIS millions/percent								
Interest income	2,532	2.27%	3,730	3.67%	5,074	2.35%	6,555	3.26%
Interest expenses	(366)	0.59%	(1,264)	2.07%	(716)	0.58%	(1,812)	1.47%
Net interest income	2,166	1.68%	2,466	1.60%	4,358	1.77%	4,743	1.79%
Net interest income as a percentage of the balance of interest-bearing assets		1.94%		2.42%		2.01%		2.36%

Interest income and expenses decreased in the first half of 2020, compared with the same period last year, as a result of a decrease in the dollar interest rate and a decrease in linkage differentials, due to changes in the rate of increase of the known CPI between the periods.

An analysis of the changes in interest income and expenses, in a comparison of the first half of 2020 to the same period last year, indicates that changes in the volume of average balance sheet balances caused an increase in the amount of approximately NIS 265 million, and changes in interest rates caused a decrease in the amount of approximately NIS 650 million in net interest income.

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The provision for credit losses totaled NIS 1,937 million in the first half of 2020, compared with a total of NIS 440 million in the same period last year. Most of the increase in the provision for credit losses resulted from the effects of changes in the macroeconomic environment, due to the effects of the coronavirus crisis and the uncertainty caused by its effect on the condition of the economy and of borrowers. This increase is added to a provision for credit losses in the amount of approximately NIS 676 million recorded in the annual financial statements for 2019 (published in the second half of March 2020, after the coronavirus outbreak), in view of the impacts of the spread of the virus, as noted above.

In view of the high uncertainty, the Bank expects credit losses to grow; however, at this stage it is difficult to determine to what extent, or when, due to factors including the processes and measures applied by the government and the Bank of Israel, which may assist the economy in emerging from the crisis more quickly, but if they are unsuccessful, will only postpone the realization of credit risks. As an advance measure in confronting the effect of the crisis, the Bank decided to increase its collective allowance in the first half of 2020, in order to reflect the potential increase in individual credit losses and in automatic charge-offs which have not yet been expressed.

The net individual provision totaled NIS 405 million in the first half of 2020, compared with a provision in the amount of NIS 44 million in the same period last year. The increase resulted from both an increase in the gross individual provision and a decrease in recovery volumes during the period.

The net collective provision totaled NIS 1,532 million in the first half of 2020, compared with a provision in the amount of NIS 396 million in the same period last year. The increase in the collective provision mainly resulted from an increase in allowance rates in the various sectors of the economy, due to the uncertainty arising from the effect of the coronavirus on the condition of the economy and of borrowers, and on the ability to identify and estimate credit losses inherent in the portfolio during the present period of significant uncertainty. This increase was mainly apparent in the economic sector of private individuals; the construction and real estate and real-estate activity sectors; the commerce sectors; and the hotels, hospitality, and food services sector. The increase in the net collective provision also resulted from an increase in the amount of approximately NIS 261 million in the provision for credit losses in respect of housing loans.

For further information regarding the development of balances of credit to the public, see [the section "Structure and development of assets, liabilities, capital, and capital adequacy"](#) in the Report of the Board of Directors and Board of Management.

For further information regarding the change in the allowance for credit losses, see [Note 6](#) to the Condensed Financial Statements.

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Table 2-5: Cumulative provision for credit losses in respect of debts and in respect of off-balance sheet credit instruments**

	For the three months ended		For the six months ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
NIS millions				
Individual provision for credit losses	354	268	678	498
Decrease in individual allowance for credit losses and recovery of charged off debts	(151)	(254)	(273)	(454)
Net individual provision for credit losses	203	14	405	44
Net provision in respect of the collective allowance for credit losses and net charge-offs	925	305	1,532	396
Total provision for credit losses*	1,128	319	1,937	440
* Of which:				
Net provision for credit losses in respect of commercial credit risk	622	253	1,278	303
Net provision for credit losses in respect of housing credit risk	244	11	276	15
Net provision for credit losses in respect of other private credit risk	263	54	383	119
Net provision (income) for credit losses in respect of risk of credit to banks and governments	(1)	1	-	3
Total provision (income) for credit losses	1,128	319	1,937	440
%				
Provision as a percentage of total credit to the public:				
Percentage of individual provision for credit losses	0.47%	0.37%	0.45%	0.34%
Gross provision for credit losses as a percentage of the average recorded balance of credit to the public***	1.69%	0.79%	1.48%	0.62%
Provision for credit losses as a percentage of the average recorded balance of credit to the public****	1.49%	0.44%	1.30%	0.30%
Net charge-offs in respect of credit to the public as a percentage of the average recorded balance of credit to the public	0.32%	0.13%	0.29%	0.15%
Net charge-offs in respect of credit to the public as a percentage of the allowance for credit losses in respect of credit to the public	16.09%	9.47%	14.29%	10.87%

** Including in respect of housing loans examined according to the extent of arrears.

*** The gross provision for credit losses is the total provision for credit losses, excluding the decrease in the individual allowance for credit losses and recovery of charged-off debts.

**** Calculated on an annualized basis.

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Fees and other income totaled NIS 1,680 million in the first half of 2020, compared with NIS 1,636 million in the same period last year. Income from fees was influenced by the effects of the spread of the coronavirus, beginning in March. Due to the heightened volatility in the capital markets and in exchange rates, and an increase in transaction volumes, income from fees in respect of securities activity increased. By contrast, income from credit cards and account-management fees decreased. Other income also increased, due to profit from the sale of assets.

Table 2-6: Details of fees and other income

	For the three months ended		Change	For the six months ended		Change		
	June 30, 2020			June 30, 2020				
	NIS millions			NIS millions				
Fees								
Account management fees	184	212	(13.2%)	394	430	(8.4%)		
Securities activity	197	174	13.2%	420	348	20.7%		
Credit cards, net	54	88	(38.6%)	130	151	(13.9%)		
Credit handling	49	46	6.5%	112	100	12.0%		
Financing transaction fees	126	119	5.9%	248	235	5.5%		
Other fees	136	165	(17.6%)	305	325	(6.2%)		
Total operating fees	746	804	(7.2%)	1,609	1,589	1.3%		
Total others	49	29	69.0%	71	47	51.1%		
Total operating income and other income	795	833	(4.6%)	1,680	1,636	2.7%		

Operating and other expenses totaled NIS 3,742 million in the first half of 2020, compared with NIS 3,869 million in the same period last year, a decrease of approximately 3.3%.

Table 2-7: Details of operating and other expenses

	For the three months ended		Change	For the six months ended		Change		
	June 30, 2020			June 30, 2020				
	NIS millions			NIS millions				
Salary expenses								
Wages	931	*909	2.4%	1,868	*1,858	0.5%		
Bonuses and share-based compensation	32	*126	(74.6%)	57	*228	(75.0%)		
Total wages	963	*1,035	(7.0%)	1,925	*2,086	(7.7%)		
Maintenance and depreciation of buildings and equipment	321	324	(0.9%)	642	638	0.6%		
Other expenses	542	633*	(14.4%)	1,175	*1,145	2.6%		
Total operating and other expenses	1,826	1,992	(8.3%)	3,742	3,869	(3.3%)		

* Reclassified.

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Salary expenses totaled NIS 1,925 million in the first half of 2020, compared with NIS 2,086 million in the same period last year, a decrease of 7.7%. The decrease in salary expenses resulted from continued cost savings due to efficiency processes; a decrease in bonus amounts, in view of the return on equity attained in the first half of 2020, as a result of the effects of the spread of the coronavirus; and the effects of the wage agreement, pursuant to which equity compensation for employees has been eliminated and replaced by wage increments granted beginning in May. A large expense for equity compensation was recorded in the first half of 2019, due to an increase in the share price of the Bank.

Up to this point, no material changes affecting salary expenses have been performed in employees' terms of employment and benefits, despite the spread of the coronavirus. Concurrently, in view of the effects of the spread of the coronavirus, the Bank decided to accelerate the implementation of the efficiency plan it reported on January 8, 2020.

Expenses for maintenance and depreciation of buildings and equipment totaled NIS 642 million in the first half of 2020, compared with NIS 638 million in the same period last year, an increase of 0.6%.

Other expenses totaled NIS 1,175 million in the first half of 2020, compared with NIS 1,145 million in the same period last year. The increase mainly resulted from expenses for exchange-rate differences due to the revaluation of the provision for the investigation of the Bank Group's business with American customers, compared with income in the same period last year, offset by a decrease in legal expenses for the investigation in comparison to the same period last year.

The provision for taxes on profit from continued operations totaled NIS 436 million in the first half of 2020, compared with a total of NIS 890 million in the same period last year.

The provision for taxes of the Bank in the first half of 2020 was mainly affected by losses at subsidiaries for which no deferred taxes were included; taxes in respect of previous years, due to recovery of charged-off debts; and unrecognized expenses due to revaluation of the provision for the American investigation, in respect of which revaluation income was recorded in the same period last year.

Net profit (loss) from a discontinued operation amounted to a loss of NIS 109 million in the first half of 2020, compared with profit in the amount of NIS 242 million in the same period last year. The loss in the first half of 2020 resulted from the recognition of loss from impairment of the investment in Isracard, in the amount of approximately NIS 109 million (after tax effect), due to the decrease in the share price to a level lower than the balance of the investment in the Bank's books as at December 31, 2019, compared with the price immediately prior to its distribution as a dividend in kind to the shareholders. The Bank's share in the profits of the Isracard Group and in net profit from the sale of approximately 65% of the shares of Isracard in the second quarter of 2019, in the amount of NIS 137 million, were included in the same period last year.

Non-controlling interests' share in net results of consolidated companies totaled a share in loss in the amount of NIS 10 million in the first half of 2020, compared with a share in loss in the amount of NIS 11 million in the same period last year.

Net profit attributed to shareholders of the Bank totaled NIS 325 million in the first half of 2020, compared with a total of NIS 1,692 million in the same period last year.

Basic net profit per share of par value NIS 1 amounted to NIS 0.24 in the first half of 2020, compared with NIS 1.27 in the same period last year.

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2.2.2. Developments in comprehensive income

Table 2-8: Comprehensive income

	For the three months ended		For the six months ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
NIS millions				
Net profit before attribution to non-controlling interests	128	868	315	1,681
Loss attributed to non-controlling interests	5	3	10	11
Net profit attributed to shareholders of the Bank	133	871	325	1,692
Other comprehensive income (loss) before taxes:				
Net adjustments in respect of bonds available for sale at fair value	811	102	144	453
Adjustments of employee benefit liabilities*	(424)	113	211	(84)
Other comprehensive income before taxes	387	215	355	369
Effect of related tax	(131)	(69)	(124)	(110)
Other comprehensive income attributed to shareholders of the Bank, after taxes	256	146	231	259
Comprehensive income before attribution to non-controlling interests	384	1,014	546	1,940
Comprehensive loss attributed to non-controlling interests	5	3	10	11
Comprehensive income attributed to shareholders of the Bank	389	1,017	556	1,951

* Mainly reflects adjustments in respect of actuarial estimates at the end of the period, and deduction of amounts previously recorded in other comprehensive income.

Comprehensive income totaled NIS 556 million in the first half of 2020, compared with a total of NIS 1951 million in the same period last year. Comprehensive income was influenced, beyond the change in net profit, by an increase in adjustments of bonds available for sale, mainly as a result of an increase in prices of government bonds, primarily due to the continued downward trend in the long-term dollar interest rate, compared with a more significant increase in bond values in the same period last year, as a result of a decrease in the long-term shekel interest rate. In addition, adjustments of employee benefit liabilities increased in the first half of 2020, due to an increase in corporate bond spreads used to discount actuarial liabilities for employee benefits, versus a decrease in these adjustments in the same period last year, due to a decrease in the long-term shekel interest rate, as noted above.

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2.3. Structure and development of assets, liabilities, capital, and capital adequacy

The consolidated balance sheet as at June 30, 2020, totaled NIS 499.3 billion, compared with NIS 463.7 billion at the end of 2019. The increase mainly resulted from an increase in credit to the public, deposits with banks, and investments in securities.

Table 2-9: Developments in principal balance sheet items

	Balance as at			Change vs.	
	June 30, 2020	March 31, 2020	December 31, 2019	March 31, 2020	December 31, 2019
NIS millions					
Total assets	499,280	491,459	463,688	1.6%	7.7%
Net credit to the public	293,700	299,548	292,940	(2.0%)	0.3%
Cash and deposits with banks	113,033	89,475	88,122	26.3%	28.3%
Securities	66,513	74,500	59,486	(10.7%)	11.8%
Investment constituting a discontinued operation*	-	-	849		(100.0%)
Deposits from the public	400,816	388,566	361,645	3.2%	10.8%
Bonds and subordinated notes	25,196	24,491	26,853	2.9%	(6.2%)
Shareholders' equity	38,024	37,632	38,181	1.0%	(0.4%)

* From the second quarter of 2019 to March 9, 2020, when the remaining holding in Isracard shares was distributed as a dividend in kind, the balance of the investment in the Isracard Group was accounted for using the equity method, and was stated in one line within an investment constituting a discontinued operation. For further details, see [Note 1E](#) to the Condensed Financial Statements.

2.3.1. Structure and development of assets and liabilities

Credit to the public

Table 2-10: Development of net balance sheet credit to the public, by principal economic sector

	As at		Change
	June 30, 2020	December 31, 2019	
NIS millions			
Private individuals – housing loans	93,813	89,256	5.1%
Private individuals – other	34,618	37,944	(8.8%)
Construction and real estate	54,911	53,833	2.0%
Commerce	25,333	26,176	(3.2%)
Industry	15,919	15,998	(0.5%)
Financial services	20,954	22,058	(5.0%)
Other	48,152	47,675	1.0%
Total	293,700	292,940	0.3%

For further information regarding the development of credit and credit risks by economic sector, see [the chapter "Credit risk" in Section 3.2.2](#), "Classification and analysis of credit risk by economic sector," in the "Review of risks," in the Report of the Board of Directors and Board of Management.

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Problematic debts

Table 2-11: Problematic credit risk⁽¹⁾

	June 30, 2020			December 31, 2019		
	Balance sheet	Off-balance sheet	Total	Balance sheet	Off-balance sheet	Total
	NIS millions					
Impaired credit risk	4,253	802	5,055	4,442	861	5,303
Substandard credit risk ⁽²⁾	1,891	178	2,069	1,476	270	1,746
Credit risk under special supervision	3,199	669	3,868	3,240	597	3,837
Total problematic credit risk*	9,343	1,649	10,992	9,158	1,728	10,886
Net problematic credit risk	7,036	1,477	8,513	7,144	1,643	8,787
* Of which, unimpaired debts in arrears of 90 days or more ⁽²⁾	873	-	873	913	-	913

(1) Credit risk that is impaired, substandard, or under special supervision.

(2) Including in respect of housing loans for which an allowance based on the extent of arrears exists, and in respect of housing loans for which an allowance based on the extent of arrears does not exist, which are in arrears of 90 days or more.

For details regarding the instructions of the Banking Supervision Department on coping with the coronavirus, see [Note 1C](#) to the Condensed Financial Statements.

Note:

Balance sheet and off-balance sheet credit risk are presented before the effect of the allowance for credit losses, and before the effect of deductible collateral for the purpose of the indebtedness of borrowers and of groups of borrowers.

For further information regarding the analysis of the credit portfolio and problematic credit risk, including the scenarios and sensitivity analyses tested, see [the chapter "Credit risk," Section 3.2.1](#), "Analysis of credit quality and problematic credit risk," in the "Review of risks," in the Report of the Board of Directors and Board of Management.

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Off-balance sheet credit

Table 2-12: Developments in principal off-balance sheet items

	Balance as at		Change
	JUNE 30, 2020	December 31, 2019	
		NIS millions	
Off-balance sheet financial instruments, excluding derivatives			
Documentary credit	559	816	(31.5%)
Guarantees and other commitments*,**	50,313	51,134	(1.6%)
Unutilized credit-card credit facilities under the Bank's responsibility	15,837	15,640	1.3%
Unutilized revolving overdraft and other credit facilities in on-demand accounts*	48,205	44,695	7.9%
Irrevocable commitments to grant credit approved but not yet provided, and commitments to provide guarantees	61,699	58,323	5.8%

* Includes off-balance sheet credit risk in the amount of approximately NIS 15,710 million, in respect of which insurance was acquired from foreign insurance companies for the portfolio of Sale Law guarantees (December 31, 2019: NIS 13,797 million).

** Includes the Bank's liabilities in respect of its share in the risk fund of the Maof Clearing House, in the amount of NIS 88 million (December 31, 2019: NIS 94 million).

Securities

The Bank has investments in government and corporate bonds, as well as investments in tradable (mainly foreign) and non-tradable shares, broadly diversified.

Securities totaled approximately NIS 66.5 billion as at June 30, 2020, compared with approximately NIS 59.5 billion at the end of 2019, an increase of approximately 11.8%, which mainly resulted from net purchases of Israeli government bonds and foreign corporate bonds.

The value of the share portfolio of the Bank decreased by a total of approximately NIS 86 million during the first half of 2020, due to a decrease in the market value of the shares in the capital market in the first quarter, as a result of the coronavirus crisis, partly offset by an increase in the markets in the second quarter.

The Bank's portfolio of bonds available for sale posted gains of NIS 252 million in the first half of 2020. A decrease in value of approximately NIS 583 million was recorded in the first quarter (of which, a decrease in value of approximately NIS 434 million in foreign corporate and financial bonds). In the second quarter, due to the market recovery, the value of the portfolio of bonds available for sale increased by a total of approximately NIS 835 million (of which, an increase in value of approximately NIS 352 million in foreign corporate and financial bonds, and the remaining amount in government bonds). The changes in the value of the portfolio of bonds available for sale were allocated to the capital reserve.

The upward trend in the markets continued in July 2020, with the value of the Bank's securities portfolio rising by approximately NIS 0.2 billion.

Details of the Bank Group's activity in securities are set out below.

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Table 2-13: Securities balances

	Trading book		Available for sale		Held to maturity		Total	
	Balance	% of total sheet securities value	Balance	% of total sheet securities value	Balance	% of total sheet securities value	Balance	% of total sheet securities value
NIS millions/percent								
June 30, 2020								
Israeli government bonds	6,846	10.3%	38,815	58.4%	-	-	45,661	68.6%
US government bonds	-	-	7,193	10.8%	-	-	7,193	10.8%
Government bonds – other foreign countries	2	0.0%	1,078	1.6%	-	-	1,080	1.6%
Total government bonds	6,848	10.3%	47,086	70.8%	-	-	53,934	81.0%
Corporate bonds – Israel	-	-	-	-	374	0.6%	374	0.6%
Corporate bonds – foreign countries	-	-	10,638	16.0%	-	-	10,638	16.0%
Total corporate bonds	-	-	10,638	16.0%	374	0.6%	11,012	16.6%
Shares	2	0.0%	*1,565	2.4%	-	-	1,567	2.4%
Total securities	6,850	10.3%	59,289	89.2%	374	0.6%	66,513	100.0%
December 31, 2019								
Israeli government bonds	6,602	11.1%	33,417	56.2%	-	-	40,019	67.3%
US government bonds	-	-	7,730	13.0%	-	-	7,730	13.0%
Government bonds – other foreign countries	3	0.0%	378	0.6%	-	-	381	0.6%
Total government bonds	6,605	11.1%	41,525	69.8%	-	-	48,130	80.9%
Corporate bonds – Israel	-	-	-	-	299	0.5%	299	0.5%
Corporate bonds – foreign countries	-	-	9,284	15.6%	-	-	9,284	15.6%
Total corporate bonds	-	-	9,284	15.6%	299	0.5%	9,583	16.1%
Shares	2	0.0%	*1,771	3.0%	-	-	1,773	3.0%
Total securities	6,607	11.1%	52,580	88.4%	299	0.5%	59,486	100.0%

* Not held for trading.

For further details regarding amounts measured at fair value, see [Note 15B](#) to the Condensed Financial Statements.

For details regarding unrealized loss from adjustments to fair value in respect of bonds available for sale, see [Note 5](#) to the Condensed Financial Statements.

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Table 2-14: Details of corporate bonds by economic sector

	June 30, 2020		December 31, 2019	
	Balance sheet value	Percentage of total corporate bonds	Balance sheet value	Percentage of total corporate bonds
	NIS millions		NIS millions	
Mining and quarrying	751	6.8%	540	5.6%
Industry	1,167	10.6%	700	7.3%
Electricity and water	433	3.9%	387	4.0%
Information and communications	640	5.8%	313	3.3%
Banks and financial institutions	6,873	62.5%	7,129	74.4%
Commerce	574	5.2%	259	2.7%
Others	574	5.2%	255	2.7%
Total corporate bonds	11,012	100.0%	9,583	100.0%

For details regarding unrealized loss from adjustments to fair value in respect of bonds available for sale, see [Note 5](#) to the Condensed Financial Statements.

Deposits

Table 2-15: Developments in balances of deposits

	Balance as at		Change
	June 30, 2020	December 31, 2019	
	NIS millions		
Deposits from the public	400,816	361,645	10.83%
Deposits from banks	3,418	3,520	(2.90%)
Deposits from the government	424	685	(38.10%)
Total	404,658	365,850	10.61%

The balance of deposits totaled approximately NIS 405 billion as at June 30, 2020, compared with a total of approximately NIS 366 billion at the end of 2019. The increase mainly resulted from customers' transition to conservative investment channels, due to the effects of the spread of the coronavirus.

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Off-balance sheet activity in securities held by the public

Table 2-16: Developments in balances of off-balance sheet monetary assets held by the Bank Group's customers for which the Bank Group provides custody, management, operational, and advisory services

	Balance as at		Change
	JUNE 30, 2020	December 31, 2019	
		NIS millions	
Securities ⁽¹⁾	609,928	723,227	(15.67%)
Mutual fund assets ⁽²⁾	74,550	92,980	(19.82%)

(1) Including securities balances of provident funds and mutual funds for which the Bank Group provides custody services. Most of the decrease resulted from market declines and from customer redemptions in mutual, provident, and pension funds.

(2) Value of assets of mutual funds receiving services related to account management at various volumes.

Bonds and subordinated notes totaled NIS 25.2 billion as at June 30, 2020, compared with NIS 26.9 billion at the end of 2019, a decrease of approximately 6.2%, which resulted from maturities of bonds and subordinated notes in a total amount of approximately NIS 2.3 billion, offset by the issuance of subordinated notes in the amount of approximately NIS 1.06 billion.

Table 2-17: Details of bonds and subordinated notes

	JUNE 30, 2020		December 31, 2019	
	Balance sheet value	Of which: tradable	Balance sheet value	Of which: tradable
NIS millions				
Subordinated notes	12,264	10,625	12,818	11,066
Bonds	12,932	12,765	14,035	13,861
Total bonds and subordinated notes	25,196	23,390	26,853	24,927

In May 2020, the Bank issued a series of subordinated notes in the amount of approximately NIS 1.06 billion through Hapoalim Hanpakot (a wholly owned subsidiary that serves as the funding arm of the Bank). The aforesaid subordinated notes constitute part of the Tier 2 capital of the Bank; they are linked to the consumer price index and bear annual interest at a rate of 2.59%, maturing in 2031, with an option for early redemption at the initiative of the Bank (and with the approval of the Banking Supervision Department) in 2026.

In July 2020, after the date of the financial statements, Hapoalim Hanpakot executed partial early redemption of Series 1 subordinated notes, in consideration for a total of NIS 596 million.

In May 2020, the Bank published a shelf prospectus allowing the Bank to issue shares and securities convertible into shares, bonds, subordinated notes, and other securities. As at the date of publication of this report, the Bank is preparing for the issuance of subordinated notes with a mechanism for principal loss absorption through forced conversion into ordinary shares of the Bank, based on the aforesaid shelf prospectus, and preparing for funding in ordinary bonds through Hapoalim Hanpakot.

The Bank raises debt and Tier 2 capital from time to time, according to requirements and market conditions.

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Table 2-18: Derivative instruments

	June 30, 2020			December 31, 2019		
	Positive fair value	Negative fair value	Notional value	Positive fair value	Negative fair value	Notional value
NIS millions						
Interest contracts	7,865	9,093	444,085	6,375	7,105	532,142
Currency contracts	3,585	3,664	335,763	3,762	3,982	312,037
Share-related contracts	1,576	1,582	73,092	991	991	51,920
Commodity and service contracts (including credit derivatives)	37	37	362	15	15	1,667
Total	13,063	14,376	853,302	11,143	12,093	897,766

2.3.2. Capital, capital adequacy, and leverage

(1) Capital

Investments in the capital of the Bank and transactions in its shares

The issued and paid-up share capital of the Bank, as at June 30, 2020, is NIS 1,335,898,103 par value, composed of ordinary shares of par value NIS 1 each. This is the issued capital excluding 1,479,008 ordinary shares purchased by the Bank ("Treasury Shares").

Until November 2018, Ms. Shari Arison held the permit for control of the Bank, through Arison Holdings (1998) Ltd. ("Arison Holdings"). On November 22, 2018, Ms. Arison's control permit was replaced by a permit to hold means of control, which she received from the Bank of Israel (a "holding permit"), allowing the control of the Bank to be decentralized, and the Bank became a banking corporation without a controlling core. Pursuant to the terms of the holding permit, Ms. Arison, who holds approximately 15.7% of the shares of the Bank at the date of publication of this statement, is required to sell her holdings in the Bank in excess of 5% within several years. For additional details regarding the holding permit, the change in the structure of control of the Bank, and the consequences thereof, see [the section "Other matters" in the Corporate Governance Report in the Annual Financial Statements for 2018](#).

Dividends

Subject to the statements in this section, below, since the first quarter of 2017, the dividend distribution policy of the Bank is to distribute up to 40% of quarterly net operating profit. Any distribution is subject to a specific resolution of the Board of Directors of the Bank, based on its judgment at the date of the distribution, taking into account business considerations, the directives of all laws, and any constraints on distribution.

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In addition to restrictions under the Companies Law, dividend distribution by banking corporations is subject to regulation applicable to banking corporations in Israel, pursuant to which no dividends shall be distributed: (a) if the cumulative balance of retained earnings of the bank (net of negative differences included in accumulated other comprehensive income) according to its last published financial statements is not positive, or if the payout would lead to a negative balance; (b) when one or more of the last three calendar years ended in a loss or in a comprehensive loss; (c) when the cumulative result of the three quarters ended at the end of the interim period for which the last financial statement has been released indicates a loss or a comprehensive loss; (d) if the forecast is that in the year following the payout the bank's ratio of capital to risk-adjusted assets will fall below the required rate; (e) from capital reserves or positive differences resulting from the translation of financial statements of foreign operations; (f) if after the payout the bank's non-monetary assets would exceed its shareholders' equity; or (g) if the bank does not comply with the requirements of Section 23A of the Banking Law, which establishes a limit on the percentage of capital that a banking corporation may invest in non-financial corporations. The foregoing notwithstanding, in certain cases the Bank can distribute dividends even if the aforesaid circumstances apply, if it obtains prior written approval from the Banking Supervision Department for such distribution, up to the amount thus approved. For details regarding the capital-adequacy target of the Bank, see [the section "Capital adequacy,"](#) below. Pursuant to the terms of the subordinated notes, if interest payments in respect of these notes are deferred, the Bank shall not pay dividends to its shareholders until all of the deferred interest payments are paid in full. In light of the uncertainty with respect to the investigation of the United States authorities that existed prior to the approval of the resolutions (see [Note 10D](#) to the Condensed Financial Statements), for reasons of conservatism and in coordination with the Bank of Israel, beginning in the second quarter of 2018, the Board of Directors of the Bank has not declared the distribution of dividends from ongoing earnings, with no change to the Bank's dividend distribution policy. See [also Note 24 to the Annual Financial Statements for 2019.](#) As a result of the sale of approximately 65.2% of the shares of Isracard in the second quarter of 2019, the Bank accumulated additional capital surplus. In September 2019, the Board of Directors of the Bank declared the distribution of dividends in respect of this capital surplus, in the amount of NIS 1 billion, paid in October 2019. The remaining holdings of the Bank in the shares of Isracard (approximately 33% of the issued and paid-up capital of Isracard) were distributed as a dividend in kind to the shareholders of the Bank on March 9, 2020. In view of the notification of the Supervisor of Banks of March 29, 2020, and the temporary order established (see [Section 2 concerning capital adequacy,](#) below) in connection with the spread of the coronavirus, the Board of Directors of the Bank resolved, on March 31, 2020, that in light of the uncertainty in macroeconomic conditions, and in order to fulfill the purpose of the directives and policy of the Banking Supervision Department, until the end of the period of the temporary order and until conditions are clearer, the Bank will continue to refrain from performing distributions from ongoing earnings.

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Table 2-19: Details of dividends paid

Date of declaration	Date of payment	Dividend per share Agorot	Dividend paid in cash NIS millions
February 2, 2020	March 9, 2020	*53.937	**720
September 24, 2019	October 23, 2019	74.897	1,000

* Calculated based on the value of Isracard shares on March 8, 2020 (NIS 10.91). Approximately 0.0494 shares of Isracard were distributed as a dividend in kind in respect of each share of the Bank.

** Paid as a dividend in kind, in shares. The amount noted is based on the price of the Isracard share on the stock exchange on March 8, 2020.

(2) Capital adequacy

The Bank's approach to capital-adequacy assessment

The Bank applies the capital measurement and adequacy directives based on the Basel directives, as published by the Banking Supervision Department and as integrated into Proper Conduct of Banking Business Directives 201-211 and the file of questions and answers.

The capital measurement and adequacy directives are based on three pillars:

- Pillar 1 – Includes the manner of calculation of the supervisory minimum capital requirements in respect of credit risks, operational risk, and market risk.
- Pillar 2 – Sets forth internal processes (the ICAAP – Internal Capital Adequacy Assessment Process) to be used by banks to assess the required capital in respect of risks in aggregate, including those not covered by Pillar 1 (such as credit concentration, interest-rate risk in the banking book, liquidity risks, settlement risks, and strategic risks), as well as a review process to be performed by the Banking Supervision Department.
- Pillar 3 – Market discipline; establishes the type and extent of information to be presented in reporting to the public on the risks to which banks are exposed. This pillar requires the disclosure of both quantitative and qualitative information, in order to enable the market to estimate the extent of the bank's exposure to risk factors.

Basel 3 directives

The Basel 3 directives took effect on January 1, 2014. Implementation is gradual, in accordance with the transitional directives established in Proper Conduct of Banking Business Directive 299, "Capital Measurement and Adequacy – Supervisory Capital – Transitional Directives." In accordance with the transitional directives, capital instruments that no longer qualify as supervisory capital were recognized as of January 1, 2014, up to a ceiling of 80% of their balance in the supervisory capital as at December 31, 2013; this ceiling is being lowered by an additional 10% in each subsequent year, until January 1, 2022. Accordingly, the ceiling for instruments qualifying as supervisory capital was 30% and 20%, respectively, in 2019 and 2020.

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Capital adequacy target

On March 31, 2020, the Banking Supervision Department issued a circular on the subject, "Adjustments to the Proper Conduct of Banking Business Directives for the purpose of coping with the coronavirus crisis (temporary order)" (the "Temporary Order"), in view, according to the statement of the Banking Supervision Department, of the spread of the coronavirus, and in order to ensure the ability of the banks to continue to offer credit. Pursuant to the circular, the Bank, as a banking corporation of significant importance (a banking corporation whose total balance sheet assets on a consolidated basis constitute at least 24% of the total balance sheet assets of the banking system in Israel), is required to maintain a minimum common equity Tier 1 capital ratio of 9% (versus 10% prior to this change), and a minimum total capital ratio of 12.5% (versus 13.5% prior to this change). These capital requirements will be in effect for six months, and will be extended for an additional six months if necessary, after which, as relevant, the Bank will be required to present a trajectory for gradual reaccumulation of capital, to the extent that its capital is eroded, over a period of two years. A capital requirement was added to the minimum capital ratios at a rate representing 1% of the balance of housing loans at the dates of the financial statements, excluding housing loans granted during the period of the Temporary Order.

Accordingly, the minimum common equity Tier 1 capital ratio and the minimum total capital ratio of the Bank (which is a banking corporation of significant importance) required by the Banking Supervision Department, on a consolidated basis, as at June 30, 2020, and for the duration of the period of the Temporary Order, stand at 9.26% and 12.76%, respectively (instead of 10.26% and 13.76% prior to the Temporary Order).

In the statement issued by the Banking Supervision Department in connection with the Temporary Order, boards of directors of banks were asked, among other matters, to reexamine their dividend policies, with the intention of using the capital resources released as a result of the reduced capital requirements in order to increase credit, rather than for distribution. In view of the statement of the Banking Supervision Department, and in order to allow realization of the purpose of the directive, the Board of Directors of the Bank resolved on March 31, 2020, to adjust the target common equity Tier 1 capital ratio to 9.5%. The Board of Directors further resolved that, taking into consideration the existing distribution policy of the Bank (distribution of up to 40% of quarterly net operating profit), in light of the uncertainty in macroeconomic conditions, and in order to fulfill the purpose of the Temporary Order and the policy of the Banking Supervision Department, until the end of the period of the Temporary Order and until conditions are clearer, the Bank will continue to refrain from performing distributions from ongoing earnings.

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Planning and management of capital by the Bank

Capital planning at the Bank is based on the work plan of the Bank and on regulatory directives, which are translated into risk-adjusted assets and changes in the various tiers of capital, while maintaining safety margins. Various sensitivity tests are applied within the planning of capital and capital ratios. The Bank also routinely monitors actual results as compared to planning, and the gaps between results and planning, and, as necessary, examines the actions needed in order to maintain the established capital targets. The policy of the Bank is to maintain capital adequacy at a level higher than the minimum ratio required by the Banking Supervision Department, and not lower than the level of capital adequacy required to cover the risks, as assessed in the Internal Capital Adequacy Assessment Process (ICAAP). Within the ICAAP, the Bank examines the effect of stress scenarios on capital-adequacy ratios; accordingly, a plan is in place for a return to regulatory capital adequacy in the case of a such a stress event.

Improving operational efficiency

In January 2016, the Banking Supervision Department issued a letter on the subject, "Improving the operational efficiency of the banking system in Israel" (the "Efficiency Directive"). Pursuant to the Efficiency Directive, the boards of directors of banking corporations shall formulate a multi-year plan to improve efficiency. Banking corporations that meet the conditions established in the directive will be granted a relief allowing them to spread the effects of the plan over a period of up to five years in a straight line, for the purposes of the calculation of capital-adequacy ratios and of the leverage ratio.

Further to the Efficiency Directive, in June 2017, the Banking Supervision Department issued a letter entitled, "Improving the operational efficiency of the banking system in Israel – efficiency in the area of real estate," which encourages banking corporations to also examine, in addition to improved efficiency in personnel expenses, the possibility of reducing real-estate and maintenance costs of headquarters and management units, including through a reexamination of the geographical location of such units ("Real-Estate Efficiency"). In order to encourage the implementation of a plan for Real-Estate Efficiency, the Banking Supervision Department will approve reliefs for the banks in the area of capital adequacy.

In a letter dated December 16, 2019, the Banking Supervision Department extended the period for implementation of the efficiency plan until December 31, 2021.

In October 2016, the Board of Directors of the Bank approved an efficiency plan at an estimated cost in the amount of NIS 762 million, net of tax effect, which was allocated to capital. The plan is being allocated in equal installments over five years, beginning in 2017, for the purpose of the calculation of capital-adequacy ratios and the leverage ratio.

In January 2020, the Board of Directors of the Bank approved an efficiency plan at an estimated cost in the amount of NIS 352 million, net of tax effect, which was allocated to capital as at December 31, 2019. The plan is being allocated in equal installments over five years, beginning in 2020, for the purpose of the calculation of capital-adequacy ratios and the leverage ratio.

The effect of the reliefs in respect of the efficiency plans on the ratio of common equity Tier 1 capital to risk components is estimated at approximately 0.18% as at June 30, 2020.

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Issuance of subordinated notes with a loss-absorption mechanism

In May 2020, the Bank issued a series of subordinated notes through Hapoalim Hanpakot, in the amount of approximately NIS 1.06 billion, which constitute part of the Tier 2 capital of the Bank. For details regarding issues of subordinated notes by Hapoalim Hanpakot, see [Note 9J](#) to the Condensed Financial Statements.

Early redemption of capital notes in Tier 2 capital

In July 2020, after the date of the financial statements, Hapoalim Hanpakot executed partial early redemption of Series 1 subordinated notes, in consideration for a total of NIS 596 million. Following the decision regarding partial early redemption, as announced on June 16, 2020, the amount redeemed is not recognized in supervisory capital, beginning with the financial statements as at June 30, 2020.

The subsidiary of the Bank in Turkey

In January 2019, a letter was received from the Bank of Israel concerning the subsidiary of the Bank in Turkey, Bank Pozitif. In the letter, the Bank of Israel stated that the activity of the Bank in Turkey exposes it to significant risks, and therefore, until the realization of the full holdings of the Bank in Bank Pozitif, the Bank is required to increase the risk weighting rates of risk-adjusted assets in respect of the activity of Bank Pozitif, in the calculation of the consolidated capital ratio only, as follows:

- Beginning January 1, 2020, risk-adjusted assets in respect of the activity of Bank Pozitif will be weighted at a rate of at least 300%.
- Beginning January 1, 2021, risk-adjusted assets in respect of the activity of Bank Pozitif will be weighted at a rate of at least 600%.

Accordingly, beginning January 1, 2020, the Bank weighted risk-adjusted assets in respect of Bank Pozitif at 300%. The effect on the financial statements for the first quarter of 2020 is a decrease of approximately 0.04% in the common equity Tier 1 capital ratio. The effect of this instruction on the common equity Tier 1 capital ratio, assuming weighting of the risk-adjusted assets at 600%, based on data as at June 30, 2020, is an additional decrease of approximately 0.04%.

Within the Bank's strategic plan, a decision has been made to act to sell the investment in Bank Pozitif. Accordingly, the Bank is working to gradually reduce the credit portfolio of Bank Pozitif.

In June 2020, the Bank renewed a credit line for Bank Pozitif (which it holds at approximately 70%) in the amount of approximately USD 50 million, at an interest rate below market terms, taking into consideration, among other matters, the special circumstances of Bank Pozitif, of the credit line granted to it by the Bank, and of the relationship with the minority shareholder, and the efforts of the Bank to sell its investment in Bank Pozitif (see [Section 2.6.3](#), "Principal companies," below), in view of the challenging condition of the Turkish economy and of Bank Pozitif. In accordance with a requirement of the Banking Supervision Department, due to the aforesaid pricing, the balance of the credit line, in the amount of approximately NIS 173 million, was deducted from supervisory capital. The effect of this instruction on the common equity Tier 1 capital ratio is a decrease of approximately 0.05%.

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Leases

The effect of the implementation of the accounting standard concerning leases, at the adoption date of the standard, January 1, 2020, is a decrease of approximately 0.04% in the common equity Tier 1 capital ratio and a decrease of approximately 0.05% in the total capital ratio. For further details, see [Note 1C](#).

Guarantees with reduced conversion factors

In August 2020, the Banking Supervision Department issued a draft circular updating Proper Conduct of Banking Business Directive 203.

Pursuant to the draft, the Banking Supervision Department established reduced conversion factors for certain guarantees granted within project finance for evacuation and construction projects, National Outline Plan (TAMA) 38 (Type 2) projects, or combination transactions.

The conversion factors will be identical to conversion factors for Sale Law guarantees, i.e. 10% if the residence has been transferred to the tenant, and 30% if the residence has not yet been transferred to the tenant.

The effect of the implementation of the draft, if it is implemented, based on the data of the financial statements as at June 30, 2020, is estimated at an increase of 0.03% to 0.04% in the common equity Tier 1 capital ratio and an increase of 0.04% to 0.05% in the total capital ratio.

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Table 2-20: Calculation of the capital-adequacy ratio

	June 30, 2020	June 30, 2019	December 31, 2019
NIS millions			
1. Capital for the calculation of the capital ratio after supervisory adjustments and deductions			
Common equity Tier 1 capital ⁽¹⁾	38,300	39,852	38,795
Additional Tier 1 capital	488	733	733
Total Tier 1 capital ⁽¹⁾	38,788	40,585	39,528
Tier 2 capital	9,730	10,261	9,707
Total overall capital ⁽¹⁾	48,518	50,846	49,235
2. Weighted balances of risk-adjusted assets			
Credit risk ⁽²⁾	312,747	305,381	309,303
Market risks	4,769	3,578	3,528
Operational risk	23,428	24,032	23,556
Total weighted balances of risk-adjusted assets ⁽²⁾	340,944	332,991	336,387
%			
3. Ratio of capital to risk components			
Ratio of common equity Tier 1 capital to risk components	11.23%	11.97%	11.53%
Ratio of Tier 1 capital to risk components	11.38%	12.19%	11.75%
Ratio of total capital to risk components	14.23%	15.27%	14.64%
Minimum common equity Tier 1 capital ratio required by the Banking Supervision Department ⁽³⁾	9.26%	10.26%	10.27%
Minimum total capital ratio required by the Banking Supervision Department ⁽³⁾	12.76%	13.76%	13.77%

- (1) The data are presented in accordance with Proper Conduct of Banking Business Directive 202, "Capital Measurement and Adequacy – Supervisory Capital," and in accordance with the transitional directives established in Proper Conduct of Banking Business Directive 299. The data also include adjustments in respect of the efficiency plans, allocated in equal parts over five years, beginning at the inception date thereof. For additional details regarding the effect of the adjustments in respect of the efficiency plans, see [Note 9](#) to the Condensed Financial Statements.
- (2) A total of NIS 733 million as at June 30, 2020, NIS 883 million as at December 31, 2019, and NIS 533 million as at June 30, 2019, was deducted from the total weighted balances of risk-adjusted assets, due to adjustments in respect of the efficiency plans, which, in accordance with the approval of the Banking Supervision Department, are allocated gradually over five years from inception.
- (3) The required minimum common equity Tier 1 capital ratio and minimum total capital ratio were 10% and 13.5%, respectively, until March 31, 2020, and stand at 9% and 12.5%, respectively, as of that date and for the duration of the Temporary Order (see above in this section). A capital requirement was added to these ratios at a rate representing 1% of the balance of housing loans at the dates of the financial statements, excluding housing loans granted during the period of the Temporary Order.

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(3) Leverage ratio

The Bank applies Proper Conduct of Banking Business Directive 218, "Leverage Ratio" (hereinafter: the "Directive"). The Directive establishes a simple, transparent, non-risk-based leverage ratio, which serves as a complementary measurement to risk-based capital requirements, and which is designed to limit the accumulation of leverage at banking corporations.

The leverage ratio is expressed as a percentage, and is defined as the ratio of the capital measurement to the exposure measurement. Capital, for the purpose of measurement of the leverage ratio, is Tier 1 capital, as defined in Proper Conduct of Banking Business Directive 202, taking into consideration the transitional arrangements that have been established. The total exposure measurement is the total of balance sheet exposures, exposures to derivatives and to securities financing transactions, and off-balance sheet items.

Table 2-21: Leverage ratio

	June 30, 2020	June 30, 2019	December 31, 2019
NIS millions			
Consolidated data			
Tier 1 capital*	38,788	40,585	39,528
Total exposures*	556,182	511,322	519,648
%			
Leverage ratio	6.97%	7.94%	7.61%
Minimum leverage ratio required by the Banking Supervision Department	6.00%	6.00%	6.00%

* These data include adjustments in respect of the efficiency plans, in accordance with the directives of the Banking Supervision Department (see [the section "Improving operational efficiency"](#) above). The effect of the reliefs in respect of the efficiency plans on the leverage ratio as at June 30, 2020, estimated at approximately 0.1%, is allocated in equal parts over five years, beginning at the inception date thereof.

The decrease in the leverage ratio as at June 30, 2020, mainly resulted from an increase in total exposures, due to factors including an increase in customers' credit needs, as a result of the worsening of the economic environment while coping with the coronavirus crisis, and from a decrease in capital due to the distribution of the remaining shares of Isracard as a dividend in kind to shareholders.

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2.4. Description of the Bank Group's business by supervisory activity segments

Segments of activity are reported on in accordance with the format and classifications established in the Public Reporting Directives of the Banking Supervision Department. This reporting is fundamentally different from the activity segments used at the Bank according to the approach of its management, which are described in Section 2.5 and in Note 12A to the Condensed Financial Statements. Supervisory activity segments are reported in the uniform format established by the Banking Supervision Department for the entire banking system. The segments are based on customer characteristics, such as asset portfolio volume with respect to private customers, or annual revenue of a business with respect to business customers.

For the definitions of the supervisory segments and for details regarding the main points of the guidelines, estimates, and reporting principles, see [Note 28 to the Annual Financial Statements for 2019.](#)

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Table 2-22: Results of operations and principal data of the supervisory activity segments

	For the three months ended June 30, 2020										Total activity overseas	
	Activity in Israel											
	Households	Private banking	Small businesses and microbusinesses	Mid-sized businesses	Large businesses	Institutional entities	Financial management	Other	Total activity in Israel			
NIS millions												
Net financing profit	740	17	496	188	297	29	500	1	2,268	91	2,359	
Fees and other income	285	33	189	65	98	21	33	62	786	9	795	
Total income	1,025	50	685	253	395	50	533	63	3,054	100	3,154	
Provision (income) for credit losses	505	2	250	95	212	(4)	(1)	-	1,059	69	1,128	
Operating and other expenses	912	47	422	81	78	39	108	24	1,711	115	1,826	
Profit (loss) from continued operations before taxes	(392)	1	13	77	105	15	426	39	284	(84)	200	
Provision for taxes (tax benefit) on profit (loss) from continued operations	(191)	-	17	47	54	8	145	3	83	(10)	73	
Net profit (loss) from continued operations	(201)	1	(4)	30	51	7	282	36	202	(74)	128	
Loss from a discontinued operation	-	-	-	-	-	-	-	-	-	-	-	
Net profit (loss) attributed to shareholders of the Bank	(201)	1	(4)	30	51	7	284	36	204	(71)	133	
Balance of gross credit to the public at the end of the reported period	129,527	628	54,884	31,344	67,319	1,641	-	-	285,343	14,347	299,690	
Balance of deposits from the public at the end of the reported period	150,605	34,374	71,921	26,443	45,004	54,477	-	-	382,824	17,992	400,816	

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Table 2-22: Results of operations and principal data of the supervisory activity segments (continued)

	For the three months ended June 30, 2019*										Total activity overseas	
	Activity in Israel								Total activity in Israel			
	Households	Private banking	Small businesses and microbusinesses	Mid-sized businesses	Large businesses	Institutional entities	Financial management	Other	Total activity in Israel			
NIS millions												
Net financing profit	847	46	570	189	273	17	579	1	2,522	110	2,632	
Fees and other income	332	34	204	68	97	27	21	36	819	14	833	
Total income	1,179	80	774	257	370	44	600	37	3,341	124	3,465	
Provision (income) for credit losses	62	-	90	(8)	148	4	1	-	297	22	319	
Operating and other expenses	893	45	417	82	79	38	106	77	1,737	255	1,992	
Profit (loss) from continued operations before taxes	224	35	267	183	143	2	493	(40)	1,307	(153)	1,154	
Provision for taxes (tax benefit) on profit (loss) from continued operations	73	9	85	60	44	1	180	(9)	443	(2)	441	
Net profit (loss) from continued operations	151	26	182	123	99	1	317	(31)	868	(151)	717	
Net profit from a discontinued operation	-	-	-	-	-	-	-	151	151	-	151	
Net profit (loss) attributed to shareholders of the Bank	151	26	182	123	99	1	316	120	1,018	(147)	871	
Balance of gross credit to the public at the end of the reported period	125,940	899	54,107	28,531	65,213	1,694	-	-	276,384	16,251	292,635	
Balance of deposits from the public at the end of the reported period	135,153	32,629	61,702	21,501	38,219	45,822	-	-	335,026	17,086	352,112	

* Reclassified, mainly due to housing loans granted to individuals in an economic sector other than the sector "private individuals," which were reclassified from the business segments to the "households" and "private banking" segments. In addition, some data were reclassified in order to properly reflect improvements in segment measurement methods.

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Table 2-22: Results of operations and principal data of the supervisory activity segments (continued)

	For the six months ended June 30, 2020										Total activity overseas
	Activity in Israel										
	Households	Private banking	Small businesses and microbusinesses	Mid-sized businesses	Large businesses	Institutional entities	Financial management	Other	Total activity in Israel		
NIS millions											
Net financing profit	1,551	50	1,047	384	604	72	922	1	4,631	226	4,857
Fees and other income	627	77	410	137	203	49	65	93	1,661	19	1,680
Total income	2,178	127	1,457	521	807	121	987	94	6,292	245	6,537
Provision for credit losses	657	2	456	174	537	4	-	-	1,830	107	1,937
Operating and other expenses	1,777	90	822	156	152	79	210	140	3,426	316	3,742
Profit (loss) from continued operations before taxes	(256)	35	179	191	118	38	777	(46)	1,036	(178)	858
Provision for taxes (tax benefit) on profit (loss) from continued operations	(135)	14	89	98	61	18	300	5	450	(14)	436
Net profit (loss) from continued operations	(121)	21	90	93	57	20	479	(51)	588	(164)	424
Loss from a discontinued operation	-	-	-	-	-	-	-	(109)	(109)	-	(109)
Net profit (loss) attributed to shareholders of the Bank	(121)	21	90	93	57	20	483	(160)	483	(158)	325
Balance of gross credit to the public at the end of the reported period	129,527	628	54,884	31,344	67,319	1,641	-	-	285,343	14,347	299,690
Balance of deposits from the public at the end of the reported period	150,605	34,374	71,921	26,443	45,004	54,477	-	-	382,824	17,992	400,816

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Table 2-22: Results of operations and principal data of the supervisory activity segments (continued)

	For the six months ended June 30, 2019*										Total activity overseas	
	Activity in Israel								Activity overseas			
	Households	Private banking	Small businesses and microbusinesses	Mid-sized businesses	Large businesses	Institutional entities	Financial management	Other	Total activity in Israel			
NIS millions												
Net financing profit	1,690	92	1,139	381	555	51	826	3	4,737	261	4,998	
Fees and other income	648	67	406	138	188	52	42	69	1,610	26	1,636	
Total income	2,338	159	1,545	519	743	103	868	72	6,347	287	6,634	
Provision (income) for credit losses	131	-	133	(7)	159	3	3	-	422	18	440	
Operating and other expenses	1,785	90	835	162	157	78	218	119	3,444	425	3,869	
Profit (loss) from continued operations before taxes	422	69	577	364	427	22	647	(47)	2,481	(156)	2,325	
Provision for taxes (tax benefit) on profit (loss) from continued operations	146	22	202	129	150	7	224	(10)	870	20	890	
Net profit (loss) from continued operations	276	47	375	235	277	15	427	(37)	1,615	(176)	1,439	
Net profit from a discontinued operation	-	-	-	-	-	-	-	242	242	-	242	
Net profit (loss) attributed to shareholders of the Bank	276	47	375	235	277	15	431	205	1,861	(169)	1,692	
Balance of gross credit to the public at the end of the reported period	125,940	899	54,107	28,531	65,213	1,694	-	-	276,384	16,251	292,635	
Balance of deposits from the public at the end of the reported period	135,153	32,629	61,702	21,501	38,219	45,822	-	-	335,026	17,086	352,112	

* Reclassified, mainly due to housing loans granted to individuals in an economic sector other than the sector "private individuals," which were reclassified from the business segments to the "households" and "private banking" segments. In addition, some data were reclassified in order to properly reflect improvements in segment measurement methods.

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Principal changes in net profit and balance sheet balances

Household Segment

The loss attributed to shareholders of the Bank in the Household Segment totaled NIS 121 million in the first half of 2020, compared with net profit in the amount of NIS 276 million in the same period last year. The decrease mainly resulted from an increase in the provision for credit losses and a decrease in net financing profit.

Net financing profit totaled NIS 1,551 million in the first half of 2020, compared with NIS 1,690 million in the same period last year. The decrease resulted from a decrease in credit volumes and in financial spreads of credit, and in financial spreads of deposits, as a result of a decrease in the dollar interest rate. By contrast, an increase occurred as a result of an increase in the volume of housing credit.

Fees and other income totaled NIS 627 million in the first half of 2020, compared with NIS 648 million in the same period last year. The decrease mainly resulted from a decrease in account-management fees and in credit-card fees, partly offset by an increase in securities activity fees.

The provision for credit losses totaled NIS 657 million in the first half of 2020, compared with NIS 131 million in the same period last year. Most of the increase resulted from an increase in the collective allowance in respect of sound credit, including allowances in respect of housing loans, due to the uncertainty arising from the effect of the coronavirus on the condition of the economy and of borrowers, and on the ability to identify and estimate credit losses inherent in the portfolio during the present period of significant uncertainty.

Operating and other expenses of the segment totaled NIS 1,777 million in the first half of 2020, compared with NIS 1,785 million in the same period last year. The decrease mainly resulted from a decrease in salary expenses, resulting from continued cost savings due to efficiency processes; a decrease in bonus amounts, in view of the return on equity attained in the first half of 2020, as a result of the effects of the spread of the coronavirus; and the effects of the wage agreement, pursuant to which equity compensation for employees has been eliminated and replaced by wage increments granted beginning in May. A large expense for equity compensation was recorded in the first half of 2019, due to an increase in the share price of the Bank. By contrast, expenses increased due to a change in the Bank's estimate with regard to the balance of a contingent liability.

Credit to the public totaled approximately NIS 130 billion as at June 30, 2020 (of which: housing credit in the amount of approximately NIS 94 billion, consumer credit in the amount of approximately NIS 31 billion, and credit cards in the amount of approximately NIS 5 billion), compared with approximately NIS 128 billion as at December 31, 2019 (of which: housing credit in the amount of approximately NIS 89 billion, consumer credit in the amount of NIS 34 billion, and credit cards in the amount of approximately NIS 5 billion).

Deposits from the public totaled approximately NIS 150.6 billion as at June 30, 2020, compared with approximately NIS 134.4 billion as at December 31, 2019. The increase mainly resulted from customers' transition to conservative investment channels, due to the effects of the spread of the coronavirus.

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Private Banking Segment

Net profit attributed to shareholders of the Bank in the Private Banking Segment totaled NIS 21 million in the first half of 2020, compared with net profit in the amount of NIS 47 million in the same period last year. The decrease mainly resulted from a decrease in net financing profit, partly offset by an increase in fees. Net financing profit totaled NIS 50 million in the first half of 2020, compared with NIS 92 million in the same period last year. The decrease mainly resulted from a decrease in financial spreads on deposits, due to a decrease in the dollar interest rate.

Fees and other income totaled NIS 77 million in the first half of 2020, compared with NIS 67 million in the same period last year. The increase mainly resulted from an increase in securities activity fees.

Credit to the public totaled approximately NIS 0.6 billion as at June 30, 2020, similar to December 31, 2019.

Deposits from the public totaled approximately NIS 34.4 billion as at June 30, 2020, compared with approximately NIS 31.2 billion as at December 31, 2019.

Small Business and Microbusiness Segment

Net profit attributed to shareholders of the Bank in the Small Business and Microbusiness Segment totaled NIS 90 million in the first half of 2020, compared with NIS 375 million in the same period last year. The decrease mainly resulted from an increase in the provision for credit losses and from a decrease in net financing profit. Net financing profit totaled NIS 1,047 million in the first half of 2020, compared with NIS 1,139 million in the same period last year. The decrease mainly resulted from a decrease in financial spreads on deposits, due to a decrease in the dollar interest rate.

The provision for credit losses totaled NIS 456 million in the first half of 2020, compared with NIS 133 million in the same period last year. Most of the increase resulted from an increase in the collective allowance in respect of sound credit, due to the uncertainty arising from the effect of the coronavirus on the condition of the economy and of borrowers, and on the ability to identify and estimate credit losses inherent in the portfolio during the present period of significant uncertainty.

Operating and other expenses of the segment totaled NIS 822 million in the first half of 2020, compared with NIS 835 million in the same period last year. The decrease mainly resulted from a decrease in salary expenses, resulting from continued cost savings due to efficiency processes; a decrease in bonus amounts, in view of the return on equity attained in the first half of 2020, as a result of the effects of the spread of the coronavirus; and the effects of the wage agreement, pursuant to which equity compensation for employees has been eliminated and replaced by wage increments granted beginning in May. A large expense for equity compensation was recorded in the first half of 2019, due to an increase in the share price of the Bank.

Credit to the public totaled approximately NIS 54.9 billion as at June 30, 2020, compared with approximately NIS 54.8 billion as at December 31, 2019.

Deposits from the public totaled approximately NIS 71.9 billion as at June 30, 2020, compared with approximately NIS 61.5 billion as at December 31, 2019. The increase mainly resulted from customers' transition to conservative investment channels, due to the effects of the spread of the coronavirus.

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Mid-sized Business Segment

Net profit attributed to shareholders of the Bank in the Mid-Sized Business Segment totaled NIS 93 million in the first half of 2020, compared with NIS 235 million in the same period last year. The decrease mainly resulted from an increase in the provision for credit losses.

The provision for credit losses totaled NIS 174 million in the first half of 2020, compared with income in the amount of NIS 7 million in the same period last year. Most of the increase resulted from an increase in the collective allowance in respect of sound credit, due to the uncertainty arising from the effect of the coronavirus on the condition of the economy and of borrowers, and on the ability to identify and estimate credit losses inherent in the portfolio during the present period of significant uncertainty. The increase also resulted from an increase in the collective allowance in respect of problematic debts and from an increase in provisions on an individual basis.

Credit to the public totaled approximately NIS 31.3 billion as at June 30, 2020, compared with approximately NIS 29.6 billion as at December 31, 2019.

Deposits from the public totaled approximately NIS 26.4 billion as at June 30, 2020, compared with approximately NIS 24.5 billion as at December 31, 2019.

Large Business Segment

Net profit attributed to shareholders of the Bank in the Large Business Segment totaled NIS 57 million in the first half of 2020, compared with NIS 277 million in the same period last year. The decrease mainly resulted from an increase in the provision for credit losses, partly offset by an increase in net financing profit and by an increase in fees.

Net financing profit totaled NIS 604 million in the first half of 2020, compared with NIS 555 million in the same period last year. The increase resulted from an increase in income from the activity of the dealing room, due to an increase in the volume of transactions as a result of the volatility in the market, and from an increase in the volume of credit and deposits.

Fees and other income totaled NIS 203 million in the first half of 2020, compared with NIS 188 million in the same period last year. The increase mainly resulted from an increase in fees from financing transactions and an increase in securities activity fees.

The provision for credit losses totaled NIS 537 million in the first half of 2020, compared with a provision in the amount of NIS 159 million in the same period last year. Most of the increase resulted from an increase in the collective allowance in respect of sound credit, due to the uncertainty arising from the effect of the coronavirus on the condition of the economy and of borrowers, and on the ability to identify and estimate credit losses inherent in the portfolio during the present period of significant uncertainty. The increase also resulted from an increase in the provision on an individual basis, due to a decrease in recovery of charged-off debts.

Credit to the public totaled approximately NIS 67.3 billion as at June 30, 2020, compared with approximately NIS 67.9 billion as at December 31, 2019.

Deposits from the public totaled approximately NIS 45.0 billion as at June 30, 2020, similar to the balance as at December 31, 2019.

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Institutional Entity Segment

Net profit attributed to shareholders of the Bank in the Institutional Entity Segment totaled NIS 20 million in the first half of 2020, compared with NIS 15 million in the same period last year. The increase mainly resulted from an increase in net financing profit.

Net financing profit totaled NIS 72 million in the first half of 2020, compared with NIS 51 million in the same period last year. The increase resulted from an increase in income from the activity of the dealing room, due to an increase in the volume of transactions as a result of the volatility in the markets.

Credit to the public totaled approximately NIS 1.6 billion as at June 30, 2020, compared with approximately NIS 1.2 billion as at December 31, 2019.

Deposits from the public totaled approximately NIS 54.5 billion as at June 30, 2020, compared with approximately NIS 48.8 billion as at December 31, 2019.

Financial Management Segment

Net profit attributed to shareholders of the Bank in the Financial Management Segment totaled NIS 483 million in the first half of 2020, compared with NIS 431 million in the same period last year. The increase mainly resulted from an increase in net financing profit.

Net financing profit totaled NIS 922 million in the first half of 2020, compared with NIS 826 million in the same period last year. The increase resulted from an increase in income from exchange-rate differences, mainly due to hedging of currency exposures of non-monetary items. In addition, income from the activity of the dealing room increased, due to an increase in the volume of transactions as a result of the volatility in the market resulting from the spread of the coronavirus. Profit also increased due to a change in the differences between the fair value of derivatives that are part of the asset and liability management of the Bank and the measurement of the same assets on an accrual basis, and profits from investment in bonds increased. By contrast, losses from investment in shares resulted from a decline in the market value of the shares in the capital market in the first quarter, due to the coronavirus crisis, partly offset by an increase in market value in the second quarter. In addition, income from linkage differentials decreased due to changes in the rate of increase of the known CPI between the periods.

Fees and other income totaled NIS 65 million in the first half of 2020, compared with NIS 42 million in the same period last year. The increase mainly resulted from an increase in syndication fees.

For details regarding the effect of the spread of the coronavirus on foreign financial institutions, see [the section "Credit risk"](#) in the Review of Risks, below.

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Other Segment (activity in Israel)

The loss attributed to shareholders of the Bank in the Other Segment totaled NIS 160 million in the first half of 2020, compared with net profit in the amount of NIS 205 million in the same period last year.

The loss from continued operations attributed to shareholders of the Bank in the segment totaled NIS 51 million in the first half of 2020, compared with a loss in the amount of NIS 37 million in the same period last year. The increase in loss mainly resulted from an expense for revaluation of the liability in respect of the provision in connection with the investigation of the Bank Group's business with American customers, compared with income in the same period last year, in which the dollar exchange rate fell. This increase was offset by an increase in profit from the sale of assets and a decrease in legal expenses in connection with the American investigation.

In addition, the Other Segment includes loss attributed to a discontinued operation, which totaled NIS 109 million in the first half of 2020, compared with profit in the amount of approximately NIS 242 million in the same period last year. The loss from a discontinued operation in the first half of 2020 resulted from recognition of loss from impairment of the investment in Isracard, in the amount of approximately NIS 109 million (after tax effect), due to the decrease in the share price to a level lower than the balance of the investment in the Bank's books as at December 31, 2019, compared with the price immediately prior to its distribution as a dividend in kind to the shareholders. The Bank's share in the profits of the Isracard Group and profit from the sale of 65% of the shares of Isracard were included in the same period last year

International Activity Segment

The loss attributed to shareholders of the Bank in the International Activity Segment totaled NIS 158 million in the first half of 2020, compared with a loss in the amount of NIS 169 million in the same period last year. The decrease in loss mainly resulted from a decrease in legal expenses, partly offset by expenses recorded in respect of revaluation of the provision in connection with the investigation of the Bank Group's business with American customers.

The principal changes in the results of international activity are set out below:

- The loss of the New York branch totaled approximately NIS 22 million in the first half of 2020, compared with profit of approximately NIS 74 million in the same period last year. The loss mainly resulted from an increase in the provision for credit losses, due to an increase in the rate of the collective allowance, as a result of the uncertainty arising from the effect of the coronavirus on the condition of the economy and of borrowers, and from a decrease in net financing profit.
- The loss of Hapoalim Switzerland totaled approximately NIS 121 million in the first half of 2020, compared with a loss in the amount of approximately NIS 216 million in the same period last year. The decrease in loss resulted from a decrease in legal expenses attributed to the investigation of the Bank Group's business with American customers. However, expenses were recorded in the first half of 2020 in respect of revaluation of the provision for the American investigation, versus income recorded in the same period last year. In addition, a loss was recorded in the first half of 2019 in respect of the transaction for the sale of the customer asset portfolio of Hapoalim Switzerland.
- In the first half of 2020, loss from impairment was recognized in respect of the investment in Pozitif, in the amount of NIS 30 million, and the Bank stated its share in the capital of Pozitif at a total of NIS 3 million.

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Total credit to the public in international activity amounted to approximately NIS 14.3 billion as at June 30, 2020, compared with approximately NIS 15.6 billion as at December 31, 2019. The decrease resulted from the transfer of most of the existing credit portfolio of Banque Hapoalim Luxembourg to Israel.

- Credit to the public at the New York branch totaled approximately NIS 13.6 billion as at June 30, 2020, similar to the balance as at December 31, 2019. Credit in middle-market activity totaled approximately NIS 11.2 billion, of which a total of approximately NIS 4.7 billion in respect of syndication transactions, similar to the balance as at December 31, 2019.
- As at June 30, 2020, balances of credit to the public in the amount of approximately NIS 0.3 billion remained at Banque Hapoalim Luxembourg, compared with approximately NIS 1.4 billion as at December 31, 2019, following the transfer of most of the existing credit portfolio to Israel.
- Credit to the public at Bank Pozitif in Turkey totaled approximately NIS 0.4 billion as at June 30, 2020, similar to the balance at the end of 2019.

Total deposits from the public in international activity amounted to approximately NIS 18.0 billion as at June 30, 2020, compared with approximately NIS 16.2 billion as at December 31, 2019.

- The balance of deposits from the public at the New York branch totaled approximately NIS 18.0 billion as at June 30, 2020, compared with approximately NIS 16.1 billion as at December 31, 2019. In middle-market activity, deposits totaled approximately NIS 7.2 billion, compared with approximately NIS 7.8 billion as at December 31, 2019. The balance of brokered CD deposits from the public totaled approximately NIS 10.8 billion, compared with approximately NIS 8.3 billion as at December 31, 2019.

2.5. Description of the Bank Group's business by segment of activity based on the management approach

The Bank Group operates in Israel and abroad, and provides a wide range of banking and financial services to its customers. The division into segments of activity according to the management approach is based on types of products and services or on types of customers. The chief operating decision maker of the Bank uses this division to make decisions and to analyze the Group's business results.

Customers' assignments to the segments of activity are based on the actual assignment of customers to the organizational units by which they are served, which is performed in accordance with various criteria established by the Board of Management of the Bank. For details regarding the criteria used in this classification and the rules for the distribution of the results of operations among the segments, see [Note 28A to the Annual Financial Statements for 2019](#).

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Table 2-23: Results of operations and principal data of the segments of activity based on management approach

	For the three months ended June 30, 2020								Total	
	Retail activity			Business activity						
	Private customers	Small businesses	Housing loans	Commercial	Corporate	International activity	Financial management ⁽¹⁾			
NIS millions										
Net financing profit	552	335	240	269	381	81	501	-	2,359	
Fees and other income	338	125	12	86	130	13	26	65	795	
Total income	890	460	252	355	511	94	527	65	3,154	
Provision (income) for credit losses	293	159	244	123	241	69	(1)	-	1,128	
Operating and other expenses	902	314	79	122	154	117	128	10	1,826	
Profit (loss) from continued operations before taxes	(305)	(13)	(71)	110	116	(92)	400	55	200	
Provision for taxes (tax benefit) on profit (loss) from continued operations	(113)	(9)	(30)	44	44	(15)	132	20	73	
Net profit (loss) from continued operations	(192)	(4)	(41)	66	72	(77)	269	35	128	
Loss from a discontinued operation	-	-	-	-	-	-	-	-	-	
Net profit (loss) attributed to shareholders of the Bank	(192)	(4)	(41)	66	72	(74)	271	35	133	
Net credit to the public at the end of the reported period	38,433	31,095	93,898	40,920	73,868	12,772	2,714	-	293,700	
Deposits from the public at the end of the reported period	210,550	52,853	-	28,060	54,461	17,927	36,965	-	400,816	

(1) The Financial Management Segment includes, among other matters, activity with institutional entities, most of which are presented in the information regarding supervisory activity segments as a separate segment.

(2) This section includes the results of activities of the Bank Group with negligible volumes, each of which does not constitute a reportable segment, and expenses allocated in Israel pertaining to the investigation of the Bank Group's business with American customers.

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Table 2-23: Results of operations and principal data of the segments of activity based on management approach (continued)

	For the three months ended June 30, 2019*								
	Retail activity			Business activity					
	Private customers	Small businesses ⁽²⁾	Housing loans	Commercial	Corporate	International activity	Financial management ⁽¹⁾	Adjustments ⁽²⁾	Total
NIS millions									
Net financing profit	724	407	204	275	363	98	548	13	2,632
Fees and other income	383	145	15	91	117	18	33	31	833
Total income	1,107	552	219	366	480	116	581	44	3,465
Provision for credit losses	65	89	12	13	116	22	2	-	319
Operating and other expenses	886	307	74	131	155	253	102	84	1,992
Profit (loss) from continued operations before taxes	156	156	133	222	209	(159)	477	(40)	1,154
Provision for taxes (tax benefit) on profit (loss) from continued operations	53	55	44	78	69	(2)	155	(11)	441
Net profit (loss) from continued operations	103	101	89	144	140	(157)	326	(29)	717
Net profit from a discontinued operation	-	-	-	-	-	-	-	151	151
Net profit (loss) attributed to shareholders of the Bank	103	101	89	144	140	(153)	325	122	871
Net credit to the public at the end of the reported period	42,856	31,583	85,333	38,687	75,718	12,654	1,792	-	288,623
Deposits from the public at the end of the reported period	187,977	44,115	-	23,545	50,014	16,957	29,504	-	352,112

* Reclassified.

- (1) The Financial Management Segment includes, among other matters, activity with institutional entities, most of which are presented in the information regarding supervisory activity segments as a separate segment.
- (2) This section includes the results of activities of the Bank Group with negligible volumes, each of which does not constitute a reportable segment, and expenses allocated in Israel pertaining to the investigation of the Bank Group's business with American customers.

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Table 2-23: Results of operations and principal data of the segments of activity based on management approach (continued)

	For the six months ended June 30, 2020								
	Retail activity			Business activity					
	Private customers	Small businesses	Housing loans	Commercial	Corporate	International activity	Financial management ⁽¹⁾	Adjustments ⁽²⁾	Total
NIS millions									
Net financing profit	1,210	714	475	556	772	205	905	20	4,857
Fees and other income	744	276	27	188	267	27	52	99	1,680
Total income	1,954	990	502	744	1,039	232	957	119	6,537
Provision for credit losses	424	299	276	298	529	107	4	-	1,937
Operating and other expenses	1,760	608	153	239	301	320	222	139	3,742
Profit (loss) from continued operations before taxes	(230)	83	73	207	209	(195)	731	(20)	858
Provision for taxes (tax benefit) on profit (loss) from continued operations	(79)	33	30	87	86	(20)	284	15	436
Net profit (loss) from continued operations	(151)	50	43	120	123	(175)	449	(35)	424
Loss from a discontinued operation	-	-	-	-	-	-	-	(109)	(109)
Net profit (loss) attributed to shareholders of the Bank	(151)	50	43	120	123	(169)	453	(144)	325
Net credit to the public at the end of the reported period	38,433	31,095	93,898	40,920	73,868	12,772	2,714	-	293,700
Deposits from the public at the end of the reported period	210,550	52,853	-	28,060	54,461	17,927	36,965	-	400,816

- (1) The Financial Management Segment includes, among other matters, activity with institutional entities, most of which are presented in the information regarding supervisory activity segments as a separate segment.
- (2) This section includes the results of activities of the Bank Group with negligible volumes, each of which does not constitute a reportable segment, and expenses allocated in Israel pertaining to the investigation of the Bank Group's business with American customers.

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Table 2-23: Results of operations and principal data of the segments of activity based on management approach (continued)

	For the six months ended June 30, 2019*								
	Retail activity			Business activity					
	Private customers	Small businesses	Housing loans	Commercial	Corporate	International activity	Financial management ⁽¹⁾	Adjustments ⁽²⁾	Total
NIS millions									
Net financing profit	1,450	822	398	539	726	235	797	31	4,998
Fees and other income	737	288	30	180	233	34	73	61	1,636
Total income	2,187	1,110	428	719	959	269	870	92	6,634
Provision for credit losses	122	167	19	14	96	18	4	-	440
Operating and other expenses	1,789	614	145	253	298	426	205	139	3,869
Profit (loss) from continued operations before taxes	276	329	264	452	565	(175)	661	(47)	2,325
Provision for taxes (tax benefit) on profit (loss) from continued operations	99	121	93	165	204	15	209	(16)	890
Net profit (loss) from continued operations	177	208	171	287	361	(190)	456	(31)	1,439
Net profit from a discontinued operation	-	-	-	-	-	-	-	242	242
Net profit (loss) attributed to shareholders of the Bank	177	208	171	287	361	(183)	460	211	1,692
Net credit to the public at the end of the reported period	42,856	31,583	85,333	38,687	75,718	12,654	1,792	-	288,623
Deposits from the public at the end of the reported period	187,977	44,115	-	23,545	50,014	16,957	29,504	-	352,112

* Reclassified.

(1) The Financial Management Segment includes, among other matters, activity with institutional entities, most of which are presented in the information regarding supervisory activity segments as a separate segment.

(2) This section includes the results of activities of the Bank Group with negligible volumes, each of which does not constitute a reportable segment, and expenses allocated in Israel pertaining to the investigation of the Bank Group's business with American customers. The data also include balances attributed to a discontinued operation.

For additional information regarding the segments of activity and analysis of the segments' results, see [the section "Activity segments based on management approach"](#) in the Corporate Governance Report.

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2.6. Principal companies

2.6.1. Isracard Group

In accordance with the requirements of the Law for Increasing Competition and Reducing Concentration in the Banking Market in Israel (Legislative Amendments), 2017 (the "Law for Increasing Competition"), in April 2019, the Bank sold 65.2% of the capital of Isracard in a public sale offering.

Until the end of the first quarter of 2019, the Bank included its 98.2% share of the profits of Isracard. After the sale, the Bank retained a holding of approximately 33% of the shares of Isracard, which was accounted for using the equity method.

On February 2, 2020, the Board of Directors of the Bank approved distribution of the remaining holdings in the shares of Isracard as a dividend in kind to the shareholders of the Bank. The distribution was performed on March 9, 2020. The share distribution was performed according to the value of the shares on the stock exchange at the date of the distribution. Due to the share price falling below the balance of the investment in the Bank's books as at December 31, 2019, the Bank recognized a loss from impairment of the investment in the amount of approximately NIS 109 million (after tax effect), within profit from a discontinued operation, in its financial statements for the first quarter of 2020. As of the date of the distribution of the shares, the Bank does not hold shares in Isracard; the Bank thereby completed its separation from the Isracard Group, as required by the Law for Increasing Competition.

For further information regarding the argument of the Tax Assessment Officer that in the sale of a subsidiary classified as a dealer for the purposes of value-added tax ("VAT"), profit tax should be applied to distributable profits exempt from corporate tax, in connection with the sale of the Isracard Group, see [Note 8C\(3\) to the Annual Financial Statements for 2019](#).

For further information regarding VAT assessments referring, among other matters, to the payment of VAT for foreign-currency fees collected from customers of the Bank, and to the obligation of the Bank to the payment of VAT on fees collected on its behalf, see [Note 8C\(2\) to the Annual Financial Statements for 2019](#).

2.6.2. Hapoalim (Switzerland) Ltd. (hereinafter: "Hapoalim Switzerland")

A subsidiary (wholly owned by the Bank) incorporated in Switzerland, which was mainly engaged in the provision of private-banking services through branches in Zurich and Luxembourg; In September 2017, the Bank decided to act to discontinue the activity of Hapoalim Switzerland.

The Bank is acting to return its bank license and withdraw the company from the supervisory authority of FINMA. The loss of Hapoalim Switzerland in the first half of 2020 totaled CHF 28 million, compared with a loss in the amount of CHF 67 million in the same period last year. The decrease in loss resulted from a decrease in legal expenses attributed to the investigation of the Bank Group's business with American customers. However, expenses were recorded in the first half of 2020 in respect of revaluation of the provision for the American investigation, versus income recorded in the same period last year. In addition, a loss was recorded in the first half of 2019 in respect of the transaction for the sale of the customer asset portfolio of Hapoalim Switzerland. Following the loss resulting from the provision in connection with the investigation of the Bank Group's business with American customers and FIFA, recognized in the financial statements for the fourth quarter of 2019, and in order for Hapoalim Switzerland to comply with the regulatory capital-adequacy ratio required in Switzerland, the Bank invested an amount of CHF 95 million, in March 2020, immediately upon receiving the approval of the Banking Supervision Department for such enlargement of its investment.

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The total investment of the Bank in Hapoalim Switzerland amounted to NIS 560 million as at June 30, 2020, compared with NIS 315 million at the end of 2019.

For details regarding the conclusion of the investigation of the Bank Group's business with American customers, see [Note 10D](#) to the Condensed Financial Statements.

For details regarding the conclusion of the investigation of the Fédération Internationale de Football Association (FIFA), see [Note 10E](#) to the Condensed Financial Statements.

2.6.3. Bank Pozitif Kredi Ve Kalkınma Bankası Anonim Şirketi (hereinafter: "Bank Pozitif")

The Bank Group currently operates in Turkey through Bank Pozitif, held at a rate of 69.83% by the Bank, which operates and specializes in corporate banking. Deposit taking is subject to local regulation, and is permitted up to the amount of credit of each borrower.

Economic conditions in Turkey have worsened due to the coronavirus pandemic. The Turkish lira depreciated by approximately 15% against the dollar in the first half of the year, and risk premiums as measured by CDS rose considerably. The central bank lowered the interest rate to 8.25%.

In view of the economic and political situation in Turkey, a decision was made within the strategic plan of the Bank to act to sell the investment in Bank Pozitif. Accordingly, the Bank is working to gradually reduce the credit portfolio of Bank Pozitif.

In October 2019, the Bank engaged a Turkish investment bank, jointly with the minority shareholder of Bank Pozitif, to assist in finding potential buyers. The Bank estimates that it is not expected to recover the full amount of its investment in the company, and that most of the consideration is likely to be contingent.

In addition, the minority shareholder of Bank Pozitif has contentions against the Bank in connection with the alleged effect of the foregoing on the results of Bank Pozitif. The general manager of the bank resigned in July 2020. Due to the various disagreements, the Bank is conducting ongoing dialogue with the minority shareholder with regard to the conduct of Bank Pozitif and the activity of its board of directors. Within this dialogue, various alternatives are under discussion with respect to the division of the expected consideration from the sale of Bank Pozitif.

Following a proposal received by the Bank for the acquisition of Bank Pozitif, taking into consideration the discussions of the various alternatives with the minority shareholder, as noted, the Bank adjusted the fair value of the expected consideration, stated the value of the investment in capital at a total of approximately NIS 3 million (compared with NIS 33 million as at December 31, 2019), and recorded a provision for impairment in the amount of NIS 30 million. Near the date of publication of the financial statements, the Bank received another proposal from a different offeror, better than the proposal noted above. Taking into consideration, among other matters, the conditions in Turkey, the circumstances of Bank Pozitif, and past experience, the Bank is unable to estimate the probability of realization of this proposal.

It is also noted that in January 2019, the Bank of Israel instructed the Bank to raise the weighting rates of risk-adjusted assets in its calculation of the consolidated capital ratio in respect of the activity of Bank Pozitif, beginning in 2020. For details, see [the section "Capital and capital adequacy."](#) above.

The balance of credit to the public totaled TRY 672 million (approximately NIS 340 million) as at June 30, 2020, compared with a balance of TRY 641 million (approximately NIS 372 million) at the end of 2019.

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The business results of the Bank Pozitif Group amounted to a loss of approximately TRY 40 million in the first half of 2020, compared with a loss of approximately TRY 7 million in the same period last year, which mainly resulted from a significant increase in the provision for credit losses, due to the economic situation in Turkey. The Bank's total investment in Bank Pozitif as at June 30, 2020, after recognition of a loss from impairment of the investment, as noted above, amounted to NIS 107 million (NIS 3 million in capital and NIS 104 million in credit lines granted to Bank Pozitif), compared with approximately NIS 154 million (NIS 33 million in capital and NIS 121 million in loans, as noted) at the end of 2019. With regard to the deduction of the credit line facility from supervisory capital, see [Section 2.3.2, "Capital, capital adequacy, and leverage."](#)

For details regarding additional companies and further information concerning the international operations of the Bank, see [the International Activity Segment in the section "Segments of activity based on management approach"](#) in the Corporate Governance Report, below.

3. Review of risks

Some of the information in this section, even if it is based on processing of historical data, constitutes forward-looking information, as defined in the Securities Law and as detailed in Section 1.1 above.

Additional information regarding risks is available on the Bank's website, in the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2019, and in the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at June 30, 2020.

3.1. General description of risks and risk management

The Bank performs a comprehensive examination to assess the risks to which it is exposed and to determine the materiality of such risks. Within the ICAAP (the Internal Capital Adequacy Assessment Process), the Bank defined the following risks as material risks: credit risk, concentration risk, market risk, investment risk, operational risk (including IT risk and cyber risk), counterparty risk, interest-rate risk in the banking book, liquidity risk, reputational risk, strategic and competitive risk, regulatory risk, and compliance risk. Other risks to which the Bank is exposed are handled directly as part of the management of its business: legal risk, economic risk, and environmental risk.

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Risk management is performed based on a global view of the Bank's activity in Israel and of activity at the Bank's branches abroad, with due attention to the activity of subsidiaries with exposure significant for the Group. The subsidiaries are instructed to manage risks based on the strategy and policy of the Group, with adjustments according to the circumstances, which are reported to the parent company. Risks are managed separately by each company in the Bank Group, according to policy formulated by each company's board of directors. The Bank manages the various risks while hedging some risks. The Supervisor of Banks has set forth guidelines concerning risk management in the Proper Conduct of Banking Business Directives. The directives detail the requirements of the Supervisor for the management of the various risks to which a banking corporation is exposed, and stipulate fundamental principles for the management and control of risks, including suitable involvement in and thorough understanding of risk management by the board of directors of the banking corporation, the management of risks by a risk manager who is a member of the board of management, the employment of tools for the identification and measurement of risks, and the creation of means for supervision and control, including the existence of an independent risk-control function.

The Bank operates in accordance with the guidelines of the Supervisor of Banks.

The Chief Risk Officer (CRO) and the member of the Board of Management responsible for the Risk Management Division is Dr. A. Bachar.

Financial risks are managed by designated members of the Board of Management and under their responsibility.

The principal members of the Board of Management responsible for managing credit risks are the Head of Corporate Banking, Mr. T. Cohen, and the Head of Retail Banking, Ms. D. Raviv.

The member of the Board of Management responsible for managing market, investment, and liquidity risks is the Head of Financial Markets and International Banking, Mr. Y. Antebi.

Legal risk is managed by Attorney Y. Almog, Chief Legal Advisor.

Technological risk, including cyber risk, is managed by Ms. E. Ben-Zeev, Head of Information Technology.

Operational risk, excluding legal risk and technological risk, is managed by each member of the Board of Management in the area of activity for which he or she is responsible.

For details and more extensive information regarding risk management governance, including the control approach, the responsible parties, and the committees of the Board of Directors and Board of Management relevant to risk management, see [the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2019](#).

3.2. Credit risk

Credit risk is the risk that a borrower or debtor may default on obligations to the Bank under a credit agreement.

The credit portfolio is a major component of the asset portfolio of the Bank Group; therefore, deterioration in the stability of the various borrowers may have an adverse effect on the Group's asset value and profitability.

Activities that create credit risk include:

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- **Balance sheet exposures** – Present liabilities to the Bank, such as credit and mortgages to the public, credit to banks and deposits with banks, credit to governments, investment in bonds (corporate and other), and the balance sheet part (positive fair value) of derivatives and financial instruments.
- **Off-balance sheet exposures** – Potential (unrealized) liabilities to the Bank, such as guarantees, unutilized commitments to grant credit, unutilized credit facilities, and potential liabilities arising from changes in the value of transactions in derivative financial instruments.

The credit risk arising from transactions in derivative financial instruments is defined as counterparty risk, which is the risk that the counterparty to the transaction will default before the final settlement of cash flows in the derivatives transaction. For information regarding counterparty credit risk and the management thereof, see [the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at June 30, 2020](#).

Another risk arising from the portfolio of credit exposures is concentration risk. Concentration risk arises from non-optimal diversification of specific risks in the credit portfolio, such that the credit portfolio is insufficiently diversified across the various risk factors; for example, when the credit portfolio is composed of a small number of borrowers (name concentration) or has a high degree of exposure to a particular economic sector (sector concentration).

Effect of the coronavirus crisis

The spread of the virus, as well as the coping measures applied by governments in Israel and worldwide, have caused significant damage to business activity in Israel and globally, encompassing most sectors of the economy, although the damage is more explicit and clear in certain areas, such as aviation, tourism, commerce in shopping centers, restaurants, events, entertainment and leisure, and energy. The ability to cope with the economic damage depends on many factors that are insufficiently clear at this stage, including the pace of the return to routine functioning in the various sectors, the ability of businesses and households to contend with the crisis through changes in processes and finding alternative solutions, the support of the government, the recovery of global trade, and more. Exceptions are areas in which demand has grown, while conditions have not led to substantial damage to business, such as pharmacies and commerce in food. The percentage of job seekers has risen sharply as a result of the crisis. The effects of the crisis are also creating significant economic uncertainty among households.

The Bank is acting to support its customers during this period, taking into consideration the effects of the crisis on credit risk. Towards that end, the Bank has taken several measures, detailed in Section 2.1.3 above. In view of the high uncertainty, the Bank estimates that actual credit losses may grow; however, at this stage it is difficult to determine to what extent, or when, due to factors including the processes and measures applied by the government and the Bank of Israel, which may assist the economy in emerging from the crisis more quickly, but if they are unsuccessful, will only postpone the realization of credit risks.

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As part of the Bank's preparations for the outcomes of the coronavirus crisis, and in order to assess its possible effects, various internal scenarios are examined with regard to the progression of a series of economic parameters, which are used by the Bank to estimate the effects on the Bank. In particular, the Bank examines the potential impacts of the crisis on the credit portfolio, also as a supporting tool for examination of the adequacy of credit losses. It is emphasized that such scenarios are applied using different approaches practiced at each bank, which depend on the risk-management methods and internal approach of the banking corporation; different banking corporations may therefore arrive at estimates that vary, sometimes materially, according to the different scenarios applied by each banking corporation, based on its approach, and estimates may vary among banking corporations even given the same set of assumptions. According to the scenario applied by the Bank, the level of possible credit losses of the Bank in the coming year may be in the range of NIS 2.4 billion to NIS 4.8 billion, at a non-negligible degree of probability, if the data of the scenario materialize, and if the effect of the parameters of the scenario on portfolio quality is as predicted by the models and assumptions.

In view of the foregoing, this quarter the Bank again decided to increase its collective allowance, which totals approximately NIS 5.1 billion at the date of the financial statements, to create a higher collective allowance serving as a safety cushion against the possible future materialization of individual credit losses and automatic charge-offs, i.e. recognition of higher credit losses in the first half of 2020, by increasing the collective allowance against possible future materialization of individual losses and automatic charge-offs. It is emphasized that given the high uncertainty and the difficulty of fully identifying the credit losses, due to factors including the deferral of borrowers' payments, as described above, the prediction of credit losses in the midst of the crisis is the outcome of assumptions and evaluations, the reasonableness of which is extremely difficult to determine at this stage.

In the baseline scenario used by the Bank to challenge the collective allowance, the Bank assumed sharp contraction of GDP in the first two quarters this year, with subsequent recovery. In this assumptions of this scenario, GDP in the fourth quarter of 2020 is approximately 9% lower than in the same period last year, with a 10% annualized increase in the first half of 2021; the unemployment rate rises to approximately 16% (including unpaid leave) at its peak, and falls to 10% by June 2021; and housing prices fall moderately in the coming four quarters, through June 2021. The Bank of Israel interest rate remains at 0.1% in the coming four quarters in the aforesaid scenario. The scenario also assumes that restrictions due to the coronavirus will remain in place, and that routines will not fully resume in the near future, in view of the need for health precautions.

The main parameters included in the scenario, which the Bank estimates will influence the level of expected credit losses and which are subject to significant uncertainty, are the unemployment rate and the GDP growth rate.

As a sensitivity analysis, more severe effects than those included in the baseline scenario were tested with regard to changes in these two parameters. According to the sensitivity analysis, if the unemployment rate is 2.0-2.4 percentage points higher throughout the scenario, and the GDP growth rate is lower by up to 4.0 percentage points, the effect is an increase of approximately NIS 0.6 billion in credit losses in the scenario in the coming four quarters, relative to the pessimistic end of the scenario.

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A more moderate scenario was also examined, in which the unemployment rate is assumed to be lower by 2.0-2.4 percentage points throughout the scenario, and the GDP growth rate is up to 4.0 percentage points higher in the recovery phase. The effect of this sensitivity analysis on possible actual credit losses in the coming four quarters is a decrease of approximately NIS 1.7 billion in credit losses in the scenario, relative to the pessimistic end of the baseline scenario described above. Future actions by the government also affect the estimate of expected credit losses; to the extent that government assistance is granted to businesses and to private individuals, credit losses are expected to decrease further. These estimates and scenarios are continuously updated based on various forecasts, the economic plans of the government, and events in Israel and worldwide.

As the change in the allowance for credit losses mainly results from the increase in the collective allowance to reflect the forecast for future growth in credit losses, the change is not apparent in credit portfolio quality indicators that are primarily influenced by the present condition of the portfolio, such as the percentage of impaired debt and the percentage of problematic debt, which decreased in the first half of the year, possibly also affected by the deferral of borrowers' payments, as described above.

As described above, due to the high uncertainty prevailing at this stage, it is not possible to estimate the full effects of the crisis and the extent of such effects on the Bank. It is emphasized that different assumptions could have given rise to different results, possibly materially, than those described above, and may lead to varying results among the different banking corporations. The estimates of the Bank regarding the possible ramifications of the spread of the coronavirus and its impact on the markets constitute forward-looking information, as defined in Section 1.1 above. These estimates are uncertain, and may materialize in a manner materially different than described above.

3.2.1. Analysis of credit quality and problematic credit risk

Changes in terms of debts within measures to cope with the coronavirus crisis

In view of the spread of the coronavirus and its possible impacts on the condition of the economy and of borrowers, with the aim of encouraging banking corporations to act to stabilize borrowers who fail or are likely to fail to fulfill their contractual payment obligations due to the coronavirus, the Bank of Israel has issued emphases for addressing debts the terms of which have been changed. Pursuant to the circular, it has been determined that changes in the terms of loans do not automatically lead to classification of the loans as restructuring of problematic debt when short-term changes in payments are performed, due to the coronavirus crisis, for borrowers who were not previously in arrears. It has also been determined that borrowers are not considered borrowers in arrears if the arrears are of less than thirty days at the date of implementation of the changes.

Stabilization of borrowers who are not in arrears on their existing loans and who are sound borrowers confronting financial or operational problems in the short term due to the coronavirus crisis, in general, is not considered restructuring of problematic debt, particularly when the following conditions are fulfilled:

- The change was performed due to the coronavirus crisis.
- The borrower was not in arrears when the changes were implemented.
- The change is for a short period.

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With regard to the establishment of the state of arrears, debts that were not previously in arrears and are granted a deferral due to the coronavirus crisis are not classified as debts in arrears as a result of the deferral. When deferral of payments is performed for debts that were in arrears prior to the deferral, the state of arrears should be frozen during the period of deferral of payments, except if the debt has been classified as impaired or charged off. It is possible that without the suspension of the count of days of arrears with respect to deferred payments, as noted above, the balance of debts in arrears would be higher.

In addition, with regard to housing loans that were not problematic at the date of deferral of the payments, as noted above, it has been clarified that when an additional deferral of payments is granted, cumulatively resulting in a deferral of more than six months, if new information has accumulated indicating a decrease in the probability of repayment of such loans, the bank must exercise discretion and consider whether it is necessary to classify the loans as problematic debt.

For details regarding the instructions of the Banking Supervision Department on coping with the coronavirus, see [Note 1C](#) to the Condensed Financial Statements.

The Bank offers its customers tools, credit products, and additional products aimed at coping with the crisis. For additional details, see [the section, "Segments of activity based on management approach"](#) in the Corporate Governance Report.

Details are presented below regarding the balance of debts the terms of which were changed beginning in March 2020, as part of the measures to cope with the coronavirus, and which were not classified as troubled debt restructuring, in accordance with the instructions of the Banking Supervision Department, as noted above.

Table 3-1: Details regarding the balance of debts the terms of which have been changed⁽¹⁾ in the course of coping with the coronavirus, which are not classified as troubled debt restructuring

	June 30, 2020		
	Balance of credit for which payments have been deferred ⁽²⁾	Of which: amounts in arrears of 30 days or more and/or classified as problematic	Balance of actual deferred payments ⁽²⁾
NIS millions			
Commercial	15,685	881	1,355
Private individuals – housing loans	19,896	345	355
Private individuals – other	5,105	24	532
Total in Israel	40,686	1,250	2,242
Activity overseas	2,801	81	76
Total	43,487	1,331	2,318

(1) The balance represents the total of debts the terms of which have been changed up to and including June 30, 2020, including debts for which the payment deferral period has ended. These changes include deferral of principal and/ or interest payments for a period not exceeding six months.

(2) Near the date of publication, the cumulative balance of credit in respect of which payments were deferred totaled approximately NIS 45 billion (including credit balances for which the deferral period has ended; the balance of credit still in deferral at the date of publication is significantly lower), and the balance of actual deferred payments totaled approximately NIS 2.6 billion.

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State-backed loans

In view of the coronavirus outbreak, the State resolved on the establishment of a dedicated loan fund, primarily to assist small and mid-sized businesses experiencing cash-flow difficulties as a result of the outbreak. The terms of the loans were determined by the Ministry of Finance, and are uniform for all types of borrowers:

- Interest rate – zero for the first year (paid to the bank by the State); Prime + 1.5% from the second year forward.
- Period – up to five years, including a grace period of up to twelve months.
- Customer collateral – up to 5% of the amount of the loan approved.
- Loan amounts:
 - General track – the lower of 24% of the annual revenue of the customer or NIS 20 million.
 - Amplified track – the lower of 24% of the annual revenue of the customer or NIS 10 million.

Thus far, approximately 78% of the state-backed credit has been granted to small businesses and microbusinesses, and approximately 22% to mid-sized and large businesses. The risk of this credit is determined by the State at the following rates: up to 85% in specific credit, and no more than 15% for the overall portfolio in the general track; and up to 95% in specific credit, and no more than 60% for the overall portfolio in the amplified track launched on June 21, 2020. The amplified track consists of businesses substantially hurt by the spread of the coronavirus, which demonstrated a decrease in revenue of more than 50% in April to June 2020 compared with the same months last year, and which do not have the independent ability to cope with the cash-flow damages.

Table 3-2: Details regarding the recorded debt balance of state-backed loans within the effort to cope with the coronavirus

	June 30, 2020
	NIS millions
Small businesses and microbusinesses	2,942
Mid-sized businesses	685
Large businesses	149
Total	3,776

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Table 3-3: Analysis of credit quality, problematic credit risk, and nonperforming assets of the public⁽¹⁾

	Balance as at June 30, 2020				Balance as at December 31, 2019			
	Commercial	Housing	Private	Total	Commercial	Housing	Private	Total
	NIS millions							
Credit risk at credit execution rating⁽¹⁾								
Balance sheet credit risk	162,692	90,824	30,263	283,779	166,592	87,802	35,659	290,053
Off-balance sheet credit risk	118,299	7,529	21,460	147,288	112,184	7,259	21,009	140,452
Total credit risk at credit execution rating	280,991	98,353	51,723	431,067	278,776	95,061	56,668	430,505
Credit risk not at credit execution rating								
a. Non-problematic – balance sheet	10,165	2,980	4,404	17,549	3,343	1,198	2,133	6,674
b. Total problematic ⁽²⁾	-	-	-	-	-	-	-	-
1) Special supervision	3,158	-	41	3,199	3,192	-	48	3,240
2) Substandard	1,091	725	75	1,891	680	700	96	1,476
3) Impaired	3,483	1	769	4,253	3,678	2	762	4,442
Total balance sheet credit risk not at credit execution rating	17,897	3,706	5,289	26,892	10,893	1,900	3,039	15,832
Off-balance sheet credit risk not at credit execution rating	4,207	42	220	4,469	2,931	8	89	3,028
Total credit risk not at credit execution rating	22,104	3,748	5,509	31,361	13,824	1,908	3,128	18,860
Of which, unimpaired debts in arrears of 90 days or more ⁽³⁾	74	710	89	873	121	699	93	913
Total overall credit risk of the public	303,095	102,101	57,232	462,428	292,600	96,969	59,796	449,365
Additional information regarding total nonperforming assets								
a. Impaired debts not accruing interest income	3,206	1	363	3,570	3,487	2	378	3,867
b. Assets received upon settlement of debts	33	-	-	33	34	-	-	34
Total nonperforming assets of the public	3,239	1	363	3,603	3,521	2	378	3,901

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

(2) Credit risk that is impaired, substandard, or under special supervision.

(3) Including in respect of housing loans for which an allowance based on the extent of arrears exists, and in respect of housing loans for which an allowance based on the extent of arrears does not exist, which are in arrears of 90 days or more.

Note:

Balance sheet and off-balance sheet credit risk are presented before the effect of the allowance for credit losses, and before the effect of deductible collateral for the purpose of the indebtedness of borrowers and of groups of borrowers.

In order to reflect the effect of the crisis, the Bank performed processes to increase the severity of internal ratings, based on estimates of the extent of the impact of the crisis on various segments, combined with additional parameters. As a result, a significant increase is apparent in balances of credit not at credit execution rating in the data for June 30, 2020, as compared with the data for December 31, 2019. The internal rating severity processes were updated, and are expected to continue to be updated, according to the estimates of the Bank regarding the effects of the crisis.

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Table 3-4: Additional information regarding changes in problematic debts in respect of credit to the public and in the individual allowance

	For the six months ended June 30, 2020		
	Commercial	Private	Total
NIS millions			
Change in balance of impaired debts in respect of credit to the public			
Balance of impaired debts at beginning of year	3,678	764	4,442
Debts classified as impaired during the period	413	203	616
Debts returned to unimpaired classification	(2)	(2)	(4)
Impaired debts charged off	(254)	(111)	(365)
Impaired debts repaid	(376)	(84)	(460)
Balance of impaired debts at end of period	3,459	770	4,229
Change in balance in troubled debt restructuring			
Balance in troubled debt restructuring at beginning of year	667	707	1,374
Restructured during the period	1,688	186	1,874
Debts in restructuring charged off	(113)	(100)	(213)
Debts in restructuring restored to unimpaired classification or repaid	(125)	(73)	(198)
Balance in troubled debt restructuring at end of period	2,117	720	2,837
Change in balance sheet allowance for credit losses in respect of impaired debts			
Allowance for credit losses in respect of impaired debts at beginning of year	1,272	136	1,408
Provision for credit losses – increase in allowance	484	129	613
Provision for credit losses – reduction of allowance	(68)	(26)	(94)
Recoveries of debts charged off in previous years	(120)	(59)	(179)
Allocated to profit and loss – allowance for credit losses	296	44	340
Charge-offs during the period	(254)	(111)	(365)
Recovery of charged-off debts	120	59	179
Allowance for credit losses in respect of impaired debts at end of period	1,434	128	1,562

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Table 3-4: Additional information regarding changes in problematic debts in respect of credit to the public and in the individual allowance (continued)

	For the six months ended June 30, 2019		
	Commercial	Private	Total
	NIS millions		
Change in balance of impaired debts in respect of credit to the public			
Balance of impaired debts at beginning of year	2,015	706	2,721
Debts classified as impaired during the period	668	203	871
Debts returned to unimpaired classification	(50)	(6)	(56)
Impaired debts charged off	(182)	(87)	(269)
Impaired debts repaid	(261)	(96)	(357)
Balance of impaired debts at end of period	2,190	720	2,910
Change in balance in troubled debt restructuring			
Balance in troubled debt restructuring at beginning of year	676	624	1,300
Restructured during the period	153	197	350
Debts in restructuring charged off	(53)	(69)	(122)
Debts in restructuring repaid*	(136)	(93)	(229)
Balance in troubled debt restructuring at end of period	640	659	1,299
Change in balance sheet allowance for credit losses in respect of impaired debts			
Allowance for credit losses in respect of impaired debts at beginning of year	408	163	571
Provision for credit losses – increase in allowance	407	110	517
Provision for credit losses – reduction of allowance	(61)	(53)	(114)
Recoveries of debts charged off in previous years	(274)	(66)	(340)
Allocated to the statement of profit and loss – allowance for credit losses	72	(9)	63
Charge-offs during the period	(182)	(87)	(269)
Recovery of charged-off debts	274	66	340
Allowance for credit losses in respect of impaired debts at end of period	572	133	705
* Of which: debts returned to unimpaired classification due to subsequent restructuring	(36)	-	(36)

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Table 3-5: Credit risk indicators

	As at	
	June 30, 2020	December 31, 2019
Balance of impaired credit to the public, as a percentage of the balance of credit to the public*	1.41%	1.49%
Balance of unimpaired credit to the public, in arrears of 90 days or more, as a percentage of the balance of credit to the public*	0.29%	0.31%
Allowance for credit losses in respect of credit to the public, as a percentage of the balance of credit to the public*	2.00%	1.58%
Collective allowance for credit losses, as a percentage of the balance of credit to the public*,**	1.69%	1.27%
Allowance for credit losses in respect of credit to the public, as a percentage of the balance of impaired credit to the public*	141.64%	105.97%
Allowance for credit losses in respect of credit to the public, as a percentage of the balance of impaired credit to the public plus the balance of credit to the public in arrears of 90 days or more*	117.40%	87.90%
Problematic credit risk in respect of the public, as a percentage of total credit risk in respect of the public*	2.38%	2.42%
Provision (income) for credit losses as a percentage of the average recorded balance of credit to the public	1.30%	0.44%
Net charge-offs in respect of credit to the public as a percentage of the average recorded balance of credit to the public	0.29%	0.12%
Net charge-offs in respect of credit to the public as a percentage of the allowance for credit losses in respect of credit to the public	14.29%	7.48%

* Before deduction of the allowance for credit losses.

** Includes allowance for credit losses in respect of off-balance sheet credit instruments.

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Portfolio quality analysis

The following indicators increased (worsened) in the first half of 2020, compared with the end of 2019:

- The allowance for credit losses in respect of credit to the public, as a percentage of the balance of credit to the public.
- The collective allowance for credit losses, as a percentage of the balance of credit to the public.
- The provision (income) for credit losses as a percentage of the average recorded balance of credit to the public.
- Net charge-offs in respect of credit to the public, as a percentage of the average recorded balance of credit to the public.

The following indicators decreased (improved) in the first half:

- The balance of impaired credit to the public, as a percentage of the balance of credit to the public.
- Problematic credit risk in respect of the public, as a percentage of total credit risk in respect of the public.

The indicator of the balance of unimpaired credit to the public, in arrears of 90 days or more, as a percentage of the balance of credit to the public decreased slightly.

The changes in the portfolio quality indicators are the result of an increase in the allowance for credit losses and in the provision for credit losses, concurrently with a decrease in problematic credit risk and in the balance of impaired credit to the public, compared with December 31, 2019. These opposing trends reflect the current situation, in which the effect of the spread of the coronavirus is not yet substantially evident in portfolio quality, but the impacts of the crisis may lead to a significant increase in future credit losses, which are expressed by the Bank through the collective allowance. Note that there is a great deal of uncertainty regarding the ramifications of the crisis, in view of its continuation in Israel and overseas, in terms of the economic damage caused by additional measures that may be necessary to reduce the spread of the virus, as well as the success of government support measures.

With regard to other indicators that refer only to the risk in the portfolio of credit for private individuals, see [Table 3-18](#), below.

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3.2.2. Classification and analysis of credit risk by economic sector

Table 3-6: Credit risk by economic sector

	June 30, 2020						
	Total credit risk ⁽¹⁾	Of which: credit execution ⁽²⁾	Of which: problematic credit rating ⁽⁵⁾	Of which: problematic credit risk ⁽⁶⁾	Of which: impaired credit risk (excluding derivatives)	Credit losses ⁽⁴⁾	
						Provision for credit losses	Net charge-offs
NIS millions							
Industry	32,328	30,510	979	392	104	54	383
Construction and real estate – construction	70,017	66,889	771	539	101	26	597
Construction and real estate – real-estate activities	26,117	23,431	1,077	284	120	(8)	529
Commerce	36,778	33,331	1,227	461	273	101	975
Financial services	40,339	39,884	209	49	62		262
Other business services	13,960	12,559	144	109	75	38	184
Public and community services	7,700	7,168	70	29	27	6	79
Other sectors	42,036	36,372	3,398	1,836	328	22	1,577
Total commercial	269,275	250,144	7,875	3,699	1,090	239	4,586
Private individuals – housing loans	101,599	97,874	712	2	275	5	713
Private individuals – other	57,003	51,500	888	772	382	168	1,000
Total public – activity in Israel	427,877	399,518	9,475	4,473	1,747	412	6,299
Total banks in Israel	2,890	2,890	–	–	–	–	–
Israeli government	47,447	47,447	–	–	–	–	–
Total activity in Israel	478,214	449,855	9,475	4,473	1,747	412	6,299
Total public – activity overseas	34,551	31,549	1,517	553	190	16	453
Banks and governments overseas	39,787	39,092	–	–	–	–	8
Total activity overseas	74,338	70,641	1,517	553	190	16	461
Total activity in Israel and overseas	552,552	520,496	10,992	5,026	1,937	428	6,760

- (1) Balance sheet credit risk and off-balance sheet credit risk⁽³⁾, including in respect of derivative instruments. Includes debts⁽²⁾, bonds, securities borrowed or purchased under agreements to resell, assets in respect of derivative instruments, and credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness, in the amount of NIS 316,736, 64,946, 240,13,062, and 157,568 million, respectively.
- (2) Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").
- (3) Credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness.
- (4) Including in respect of off-balance sheet credit instruments (presented in the balance sheet under the item "other liabilities").
- (5) Credit risk for which the credit rating at the date of the report is congruent with the credit rating for the execution of new credit, according to the policy of the Bank.
- (6) Balance sheet and off-balance sheet credit risk that is impaired, substandard, or under special supervision, including in respect of housing loans for which an allowance based on the extent of arrears exists, and housing loans for which an allowance based on the extent of arrears does not exist which are in arrears of 90 days or more.

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Table 3-6: Credit risk by economic sector (continued)

	June 30, 2019						
	Total credit risk* ⁽¹⁾	Of which: credit execution rating* ⁽⁵⁾	Of which: problematic credit risk* ⁽⁶⁾	Of which: impaired credit risk	Provision (income) for credit losses*	Credit losses ⁽⁴⁾	Net Allowance for credit losses*
	NIS millions						
Industry	30,412	28,856	1,265	390	58	44	353
Construction and real estate – construction	61,499	59,862	980	546	(83)	(21)	484
Construction and real estate – real-estate activities	24,190	22,753	1,084	232	(7)	(112)	384
Commerce	35,454	33,612	839	429	88	61	796
Financial services	40,697	40,614	43	27	71	(7)	221
Other business services	12,857	12,303	123	97	41	26	147
Public and community services	7,371	7,163	46	21	11	9	51
Other sectors	42,468	39,690	1,666	557	122	31	613
Total commercial	254,948	244,853	6,046	2,299	301	31	3,049
Private individuals – housing loans	91,108	89,256	670	-	15	2	434
Private individuals – other	62,004	58,642	851	717	120	175	833
Total public – activity in Israel	408,060	392,751	7,567	3,016	436	208	4,316
Total banks in Israel	3,556	3,556	-	-	-	-	-
Israeli government	46,607	46,607	-	-	-	-	-
Total activity in Israel	458,223	442,914	7,567	3,016	436	208	4,316
Total public – activity overseas	34,740	32,601	1,329	427	1	10	224
Banks and governments overseas	50,566	50,566	-	-	3	-	12
Total activity overseas	85,306	83,167	1,329	427	4	10	236
Total activity in Israel and overseas	543,529	526,081	8,896	3,443	440	218	4,552

* Reclassified. Housing loans granted to individuals in an economic sector other than "private individuals" were reclassified from the commercial economic sectors to the sector "private individuals – housing loans."

(1) Balance sheet credit risk and off-balance sheet credit risk⁽³⁾, including in respect of derivative instruments. Includes debts⁽²⁾, bonds, securities borrowed or purchased under agreements to resell, assets in respect of derivative instruments, and credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness, in the amount of NIS 316,849, 69,329, 326, 9,574, and 147,451 million, respectively.

(2) Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

(3) Credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness.

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

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

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

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Table 3-6: Credit risk by economic sector (continued)

Industry	December 31, 2019						
	Total credit risk ⁽¹⁾	Of which: credit execution rating ⁽⁵⁾	Of which: problematic credit risk ⁽⁶⁾	Of which: impaired credit risk (excluding derivatives)	Provision (income) for credit losses	Credit losses ⁽⁴⁾	Net Allowance charge-offs for credit losses
	NIS millions						
Industry	31,029	29,736	915	405	26	33	333
Construction and real estate – construction	67,577	65,812	951	603	(125)	(100)	523
Construction and real estate – real-estate activities	24,702	23,390	1,214	305	13	(112)	402
Commerce	35,380	33,746	953	539	157	120	806
Financial services	38,346	38,001	138	30	19	(38)	200
Other business services	13,297	12,775	130	112	65	50	148
Public and community services	7,582	7,403	70	22	21	15	57
Other sectors	42,600	38,004	3,621	1,858	768	42	1,243
Total commercial	260,513	248,867	7,992	3,874	944	10	3,712
Private individuals – housing loans	96,480	94,590	696	2	31	9	443
Private individuals – other	59,540	56,420	904	760	193	297	785
Total public – activity in Israel	416,533	399,877	9,592	4,636	1,168	316	4,940
Banks in Israel	2,905	2,905	-	-	-	-	-
Israeli government	41,585	41,585	-	-	-	-	-
Total activity in Israel	461,023	444,367	9,592	4,636	1,168	316	4,940
Total public – activity overseas	32,832	30,628	1,294	661	109	36	303
Banks and governments overseas	41,733	41,733	-	-	(1)	-	8
Total activity overseas	74,565	72,361	1,294	661	108	36	311
Total activity in Israel and overseas	535,588	516,728	10,886	5,297	1,276	352	5,251

- (1) Balance sheet credit risk and off-balance sheet credit risk⁽³⁾, including in respect of derivative instruments. Includes debts⁽²⁾, bonds, securities borrowed or purchased under agreements to resell, assets in respect of derivative instruments, and credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness, in the amount of NIS 317,689, 57,713, 471, 11,143, and 148,572 million, respectively.
- (2) Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").
- (3) Credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness, excluding in respect of derivative instruments.
- (4) Including in respect of off-balance sheet credit instruments (presented in the balance sheet under the item "other liabilities").
- (5) Credit risk for which the credit rating at the date of the report is congruent with the credit rating for the execution of new credit, according to the policy of the Bank.
- (6) Balance sheet and off-balance sheet credit risk that is impaired, substandard, or under special supervision, including in respect of housing loans for which an allowance based on the extent of arrears exists, and housing loans for which an allowance based on the extent of arrears does not exist which are in arrears of 90 days or more.

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3.2.3. Construction and real estate

Overall credit risk in the construction and real-estate sectors totaled approximately NIS 104 billion as at June 30, 2020.

Table 3-7: Segmentation of credit risk of the Bank Group in the construction and real-estate sectors, by principal area of activity

	Balance as at June 30, 2020			Balance as at December 31, 2019		
	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 millions					
Construction for commerce and services	3,168	2,234	5,402	3,566	2,484	6,050
Construction for industry	369	100	469	421	99	520
Housing construction	18,023	*28,934	46,957	17,960	*28,208	46,168
Yield-generating properties	24,008	4,916	28,924	22,866	4,945	27,811
Other	10,584	11,369	21,953	9,946	10,498	20,444
Total construction and real-estate sectors	56,152	47,553	103,705	54,759	46,234	100,993

* Includes off-balance sheet credit risk in the amount of approximately NIS 4,200 million, in respect of which insurance was acquired from foreign insurance companies for the portfolio of Sale Law guarantees (December 31, 2019: NIS 3,589 million).

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3.2.4. Credit exposure to foreign countries

Information regarding total exposures to foreign countries and exposures to countries total exposure to each of which constitutes more than 1% of total balance sheet assets, or 20% of capital, whichever is lower, is set out below.

Table 3-8: Principal exposures to foreign countries⁽¹⁾

Country	June 30, 2020			December 31, 2019		
	Exposure		Total	Exposure		Total
	Balance sheet	Off-balance sheet ⁽²⁾⁽³⁾		Balance sheet	Off-balance sheet ⁽²⁾⁽³⁾	
NIS millions						
United States	19,121	6,586	25,707	22,900	6,557	29,457
Switzerland	1,690	1,496	3,186	3,626	1,097	4,723
England	9,169	4,121	13,290	7,951	2,985	10,936
Germany	1,165	1,770	2,935	1,165	1,463	2,628
France	2,737	1,555	4,292	1,995	1,512	3,507
Others	11,469	2,424	13,893	11,204	1,689	12,893
Total exposures to foreign countries	45,351	17,952	63,303	48,841	15,303	64,144
Of which: total exposure to PIGS (Portugal, Italy, Greece, and Spain)	132	212	344	144	385	529
Of which: total exposure to LDCs	1,360	148	1,508	1,364	187	1,551
Of which: total exposure to countries with liquidity problems*	354	-	354	8	-	8

The line "total LDCs" includes the total exposure to countries defined as Least Developed Countries (LDCs) in Proper Conduct of Banking Business Directive 315, "Supplementary Provision for Doubtful Debts."

Balance sheet exposure to a foreign country includes cross-border balance sheet exposure and balance sheet exposure of the branches/subsidiaries of the banking corporation in the foreign country to local residents. Cross-border balance sheet exposure includes balance sheet exposure of the branches/subsidiaries of the banking corporation in Israel to residents of the foreign country, and balance sheet exposure of the overseas branches/subsidiaries of the banking corporation to non-residents of the country in which the branch/subsidiary is located.

Balance sheet exposure of the banking corporation's branches/subsidiaries in a foreign country to local residents includes balance sheet exposure of the branches/subsidiaries of the banking corporation in that foreign country to the residents of the country, less liabilities of those branches/subsidiaries (the deduction is performed up to the level of the exposure).

* The list of countries with liquidity problems is based on several criteria established by the Bank. The spread of the coronavirus has raised risk premiums in the financial markets, notably in the emerging markets. Accordingly, and due to developments in capital and other markets, additional countries were placed on the list of countries with liquidity problems during the period of the report, including Turkey, the country of operations of Bank Pozitif, which is held by the Bank. It is emphasized that the addition of a country to the list does not necessarily represent a worsening unique to that country, and that improvement of the indicators would lead to a corresponding update of the list.

- (1) Based on the final risk, after the effect of guarantees, liquid collateral, and credit derivatives.
- (2) Credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limits on indebtedness of a borrower, according to Proper Conduct of Banking Business Directive 313.
- (3) Governments, official institutions, and central banks.

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3.2.5. Credit exposure to foreign financial institutions

Table 3-9: Exposure of the Bank Group to foreign financial institutions⁽¹⁾

	June 30, 2020			December 31, 2019		
	Balance sheet credit risk ⁽²⁾	Present off-balance sheet credit risk ⁽³⁾	Total present credit risk	Balance sheet credit risk ⁽²⁾	Present off-balance sheet credit risk ⁽³⁾	Total present credit risk
NIS millions						
External credit rating⁽⁵⁾						
AAA to AA-	2,306	2,798	5,104	4,032	2,949	6,981
A+ to A-	18,306	2,630	20,936	13,911	1,709	15,620
BBB+ to BBB-	912	83	995	867	139	1,006
BB+ to B-	12	31	43	12	22	34
Lower than B-	-	-	-	-	-	-
Unrated	289	63	352	312	74	386
Total present credit exposures to foreign financial institutions*	21,825	5,605	27,430	19,134	4,893	24,027
Of which: problematic credit risk ⁽⁴⁾	-	-	-	-	-	-
Of which: balance of impaired debts	-	-	-	-	-	-
Individual allowance for credit losses	-	-	-	-	-	-
Total credit exposure to foreign financial institutions after deduction of the individual allowance for credit losses	21,825	5,605	27,430	19,134	4,893	24,027
Collective allowance for credit losses	7	-	7	4	1	5

- * The balances include the exposure of the Bank Group to financial institutions in the following countries:
Spain – Total exposure of approximately NIS 28 million, of which a total of NIS 14 million rated A- and a total of NIS 14 million rated BBB+ (total exposure at the end of 2019 was approximately NIS 163 million, rated A-).
Italy – Total exposure of approximately NIS 17 million, of which a total of NIS 16 million rated BBB and the remaining amount of NIS 1 million rated BB+ (total exposure at the end of 2019 was approximately NIS 83 million, of which a total of NIS 76 million rated BBB and the remaining amount of NIS 7 million rated BBB-).

There is no exposure to financial institutions in Ireland, Greece, or Portugal.

- (1) Foreign financial institutions include: banks, investment banks, broker/dealers, insurance companies, institutional entities, and entities controlled by such entities. However, credit exposure to foreign financial institutions backed by government guarantees is not included.
- (2) Deposits with banks, credit to the public, investments in bonds, securities borrowed or purchased in agreements to resell, and other assets in respect of derivative instruments.
- (3) Mainly guarantees and commitments to grant credit. Does not include credit risk in off-balance sheet financial instruments, as calculated for the purposes of the limits on indebtedness of a borrower.
- (4) Credit risk that is impaired, substandard, or under special supervision.
- (5) According to the lowest of the long-term foreign-currency credit ratings assigned by any of the major rating agencies: S&P, Moody's, and Fitch.

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The exposure of the Bank Group to foreign financial institutions totaled approximately NIS 27.4 billion on June 30, 2020, an increase of approximately NIS 3.4 billion, compared with approximately NIS 24.0 billion at the end of 2019. This increase resulted from an increase in balance sheet exposure in the amount of approximately NIS 2.7 billion, and an increase in off-balance sheet exposure in the amount of approximately NIS 0.7 billion. Approximately 94.9% of the exposure to foreign financial institutions is to financial institutions rated A- or higher.

The Bank Group's exposure to foreign financial institutions is distributed as follows: 81.31% in banks and bank holding companies, 17.73% in insurance companies, and 0.96% in another financial institution.

Most of the Bank Group's exposure is to foreign financial institutions operating in Western European countries (65.68%) and in the United States (22.4%).

Due to the concerns over the negative effects of the coronavirus pandemic on the global economy and on the financial results of financial institutions worldwide, increases were recorded in the first quarter of 2020 in the spreads and CDS prices of most of the foreign financial institutions with which the Bank has activity. Concurrently, the rating agencies (Fitch, S&P, and Moody's) also changed their rating outlooks for many of these institutions to Negative, and lowered long-term credit ratings for a few of the institutions. This trend moderated during the second quarter, so that spreads and CDS prices approached pre-crisis levels. The Bank continues to monitor the financial institutions frequently and regularly, and, as necessary, acts to reduce all of the relevant risks, including credit risk and settlement risk.

The data on "banks and governments overseas" in the disclosure of credit risk by economic sector, in the section "Review of risks" and in the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at June 30, 2020 (hereinafter: the disclosure by economic sector), includes exposures in respect of banks overseas and does not include other financial institutions, which are primarily presented within the financial services sector. This sector also includes central banks, whereas the table above does not include exposure in respect of central banks.

In the disclosure by economic sector, "total credit risk" includes balance sheet and off-balance sheet balances in respect of derivatives, whereas the table above includes only balance sheet balances in respect of derivatives.

In addition, the total of "debts and off-balance sheet credit risk" in the disclosure by economic sector includes credit to the public and deposits with banks, but does not include bonds and securities borrowed or purchased under agreements to resell, which are included in the table above. Balance sheet and off-balance sheet credit in respect of derivatives is not included in the total of "debts and off-balance sheet credit risk." However, the table above includes balance sheet balances in respect of derivatives.

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3.2.6. Risks in the housing loan portfolio

Table 3-10: Risks in the housing loan portfolio

	Balance as at		
	JUNE 30, 2020	June 30, 2019	December 31, 2019
NIS millions			
Credit balances			
Loans from Bank funds	94,615	85,771	89,777
Loans from Finance Ministry funds*	1,125	1,246	1,173
Grants from Finance Ministry funds*	151	108	123
Total	95,891	87,125	91,073
NIS millions			
Execution of housing loans			
Loans from Finance Ministry funds			
Loans	66	65	124
Grants	31	23	42
Total from Finance Ministry funds	97	88	166
Total loans from Bank funds	9,978	8,753	18,159
Total new loans	10,075	8,841	18,325
Old loans refinanced from Bank funds	1,061	462	1,235
Total loans extended	11,136	9,303	19,560

* This amount is not included in balance sheet balances to the public.

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Table 3-11: Development of amounts in arrears in housing loans and allowance for credit losses

	Recorded debt balance	Amount over 90 days in arrears, of total problematic debts	Rate of arrears	Allowance for credit losses in respect of housing loans (including allowance based on the extent of arrears)	Rate of allowance for credit losses in respect of housing loans	Problematic debt	Rate of problematic debt
NIS millions/percent							
June 30, 2020	94,615	118	0.12%	717	0.76%	736	0.78%
December 31, 2019	89,777	109	0.12%	446	0.50%	702	0.78%

In the first half of 2020, the rate of amounts in arrears and the rate of problematic debt remained similar to the rate at the end of 2019. By contrast, the rate of the collective allowance for credit losses in respect of housing loans rose sharply. This increase was influenced by a proactive increase in the collective allowance, to reflect the potential effects of the crisis on future credit losses. A large volume of requests for short-term deferral of payments was received during the second quarter. According to the guidelines of the Bank of Israel, deferral does not cause the loan to be considered a loan in arrears; if the borrower is already in arrears, the level of arrears is frozen until the end of the deferral.

Development of housing credit balances

Table 3-12: Development of the balance in the housing credit portfolio, by linkage base and as a percentage of the balance in the credit portfolio of the Bank

	Unlinked segment				CPI-linked segment				Foreign-currency segment		Total	
	Fixed interest rate		Floating interest rate		Fixed interest rate		Floating interest rate		Floating interest rate	Recorded debt balance in NIS millions	Rate of change during the period	
	Balance in NIS millions	Rate in %	Balance in NIS millions	Rate in %	Balance in NIS millions	Rate in %	Balance in NIS millions	Rate in %	Balance in NIS millions	Rate in %		
June 30, 2020	19,333	20.4%	36,600	38.7%	15,768	14.6%	24,681	26.1%	233	0.2%	94,615	5.4%
December 31, 2019	17,301	19.3%	34,565	38.5%	13,811	15.4%	23,834	26.5%	266	0.3%	89,777	10.2%
December 31, 2018	14,503	17.8%	31,060	38.1%	13,539	16.6%	21,984	27.0%	368	0.5%	81,454	9.3%

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Risk quantification and measurement – housing credit portfolio

The Bank routinely monitors developments in the housing credit portfolio, and applies various measures to manage risk. Housing credit risks are examined individually, based on the policies and objectives established in the risk appetite set for housing credit, from the level of the individual transaction to an overview of the housing credit portfolio of the Bank.

The Bank manages and hedges risk, among other means, through limits on various segments, as established in policy discussions of the Board of Management and the Board of Directors, overseen and led by the Risk Management Division. The limits address LTV rates, repayment capability, distribution of credit products in the portfolio, volume of problematic debt, loan durations, geographical distribution, the rate of arrears, etc. These indicators are also monitored in comparison to the data of the banking system as a whole.

The Bank tracks conditions and changes in macroeconomic indicators in general, and in the business environment of the industry in particular. Certain events have been defined as requiring a reexamination of policy, such as a sharp increase in the floating interest rate or in inflation, an increase in unemployment in the Israeli economy, or a material change in housing prices.

Data are reported on a monthly basis in a divisional risk forum headed by the Head of Retail Banking, and on a quarterly basis as part of the report on developments in the credit portfolio and in credit risk to the Board of Management and Board of Directors.

The Bank uses a statistical model to measure the probability of default and the expected loss in the mortgage portfolio. In addition, within stress scenario testing, the effect on the mortgage portfolio is also examined. Insurance arrangements are also in place (life insurance and building insurance).

Table 3-13: Developments in housing credit balances, last five quarters

	2020		2019		
	Q2	Q1	Q4	Q3	Q2
			NIS millions		
Balances at end of period	94,615	92,536	89,777	87,757	85,771
Change in balances	2.2%	3.1%	2.3%	2.3%	3.2%
Execution of new loans	4,363	5,712	4,729	4,843	4,527

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Housing loan data – percentage of total new loans executed

Table 3-14: Characteristics of housing credit granted by the Bank

Characteristics	For the three months ended				
	June 30, 2020	March 31, 2020	December 31, 2019	September 30, 2019	June 30, 2019
Financing rate over 60%	40.7%	39.7%	40.2%	37.7%	37.9%
Ratio of repayment to income greater than 40% (for purchases of homes and in monthly payments)	0.0%	0.1%	0.0%	0.1%	0.0%
Percentage with floating interest rates varying at a frequency of less than 5 years	33.1%	32.0%	30.8%	32.7%	31.7%
Percentage with floating rates	58.7%	58.4%	58.1%	59.9%	59.2%
Percentage of all-purpose loans	5.2%	4.9%	5.7%	5.6%	5.7%
Loans for investment purposes as a percentage of total purchases of homes	7.9%	8.6%	9.2%	9.2%	10.0%
Principal planned for repayment after age 67 (excluding investments)	8.0%	7.9%	7.4%	7.1%	7.4%
Average original term to maturity of loans for purchases of homes, in years (excluding bridge loans)	24.7	24.3	24.3	24.1	24.5

The upward trend in balances of housing loans continued in the reported quarter.

The effects of the spread of the coronavirus led to earlier execution of loans of buyers of residences in March 2020. The growth rate in the second quarter does not reflect deceleration of activity, and resembles the growth rate of the period preceding the crisis.

Data on housing-loan execution show an increase (worsening) in the following indicators:

- The percentage of credit granted with a financing rate greater than 60%.
- The percentage of loans with floating interest rates, particularly the percentage of loans with interest rates varying at a frequency of less than 5 years.
- The percentage of execution of all-purpose loans.
- The average term to maturity of loans for purchases of homes (excluding bridge loans).

Two indicators were stable:

- The percentage of loans with payment to income ratios greater than 40% (slight decrease).
- The percentage of principal scheduled for repayment after the age of 67 (slight increase).

The indicator of loans for investment purposes as a percentage of total purchases of homes decreased.

Note that these indicators reflect effects such as the impact of the decrease in the interest rate on demand for floating-rate financing, and trends that began in earlier quarters, such as an increase in the percentage of credit granted with a financing rate greater than 60%, influenced by government efforts to market projects in the Mechir Lamishtaken ("Tenant Price") program, and by the downward trend in the proportion of loans for investment purposes (which are restricted to a lower financing rate).

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3.2.7. Credit to private customers (excluding housing)

Credit is granted to private customers in accordance with the credit and collateral policies and procedures, including with respect to the purpose of the credit and the appropriateness of this purpose for the customer's needs, the amount of credit requested, and the appropriateness of the amount for the customer's repayment capability. Credit applications of private customers in the Retail Banking Division, which are approved at the branches, are processed using automated systems, models, and tools that support decision-making by the authorized personnel. Credit applications of private customers are submitted and examined at the level of risk groups, as required in the directives of the Bank of Israel. Credit applications are examined with an emphasis on the matters noted above.

Private customers in the Retail Banking Division are offered, among other things, online credit in the form of Instant Credit. The maximum amount of the loan that a customer can receive and the terms of the loan are determined based on various criteria, according to data regarding the customer and the customer's accounts. The Bank's growth plan with regard to banking products, including in the area of credit, is based on aspects of growth potential as well as risk aspects, including the expected growth of the economy, customers' repayment capability, the expected volume of repayments, and more. The Bank routinely monitors credit execution and risk.

The Retail Banking Division applies measures to manage credit risk in respect of private individuals, based on the credit risk management principles of the Bank, through measurement and control tools used to monitor the credit portfolio and the quality, risk level, and compliance with policy limits of the credit portfolio, including the following: a statistical model for rating the credit risk of private borrowers, risk-appetite indicators, credit policies and procedures, a hierarchy of authority, and credit-risk control processes.

Table 3-15: Balance of credit to private individuals in Israel

	Balance as at		Change		
	June 30, 2020		December 31, 2019		
	NIS millions				
Balance sheet					
Negative balance in current accounts	2,785	3,216	(431)	(13.40%)	
Loans ⁽¹⁾	25,476	26,996	(1,520)	(5.63%)	
Of which: bullet and balloon loans	63	78	(15)	(19.23%)	
Credit for purchases of motor vehicles ⁽²⁾	2,964	3,511	(547)	(15.58%)	
Debtors in respect of credit-card activity	4,318	4,958	(640)	(12.91%)	
Total balance sheet credit risk	35,543	38,681	(3,138)	(8.11%)	
Off-balance sheet					
Off-balance sheet credit risk	21,671	21,092	579	2.75%	
Total credit risk	57,214	59,773	(2,559)	(4.28%)	

(1) Excluding loans for purchases of motor vehicles.

(2) Including loans granted for the purchase of motor vehicles or with a lien on a motor vehicle.

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Table 3-16: Distribution of risk of balance sheet credit to private individuals in Israel, by average income⁽¹⁾ and loan size

	June 30, 2020			December 31, 2019			Total		
	Account income			Total	Account income				
	Up to NIS 10 thousand	NIS 10 to 20 thousand	Over NIS 20 thousand	Up to NIS 10 thousand	NIS 10 to 20 thousand	Over NIS 20 thousand			
NIS millions									
Credit per borrower in NIS thousands									
Up to 20	1,537	916	1,005	3,458	1,645	960	982	3,587	
20 to 40	1,612	816	882	3,310	1,710	879	1,024	3,613	
40 to 80	3,483	2,359	1,882	7,724	3,721	2,415	2,052	8,188	
80 to 150	3,302	4,511	3,836	11,649	3,626	4,782	4,140	12,548	
150 to 300	724	2,500	5,073	8,297	812	2,805	5,749	9,366	
Over 300	61	113	931	1,105	67	154	1,158	1,379	
Total	10,719	11,215	13,609	35,543	11,581	11,995	15,105	38,681	

(1) Account income was calculated based on the average income over a period of twelve months.

Table 3-17: Distribution of risk of balance sheet credit to private individuals in Israel, by borrowers' financial asset portfolio balance

	June 30, December 31,			
	2020 2019			
	Balance sheet credit risk			
NIS millions				
Size of financial asset portfolio, in NIS thousands				
Up to 10	20,005	22,491		
10 to 50	6,383	6,574		
50 to 200	4,923	4,999		
200 to 500	2,123	2,219		
Over 500	2,109	2,398		
Total	35,543	38,681		

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Table 3-18: Distribution of risk of balance sheet credit to private individuals in Israel, by type of interest and remaining repayment period

	June 30, 2020			December 31, 2019		
	Loans at floating interest rates	Loans at fixed interest rates	Total	Loans at floating interest rates	Loans at fixed interest rates	Total
	NIS millions					
Repayment period						
Up to one year	2,913	4,739	7,652	3,066	5,440	8,506
1 to 3 years	7,413	78	7,491	7,473	84	7,557
3 to 5 years	12,709	107	12,816	13,649	115	13,764
Over 5 years	7,467	117	7,584	8,732	122	8,854
Total	30,502	5,041	35,543	32,920	5,761	38,681

Table 3-19: Information regarding problematic debts in respect of private individuals in Israel

	Balance as at		Change	Percentage of total balance sheet credit risk as at		
	June 30, 2020	December 31, 2019		June 30, 2020	December 31, 2019	
				NIS millions		
Problematic credit risk	888	905	(1.9%)	2.5%	2.3%	
Of which: impaired credit risk	772	760	1.6%	2.2%	2.0%	
Debts in arrears of more than 90 days	74	93	(20.4%)	0.2%	0.2%	
Net charge-offs for the period	168	297	(⁽¹⁾ 13.1%)	0.9%	(⁽¹⁾ 0.8%)	
Allowance for credit losses	1,000	785	27.4%	2.8%	2.0%	

(1) Calculated on an annualized basis.

In the first half of 2020, the balance of loans to private individuals in Israel, including credit for the purchase of motor vehicles, decreased by approximately 6.8%. Total balance sheet credit risk decreased by approximately 8.1%. During this half, the balance of debts in arrears of more than ninety days decreased by approximately 20.4%, while problematic credit risk was stable. The following indicators increased:

- The balance of impaired credit risk increased by approximately 1.6%.
- Net charge-offs increased by approximately 13.1%.
- The allowance for credit losses increased by approximately 27.4%.

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Data for the first half present a mixed trend, with a significant decrease in the balance of debts in arrears of more than ninety days, versus a slight increase in the impaired credit risk balance and a significant increase in net charge-offs for the period and in the allowance for credit losses. Despite a certain impact on net charge-offs in this segment, the effects of the spread of the coronavirus are expected to have a more significant influence on portfolio quality indicators in the future. The extent of this effect depends on the extent of the actual damage to employers and the ability of the economy to recover rapidly. If the damage to borrowers' wages, and particularly the increase in unemployment, are significant, credit losses may increase significantly. Government measures to support the unemployed and accelerate economic recovery may serve as a moderating factor. To the extent that such measures are successful, the effect of the crisis on the quality of this exposure portfolio will be more moderate.

3.2.8. Leveraged financing

Table 3-20: The Bank's exposures in respect of leveraged financing, by economic sector of the borrower

Economic sector of the borrower	June 30, 2020			
	Number of borrowers	Balance sheet credit balance	Off-balance sheet credit balance	Total
	NIS millions			
Construction and real estate – construction	1	-	210	210
Construction and real estate – real-estate activities	1	419	-	419
Mining and quarrying*	2	322	-	322
Information and communications	1	204	-	204
Industry	2	634	-	634
Other business services	1	82	193	275
Total	8	1,661	403	2,064

* Net of charge-offs and an individual allowance for credit losses in the amount of approximately NIS 735 million.

Economic sector of the borrower	December 31, 2019			
	Number of borrowers	Balance sheet credit balance	Off-balance sheet credit balance	Total
	NIS millions			
Construction and real estate – real-estate activities	1	103	110	213
Mining and quarrying*	2	498	-	498
Electricity and water*	1	-	266	266
Information and communications	1	235	9	244
Commerce	1	338	83	421
Industry	2	633	-	633
Total	8	1,807	468	2,275

* Net of charge-offs and an individual allowance for credit losses in the amount of approximately NIS 591 million.

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3.2.9. Credit risk in respect of exposure to major borrowers

Table 3-21: Balances of balance sheet credit risk and off-balance sheet credit risk to borrowers whose indebtedness exceeds NIS 1,200 million, by sector of the economy

	June 30, 2020			
	Number of borrowers	Balance sheet credit risk	Off-balance sheet credit risk	Total
	NIS millions			
Economic sector				
Industry	3	587	4,736	5,323
Electricity and water supply	1	892	1,311	2,203
Hotels, hospitality, and food services	1	927	282	1,209
Financial services	6	9,306	6,915	16,221
Total	11	11,712	13,244	24,956

	December 31, 2019			
	Number of borrowers	Balance sheet credit risk	Off-balance sheet credit risk	Total
	NIS millions			
Economic sector				
Industry	2	26	4,012	4,038
Electricity and water supply	1	1,419	1,261	2,680
Hotels, hospitality, and food services	1	941	261	1,202
Financial services	6	9,225	6,320	15,545
Total	10	11,611	11,854	23,465

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3.2.10. Credit risk in respect of exposure to borrower groups

The Bank conducts monitoring and control processes in order to examine compliance with the limits set forth in Directive 313 with regard to exposure to the indebtedness of borrower groups. As at the reporting date, the Bank is in compliance with the limits.

Table 3-22: Credit risk balances⁽¹⁾ for each group of borrowers whose net indebtedness on a consolidated basis exceeds 15% of the capital of the banking corporation (as defined in Directive 313) as at June 30, 2020

	Balance sheet credit risk	Off-balance sheet credit risk	Of which: off-balance sheet credit risk in respect of derivative instruments ⁽²⁾	Gross indebtedness ⁽³⁾	Deductions ⁽⁴⁾	Net indebtedness ⁽¹⁾	Percentage of regulatory capital
NIS millions							
Borrower group A	3,206	4,276	-	7,483	-	7,483	19.37%
Borrower group B	2,851	3,226	195	6,077	37	6,040	15.63%

- (1) The data presented below represent exposure to borrower groups, and are stated after the permitted deductions pursuant to Directive 313. These data are therefore not comparable with data regarding borrowers' indebtedness provided in other disclosures in the report.
- (2) Off-balance sheet credit risk in respect of derivative instruments, as calculated for the purposes of the limits on indebtedness of borrowers and of borrower groups.
- (3) This amount includes third-party guarantees outside the group.
- (4) Deductions permitted under Directive 313, mainly including deposits deposited at the Bank, bonds issued by the State of Israel, and deductible indemnity letters of the State of Israel or financial institutions.

3.3. Market risk

Market risk is the risk of loss or decline in value as a result of change in the economic value of a financial instrument, or of a portfolio of assets/instruments, due to changes in prices, rates, spreads, and other market parameters.

During the first quarter of 2020, as a result of the effects of the coronavirus outbreak crisis, the level of volatility of risk factors in the financial markets increased, including exchange rates, basis spreads, share prices, and bond prices. In addition, interest rates of central banks decreased. The volatility subsided during the first quarter, and stock and corporate bond indices recovered. As a result of the calmer markets, decreases were recorded in some market and investment risk estimates of activity in the trading book, the banking book, and the investment portfolio of the Bank, and of the customers of the Bank with activity in derivatives. The reduction of short-term interest rates by the central banks – the rate cuts already performed as well as probable additional reductions – and the changes in yield curves in the market affect the reduction of the future financing income and interest income of the Bank, as well as the fair value and economic value, as detailed in the tables below. For further details, see [the section "Economic and financial review"](#) and [the section "Effect of the spread of the coronavirus,"](#) above.

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3.3.1. Interest-rate risk

Interest-rate risk is the risk of loss or decline in value due to changes in interest rates in the various currencies. This risk, as defined above, also includes the following risk factors:

- **Repricing risk** – Risk arising from timing differences in terms to maturity (for fixed interest rates) and repricing dates (for floating interest rates).
- **Yield curve risk** – Risk arising from different changes in interest rates for different terms to maturity, reflected in changes in the slope of the curve (steepening or flattening) or in its shape (twist).
- **Spread risk** – Risk of loss as a result of changes in spreads between different interest-rate curves.
- **Optionality risk** – Risk arising from different exercise rights inherent in assets and liabilities (for example, the right to withdraw funds at any time, sometimes without fines).
- **Value exposure** – The estimated expected change in economic value (financial capital) as a result of changes in the interest rate.
- **Accounting income exposure** – The expected change in accounting income in the coming year as a result of changes in the interest rate.

Table 3-23: Adjusted net fair value* of the financial instruments of the Bank and its consolidated companies

	June 30, 2020			December 31, 2019		
	NIS	Foreign currency	Total	NIS	Foreign currency	Total
NIS millions						
Adjusted net fair value*	32,096	732	32,828	32,183	382	32,565
Of which: banking book	31,903	460	32,363	32,307	(295)	32,012

* Net fair value of financial instruments, excluding non-monetary items and after the effect of employee benefit liabilities and attribution of on-demand deposits to the periods.

For further details regarding assumptions used to calculate the fair value of financial instruments, see [Note 15](#) to the Condensed Financial Statements.

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Table 3-24: Effect of scenarios of changes in interest rates on the adjusted net fair value* of the Bank and its consolidated companies

	June 30, 2020			December 31, 2019		
	NIS	Foreign currency	Total	NIS	Foreign currency	Total
NIS millions						
Parallel changes						
1% parallel increase	(347)	105	(242)	56	89	145
Of which: banking book	(329)	117	(212)	35	106	141
1% parallel decrease	424	(97)	327	(19)	(96)	(115)
Of which: banking book	410	(102)	308	2	(105)	(103)
Non-parallel changes						
Steepening ⁽¹⁾	(390)	(122)	(512)	(339)	(138)	(477)
Flattening ⁽²⁾	339	69	408	369	129	498
Increase in short-term interest rate	141	48	189	309	84	393
Decrease in short-term interest rate	(158)	(78)	(236)	(340)	(89)	(429)

* Net fair value of financial instruments, excluding non-monetary items and after the effect of employee benefit liabilities and attribution of on-demand deposits to the periods.

(1) Steepening – decrease in the short-term interest rate and increase in the long-term interest rate.

(2) Flattening – increase in the short-term interest rate and decrease in the long-term interest rate.

This table presents the change in the adjusted net fair value of all of the financial instruments under the assumption that the noted change occurs in all interest rates, in all linkage segments.

Table 3-25: Effect of scenarios of changes in interest rates on interest income

	June 30, 2020			December 31, 2019		
	Interest income	Non-interest financing income	Total	Interest income	Non-interest financing income	Total
NIS millions						
1% parallel increase	921	213	1,134	924	327	1,251
Of which: banking book	921	244	1,165	924	323	1,247
1% parallel decrease	(401)	(324)	(725)	(746)	(406)	(1,152)
Of which: banking book	(401)	(344)	(745)	(746)	(395)	(1,141)

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Income sensitivity in the table above was calculated by changing interest-rate curves, using assumptions regarding changes in deposit spreads; assumptions of transfer of monies from current accounts to deposits in the case of an increase in the interest rate, versus stability of balances in the case of a decrease in the interest rate; and assumption of interest-rate floors, such that the various interest-rate curves fall to zero. In the foreign-currency segment, the interest-rate curve falls to the lower of zero or the existing negative interest rate. In some of the scenarios, the theoretical loss in the event of a negative interest rate (below the floor) may be higher. The sensitivity of the trading book was calculated using the MTM approach. The decrease in the sensitivity of interest to a decrease in the interest rate resulted from the decrease in the interest rates of the central banks, which brought interest rates closer to the interest-rate floor, combined with certain changes in the position and in assumptions regarding curves.

For details and more extensive information regarding market risks, including interest-rate risk, exchange-rate risk, and investment risk (share and credit spread risk), see [the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2019](#), and the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at June 30, 2020.

3.3.2. Exchange-rate risk

Currency risks (also known as linkage-base exposure) include exposure to exchange rates of the various currencies against the shekel, and exposure to the consumer price index, at the Bank as a whole.

Table 3-26: Sensitivity to changes in the exchange rates of foreign currencies with a significant volume of activity and to changes in the consumer price index

	June 30, 2020		December 31, 2019	
	10% increase	10% decrease	10% increase	10% decrease
	NIS millions			
USD	(108)	47	189	68
EUR	17	(29)	45	26
Consumer price index*	269	(418)	220	(347)

* Sensitivity data for 2019 were updated due to the reclassification of the balance of employee liabilities in respect of employee benefits from the unlinked segment to the CPI-linked segment. As a result, sensitivity to a 3% change in the CPI at the end of 2019 changed by approximately NIS 135 million.

The table above presents an analysis of the sensitivity of the economic value of the Bank to changes in exchange rates, based on revaluation of all balance sheet and off-balance sheet instruments in the risk-management system, using prevalent models for revaluation of each instrument and using representative rates as the baseline exchange rate. For the purposes of the calculation, the portfolio is revalued again at an exchange rate reflecting an increase/decrease at the presented rate, with no additional assumptions. Sensitivity to the consumer price index is calculated according to the exposure of the Bank to the index, as detailed in Note 14 to the Condensed Financial Statements, plus the effect of the CPI floor on the expected accounting profit.

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3.4. Liquidity and refinancing risk

Liquidity risk – Liquidity risk is defined as present or future risk to the stability and profits of the Bank arising from an inability to sustain the cash flow required for its needs. Liquidity risk at the Bank is examined from a broader perspective, encompassing the ability to repay liabilities on schedule, including during times of stress, without damage to routine operations within the business plans of the Bank and without incurring exceptional losses.

Refinancing risk – The risk of inability to raise new resources to replace resources that have matured, or the risk that the reissue may be performed at durations and terms that damage the Bank's net interest income. This risk is managed as part of liquidity risk.

Table 3-27: Liquidity coverage ratio*

	For the three months ended June 30, 2020	For the three months ended June 30, 2019	For the three months ended December 31, 2019
%			
a. Consolidated data			
Liquidity coverage ratio	131%	127%	121%
Minimum liquidity coverage ratio required by the Banking Supervision Department	100%	100%	100%
b. Bank data			
Liquidity coverage ratio	130%	126%	120%
Minimum liquidity coverage ratio required by the Banking Supervision Department	100%	100%	100%

* The ratio is calculated on a daily basis, and reported as an average of the daily observations.

No material changes have occurred in liquidity risk management policy and in resource raising policy since the beginning of this year.

Liquidity pressures were observed in the foreign-currency market in Israel in March, due to the spread of the coronavirus. These pressures subsided towards the end of the month. Within the management of liquidity risk, the Bank took actions contributing to maintaining and improving its liquidity ratio, in addition to the increase arising from the change in the composition of deposits, which included an increase in retail deposits towards the end of the quarter. The Bank continued to maintain adequate liquidity ratios during the second quarter, due to continued growth in retail deposits, among other factors.

For more extensive information regarding liquidity risk and the management thereof, see [the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2019; the Annual Financial Statements for 2019](#); and the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at June 30, 2020.

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3.5. Operational risk

Operational risk is defined as the risk of loss that may be caused by failed or faulty internal processes, human actions, system malfunctions, or external events. The definition includes legal risk, but does not include strategic risk or reputational risk. Failures related to one of the aforesaid factors may cause damage to profitability. The Bank operates control units, including Information Systems Security and Cyber Defense, Business Continuity, Security, and the Chief Compliance Officer, as well as comprehensive procedures and systems in areas related to banking activity, management of human resources, process control, emergency operation, and more.

In view of the spread of the coronavirus, the Bank applied a series of processes and measures, including those described below in the sections on information security and cyber risks and emergency preparedness. In general, the operational risks related to the crisis and its effects have been analyzed, and the estimate is that this way of working may increase exposure to operational risks. Appropriate controls and measures to minimize risk are being considered and implemented. However, due to the high uncertainty prevailing at this stage, it is not possible to estimate the full future effects of the coronavirus crisis on the development of operational risk at the Bank.

3.5.1. Information security and cyber risks

Cyber risk is the risk of damage, including disruption, disturbance, shutdown of operations, theft of property, collection of intelligence, or damage to reputation or the confidence of the public, as a result of a cyber event. Cyber activity is conducted as required in the directives of the Bank of Israel, including Proper Conduct of Banking Business Directive 361, "Cyber Defense Management"; Proper Conduct of Banking Business Directive 363, "Supply Chain"; the Protection of Privacy Law, 1981; and other laws, as relevant, with the aim of protecting the information-technology system and minimizing risks. Information security and cyber risks at the Bank are managed by the Information Security and Cyber Defense Unit in the Information Technology Division. The sophistication and severity of cyber attacks on the global financial sector have escalated in recent years. Technological development trends such as cloud computing, openness to external interfaces, and the expansion of digital services, on one hand, and the advanced tools available to attackers, on the other hand, have led to higher exposure to cyber risks. The banking sector in Israel, including the Bank, regularly experiences cyber attacks, such as DDOS (distributed denial of service – attacks designed to shut down a computer system by overloading its resources), phishing (attempts to steal sensitive information through impersonation on the Internet), etc. No material cyber events were discovered at the Bank in the first half of 2020.

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The Bank invests extensive resources (both human and technological) in strengthening its information security and cyber defense system, in order to cope with the development of these threats. The Bank's defense framework consists of layers of protection using advanced technologies. The Bank operates cyber defense processes in order to minimize the risk of penetration, unauthorized access to information systems, and materialization of attacks, and to ensure the correctness, availability, and confidentiality of its databases. Concurrently, the Bank operates processes to discover and identify cyber events, at all times, including the operation of the Information Security Event Center. The Bank also prepares to contain cyber events and minimize the damage to the assets of the Bank and its customers. The Bank continually works to identify targets to defend, threats, risks, and the effectiveness of defenses, and to build work plans for improvement of the defensive framework accordingly.

The Bank routinely updates its risk assessment in view of insights from cyber events in Israel and worldwide relevant to the systems and business of the Bank. The Bank also accords high importance to maintaining an organizational culture of risk management, and therefore takes various actions (such as lectures, messaging, and exercises at various levels) to raise employee awareness of cyber risks.

The Cyber Risk Management Unit in the Risk Management Division establishes indices and methodologies for the evaluation of the maturity of defenses, analyzes the business implications of cyber scenarios, challenges the defense system, and examines developments in the area of cyber risk relevant to the technological and business systems of the Bank.

The Bank has updated its cyber risk estimate, in accordance with the development of threats during the period of the spread of the coronavirus, and is taking comprehensive action to reduce this risk, particularly in view of the change in the form of work at the Bank and the significant transition of employees to remote work. The cyber defense units have developed a response aimed at reducing the risk of remote work, and in addition, have instructed employees and suppliers on ways of reducing the risk, including by raising awareness of the new and developing cyber risks. Preparedness has also been increased with respect to possible phishing and fraud against customers through exploitation of the crisis and the fears of the public.

3.5.2. Emergency preparedness

The Bank maintains and implements a continuous plan for emergency preparedness and business continuity (BCMP – business continuity management plan), in accordance with the Bank of Israel's Directive 355, "Business Continuity Management"; Directive 357, "Information Technology Management"; and additional expansions. The Bank's preparedness is based on detailed action plans, working procedures, and periodic tests and drills, defined in a system of emergency procedures. As part of its emergency preparedness, the Bank conducted a lateral process to establish policies, define reference scenarios, map and analyze critical processes and the resources required for the recovery of such processes during an emergency (BIA), and update its action plans based on globally prevalent methodologies. The action plan involves all divisions of the Bank, through divisional business continuity officers and designated teams. The BCP is led by a specialized Business Continuity Management Unit, which reports to the Head of Business Continuity of the Bank and to the head of the Bank Emergency Committee (the Head of Information Technology).

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The business continuity policy has also been adopted by the subsidiaries in Israel and globally, and at the Bank's overseas branches, in congruence with the corporate-governance policy and the guidelines of the Bank of Israel. In addition, the Bank holds periodic emergency drills covering operational scenarios as well as complex business scenarios, with the participation of the various units, from branches, regional managements, units, and divisions to the Board of Management of the Bank. The Bank has established a new remote central IT site, to ensure the availability and protection of its information systems and of the information itself.

The Israel Standards Institute has affirmed that the business continuity management system of the Bank complies with the requirements of the international standard ISO 22301.

As part of its preparedness for business continuity, the Bank is prepared to handle a range of possible scenarios. With respect to emergency scenarios that may cause the Bank to incur significant damage, red-alert systems are monitored and detailed contingency plans are in place. Stress scenarios are reviewed and discussed periodically by the Committee on Stress Scenarios and Risk Concentrations. The activation of a contingency plan is under the responsibility of the Board of Management or of the designated Board of Management committee responsible for the financial aspects of crisis situations; note that a charter for the establishment of such a committee is also part of the contingency plans.

As part of its preparedness for business continuity, the Bank is prepared to handle a range of possible scenarios, including a pandemic scenario. The Bank operated in an emergency format in the late first quarter and early second quarter, due to the spread of the coronavirus. The work schedule at the Bank was reduced relative to ordinary conditions, with no material change in employees' terms of employment and benefits. In May, the Bank resumed full work schedules, with work methods adapted for the changing circumstances. The Bank is acting on all levels, in accordance with the emergency regulations for the reduction of the spread of the coronavirus, the instructions of the Ministry of Health, the regulatory reliefs and instructions of the Bank of Israel, and other binding regulations, in order to ensure the continued delivery of service through the various channels. The Bank's emergency plans have been activated, in order to reduce the probability of extensive contagion, including splitting of essential units among different buildings or floors, and/or transition to working in homogeneous shifts, to the extent possible. Remote work (work from home) capabilities have also been enhanced. Sanitizing, hygiene, and protective materials have been distributed at all of the buildings of the Bank; the required distance is maintained between employees in all spaces; and temperature checks are conducted in accordance with requirements. Instructions are continuously communicated to managers and employees. Ongoing monitoring and communication are maintained with employees who are in isolation or sick, and a system for assistance and information for employees has been established. The branches comply with all instructions concerning the reception of the public and hygiene guidelines. Extensive communication with the customers of the Bank is conducted through the various channels in order to provide updates regarding the routine operation of the branch network; the application of eased requirements regarding connection or identification of customers on the direct channels in order to facilitate service, including with regard to the delivery of credit cards and checkbooks to customers; and the application of eased requirements permitted by regulators. The Bank is in contact with its suppliers to ensure continued and continuous service, as well as with its subsidiaries in Israel and overseas branches, and with its various partners in the banking system and in financial services. The Bank of Israel receives reports at the frequency it determines, or upon exceptional events, according to the instructions. The work schedule is updated from time to time, according to instructions and various developments.

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During the quarter ended on June 30, 2020, no material change occurred in the internal control over financial reporting that had a material impact, or could reasonably be expected to have a material impact, on the internal control over financial reporting, including the potential effects of the coronavirus event on the financial reporting systems and on the system of disclosure controls.

For additional information regarding operational risk and the management thereof, see [the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2019](#).

3.6. Compliance risk

Compliance risk is the risk of imposition of a legal or regulatory sanction, material financial loss, or reputational damage which the banking corporation may suffer as a result of a failure to comply with the compliance directives, as defined in Proper Conduct of Banking Business Directive 308.

Pursuant to Proper Conduct of Banking Business Directive 308, compliance risk also includes risks related to the fairness of the Bank towards its customers, conflicts of interest, the prohibition of money laundering and financing of terrorism (including with respect to tax laws), provision of advice to customers, securities enforcement, protection of privacy (excluding information-technology aspects), the US FATCA directives and the international CRS directives, and taxation aspects relevant to products or services for customers, or directives of a similar nature. Compliance risk also includes the reputational risk that accompanies failure to comply with such directives.

Compliance risk also encompasses risk related to the activity of the Bank with banks located in the Palestinian Authority, which requires the fulfillment of various regulatory requirements, in particular in connection with the prevention of money laundering and terrorism financing, and involves monitoring of fund transfers to and from residents of the Palestinian Authority.

The Bank terminated its activity with banks and branches located in the Gaza Strip at the beginning of 2009, after the government declared Gaza a hostile entity. Over the years, the Bank repeatedly notified the Bank of Israel and the Ministry of Finance that in view of the problems involved in the provision of banking services to Palestinian banks, the Bank wished to cease providing such services.

In January 2018, the Bank received signed letters of immunity and indemnity from the Attorney General and the Ministry of Finance. The letter of immunity protects the Bank, its officers, and its employees from indictment in Israel for certain offenses related to money laundering and the prevention of terrorism financing in relation to services granted, or to be granted, by the Bank to Palestinian banks from March 28, 2016, to May 31, 2019 (the "Immunity and Indemnity Period"). Further to the letter of immunity, in January 2018, the Bank received a letter from the Supervisor of Banks in which she gave notice that no enforcement measures would be taken in all matters related to actions of the Bank in connection with the provision of correspondent services to which the letter of immunity applies.

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In the letter of indemnity, the State of Israel made a commitment to indemnify the Bank, in an amount up to NIS 1.5 billion, for expenses (liability according to a verdict and legal expenses) borne by the Bank, within civil proceedings or criminal proceedings that do not end in a conviction, prosecuted against the Bank or an officer or employee thereof in connection with the provision of the correspondent services during the Immunity and Indemnity Period. The immunity and indemnity commitments granted to the Bank, as noted, are subject to reservations stated therein and to conditions that the Bank must fulfill.

In light of the request of the State to postpone the termination of correspondent services until the implementation of a long-term solution for the provision of correspondent services, through the establishment of a government company to provide Palestinian banks with these services, an updated letter of indemnity was issued on June 30, 2019, extending the indemnity period until February 28, 2021 (and May 31, 2021 at the latest). Pursuant to the updated letter of indemnity, the indemnity to which the State has committed towards the Bank, as detailed above, has been amended to an amount of up to NIS 1.5 billion in respect of each proceeding (not cumulatively). An updated letter was also issued by the Attorney General extending the immunity period until May 31, 2021.

For additional information regarding compliance risk and the management thereof, see [the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2019](#).

3.7. Other risks

For details and more extensive information regarding legal risk, reputational risk, regulatory and legislative risk, economic risk, strategic risk, and environmental risk, see [the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at June 30, 2020](#), and [the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2019](#).

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3.8. Severity of risk factors

The risk factors and the Board of Management's estimates regarding the severity of the risk of each factor are listed in the following table. The scale for levels of severity of the risk factors is determined with reference to the risk appetite defined by the Bank. This scale consists of five levels of severity for each risk factor. Quantitative metrics have been established for three of the levels (low, medium, and high). For details, see [the Report on Risks for 2019](#).

Table 3-28: Severity of risk factors

	Risk factor	Risk effect
Financial risks		
1.	Credit risk (including counterparty risk)*	Medium-High
1.1.	Of which: risk in respect of the quality of borrowers and/or collateral*	Medium-High
1.2.	Of which: risk in respect of sector concentration	Medium
1.3.	Of which: risk in respect of concentration of borrowers/borrower groups	Medium
2.	Market risk	Low-Medium
2.1.	Of which: interest-rate risk	Low-Medium
2.2.	Of which: inflation risk / exchange-rate risk	Low
2.3.	Of which: share price and credit spread risk	Low-Medium
3.	Liquidity risk	Low-Medium
Operational and legal risks		
4.	Operational risk	Medium
4.1.	Of which: cyber risk	Medium
4.2.	Of which: IT risk	Medium
5.	Legal risk	Low
Other risks		
6.	Reputational risk	Low-Medium
7.	Strategic and competitive risk	Medium
8.	Regulatory and legislative risk	Medium
9.	Economic risk – condition of the Israeli economy	High
10.	Economic risk – condition of the global economy	High
11.	Compliance risk**	Medium

* The level of credit risk was raised to Medium-High in the first quarter of 2020, in light of the coronavirus crisis and its present and possible future effects on economic conditions.

** Following the approval of the resolutions with the United States authorities regarding the tax investigation and the FIFA investigation (see [Note 10D and 10E](#) to the Condensed Financial Statements, including with regard to the Bank's obligations pursuant to the resolutions), the level of compliance risk was returned to Medium in the first quarter of 2020 (from the previous level of Medium-High). This also includes the risk to which the Bank is exposed as a result of the aforesaid resolutions.

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as at June 30, 2020

However, due to the high uncertainty prevailing at this stage, it is not possible to estimate the full future effects of the coronavirus crisis on the severity of all of the risk factors. The estimates of the Bank regarding the possible ramifications of the coronavirus crisis and its impact on the markets constitute forward-looking information, as defined in the section, "Forward-looking information." These estimates are uncertain, and may materialize in a manner materially different than described below.

3.9. Effect of the discontinuation of publication of the LIBOR interest rate

Beginning at the end of 2021, the global financial system is expected to discontinue publication of the LIBOR interest rates and cease using these rates. The LIBOR rates serve as the basis for calculation of interest rates applicable to financial products with floating rates in principal foreign currencies, or linked to these currencies. Within the intention to establish alternative benchmark rates for the relevant currencies, global institutions such as the ISDA (International Swaps and Derivatives Association) and the ARRC (Alternative Reference Rate Committee) are formulating alternatives to these interest rates, new legal language, and proposals for substitution mechanisms. The anticipated change will affect the entire banking industry, globally and in Israel. Accordingly, a steering committee has been established at the Bank, to follow the international publications, examine the impact of the substitution on the activity of the Bank, and update the Board of Management and Board of Directors periodically. Within the activity of the committee, the various products at the Bank that are based on these interest rates have been mapped; changes have been made to legal documents; and training has been provided to Bank employees. In late January 2020, letters were sent to customers of the Bank describing the future change, according to the information in the possession of the Bank at that time. In light of the uncertainty concerning the continued execution of this process, which is influenced, as noted, by international decisions, the Bank is unable to perform quantitative evaluations regarding the effect of the substitution of the interest rates. The Bank will continue to monitor the international publications and to act with the aim of reducing the risks arising from the interest-rate substitution process. For further details, see [Note 1D](#) to the Condensed Financial Statements.

Report of the Board of Directors and Board of Management

as at June 30, 2020

4. Critical accounting policies and estimates; controls and procedures

4.1. Critical accounting policies and estimates

The financial statements of the Bank are prepared in accordance with accounting principles and rules, the main points of which are described in Note 1 to the Annual Financial Statements as at December 31, 2019. In implementing the accounting principles, the Board of Management of the Bank uses various assumptions, estimates, and evaluations that affect the reported amounts of assets and liabilities (including contingent liabilities) and the results reported by the Bank. Actual future results may differ from such estimates and evaluations made when preparing the financial statements.

Some of these estimates and evaluations involve a considerable degree of uncertainty, and can be affected by possible future changes. Such estimates and evaluations in which changes may have a material effect on the financial results presented in the financial statements are considered by the Bank to be estimates and evaluations on "critical" matters. The Bank's Board of Management is of the opinion that the estimates and evaluations applied during the preparation of the financial statements are fair, and were made to the best of its knowledge and professional judgment.

The management estimates and principal assumptions used in the implementation of the Group's accounting policies are consistent with those used in the preparation of the Annual Financial Statements as at December 31, 2019.

Allowance for credit losses

As part of the Bank's preparations for the consequences of the coronavirus crisis, and in order to assess its potential effects, various scenarios for the progression of a series of economic parameters are being examined and used by the Bank to estimate the impacts on the Bank.

For details regarding the scenarios and the effect thereof on credit risk, and regarding the exposure and credit risk by economic sector, see [the section, "Credit risk,"](#) above.

4.2. Controls and procedures

In accordance with the Public Reporting Directives of the Supervisor of Banks, the Chief Executive Officer and the Chief Accountant of the Bank must each separately sign a declaration regarding their responsibility for the establishment and application of controls and procedures concerning disclosure and the Bank's internal control over financial reporting, including an assessment of the effectiveness of these controls, pursuant to the provisions of Sections 302 and 404 of the law known as the "Sarbanes-Oxley Act," enacted in the United States.

The provisions of these two sections of the law were consolidated by the Supervisor of Banks in a Proper Conduct of Banking Business Directive (Directive 309) in September 2008, and integrated into the Public Reporting Directives in June 2009.

The directive in Section 302 regarding the existence of controls and procedures concerning disclosure is implemented at the Bank on a quarterly basis. The directive in Section 404 regarding the Bank's internal control over financial reporting is implemented at the end of each year, as required in the directives.

Report of the Board of Directors and Board of Management

as at June 30, 2020

As part of the implementation of the directives of Section 404, the Bank, with the assistance of a consulting firm, mapped and documented all material control processes, based on the directives of the SEC (the Securities and Exchange Commission in the United States), using the prevalent methodologies, based on criteria established in the updated Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In addition, in accordance with the requirements, the Bank carried out a test of the effectiveness of the procedures for internal control over financial reporting, through an examination of the effectiveness of the main controls in practice.

The Bank is updating the documentation of the material control processes for 2020, as in every year, according to the prevalent methodologies, with the assistance of a consulting firm, and examining the effectiveness of the procedures for internal control over financial reporting, through a renewed examination of the main controls for the current year. The main part of this process is planned to be completed during the second half of the year. During the second quarter of 2020, key controls that may potentially be affected by the coronavirus crisis were also tested on a sample basis.

Evaluation of controls and procedures concerning disclosure

The Board of Management of the Bank, in cooperation with the Chief Executive Officer and the Chief Accountant of the Bank, has assessed the effectiveness of the controls and procedures concerning disclosure at the Bank as at June 30, 2020. Based on this assessment, they have concluded that, as at the end of this period, the controls and procedures concerning disclosure at the Bank are effective in order to record, process, summarize, and report the information that the Bank is required to disclose in its financial statement, in accordance with the Public Reporting Directives of the Supervisor of Banks, on the date stipulated in these directives.

Changes in internal control

During the quarter ended on June 30, 2020, no material change occurred in the internal control over financial reporting that had a material impact, or could reasonably be expected to have a material impact, on the internal control over financial reporting.

Reuven Krupik

Chairman of the Board of Directors

Dov Kotler

President and Chief Executive Officer

Tel-Aviv, August 12, 2020

Declarations of Internal Control Over Financial Reporting

as at June 30, 2020

CEO Declaration

I, Dov Kotler, declare that:

1. I have reviewed the quarterly report of Bank Hapoalim B.M. (hereinafter: the "Bank") for the quarter ended on June 30, 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 in the Report fairly reflect the financial condition, results of operations, changes in equity, and cash flows of the Bank, in all material aspects, for the dates and periods presented 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 and internal control over financial reporting (as defined in the Public Reporting Directives concerning the "Board of Directors' Report"); 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 control over financial reporting, or caused such internal control over financial reporting to be established under our supervision, intended to provide a reasonable degree of assurance with regard to the reliability of the financial reporting, and with regard to the preparation of the financial statements for external purposes 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 in the Report, 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 this 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 auditors, 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 over financial reporting:
 - A. Any significant deficiencies or material weaknesses in the establishment or application of internal control over financial reporting that could reasonably be expected to impair the Bank's ability to record, process, summarize, and 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 a significant role in the internal control over financial reporting at the Bank.

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

Dov Kotler

President and Chief Executive Officer

Tel-Aviv, August 12, 2020

Declarations of Internal Control Over Financial Reporting

as at June 30, 2020

Chief Accountant Declaration

I, Ofer Levy, declare that:

1. I have reviewed the quarterly report of Bank Hapoalim B.M. (hereinafter: the "Bank") for the quarter ended on June 30, 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 in the Report fairly reflect the financial condition, results of operations, changes in equity, and cash flows of the Bank, in all material aspects, for the dates and periods presented 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 and internal control over financial reporting (as defined in the Public Reporting Directives concerning the "Board of Directors' Report"); 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 control over financial reporting, or caused such internal control over financial reporting to be established under our supervision, intended to provide a reasonable degree of assurance with regard to the reliability of the financial reporting, and with regard to the preparation of the financial statements for external purposes 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 in the Report, 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 this 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 auditors, 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 over financial reporting:
 - A. Any significant deficiencies or material weaknesses in the establishment or application of internal control over financial reporting that could reasonably be expected to impair the Bank's ability to record, process, summarize, and 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 a significant role in the internal control over financial reporting at the Bank.

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

Ofer Levy

Senior Deputy Managing Director,
Chief Accountant

Tel-Aviv, August 12, 2020

Bank Hapoalim

Condensed Financial Statements
as at June 30, 2020



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Condensed Financial Statements

as at June 30, 2020

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Auditors' Review Report to the Shareholders of Bank Hapoalim B.M.

Introduction

We have reviewed the accompanying financial information of Bank Hapoalim B.M. and its subsidiaries (hereinafter - "the Bank") comprising of the condensed consolidated interim balance sheet as of June 30, 2020 and the related condensed consolidated interim statements of profit and loss, comprehensive income, changes in equity and cash flows for the six and three month periods 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 reporting 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 respects, in accordance with generally accepted accounting principles in Israel (Israeli GAAP) for interim reporting and in accordance with the directives and guidelines of the Supervisor of Banks.

Emphasis of a Matter

Without qualifying our above conclusion, we draw attention to that mentioned in Note 10B(b) regarding exposure to class actions that were filed against the Bank Group, to Notes 10D and 10E regarding the conclusion of the investigation of the business of the Bank Group with American customers and with respect to FIFA.

Somekh Chaikin

Certified Public Accountants (Isr)

Ziv Haft

Certified Public Accountants (Isr)

Tel Aviv, August 12, 2020

Condensed Financial Statements

as at June 30, 2020

Condensed Consolidated Statement of Profit and Loss for the periods ended June 30, 2020

NIS millions

	Note	For the three months ended June 30		For the six months ended June 30		For the year ended December 31 2019
		2020	2019	2020	2019	
		Unaudited				Audited
Interest income	2	2,532	3,730	5,074	6,555	11,920
Interest expenses	2	(366)	(1,264)	(716)	(1,812)	(2,601)
Net interest income		2,166	2,466	4,358	4,743	9,319
Provision for credit losses	6(2)	1,128	319	1,937	440	1,276
Net interest income after provision for credit losses		1,038	2,147	2,421	4,303	8,043
Non-interest income						
Non-interest financing income	3	193	166	499	255	559
Fees		746	804	1,609	1,589	3,240
Other income		49	29	71	47	90
Total non-interest income		988	999	2,179	1,891	3,889
Operating and other expenses						
Salaries and related expenses		963	*1,035	1,925	*2,086	4,108
Maintenance and depreciation of buildings and equipment		321	324	642	638	1,334
Other expenses		542	*633	1,175	*1,145	3,334
Total operating and other expenses		1,826	1,992	3,742	3,869	8,776
Profit from continued operations before taxes		200	1,154	858	2,325	3,156
Provision for taxes on profit from continued operations		73	441	436	890	1,681
Profit from continued operations after taxes		127	713	422	1,435	1,475
The Bank's share in profits of equity-basis investees, after taxes		1	4	2	4	11
Net profit from continued operations		128	717	424	1,439	1,486
Net profit (loss) from a discontinued operation	1E	-	151	(109)	242	296
Net profit						
Before attribution to non-controlling interests		128	868	315	1,681	1,782
Loss attributed to non-controlling interests		5	3	10	11	17
Attributed to shareholders of the Bank		133	871	325	1,692	1,799
Earnings per ordinary share in NIS						
Basic earnings						
Net profit attributed to shareholders of the Bank		0.10	0.65	0.24	1.27	1.35
Net profit attributed to shareholders of the Bank from continued operations		0.10	0.54	0.32	1.09	1.13
Diluted earnings						
Net profit attributed to shareholders of the Bank		0.10	0.65	0.24	1.26	1.35
Net profit attributed to shareholders of the Bank from continued operations		0.10	0.54	0.32	1.08	1.13

* Reclassified.

The accompanying notes are an integral part of the condensed financial statements.

Reuven Krupik

Chairman of the
Board of Directors

Dov Kotler

President and
Chief Executive Officer

Ofer Levy

Senior Deputy Managing Director,
Chief Accountant

Tel Aviv, August 12, 2020

Condensed Financial Statements

as at June 30, 2020

Condensed Consolidated Statement of Comprehensive Income for the periods ended June 30, 2020

NIS millions

Note	For the three months ended June 30		For the six months ended June 30		For the year ended December 31
	2020	2019	2020	2019	2019
	Unaudited				Audited
Net profit before attribution to non-controlling interests	128	868	315	1,681	1,782
Loss attributed to non-controlling interests	5	3	10	11	17
Net profit attributed to shareholders of the Bank	133	871	325	1,692	1,799
Other comprehensive income (loss) before taxes:	4				
Net adjustments in respect of bonds available for sale at fair value	811	102	144	453	581
Adjustments of employee benefit liabilities*	(424)	113	211	(84)	(876)
Other comprehensive income (loss) before taxes	387	215	355	369	(295)
Effect of related tax	(131)	(69)	(124)	(110)	119
Other comprehensive income (loss) before attribution to non-controlling interests, after taxes	256	146	231	259	(176)
Net of other comprehensive loss (income) attributed to non-controlling interests	-	-	-	-	-
Other comprehensive income (loss) attributed to shareholders of the Bank, after taxes	256	146	231	259	(176)
Comprehensive income before attribution to non-controlling interests	384	1,014	546	1,940	1,606
Comprehensive loss attributed to non-controlling interests	5	3	10	11	17
Comprehensive income attributed to shareholders of the Bank	389	1,017	556	1,951	1,623

* Mainly reflects adjustments in respect of actuarial estimates at the end of the period, and deduction of amounts previously recorded in other comprehensive income.

The accompanying notes are an integral part of the condensed financial statements.

Condensed Financial Statements

as at June 30, 2020

Condensed Consolidated Balance Sheet as at June 30, 2020

NIS millions

		June 30	December 31
		2020	2019
	Note	Unaudited	Audited
Assets			
Cash and deposits with banks		113,033	72,913
Securities ⁽¹⁾⁽²⁾	5	66,513	71,116
Securities borrowed or purchased under agreements to resell		240	326
Credit to the public		299,690	292,635
Allowance for credit losses		(5,990)	(4,012)
Net credit to the public	6, 13	293,700	288,623
Credit to governments		2,548	2,145
Investments in equity-basis investees		222	105
Buildings and equipment		3,206	3,053
Assets in respect of derivative instruments	11	13,063	9,575
Other assets ⁽¹⁾		6,755	5,588
Investment constituting a discontinued operation ⁽³⁾	1E	-	803
Total assets		499,280	454,247
			463,688
Liabilities and capital			
Deposits from the public	7	400,816	352,112
Deposits from banks		3,418	3,034
Deposits from the government		424	322
Securities lent or sold under agreements to repurchase		4	19
Bonds and subordinated notes		25,196	30,080
Liabilities in respect of derivative instruments	11	14,340	10,280
Other liabilities (of which: 762; 529; 537, respectively, allowance for credit losses in respect of off-balance sheet credit instruments) ⁽¹⁾		17,028	18,851
Total liabilities		461,226	414,698
			425,467
Shareholders' equity	9	38,024	39,503
Non-controlling interests		30	46
Total capital		38,054	39,549
Total liabilities and capital		499,280	454,247
			463,688

(1) With regard to amounts measured at fair value, see [Note 15B](#).

(2) For details regarding securities pledged to lenders, see [Note 5](#).

(3) From the second quarter of 2019 to its distribution as a dividend in kind during the first quarter of 2020, the balance of the investment in the Isracard Group was accounted for using the equity method, and was stated in one line within an "investment constituting a discontinued operation."

The accompanying notes are an integral part of the condensed financial statements.

Condensed Financial Statements

as at June 30, 2020

Condensed Statement of Changes in Equity

for the periods ended June 30, 2020

Unaudited
NIS millions

	For the three months ended June 30, 2020							
	Share capital and premium*	Capital reserves from benefit due to share-based payment transactions	Total capital and capital reserves	Accumulated other comprehensive income	Retained earnings	Total shareholders' equity	Non-controlling interests	Total capital
Balance as at March 31, 2020	8,170	21	8,191	(1,377)	30,818	37,632	35	37,667
Net profit (loss) for the period	-	-	-	-	133	133	(5)	128
Adjustments and changes arising from:								
Benefit due to share-based payment transactions	-	3	3	-	-	3	-	3
Exercise of equity compensation into shares	13	(13)	-	-	-	-	-	-
Net other comprehensive income after tax effect	-	-	-	256	-	256	-	256
Balance as at June 30, 2020	8,183	11	8,194	(1,121)	30,951	38,024	30	38,054

* Excluding a balance of 1,479,008 treasury shares.

The accompanying notes are an integral part of the condensed financial statements.

Condensed Financial Statements

as at June 30, 2020

Condensed Statement of Changes in Equity for the periods ended June 30, 2020 (continued)

Unaudited
NIS millions

	For the three months ended June 30, 2019							
	Share capital and premium*	Capital reserves from benefit due to share-based payment transactions	Total capital and capital reserves	Accumulated other comprehensive income	Retained earnings	Total shareholders' equity	Non-controlling interests	Total capital
Balance as at March 31, 2019	8,153	23	8,176	(1,063)	31,368	38,481	90	38,571
Net profit (loss) for the period	-	-	-	-	871	871	(5)	866
Adjustments and changes arising from:								
Benefit due to share-based payment transactions	-	5	5	-	-	5	-	5
Exercise of equity compensation into shares	14	(14)	-	-	-	-	-	-
Subtraction of non-controlling interests due to loss of control of a subsidiary	-	-	-	-	-	-	(39)	(39)
Net other comprehensive income after tax effect	-	-	-	146	-	146	-	146
Balance as at June 30, 2019	8,167	14	8,181	(917)	32,239	39,503	46	39,549

* Excluding a balance of 2,208,952 treasury shares.

The accompanying notes are an integral part of the condensed financial statements.

Condensed Financial Statements

as at June 30, 2020

Condensed Statement of Changes in Equity

for the periods ended June 30, 2020 (continued)

Unaudited
NIS millions

	For the six months ended June 30, 2020							
	Share capital and premium*	Capital reserves from benefit due to share-based payment transactions	Total capital and capital reserves	Accumulated other comprehensive income	Retained earnings	Total shareholders' equity	Non-controlling interests	Total capital
Balance as at January 1, 2020	8,167	20	8,187	(1,352)	31,346	38,181	40	38,221
Net profit (loss) for the period	-	-	-	-	325	325	(10)	315
Dividends	-	-	-	-	(720)	(720)	-	(720)
Adjustments and changes arising from:								
Benefit due to share-based payment transactions	-	7	7	-	-	7	-	7
Exercise of equity compensation into shares	16	(16)	-	-	-	-	-	-
Net other comprehensive income after tax effect	-	-	-	231	-	231	-	231
Balance as at June 30, 2020	8,183	11	8,194	(1,121)	30,951	38,024	30	38,054

* Excluding a balance of 1,479,008 treasury shares.

The accompanying notes are an integral part of the condensed financial statements.

Condensed Financial Statements

as at June 30, 2020

Condensed Statement of Changes in Equity for the periods ended June 30, 2020 (continued)

Unaudited
NIS millions

	For the six months ended June 30, 2019							
	Share capital and premium*	Capital reserves from benefit due to share-based payment transactions	Total capital and capital reserves	Accumulated other comprehensive income	Retained earnings	Total shareholders' equity	Non-controlling interests	Total capital
Balance as at January 1, 2019	8,135	38	8,173	(1,194)	30,565	37,544	112	37,656
Cumulative effect of initial implementation of US GAAP ⁽¹⁾	-	-	-	18	(18)	-	-	-
Adjusted balance as at January 1, 2020, after initial implementation	8,135	38	8,173	(1,176)	30,547	37,544	112	37,656
Net profit (loss) for the period	-	-	-	-	1,692	1,692	(11)	1,681
Adjustments and changes arising from:								
Benefit due to share-based payment transactions	-	8	8	-	-	8	-	8
Exercise of equity compensation into shares	32	(32)	-	-	-	-	-	-
Control of subsidiaries	-	-	-	-	-	-	(39)	(39)
Net other comprehensive income after tax effect	-	-	-	259	-	259	-	259
Dividend for non-controlling interests in a consolidated company	-	-	-	-	-	-	(16)	(16)
Balance as at June 30, 2019	8,167	14	8,181	(917)	32,239	39,503	46	39,549

* Excluding a balance of 2,208,952 treasury shares.

(1) The cumulative effect of the initial implementation of generally accepted accounting principles for US banks concerning financial instruments (ASU 2016-01) and concerning derivatives and hedging (ASU 2017-12), including the associated updates.

The accompanying notes are an integral part of the condensed financial statements.

Condensed Financial Statements

as at June 30, 2020

Condensed Statement of Changes in Equity for the periods ended June 30, 2020 (continued)

Audited
NIS millions

	For the year ended December 31, 2019							
	Share capital and premium*	Capital reserves from benefit due to share-based payment transactions	Total capital and capital reserves	Accumulated other comprehensive income	Retained earnings	Total shareholders' equity	Non-controlling interests	Total capital
Balance as at January 1, 2019	8,135	38	8,173	(1,194)	30,565	37,544	112	37,656
Cumulative effect of initial implementation of US GAAP ⁽¹⁾	-	-	-	18	(18)	-	-	-
Adjusted balance as at January 1, 2019, after initial implementation	8,135	38	8,173	(1,176)	30,547	37,544	112	37,656
Net profit (loss) for the year	-	-	-	-	1,799	1,799	(17)	1,782
Dividends	-	-	-	-	(1,000)	(1,000)	-	(1,000)
Adjustments and changes arising from:								
Benefit due to share-based payment transactions	-	14	14	-	-	14	-	14
Exercise of equity compensation into shares	32	(32)	-	-	-	-	-	-
Subtraction of non-controlling interests due to loss of control of subsidiaries	-	-	-	-	-	-	(39)	(39)
Net other comprehensive loss after tax effect	-	-	-	(176)	-	(176)	-	(176)
Dividend for non-controlling interests in a consolidated company	-	-	-	-	-	-	(16)	(16)
Balance as at December 31, 2019	8,167	20	8,187	(1,352)	31,346	38,181	40	38,221

* Excluding a balance of 2,208,952 treasury shares.

(1) The cumulative effect of the initial implementation of generally accepted accounting principles for US banks concerning financial instruments (ASU 2016-01) and concerning derivatives and hedging (ASU 2017-12), including the associated updates.

The accompanying notes are an integral part of the condensed financial statements.

Condensed Financial Statements

as at June 30, 2020

Condensed Consolidated Statement of Cash Flows

for the periods ended June 30, 2020

NIS millions

	For the three months ended June 30		For the six months ended June 30		For the year ended December 31
	2020	2019	2020	2019	2019
Cash flows from (for) operating activity					
Net profit for the period					
Net profit for the period	128	866	315	1,681	1,782
Adjustments necessary to present cash flows from operating activity					
The Bank's share in profits of equity-basis investees	(1)	(4)	(2)	(4)	(11)
Depreciation of buildings and equipment	133	131	260	242	520
Amortizations	12	7	17	11	21
Provision for credit losses	1,128	293	1,937	440	1,276
Gain from sale of bonds available for sale and shares not held for trading	(19)	(136)	(56)	(215)	(421)
Realized and unrealized loss (gain) from adjustments to fair value of securities held for trading	(110)	(23)	23	(77)	(140)
Gain from realization and impairment of affiliates (including discontinued operation)	(30)	(137)	(159)	(137)	(81)
Gain from realization of buildings and equipment	(41)	(3)	(51)	(4)	(4)
Change in benefit due to share-based payment transactions	(2)	32	(273)	(34)	64
Net change in liabilities in respect of employee benefits	(192)	(14)	(184)	(489)	(483)
Deferred taxes, net	(288)	(45)	(284)	(97)	(21)
Gain from sale of credit portfolios	-	(1)	-	(1)	(9)
Adjustments in respect of exchange-rate differences	390	354	448	882	1,527
Accumulation differentials included in investing and financing activities	237	7,259	(1,406)	7,994	7,956
Net change in current assets					
Assets in respect of derivative instruments	1,883	671	(1,920)	959	(609)
Securities held for trading	8,687	(1,642)	(229)	(921)	(259)
Other assets	(31)	402	(1,019)	239	889
Net change in current liabilities					
Liabilities in respect of derivative instruments	(1,617)	(149)	2,290	604	2,374
Other liabilities	(3,768)	(8,774)	(3,242)	(7,544)	(6,891)
Net cash from (for) operating activity	6,499	(913)	(3,535)	3,529	7,480

The accompanying notes are an integral part of the condensed financial statements.

Condensed Financial Statements

as at June 30, 2020

Condensed Consolidated Statement of Cash Flows for the periods ended June 30, 2020 (continued)

NIS millions

	For the three months ended June 30		For the six months ended June 30		For the year ended December 31
	2020	2019	2020	2019	2019
Unaudited					Audited
Cash flows for investing activity					
Deposits with banks	850	648	1,147	539	7
Credit to the public	7,174	(430)	2,473	1,081	(7)
Credit to governments	153	134	(577)	283	457
Securities borrowed or purchased under agreements to resell	129	388	231	382	237
Acquisition of bonds held to maturity	-	-	(75)	(15)	(15)
Proceeds from redemption of bonds held to maturity	3	2	6	119	126
Acquisition of bonds available for sale and shares not held for trading	(10,133)	(15,115)	(34,269)	(35,009)	(56,555)
Proceeds from sale of bonds available for sale and shares not held for trading	5,597	10,671	20,203	17,340	43,958
Proceeds from redemption of bonds available for sale	4,417	1,557	8,497	3,854	9,671
Acquisition of credit portfolios	(2,288)	(914)	(4,945)	(3,706)	(7,804)
Proceeds from sale of credit portfolios	-	68	-	68	113
Investment in equity-basis investees	(28)	2	(28)	-	(136)
Proceeds from realization of investment in deconsolidated subsidiary (Appendix A)	-	1,356	-	1,356	1,356
Acquisition of buildings and equipment	(146)	(109)	(246)	(243)	(642)
Proceeds from realization of buildings and equipment	50	5	64	7	(52)
Net cash from (for) investing activity	5,778	(1,737)	(7,519)	(13,944)	(9,286)

The accompanying notes are an integral part of the condensed financial statements.

Condensed Financial Statements

as at June 30, 2020

Condensed Consolidated Statement of Cash Flows for the periods ended June 30, 2020 (continued)

NIS millions

	For the three months ended June 30		For the six months ended June 30		For the year ended December 31
	2020	2019	2020	2019	2019
Unaudited					Audited
Cash flows from (for) financing activity					
Deposits from banks	(562)	(294)	(102)	(244)	242
Deposits from the public	12,250	(2,120)	39,171	345	9,878
Deposits from the government	23	(36)	(261)	114	477
Securities lent or sold under agreements to repurchase	1	14	1	19	3
Issuance of bonds and subordinated notes	1,041	758	1,041	3,540	3,539
Redemption of bonds and subordinated notes	(232)	(88)	(2,290)	(3,505)	(6,161)
Dividend paid to shareholders of the Bank	-	-	-	-	(1,000)
Dividend paid to minority interests in consolidated companies	-	-	-	16	16
Net cash from (for) financing activity	12,521	(1,766)	37,560	285	6,994
Increase (decrease) in cash – includes balances of cash and cash equivalents attributed to a discontinued operation	24,798	(4,416)	26,506	(10,130)	5,188
Net of the decrease in cash and cash equivalents attributed to a discontinued operation	-	-	-	(8)	(8)
Increase (decrease) in cash	24,798	(4,416)	26,506	(10,122)	5,196
Balance of cash from continued operations at beginning of period	87,536	75,983	85,886	82,217	82,217
Effect of changes in exchange rates on cash balances	(390)	(354)	(448)	(882)	(1,527)
Balance of cash from continued operations at end of period	111,944	71,213	111,944	71,213	85,886
Interest and taxes paid and/or received					
Interest received	2,671	3,230	5,568	6,539	13,120
Interest paid	(651)	(245)	(1,580)	(1,255)	(3,330)
Dividends received	2	9	3	11	17
Income tax paid	(1,189)	(612)	(1,290)	(1,080)	(2,285)
Income tax received	446	(14)	446	297	373

The accompanying notes are an integral part of the condensed financial statements.

Condensed Financial Statements

as at June 30, 2020

Condensed Consolidated Statement of Cash Flows for the periods ended June 30, 2020 (continued)

NIS millions

	For the three months ended June 30		For the six months ended June 30		For the year ended December 31
	2020	2019	2020	2019	2019
	Unaudited				Audited
Appendix A – Proceeds from realization of investments in formerly consolidated subsidiaries					
Cash subtracted	-	178	-	178	178
Assets (excluding cash)	-	23,415	-	23,415	23,415
Liabilities	-	(21,339)	-	(21,339)	(21,339)
Assets and liabilities subtracted	-	2,254	-	2,254	2,254
Assets and liabilities attributed to non-controlling interests	-	(39)	-	(39)	(39)
Investment in equity-basis investee – Isracard	-	(891)	-	(891)	(891)
Total consideration received from realization of investments in formerly consolidated subsidiaries	-	1,324	-	1,324	1,324
Capital gain from realization of investments in formerly consolidated subsidiary	-	210	-	210	210
Proceeds received from realization of investment	-	1,534	-	1,534	1,534
Cash subtracted	-	(178)	-	(178)	(178)
Cash flow from realization of investment in deconsolidated subsidiary	-	1,356	-	1,356	1,356

The accompanying notes are an integral part of the condensed financial statements.

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 1 Significant Accounting Policies

A. General information

The Condensed Financial Statements as at June 30, 2020 were prepared in accordance with generally accepted accounting principles in Israel (Israeli GAAP) concerning interim financial reporting and in accordance with the directives and guidelines of the Supervisor of Banks. The accounting principles used in the preparation of these condensed financial statements were implemented consistently with the accounting principles used in the preparation of the audited financial statements as at December 31, 2019, with the exceptions noted in Section C below.

The Condensed Financial Statements do not include all of the information required in the aforesaid Annual Financial Statements; these reports should be perused in conjunction with the Annual Financial Statements as at December 31, 2019, and the accompanying Notes.

The Condensed Financial Statements were approved for publication by the Board of Directors of the Bank on August 12, 2020.

B. Use of estimates

In preparing the Condensed Financial Statements, the Board of Management of the Bank uses various assumptions, estimates, and evaluations that affect the implementation of policies, the reported amounts of assets and liabilities (including contingent liabilities), and the results reported by the Bank. Actual future results may differ from such estimates and evaluations made when preparing the financial statements.

The judgment and management estimates used in the implementation of the Bank's accounting policies, and the principal assumptions used in evaluations involving uncertainty, are consistent with those used in the preparation of the Annual Financial Statements as at December 31, 2019. The estimates and the underlying assumptions are reviewed routinely. As part of the Bank's preparations for the consequences of the coronavirus crisis, and in order to assess its potential effects with respect to the allowance for credit losses, various scenarios for the progression of a series of economic parameters are being examined and used by the Bank to estimate the impacts on the Bank.

Changes in accounting estimates are recognized in the period in which the estimates are amended and in every affected future period.

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 1 Significant Accounting Policies (continued)

C. First-time implementation of accounting standards, updates of accounting standards, and directives of the Banking Supervision Department

(1) Leases

A circular on the subject, "Reporting by banking corporations and credit-card companies in Israel according to US GAAP regarding leases" was issued on July 1, 2018. The circular adopts ASU 2016-02 (ASC 842). The main objective of the new rules is to fully reflect, in the financial statements, the level of leverage created by long-term lease contracts. The principal change in the update refers to accounting for operating lease transactions by lessees, requiring recognition in the balance sheet of an asset and liability in respect of an operating lease. The accounting treatment applicable to lessors remains essentially unchanged. The following are the main points of the changes in the accounting in the financial statements of the Bank following the implementation of these rules, with respect to transactions in which the Bank is the lessee in an operating lease:

1. Operating lease liabilities and usage right assets are recognized at the beginning of the lease based on the present value of the future lease payments over the period of the lease, discounted by the incremental interest rate of the Bank. Lease payments include: fixed leasing payments (net of incentives paid to the lessee), variable leasing payments due to linkage to an index or rate, penalty payments due to cancellation of the lease, and amounts expected to be paid by the lessee to the lessor in respect of the guaranteed residual value. The lease period is the period stated in the contract, and includes extension options exercise of which by the Bank is reasonably certain, or a cancellation option reasonably certain not to be exercised by the Bank. The lease period is determined at the beginning of the lease, and subsequently when circumstances arise that necessitate reassessment. Usage right assets are adjusted for initial direct costs and advance leasing payments, net of leasing incentives received.
2. Liabilities in respect of an operating lease are stated within other liabilities, and the related usage right assets are stated within other assets. Expenses in respect of an operating lease are recognized on a straight-line basis over the period of the lease, and reported in other expenses (within operating and other expenses). Variable leasing payments are recognized as incurred, together with operating lease expenses.
3. With regard to leases where the original lease period is less than one year, the Bank has chosen to apply the exception to the standard, such that they are not recognized as an asset and liability in the balance sheet.
4. When possible, pursuant to the standard, the Bank has chosen the policy in which, in real-estate leases, management fees do not constitute part of the leasing payments, and therefore do not constitute part of the asset and liability in respect of the lease. In addition, value-added tax does not constitute part of the leasing payments, and therefore does not constitute part of the asset or liability.

The new directives were implemented beginning January 1, 2020, via adjusted retrospective implementation. Pursuant to the relief permitted by the standard, the Bank chose to maintain prior determinations with regard to the classification of existing leases.

The implementation of the new directives led to an increase in the amount of approximately NIS 1.1 billion in the balance of usage right assets, and to a parallel increase in the balance of liabilities in respect of leases, at the initial implementation date. In addition, at the initial implementation date, the implementation of the new directives led to a decrease in the rate of common equity Tier 1 capital and of total capital, by approximately 0.04% and approximately 0.05%, respectively.

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 1 Significant Accounting Policies (continued)

(2) Instructions of the Banking Supervision Department on coping with the coronavirus

In view of the spread of the coronavirus and its possible impacts on the condition of the economy and of borrowers, with the aim of encouraging banking corporations to act to stabilize borrowers who fail or are likely to fail to fulfill their contractual payment obligations due to the coronavirus, the Banking Supervision Department issued supervision emphases, on April 21, 2020, main points of which are described below:

- a. With regard to the treatment of debts the terms of which have been changed, it has been determined that debts should not be assigned a problematic debt restructuring classification when short-term changes in payments are performed, due to the coronavirus, for borrowers who were not previously in arrears.
- b. With regard to the establishment of the state of arrears, debts that were not previously in arrears and are granted a deferral, as noted, shall not be considered debts in arrears during the deferral period. In addition, when such deferral of payments is performed for debts that were in arrears prior to the deferral, the status of the arrears shall be frozen during the period of deferral of payments (except if the debt has been classified as impaired or charged off). It has also been determined that borrowers are not considered borrowers in arrears if the arrears are of less than thirty days at the date of implementation of the changes.
- c. During the period of such short-term arrangements, these loans, in general, shall not be reported as impaired debts not accruing interest. If new information is accumulated indicating a decrease in the probability of repayment of a specific loan, or indicating that a specific loan will not be repaid, the bank should act in accordance with the Public Reporting Directives on this subject.
- d. With regard to housing loans for which a minimal allowance is to be calculated according to the method of the extent of arrears, the deferral of principal or interest payments for a short period on such a loan which was not a problematic debt prior to the deferral does not generally require classification of the debt as a debt in troubled debt restructuring.
- e. Housing loans granted during the period of the crisis will not be subject to the additional capital requirement of 1 percentage point.

In addition, with regard to housing loans that were not problematic at the date of deferral of the payments, as noted above, it has been clarified that when an additional deferral of payments is granted, cumulatively resulting in a deferral of more than six months, if new information has accumulated indicating a decrease in the probability of repayment of such loans, the bank must exercise discretion and consider whether it is necessary to classify the loans as problematic debt. Banks are permitted to perform this examination at the level of a group of debts with similar attributes, and are not obligated to perform the examination at the level of the individual loan. Such attributes may include, for example, the duration of the deferral granted, relative to the original period of the credit, and indications at the bank regarding the value of the collateral and the repayment capability of the borrower in reference to the amount of the loan.

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 1 Significant Accounting Policies (continued)

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

Subject	Main points	Inception date and transitional directives	Effect on the Bank
ASU 2016-13, "Financial Instruments – Credit Losses"	The main objective of this update is to provide more useful information regarding expected credit losses on financial instruments and commitments to grant credit, while strengthening the anti-cyclical behavior of the allowance for credit losses and strengthening the connection between the method of managing credit risks and the reflection of these risks in the financial statements. Towards that end, the amendments in this update replace the method of allowance for credit losses based on incurred losses with a method that reflects expected credit losses over the life of the credit and requires consideration of a broader range of forward-looking information to reflect reasonable forecasts of future economic events. The new rules for the calculation of the allowance for credit losses will apply to credit (including housing loans), bonds held to maturity, and certain off-balance sheet credit exposures. In addition, the manner in which impairments of bonds in the available-for-sale portfolio are recorded will change, and the disclosure of the effect of the date of granting of the credit on the credit quality of the credit portfolio will be expanded.	January 1, 2022. In general, the new rules will be applied by recording the cumulative effect in retained earnings at the initial implementation date.	The Bank is preparing to implement this standard.

Discontinuation of publication of the LIBOR interest rate

Beginning at the end of 2021, the global financial system is expected to discontinue publication of the LIBOR interest rates and cease using these rates. The LIBOR rates serve as the basis for calculation of interest rates applicable to financial products in principal foreign currencies, or linked to these currencies, with floating rates. Within the intention to establish alternative benchmark rates for the relevant currencies, global institutions such as the ISDA (International Swaps and Derivatives Association) and the ARRC (Alternative Reference Rate Committee) are formulating alternatives to these interest rates, new legal language, and proposals for substitution mechanisms. The anticipated change will affect the entire banking industry, globally and in Israel.

Accordingly, a steering committee has been established at the Bank, to follow the international publications and examine the impact of the substitution on the activity of the Bank. The committee updates the Board of Management and Board of Directors periodically. Within the activity of the committee, the various products at the Bank that are based on the interest rates due to be eliminated have been mapped; changes have been made to legal documents; and training has been provided to Bank employees. In late January 2020, letters were sent to customers of the Bank describing the future change, according to the information in the possession of the Bank at that time.

In light of the uncertainty concerning the continued execution of this process, which is influenced, as noted, by international decisions, the Bank is unable to perform quantitative evaluations regarding the substitution of the interest rates. The Bank will continue to monitor the international publications and to act with the aim of reducing the risks arising from the interest-rate substitution process.

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 1 Significant Accounting Policies (continued)

On March 22, 2020, the FASB issued reliefs regarding the application of accounting for the conversion of LIBOR-based contracts to alternative reference rates. The reliefs primarily concern the treatment of changes in terms of debts and hedge accounting, with the aim of allowing continuity in accounting in the situation of replacement of the LIBOR with alternative benchmark rates. The Bank is examining the implementation of these reliefs with respect to the relevant contracts.

Details of the contract balances affected by the LIBOR interest rate:

	Total transactions as at June 30, 2020		Of which: transactions continuing beyond 2021	
	Amount in NIS millions	Number of transactions	Amount in NIS millions	Number of transactions
Loans	21,534	5,796	13,394	4,992
Deposits	2,829	453	910	117
Derivatives (gross) – par value	186,173	1,957	138,047	1,320
Unutilized credit facilities	6,499	77	3,060	37
Total	216,835	8,283	155,411	6,466

E. Discontinued operation

In accordance with the requirements of the Law for Increasing Competition and Reducing Concentration in the Banking Market in Israel (Legislative Amendments), 2017 (the "Law for Increasing Competition"), in April 2019, the Bank sold 65.2% of the capital of Isracard in a public sale offering. After the sale, the Bank retained a holding of approximately 33% of the shares of Isracard, which was accounted for using the equity method. On February 2, 2020, the Board of Directors of the Bank approved distribution of the remaining holdings in the shares of Isracard as a dividend in kind to the shareholders of the Bank. The distribution was performed on March 9, 2020. The share distribution was performed according to the value of the shares on the stock exchange at the date of the distribution. Due to the share price falling below the balance of the investment in the Bank's books as at December 31, 2019, the Bank recognized a loss from impairment of the investment in the amount of approximately NIS 109 million (after tax effect), within profit from a discontinued operation, in its financial statements for the first quarter of 2020. As of the date of the distribution of the shares, the Bank does not hold shares in Isracard; the Bank thereby completed its separation from the Isracard Group, as required by the Law for Increasing Competition.

For further information regarding the argument of the Tax Assessment Officer that in the sale of a subsidiary classified as a dealer for the purposes of value-added tax ("VAT"), profit tax should be applied to distributable profits exempt from corporate tax, in connection with the sale of the Isracard Group, see [Note 8C\(3\) to the Annual Financial Statements for 2019](#).

For further information regarding VAT assessments referring, among other matters, to the payment of VAT for foreign-currency fees collected from customers of the Bank, and to the obligation of the Bank to the payment of VAT on fees collected on its behalf, see [Note 8C\(2\) to the Annual Financial Statements for 2019](#).

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 2 Interest Income and Expenses

Unaudited
NIS millions

	For the three months ended June 30		For the six months ended June 30	
	2020	2019	2020	2019
A. Interest income				
From credit to the public	2,319	3,285	4,627	5,743
From credit to governments	15	19	28	36
From deposits with banks	22	102	83	205
From deposits with the Bank of Israel and from cash	19	26	52	55
From bonds	157	298	284	516
Total interest income	2,532	3,730	5,074	6,555
B. Interest expenses				
On deposits from the public	(270)	(651)	(591)	(1,079)
On deposits from the government	(1)	(1)	(2)	(3)
On deposits from banks	(4)	(9)	(7)	(15)
On bonds and subordinated notes	(91)	(597)	(116)	(710)
On other liabilities	-	(6)	-	(5)
Total interest expenses	(366)	(1,264)	(716)	(1,812)
Total net interest income	2,166	2,466	4,358	4,743
C. Details of net effect of hedging derivative instruments on interest income and expenses*				
Interest income	(11)	1	(54)	4
Interest expenses	5	1	6	-
D. Details of interest income from bonds on a cumulative basis				
Held to maturity	3	4	6	7
Available for sale	145	268	262	477
Held for trading	9	26	16	32
Total included in interest income	157	298	284	516

* Details of the effect of hedging derivative instruments on subsections A and B.

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 3 Non-Interest Financing Income

Unaudited
NIS millions

A. Non-interest financing income (expenses) in respect of non-trading activities

	For the three months ended June 30		For the six months ended June 30	
	2020	2019	2020	2019
1. From activity in derivative instruments				
Total from activity in derivative instruments ⁽¹⁾	(855)	*(280)	316	*(1,018)
2. From investment in bonds				
Gains from sale of bonds available for sale	24	90	135	120
Losses from sale of bonds available for sale	-	(4)	(27)	(7)
Total from investment in bonds	24	86	108	113
3. Net exchange-rate differences				
	800	211	(194)	854
4. Gains (losses) from investment in shares				
Net realized and unrealized gains (losses) from adjustments to fair value of shares not held for trading ⁽²⁾⁽³⁾	34	85	(89)	238
Dividend from shares not held for trading	2	9	3	11
Adjustment to fair value of investment in affiliate	(18)	-	(7)	-
Total from investment in shares	18	94	(93)	249
5. Net gains (losses) in respect of securitization transactions				
	-	-	-	-
6. Net gains in respect of loans sold				
	-	1	-	1
Total non-interest financing income (expenses) in respect of non-trading activities	(13)	*112	137	*199

* Reclassified due to the initial implementation of the circular of the Bank of Israel concerning derivative instruments and hedging (classification of derivatives held for trading and not held for trading).

(1) Derivative instruments constituting part of the asset and liability management system of the Bank, which are not designated for hedging.

(2) Including a provision for impairment in the amount of approximately NIS 4 million and approximately NIS 4 million for the three-month and six-month periods ended June 30, 2020, respectively (approximately NIS 2 million and approximately NIS 9 million for the three-month and six-month periods ended June 30, 2019, respectively).

(3) Including gains and losses from measurement at fair value of shares with readily determinable fair value, and upward or downward adjustments of shares without readily determinable fair value.

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 3 Non-Interest Financing Income (continued)

Unaudited
NIS millions

B. Non-interest financing income in respect of trading activities*

	For the three months ended June 30		For the six months ended June 30	
	2020	2019	2020	2019
Net income in respect of derivative instruments held for trading	135	**63	348	**115
Net realized and unrealized gains (losses) from adjustments to fair value of bonds held for trading ⁽¹⁾	71	(10)	14	(60)
Net realized and unrealized gains from adjustments to fair value of shares held for trading	-	1	-	1
Total non-interest financing income in respect of trading activities***	206	**54	362	**56
Total non-interest financing income	193	166	499	255
Details of non-interest financing income in respect of trading activities, by risk exposure:				
Interest rate exposure	132	**(4)	108	**(46)
Foreign currency exposure	68	**54	244	**96
Share exposure	6	**4	10	**6
Total	206	**54	362	**56

* Includes exchange-rate differences arising from trading activity.

** Reclassified due to the initial implementation of the circular of the Bank of Israel concerning derivative instruments and hedging (classification of derivatives held for trading and not held for trading).

*** With regard to interest income from investment in bonds held for trading, see [Note 2](#).

(1) Of which, the part of gains (losses) associated with bonds held for trading still held at the balance sheet date, in the amount of approximately NIS 79 million and approximately NIS 131 million for the three-month and six-month periods ended June 30, 2020, respectively (approximately NIS (14) million and approximately NIS (65) million for the three-month and six-month periods ended June 30, 2019, respectively).

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 4 Accumulated Other Comprehensive Income (Loss)

Unaudited
NIS millions

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

1. Changes in accumulated other comprehensive income (loss) for the three-month periods ended June 30, 2020 and 2019

	Other comprehensive income before attribution to non-controlling interests				Other comprehensive income attributed to non-controlling interests	Other comprehensive income attributed to shareholders of the Bank
	Adjustments for presentation of bonds available for sale at fair value	Net adjustments from translation after hedge effects*	Adjustments in respect of employee benefits	Total		
Balance as at March 31, 2020	(192)	(38)	(1,144)	(1,374)	3	(1,377)
Net change during the period	535	-	(279)	256	-	256
Balance as at June 30, 2020	343	(38)	(1,423)	(1,118)	3	(1,121)
Balance as at March 31, 2019	97	(38)	(1,119)	(1,060)	3	(1,063)
Net change during the period	67	-	79	146	-	146
Balance as at June 30, 2019	164	(38)	(1,040)	(914)	3	(917)

2. Changes in accumulated other comprehensive income (loss) for the six-month periods ended June 30, 2020 and 2019

	Other comprehensive income before attribution to non-controlling interests				Other comprehensive income attributed to non-controlling interests	Other comprehensive income attributed to shareholders of the Bank
	Adjustments for presentation of bonds available for sale at fair value	Net adjustments from translation after hedge effects*	Adjustments in respect of employee benefits	Total		
Balance as at January 1, 2020	250	(38)	(1,561)	(1,349)	3	(1,352)
Net change during the period	93	-	138	231	-	231
Balance as at June 30, 2020	343	(38)	(1,423)	(1,118)	3	(1,121)
Balance as at January 1, 2019	(160)	(38)	(993)	(1,191)	3	(1,194)
Cumulative effect of initial implementation of US GAAP ⁽¹⁾	18	-	-	18	-	18
Adjusted balance as at January 1, 2019, after initial implementation	(142)	(38)	(993)	(1,173)	3	(1,176)
Net change during the period	306	-	(47)	259	-	259
Balance as at June 30, 2019	164	(38)	(1,040)	(914)	3	(917)

* Net losses in respect of net hedging of investments in foreign currency.

(1) The cumulative effect of the initial implementation of generally accepted accounting principles for US banks concerning financial instruments (ASU 2016-01) and concerning derivatives and hedging (ASU 2017-12), including the associated updates.

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 4 Accumulated Other Comprehensive Income (Loss) (continued)

Audited
NIS millions

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

3. Changes in accumulated other comprehensive income (loss) in 2019

	Other comprehensive income before attribution to non-controlling interests			Total	Other comprehensive income attributed to non-controlling interests	Other comprehensive income attributed to shareholders of the Bank
	Adjustments for presentation of bonds available for sale at fair value	Net adjustments from translation after hedge effects*	Adjustments in respect of employee benefits			
Balance as at January 1, 2019	(160)	(38)	(993)	(1,191)	3	(1,194)
Cumulative effect of initial implementation of US GAAP ⁽¹⁾	18	-	-	18	-	18
Adjusted balance as at January 1, 2019, after initial implementation	(142)	(38)	(993)	(1,173)	3	(1,176)
Net change during the year	392	-	(568)	(176)	-	(176)
Balance as at December 31, 2019	250	(38)	(1,561)	(1,349)	3	(1,352)

* Net losses in respect of net hedging of investments in foreign currency.

(1) The cumulative effect of the initial implementation of generally accepted accounting principles for US banks concerning financial instruments (ASU 2016-01) and concerning derivatives and hedging (ASU 2017-12), including the associated updates.

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 4 Accumulated Other Comprehensive Income (Loss) (continued)

Unaudited
NIS millions

B. Changes in components of accumulated other comprehensive income (loss), before and after tax effect (continued)

1. Changes in accumulated other comprehensive income (loss) for the three-month periods ended June 30, 2020 and 2019

	For the three months ended					
	June 30, 2020			June 30, 2019		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Changes in components of other comprehensive income (loss) before attribution to non-controlling interests						
Adjustments for presentation of bonds available for sale at fair value						
Net unrealized gains from adjustments to fair value	835	(286)	549	186	(67)	119
Gains in respect of bonds available for sale reclassified to the statement of profit and loss ⁽¹⁾	(24)	10	(14)	(84)	32	(52)
Net change during the period	811	(276)	535	102	(35)	67
Employee benefits						
Net actuarial profit (loss) during the period	(453)	155	(298)	82	(24)	58
Net losses reclassified to the statement of profit and loss ⁽²⁾	29	(10)	19	31	(10)	21
Net change during the period	(424)	145	(279)	113	(34)	79
Total net change during the period	387	(131)	256	215	(69)	146
Changes in components of other comprehensive income (loss) attributed to non-controlling interests						
Total net change during the period	-	-	-	-	-	-
Changes in components of other comprehensive income (loss) attributed to shareholders of the Bank						
Total net change during the period	387	(131)	256	215	(69)	146

(1) The amount before tax is reported in the statement of profit and loss, under the item "non-interest financing income." For further details, see [Note 3 – Non-Interest Financing Income](#).

(2) The amount before tax is reported in the statement of profit and loss, under the item "other expenses."

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 4 Accumulated Other Comprehensive Income (Loss) (continued)

Unaudited
NIS millions

B. Changes in components of accumulated other comprehensive income (loss), before and after tax effect (continued)

- 2.** Changes in accumulated other comprehensive income (loss) for the six-month periods ended June 30, 2020 and 2019

	For the six months ended					
	June 30, 2020			June 30, 2019		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Changes in components of other comprehensive income (loss) before attribution to non-controlling interests						
Adjustments for presentation of bonds available for sale at fair value						
Net unrealized gains from adjustments to fair value	252	(86)	166	563	(182)	381
Gains in respect of bonds available for sale reclassified to the statement of profit and loss ⁽¹⁾	(108)	35	(73)	(110)	35	(75)
Net change during the period	144	(51)	93	453	(147)	306
Employee benefits						
Net actuarial profit (loss) during the period	139	(48)	91	(141)	56	(85)
Losses reclassified to the statement of profit and loss ⁽²⁾	72	(25)	47	57	(19)	38
Net change during the period	211	(73)	138	(84)	37	(47)
Total net change during the period	355	(124)	231	369	(110)	259
Changes in components of other comprehensive income (loss) attributed to non-controlling interests						
Total net change during the period	-	-	-	-	-	-
Changes in components of other comprehensive income (loss) attributed to shareholders of the Bank						
Total net change during the period	355	(124)	231	369	(110)	259

(1) The amount before tax is reported in the statement of profit and loss, under the item "non-interest financing income." For further details, see [Note 3 – Non-Interest Financing Income](#).

(2) The amount before tax is reported in the statement of profit and loss, under the item "other expenses."

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 4 Accumulated Other Comprehensive Income (Loss) (continued)

Audited
NIS millions

B. Changes in components of accumulated other comprehensive income (loss), before and after tax effect (continued)

3. Changes in accumulated other comprehensive income (loss) in 2019

	For the year ended December 31, 2019		
	Before tax	Tax effect	After tax
Changes in components of other comprehensive income (loss) before attribution to non-controlling interests			
Adjustments for presentation of bonds available for sale at fair value			
Net unrealized gains from adjustments to fair value	834	(275)	559
Gains in respect of securities available for sale reclassified to the statement of profit and loss ⁽¹⁾	(253)	86	(167)
Net change during the year	581	(189)	392
Employee benefits			
Net actuarial loss for the year	(993)	348	(645)
Losses reclassified to the statement of profit and loss ⁽²⁾	117	(40)	77
Net change during the year	(876)	308	(568)
Total net change during the year	(295)	119	(176)
Changes in components of other comprehensive income (loss) attributed to non-controlling interests			
Total net change during the year	-	-	-
Changes in components of other comprehensive income (loss) attributed to shareholders of the Bank			
Total net change during the year	(295)	119	(176)

(1) The amount before tax is reported in the statement of profit and loss, under the item "non-interest financing income." For further details, see [Note 3 – Non-Interest Financing Income](#).

(2) The amount before tax is reported in the statement of profit and loss, under the item "other expenses."

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 5 Securities

Unaudited
NIS millions

	June 30, 2020				
	Balance sheet value	Depreciated cost	Unrecognized gains from adjustments to fair value	Unrecognized losses from adjustments to fair value	Fair value*
1) Bonds held to maturity					
Bonds and debentures					
Financial institutions in Israel	374	374	5	-	379
Total bonds held to maturity	374	374	5	-	379
	Balance sheet value	Depreciated cost	Accumulated other comprehensive income		Fair value*
			Gains	Losses	
2) Bonds available for sale					
Bonds and debentures					
Israeli government	38,815	38,535	319	(39)	38,815
Foreign governments	8,271	8,088	205	(22)	8,271
Foreign financial institutions	6,499	6,451	84	(36)	6,499
Foreign others	4,139	4,145	36	(42)	4,139
Total bonds and debentures available for sale	57,724	57,219	(⁽¹⁾644)	(⁽¹⁾(139))	57,724
	Balance sheet value	Depreciated cost (in shares – cost)	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value*
3) Investments in shares not held for trading					
Shares not held for trading	1,565	1,495	(⁽²⁾94)	(⁽²⁾(24))	1,565
Of which: shares without readily determinable fair value	1,155	1,155	-	-	1,155
Total securities not held for trading	59,663	59,088	743	(163)	59,668

* Fair-value data are usually based on stock-exchange prices, which do not necessarily reflect the price that would be obtained from a large-volume sale of securities.

(1) Included in equity in the item "adjustments for presentation of bonds available for sale at fair value" within other comprehensive income.

(2) Charged to the statement of profit and loss.

Notes:

A. For details of the results of activity in investments in bonds and in shares, see [Note 2 and Note 3](#).

B. Israeli bonds and foreign bonds are differentiated according to the country of residence of the issuing entity.

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 5 Securities (continued)

Unaudited
NIS millions

	June 30, 2020				
	Balance sheet value	Depreciated cost (in shares - cost)	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value*
4) Securities held for trading					
Bonds and debentures					
Israeli government	6,846	6,730	118	(2)	6,846
Foreign governments	2	2	-	-	2
Total bonds and debentures held for trading	6,848	6,732	118	(2)	**6,848
Shares					
Others	2	2	-	-	2
Total securities held for trading	6,850	6,734	(1)118	(1)(2)	6,850
Total securities ⁽²⁾	66,513	65,822	861	(165)	66,518

	Less than 12 months			12 months or more			
	Fair value	Unrealized losses		Total	Fair value	Unrealized losses	Total
		0-20%	20-40%				
5) Fair value and unrealized losses, by duration and rate of impairment, of bonds available for sale in an unrealized loss position							

Bonds and debentures

Israeli government	10,156	(38)	-	(38)	560	(1)	-	(1)
Foreign governments	315	(5)	-	(5)	788	(17)	-	(17)
Foreign financial institutions	2,010	(36)	-	(36)	-	-	-	-
Foreign others	1,796	(30)	-	(30)	347	(12)	-	(12)
Total bonds and debentures available for sale	14,277	(109)	-	(109)	1,695	(30)	-	(30)

* Fair-value data are usually based on stock-exchange prices, which do not necessarily reflect the price that would be obtained from a large-volume sale of securities.

** Of which, securities in the amount of NIS 2,536 million are classified as securities held for trading because the Bank chose to measure them according to the fair-value option, despite the fact that they were not acquired for trading purposes.

(1) Charged to the statement of profit and loss.

(2) Of which: securities in the amount of approximately NIS 2.7 billion were pledged to lenders.

Notes:

A. For details of the results of activity in investments in bonds and in shares, see Note 2 and Note 3.

B. Israeli bonds and foreign bonds are differentiated according to the country of residence of the issuing entity.

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 5 Securities (continued)

Unaudited
NIS millions

	June 30, 2019				
	Balance sheet value	Depreciated cost	Unrecognized gains from adjustments to fair value	Unrecognized losses from adjustments to fair value	Fair value*
1) Bonds held to maturity					
Bonds and debentures					
Financial institutions in Israel	308	308	2	-	310
Total bonds held to maturity	308	308	2	-	310
2) Bonds available for sale					
Bonds and debentures					
Israeli government	38,078	37,934	158	(14)	38,078
Foreign governments	13,421	13,402	63	(44)	13,421
Financial institutions in Israel	52	50	2	-	52
Foreign financial institutions	7,583	7,517	74	(8)	7,583
Others in Israel	20	20	-	-	20
Foreign others	2,633	2,630	16	(13)	2,633
Total bonds and debentures available for sale	61,787	61,553	(1) 313	(1) (79)	61,787
3) Investments in shares not held for trading					
Shares not held for trading	1,781	1,674	(2) 117	(2) (10)	1,781
Of which: shares without readily determinable fair value	1,065	1,065	-	-	1,065
Total securities not held for trading	63,876	63,535	432	(89)	63,878

* Fair-value data are usually based on stock-exchange prices, which do not necessarily reflect the price that would be obtained from a large-volume sale of securities.

(1) Included in equity under the item "adjustments for presentation of securities available for sale at fair value."

(2) Charged to the statement of profit and loss.

Notes:

A. For details of the results of activity in investments in bonds and in shares, see [Note 2 and Note 3](#).

B. Israeli bonds and foreign bonds are differentiated according to the country of residence of the issuing entity.

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 5 Securities (continued)

Unaudited
NIS millions

	June 30, 2019				
	Balance sheet value	Depreciated cost (in shares - cost)	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value*
4) Securities held for trading					
Bonds and debentures					
Israeli government	7,230	7,232	7	(9)	7,230
Foreign governments	4	3	1	-	4
Total bonds and debentures held for trading	7,234	7,235	8	(9)	**7,234
Shares					
Others	6	3	3	-	6
Total securities held for trading	7,240	7,238	⁽¹⁾ 11	⁽¹⁾ (9)	7,240
Total securities ⁽²⁾	71,116	70,773	443	(98)	71,118
Less than 12 months					
Fair value	Unrealized losses	Total	Fair value	Unrealized losses	Total
	0-20%	20-40%		0-20%	20-40%

5) Fair value and unrealized losses, by duration and rate of impairment, of securities available for sale in an unrealized loss position

	Less than 12 months	12 months or more
	Fair value	Unrealized losses
Bonds and debentures		
Israeli government	3,399	(14)
Foreign governments	282	(2)
Foreign financial institutions	1,130	(4)
Foreign others	740	(7)
Total bonds and debentures available for sale	5,551	(27)
	-	-
	(27)	(27)
	4,600	(52)
	-	-
	(52)	

* Fair-value data are usually based on stock-exchange prices, which do not necessarily reflect the price that would be obtained from a large-volume sale of securities.

** Of which, securities in the amount of NIS 1,817 million are classified as securities held for trading because the Bank chose to measure them according to the fair-value option, despite the fact that they were not acquired for trading purposes.

(1) Charged to the statement of profit and loss.

(2) Of which: securities in the amount of approximately NIS 3.3 billion were pledged to lenders.

Notes:

A. For details of the results of activity in investments in bonds and in shares, see Note 2 and Note 3.

B. Israeli bonds and foreign bonds are differentiated according to the country of residence of the issuing entity.

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 5 Securities (continued)

Audited
NIS millions

	December 31, 2019				
	Balance sheet value	Depreciated cost	Unrecognized gains from adjustments to fair value	Unrecognized losses from adjustments to fair value	Fair value*
1) Bonds held to maturity					
Bonds and debentures					
Financial institutions in Israel	299	299	4	-	303
Total bonds held to maturity	299	299	4	-	303
2) Bonds available for sale					
Bonds and debentures					
Israeli government	33,417	33,155	264	(2)	33,417
Foreign governments	8,108	8,146	23	(61)	8,108
Foreign financial institutions	6,830	6,722	108	-	6,830
Foreign others	2,454	2,426	31	(3)	2,454
Total bonds and debentures available for sale	50,809	50,449	(1) 426	(1) (66)	50,809
3) Investments in shares not held for trading					
Shares not held for trading	1,771	1,626	(2) 150	(2) (5)	1,771
Of which: shares without readily determinable fair value	1,021	1,021	-	-	1,021
Total securities not held for trading	52,879	52,374	580	(71)	52,883

* Fair-value data are usually based on stock-exchange prices, which do not necessarily reflect the price that would be obtained from a large-volume sale of securities.

(1) Included in equity in the item "adjustments for presentation of bonds available for sale at fair value" within other comprehensive income.

(2) Charged to the statement of profit and loss.

Notes:

A. For details of the results of activity in investments in bonds and in shares, see [Note 2 and Note 3](#).

B. Israeli bonds and foreign bonds are differentiated according to the country of residence of the issuing entity.

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 5 Securities (continued)

Audited
NIS millions

	December 31, 2019				
	Balance sheet value	Depreciated cost (in shares - cost)	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value*
4) Securities held for trading					
Bonds and debentures					
Israeli government	6,602	6,533	69	-	6,602
Foreign governments	3	3	-	-	3
Total bonds and debentures held for trading	6,605	6,536	69	-	**6,605
Shares					
Others	2	2	-	-	2
Total securities held for trading	6,607	6,538	⁽¹⁾ 69	⁽¹⁾ -	6,607
Total securities ⁽²⁾	59,486	58,912	649	(71)	59,490
Less than 12 months					
Fair value	Unrealized losses	Total	Fair value	Unrealized losses	Total
0-20%	20-40%		0-20%	20-40%	

5) Fair value and unrealized losses, by duration and rate of impairment, of securities available for sale in an unrealized loss position

	Less than 12 months	12 months or more
	Fair value	Fair value
	Unrealized losses	Unrealized losses
	0-20%	20-40%
Bonds and debentures		
Israeli government	567	(2)
Foreign governments	3,244	(39)
Foreign others	97	(2)
Total bonds and debentures available for sale	3,908	(43)
	-	-
	(2)	-
	(39)	(22)
	(2)	(1)
	(43)	(23)
	2,324	-
	(23)	-

* Fair-value data are usually based on stock-exchange prices, which do not necessarily reflect the price that would be obtained from a large-volume sale of securities.

** Of which, securities in the amount of NIS 1,702 million are classified as securities held for trading because the Bank chose to measure them according to the fair-value option, despite the fact that they were not acquired for trading purposes.

(1) Charged to the statement of profit and loss.

(2) Of which: securities in the amount of approximately NIS 2.6 billion were pledged to lenders.

Notes:

A. For details of the results of activity in investments in bonds and in shares, see Note 2 and Note 3.

B. Israeli bonds and foreign bonds are differentiated according to the country of residence of the issuing entity.

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 6 Credit Risk, Credit to the Public, and Allowance for Credit Losses

Unaudited
NIS millions

1. Debts*, credit to the public, and allowance for credit losses

	June 30, 2020					
	Credit to the public			Total	Banks and governments	Total
	Commercial**	Housing	Other private			
Recorded debt balance						
Debts examined on an individual basis	144,985	1	846	145,832	17,046	162,878
Debts examined on a collective basis ⁽¹⁾	24,626	94,529	34,703	153,858	-	153,858
(1) Of which: allowance calculated based on the extent of arrears	85	94,362	-	94,447	-	94,447
Total ⁽²⁾	169,611	94,530	35,549	299,690	17,046	316,736
(2) Of which:						
Debts in restructuring	2,117	-	720	2,837	-	2,837
Other impaired debts	1,342	1	49	1,392	-	1,392
Total impaired debts	3,459	1	769	4,229	-	4,229
Debts in arrears of 90 days or more	74	710	89	873	-	873
Other problematic debts	4,078	15	27	4,120	-	4,120
Total problematic debts	7,611	726	885	9,222	-	9,222
Allowance for credit losses in respect of debts						
In respect of debts examined on an individual basis	3,813	-	131	3,944	8	3,952
In respect of debts examined on a collective basis ⁽³⁾	529	717	800	2,046	-	2,046
(3) Of which: allowance calculated based on the extent of arrears***	-	717	-	717	-	717
Total allowance for credit losses ⁽⁴⁾	4,342	717	931	5,990	8	5,998
(4) Of which: allowance in respect of impaired debts	1,434	-	128	1,562	-	1,562

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

** The balance of commercial debts includes the balance of housing loans, in the amount of approximately NIS 85 million, of commercial borrowers, or extended to purchasing groups currently in the process of construction.

*** Includes the allowance in excess of the amount required according to the method of the extent of arrears, calculated on a collective basis, in the amount of approximately NIS 576 million.

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 6 Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

Unaudited
NIS millions

1. Debts*, credit to the public, and allowance for credit losses (continued)

	June 30, 2019					
	Credit to the public			Total	Banks and governments	Total
	Commercial** ⁽⁵⁾	Housing ⁽⁵⁾	Other private			
Recorded debt balance						
Debts examined on an individual basis	140,244	-	922	141,166	24,214	165,380
Debts examined on a collective basis ⁽¹⁾	25,611	85,683	40,175	151,469	-	151,469
(1) Of which: allowance calculated based on the extent of arrears	88	85,491	-	85,579	-	85,579
Total ⁽²⁾	165,855	85,683	41,097	292,635	24,214	316,849
(2) Of which:						
Debts in restructuring	640	-	659	1,299	-	1,299
Other impaired debts	1,550	-	61	1,611	-	1,611
Total impaired debts	2,190	-	720	2,910	-	2,910
Debts in arrears of 90 days or more	147	676	80	903	-	903
Other problematic debts	3,450	-	54	3,504	-	3,504
Total problematic debts	5,787	676	854	7,317	-	7,317
Allowance for credit losses in respect of debts						
In respect of debts examined on an individual basis	2,324	-	137	2,461	11	2,472
In respect of debts examined on a collective basis ⁽³⁾	450	437	664	1,551	-	1,551
(3) Of which: allowance calculated based on the extent of arrears***	1	437	-	438	-	438
Total allowance for credit losses ⁽⁴⁾	2,774	437	801	4,012	11	4,023
(4) Of which: allowance in respect of impaired debts	572	-	133	705	-	705

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

** The balance of commercial debts includes the balance of housing loans, in the amount of approximately NIS 88 million, of commercial borrowers, or extended to purchasing groups currently in the process of construction.

*** Includes the allowance in excess of the amount required according to the method of the extent of arrears, calculated on a collective basis, in the amount of approximately NIS 300 million.

(5) Reclassified. Housing loans granted to individuals in an economic sector other than "private individuals" were reclassified from "commercial" credit to "housing" credit.

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 6 Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

Audited
NIS millions

1. Debts*, credit to the public, and allowance for credit losses (continued)

	December 31, 2019					
	Credit to the public			Total	Banks and governments	Total
	Commercial**	Housing	Other private			
Recorded debt balance						
Debts examined on an individual basis	144,239	2	862	145,103	20,042	165,145
Debts examined on a collective basis ⁽¹⁾	25,011	89,700	37,833	152,544	-	152,544
(1) Of which: according to the extent of arrears	75	89,533	-	89,608	-	89,608
Total ⁽²⁾	169,250	89,702	38,695	297,647	20,042	317,689
(2) Of which:						
Debts in restructuring	667	-	707	1,374	-	1,374
Other impaired debts	3,011	2	55	3,068	-	3,068
Total impaired debts	3,678	2	762	4,442	-	4,442
Debts in arrears of 90 days or more	121	699	93	913	-	913
Other problematic debts	3,715	1	51	3,767	-	3,767
Total problematic debts	7,514	702	906	9,122	-	9,122
Allowance for credit losses in respect of debts*						
In respect of debts examined on an individual basis	2,951	-	136	3,087	7	3,094
In respect of debts examined on a collective basis ⁽³⁾	559	446	615	1,620	-	1,620
(3) Of which: allowance calculated based on the extent of arrears***	-	446	-	446	-	446
Total allowance for credit losses ⁽⁴⁾	3,510	446	751	4,707	7	4,714
(4) Of which: allowance in respect of impaired debts	1,272	-	136	1,408	-	1,408

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

** The balance of commercial debts includes the balance of housing loans, in the amount of approximately NIS 75 million, of commercial borrowers, or extended to purchasing groups currently in the process of construction.

*** Includes the allowance in excess of the amount required according to the method of the extent of arrears, calculated on a collective basis, in the amount of approximately NIS 314 million.

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 6 Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

Unaudited
NIS millions

2. Change in allowance for credit losses

	For the three months ended June 30, 2020					Total	
	Credit to the public			Total	Banks and governments		
	Commercial	Housing	Other private				
Allowance for credit losses							
as at March 31, 2020	4,552	478	834	5,864	9	5,873	
Provision (income) for credit losses ⁽¹⁾	622	244	263	1,129	(1)	1,128	
Charge-offs	(225)	(8)	(162)	(395)	-	(395)	
Recoveries of debts charged off in previous years	84	3	67	154	-	154	
Net charge-offs	(141)	(5)	(95)	(241)	-	(241)	
Allowance for credit losses							
as at June 30, 2020 ⁽²⁾	5,033	717	1,002	6,752	8	6,760	
(1) Of which: in respect of off-balance sheet credit instruments	143	-	24	167	(1)	166	
(2) Of which: in respect of off-balance sheet credit instruments	691	-	71	762	-	762	
<hr/>							
For the three months ended June 30, 2019							
	Credit to the public			Total	Banks and governments	Total	
	Commercial*	Housing*	Other private				
Allowance for credit losses							
as at March 31, 2019	3,019	426	876	4,321	11	4,332	
Provision (income) for credit losses ⁽¹⁾	253	11	54	318	1	319	
Charge-offs	(186)	(1)	(165)	(352)	-	(352)	
Recoveries of debts charged off in previous years	174	1	82	257	-	257	
Net charge-offs	(12)	-	(83)	(95)	-	(95)	
Other	-	-	(4)	(4)	-	(4)	
Allowance for credit losses							
as at June 30, 2019 ⁽²⁾	3,260	437	843	4,540	12	4,552	
(1) Of which: in respect of off-balance sheet credit instruments	28	-	5	33	-	33	
(2) Of which: in respect of off-balance sheet credit instruments	486	-	42	528	1	529	

* Reclassified. Housing loans granted to individuals in an economic sector other than "private individuals" were reclassified from "commercial" credit to "housing" credit.

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 6 Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

NIS millions

2. Change in allowance for credit losses (continued)

	For the six months ended June 30, 2020					Total	
	Credit to the public			Total	Banks and governments		
	Commercial	Housing	Other private				
Allowance for credit losses at beginning of year (audited)	4,007	446	790	5,243	8	5,251	
Provision (income) for credit losses ⁽¹⁾	1,278	276	383	1,937	-	1,937	
Charge-offs	(406)	(9)	(320)	(735)	-	(735)	
Recoveries of debts charged off in previous years	154	4	149	307	-	307	
Net charge-offs	(252)	(5)	(171)	(428)	-	(428)	
Allowance for credit losses as at June 30, 2020 ⁽²⁾ (unaudited)	5,033	717	1,002	6,752	8	6,760	
(1) Of which: in respect of off-balance sheet credit instruments	194	-	32	226	(1)	225	
(2) Of which: in respect of off-balance sheet credit instruments	691	-	71	762	-	762	
For the six months ended June 30, 2019							
	Credit to the public			Total	Banks and governments	Total	
	Commercial*	Housing*	Other private				
Allowance for credit losses at beginning of year (audited)	2,997	424	904	4,325	9	4,334	
Provision (income) for credit losses ⁽¹⁾	303	15	119	437	3	440	
Charge-offs	(353)	(3)	(353)	(709)	-	(709)	
Recoveries of debts charged off in previous years	313	1	177	491	-	491	
Net charge-offs	(40)	(2)	(176)	(218)	-	(218)	
Other	-	-	(4)	(4)	-	(4)	
Allowance for credit losses as at June 30, 2019 ⁽²⁾ (unaudited)	3,260	437	843	4,540	12	4,552	
(1) Of which: in respect of off-balance sheet credit instruments	(46)	-	7	(39)	-	(39)	
(2) Of which: in respect of off-balance sheet credit instruments	486	-	42	528	1	529	

* Reclassified. Housing loans granted to individuals in an economic sector other than "private individuals" were reclassified from "commercial" credit to "housing" credit.

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 7 Deposits from the Public

NIS millions

A. Types of deposits, by location of deposit taking and by type of depositor

	June 30	December 31	
	2020	2019	2019
	Unaudited	Audited	
In Israel			
On demand			
Non-interest bearing	174,380	139,498	145,695
Interest bearing	100,723	88,246	86,408
Total on demand	275,103	227,744	232,103
Fixed term	107,721	107,282	113,332
Total deposits from the public in Israel*	382,824	335,026	345,435
Outside Israel			
On demand			
Non-interest bearing	1,341	1,885	1,193
Interest bearing	4,922	4,043	5,306
Total on demand	6,263	5,928	6,499
Fixed term	11,729	11,158	9,711
Total deposits from the public outside Israel	17,992	17,086	16,210
Total deposits from the public	400,816	352,112	361,645
* Of which:			
Deposits of private individuals	184,979	167,782	165,615
Deposits of institutional entities	54,477	45,822	48,817
Deposits of corporations and others	143,368	121,422	131,003

B. Deposits from the public by size

	June 30	December 31	
	2020	2019	2019
	Unaudited	Audited	
Deposit ceiling			
Up to 1	136,365	121,008	122,404
Over 1 up to 10	105,891	89,872	90,385
Over 10 up to 100	58,927	52,785	55,261
Over 100 up to 500	36,236	32,862	35,698
Over 500	63,397	55,585	57,897
Total	400,816	352,112	361,645

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 8 Employee Benefits

NIS millions

A. Employee benefits

	June 30	December 31
	2020	2019
	Unaudited	Audited
Early retirement and severance pay		
Amount of liability	7,393	7,131
Fair value of plan assets	(3,582)	(3,697)
Surplus liability over plan assets (included in other liabilities)	3,811	3,434
Grant for non-utilization of sick days		
Amount of liability	353	360
Fair value of plan assets	-	-
Surplus liability over plan assets (included in other liabilities)	353	360
25-year service grant		
Amount of liability	34	35
Fair value of plan assets	-	-
Surplus liability over plan assets (included in other liabilities)	34	35
Other benefits at end of employment and post-employment		
Amount of liability	634	595
Fair value of plan assets	-	-
Surplus liability over plan assets (included in other liabilities)	634	595
Total		
Surplus liabilities in respect of employee benefits over plan assets included in the item "other liabilities"*	4,832	4,424
* Of which: in respect of benefits for employees overseas	80	58
		5,219
		34

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 8 Employee Benefits (continued)

NIS millions

B. Post-retirement benefit plan

(1) Commitments and financing status

a. Net change in commitment in respect of forecast benefit*,**

	For the three months ended June 30		For the six months ended June 30		For the year ended December 31
	2020	2019	2020	2019	2019
	Unaudited				Audited
Net commitment in respect of forecast benefit at beginning of period	4,555	4,515	5,183	4,319	4,319
Service cost	37	38	86	71	139
Interest cost	39	32	66	70	128
Deposits by plan participants	-	-	-	-	(29)
Actuarial loss (profit)	454	(58)	(140)	167	1,013
Changes in foreign-currency exchange rates	(2)	(1)	-	(3)	(5)
Benefits paid	(295)	(98)	(407)	(196)	(343)
Subtraction of balances attributed to a discontinued operation	-	(39)	-	(39)	(39)
Other	10	-	10	-	-
Net commitment in respect of forecast benefit at end of period	4,798	4,389	4,798	4,389	5,183
Net commitment in respect of cumulative benefit at end of period	4,566	4,211	4,566	4,211	5,005

b. Amounts recognized in the consolidated balance sheet

	June 30		December 31
	2020	2019	2019
	Unaudited		Audited
Early retirement and severance pay			
Amounts recognized in the item "other liabilities"	4,798	4,389	5,183

c. Amounts recognized in accumulated other comprehensive income (loss), before tax effect

	June 30		December 31
	2020	2019	2019
	Unaudited		Audited
Net actuarial loss	2,139	1,582	***2,350
Closing balance in accumulated other comprehensive income	2,139	1,582	***2,350

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 8 Employee Benefits (continued)

NIS millions

B. Post-retirement benefit plan (continued)

(1) Commitments and financing status (continued)

- d. Plans in which the commitment in respect of the cumulative and forecast benefit exceeds the plan assets

	June 30	December 31	
	2020	2019	2019
	Unaudited	Audited	
Commitment in respect of forecast benefit	8,380	8,086	9,321
Commitment in respect of cumulative benefit	8,148	7,908	9,143
Fair value of plan assets	(3,582)	(3,697)	(4,138)

* Includes post-retirement benefits, including a sick-day grant paid at retirement.

** The amounts presented are net of plan assets. For further details, see [Section \(d\) below](#).

*** Reclassified.

(2) Expense for the period

- a. Components of net benefit cost recognized in profit and loss

	For the three months ended June 30		For the six months ended June 30		For the year ended December 31
	2020	2019	2020	2019	2019
	Unaudited				Audited
Service cost	37	38	86	71	139
Interest cost	39	32	66	70	128
Subtraction of unrecognized amounts:					
Net actuarial loss	29	31	72	57	117
Other	10	-	10	-	-
Net total benefit cost	115	101	234	198	384

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 8 Employee Benefits (continued)

NIS millions

B. Post-retirement benefit plan (continued)

(2) Expense for the period (continued)

b. Changes in plan assets and in benefit commitments recognized in other comprehensive income (loss), before tax effect

	For the three months ended June 30		For the six months ended June 30		For the year ended December 31
	2020	2019	2020	2019	2019
	Unaudited				Audited
Net actuarial loss (profit) for the period	454	(58)	(140)	167	1,013
Subtraction of actuarial loss	(29)	(31)	(72)	(57)	(117)
Changes in foreign-currency exchange rates	(1)	(1)	1	(3)	(5)
Subtraction of balances attributed to a discontinued operation	-	(23)	-	(23)	(15)
Total recognized in other comprehensive income (loss)	424	(113)	(211)	84	876
Net total benefit cost	115	101	234	198	384
Total recognized in net benefit cost for the period and in other comprehensive income	539	(12)	23	282	1,260

c. Estimate of amounts included in accumulated other comprehensive income and expected to be subtracted from accumulated other comprehensive income to the statement of profit and loss as an expense (as income) in 2020, before tax effect

Net actuarial loss	146
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Notes to the Condensed Financial Statements

as at June 30, 2020

Note 8 Employee Benefits (continued)

B. Post-retirement benefit plan (continued)

(3) Assumptions*

- a. Assumptions based on a weighted average used to determine the commitment in respect of the benefit and to measure the net cost of the benefit

1. Principal assumptions used to determine the commitment in respect of the benefit

	June 30		December 31	
	2020		2019	2019
	Unaudited		Audited	
Capitalization rate	0.66%		1.24%	0.44%
Rate of increase in the CPI	2.0%		2.0%	2.0%
Rate of increase in remuneration ⁽¹⁾	0.0%-7.5%		0.0%-7.5%	0.0%-7.5%

2. Principal assumptions used to measure net benefit cost for the period

	For the three months ended June 30		For the three months ended March 31		For the year ended December 31
	2020		2020	2019	
	Unaudited		Audited		
Capitalization rate	1.99%	1.25%	0.44%	1.89%	0.69%
Rate of increase in remuneration	0.0%-7.5%	0.0%-7.5%	0.0%-7.5%	0.0%-7.5%	0.0%-7.5%

- b. Effect of a one-percentage-point change on the commitment in respect of the forecast benefit, before tax effect

	Increase of one percentage point		Decrease of one percentage point		NIS millions
	June 30	December 31	June 30	December 31	
	2020	2019	2020	2019	
Capitalization rate	(399)	(363)	(423)	475	429
					502

* The assumptions refer to the stand-alone data of the Bank.

(1) The rate of increase in remuneration is influenced by several processes leading to an increase in the cost of wages, which reflect an average growth rate of approximately 1% per annum, in real terms. These processes include promotions and changes in job descriptions, seniority, and rank.

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 8 Employee Benefits (continued)

NIS millions

(4) Plan assets

The Bank's liability for employee benefits is calculated based on an actuarial calculation. Among other factors, this calculation takes into account the probability of early retirement with beneficial terms, in each of the relevant tracks (enlarged severance pay or early retirement); the amounts of the liability at retirement; and the value of amounts funded at that date. In addition, in light of the existing labor agreements at the Bank and the nature of the retirement agreements at the Bank, the Bank's exposure to (positive or negative) changes in the value of amounts funded is limited, due to Section 14 of the Severance Pay Law, pursuant to which in the event of an employee's departure, reaching the retirement age established by law, or taking early retirement, the Bank is not required to supplement amounts funded, and customarily does not do so, if their value has decreased or does not cover the increase that has occurred in wages. The Bank's liability for severance pay to its employees is primarily covered by amounts funded, deposited in severance-pay funds in the employees' names.

It is emphasized that the net liability exposure of the Bank to changes in the value of amounts funded, weighted by the probability of retirement in a compensation track, is immaterial. Thus, for example, in the case of a 10% decrease in the fair value of the amounts funded for severance pay, the net liability would increase by a total of approximately NIS 20 million.

Amounts funded for severance pay are deposited in severance-pay funds in the employees' names. Approximately 32% of the total balances of amounts funded for severance pay are deposited with the Central Retirement Fund of Histadrut Workers Ltd. (KGM). The remaining amounts are deposited with a large number of severance-pay provident funds, according to employees' choice.

Balances of the liability for severance pay and amounts funded for severance pay:

	June 30		December 31	
	2020		2019	2019
	Unaudited	Audited		
Liability for severance pay	3,472		3,552	3,933
Amounts funded for severance pay	(3,359)		(3,437)	(3,841)
Net liability	113		115	92

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 8 Employee Benefits (continued)

NIS millions

C. Cash flows

(1) Deposits

	Forecast		Actual deposits			
			For the three months ended June 30		For the six months ended June 30	
	2020*	2020	2019	2020	2019	2019
					Unaudited	
Deposits	165	36	41	76	85	182

* Estimated deposits which the Bank expects to pay into pension plans for a defined benefit during 2020.

(2) Benefits the Bank expects to pay in the future

Year	
2020	193
2021	521
2022	427
2023	362
2024	336
2025-2029	1,338
2030 forward	2,051
Total	5,228

D. On January 21, 2020, the Bank and the representatives of the Employee Union signed a wage agreement for 2018-2022, which was approved by the Board of Directors and Board of Management of the Bank. This agreement encompasses the full consideration granted to the employees for the years 2018-2022; all labor disputes and strike announcements declared by the employee representatives prior to the signing of the agreement have been rescinded.

The wage agreement includes the following components, among other matters:

- a. In addition to the mechanisms for routine promotions and pay raises customary at the Bank, the employees specified in the agreement will be paid a fixed salary increment, in NIS, in three phases during the years 2020-2022, part of which is contingent upon the business performance of the Bank. According to the estimates of the Bank, taking into consideration the effect of this salary increment, as well as the customary promotion mechanisms and additional effects, the average annual rate of increase in the wages of the aforesaid employees will reach approximately 3.7% during the period of the agreement. The annual increase in the cost of wages of the aforesaid employees in respect of the increment is estimated at approximately 0.8%.
- b. The employees received a one-time signing bonus at a total cost of approximately NIS 200 million.

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 8 Employee Benefits (continued)

- c. The plan for granting phantom units to employees, which was the customary practice at the Bank, was converted to wages and benefits paid to the eligible employees at a similar cost. Concurrently, the existing liability in respect of the vested phantom units was settled in early 2020, based on the liability in the books of the Bank as at December 31, 2019.
- d. As part of the Bank's preparations for the changes underway in the banking universe, agreement has been reached regarding continuation of the policy of hiring employees with specific skills under personal contracts, particularly in the areas of technology and innovation, which are essential to the Bank, and regarding the launch of a program for training existing employees for the professions of the future.

The effect of this agreement is a one-time increase in the actuarial liabilities of the Bank, in the amount of approximately NIS 80 million, before tax, subtracted from shareholders' equity as at December 31, 2019; and salary expenses for 2019 in the amount of approximately NIS 200 million, before tax, in respect of the one-time bonus.

E. Further to the statements in Note 22C(4) to the Annual Financial Statements for 2019, and taking into consideration the return on equity achieved by the Bank in 2019, 89,771 restricted stock units (RSU) expired in March 2020, which were granted under previous remuneration plans, in respect of previous years, as deferred variable remuneration for the former CEO of the Bank, members of the Board of Management, senior executives, and key employees of the Bank. Most of the balance of the RSU vested, and the Bank allocated 218,855 shares (0.02% of the issued capital) in respect thereof of the shares held in treasury.

F. Further to the statements in Note 22C to the Annual Financial Statements for 2019, at the date of approval of the financial statements for the first quarter of 2020, the Board of Directors approved a grant of restricted shares (for three years, beginning January 1, 2020) to the previous Chairman of the Board of Directors, members of the Board of Management, senior executives, and key employees of the Bank, at a total volume of up to approximately 0.04% of the issued capital of the Bank (556,127 shares), within the implementation of the existing remuneration plans and employment contracts, as part of the fixed remuneration component for 2019, which was recognized in the annual financial statements of the Bank for 2019, and in accordance with the outline issued by the Bank in May 2018. The CEO of the Bank waived the restricted shares to which he was entitled in respect of 2019 (at a value of approximately NIS 25.5 thousand). In addition, the allocation of 28,257 restricted stock units (RSU) (approximately 0.002% of the issued capital) to several employees who are not officers was approved.

G. Further to the statements in Note 22C(2) to the Annual Financial Statements for 2019 regarding the terms of service and employment of the chairperson of the board of directors, and in connection with the resignation of Oded Eran from the position of Chairman of the Board in June 2020, the Bank, with the approval of the Remuneration Committee and of the Board of Directors, waived the work of the chairman during the advance notice period (six months), without detriment to Mr. Eran's right to the full terms of remuneration in respect of this period.

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 8 Employee Benefits (continued)

Mr. Reuven Krupik, who was elected to serve as Chairman of the Board of Directors in June 2020, and whose appointment took effect upon its approval by the Banking Supervision Department on July 28, 2020, is entitled to directors' remuneration (fixed remuneration and remuneration for participation in meetings), at this time, like the other serving directors. The Bank is examining alternatives with regard to the terms of service of Mr. Krupik, taking into consideration the fact that he is an external director pursuant to Directive 301 of the Banking Supervision Department and an independent director pursuant to the Companies Law.

H. In January 2020, the Board of Directors of the Bank approved an efficiency plan at an estimated cost in the amount of NIS 352 million, net of tax effect, which was allocated to capital as at December 31, 2019. The plan is being allocated in equal installments over five years, beginning in 2020, for the purpose of the calculation of capital-adequacy ratios and the leverage ratio. In view of the effects of the spread of the coronavirus, the Bank decided to accelerate the implementation of the aforesaid efficiency plan.

Note 9 Capital, Capital Adequacy, Leverage, and Liquidity

A. Dividends

Subject to the statements in this section, below, since the first quarter of 2017, the dividend distribution policy of the Bank is to distribute up to 40% of quarterly net operating profit. Any distribution is subject to a specific resolution of the Board of Directors of the Bank, based on its judgment at the date of the distribution, taking into account business considerations, the directives of all laws, and any constraints on distribution. In light of the uncertainty with respect to the investigation of the United States authorities that existed prior to the approval of the resolutions (see [Note 10D](#)), for reasons of conservatism and in coordination with the Bank of Israel, beginning in the second quarter of 2018, the Board of Directors of the Bank has not declared the distribution of dividends from ongoing earnings, with no change to the Bank's dividend distribution policy. In view of the notification of the Supervisor of Banks of March 29, 2020, and the temporary order established (see [Section H](#) below) in connection with the spread of the coronavirus, the Board of Directors of the Bank resolved, on March 31, 2020, that in light of the uncertainty in macroeconomic conditions, and in order to fulfill the purpose of the directives and policy of the Banking Supervision Department, until the end of the period of the temporary order and until conditions are clearer, the Bank will continue to refrain from performing distributions from ongoing earnings.

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 9 Capital, Capital Adequacy, Leverage, and Liquidity (continued)

B. Dividend payments

As a result of the sale of approximately 65.2% of the shares of Isracard in the second quarter of 2019, the Bank accumulated additional capital surplus. In September 2019, the Board of Directors of the Bank declared the distribution of dividends in respect of this capital surplus, in the amount of NIS 1 billion, paid in October 2019. The remaining holdings of the Bank in the shares of Isracard (approximately 33% of the issued and paid-up capital of Isracard) were distributed as a dividend in kind to the shareholders of the Bank on March 9, 2020.

Date of declaration	Date of payment	Dividend per share	Dividend paid in cash
		Agorot	NIS millions
February 2, 2020	March 9, 2020	*53.937	**720
September 24, 2019	October 23, 2019	74.897	1,000

* Calculated based on the value of Isracard shares on March 8, 2020 (NIS 10.91). Approximately 0.0494 shares of Isracard were distributed as a dividend in kind in respect of each share of the Bank.

** Paid as a dividend in kind, in shares. The amount noted is based on the price of the Isracard share on the stock exchange on March 8, 2020.

C. Basel 3 directives

The Bank applies the capital measurement and adequacy directives based on the Basel directives, as published by the Banking Supervision Department and as integrated into Proper Conduct of Banking Business Directives 201-211 and the file of questions and answers.

The Basel 3 directives took effect on January 1, 2014. Implementation is gradual, in accordance with the transitional directives established in Proper Conduct of Banking Business Directive 299, "Capital Measurement and Adequacy – Supervisory Capital – Transitional Directives." In accordance with the transitional directives, capital instruments that no longer qualify as supervisory capital were recognized as of January 1, 2014, up to a ceiling of 80% of their balance in the supervisory capital as at December 31, 2013; this ceiling is being lowered by an additional 10% in each subsequent year, until January 1, 2022. Accordingly, the ceiling for instruments qualifying as supervisory capital was 30% and 20%, respectively, in 2019 and 2020.

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 9 Capital, Capital Adequacy, Leverage, and Liquidity (continued)

D. Capital adequacy in consolidated data

	June 30, 2020	June 30, 2019	December 31, 2019		
	Unaudited	Audited			
	NIS millions				
1. Capital for the calculation of the capital ratio after supervisory adjustments and deductions					
Common equity Tier 1 capital ⁽¹⁾	38,300	39,852	38,795		
Additional Tier 1 capital	488	733	733		
Total Tier 1 capital ⁽¹⁾	38,788	40,585	39,528		
Tier 2 capital	9,730	10,261	9,707		
Total overall capital ⁽¹⁾	48,518	50,846	49,235		
2. Weighted balances of risk-adjusted assets					
Credit risk ⁽²⁾	312,747	305,381	309,303		
Market risks	4,769	3,578	3,528		
Operational risk	23,428	24,032	23,556		
Total weighted balances of risk-adjusted assets ⁽²⁾	340,944	332,991	336,387		
%					
3. Ratio of capital to risk components					
Ratio of common equity Tier 1 capital to risk components	11.23%	11.97%	11.53%		
Ratio of Tier 1 capital to risk components	11.38%	12.19%	11.75%		
Ratio of total capital to risk components	14.23%	15.27%	14.64%		
Minimum common equity Tier 1 capital ratio required by the Banking Supervision Department ⁽³⁾	9.26%	10.26%	10.27%		
Minimum total capital ratio required by the Banking Supervision Department ⁽³⁾	12.76%	13.76%	13.77%		

- (1) The data are presented in accordance with Proper Conduct of Banking Business Directive 202, "Capital Measurement and Adequacy – Supervisory Capital," and in accordance with the transitional directives established in Proper Conduct of Banking Business Directive 299. The data also include adjustments in respect of the efficiency plans, allocated in equal parts over five years, beginning at the inception date thereof. For additional details regarding the effect of the efficiency plan adjustments, see [Section I](#) below.
- (2) A total of NIS 733 million as at June 30, 2020, NIS 883 million as at December 31, 2019, and NIS 533 million as at June 30, 2019, was deducted from the total weighted balances of risk-adjusted assets, due to adjustments in respect of the efficiency plans, which, in accordance with the approval of the Banking Supervision Department, are allocated gradually over five years from inception.
- (3) The required minimum common equity Tier 1 capital ratio and minimum total capital ratio were 10% and 13.5%, respectively, until March 31, 2020, and stand at 9% and 12.5%, respectively, as of that date and for the duration of the Temporary Order (see [Section H](#) below). A capital requirement was added to these ratios at a rate representing 1% of the balance of housing loans at the dates of the financial statements, excluding housing loans granted during the period of the Temporary Order.

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 9 Capital, Capital Adequacy, Leverage, and Liquidity (continued)

D. Capital adequacy in consolidated data (continued)

	June 30, 2020	June 30, 2019	December 31, 2019		
	Unaudited	Audited			
	%				
4. Significant subsidiaries					
Hapoalim Switzerland⁽¹⁾⁽²⁾					
Ratio of common equity Tier 1 capital to risk components	134.46%	50.04%	18.27%		
Ratio of Tier 1 capital to risk components	134.46%	50.04%	18.27%		
Ratio of total capital to risk components	134.46%	50.12%	18.31%		
Minimum common equity Tier 1 capital ratio required by local regulation	8.00%	8.00%	8.00%		
Minimum total capital ratio required by local regulation	11.20%	11.20%	11.20%		
Bank Positif⁽¹⁾					
Ratio of Tier 1 capital to risk components	32.50%	30.79%	33.09%		
Ratio of total capital to risk components	33.54%	30.79%	33.09%		
Minimum total capital ratio required by local regulation	12.00%	12.00%	12.00%		

- (1) As reported to the local regulator.
- (2) Following the loss that resulted from the provision in connection with the investigation of the Bank Group's business with American customers and FIFA, recognized in the financial statements for the fourth quarter of 2019, and in order for Hapoalim Switzerland to comply with the regulatory capital-adequacy ratio required in Switzerland, the Bank invested an amount of CHF 95 million, in March 2020, immediately upon receiving the approval of the Banking Supervision Department for such enlargement of its investment.

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 9 Capital, Capital Adequacy, Leverage, and Liquidity (continued)

NIS millions

E. Capital components for the calculation of the capital ratio

	June 30, 2020	June 30, 2019	December 31, 2019
	Unaudited	Audited	
Common equity Tier 1 capital			
Total capital	38,054	39,549	38,221
Differences between total capital and common equity Tier 1 capital	(18)	(29)	(25)
Total common equity Tier 1 capital, before supervisory adjustments and deductions	38,036	39,520	38,196
Supervisory adjustments and deductions:			
Goodwill and intangible assets	-	(8)	(7)
Deferred tax assets	(61)	(40)	(50)
Other supervisory adjustments and deductions – common equity Tier 1 capital*	(221)	(1)	(1)
Total supervisory adjustments and deductions, before efficiency plan adjustments – common equity Tier 1 capital	(282)	(49)	(58)
Total efficiency plan adjustments – common equity Tier 1 capital**	546	381	657
Total common equity Tier 1 capital, after supervisory adjustments and deductions	38,300	39,852	38,795
Additional Tier 1 capital			
Total additional Tier 1 capital	488	733	733
Total Tier 1 capital, after supervisory adjustments and deductions	38,788	40,585	39,528
Tier 2 capital			
Tier 2 capital – instruments, before deductions	5,821	6,476	5,929
Tier 2 capital – allowance for credit losses, before deductions	3,909	3,785	3,778
Total Tier 2 capital	9,730	10,261	9,707
Total overall capital	48,518	50,846	49,235

* The balance as at June 30, 2020, includes a total of NIS 173 million resulting from deduction of the credit line for Bank Pozitif, in accordance with the requirement of the Banking Supervision Department. For further details, see [the section "Subsidiary of the Bank in Turkey,"](#) below.

** Adjustments in respect of the efficiency plans, in accordance with the directives of the Banking Supervision Department (see [the section, "Improving operational efficiency,"](#) below), are allocated in equal parts over five years from inception.

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 9 Capital, Capital Adequacy, Leverage, and Liquidity (continued)

F. Effect of efficiency plan adjustments on the common equity Tier 1 capital ratio

	June 30, 2020	June 30, 2019	December 31, 2019
	Unaudited	Audited	
	%		
Ratio of capital to risk components			
Ratio of common equity Tier 1 capital to risk components before the effect of the efficiency plan adjustments	11.05%	11.83%	11.31%
Effect of efficiency plan adjustments*	0.18%	0.14%	0.22%
Ratio of common equity Tier 1 capital to risk components	11.23%	11.97%	11.53%

* Adjustments in respect of the efficiency plans, in accordance with the directives of the Banking Supervision Department (see [the section, "Improving operational efficiency," below](#)), are allocated in equal parts over five years from inception.

G. Capital components subject to volatility

The Bank manages its capital-adequacy ratio with the aim of complying with the minimum capital requirements of the Banking Supervision Department. The capital of the Bank and the volume of risk-adjusted assets are subject to changes, due to the following factors, among others:

- Actuarial changes resulting from changes in the interest rate for the calculation of the Bank's liabilities, or other actuarial assumptions, such as mortality and departure rates.
- Effects of changes in the interest rate on capital reserves from bonds available for sale.
- Effects of changes in the CPI and in exchange rates on asset balances.

Scale of effect of a decrease in capital and an increase in risk-adjusted assets on the common equity Tier 1 capital ratio as at June 30, 2020

	Effect of decrease of NIS 100 million in common equity Tier 1 capital	Effect of increase of NIS 1 billion in total risk-adjusted assets
	%	%
The Bank in consolidated data	(0.03%)	(0.03%)

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 9 Capital, Capital Adequacy, Leverage, and Liquidity (continued)

H. Capital-adequacy target

On March 31, 2020, the Banking Supervision Department issued a circular on the subject, "Adjustments to the Proper Conduct of Banking Business Directives for the purpose of coping with the coronavirus crisis (temporary order)" (the "Temporary Order"), in view, according to the statement of the Banking Supervision Department, of the spread of the coronavirus, and in order to ensure the ability of the banks to continue to offer credit. Pursuant to the circular, the Bank, as a banking corporation of significant importance (a banking corporation whose total balance sheet assets on a consolidated basis constitute at least 24% of the total balance sheet assets of the banking system in Israel), is required to maintain a minimum common equity Tier 1 capital ratio of 9% (versus 10% prior to this change), and a minimum total capital ratio of 12.5% (versus 13.5% prior to this change). These capital requirements will be in effect for six months, and will be extended for an additional six months if necessary, after which, as relevant, the Bank will be required to present a trajectory for gradual reaccumulation of capital, to the extent that its capital is eroded, over a period of two years.

A capital requirement was added to the minimum capital ratios at a rate representing 1% of the balance of housing loans at the dates of the financial statements, excluding housing loans granted during the period of the Temporary Order.

Accordingly, the minimum common equity Tier 1 capital ratio and the minimum total capital ratio of the Bank (which is a banking corporation of significant importance) required by the Banking Supervision Department, on a consolidated basis, as at June 30, 2020, and for the duration of the period of the Temporary Order, stand at 9.26% and 12.76%, respectively (instead of 10.26% and 13.76% prior to the Temporary Order).

In the statement issued by the Banking Supervision Department in connection with the Temporary Order, boards of directors of banks were asked, among other matters, to reexamine their dividend policies, with the intention of using the capital resources released as a result of the reduced capital requirements in order to increase credit, rather than for distribution. In view of the statement of the Banking Supervision Department, and in order to allow realization of the purpose of the directive, the Board of Directors of the Bank resolved on March 31, 2020, to adjust the target common equity Tier 1 capital ratio to 9.5%. The Board of Directors further resolved that, taking into consideration the existing distribution policy of the Bank (distribution of up to 40% of quarterly net operating profit), in light of the uncertainty in macroeconomic conditions, and in order to fulfill the purpose of the Temporary Order and the policy of the Banking Supervision Department, until the end of the period of the Temporary Order and until conditions are clearer, the Bank will continue to refrain from performing distributions from ongoing earnings.

Capital planning at the Bank is based on the work plan of the Bank and on regulatory directives, which are translated into risk-adjusted assets and changes in the various tiers of capital, while maintaining safety margins.

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 9 Capital, Capital Adequacy, Leverage, and Liquidity (continued)

I. Improving operational efficiency

In January 2016, the Banking Supervision Department issued a letter on the subject, "Improving the operational efficiency of the banking system in Israel" (the "Efficiency Directive"). Pursuant to the Efficiency Directive, the boards of directors of banking corporations shall formulate a multi-year plan to improve efficiency. Banking corporations that meet the conditions established in the directive will be granted a relief allowing them to spread the effects of the plan over a period of up to five years in a straight line, for the purposes of the calculation of capital-adequacy ratios and of the leverage ratio.

Further to the Efficiency Directive, in June 2017, the Banking Supervision Department issued a letter entitled, "Improving the operational efficiency of the banking system in Israel – efficiency in the area of real estate," which encourages banking corporations to also examine, in addition to improved efficiency in personnel expenses, the possibility of reducing real-estate and maintenance costs of headquarters and management units, including through a reexamination of the geographical location of such units ("Real-Estate Efficiency"). In order to encourage the implementation of a plan for Real-Estate Efficiency, the Banking Supervision Department will approve reliefs for the banks in the area of capital adequacy.

In a letter dated December 16, 2019, the Banking Supervision Department extended the period for implementation of the efficiency plan until December 31, 2021.

In October 2016, the Board of Directors of the Bank approved an efficiency plan at an estimated cost in the amount of NIS 762 million, net of tax effect, which was allocated to capital. The plan is being allocated in equal installments over five years, beginning in 2017, for the purpose of the calculation of capital-adequacy ratios and the leverage ratio.

In January 2020, the Board of Directors of the Bank approved an efficiency plan at an estimated cost in the amount of NIS 352 million, net of tax effect, which was allocated to capital as at December 31, 2019. The plan is being allocated in equal installments over five years, beginning in 2020, for the purpose of the calculation of capital-adequacy ratios and the leverage ratio.

The effect of the reliefs in respect of the efficiency plans on the ratio of common equity Tier 1 capital to risk components is estimated at approximately 0.18% as at June 30, 2020.

J. Issuance of subordinated notes with a loss-absorption mechanism

In May 2020, the Bank issued a series of CPI-linked subordinated notes (Series U), through Hapoalim Hanpakot (a wholly owned subsidiary that serves as the funding arm of the Bank), bearing annual interest at a rate of 2.59%, with principal in a total amount of approximately NIS 1.06 billion, maturing in 2031 (with the option of early maturity, at the initiative of Hapoalim Hanpakot and with the approval of the Bank of Israel, in 2026). The subordinated notes include a mechanism for principal loss absorption, in accordance with Proper Conduct of Banking Business Directive 202, through partial or full write-off of principal in the event that the common equity Tier 1 capital ratio of the Bank falls below 5%, or in accordance with a decision of the Banking Supervision Department; the subordinated notes constitute part of the Tier 2 capital of the Bank.

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 9 Capital, Capital Adequacy, Leverage, and Liquidity (continued)

In May 2020, the Bank published a shelf prospectus allowing the Bank to issue shares and securities convertible into shares, bonds, subordinated notes, and other securities. At the date of publication of the report, the Bank is preparing to issue subordinated notes with a mechanism for principal loss absorption through forced conversion into ordinary shares of the Bank based on the aforesaid shelf prospectus.

K. Early redemption of capital notes in Tier 2 capital

In July 2020, after the date of the financial statements, Hapoalim Hanpakot executed partial early redemption of Series 1 subordinated notes, in consideration for a total of NIS 596 million. Following the decision regarding partial early redemption, as announced on June 16, 2020, the amount redeemed is not recognized in supervisory capital, beginning with the financial statements as at June 30, 2020.

L. The subsidiary of the Bank in Turkey

In January 2019, a letter was received from the Bank of Israel concerning the subsidiary of the Bank in Turkey, Bank Pozitif. In the letter, the Bank of Israel stated that the activity of the Bank in Turkey exposes it to significant risks, and therefore, until the realization of the full holdings of the Bank in Bank Pozitif, the Bank is required to increase the risk weighting rates of risk-adjusted assets in respect of the activity of Bank Pozitif, in the calculation of the consolidated capital ratio only, as follows:

- Beginning January 1, 2020, risk-adjusted assets in respect of the activity of Bank Pozitif will be weighted at a rate of at least 300%.
- Beginning January 1, 2021, risk-adjusted assets in respect of the activity of Bank Pozitif will be weighted at a rate of at least 600%.

Accordingly, beginning January 1, 2020, the Bank weighted risk-adjusted assets in respect of Bank Pozitif at 300%. The effect on the financial statements for the first quarter of 2020 is a decrease of approximately 0.04% in the common equity Tier 1 capital ratio. The effect of this instruction on the common equity Tier 1 capital ratio, assuming weighting of the risk-adjusted assets at 600%, based on data as at June 30, 2020, is an additional decrease of approximately 0.04%.

Within the Bank's strategic plan, a decision has been made to act to sell the investment in Bank Pozitif. Accordingly, the Bank is working to gradually reduce the credit portfolio of Bank Pozitif.

In June 2020, the Bank renewed a credit line for Bank Pozitif (which it holds at approximately 70%) in the amount of approximately USD 50 million, at an interest rate below market terms, taking into consideration, among other matters, the special circumstances of Bank Pozitif, of the credit line granted to it by the Bank, and of the relationship with the minority shareholder, and the efforts of the Bank to sell its investment in Bank Pozitif (see [Section 2.6.3](#), "Principal companies," in the Report of the Board of Directors and Board of Management), in view of the challenging condition of the Turkish economy and of Bank Pozitif. In accordance with a requirement of the Banking Supervision Department, due to the aforesaid pricing, the balance of the credit line, in the amount of approximately NIS 173 million, was deducted from supervisory capital. The effect of this instruction on the common equity Tier 1 capital ratio is a decrease of approximately 0.05%.

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 9 Capital, Capital Adequacy, Leverage, and Liquidity (continued)

M. Leases

The effect of the implementation of the accounting standard concerning leases, at the adoption date of the standard, January 1, 2020, is a decrease of approximately 0.04% in the common equity Tier 1 capital ratio and a decrease of approximately 0.05% in the total capital ratio. For further details, see [Note 1C](#) above.

N. Guarantees with reduced conversion factors

In August 2020, the Banking Supervision Department issued a draft circular updating Proper Conduct of Banking Business Directive 203.

Pursuant to the draft, the Banking Supervision Department established reduced conversion factors for certain guarantees granted within project finance for evacuation and construction projects, National Outline Plan (TAMA) 38 (Type 2) projects, or combination transactions.

The conversion factors will be identical to conversion factors for Sale Law guarantees, i.e. 10% if the residence has been transferred to the tenant, and 30% if the residence has not yet been transferred to the tenant.

The effect of the implementation of the draft, if it is implemented, based on the data of the financial statements as at June 30, 2020, is estimated at an increase of 0.03% to 0.04% in the common equity Tier 1 capital ratio and an increase of 0.04% to 0.05% in the total capital ratio.

O. Leverage ratio

The Bank applies Proper Conduct of Banking Business Directive 218, "Leverage Ratio" (hereinafter: the "Directive"). The Directive establishes a simple, transparent, non-risk-based leverage ratio, which serves as a complementary measurement to risk-based capital requirements, and which is designed to limit the accumulation of leverage at banking corporations.

The leverage ratio is expressed as a percentage, and is defined as the ratio of the capital measurement to the exposure measurement. Capital, for the purpose of measurement of the leverage ratio, is Tier 1 capital, as defined in Proper Conduct of Banking Business Directive 202, taking into consideration the transitional arrangements that have been established. The total exposure measurement is the total of balance sheet exposures, exposures to derivatives and to securities financing transactions, and off-balance sheet items. Pursuant to the Directive, banking corporations shall maintain a leverage ratio of no less than 5% on a consolidated basis. Banking corporations whose total balance sheet assets on a consolidated basis constitute 24% or more of the total balance sheet assets in the banking system shall maintain a leverage ratio of no less than 6%. Based on the foregoing, the minimum required leverage ratio for the Bank is 6%.

The leverage ratio of the Bank and of significant subsidiaries in Israel is calculated according to Proper Conduct of Banking Business Directive 218, "Leverage Ratio." The leverage ratio of banking subsidiaries overseas is stated according to the regulatory directives and required ratios in each jurisdiction. Local regulation in Switzerland does not impose a minimum leverage ratio requirement.

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 9 Capital, Capital Adequacy, Leverage, and Liquidity (continued)

	June 30, 2020	June 30, 2019	December 31, 2019		
	Unaudited	Audited			
	NIS millions				
a. Consolidated data					
Tier 1 capital*	38,788	40,585	39,528		
Total exposures*	556,182	511,322	519,648		

	%		
Leverage ratio	6.97%	7.94%	7.61%
Minimum leverage ratio required by the Banking Supervision Department	6.00%	6.00%	6.00%

b. Significant subsidiary

Bank Pozitif

Leverage ratio	29.53%	26.47%	29.73%
Minimum required leverage ratio according to local regulation	3.00%	3.00%	3.00%

* These data include adjustments in respect of the efficiency plans, in accordance with the directives of the Banking Supervision Department (see the section "[Improving operational efficiency](#)" above). The effect of the reliefs in respect of the efficiency plans on the leverage ratio as at June 30, 2020, estimated at approximately 0.1%, is allocated in equal parts over five years, beginning at the inception date thereof.

	Effect of decrease of NIS 100 million in Tier 1 capital	Effect of increase of NIS 1 billion in total exposures
	%	
c. Effects on the leverage ratio as at June 30, 2020		
The Bank in consolidated data	(0.02%)	(0.01%)

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 9 Capital, Capital Adequacy, Leverage, and Liquidity (continued)

P. Liquidity coverage ratio

The Bank calculates its stand-alone and consolidated liquidity ratios daily, with a division into NIS and foreign currency, and monitors this ratio at its subsidiaries (which are required to comply with internal liquidity limits adapted to the nature of their activity). These ratios are reported as an average of the daily observations. The number of observations used to calculate the averages in the reported quarter is 68.

	For the three months ended	For the three months ended	For the three months ended
	June 30, 2020	June 30, 2019	December 31, 2019
	Unaudited	Audited	
%			
a. Consolidated data			
Liquidity coverage ratio	131%	127%	121%
Minimum liquidity coverage ratio required by the Banking Supervision Department	100%	100%	100%
b. Bank data			
Liquidity coverage ratio	130%	126%	120%
Minimum liquidity coverage ratio required by the Banking Supervision Department	100%	100%	100%
c. Significant subsidiary*			
Hapoalim Switzerland			
Liquidity coverage ratio according to local regulation	456%	424%	710%
Minimum liquidity coverage ratio required by local regulation	100%	100%	100%

* The ratio is calculated on a daily basis, and reported as an average of the daily observations.

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 10 Contingent Liabilities and Special Commitments

NIS millions

A. Contingent liabilities and other special commitments

	June 30	December 31	
	2020	2019	2019
	Unaudited	Audited	
1. Commitment to purchase securities	616	471	577
2. Construction and acquisition of buildings and equipment	26	86	19
3. Long-term rent contracts – rent for buildings and equipment in commitments payable in future years:			
First year	137	139	147
Second year	134	133	142
Third year	126	123	133
Fourth year	115	113	123
Fifth year	93	103	106
Over five years	713	817	763
Total rent on buildings and equipment	1,318	1,428	1,414

4. Credit selling activity

The following table summarizes the credit selling activity of the Bank:

	For the three months ended June 30		For the six months ended June 30		For the year ended December 31
	2020	2019	2020	2019	2019
	Unaudited	Audited			
Book value of credit sold	-	67	-	67	104
Consideration received in cash	-	68	-	68	113
Total net profit from sale of credit	-	1	-	1	9

- 5.** Further to the statements in Note 25B(5) to the Annual Financial Statements for 2019, the Bank granted an indemnity commitment (a letter of indemnity) to a senior employee who is not an officer, in connection with his position as manager of an affiliate; to the Chief Compliance Officer of the Bank; and an indemnity commitment for certain cases to managers at another affiliate.

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 10 Contingent Liabilities and Special Commitments (continued)

6. In October 1985, Hapoalim Switzerland leased a building used as management premises in Zurich, for a period of approximately 100 years, for an annual leasing fee, linked to the CPI, in the amount of CHF 2 million (at this time, approximately CHF 3 million per annum). Close to the beginning of the lease period, Hapoalim Switzerland divided the leased property and sold approximately half of the lease to a third party (a foreign banking corporation) (the "Third Party"), which has borne half of the annual leasing fee since then. To the best of the knowledge of the Bank, the banking corporation wished to sell its share of the leased property, but is engaged in a legal proceeding with the owner of the property (the lessor) with regard to its liability for the leasing fee after the sale. During the aforesaid legal proceeding, the lessor notified Hapoalim Switzerland that according to its position, Hapoalim Switzerland is responsible for the payment of the full leasing fee in respect of the property in its entirety, and in particular if the court rules that the banking corporation will not bear liability for the leasing fee after the sale of its share. Hapoalim Switzerland disputes this position, and according to the position of its legal advisors, it is unlikely that it will be held responsible for the share of the banking corporation in the lease, taking into consideration, among other matters, the fact that it sold part of the rights to the lease, as noted, and taking into account the robustness of the lessee and the fact that it is a banking corporation. Hapoalim Switzerland has a provision in the amount of approximately CHF 23 million in respect of the difference between the contractual leasing fee for its share of the property and the fair value of the liability in respect of its share for the remainder of the period of the lease. The additional exposure in respect of the leasing fee for the share of the banking corporation stands at approximately CHF 23 million, in respect of which no provision was made, based on the evaluation of the legal advisors of Hapoalim Switzerland, as noted above. It should also be noted that in connection with creditor calls issues in the course of the closing processes of Hapoalim Switzerland, the Third Party, which also serves as the administrative manager of the property, demanded to secure Hapoalim Switzerland's obligation to pay rent and related costs for the portion of the property in its use for the entire lease period. According to Hapoalim Switzerland's legal counsels, this demand does not increase the extent of the exposure of Hapoalim Switzerland in respect of rent (for its part) beyond the provision already made, as noted above, as it can, in fact, be considered part of the lessor's requirement for Hapoalim Switzerland. In June 2020, a memorandum was signed by Hapoalim Switzerland and the lessor pursuant to which Hapoalim Switzerland would be released from the long-term lease contract in consideration for a payment of CHF 23 million, an amount for which a provision has been recorded, as noted. This agreement, if signed, is also expected to end the legal proceedings with the lessor.

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 10 Contingent Liabilities and Special Commitments (continued)

B. Legal proceedings

The Bank Group (the Bank and its consolidated subsidiaries) is a party to legal proceedings, including petitions to certify class actions, taken against it by its customers, former customers, and various third parties. The causes of the claims against the Bank Group are varied and wide-ranging.

The additional exposure in respect of claims filed against the Bank on various matters, as at June 30, 2020, that have a "reasonably possible" probability of materialization amounts to approximately NIS 326 million.

In the opinion of the Bank's Board of Management, based on the opinion of the management of relevant consolidated companies and based on legal opinions with regard to the likely outcome of pending claims, including petitions to certify class actions, the financial statements include sufficient provisions, in accordance with generally accepted accounting principles, to cover possible damages resulting from all claims, where such provisions are necessary.

a. For details concerning claims and petitions to certify claims as class actions in material amounts, see [Note 25C\(a\) to the Financial Statements as at December 31, 2019](#) (hereinafter: the "2019 Annual Report"). As at the date of publication of the financial statements, no material changes have occurred relative to the information in the aforesaid Note 25C(a), with the following exceptions:

1. With regard to the civil suit in the amount of USD 1 billion filed with the Federal Court of Washington DC in the United States by several Palestinian parties against a long list of defendants, including the Bank, described in Section 1 of Note 25C(a) of the 2019 Annual Report, on May 5, 2020, the claimants notified the court of their request to expunge several defendants from the claim, including the Bank. Accordingly, a court ruling was given on June 6, 2020, ordering expungement of the claim against the Bank and additional defendants.

2. With regard to the claim filed with the US Bankruptcy Court of the Southern District of New York (hereinafter: the "Bankruptcy Court") against Bank Hapoalim (Switzerland) Ltd., a wholly-owned subsidiary of the Bank, and against others, described in Section 8 of Note 25C(a) of the 2019 Annual Report, pursuant to the ruling of the Bankruptcy Court of December 2018, the fund filed an amended claim statement on January 15, 2020, which includes the components pertaining to the Fairfield claims that were not rejected in the aforesaid ruling (hereinafter: the "Amended Claim"). The defendants filed a motion for dismissal in limine of the Amended Claim in March 2020 (hereinafter: the "Motion"). The fund submitted its objection to the Motion, and the defendants submitted their response to this objection in June 2020. A ruling has not yet been given on the Motion. In addition, in December 2019 the fund appealed the ruling of the Bankruptcy Court of December 2018 with the US District Court for the Southern District of New York, with regard to the components pertaining to the Fairfield claims that were rejected (hereinafter: the "Appeal"). The defendants submitted their objection to the Appeal in March 2020, and the fund submitted its response to the objection in April 2020. A ruling has not yet been given on the Appeal.

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 10 Contingent Liabilities and Special Commitments (continued)

B. Legal proceedings (continued)

3. With regard to the class-action suit in the amount of NIS 3,860 million against Psagot Provident and Pension Funds Ltd., as described in Note 25C(a)(6) of the Annual Financial Statements for 2019, in its capacity as the manager of the provident fund Gadish (which it acquired from the Bank in the past), concerning the management of monies in accounts of deceased members, with respect to the mediation and compromise proceeding in the claim and the arguments of Psagot regarding certain indemnification rights against the Bank in respect thereof, on June 12, 2020, a ruling was given approving a settlement of the claimant in the class-action suit and the represented group with Psagot, pursuant to which Psagot will bear payments for compensation, remuneration, attorneys' fees, and miscellaneous expenses in a total amount of approximately NIS 61 million.
4. With regard to the petition to certify a class action against the Bank and five additional banks submitted to the District Court of Tel Aviv Jaffa, as described in Note 25C(c)(a)(9) of the Annual Financial Statements for 2019, in which the amount of the claim attributed to the Bank is NIS 1.96 billion, concerning the collection of fees for foreign-currency conversion transactions, and with regard to the motions to dismiss the petition in limine, on June 21, 2020, the court accepted the motions to dismiss and ordered rejection of the certification petition in limine (the "Ruling"). On July 7, 2020, the Bank was presented with an appeal of the Ruling that had been filed with the Supreme Court.
 - b. Also pending against the Bank Group are claims, including petitions to certify class actions, as detailed below, the probable outcome of which cannot be assessed at this stage, in the opinion of the Bank's Board of Management, based on legal opinions; accordingly, no provision has been made in respect thereof:
 1. A petition to certify a class action against the Bank was filed with the District Court of Tel-Aviv-Jaffa on December 10, 2019 (the "Certification Petition"). According to the contentions, the Bank violated the Law for the Prohibition of Discrimination in Products, Services, and Entrance to Entertainment Venues and Public Places, 2000 (hereinafter: the "Discrimination Prohibition Law") by refusing to provide certain banking services to residents of the Judea and Samaria region, and discriminates against them due to their place of residence. The petitioner alleges that the Bank refused to grant him a loan for the purchase of a property located in a town in the Judea and Samaria region, solely due to the location of the collateral. It is therefore argued that the conduct of the Bank constitutes violation of the Discrimination Prohibition Law, violation of a legislated duty, and injury to the dignity of the petitioners and the members of the group under the Basic Law: Human Dignity and Liberty. The petitioner estimates the total damages (pecuniary and non-pecuniary damages) at NIS 1.15 billion.

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 10 Contingent Liabilities and Special Commitments (continued)

B. Legal proceedings (continued)

2. A claim and a petition to certify the claim as a class action against the Bank and against past and present officers of the Bank were filed with the District Court of Tel-Aviv-Jaffa on May 5, 2020 (the "Certification Petition"). The petition contains allegations of flaws, deficiencies, and misleading statements in the reports of the Bank pursuant to the Securities Law, since 2015, pertaining to the tax investigation of the United States authorities and the management of the internal investigation conducted by the Bank, and in particular, flaws in the reports of the Bank pertaining to the non-appointment of an Independent Examiner and external accounting firm at an early stage of the investigation; pertaining to the position of the DOJ with regard to the findings of the internal self-investigation and its demand to appoint an Independent Examiner and repeat the investigation, or part thereof; and pertaining to the damage caused to the Bank as a result of the lack of a timely appointment of an Independent Examiner. According to the petitioner, the amount of the personal claim and the amount of the class action cannot be estimated at this stage, but the amount of the class action is greater than NIS 2.5 million. The class which the petitioner seeks to represent consists of anyone who purchased shares of the Bank between March 1, 2015, and April 30, 2020. The Bank has not yet submitted a response to the Certification Petition. In the proceeding, two motions were filed pursuant to Section 7 of the Class Action Law, 2006, by the petitioner in this proceeding and by a petitioner in another proceeding (described in Section 3 below), in which each petitioner seeks expungement of the opposing motion. On August 9, 2020, the Attorney General gave notice that he does not intend to express any position regarding the petition at this stage, and that he reserves the right to participate in the proceedings in the future. On August 10, 2020, the court ruled to expunge the additional proceeding (described in Section 3 below) and retain the hearing of this Certification Petition.

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 10 Contingent Liabilities and Special Commitments (continued)

B. Legal proceedings (continued)

- 3.** A claim and a petition to certify the claim as a class action against the Bank and against past and present officers of the Bank were filed with the District Court of Tel-Aviv-Jaffa on May 5, 2020 (the "Certification Petition"). The petition contains allegations that the Bank violated disclosure duties pursuant to the Securities Law in connection with the tax investigation of the US authorities. According to the petitioner, the Bank acted to obstruct the investigation of the DOJ, including through concealment of data from the United States authorities and submission of unreliable data, conduction of an independent internal investigation that failed to meet appropriate standards, and non-appointment of a supervising accountant. The petitioner alleges that the Bank did not disclose these actions in its reports and that it acted to obstruct the investigation by performing such actions. This petition was also filed against the former controlling shareholder of the Bank (Arison Holdings (1998) Ltd.). The class which the petitioner seeks to represent consists of anyone who purchased shares of the Bank from November 23, 2017, to April 30, 2020, and held shares at that date (with the exception of the respondents and anyone acting on their behalf). According to the petitioner, the damage caused to the members of the represented class, in total, stands at approximately 2.34% of the amount for which the class members purchased the shares which they purchased during the aforesaid period and held on April 30, 2020. The Bank has not yet submitted a response to the Certification Petition. A preliminary hearing has been scheduled for October 12, 2020. In connection with this petition, two motions pursuant to Section 7 of the Class Action Law, 2006, submitted within an additional procedure (described in Section 2 above), are pending. On August 10, 2020, the court ruled to expunge the Certification Petition and retain the hearing of the certification petition described in Section 2 above.
- 4.** A claim statement and a petition to certify the claim as a class action against the Bank and two additional banks were filed with the District Court of Tel Aviv on May 17, 2020 (the "Certification Petition"). The petition alleges, among other matters, that the Bank transfers personal information of its customers, in violation of privacy and banking secrecy, through its use of online advertising tools (such as Google and Facebook), and through online services that process information in the cloud, which are used by the Bank to provide services to its customers. The arguments against the Bank refer to the digital platforms: the website of the Bank, the Account Management application, and the Bit application. It is also alleged that the privacy protection policy and the terms of use published on these platforms include provisions constituting discriminatory provisions in a uniform contract. The claim does not state the amount of damage to the group. The amount of the personal claim has been set at a total of NIS 1,000.
- 5.** A claim statement and a petition to certify the claim as a class action against the Bank, filed with the Center District Court, concerning inactive deposits, as defined in the Banking Ordinance, were received on May 21, 2020. The petition alleges, among other matters, that the Bank violated its duty to find and report to the owners of the accounts with regard to these accounts, collected fees, and obtained unjust enrichment. Among other matters, it is argued that the Bank must pay the amounts of the deposits, according to the real value thereof, with the addition of the fees that have been collected. The claim does not state the amount of damage to the group.

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 10 Contingent Liabilities and Special Commitments (continued)

C. Other proceedings and petitions to certify derivative claims

For details regarding other proceedings and petitions to certify derivative claims, see [Note 25C\(c\) of the 2019 Annual Report](#). As at the date of publication of the financial statements, no material changes have occurred relative to the aforesaid Note 25C(c), with the following exceptions:

1. With regard to the motion for disclosure and perusal of documents in advance of filing a derivative claim, in connection with the investigation conducted in the United States (the "Investigation") of the suspicion that the Bank Group served as a conduit for holding and transferring bribes paid to senior FIFA officials, described in Section 2 in Note 25C(c) of the 2019 Annual Report: further to the ruling of the court of February 27, 2020, pursuant to which the parties were to hold discussions and attempt to reach understandings regarding the continued inquiry of the disclosure motion, on March 26, 2020, the petitioner submitted notification to the court, enclosing the relevant note from the 2019 Annual Report concerning the Investigation, which included reference to the negotiations over a resolution with the United States authorities, in which the court was asked to order continued discussion of the disclosure motion (the "Motion"). The respondents submitted their reply to the Motion, and the petitioner submitted his response to this reply. On May 3, 2020, an update notification was submitted by the respondents, pursuant to which a non-prosecution agreement had been signed between the respondents and the DOJ, which would conclude the investigation of the Bank Group. A similar notification was also submitted on behalf of the petitioner on the same day. On July 8, 2020, a motion was filed to approve a procedural arrangement between the parties pursuant to which the court was asked to stay the proceedings in the Motion until January 3, 2021, in order to allow the independent committee established by the Bank to complete its work and submit its conclusions and recommendations to the Board of Directors of the Bank. On July 9, 2020, the court ruled that prior to approval of the procedural arrangement, the parties must give notice that they agree to waive all arguments regarding limitation periods, primarily with regard to a lack of evidence arising from the procedural arrangement and the time elapsed as a consequence. On July 15, 2020, the parties gave notice of their agreement to the statements in the ruling, without prejudice to any other right or argument available to them. On July 18, the motion for approval of a procedural arrangement was accepted, and it was determined that the parties would provide an update by January 3, 2021.

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 10 Contingent Liabilities and Special Commitments (continued)

2. With regard to the petition to certify a derivative claim and the motion for disclosure of documents prior to filing a derivative claim in connection with the tax investigation of the United States authorities, the hearing of which was consolidated, which are described in Section 3 of Note 25C(c) of the 2019 Annual Report, on March 18, 2020, the petitioners filed an update notification pursuant to which, as indicated by the Immediate Report issued by the Bank to the public on that date (the "Statement of the Bank"), the proceedings in the investigation referenced in the petition had concluded, also referencing the consent of the Bank and the Board of Directors of the Bank to the directive of the Supervisor of Banks to establish an independent committee, as indicated by the Statement of the Bank. In their notification, the petitioners asked the court to order the Bank to submit a full report regarding this affair, including various documents. The court ordered the Bank to submit a detailed response to the motion by April 29, 2020, including reference to the identity of the members of the independent committee and the parties appointing the committee. The Bank submitted its response on April 22, 2020. Concurrently with the submission of the response of the Bank, a joint motion of the Bank and the petitioners to approve a procedural arrangement was also submitted, within which the parties agreed that the petitioners would submit a consolidated and amended petition to certify a derivative claim within sixty days of the date of final approval of the resolutions with the United States authorities (hereinafter: the "Approval Date" and the "Procedural Arrangement"). The Bank will not object to the filing of such a petition, in itself (without expressing any position regarding the content of the petition), and the petition will be filed without an expense order; the proceedings will be stayed for six months from the Approval Date, in order to allow the independent committee to perform its work and submit its conclusions and recommendations to the Board of Directors of the Bank. On April 22, 2020, the court ruled that the motion would be transferred to the Attorney General, who would submit his position. The Attorney General has given notice that he does not express any position regarding the petition at this stage, but reserves the right to participate in the proceedings in the future. On June 3, 2020, the Procedural Arrangement was approved, and it was determined that the parties would provide an update by January 3, 2021. In addition, in accordance with the Procedural Arrangement, an amended petition to certify a derivative claim against the Bank and other respondents (including present and past officers) was filed (hereinafter: the "Amended Petition"), thereby rendering unnecessary the motion for disclosure of documents prior to filing a derivative claim, the hearing of which was consolidated with this proceeding. In the Amended Petition, the amount of the damage caused to the Bank, as alleged by the petitioner, is estimated at approximately NIS 4.5 billion, at least. The assessment of the damage is based on amounts paid by the Bank to the United States authorities, and on legal and other expenses in the course of the tax investigation, and also refers to additional components that have not been quantified. Causes of the claim were also added to the Amended Petition, including with regard to the alleged lack of cooperation of the Bank with the United States authorities during the period of the Investigation.

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 10 Contingent Liabilities and Special Commitments (continued)

3. On March 31, 2020, a motion was filed with the District Court of Tel Aviv for disclosure and perusal of documents in advance of filing a petition for a derivative claim pursuant to Section 198A of the Companies Law. The motion concerns the decision of the Board of Directors of the Bank to establish an independent committee, as described in Note 25D of the 2019 Annual Report. The petitioner argues that the tasks assigned to the committee are in material conflict, and that an attempt to fulfill these tasks simultaneously may constitute violation of the duty of confidentiality established in Section 15A(a) of the Banking Ordinance, 1941. The petitioner contends that the Board of Directors of the Bank should therefore have appointed two separate committees, or clearly separated the tasks assigned to the committee. A reply to the motion and a response to the reply have been submitted, and the hearing of the motion has been scheduled for September 9, 2020.

4. On May 3, 2020, a motion was filed with the District Court of Tel-Aviv-Jaffa for disclosure and perusal of documents in advance of filing a petition for a derivative claim pursuant to Section 198A of the Companies Law (the "Motion"). The Motion concerns the argument that part of the amounts of the fines imposed upon the Bank within the resolution with the United States authorities, as detailed in Section D of this note, below, is attributed to the noncooperation of the Bank with these authorities for most of the duration of the investigation, and that the Motion is filed in order to impose liability for the damages of the Bank on those responsible for these actions and inactions (including, according to the petitioner, employees, officers, and external advisors of the Bank and of Bank Hapoalim Switzerland), and in order to quantify the surplus fines imposed upon the Bank due to this conduct, and allow the petitioner to examine and evaluate the feasibility of filing a derivative claim. On June 14, 2020, the court approved a procedural arrangement between the parties pursuant to which the court will stay the proceedings in order to allow the independent committee established by the Bank to complete its work and submit its conclusions and recommendations to the Board of Directors of the Bank. It was determined that the parties would provide updates by January 3, 2021. On June 30, 2020, the petitioner in the petition to certify a derivative claim described in Section 2 above filed a motion to expunge the petition (the "Expungement Motion"). The response of the Bank and the response of the petitioner have been submitted. A ruling has not yet been given on the Expungement Motion.

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 10 Contingent Liabilities and Special Commitments (continued)

5. On May 21, 2020, a motion was filed with the District Court of Tel-Aviv-Jaffa for disclosure of documents prior to a derivative claim pursuant to Section 198A of the Companies Law (the "Motion"). The Motion concerns contentions regarding damages caused to the Bank due to taxation aspects pertaining to payments paid by the Bank to government authorities in the matter of the United States tax investigation. It is argued in the Motion that due to various tax aspects, the actual damage caused to the Bank is greater than the amount of the payments to the United States authorities. In view of these contentions, the petitioner is seeking to receive various documents in order to consider whether to file a petition to certify a derivative claim on behalf of the Bank against those responsible for this alleged damage. The petitioner estimates the amount of damage caused to the Bank due to the taxation aspects at approximately USD 448 million. On June 14, 2020, the court approved a procedural arrangement between the parties pursuant to which the court will stay the proceedings in order to allow the independent committee established by the Bank to complete its work and submit its conclusions and recommendations to the Board of Directors of the Bank. It was determined that the parties would provide updates by January 3, 2021. On July 2, 2020, the petitioner in the petition to certify a derivative claim described in Section 2 above filed a motion to expunge this petition (the "Expungement Motion"). The response of the Bank and the response of the petitioner have been submitted. A ruling has not yet been given on the Expungement Motion.
6. On June 15, 2020, a motion was filed with the District Court of Tel-Aviv-Jaffa for disclosure and perusal of documents pursuant to Section 198A of the Companies Law (the "Motion"). It is argued in the Motion, among other matters, that the officers of the Bank granted credit to companies in the Yedioth Ahronoth Group and to the controlling shareholder of the group, Mr. Arnon (Noni) Mozes in the amount of approximately NIS 1 billion for the purpose of trading in high-risk speculative financial instruments, disregarding the best interests of the Bank; disclosure of documents is requested in connection with this matter.

- D. Further to the details provided in Note 25D to the Annual Financial Statements for 2019 with respect to the investigation by the US authorities in connection with the Bank Group's business with its US customers (the "Tax Investigation"), on April 30, 2020, resolutions with the US authorities in connection with the Tax Investigation were announced and entered into force, as follows:
 - a. A Deferred Prosecution Agreement ("DPA") between the Bank and the DOJ, with respect to the Bank's activity and dealings with its US customers during the period that was the subject of the investigation (2002-2014), to the extent related to Bank Hapoalim in Israel, Poalim Trust Services Ltd., and Bank Hapoalim branches and subsidiaries outside of Israel (excluding Hapoalim Switzerland).

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 10 Contingent Liabilities and Special Commitments (continued)

As part of the DPA, the Bank accepted responsibility under US laws for assisting US customers in evading their obligations under US tax laws, as detailed in the Statement of Facts attached to the DPA, to which the Bank has admitted. Pursuant to the DPA, as approved by a federal court in the State of New York, the charges against the Bank are being deferred for a period of three years, such that if the Bank meets the conditions of the agreement during the said period, the charges (detailed in the Information document attached to the resolution) will be dismissed with no criminal conviction. In the event that the Bank breaches the agreement, the DOJ will have the right, among others, to extend the deferral period for a period of one additional year, and to take other measures against the Bank, including canceling the agreement and prosecuting the Bank. Pursuant to the DPA, the Bank paid the US government a total sum of USD 214,385,612. The said amount is comprised of the following components: a total of USD 77,877,099 for the tax loss restitution component, a total of USD 35,696,929 for the component of forfeiture of gross fees paid to the Bank by the relevant US customers, and a total of USD 100,811,584 for the penalty component.

b. A Plea Agreement between the DOJ and Hapoalim Switzerland Ltd. (formerly Bank Hapoalim (Switzerland) Ltd.) ("Hapoalim Switzerland"), that relates to the activity and dealings of Hapoalim Switzerland with its US customers during the period that was the subject of the investigation (2002-2014).

As part of the Plea Agreement, Hapoalim Switzerland has pleaded guilty and was convicted of an offense under US laws for assisting US customers in evading their obligations under US tax laws, as detailed in the Statement of Facts attached to the Plea Agreement, to which Hapoalim Switzerland admitted.

Pursuant to the Plea Agreement, Hapoalim Switzerland paid the US government a total sum of USD 402,534,921. The said amount is comprised of the following components: a total of USD 138,908,073 for the tax loss restitution component, a total of USD 124,628,449 for the component of forfeiture of gross fees paid to the Bank by the relevant US customers, and a total of USD 138,998,399 for the penalty component.

c. A Consent Order issued by the New York State Department of Financial Services (the "NYDFS"), according to which the Bank paid the NYDFS a civil monetary penalty in the amount of USD 220,000,000.

d. A Cease and Desist Order issued by the Board of Governors of the Federal Reserve System (the "Fed"), according to which the Bank paid the Fed a civil monetary penalty in the amount of USD 37,350,000.

In total, under the said resolutions, the Bank Group paid the aforesaid three US authorities an aggregate sum of USD 874,270,533 in connection with the Tax Investigation (NIS 3,066 million). The said amount is higher by approximately USD 4.2 million (approximately NIS 15 million) than the total amount of the provision recorded by the Bank until the entry into force of the resolutions; the difference arises from amendments and updates of the method of calculation of the amounts which the Bank was required to pay performed since the publication of the aforesaid financial statements. The additional amount was recorded in the financial statements for the first quarter of 2020.

The entry into force of the aforesaid resolutions brings to an end the Tax Investigation conducted by the US authorities against the Bank Group.

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 10 Contingent Liabilities and Special Commitments (continued)

The DPA and the Plea Agreement contain Statements of Facts documents, which detail the acts and omissions that the Bank and Hapoalim Switzerland have admitted and for which they accepted responsibility in accordance with US laws. The resolution documents also detail the considerations for determining the various penalty amounts, including, inter alia, the nature and seriousness of the conduct of the Bank Group in each case; partial credit given by the relevant authorities for the payments made to other authorities; the participation of individuals with high-level positions in the offense; the level of cooperation of the Bank Group with the relevant authorities; and the Bank Group's lack of criminal history.

The resolutions with the DOJ described above include various undertakings by the Bank and Hapoalim Switzerland to continue to cooperate fully with the US authorities in connection with the issues that are the subject of the investigations, including, among other matters, to continue providing assistance and various types of information to the DOJ, and to submit a periodic report to the DOJ regarding loans granted by the Bank's branches in the US that are guaranteed by accounts held with branches of the Bank outside the US, as well as related internal controls.

The Consent Order and the Cease and Desist Order require the Bank to agree to a number of undertakings, including, among others, with respect to employee discipline, internal controls, reporting, and cooperation. The resolutions do not include the appointment of a monitor.

The resolutions described above relate to the Bank and Hapoalim Switzerland, as applicable, and to the entities included in the Bank Group only, and to the responsibility such entities are accepting under US laws for the acts and omissions detailed in the various resolution documents. The resolutions do not apply to individuals, including employees or other role holders in the Bank Group, current or former, except as concerns the obligations of the Bank Group to cooperate in accordance with the resolutions and not to breach the provisions of the resolutions.

The resolutions described above and the attachments thereto are available for reading on the Bank's website, at <https://www.bankhapoalim.co.il/he/node/757>.

In accordance with the requirement of the Supervisor of Banks, the Board of Directors of the Bank decided that an independent committee, headed by Supreme Court Justice (Retired) Prof. Yoram Danziger (the "Committee"), would examine the managerial and supervisory processes that allowed the actions that are the subject of the Tax Investigation in its entirety, while addressing corporate governance aspects and the conduct of the senior management and the Board of Directors. Pursuant to the decision of the Board of Directors, the Committee will examine exhausting the Bank's rights in connection with the Tax Investigation, including whether the best interests of the Bank justify initiating legal proceedings or other measures towards any third party, and/or reaching other arrangements. The Committee will form recommendations regarding the course of action that would optimally serve the best interests of the Bank, in view of all of the circumstances, and will submit its recommendations to the Board of Directors of the Bank. The Committee began its work near the date of approval of the resolutions with the United States authorities.

The Board of Directors of the Bank has established a committee of the Board of Directors to monitor the implementation of the resolutions of the Bank with the US authorities and to supervise the implementation of the requirements and obligations of the Bank included in the resolutions.

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 10 Contingent Liabilities and Special Commitments (continued)

E. Further to the details provided in Note 25E of the financial statements for the year 2019 in connection with the U.S. Department of Justice (the "DOJ") investigation in connection with the Fédération Internationale de Football Association (FIFA) (the "FIFA Investigation"), on April 30, 2020 a Non Prosecution Agreement ("NPA") was signed and entered into force between the Bank and Hapoalim Switzerland and the DOJ with respect to the FIFA Investigation. The NPA does not involve criminal charges, an indictment, or a criminal conviction. Pursuant to the NPA the Bank admitted, among other things, that certain employees of the Bank Group participated in a scheme to launder funds constituting bribes paid to soccer officials, as detailed in the Statement of Facts attached to the NPA, which details the acts and omissions that the Bank and Hapoalim Switzerland have admitted and for which they accepted responsibility in accordance with the laws of the United States. According to the NPA, the Bank Group paid the US government a sum of USD 30,063,317 (NIS 107 million). The said amount is comprised of the following components: a sum of USD 20,733,322 for forfeiture of funds transferred or attempted to be transferred through accounts at the Bank Group as part of the FIFA matter, and a penalty of USD 9,329,995.

The NPA includes different undertakings by the Bank and Hapoalim Switzerland, including an undertaking to continue to cooperate fully with the US authorities in connection with the issues that are the subject of the said investigation. The resolution does not include the appointment of a monitor.

The entry into force of the NPA brings to an end the investigation conducted by the DOJ against the Bank Group in this matter.

The resolution relates to the Bank and Hapoalim Switzerland, as applicable, and to the entities included in the Bank Group only and to the responsibility such entities are accepting under US laws for the acts and omissions detailed in the resolution. The resolution does not apply to individuals, including employees or other role holders in the Bank Group, current or former, except as such things concern the obligations of the Bank Group to cooperate in accordance to the resolutions and not to breach the provisions of the resolution. The NPA and its attachments are available for reading on the Bank's website at <https://bankhapoalim.co.il/he/node/757>.

On June 30, 2020, the Board of Directors of the Bank, at the demand of the Banking Supervision Department, resolved to expand the mandate of the Committee headed by Justice (Retired) Danziger (see [Note 10D](#) above) to also encompass an examination of the FIFA affair. Accordingly, the Committee will also examine the possible courses of action of the Bank to exhaust its rights in the FIFA affair, including in view of the proceeding for the disclosure of documents prior to filing a derivative claim (see [Note 10C\(1\)](#)). In this context, the Committee will examine, among other matters, whether the best interests of the Bank justify initiating legal proceedings or other measures with any third party, and/or reaching other arrangements. The Committee will also examine the managerial and supervisory processes that allowed the actions that are the subject of the FIFA affair, while addressing corporate governance aspects and the conduct of senior management and the Board of Directors. The Committee will form recommendations regarding the course of action that would optimally serve the best interests of the Bank, in view of all of the circumstances, and will submit its recommendations to the Board of Directors of the Bank.

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 11 Activity in Derivative Instruments – Volume, Credit Risks, and Maturity Dates

Unaudited
NIS millions

A. Nominal amount of derivative instruments

	June 30, 2020		
	Derivatives not held for trading	Derivatives held for trading	Total
Interest contracts			
Future and forward contracts	2,533	24,001	26,534
Options written	-	9,579	9,579
Options bought	104	8,279	8,383
Swaps ⁽¹⁾	23,096	376,493	399,589
Total ⁽²⁾	25,733	418,352	444,085
Of which: hedging derivatives	15,957	-	15,957
Foreign-currency contracts			
Future and forward contracts	15,469	237,562	253,031
Options written	-	25,141	25,141
Options bought	207	24,346	24,553
Swaps	280	32,758	33,038
Total ⁽³⁾	15,956	319,807	335,763
Of which: hedging derivatives	-	-	-
Share-related contracts			
Future and forward contracts	-	15,026	15,026
Options written	1,925	17,140	19,065
Options bought ⁽⁴⁾	551	17,140	17,691
Swaps	1,059	20,251	21,310
Total	3,535	69,557	73,092
Commodity and other contracts			
Future and forward contracts	-	249	249
Options written	-	58	58
Options bought	-	55	55
Total	-	362	362
Total nominal amount	45,224	808,078	853,302

(1) Of which: swaps for which the banking corporation pays a fixed rate of interest, in the amount of NIS 209,119 million.

(2) Of which: NIS-CPI swap contracts in the amount of NIS 29,858 million.

(3) Of which: foreign-currency spot swap contracts in the amount of NIS 26,547 million.

(4) Of which: traded on the stock exchange in the amount of NIS 17,140 million.

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 11 Activity in Derivative Instruments – Volume, Credit Risks, and Maturity Dates (continued)

Unaudited
NIS millions

A. Nominal amount of derivative instruments (continued)

	June 30, 2019*		
	Derivatives not held for trading	Derivatives held for trading	Total
Interest contracts			
Future and forward contracts	4,133	49,769	53,902
Options written	-	9,757	9,757
Options bought	-	11,011	11,011
Swaps ⁽¹⁾	22,613	465,115	487,728
Total⁽²⁾	26,746	535,652	562,398
Of which: hedging derivatives	14,101	-	14,101
Foreign-currency contracts			
Future and forward contracts	13,296	156,785	170,081
Options written	-	30,026	30,026
Options bought	223	28,266	28,489
Swaps	3,400	32,338	35,738
Total⁽³⁾	16,919	247,415	264,334
Of which: hedging derivatives	-	-	-
Share-related contracts			
Future and forward contracts	-	12,661	12,661
Options written	2,110	11,792	13,902
Options bought ⁽⁴⁾	590	11,792	12,382
Swaps	1,671	6,438	8,109
Total	4,371	42,683	47,054
Commodity and other contracts			
Future and forward contracts	-	370	370
Options written	-	235	235
Options bought	-	229	229
Total	-	834	834
Total nominal amount	48,036	826,584	874,620

* Reclassified due to the initial implementation of the circular of the Bank of Israel concerning derivative instruments and hedging (classification of derivatives held for trading and not held for trading).

(1) Of which: swaps for which the banking corporation pays a fixed rate of interest, in the amount of NIS 243,496 million.

(2) Of which: NIS-CPI swap contracts in the amount of NIS 30,527 million.

(3) Of which: foreign-currency spot swap contracts in the amount of NIS 9,225 million.

(4) Of which: traded on the stock exchange in the amount of NIS 11,764 million.

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 11 Activity in Derivative Instruments – Volume, Credit Risks, and Maturity Dates (continued)

Audited
NIS millions

A. Nominal amount of derivative instruments (continued)

	December 31, 2019		
	Derivatives not held for trading	Derivatives held for trading	Total
Interest contracts			
Future and forward contracts	3,449	43,714	47,163
Options written	-	13,944	13,944
Options bought	104	14,613	14,717
Swaps ⁽¹⁾	18,552	437,766	456,318
Total ⁽²⁾	22,105	510,037	532,142
Of which: hedging derivatives	11,050	-	11,050
Foreign-currency contracts			
Future and forward contracts	15,412	209,620	225,032
Options written	-	25,802	25,802
Options bought	188	26,761	26,949
Swaps	2,915	31,339	34,254
Total ⁽³⁾	18,515	293,522	312,037
Of which: hedging derivatives	-	-	-
Share-related contracts			
Future and forward contracts	-	13,192	13,192
Options written	2,043	11,259	13,302
Options bought ⁽⁴⁾	594	11,259	11,853
Swaps	1,258	12,315	13,573
Total	3,895	48,025	51,920
Commodity and other contracts			
Future and forward contracts	-	260	260
Options written	-	723	723
Options bought	-	684	684
Total	-	1,667	1,667
Total nominal amount	44,515	853,251	897,766

(1) Of which: swaps for which the banking corporation pays a fixed rate of interest, in the amount of NIS 243,475 million.

(2) Of which: NIS-CPI swap contracts in the amount of NIS 28,255 million.

(3) Of which: foreign-currency spot swap contracts in the amount of NIS 11,213 million.

(4) Of which: traded on the stock exchange in the amount of NIS 11,102 million.

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 11 Activity in Derivative Instruments – Volume, Credit Risks, and Maturity Dates (continued)

Unaudited
NIS millions

B. Gross fair value of derivative instruments

	June 30, 2020					
	Gross assets in respect of derivatives			Gross liabilities in respect of derivatives		
	Derivatives not held for trading	Derivatives held for trading	Total	Derivatives not held for trading	Derivatives held for trading	Total
Interest contracts	405	7,460	7,865	1,403	7,690	9,093
Of which: hedging derivatives	41	-	41	388	780	1,168
Foreign-currency contracts	60	3,525	3,585	71	3,593	3,664
Share-related contracts	40	1,536	1,576	40	1,542	1,582
Commodity and other contracts	-	37	37	-	37	37
Total gross assets (liabilities) in respect of derivatives ⁽¹⁾	505	12,558	13,063	1,514	12,862	14,376
Amounts offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance	505	12,558	13,063	1,514	12,862	14,376
Of which: not subject to a netting arrangement or similar arrangements	92	1,223	1,315	170	1,323	1,493

(1) Of which, net fair value of liabilities in respect of embedded derivatives in the amount of NIS 36 million.

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 11 Activity in Derivative Instruments – Volume, Credit Risks, and Maturity Dates (continued)

Unaudited
NIS millions

B. Gross fair value of derivative instruments (continued)

	June 30, 2019					
	Gross assets in respect of derivatives			Gross liabilities in respect of derivatives		
	Derivatives not held for trading*	Derivatives held for trading*	Total	Derivatives not held for trading*	Derivatives held for trading*	Total
Interest contracts	336	5,577	5,913	683	5,633	6,316
Of which: hedging derivatives	71	2	73	185	375	560
Foreign-currency contracts	341	2,389	2,730	309	2,759	3,068
Share-related contracts	42	860	902	35	866	901
Commodity and other contracts	-	30	30	-	30	30
Total gross assets (liabilities) in respect of derivatives ⁽¹⁾	719	8,856	9,575	1,027	9,288	10,315
Amounts offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance	719	8,856	9,575	1,027	9,288	10,315
Of which: not subject to a netting arrangement or similar arrangements	120	1,265	1,385	115	1,288	1,403

* Reclassified due to the initial implementation of the circular of the Bank of Israel concerning derivative instruments and hedging (classification of derivatives held for trading and not held for trading).

(1) Of which, net fair value of liabilities in respect of embedded derivatives in the amount of NIS 35 million.

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 11 Activity in Derivative Instruments – Volume, Credit Risks, and Maturity Dates (continued)

Audited
NIS millions

B. Gross fair value of derivative instruments (continued)

	December 31, 2019					
	Gross assets in respect of derivatives			Gross liabilities in respect of derivatives		
	Derivatives not held for trading	Derivatives held for trading	Total	Derivatives not held for trading	Derivatives held for trading	Total
Interest contracts	263	6,112	6,375	637	6,468	7,105
Of which: hedging derivatives	21	11	32	183	344	527
Foreign-currency contracts	445	3,317	3,762	332	3,650	3,982
Share-related contracts	53	938	991	50	941	991
Commodity and other contracts	-	15	15	-	15	15
Total gross assets (liabilities) in respect of derivatives ⁽¹⁾	761	10,382	11,143	1,019	11,074	12,093
Amounts offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance	761	10,382	11,143	1,019	11,074	12,093
Of which: not subject to a netting arrangement or similar arrangements	79	1,113	1,192	104	1,310	1,414

(1) Of which, net fair value of liabilities in respect of embedded derivatives in the amount of NIS 43 million.

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 11 Activity in Derivative Instruments – Volume, Credit Risks, and Maturity Dates (continued) NIS millions

C. Accounting hedges

1. Effect of accounting hedges

	For the three months ended June 30		For the six months ended June 30		For the year ended December 31
	2020	2019	2020	2019	2019
Interest income (expenses)					
		Unaudited			Audited
Profit (loss) from fair-value hedges					
Interest contracts					
Hedged items	60	263	645	454	407
Hedging derivatives	(50)	(263)	(651)	(454)	(405)

2. Items hedged in fair-value hedges

Balance as at June 30, 2020		Balance as at June 30, 2019		Balance as at December 31, 2019	
Book value	Cumulative fair-value adjustments that increased the book value	Book value	Cumulative fair-value adjustments that increased the book value	Book value	Cumulative fair-value adjustments that increased the book value
Unaudited		Audited			
Securities	15,004	1,100	10,663	502	10,527
					455

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 11 Activity in Derivative Instruments – Volume, Credit Risks, and Maturity Dates (continued)

Unaudited
NIS millions

D. Credit risk in respect of derivative instruments, by contract counterparty

	June 30, 2020					Total
	Stock exchanges	Banks	Dealers/ brokers	Governments and central banks	Others	
Positive gross fair value of derivative instruments	376	6,900	2,356	197	3,234	13,063
Gross amounts not offset in the balance sheet:						
Credit risk mitigation in respect of financial instruments	-	(6,543)	(2,057)	(13)	(1,175)	(9,788)
Credit risk mitigation in respect of cash collateral received	-	(258)	(124)	(211)	(317)	(910)
Net total assets in respect of derivative instruments	376	99	175	(27)	1,742	2,365
Off-balance sheet credit risk in respect of derivative instruments ⁽¹⁾	293	3,937	1,956	105	4,403	10,694
Off-balance sheet credit risk mitigation	-	(1,964)	(700)	(5)	(1,114)	(3,783)
Total gross credit risk in respect of derivative instruments	669	10,837	4,312	302	7,637	23,757
Balance sheet balance of liabilities in respect of derivative instruments ⁽²⁾	151	7,730	2,692	13	3,790	14,376
Gross amounts not offset in the balance sheet:	-	-	-	-	-	-
Financial instruments	-	(6,543)	(2,057)	(13)	(1,175)	(9,788)
Cash collateral pledged	-	(932)	(500)	-	(910)	(2,342)
Net total liabilities in respect of derivative instruments	151	255	135	-	1,705	2,246

(1) Off-balance sheet credit risk in respect of derivative instruments (including derivative instruments with negative fair value) as calculated for the purpose of restrictions on the indebtedness of a borrower.

(2) Of which, negative fair value of embedded derivative instruments in the amount of NIS 36 million (June 30, 2019: NIS 35 million; December 31, 2019: NIS 43 million).

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 11 Activity in Derivative Instruments – Volume, Credit Risks, and Maturity Dates (continued)

Unaudited
NIS millions

D. Credit risk in respect of derivative instruments, by contract counterparty (continued)

	June 30, 2019					Total
	Stock exchanges	Banks	Dealers/ brokers	Governments and central banks	Others	
Positive gross fair value of derivative instruments	400	5,147	1,580	59	2,389	9,575
<hr/>						
Gross amounts not offset in the balance sheet:						
Credit risk mitigation in respect of financial instruments	-	(4,569)	(1,449)	(20)	(529)	(6,567)
Credit risk mitigation in respect of cash collateral received	-	(323)	(75)	(5)	(295)	(698)
Net total assets in respect of derivative instruments	400	255	56	34	1,565	2,310
Off-balance sheet credit risk in respect of derivative instruments ⁽¹⁾	277	3,288	1,612	74	3,364	8,615
Off-balance sheet credit risk mitigation	-	(1,698)	(665)	(15)	(661)	(3,039)
Total gross credit risk in respect of derivative instruments	677	8,435	3,192	133	5,753	18,190
Balance sheet balance of liabilities in respect of derivative instruments ⁽²⁾	222	5,374	1,986	20	2,713	10,315
<hr/>						
Gross amounts not offset in the balance sheet:						
Financial instruments	-	(4,569)	(1,449)	(20)	(529)	(6,567)
Cash collateral pledged	-	(559)	(127)	-	(911)	(1,597)
Net total liabilities in respect of derivative instruments	222	246	410	-	1,273	2,151

(1) Off-balance sheet credit risk in respect of derivative instruments (including derivative instruments with negative fair value) as calculated for the purpose of restrictions on the indebtedness of a borrower.

(2) Of which, negative fair value of embedded derivative instruments in the amount of NIS 36 million (June 30, 2019: NIS 35 million; December 31, 2019: NIS 43 million).

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 11 Activity in Derivative Instruments – Volume, Credit Risks, and Maturity Dates (continued)

Audited
NIS millions

D. Credit risk in respect of derivative instruments, by contract counterparty (continued)

	December 31, 2019					Total
	Stock exchanges	Banks	Dealers/ brokers	Governments and central banks	Others	
Positive gross fair value of derivative instruments	359	5,800	1,943	209	2,832	11,143
<hr/>						
Gross amounts not offset in the balance sheet:						
Credit risk mitigation in respect of financial instruments	-	(5,128)	(1,739)	-	(708)	(7,575)
Credit risk mitigation in respect of cash collateral received	-	(409)	(136)	(208)	(97)	(850)
Net total assets in respect of derivative instruments	359	263	68	1	2,027	2,718
Off-balance sheet credit risk in respect of derivative instruments ⁽¹⁾	289	3,309	1,584	97	4,019	9,298
Off-balance sheet credit risk mitigation	-	(1,662)	(615)	-	(1,062)	(3,339)
Total gross credit risk in respect of derivative instruments	648	9,109	3,527	306	6,851	20,441
Balance sheet balance of liabilities in respect of derivative instruments ⁽²⁾	177	5,922	2,316	-	3,678	12,093
<hr/>						
Gross amounts not offset in the balance sheet:						
Financial instruments	-	(5,128)	(1,739)	-	(708)	(7,575)
Cash collateral pledged	-	(424)	(180)	-	(1,694)	(2,298)
Net total liabilities in respect of derivative instruments	177	370	397	-	1,276	2,220

(1) Off-balance sheet credit risk in respect of derivative instruments (including derivative instruments with negative fair value) as calculated for the purpose of restrictions on the indebtedness of a borrower.

(2) Of which, negative fair value of embedded derivative instruments in the amount of NIS 36 million (June 30, 2019: NIS 35 million; December 31, 2019: NIS 43 million).

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 11 Activity in Derivative Instruments – Volume, Credit Risks, and Maturity Dates (continued)

E. Details of maturity dates (nominal value amounts)

	June 30, 2020				
	Up to 3 months	Over 3 months up to 1 year	Over 1 year up to 5 years	Over 5 years	Total
	Unaudited				
Interest contracts					
NIS-CPI	4,070	7,626	11,315	6,847	29,858
Other	45,268	89,810	202,170	76,979	414,227
Foreign-currency contracts	199,892	92,034	32,650	11,187	335,763
Share-related contracts	57,264	13,241	1,412	1,175	73,092
Commodity and other contracts (including credit derivatives)	66	265	31	-	362
Total	306,560	202,976	247,578	96,188	853,302
 June 30, 2019					
	Unaudited				
Total	239,538	287,264	242,804	105,014	874,620
 December 31, 2019					
	Audited				
Total	347,220	215,925	250,060	84,561	897,766

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 12 Supervisory Activity Segments

Assignment of customers to the supervisory activity segments

The reporting on segments of activity is in accordance with the format and classifications established in the Public Reporting Directive of the Banking Supervision Department, as detailed in Note 28 to the Annual Financial Statements for 2019.

Information regarding supervisory activity segments

For the three months ended June 30, 2020			
Activity in Israel			
Households			
	Total	Of which: housing loans	Of which: credit cards
Interest income from externals	979	494	5
Interest expenses for externals	(55)	-	-
Net interest income:			
From externals	924	494	5
Inter-segmental	(185)	(254)	-
Total net interest income	739	240	5
Non-interest income (expenses):			
Non-interest financing income	1	-	-
Fees and other income	285	12	42
Total non-interest income	286	12	42
Total income	1,025	252	47
Provision (income) for credit losses	505	243	-
Operating and other expenses:			
For externals	1,083	79	53
Inter-segmental	(171)	-	-
Total operating and other expenses	912	79	53
Profit (loss) from continued operations before taxes	(392)	(70)	(6)
Provision for taxes (tax benefit) on profit (loss) from continued operations	(191)	(30)	(2)
Profit (loss) from continued operations after taxes	(201)	(40)	(4)
The Bank's share in profits of equity-basis investees	-	-	-
Net profit (loss) from continued operations	(201)	(40)	(4)
Loss from a discontinued operation	-	-	-
Net profit (loss) before attribution to non-controlling interests	(201)	(40)	(4)
Loss (profit) attributed to non-controlling interests	-	-	-
Net profit (loss) attributed to shareholders of the Bank	(201)	(40)	(4)

Notes to the Condensed Financial Statements

as at June 30, 2020

Unaudited
NIS millions

For the three months ended June 30, 2020

Private banking	Small businesses and microbusinesses	Mid-sized businesses	Large businesses	Institutional entities	Financial management	Other	Activity in Israel		Activity overseas	Total
							Total activity in Israel	Total activity overseas		
3	529	218	393	8	230	-	2,360	172	2,532	
(36)	(24)	(18)	(27)	(43)	(96)	-	(299)	(67)	(366)	
(33)	505	200	366	(35)	134	-	2,061	105	2,166	
50	(13)	(14)	(85)	47	213	-	13	(13)	-	
17	492	186	281	12	347	-	2,074	92	2,166	
-	4	2	16	17	153	1	194	(1)	193	
33	189	65	98	21	33	62	786	9	795	
33	193	67	114	38	186	63	980	8	988	
50	685	253	395	50	533	63	3,054	100	3,154	
2	250	95	212	(4)	(1)	-	1,059	69	1,128	
31	287	72	43	20	163	7	1,706	120	1,826	
16	135	9	35	19	(55)	17	5	(5)	-	
47	422	81	78	39	108	24	1,711	115	1,826	
1	13	77	105	15	426	39	284	(84)	200	
-	17	47	54	8	145	3	83	(10)	73	
1	(4)	30	51	7	281	36	201	(74)	127	
-	-	-	-	-	1	-	1	-	1	
1	(4)	30	51	7	282	36	202	(74)	128	
-	-	-	-	-	-	-	-	-	-	
1	(4)	30	51	7	282	36	202	(74)	128	
-	-	-	-	-	2	-	2	3	5	
1	(4)	30	51	7	284	36	204	(71)	133	

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 12 Supervisory Activity Segments (continued)

Information regarding supervisory activity segments (continued)

For the three months ended June 30, 2020			
Activity in Israel			
Households			
	Total	Of which: housing loans	Of which: credit cards
Average balance of assets ⁽¹⁾	124,757	92,583	3,517
Of which: investments in equity-basis investees ⁽¹⁾	-	-	-
Average balance of gross credit to the public ⁽¹⁾	125,923	93,068	3,517
Balance of gross credit to the public at the end of the reported period	129,527	94,213	4,544
Balance of impaired debts	769	1	-
Balance of debts in arrears of more than 90 days	784	710	-
Average balance of liabilities ⁽¹⁾	151,240	-	-
Of which: average balance of deposits from the public ⁽¹⁾	151,165	-	-
Balance of deposits from the public at the end of the reported period	150,605	-	-
Average balance of risk-adjusted assets ⁽¹⁾⁽²⁾	94,062	54,132	4,911
Balance of risk-adjusted assets at the end of the reported period ⁽²⁾	94,069	54,689	4,738
Average balance of assets under management ⁽¹⁾⁽³⁾	58,257	-	-
 Segmentation of net interest income:			
Spread from credit granting activity	674	240	5
Spread from deposit taking activity	65	-	-
Other	-	-	-
Total net interest income	739	240	5

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

(2) Risk-weighted assets – as calculated for the purposes of capital adequacy (Proper Conduct of Banking Business Directive 201).

(3) Assets under management – including assets of provident funds, study funds, mutual funds, and securities of customers.

Notes to the Condensed Financial Statements

as at June 30, 2020

Unaudited
NIS millions

For the three months ended June 30, 2020

Private banking	Small businesses and microbusinesses	Mid-sized businesses	Large businesses	Institutional entities	Financial management	Other	Activity in Israel	Total activity overseas	Total
							Total activity in Israel		
536	52,623	28,842	67,546	1,086	188,610	138	464,138	32,489	496,627
-	-	-	-	-	207	-	207	-	207
541	53,851	30,244	70,429	718	-	-	281,706	15,736	297,442
628	54,884	31,344	67,319	1,641	-	-	285,343	14,347	299,690
-	1,070	350	1,519	-	-	-	3,708	521	4,229
-	57	1	16	-	-	-	858	15	873
34,275	74,003	25,885	47,054	43,226	60,594	11	436,288	22,582	458,870
34,274	73,854	25,746	46,922	43,164	-	-	375,125	20,464	395,589
34,374	71,921	26,443	45,004	54,477	-	-	382,824	17,992	400,816
1,147	65,237	42,062	85,897	5,948	22,309	4,783	321,445	18,621	340,066
1,131	65,888	42,276	85,695	6,057	22,929	4,779	322,824	18,120	340,944
41,083	27,595	14,973	71,191	353,056	37,006	4,362	607,523	-	607,523
3	470	180	272	4	585	-	2,188	131	2,319
14	22	6	9	6	(312)	-	(190)	(80)	(270)
-	-	-	-	2	74	-	76	41	117
17	492	186	281	12	347	-	2,074	92	2,166

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 12 Supervisory Activity Segments (continued)

Information regarding supervisory activity segments (continued)

For the three months ended June 30, 2019*			
Activity in Israel			
Households			
	Total	Of which: housing loans	Of which: credit cards
Interest income from externals	1,665	1,076	6
Interest expenses for externals	(116)	-	-
Net interest income:			
From externals	1,549	1,076	6
Inter-segmental	(703)	(872)	-
Total net interest income	846	204	6
Non-interest income:			
Non-interest financing income	1	-	-
Fees and other income	332	14	66
Total non-interest income	333	14	66
Total income	1,179	218	72
 Provision (income) for credit losses	 62	 8	 -
Operating and other expenses:			
For externals	898	80	45
Inter-segmental	(5)	-	-
Total operating and other expenses	893	80	45
 Profit (loss) from continued operations before taxes	 224	 130	 27
Provision for taxes (tax benefit) on profit (loss) from continued operations	73	41	9
Profit (loss) from continued operations after taxes	151	89	18
The Bank's share in profits of equity-basis investees	-	-	-
Net profit (loss) from continued operations	151	89	18
Net profit (loss) from a discontinued operation	-	-	-
Net profit (loss) before attribution to non-controlling interests	151	89	18
Loss (profit) attributed to non-controlling interests	-	-	-
Net profit (loss) attributed to shareholders of the Bank	151	89	18

* Reclassified, mainly due to housing loans granted to individuals in an economic sector other than the sector "private individuals," which were reclassified from the business segments to the "households" and "private banking" segments. In addition, some data were reclassified in order to properly reflect improvements in segment measurement methods.

Notes to the Condensed Financial Statements

as at June 30, 2020

Unaudited
NIS millions

For the three months ended June 30, 2019*

Private banking	Small businesses and microbusinesses	Mid-sized businesses	Large businesses	Institutional entities	Financial management	Other	Activity in Israel	Activity overseas	Total
							Total activity in Israel	Total activity overseas	
7	606	262	490	9	379	-	3,418	312	3,730
(64)	(55)	(54)	(119)	(116)	(623)	-	(1,147)	(117)	(1,264)
(57)	551	208	371	(107)	(244)	-	2,271	195	2,466
103	20	(18)	(104)	124	651	-	73	(73)	-
46	571	190	267	17	407	-	2,344	122	2,466
-	(1)	(1)	6	-	172	1	178	(12)	166
34	204	68	97	27	21	36	819	14	833
34	203	67	103	27	193	37	997	2	999
80	774	257	370	44	600	37	3,341	124	3,465
-	90	(8)	148	4	1	-	297	22	319
31	386	84	69	28	160	77	1,733	259	1,992
14	31	(2)	10	10	(54)	-	4	(4)	-
45	417	82	79	38	106	77	1,737	255	1,992
35	267	183	143	2	493	(40)	1,307	(153)	1,154
9	85	60	44	1	180	(9)	443	(2)	441
26	182	123	99	1	313	(31)	864	(151)	713
-	-	-	-	-	4	-	4	-	4
26	182	123	99	1	317	(31)	868	(151)	717
-	-	-	-	-	-	151	151	-	151
26	182	123	99	1	317	120	1,019	(151)	868
-	-	-	-	-	(1)	-	(1)	4	3
26	182	123	99	1	316	120	1,018	(147)	871

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 12 Supervisory Activity Segments (continued)

Information regarding supervisory activity segments (continued)

For the three months ended June 30, 2019*			
Activity in Israel			
Households			
	Total	Of which: housing loans	Of which: credit cards
Average balance of assets ⁽¹⁾	123,031	83,698	4,418
Of which: investments in equity-basis investees ⁽¹⁾	-	-	-
Average balance of gross credit to the public ⁽¹⁾	124,175	84,128	4,418
Balance of gross credit to the public at the end of the reported period	125,940	85,384	5,307
Balance of impaired debts	713	-	-
Balance of debts in arrears of more than 90 days	635	555	-
Average balance of liabilities ⁽¹⁾	135,331	-	-
Of which: average balance of deposits from the public ⁽¹⁾	135,300	-	-
Balance of deposits from the public at the end of the reported period	135,153	-	-
Average balance of risk-adjusted assets ⁽¹⁾⁽²⁾	93,133	49,128	5,015
Balance of risk-adjusted assets at the end of the reported period ⁽²⁾	94,197	49,725	5,859
Average balance of assets under management ⁽¹⁾⁽³⁾	69,643	-	-
 Segmentation of net interest income:			
Spread from credit granting activity	722	204	6
Spread from deposit taking activity	124	-	-
Other	-	-	-
Total net interest income	846	204	6

* Some data were reclassified in order to properly reflect improvements in segment measurement methods.

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

(2) Risk-weighted assets – as calculated for the purposes of capital adequacy (Proper Conduct of Banking Business Directive 201).

(3) Assets under management – including assets of provident funds, study funds, mutual funds, and securities of customers.

Notes to the Condensed Financial Statements

as at June 30, 2020

Unaudited
NIS millions

For the three months ended June 30, 2019*

Private banking	Small businesses and microbusinesses	Mid-sized businesses	Large businesses	Institutional entities	Financial management	Other	Activity in Israel	Activity overseas	Total
							Total activity in Israel	Total activity overseas	
796	53,299	27,075	60,656	1,493	153,203	133	419,686	34,508	454,194
-	-	-	-	-	104	-	104	-	104
807	54,381	27,559	63,349	1,194	-	-	271,465	15,363	286,828
899	54,107	28,531	65,213	1,694	-	-	276,384	16,251	292,635
-	1,056	286	736	-	-	-	2,791	119	2,910
-	252	4	-	-	-	-	891	12	903
32,783	61,040	21,556	42,663	44,675	55,611	17	393,676	21,682	415,358
32,783	60,858	21,412	42,125	44,534	-	-	337,012	16,033	353,045
32,629	61,702	21,501	38,219	45,822	-	-	335,026	17,086	352,112
1,500	64,118	40,288	81,141	5,131	20,220	8,921	314,452	20,923	335,375
1,594	64,768	41,352	81,248	4,962	19,762	4,638	312,521	20,470	332,991
47,177	33,186	19,258	72,885	555,164	48,320	3,502	849,135	1,065	850,200
4	493	167	243	3	1,435	-	3,067	218	3,285
42	78	23	24	12	(777)	-	(474)	(177)	(651)
-	-	-	-	2	(251)	-	(249)	81	(168)
46	571	190	267	17	407	-	2,344	122	2,466

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 12 Supervisory Activity Segments (continued)

Information regarding supervisory activity segments (continued)

	For the six months ended June 30, 2020		
	Activity in Israel		
	Households		
	Total	Of which: housing loans	Of which: credit cards
Interest income from externals	1,888	877	11
Interest expenses for externals	(106)	-	-
Net interest income:			
From externals	1,782	877	11
Inter-segmental	(234)	(403)	(1)
Total net interest income	1,548	474	10
Non-interest income:			
Non-interest financing income	3	-	-
Fees and other income	627	27	99
Total non-interest income	630	27	99
Total income	2,178	501	109
Provision (income) for credit losses	657	275	-
Operating and other expenses:			
For externals	1,932	153	101
Inter-segmental	(155)	-	-
Total operating and other expenses	1,777	153	101
Profit (loss) from continued operations before taxes	(256)	73	8
Provision for taxes (tax benefit) on profit (loss) from continued operations	(135)	31	3
Profit (loss) from continued operations after taxes	(121)	42	5
The Bank's share in profits of equity-basis investees	-	-	-
Net profit (loss) from continued operations	(121)	42	5
Loss from a discontinued operation	-	-	-
Net profit (loss) before attribution to non-controlling interests	(121)	42	5
Loss (profit) attributed to non-controlling interests	-	-	-
Net profit (loss) attributed to shareholders of the Bank	(121)	42	5

Notes to the Condensed Financial Statements

as at June 30, 2020

Unaudited
NIS millions

For the six months ended June 30, 2020

Private banking	Small businesses and microbusinesses	Mid-sized businesses	Large businesses	Institutional entities	Financial management	Other	Activity in Israel		Activity overseas	Total
								Total activity in Israel		
4	1,091	436	766	18	466	-	4,669	405	5,074	
(83)	(57)	(39)	(67)	(99)	(116)	-	(567)	(149)	(716)	
(79)	1,034	397	699	(81)	350	-	4,102	256	4,358	
129	3	(18)	(139)	113	195	-	49	(49)	-	
50	1,037	379	560	32	545	-	4,151	207	4,358	
-	10	5	44	40	377	1	480	19	499	
77	410	137	203	49	65	93	1,661	19	1,680	
77	420	142	247	89	442	94	2,141	38	2,179	
127	1,457	521	807	121	987	94	6,292	245	6,537	
2	456	174	537	4	-	-	1,830	107	1,937	
57	652	150	103	42	340	141	3,417	325	3,742	
33	170	6	49	37	(130)	(1)	9	(9)	-	
90	822	156	152	79	210	140	3,426	316	3,742	
35	179	191	118	38	777	(46)	1,036	(178)	858	
14	89	98	61	18	300	5	450	(14)	436	
21	90	93	57	20	477	(51)	586	(164)	422	
-	-	-	-	-	2	-	2	-	2	
21	90	93	57	20	479	(51)	588	(164)	424	
-	-	-	-	-	-	(109)	(109)	-	(109)	
21	90	93	57	20	479	(160)	479	(164)	315	
-	-	-	-	-	4	-	4	6	10	
21	90	93	57	20	483	(160)	483	(158)	325	

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 12 Supervisory Activity Segments (continued)

Information regarding supervisory activity segments (continued)

	For the six months ended June 30, 2020		
	Activity in Israel		
	Households		
	Total	Of which: housing loans	Of which: credit cards
Average balance of assets ⁽¹⁾	124,588	91,358	3,835
Of which: investments in equity-basis investees ⁽¹⁾	-	-	-
Average balance of gross credit to the public ⁽¹⁾	125,700	91,823	3,835
Balance of gross credit to the public at the end of the reported period	129,527	94,213	4,544
Balance of impaired debts	769	1	-
Balance of debts in arrears of more than 90 days	784	710	-
Average balance of liabilities ⁽¹⁾	144,255	-	-
Of which: average balance of deposits from the public ⁽¹⁾	144,252	-	-
Balance of deposits from the public at the end of the reported period	150,605	-	-
Average balance of risk-adjusted assets ⁽¹⁾⁽²⁾	94,033	53,574	5,083
Balance of risk-adjusted assets at the end of the reported period ⁽²⁾	94,069	54,689	4,738
Average balance of assets under management ⁽¹⁾⁽³⁾	64,675	-	-
 Segmentation of net interest income:			
Spread from credit granting activity	1,372	474	10
Spread from deposit taking activity	176	-	-
Other	-	-	-
Total net interest income	1,548	474	10

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

(2) Risk-weighted assets – as calculated for the purposes of capital adequacy (Proper Conduct of Banking Business Directive 201).

(3) Assets under management – including assets of provident funds, study funds, mutual funds, and securities of customers. The average balance of assets under management for the three months ended March 31, 2020, in the institutional customer segment has been updated, and stands at NIS 399,730 million.

Notes to the Condensed Financial Statements

as at June 30, 2020

Unaudited
NIS millions

For the six months ended June 30, 2020

Private banking	Small businesses and microbusinesses	Mid-sized businesses	Large businesses	Institutional entities	Financial management	Other	Activity in Israel		Activity overseas	Total
								Total activity in Israel		
543	51,898	28,602	66,939	1,306	173,770	138	447,784	31,410	479,194	
-	-	-	-	-	202	-	202	-	202	
548	52,959	29,932	69,623	937	-	-	279,699	15,549	295,248	
628	54,884	31,344	67,319	1,641	-	-	285,343	14,347	299,690	
-	1,070	350	1,519	-	-	-	3,708	521	4,229	
-	57	1	16	-	-	-	858	15	873	
33,013	66,344	24,954	45,195	46,217	60,115	11	420,104	21,240	441,344	
33,012	66,193	24,815	45,045	46,152	-	-	359,469	18,713	378,182	
34,374	71,921	26,443	45,004	54,477	-	-	382,824	17,992	400,816	
1,168	64,589	41,854	86,101	5,843	21,688	4,788	320,064	19,124	339,188	
1,131	65,888	42,276	85,695	6,057	22,929	4,779	322,824	18,120	340,944	
45,250	29,576	16,205	83,589	376,393	39,610	3,616	658,914	-	658,914	
4	955	354	528	10	1,057	-	4,280	347	4,627	
46	82	25	32	18	(774)	-	(395)	(196)	(591)	
-	-	-	-	4	262	-	266	56	322	
50	1,037	379	560	32	545	-	4,151	207	4,358	

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 12 Supervisory Activity Segments (continued)

Information regarding supervisory activity segments (continued)

For the six months ended June 30, 2019*			
Activity in Israel			
Households			
	Total	Of which: housing loans	Of which: credit cards
Interest income from externals	2,675	1,490	12
Interest expenses for externals	(182)	-	-
Net interest income:			
From externals	2,493	1,490	12
Inter-segmental	(805)	(1,094)	(1)
Total net interest income	1,688	396	11
Non-interest income:			
Non-interest financing income	2	-	-
Fees and other income	648	29	112
Total non-interest income	650	29	112
Total income	2,338	425	123
 Provision (income) for credit losses	 131	 11	 -
Operating and other expenses:			
For externals	1,799	159	90
Inter-segmental	(14)	-	-
Total operating and other expenses	1,785	159	90
 Profit (loss) from continued operations before taxes	 422	 255	 33
Provision for taxes on profit from continued operations	146	88	11
Profit (loss) from continued operations after taxes	276	167	22
The Bank's share in profits of equity-basis investees	-	-	-
Net profit (loss) from continued operations	276	167	22
Net profit from a discontinued operation	-	-	-
Net profit (loss) before attribution to non-controlling interests	276	167	22
Loss (profit) attributed to non-controlling interests	-	-	-
Net profit (loss) attributed to shareholders of the Bank	276	167	22

* Reclassified, mainly due to housing loans granted to individuals in an economic sector other than the sector "private individuals," which were reclassified from the business segments to the "households" and "private banking" segments. In addition, some data were reclassified in order to properly reflect improvements in segment measurement methods.

Notes to the Condensed Financial Statements

as at June 30, 2020

Unaudited
NIS millions

For the six months ended June 30, 2019*										
Private banking	Small businesses and microbusinesses	Mid-sized businesses	Large businesses	Activity in Israel			Other	Total activity in Israel	Activity overseas	Total
				Institutional entities	Financial management	Other				
14	1,179	474	880	21	667	-	5,910	645	6,555	
(117)	(103)	(84)	(212)	(175)	(711)	-	(1,584)	(228)	(1,812)	
(103)	1,076	390	668	(154)	(44)	-	4,326	417	4,743	
195	58	(16)	(138)	193	671	-	158	(158)	-	
92	1,134	374	530	39	627	-	4,484	259	4,743	
-	5	7	25	12	199	3	253	2	255	
67	406	138	188	52	42	69	1,610	26	1,636	
67	411	145	213	64	241	72	1,863	28	1,891	
159	1,545	519	743	103	868	72	6,347	287	6,634	
-	133	(7)	159	3	3	-	422	18	440	
64	774	166	137	58	315	123	3,436	433	3,869	
26	61	(4)	20	20	(97)	(4)	8	(8)	-	
90	835	162	157	78	218	119	3,444	425	3,869	
69	577	364	427	22	647	(47)	2,481	(156)	2,325	
22	202	129	150	7	224	(10)	870	20	890	
47	375	235	277	15	423	(37)	1,611	(176)	1,435	
-	-	-	-	-	4	-	4	-	4	
47	375	235	277	15	427	(37)	1,615	(176)	1,439	
-	-	-	-	-	-	242	242	-	242	
47	375	235	277	15	427	205	1,857	(176)	1,681	
-	-	-	-	-	4	-	4	7	11	
47	375	235	277	15	431	205	1,861	(169)	1,692	

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 12 Supervisory Activity Segments (continued)

Information regarding supervisory activity segments (continued)

For the six months ended June 30, 2019*			
Activity in Israel			
Households			
	Total	Of which: housing loans	Of which: credit cards
Average balance of assets ⁽¹⁾	122,468	82,539	4,406
Of which: investments in equity-basis investees ⁽¹⁾	-	-	-
Average balance of gross credit to the public ⁽¹⁾	123,620	82,967	4,406
Balance of gross credit to the public at the end of the reported period	125,940	85,384	5,307
Balance of impaired debts	713	-	-
Balance of debts in arrears of more than 90 days	635	555	-
Average balance of liabilities ⁽¹⁾	135,219	-	-
Of which: average balance of deposits from the public ⁽¹⁾	135,202	-	-
Balance of deposits from the public at the end of the reported period	135,153	-	-
Average balance of risk-adjusted assets ⁽¹⁾⁽²⁾	92,385	48,532	4,523
Balance of risk-adjusted assets at the end of the reported period ⁽²⁾	94,197	49,725	5,859
Average balance of assets under management ⁽¹⁾⁽³⁾	68,584	-	-
 Segmentation of net interest income:			
Spread from credit granting activity	1,442	396	11
Spread from deposit taking activity	246	-	-
Other	-	-	-
Total net interest income	1,688	396	11

* Reclassified, mainly due to housing loans granted to individuals in an economic sector other than the sector "private individuals," which were reclassified from the business segments to the "households" and "private banking" segments. In addition, some data were reclassified in order to properly reflect improvements in segment measurement methods.

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

(2) Risk-weighted assets – as calculated for the purposes of capital adequacy (Proper Conduct of Banking Business Directive 201).

(3) Assets under management – including assets of provident funds, study funds, mutual funds, and securities of customers.

Notes to the Condensed Financial Statements

as at June 30, 2020

Unaudited
NIS millions

For the six months ended June 30, 2019*

Private banking	Small businesses and microbusinesses	Mid-sized businesses	Large businesses	Activity in Israel			Other	Total activity in Israel	Activity overseas	Total
				Institutional entities	Financial management					
793	52,133	26,696	62,004	1,502	150,595	7,692	423,883	34,273	458,156	
-	-	-	-	-	104	-	104	-	104	
803	53,037	27,127	63,669	1,176	-	7,554	276,986	15,862	292,848	
899	54,107	28,531	65,213	1,694	-	-	276,384	16,251	292,635	
-	1,056	286	736	-	-	-	2,791	119	2,910	
-	252	4	-	-	-	-	891	12	903	
32,564	61,369	21,982	39,285	45,160	53,760	8,614	397,953	21,784	419,737	
32,564	61,200	21,836	38,742	44,978	-	288	334,810	17,489	352,299	
32,629	61,702	21,501	38,219	45,822	-	-	335,026	17,086	352,112	
1,408	63,852	39,226	81,041	5,303	20,680	12,484	316,379	21,381	337,760	
1,594	64,768	41,352	81,248	4,962	19,762	4,638	312,521	20,470	332,991	
46,116	34,493	17,289	74,154	554,586	55,876	3,521	854,619	1,064	855,683	
8	981	328	484	10	2,021	-	5,274	469	5,743	
84	153	46	46	25	(1,317)	-	(717)	(362)	(1,079)	
-	-	-	-	4	(77)	-	(73)	152	79	
92	1,134	374	530	39	627	-	4,484	259	4,743	

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 12 Supervisory Activity Segments (continued)

Information regarding supervisory activity segments (continued)

For the year ended December 31, 2019*			
Activity in Israel			
Households			
	Total	Of which: housing loans	Of which: credit cards
Interest income from externals	4,596	2,277	24
Interest expenses for externals	(317)	-	-
Net interest income:			
From externals	4,279	2,277	24
Inter-segmental	(922)	(1,441)	(2)
Total net interest income	3,357	836	22
Non-interest income:			
Non-interest financing income	4	-	-
Fees and other income	1,316	60	240
Total non-interest income	1,320	60	240
Total income	4,677	896	262
 Provision (income) for credit losses	 224	 31	 -
Operating and other expenses:			
For externals	3,688	298	210
Inter-segmental	(22)	-	-
Total operating and other expenses	3,666	298	210
 Profit (loss) from continued operations before taxes	 787	 567	 52
Provision for taxes (tax benefit) on profit (loss) from continued operations	294	214	18
Profit (loss) from continued operations after taxes	493	353	34
The Bank's share in profits of equity-basis investees	-	-	-
Net profit (loss) from continued operations	493	353	34
Net profit (loss) from a discontinued operation	-	-	-
Net profit (loss) before attribution to non-controlling interests	493	353	34
Loss (profit) attributed to non-controlling interests	-	-	-
Net profit (loss) attributed to shareholders of the Bank	493	353	34

* Some data were reclassified in order to properly reflect improvements in segment measurement methods.

Notes to the Condensed Financial Statements

as at June 30, 2020

Audited
NIS millions

For the year ended December 31, 2019*										
Private banking	Small businesses and microbusinesses	Mid-sized businesses	Large businesses	Activity in Israel				Total activity in Israel	Activity overseas	Total
				Institutional entities	Financial management	Other	Total activity in Israel			
22	2,332	910	1,667	33	1,178	-	10,738	1,182	11,920	
(227)	(180)	(135)	(355)	(287)	(691)	-	(2,192)	(409)	(2,601)	
(205)	2,152	775	1,312	(254)	487	-	8,546	773	9,319	
376	103	(4)	(235)	328	613	-	259	(259)	-	
171	2,255	771	1,077	74	1,100	-	8,805	514	9,319	
1	13	12	52	26	459	3	570	(11)	559	
138	824	275	387	92	108	133	3,273	57	3,330	
139	837	287	439	118	567	136	3,843	46	3,889	
310	3,092	1,058	1,516	192	1,667	136	12,648	560	13,208	
-	300	(48)	630	(2)	(1)	-	1,103	173	1,276	
134	1,583	338	278	125	641	855	7,642	1,134	8,776	
51	118	(8)	41	43	(202)	(6)	15	(15)	-	
185	1,701	330	319	168	439	849	7,657	1,119	8,776	
125	1,091	776	567	26	1,229	(713)	3,888	(732)	3,156	
47	410	295	213	16	437	(8)	1,704	(23)	1,681	
78	681	481	354	10	792	(705)	2,184	(709)	1,475	
-	-	-	-	-	11	-	11	-	11	
78	681	481	354	10	803	(705)	2,195	(709)	1,486	
-	-	-	-	-	-	296	296	-	296	
78	681	481	354	10	803	(409)	2,491	(709)	1,782	
-	-	-	-	-	7	-	7	10	17	
78	681	481	354	10	810	(409)	2,498	(699)	1,799	

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 12 Supervisory Activity Segments (continued)

Information regarding supervisory activity segments (continued)

	For the year ended December 31, 2019*		
	Activity in Israel		
	Households		
	Total	Of which: housing loans	Of which: credit cards
Average balance of assets ⁽¹⁾	123,671	84,723	4,425
Of which: investments in equity-basis investees ⁽¹⁾	-	-	-
Average balance of gross credit to the public ⁽¹⁾	125,075	85,155	4,425
Balance of gross credit to the public at the end of the reported period	127,833	89,440	5,240
Balance of impaired debts	757	2	-
Balance of debts in arrears of more than 90 days	786	693	-
Average balance of liabilities ⁽¹⁾	135,266	-	-
Of which: average balance of deposits from the public ⁽¹⁾	135,256	-	-
Balance of deposits from the public at the end of the reported period	134,366	-	-
Average balance of risk-adjusted assets ⁽¹⁾⁽²⁾	93,025	49,675	4,927
Balance of risk-adjusted assets at the end of the reported period ⁽²⁾	94,086	52,017	5,669
Average balance of assets under management ⁽¹⁾⁽³⁾	69,585	-	-
 Segmentation of net interest income:			
Spread from credit granting activity	2,872	836	22
Spread from deposit taking activity	485	-	-
Other	-	-	-
Total net interest income	3,357	836	22

* Some data were reclassified in order to properly reflect improvements in segment measurement methods.

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

(2) Risk-weighted assets – as calculated for the purposes of capital adequacy (Proper Conduct of Banking Business Directive 201).

(3) Assets under management – including assets of provident funds, study funds, mutual funds, and securities of customers.

Notes to the Condensed Financial Statements

as at June 30, 2020

Audited
NIS millions

For the year ended December 31, 2019*									
Private banking	Small businesses and microbusinesses	Mid-sized businesses	Large businesses	Activity in Israel				Total activity overseas	Total
				Institutional entities	Financial management	Other	Total activity in Israel		
734	51,746	27,822	60,354	1,937	153,326	3,917	423,507	32,162	455,669
-	-	-	-	-	122	-	122	-	122
742	53,576	28,348	62,030	1,624	-	3,777	275,172	15,690	290,862
618	54,834	29,615	67,919	1,199	-	-	282,018	15,629	297,647
-	1,043	329	1,693	-	-	-	3,822	620	4,442
-	121	-	-	-	-	-	907	6	913
32,109	60,750	21,967	40,528	44,249	57,042	4,313	396,224	20,581	416,805
32,108	60,587	21,826	40,049	44,113	-	144	334,083	16,670	350,753
31,249	61,478	24,549	44,976	48,817	-	-	345,435	16,210	361,645
1,358	63,993	40,259	82,425	5,143	20,464	9,299	315,966	20,551	336,517
1,210	63,971	41,765	85,710	4,585	20,968	4,718	317,013	19,374	336,387
47,358	33,857	15,440	85,526	518,667	50,225	3,599	824,257	227	824,484
14	1,965	684	984	17	3,102	-	9,638	873	10,511
157	290	87	93	49	(2,310)	-	(1,149)	(617)	(1,766)
-	-	-	-	8	308	-	316	258	574
171	2,255	771	1,077	74	1,100	-	8,805	514	9,319

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 12A Segments of Activity Based on Management Approach

Unaudited
NIS millions

The Bank Group operates in Israel and abroad, and provides a wide range of banking and financial services to its customers. The division into segments of activity according to the management approach is based on types of products and services or on types of customers. The chief operating decision makers of the Bank (the Board of Management of the Bank and the Board of Directors) use this division to make decisions and to analyze the Group's business results.

For details regarding the assignment of customers to segments based on the management approach and rules for the distribution of results of operations among the segments, see [Note 28A to the Annual Financial Statements for 2019](#).

A. Information regarding activity segments

	For the three months ended June 30, 2020								
	Retail activity			Business activity					
	Private customers	Small businesses	Housing loans	Commercial	Corporate	International	Financial activity	Adjustments ⁽²⁾	Total
Net interest income:									
From externals	409	332	495	299	455	91	84	1	2,166
Inter-segmental	140	2	(255)	(33)	(101)	(9)	256	-	-
Non-interest financing income	3	1	-	3	27	(1)	161	(1)	193
Total net financing profit	552	335	240	269	381	81	501	-	2,359
Fees and other income	338	125	12	86	130	13	26	65	795
Total income	890	460	252	355	511	94	527	65	3,154
Provision (income) for credit losses	293	159	244	123	241	69	(1)	-	1,128
Operating and other expenses:									
From externals	905	218	111	110	147	117	192	26	1,826
Inter-segmental	(3)	96	(32)	12	7	-	(64)	(16)	-

(1) The Financial Management Segment includes, among other matters, activity with institutional entities, most of which are presented in the information regarding supervisory activity segments as a separate segment.

(2) This section also includes the results of activities of the Bank Group with negligible volumes, each of which does not constitute a reportable segment, and expenses allocated in Israel pertaining to the investigation of the Bank Group's business with American customers.

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 12A Segments of Activity Based on Management Approach (continued)

Unaudited
NIS millions

A. Information regarding activity segments (continued)

	For the three months ended June 30, 2020								
	Retail activity			Business activity					
	Private customers	Small businesses	Housing loans	Commercial	Corporate	International activity	Financial management ⁽¹⁾	Adjustments ⁽²⁾	Total
Profit (loss) from continued operations before taxes	(305)	(13)	(71)	110	116	(92)	400	55	200
Provision for taxes (tax benefit) on profit (loss) from continued operations	(113)	(9)	(30)	44	44	(15)	132	20	73
Profit (loss) from continued operations after taxes	(192)	(4)	(41)	66	72	(77)	268	35	127
The Bank's share in profits of equity-basis investees, after taxes	-	-	-	-	-	-	1	-	1
Net profit (loss) from continued operations	(192)	(4)	(41)	66	72	(77)	269	35	128
Loss from a discontinued operation	-	-	-	-	-	-	-	-	-
Net profit (loss)									
Before attribution to non-controlling interests	(192)	(4)	(41)	66	72	(77)	269	35	128
Attributed to non-controlling interests	-	-	-	-	-	3	2	-	5
Attributed to shareholders of the Bank	(192)	(4)	(41)	66	72	(74)	271	35	133
Net credit to the public at the end of the reported period	38,433	31,095	93,898	40,920	73,868	12,772	2,714	-	293,700
Deposits from the public at the end of the reported period	210,550	52,853	-	28,060	54,461	17,927	36,965	-	400,816

- (1) The Financial Management Segment includes, among other matters, activity with institutional entities, most of which are presented in the information regarding supervisory activity segments as a separate segment.
- (2) This section also includes the results of activities of the Bank Group with negligible volumes, each of which does not constitute a reportable segment, and expenses allocated in Israel pertaining to the investigation of the Bank Group's business with American customers.

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 12A Segments of Activity Based on Management Approach (continued)

A. Information regarding activity segments (continued)

Net interest income:

From externals

Inter-segmental

Non-interest financing income

Total net financing profit

Fees and other income

Total income

Provision (income) for credit losses

Operating and other expenses:

From externals

Inter-segmental

Profit (loss) from continued operations before taxes

Provision for taxes (tax benefit) on profit (loss) from continued operations

Profit (loss) from continued operations after taxes

The Bank's share in profits of equity-basis investees, after taxes

Net profit (loss) from continued operations

Net profit from a discontinued operation

Net profit (loss)

Before attribution to non-controlling interests

Attributed to non-controlling interests

Attributed to shareholders of the Bank

Net credit to the public at the end of the reported period

Deposits from the public at the end of the reported period

* Reclassified.

- (1) The Financial Management Segment includes, among other matters, activity with institutional entities, most of which are presented in the information regarding supervisory activity segments as a separate segment.
- (2) This section also includes the results of activities of the Bank Group with negligible volumes, each of which does not constitute a reportable segment, and expenses allocated in Israel pertaining to the investigation of the Bank Group's business with American customers.

Notes to the Condensed Financial Statements

as at June 30, 2020

Unaudited
NIS millions

For the three months ended June 30, 2019*

Retail activity		Business activity					Financial Adjustments ⁽²⁾	Total
		Private customers	Small businesses	Housing loans	Commercial	Corporate		
396	374	1,075		298	518	173	(370)	2 2,466
326	33	(871)		(25)	(175)	(63)	775	- -
2	-	-		2	20	(12)	143	11 166
724	407	204		275	363	98	548	13 2,632
383	145	15		91	117	18	33	31 833
1,107	552	219		366	480	116	581	44 3,465
65	89	12		13	116	22	2	- 319
836	255	111		128	151	252	164	95 1,992
50	52	(37)		3	4	1	(62)	(11) -
156	156	133		222	209	(159)	477	(40) 1,154
53	55	44		78	69	(2)	155	(11) 441
103	101	89		144	140	(157)	322	(29) 713
-	-	-		-	-	-	4	- 4
103	101	89		144	140	(157)	326	(29) 717
-	-	-		-	-	-	-	151 151
103	101	89		144	140	(157)	326	122 868
-	-	-		-	-	4	(1)	- 3
103	101	89		144	140	(153)	325	122 871
42,856	31,583	85,333		38,687	75,718	12,654	1,792	- 288,623
187,977	44,115	-		23,545	50,014	16,957	29,504	- 352,112

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 12A Segments of Activity Based on Management Approach (continued)

A. Information regarding activity segments (continued)

Net interest income:

From externals

Inter-segmental

Non-interest financing income

Total net financing profit

Fees and other income

Total income

Provision (income) for credit losses

Operating and other expenses:

From externals

Inter-segmental

Profit (loss) from continued operations before taxes

Provision for taxes (tax benefit) on profit (loss) from continued operations

Profit (loss) from continued operations after taxes

The Bank's share in profits of equity-basis investees, after taxes

Net profit (loss) from continued operations

Loss from a discontinued operation

Net profit (loss)

Before attribution to non-controlling interests

Attributed to non-controlling interests

Attributed to shareholders of the Bank

Net credit to the public at the end of the reported period

Deposits from the public at the end of the reported period

- (1) The Financial Management Segment includes, among other matters, activity with institutional entities, most of which are presented in the information regarding supervisory activity segments as a separate segment.
- (2) This section also includes the results of activities of the Bank Group with negligible volumes, each of which does not constitute a reportable segment, and expenses allocated in Israel pertaining to the investigation of the Bank Group's business with American customers.

Notes to the Condensed Financial Statements

as at June 30, 2020

Unaudited
NIS millions

For the six months ended June 30, 2020

Retail activity		Business activity					Financial Adjustments ⁽²⁾ activity management ⁽¹⁾	Total
		Private customers	Small businesses	Housing loans	Commercial	Corporate		
842	692	879	604	883	225	229	4	4,358
362	19	(404)	(57)	(183)	(38)	301	-	-
6	3	-	9	72	18	375	16	499
1,210	714	475	556	772	205	905	20	4,857
744	276	27	188	267	27	52	99	1,680
1,954	990	502	744	1,039	232	957	119	6,537
424	299	276	298	529	107	4	-	1,937
1,732	435	225	224	286	319	354	167	3,742
28	173	(72)	15	15	1	(132)	(28)	-
(230)	83	73	207	209	(195)	731	(20)	858
(79)	33	30	87	86	(20)	284	15	436
(151)	50	43	120	123	(175)	447	(35)	422
-	-	-	-	-	-	2	-	2
(151)	50	43	120	123	(175)	449	(35)	424
-	-	-	-	-	-	-	(109)	(109)
(151)	50	43	120	123	(175)	449	(144)	315
-	-	-	-	-	6	4	-	10
(151)	50	43	120	123	(169)	453	(144)	325
38,433	31,095	93,898	40,920	73,868	12,772	2,714	-	293,700
210,550	52,853	-	28,060	54,461	17,927	36,965	-	400,816

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 12A Segments of Activity Based on Management Approach (continued)

A. Information regarding activity segments (continued)

Net interest income:

From externals

Inter-segmental

Non-interest financing income

Total net financing profit

Fees and other income

Total income

Provision (income) for credit losses

Operating and other expenses:

From externals

Inter-segmental

Profit (loss) from continued operations before taxes

Provision for taxes on profit from continued operations

Profit (loss) from continued operations after taxes

The Bank's share in profits of equity-basis investees, after taxes

Net profit (loss) from continued operations

Net profit from a discontinued operation

Net profit (loss)

Before attribution to non-controlling interests

Attributed to non-controlling interests

Attributed to shareholders of the Bank

Net credit to the public at the end of the reported period

Deposits from the public at the end of the reported period

* Reclassified.

- (1) The Financial Management Segment includes, among other matters, activity with institutional entities, most of which are presented in the information regarding supervisory activity segments as a separate segment.
- (2) This section also includes the results of activities of the Bank Group with negligible volumes, each of which does not constitute a reportable segment, and expenses allocated in Israel pertaining to the investigation of the Bank Group's business with American customers.

Notes to the Condensed Financial Statements

as at June 30, 2020

Unaudited
NIS millions

For the six months ended June 30, 2019*								
Retail activity			Business activity					
Private customers	Small businesses	Housing loans	Commercial	Corporate	International activity management ⁽¹⁾	Financial management ⁽²⁾	Adjustments ⁽²⁾	Total
852	756	1,490	573	960	373	(267)	6	4,743
594	65	(1,092)	(39)	(273)	(139)	884	-	-
4	1	-	5	39	1	180	25	255
1,450	822	398	539	726	235	797	31	4,998
737	288	30	180	233	34	73	61	1,636
2,187	1,110	428	719	959	269	870	92	6,634
122	167	19	14	96	18	4	-	440
1,673	501	231	251	300	424	331	158	3,869
116	113	(86)	2	(2)	2	(126)	(19)	-
276	329	264	452	565	(175)	661	(47)	2,325
99	121	93	165	204	15	209	(16)	890
177	208	171	287	361	(190)	452	(31)	1,435
-	-	-	-	-	-	4	-	4
177	208	171	287	361	(190)	456	(31)	1,439
-	-	-	-	-	-	-	242	242
177	208	171	287	361	(190)	456	211	1,681
-	-	-	-	-	7	4	-	11
177	208	171	287	361	(183)	460	211	1,692
42,856	31,583	85,333	38,687	75,718	12,654	1,792	-	288,623
187,977	44,115	-	23,545	50,014	16,957	29,504	-	352,112

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 12A Segments of Activity Based on Management Approach (continued)

A. Information regarding activity segments (continued)

Net interest income:

From externals

Inter-segmental

Non-interest financing income

Total net financing profit

Fees and other income

Total income

Provision (income) for credit losses

Operating and other expenses:

From externals

Inter-segmental

Profit (loss) from continued operations before taxes

Provision for taxes (tax benefit) on profit (loss) from continued operations

Profit (loss) from continued operations after taxes

The Bank's share in profits of equity-basis investees, after taxes

Net profit (loss) from continued operations

Net profit from a discontinued operation

Net profit

Before attribution to non-controlling interests

Attributed to non-controlling interests

Attributed to shareholders of the Bank

Net credit to the public at the end of the reported period

Deposits from the public at the end of the reported period

* Some data were reclassified in order to properly reflect improvements in segment measurement methods.

- (1) The Financial Management Segment includes, among other matters, activity with institutional entities, most of which are presented in the information regarding supervisory activity segments as a separate segment.
- (2) This section also includes the results of activities of the Bank Group with negligible volumes, each of which does not constitute a reportable segment, and expenses allocated in Israel pertaining to the investigation of the Bank Group's business with American customers.

Notes to the Condensed Financial Statements

as at June 30, 2020

Audited
NIS millions

For the year ended December 31, 2019*								
Retail activity			Business activity					
Private customers	Small businesses	Housing loans	Commercial	Corporate	International activity	Financial management ⁽¹⁾	Adjustments ⁽²⁾	Total
1,737	1,503	2,284	1,166	1,847	686	85	11	9,319
1,091	107	(1,446)	(75)	(451)	(223)	997	-	-
5	2	-	10	75	(12)	409	70	559
2,833	1,612	838	1,101	1,471	451	1,491	81	9,878
1,500	580	60	370	496	72	128	124	3,330
4,333	2,192	898	1,471	1,967	523	1,619	205	13,208
220	299	13	89	588	68	(1)	-	1,276
3,451	1,019	452	512	617	1,119	697	909	8,776
237	220	(159)	-	(6)	5	(249)	(48)	-
425	654	592	870	768	(669)	1,172	(656)	3,156
163	250	223	331	298	(2)	404	14	1,681
262	404	369	539	470	(667)	768	(670)	1,475
-	-	-	-	-	-	11	-	11
262	404	369	539	470	(667)	779	(670)	1,486
-	-	-	-	-	-	-	296	296
262	404	369	539	470	(667)	779	(374)	1,782
-	-	-	-	-	10	7	-	17
262	404	369	539	470	(657)	786	(374)	1,799
41,456	31,022	89,331	40,138	75,656	12,978	2,359	-	292,940
188,766	45,959	-	25,143	53,035	16,147	32,595	-	361,645

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 12A Segments of Activity Based on Management Approach (continued)

B. Pro-forma data regarding the effect of expenses pertaining to the business of the Bank Group in Israel with American customers on the segments of activity

The expenses allocated at Hapoalim Switzerland and at the New York branch pertaining to the investigation of the Bank Group's business with American customers were attributed, within the disclosure of segments of activity based on the management approach, to the International Activity Segment.

The expenses allocated in Israel pertaining to the Bank Group's business with American customers include a provision in respect of customers with certain American indications at the branches of the Bank in Israel, as well as a provision in respect of exposure to amounts for other United States authorities (other than the DOJ), in respect of customers in Israel and overseas. These expenses were allocated, within the disclosure of segments of activity based on the management approach, to the Adjustments Segment.

If the expenses allocated in Israel, in the first half of 2020 and in the year ended December 31, 2019, were allocated equally to the Retail Banking Segment and to the International Activity Segment (rather than to the Adjustments Segment), the loss of retail banking would total approximately NIS 71 million and net profit would total approximately NIS 738 million, respectively; the loss of the International Activity Segment for the period would total approximately NIS 183 million and approximately NIS 954 million, respectively; and loss in the amount of approximately NIS 117 million and net profit of approximately NIS 220 million, respectively, would be recorded in the Adjustments Segment..

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 13 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses

Unaudited
NIS millions

A. Debts* and off-balance sheet credit instruments

Allowance for credit losses

1. Change in allowance for credit losses

	For the three months ended June 30, 2020					Total	
	Credit to the public			Total	Banks and governments		
	Commercial	Housing	Other private				
Allowance for credit losses							
as at March 31, 2020	4,552	478	834	5,864	9	5,873	
Provision (income) for credit losses ⁽¹⁾	622	244	263	1,129	(1)	1,128	
Charge-offs	(225)	(8)	(162)	(395)	-	(395)	
Recoveries of debts charged off in previous years	84	3	67	154	-	154	
Net charge-offs	(141)	(5)	(95)	(241)	-	(241)	
Allowance for credit losses							
as at June 30, 2020 ⁽²⁾	5,033	717	1,002	6,752	8	6,760	
(1) Of which: in respect of off-balance sheet credit instruments	143	-	24	167	(1)	166	
(2) Of which: in respect of off-balance sheet credit instruments	691	-	71	762	-	762	
For the three months ended June 30, 2019							
	Credit to the public					Total	
	Commercial ⁽³⁾	Housing ⁽³⁾	Other private	Total	Banks and governments		
Allowance for credit losses							
as at March 31, 2019	3,019	426	876	4,321	11	4,332	
Provision for credit losses ⁽¹⁾	253	11	54	318	1	319	
Charge-offs	(186)	(1)	(165)	(352)	-	(352)	
Recoveries of debts charged off in previous years	174	1	82	257	-	257	
Net charge-offs	(12)	-	(83)	(95)	-	(95)	
Other	-	-	(4)	(4)	-	(4)	
Allowance for credit losses							
as at June 30, 2019 ⁽²⁾	3,260	437	843	4,540	12	4,552	
(1) Of which: in respect of off-balance sheet credit instruments	28	-	5	33	-	33	
(2) Of which: in respect of off-balance sheet credit instruments	486	-	42	528	1	529	

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

(3) Reclassified. Housing loans granted to individuals in an economic sector other than "private individuals" were reclassified from "commercial" credit to "housing" credit.

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 13 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

NIS millions

A. Debts* and off-balance sheet credit instruments (continued)

Allowance for credit losses (continued)

1. Change in allowance for credit losses (continued)

	For the six months ended June 30, 2020					
	Credit to the public			Total	Banks and governments	Total
	Commercial	Housing	Other private			
Allowance for credit losses at beginning of year (audited)	4,007	446	790	5,243	8	5,251
Provision for credit losses ⁽¹⁾	1,278	276	383	1,937	-	1,937
Charge-offs	(406)	(9)	(320)	(735)	-	(735)
Recoveries of debts charged off in previous years	154	4	149	307	-	307
Net charge-offs	(252)	(5)	(171)	(428)	-	(428)
Other	-	-	-	-	-	-
Allowance for credit losses as at June 30, 2020 ⁽²⁾ (unaudited)	5,033	717	1,002	6,752	8	6,760
(1) Of which: in respect of off-balance sheet credit instruments	194	-	32	226	(1)	225
(2) Of which: in respect of off-balance sheet credit instruments	691	-	71	762	-	762

	For the six months ended June 30, 2019					
	Credit to the public			Total	Banks and governments	Total
	Commercial ⁽³⁾	Housing ⁽³⁾	Other private			
Allowance for credit losses at beginning of year (audited)	2,997	424	904	4,325	9	4,334
Provision for credit losses ⁽¹⁾	303	15	119	437	3	440
Charge-offs	(353)	(3)	(353)	(709)	-	(709)
Recoveries of debts charged off in previous years	313	1	177	491	-	491
Net charge-offs	(40)	(2)	(176)	(218)	-	(218)
Other	-	-	(4)	(4)	-	(4)
Allowance for credit losses as at June 30, 2019 ⁽²⁾ (unaudited)	3,260	437	843	4,540	12	4,552
(1) Of which: in respect of off-balance sheet credit instruments	(46)	-	7	(39)	-	(39)
(2) Of which: in respect of off-balance sheet credit instruments	486	-	42	528	1	529

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

(3) Reclassified. Housing loans granted to individuals in an economic sector other than "private individuals" were reclassified from "commercial" credit to "housing" credit.

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 13 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

Unaudited
NIS millions

A. Debts* and off-balance sheet credit instruments (continued)

Allowance for credit losses (continued)

2. Additional information regarding the method of calculating the allowance for credit losses in respect of debts* and regarding the underlying debts*

	June 30, 2020					
	Credit to the public			Total	Banks and governments	Total
	Commercial**	Housing	Other private			
Recorded debt balance of debts:*						
Examined on an individual basis	144,985	1	846	145,832	17,046	162,878
Examined on a collective basis ⁽¹⁾	24,626	94,529	34,703	153,858	-	153,858
Total debts*	169,611	94,530	35,549	299,690	17,046	316,736
(1) Of which: allowance for which was calculated according to the extent of arrears	85	94,362	-	94,447	-	94,447
Allowance for credit losses in respect of debts:*						
Examined on an individual basis	3,813	-	131	3,944	8	3,952
Examined on a collective basis ⁽²⁾	529	717	800	2,046	-	2,046
Total allowance for credit losses	4,342	717	931	5,990	8	5,998
(2) Of which: allowance for which was calculated according to the extent of arrears***	-	717	-	717	-	717

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

** The balance of commercial debts includes the balance of housing loans, in the amount of approximately NIS 85 million, of commercial borrowers, or granted to purchasing groups in the process of construction (June 30, 2019: NIS 88 million; December 31, 2019: NIS 75 million).

*** Includes the allowance beyond the amount required according to the method of the extent of arrears, calculated on a collective basis, in the amount of approximately NIS 576 million (June 30, 2019: NIS 300 million; December 31, 2019: NIS 314 million).

(3) Reclassified. Housing loans granted to individuals in an economic sector other than "private individuals" were reclassified from "commercial" credit to "housing" credit.

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 13 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

Unaudited
NIS millions

A. Debts* and off-balance sheet credit instruments (continued)

Allowance for credit losses (continued)

2. Additional information regarding the method of calculating the allowance for credit losses in respect of debts* and regarding the underlying debts* (continued)

	June 30, 2019					
	Credit to the public			Total	Banks and governments	Total
	Commercial ^{**(3)}	Housing ⁽³⁾	Other private			
Recorded debt balance of debts:*						
Examined on an individual basis	140,244	-	922	141,166	24,214	165,380
Examined on a collective basis ⁽¹⁾	25,611	85,683	40,175	151,469	-	151,469
Total debts*	165,855	85,683	41,097	292,635	24,214	316,849
(1) Of which: allowance for which was calculated according to the extent of arrears	88	85,491	-	85,579	-	85,579
Allowance for credit losses in respect of debts:*						
Examined on an individual basis	2,324	-	137	2,461	11	2,472
Examined on a collective basis ⁽²⁾	450	437	664	1,551	-	1,551
Total allowance for credit losses	2,774	437	801	4,012	11	4,023
(2) Of which: allowance for which was calculated according to the extent of arrears***	1	437	-	438	-	438

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

** The balance of commercial debts includes the balance of housing loans, in the amount of approximately NIS 85 million, of commercial borrowers, or granted to purchasing groups in the process of construction (June 30, 2019: NIS 88 million; December 31, 2019: NIS 75 million).

*** Includes the allowance beyond the amount required according to the method of the extent of arrears, calculated on a collective basis, in the amount of approximately NIS 576 million (June 30, 2019: NIS 300 million; December 31, 2019: NIS 314 million).

(3) Reclassified. Housing loans granted to individuals in an economic sector other than "private individuals" were reclassified from "commercial" credit to "housing" credit.

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 13 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

Audited
NIS millions

A. Debts* and off-balance sheet credit instruments (continued)

Allowance for credit losses (continued)

2. Additional information regarding the method of calculating the allowance for credit losses in respect of debts* and regarding the underlying debts* (continued)

	December 31, 2019					
	Credit to the public			Total	Banks and governments	Total
	Commercial**	Housing	Other private			
Recorded debt balance of debts:*						
Examined on an individual basis	144,239	2	862	145,103	20,042	165,145
Examined on a collective basis ⁽¹⁾	25,011	89,700	37,833	152,544	-	152,544
Total debts*	169,250	89,702	38,695	297,647	20,042	317,689
(1) Of which: allowance for which was calculated according to the extent of arrears	75	89,533	-	89,608	-	89,608
Allowance for credit losses in respect of debts:*						
Examined on an individual basis	2,951	-	136	3,087	7	3,094
Examined on a collective basis ⁽²⁾	559	446	615	1,620	-	1,620
Total allowance for credit losses	3,510	446	751	4,707	7	4,714
(2) Of which: allowance for which was calculated according to the extent of arrears***	-	446	-	446	-	446

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

** The balance of commercial debts includes the balance of housing loans, in the amount of approximately NIS 85 million, of commercial borrowers, or granted to purchasing groups in the process of construction (June 30, 2019: NIS 88 million; December 31, 2019: NIS 75 million).

*** Includes the allowance beyond the amount required according to the method of the extent of arrears, calculated on a collective basis, in the amount of approximately NIS 576 million (June 30, 2019: NIS 300 million; December 31, 2019: NIS 314 million).

(3) Reclassified. Housing loans granted to individuals in an economic sector other than "private individuals" were reclassified from "commercial" credit to "housing" credit.

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 13 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

Unaudited
NIS millions

B. Debts*

1. Credit quality and arrears

	June 30, 2020						
	Non-problematic		Problematic ⁽¹⁾		Total	Unimpaired debts** – additional information	
	Unimpaired	Impaired ⁽²⁾	In arrears	In arrears	of 90 days or more ⁽³⁾	of 30 to 89 days ⁽⁴⁾	
Borrower activity in Israel							
Public – commercial							
Construction and real estate – construction	28,254	161	243	28,658	10	10	
Construction and real estate – real-estate activities	20,343	761	259	21,363	2	12	
Financial services***	18,839	150	40	19,029	-	1	
Commercial – other	77,782	2,256	2,397	82,435	60	55	
Total commercial	145,218	3,328	2,939	151,485	72	78	
Private individuals – housing loans ⁽⁵⁾	93,333	710	1	94,044	710	825	
Private individuals – other	34,608	116	768	35,492	74	114	
Total public – activity in Israel	273,159	4,154	3,708	281,021	856	1,017	
Banks in Israel	201	-	-	201	-	-	
Israeli government	1,339	-	-	1,339	-	-	
Total activity in Israel	274,699	4,154	3,708	282,561	856	1,017	

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

** For this purpose, "unimpaired debts" include non-problematic debts.

*** Credit balances of Isracard were included for the first time due to the discontinuation of consolidation.

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

(2) In general, impaired debts do not accrue interest income. For information regarding certain impaired debts restructured in troubled debt restructuring, see [Note 13B\(2\)\(C\)](#) below.

(3) Classified as unimpaired problematic debts accruing interest income.

(4) Accruing interest income. Debts in arrears of 30 to 89 days in the amount of approximately NIS 143 million (June 30, 2019: NIS 243 million; December 31, 2019: NIS 167 million) were classified as unimpaired problematic debts.

(5) Includes a balance of housing loans, arranged in a settlement with the borrower, in the amount of approximately NIS 60 million (June 30, 2019: NIS 58 million; December 31, 2019: NIS 62 million).

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 13 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

Unaudited
NIS millions

B. Debts* (continued)

1. Credit quality and arrears (continued)

	June 30, 2020					
	Non-problematic		Problematic ⁽¹⁾		Total	Unimpaired debts** – additional information
	Unimpaired	Impaired ⁽²⁾			In arrears of 90 days or more ⁽³⁾	In arrears of 30 to 89 days ⁽⁴⁾
Borrower activity overseas						
Public – commercial						
Construction and real estate	5,267	495	227	5,989	1	17
Commercial – other	11,515	329	293	12,137	1	63
Total commercial	16,782	824	520	18,126	2	80
Private individuals	527	15	1	543	15	13
Total public – activity overseas	17,309	839	521	18,669	17	93
Banks overseas	14,291	-	-	14,291	-	-
Governments overseas	1,215	-	-	1,215	-	-
Total activity overseas	32,815	839	521	34,175	17	93
Total public	290,468	4,993	4,229	299,690	873	1,110
Total banks	14,492	-	-	14,492	-	-
Total governments	2,554	-	-	2,554	-	-
Total	307,514	4,993	4,229	316,736	873	1,110

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

** For this purpose, "unimpaired debts" include non-problematic debts.

*** Credit balances of Isracard were included for the first time due to the discontinuation of consolidation.

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

(2) In general, impaired debts do not accrue interest income. For information regarding certain impaired debts restructured in troubled debt restructuring, see [Note 13B\(2\)\(c\)](#) below.

(3) Classified as unimpaired problematic debts accruing interest income.

(4) Accruing interest income. Debts in arrears of 30 to 89 days in the amount of approximately NIS 143 million (June 30, 2019: NIS 243 million; December 31, 2019: NIS 167 million) were classified as unimpaired problematic debts.

(5) Includes a balance of housing loans, arranged in a settlement with the borrower, in the amount of approximately NIS 60 million (June 30, 2019: NIS 58 million; December 31, 2019: NIS 62 million).

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 13 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

Unaudited
NIS millions

B. Debts* (continued)

1. Credit quality and arrears (continued)

	June 30, 2019					
	Non-problematic ⁽⁶⁾		Problematic ⁽¹⁾		Total ⁽⁶⁾	
	Unimpaired ⁽⁶⁾	Impaired ⁽²⁾			In arrears of 90 days or more ⁽³⁾⁽⁶⁾	In arrears of 30 to 89 days ⁽⁴⁾⁽⁶⁾
Borrower activity in Israel						
Public – commercial						
Construction and real estate – construction	25,435	239	284	25,958	43	35
Construction and real estate – real-estate activities	17,366	842	205	18,413	29	9
Financial services	20,459	16	26	20,501	1	3
Commercial – other	78,386	1,856	1,330	81,572	96	107
Total commercial	141,646	2,953	1,845	146,444	169	154
Private individuals – housing loans ⁽⁵⁾	84,534	670	-	85,204	627	649
Private individuals – other	40,159	134	712	41,005	80	148
Total public – activity in Israel	266,339	3,757	2,557	272,653	876	951
Banks in Israel	657	-	-	657	-	-
Israeli government	840	-	-	840	-	-
Total activity in Israel	267,836	3,757	2,557	274,150	876	951

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

** For this purpose, "unimpaired debts" include non-problematic debts.

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

(2) In general, impaired debts do not accrue interest income. For information regarding certain impaired debts restructured in troubled debt restructuring, see [Note 13B\(2\)\(c\)](#) below.

(3) Classified as unimpaired problematic debts accruing interest income.

(4) Accruing interest income. Debts in arrears of 30 to 89 days in the amount of approximately NIS 143 million (June 30, 2019: NIS 243 million; December 31, 2019: NIS 167 million) were classified as unimpaired problematic debts.

(5) Includes a balance of housing loans, arranged in a settlement with the borrower, in the amount of approximately NIS 60 million (June 30, 2019: NIS 58 million; December 31, 2019: NIS 62 million).

(6) Reclassified. Housing loans granted to individuals in an economic sector other than "private individuals" were reclassified from "commercial" credit to "housing" credit.

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 13 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

Unaudited
NIS millions

B. Debts* (continued)

1. Credit quality and arrears (continued)

	June 30, 2019					
	Non-problematic ⁽⁵⁾		Problematic ⁽¹⁾		Total ⁽⁵⁾	
	Unimpaired ⁽⁵⁾	Impaired ⁽²⁾			In arrears of 90 days or more ⁽³⁾⁽⁵⁾	In arrears of 30 to 89 days ⁽⁴⁾⁽⁵⁾
Borrower activity overseas						
Public – commercial						
Construction and real estate	6,926	226	112	7,264	1	20
Commercial – other	11,502	412	233	12,147	14	155
Total commercial	18,428	638	345	19,411	15	175
Private individuals	551	12	8	571	12	6
Total public – activity overseas	18,979	650	353	19,982	27	181
Banks overseas	21,405	-	-	21,405	-	-
Governments overseas	1,312	-	-	1,312	-	-
Total activity overseas	41,696	650	353	42,699	27	181
Total public	285,318	4,407	2,910	292,635	903	1,132
Total banks	22,062	-	-	22,062	-	-
Total governments	2,152	-	-	2,152	-	-
Total	309,532	4,407	2,910	316,849	903	1,132

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

** For this purpose, "unimpaired debts" include non-problematic debts.

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

(2) In general, impaired debts do not accrue interest income. For information regarding certain impaired debts restructured in troubled debt restructuring, see [Note 13B\(2\)\(c\)](#) below.

(3) Classified as unimpaired problematic debts accruing interest income.

(4) Accruing interest income. Debts in arrears of 30 to 89 days in the amount of approximately NIS 143 million (June 30, 2019: NIS 243 million; December 31, 2019: NIS 167 million) were classified as unimpaired problematic debts.

(5) Reclassified. Housing loans granted to individuals in an economic sector other than "private individuals" were reclassified from "commercial" credit to "housing" credit.

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 13 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

Audited
NIS millions

B. Debts* (continued)

1. Credit quality and arrears (continued)

	December 31, 2019						
	Non-problematic		Problematic ⁽¹⁾		Total	Unimpaired debts** – additional information	
	Unimpaired	Impaired ⁽²⁾				In arrears of 90 days or more ⁽³⁾	In arrears of 30 to 89 days ⁽⁴⁾
Borrower activity in Israel							
Public – commercial							
Construction and real estate – construction	27,284	243	271	27,798	11	40	
Construction and real estate – real-estate activities	19,049	900	279	20,228	3	17	
Financial services	19,878	97	30	20,005	1	3	
Commercial – other	77,581	2,147	2,484	82,212	104	97	
Total commercial	143,792	3,387	3,064	150,243	119	157	
Private individuals – housing loans ⁽⁵⁾	88,532	694	2	89,228	693	682	
Private individuals – other	37,726	144	756	38,626	93	141	
Total public – activity in Israel	270,050	4,225	3,822	278,097	905	980	
Banks in Israel	132	-	-	132	-	-	
Israeli government	794	-	-	794	-	-	
Total activity in Israel	270,976	4,225	3,822	279,023	905	980	

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

** For this purpose, "unimpaired debts" include non-problematic debts.

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

(2) In general, impaired debts do not accrue interest income. For information regarding certain impaired debts restructured in troubled debt restructuring, see [Note 13B\(2\)\(c\)](#) below.

(3) Classified as unimpaired problematic debts accruing interest income.

(4) Accruing interest income. Debts in arrears of 30 to 89 days in the amount of approximately NIS 143 million (June 30, 2019: NIS 243 million; December 31, 2019: NIS 167 million) were classified as unimpaired problematic debts.

(5) Includes a balance of housing loans, arranged in a settlement with the borrower, in the amount of approximately NIS 60 million (June 30, 2019: NIS 58 million; December 31, 2019: NIS 62 million).

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 13 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

Audited
NIS millions

B. Debts* (continued)

1. Credit quality and arrears (continued)

	December 31, 2019					
	Non-problematic		Problematic ⁽¹⁾		Total	Unimpaired debts** – additional information
	Unimpaired	Impaired ⁽²⁾	In arrears of 90 days or more ⁽³⁾	In arrears of 30 to 89 days ⁽⁴⁾		
Borrower activity overseas						
Public – commercial						
Construction and real estate	6,204	169	279	6,652	1	17
Commercial – other	11,740	280	335	12,355	1	62
Total commercial	17,944	449	614	19,007	2	79
Private individuals	531	6	6	543	6	10
Total public – activity overseas	18,475	455	620	19,550	8	89
Banks overseas	17,933	-	-	17,933	-	-
Governments overseas	1,183	-	-	1,183	-	-
Total activity overseas	37,591	455	620	38,666	8	89
Total public	288,525	4,680	4,442	297,647	913	1,069
Total banks	18,065	-	-	18,065	-	-
Total governments	1,977	-	-	1,977	-	-
Total	308,567	4,680	4,442	317,689	913	1,069

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

** For this purpose, "unimpaired debts" include non-problematic debts.

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

(2) In general, impaired debts do not accrue interest income. For information regarding certain impaired debts restructured in troubled debt restructuring, see [Note 13B\(2\)\(c\)](#) below.

(3) Classified as unimpaired problematic debts accruing interest income.

(4) Accruing interest income. Debts in arrears of 30 to 89 days in the amount of approximately NIS 143 million (June 30, 2019: NIS 243 million; December 31, 2019: NIS 167 million) were classified as unimpaired problematic debts.

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 13 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

Credit quality – the status of debts in arrears

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 are treated as nonperforming debts (debts not accruing interest income) after 90 days in arrears, as is any debt that has undergone troubled debt restructuring and has resumed accruing interest when it is 30 days in arrears relative to the new terms of the debt. With regard to debts evaluated on a collective basis, the status of arrears affects the classification of the debt (the classification is more severe for more extensive arrears); debts are charged off by the Bank after 150 days in arrears. 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.

Concessions and troubled debt restructuring

The policy of the Bank regarding concessions takes a range of factors into account in order to maximize repayment to the Bank: management of the relationship with the customer, maximization of opportunities, prevention of default, foreclosures, public aspects, etc.

Concessions are granted only in cases where customers have demonstrated the intention to repay the loans and are expected to meet their obligations.

In cases where, for economic or legal reasons related to financial difficulties of the borrower, the Bank grants a concession to a debtor that it would not grant under other conditions, the debt is considered a troubled debt restructuring.

Troubled debt restructuring may constitute a change in the terms of the debt, leading to reduction or postponement of cash payments required of the debtor in the near future; a reduction of the rate of interest; a reduction of payments on principal; consolidation of debts; etc.

The Bank can consent to receive assets or an interest in the equity capital of the debtor, in cash, as repayment of the debt, even if the value obtained is lower than the amount of the debt, if the Bank reaches the conclusion that this would maximize the recovery of its investment.

For details regarding the instructions of the Banking Supervision Department on coping with the coronavirus, see [Note 1C](#) above.

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 13 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

Unaudited
NIS millions

B. Debts (continued)**

2. Additional information regarding impaired debts

a. Impaired debts and individual allowance

	June 30, 2020				
	Balance ⁽¹⁾ of impaired debts for which an individual allowance exists ⁽²⁾	Individual allowance ⁽²⁾	Balance ⁽¹⁾ of impaired debts for which no individual allowance exists ⁽²⁾	Total balance ⁽¹⁾ of impaired debts	Balance of contractual principal of impaired debts
Borrower activity in Israel					
Public – commercial					
Construction and real estate – construction	174	45	69	243	1,490
Construction and real estate – real-estate activities	121	11	138	259	1,255
Financial services	16	11	24	40	379
Commercial – other	2,227	1,168	170	2,397	5,544
Total commercial	2,538	1,235	401	2,939	8,668
Private individuals – housing loans	-	-	1	1	2
Private individuals – other	766	128	2	768	1,648
Total public – activity in Israel	3,304	1,363	404	3,708	10,318
Borrower activity overseas					
Public – commercial					
Construction and real estate	175	124	52	227	288
Commercial – other	103	75	190	293	583
Total commercial	278	199	242	520	871
Private individuals	1	-	-	1	3
Total public – activity overseas	279	199	242	521	874
Total public*	3,583	1,562	646	4,229	11,192

* Of which:

Measured at the present value of cash flows	3,235	1,455	391	3,626	-
Debts in troubled debt restructuring	2,413	1,033	424	2,837	-

** Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

(1) Recorded debt balance.

(2) Individual allowance for credit losses.

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 13 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

Unaudited
NIS millions

B. Debts (continued)**

2. Additional information regarding impaired debts (continued)

a. Impaired debts and individual allowance (continued)

	June 30, 2019				
	Balance ⁽¹⁾ of impaired debts for which an individual allowance exists ⁽²⁾	Individual allowance ⁽²⁾	Balance ⁽¹⁾ of impaired debts for which no individual allowance exists ⁽²⁾	Total balance ⁽¹⁾ of impaired debts	Balance of contractual principal of impaired debts
Borrower activity in Israel					
Public – commercial					
Construction and real estate – construction	173	52	111	284	1,977
Construction and real estate – real-estate activities	104	9	101	205	1,218
Financial services	5	1	21	26	313
Commercial – other	1,015	446	315	1,330	4,867
Total commercial	1,297	508	548	1,845	8,375
Private individuals – housing loans	-	-	-	-	-
Private individuals – other	449	126	263	712	1,489
Total public – activity in Israel	1,746	634	811	2,557	9,864
Borrower activity overseas					
Public – commercial					
Construction and real estate	8	-	104	112	174
Commercial – other	106	64	127	233	490
Total commercial	114	64	231	345	664
Private individuals	8	7	-	8	10
Total public – activity overseas	122	71	231	353	674
Total public*	1,868	705	1,042	2,910	10,538

* Of which:

Measured at the present value of cash flows	1,456	478	806	2,262	-
Debts in troubled debt restructuring	797	162	502	1,299	-

** Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

(1) Recorded debt balance.

(2) Individual allowance for credit losses.

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 13 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

Audited
NIS millions

B. Debts (continued)**

2. Additional information regarding impaired debts (continued)

a. Impaired debts and individual allowance (continued)

	December 31, 2019				
	Balance ⁽¹⁾ of impaired debts for which an individual allowance exists ⁽²⁾	Individual allowance ⁽²⁾	Balance ⁽¹⁾ of impaired debts for which no individual allowance exists ⁽²⁾	Total balance ⁽¹⁾ of impaired debts	Balance of contractual principal of impaired debts
Borrower activity in Israel					
Public – commercial					
Construction and real estate – construction	159	43	112	271	1,491
Construction and real estate – real-estate activities	96	8	183	279	1,283
Financial services	4	2	26	30	371
Commercial – other	2,311	1,053	173	2,484	5,631
Total commercial	2,570	1,106	494	3,064	8,776
Private individuals – housing loans	-	-	2	2	2
Private individuals – other	753	131	3	756	1,570
Total public – activity in Israel	3,323	1,237	499	3,822	10,348
Borrower activity overseas					
Public – commercial					
Construction and real estate	209	93	70	279	337
Commercial – other	132	73	203	335	610
Total commercial	341	166	273	614	947
Private individuals	6	5	-	6	8
Total public – activity overseas	347	171	273	620	955
Total public*	3,670	1,408	772	4,442	11,303

* Of which:

Measured at the present value of cash flows	3,439	1,332	501	3,940	-
Debts in troubled debt restructuring	1,089	181	285	1,374	-

** Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

(1) Recorded debt balance.

(2) Individual allowance for credit losses.

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 13 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

Unaudited
NIS millions

B. Debts* (continued)

2. Additional information regarding impaired debts (continued)

b. Average balance and interest income

	For the three months ended June 30, 2020			For the six months ended June 30, 2020		
	Average balance**	Interest income recorded*** ⁽¹⁾	Of which: recorded on a cash basis	Average balance**	Interest income recorded*** ⁽¹⁾	Of which: recorded on a cash basis
Borrower activity in Israel						
Public – commercial						
Construction and real estate – construction	251	1	1	258	2	1
Construction and real estate – real-estate activities	263	1	-	267	1	-
Financial services	36	-	-	33	-	-
Commercial – other	2,415	7	3	2,434	11	5
Total commercial	2,965	9	4	2,992	14	6
Private individuals – housing loans	2	-	-	2	-	-
Private individuals – other	764	11	3	761	23	6
Total public – activity in Israel	3,731	20	7	3,755	37	12
Borrower activity overseas						
Public – commercial						
Construction and real estate	228	-	-	232	-	-
Commercial – other	283	-	-	294	-	-
Total commercial	511	-	-	526	-	-
Private individuals	6	-	-	6	-	-
Total public – activity overseas	517	-	-	532	-	-
Total public	4,248	20	7	4,287	37	12

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

** Average recorded debt balance of impaired debts in the reported period.

*** Interest income recorded in the reported period in respect of the average balance of impaired debts, during the period in which the debts were classified as impaired.

(1) Had the impaired debts accrued interest according to the original terms, interest income in the amount of NIS 81 million and NIS 168 million would have been recorded for the three-month and six-month periods ended June 30, 2020, respectively (June 30, 2019: NIS 85 million and NIS 158 million, respectively).

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 13 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

Unaudited
NIS millions

B. Debts* (continued)

2. Additional information regarding impaired debts (continued)

b. Average balance and interest income (continued)

	For the three months ended June 30, 2019			For the six months ended June 30, 2019		
	Average balance**	Interest income recorded*** ⁽¹⁾	Of which: recorded on a cash basis	Average balance**	Interest income recorded*** ⁽¹⁾	Of which: recorded on a cash basis
Borrower activity in Israel						
Public – commercial						
Construction and real estate – construction	289	-	-	294	1	-
Construction and real estate – real-estate activities	226	-	-	247	1	-
Financial services	26	-	-	26	-	-
Commercial – other	1,293	2	2	1,255	5	4
Total commercial	1,834	2	2	1,822	7	4
Private individuals – housing loans	-	-	-	-	-	-
Private individuals – other	706	1	1	701	12	4
Total public – activity in Israel	2,540	3	3	2,523	19	8
Borrower activity overseas						
Public – commercial						
Construction and real estate	109	-	-	105	-	-
Commercial – other	230	-	-	229	-	-
Total commercial	339	-	-	334	-	-
Private individuals	12	-	-	15	-	-
Total public – activity overseas	351	-	-	349	-	-
Total public	2,891	3	3	2,872	19	8

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

** Average recorded debt balance of impaired debts in the reported period.

*** Interest income recorded in the reported period in respect of the average balance of impaired debts, during the period in which the debts were classified as impaired.

(1) Had the impaired debts accrued interest according to the original terms, interest income in the amount of NIS 81 million and NIS 168 million would have been recorded for the three-month and six-month periods ended June 30, 2020, respectively (June 30, 2019: NIS 85 million and NIS 158 million, respectively).

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 13 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

Unaudited
NIS millions

B. Debts* (continued)

2. Additional information regarding impaired debts (continued)

c. Troubled debt restructuring

	June 30, 2020				
	Recorded debt balance				
	Not accruing interest income	Accruing ⁽¹⁾ , in arrears of 90 days or more	Accruing ⁽¹⁾ , in arrears of 30 to 89 days	Accruing ⁽¹⁾ , not in arrears	Total ⁽²⁾
Borrower activity in Israel					
Public – commercial					
Construction and real estate – construction	66	-	-	20	86
Construction and real estate – real-estate activities	15	-	-	26	41
Financial services	3	-	-	2	5
Commercial – other	1,573	-	-	139	1,712
Total commercial	1,657	-	-	187	1,844
Private individuals – other	314	-	-	406	720
Total public – activity in Israel	1,971	-	-	593	2,564
Borrower activity overseas					
Public – commercial					
Construction and real estate	166	-	-	33	199
Commercial – other	41	-	-	33	74
Total public – activity overseas	207	-	-	66	273
Total public	2,178	-	-	659	2,837

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

(1) Accruing interest income.

(2) Included in impaired debts.

Commitments to grant additional credit to debtors who have undergone troubled debt restructuring with changes to the terms of the credit totaled approximately NIS 62 million as at June 30, 2020 (June 30, 2019: NIS 17 million; December 31, 2019: NIS 23 million).

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 13 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

Unaudited
NIS millions

B. Debts* (continued)

2. Additional information regarding impaired debts (continued)

c. Troubled debt restructuring (continued)

	June 30, 2019				
	Recorded debt balance				
	Not accruing interest income	Accruing ⁽¹⁾ , in arrears of 90 days or more	Accruing ⁽¹⁾ , in arrears of 30 to 89 days	Accruing ⁽¹⁾ , not in arrears	Total ⁽²⁾
Borrower activity in Israel					
Public – commercial					
Construction and real estate – construction	40	-	-	17	57
Construction and real estate – real-estate activities	49	-	-	25	74
Financial services	2	-	-	2	4
Commercial – other	327	-	1	118	446
Total commercial	418	-	1	162	581
Private individuals – other	288	-	1	370	659
Total public – activity in Israel	706	-	2	532	1,240
Borrower activity overseas					
Public – commercial					
Construction and real estate	11	-	-	-	11
Commercial – other	48	-	-	-	48
Total public – activity overseas	59	-	-	-	59
Total public	765	-	2	532	1,299

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

(1) Accruing interest income.

(2) Included in impaired debts.

Commitments to grant additional credit to debtors who have undergone troubled debt restructuring with changes to the terms of the credit totaled approximately NIS 62 million as at June 30, 2020 (June 30, 2019: NIS 17 million; December 31, 2019: NIS 23 million).

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 13 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

Audited
NIS millions

B. Debts* (continued)

2. Additional information regarding impaired debts (continued)

c. Troubled debt restructuring (continued)

	December 31, 2019				
	Recorded debt balance				
	Not accruing interest income	Accruing ⁽¹⁾ , in arrears of 90 days or more	Accruing ⁽¹⁾ , in arrears of 30 to 89 days	Accruing ⁽¹⁾ , not in arrears	Total ⁽²⁾
Borrower activity in Israel					
Public – commercial					
Construction and real estate – construction	43	-	-	20	63
Construction and real estate – real-estate activities	45	-	-	25	70
Financial services	2	-	-	2	4
Commercial – other	328	-	-	144	472
Total commercial	418	-	-	191	609
Private individuals – other	323	-	-	384	707
Total public – activity in Israel	741	-	-	575	1,316
Borrower activity overseas					
Public – commercial					
Construction and real estate	10	-	-	-	10
Commercial – other	48	-	-	-	48
Total commercial	58	-	-	-	58
Total public	799	-	-	575	1,374

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

(1) Accruing interest income.

(2) Included in impaired debts.

Commitments to grant additional credit to debtors who have undergone troubled debt restructuring with changes to the terms of the credit totaled approximately NIS 62 million as at June 30, 2020 (June 30, 2019: NIS 17 million; December 31, 2019: NIS 23 million).

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 13 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

Unaudited
NIS millions

B. Debts* (continued)

2. Additional information regarding impaired debts (continued)

c. Troubled debt restructuring (continued)

	Debts restructured					
	In the three months ended June 30, 2020			In the six months ended June 30, 2020		
	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring
Borrower activity in Israel						
Public – commercial						
Construction and real estate – construction	63	31	31	130	38	38
Construction and real estate – real-estate activities	13	3	2	22	4	3
Financial services	7	2	2	12	2	2
Commercial – other	463	1,264	1,217	805	1,437	1,382
Total commercial	546	1,300	1,252	969	1,481	1,425
Private individuals – other	1,773	102	96	3,550	200	186
Total public – activity in Israel	2,319	1,402	1,348	4,519	1,681	1,611
Borrower activity overseas						
Public – commercial						
Construction and real estate	3	191	191	3	191	191
Commercial – other	2	72	72	2	72	72
Total commercial	5	263	263	5	263	263
Private individuals	2	-	-	6	-	-
Total public – activity overseas	7	263	263	11	263	263
Total public	2,326	1,665	1,611	4,530	1,944	1,874

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 13 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

Unaudited
NIS millions

B. Debts* (continued)

2. Additional information regarding impaired debts (continued)

c. Troubled debt restructuring (continued)

	Debts restructured					
	In the three months ended June 30, 2019			In the six months ended June 30, 2019		
	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring
Borrower activity in Israel						
Public – commercial						
Construction and real estate – construction	55	9	7	144	20	17
Construction and real estate – real-estate activities	9	4	3	16	16	13
Financial services	3	1	1	6	1	1
Commercial – other	336	66	56	758	134	122
Total commercial	403	80	67	924	171	153
Private individuals – other	1,806	114	88	4,064	229	197
Total public – activity in Israel	2,209	194	155	4,988	400	350
Borrower activity overseas						
Public – commercial						
Construction and real estate	-	-	-	1	-	-
Private individuals	2	-	-	3	-	-
Total public – activity overseas	2	-	-	4	-	-
Total public	2,211	194	155	4,992	400	350

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 13 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

Unaudited
NIS millions

B. Debts (continued)**

2. Additional information regarding impaired debts (continued)

c. Troubled debt restructuring (continued)

	Failed restructured debts*			
	In the three months ended June 30, 2020		In the six months ended June 30, 2020	
	Number of contracts	Recorded debt balance	Number of contracts	Recorded debt balance
Borrower activity in Israel				
Public – commercial				
Construction and real estate – construction	41	1	115	5
Construction and real estate – real-estate activities	2	-	4	-
Financial services	1	-	2	-
Commercial – other	209	7	471	24
Total commercial	253	8	592	29
Private individuals – other	1,080	11	2,189	33
Total public – activity in Israel	1,333	19	2,781	62
Borrower activity overseas				
Private individuals	2	-	3	-
Total public	1,335	19	2,784	62

* Debts that became debts in arrears of 30 days or more during the reporting period, and underwent troubled debt restructuring during the 12 months preceding the date on which they became debts in arrears.

** Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 13 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

Unaudited
NIS millions

B. Debts (continued)**

2. Additional information regarding impaired debts (continued)

c. Troubled debt restructuring (continued)

	Failed restructured debts*			
	In the three months ended June 30, 2019		In the six months ended June 30, 2019	
	Number of contracts	Recorded debt balance	Number of contracts	Recorded debt balance
Borrower activity in Israel				
Public – commercial				
Construction and real estate – construction	22	2	59	4
Construction and real estate – real-estate activities	3	-	6	5
Financial services	2	-	3	-
Commercial – other	106	9	258	20
Total commercial	133	11	326	29
Private individuals – other	575	14	1,350	30
Total public – activity in Israel	708	25	1,676	59
Borrower activity overseas				
Private individuals	1	-	5	-
Total public	709	25	1,681	59

* Debts that became debts in arrears of 30 days or more during the reporting period, and underwent troubled debt restructuring during the 12 months preceding the date on which they became debts in arrears.

** Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 13 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

NIS millions

B. Debts (continued)**

3. Additional information regarding housing loans – private individuals

End of period balances by financing ratio (LTV)*, repayment type, and interest type

June 30, 2020					
Balance of housing loans – private individuals					
	Total	Of which: bullet and balloon	Of which: floating interest rate	Off-balance sheet credit risk	
Unaudited					
First lien: financing rate	Up to 60%	60,214	1,685	38,476	3,646
	Over 60%	33,489	439	22,526	3,514
Secondary lien or no lien		827	39	475	411
Total		94,530	2,163	61,477	7,571

June 30, 2019					
Balance of housing loans – private individuals					
	Total ⁽¹⁾	Of which: bullet and balloon ⁽¹⁾	Of which: floating interest rate ⁽¹⁾	Off-balance sheet credit risk ⁽¹⁾	
Unaudited					
First lien: financing rate	Up to 60%	55,075	1,903	35,279	2,738
	Over 60%	29,816	546	20,455	2,000
Secondary lien or no lien		792	48	468	1,178
Total		85,683	2,497	56,202	5,916

December 31, 2019					
Balance of housing loans – private individuals					
	Total	Of which: bullet and balloon	Of which: floating interest rate	Off-balance sheet credit risk	
Audited					
First lien: financing rate	Up to 60%	57,519	1,764	36,832	3,687
	Over 60%	31,396	484	21,331	3,022
Secondary lien or no lien		787	45	468	558
Total		89,702	2,293	58,631	7,267

* Ratio of the approved credit facility, when the facility was granted, to the value of the asset, as approved by the Bank when the facility was granted.

** Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

(1) Reclassified. Housing loans granted to individuals in an economic sector other than "private individuals" were reclassified from "commercial" credit to "housing" credit.

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 13 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

Credit quality – LTV ratio

The LTV ratio provides another indication of credit quality for the Bank. The LTV ratio is the ratio of the amount of the loan to the estimated value of the financed asset, as approved by the Bank when the credit facility was granted. The LTV ratio is calculated at the time of approval of the credit, with the following exceptions:

1. Granting of additional credit secured by the same asset.
2. The borrower receives a loan from another corporation with a joint pari-passu lien on the asset.
3. Transfer of a mortgage.
4. A part of a credit facility that has not been utilized.
5. Substantial early repayment (10% or more).

The note presents balances of debt in respect of housing loans, with segmentation by ranges of LTV ratios and levels of liens.

C. Information regarding debt sales

For information regarding credit sale transactions, see [Note 10A\(4\)](#).

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 13 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

NIS millions

D. Off-balance sheet financial instruments

	June 30		December 31,		June 30		December 31,	
	2020		2019		2020		2019	
	Contract balances*				Allowance for credit losses			
	Unaudited		Audited		Unaudited		Audited	
Transactions the balance of which represents a credit risk:								
Documentary credit	559	788	816	4	6	4		
Credit guarantees	5,790	5,704	5,732	48	35	38		
Guarantees to purchasers of homes	19,491	21,247	20,019	51	45	45		
Guarantees and other commitments**	25,032	24,842	25,383	212	135	136		
Unutilized credit-card credit facilities under the Bank's responsibility	15,837	15,116	15,640	62	41	42		
Unutilized revolving overdraft and other credit facilities in on-demand accounts	48,205	43,474	44,695	156	107	103		
Irrevocable commitments to grant credit approved but not yet drawn***	36,209	33,103	33,279	156	105	106		
Commitments to issue guarantees	25,490	24,230	25,044	73	55	63		

* Contract balances or the nominal amounts thereof at year end, before the effect of the allowance for credit losses.

** Includes the Bank's liabilities in respect of its share in the risk fund of the Maof Clearing House, in the amount of NIS 88 million (December 31, 2019: NIS 94 million).

*** Includes commitments to grant credit given to customers in loans "approved in principle with a hold on the interest rate," under Proper Conduct of Banking Business Directive 451, "Procedures for Granting Housing Loans."

E. Guarantees

The Bank provides a wide range of guarantees and indemnities for its customers, in order to enable them to complete a wide variety of transactions. The maximum amount of potential future payments is established according to the nominal amount of the guarantees, without taking into consideration possible reimbursements or collateral held or pledged. To the extent necessary, the Bank customarily receives collateral or commitments of various kinds, such as deposits, securities, real estate, financial ratios, etc. Most of the guarantees at the Bank are assigned the rating at which the credit was granted.

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 13 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

NIS millions

E. Guarantees (continued)

June 30, 2020						
	Contract balances or nominal amounts					
	Expiring in 1 year or less	Expiring in 1 year to 3 years	Expiring in more than 3 years up to 5 years	Expiring in more than 5 years	No expiration date	Total
Unaudited						
Credit guarantees	4,111	744	99	802	34	5,790
Guarantees to purchasers of homes	2,930	-	-	-	16,561	19,491
Guarantees and other commitments	11,104	7,604	1,402	4,922	-	25,032
Commitments to issue guarantees	8,791	13,566	3,055	78	-	25,490
Total	26,936	21,914	4,556	5,802	16,595	75,803

June 30, 2019						
	Contract balances or nominal amounts					
	Expiring in 1 year or less	Expiring in 1 year to 3 years	Expiring in more than 3 years up to 5 years	Expiring in more than 5 years	No expiration date	Total
Unaudited						
Credit guarantees	3,637	1,112	111	796	48	5,704
Guarantees to purchasers of homes	4,698	-	-	-	16,549	21,247
Guarantees and other commitments	10,302	6,226	3,583	4,731	-	24,842
Commitments to issue guarantees	8,136	12,835	2,943	316	-	24,230
Total	26,773	20,173	6,637	5,843	16,597	76,023

December 31, 2019						
	Contract balances or nominal amounts					
	Expiring in 1 year or less	Expiring in 1 year to 3 years	Expiring in more than 3 years up to 5 years	Expiring in more than 5 years	No expiration date	Total
Audited						
Credit guarantees	3,472	1,298	101	815	46	5,732
Guarantees to purchasers of homes	3,036	-	-	-	16,983	20,019
Guarantees and other commitments	10,530	6,108	4,127	4,618	-	25,383
Commitments to issue guarantees	8,910	12,001	4,016	117	-	25,044
Total	25,948	19,407	8,244	5,550	17,029	76,178

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 14 Assets and Liabilities by Linkage Base

Unaudited
NIS millions

	June 30, 2020						
	Israeli currency		Foreign currency ⁽¹⁾			Non-monetary items*	Total
	Unlinked	CPI-linked	USD	EUR	Other		
Assets							
Cash and deposits with banks	98,468	-	12,773	830	962	-	113,033
Securities	38,894	1,668	23,870	406	108	1,567	66,513
Securities borrowed or purchased under agreements to resell	240	-	-	-	-	-	240
Net credit to the public ⁽²⁾	216,064	49,415	21,189	4,174	1,968	890	293,700
Credit to governments	639	-	854	1,055	-	-	2,548
Investments in equity-basis investees	50	-	-	-	-	172	222
Buildings and equipment	-	-	-	-	-	3,206	3,206
Assets in respect of derivative instruments	7,409	397	3,629	399	395	834	13,063
Other assets	4,801	7	161	124	52	1,610	6,755
Total assets	366,565	51,487	62,476	6,988	3,485	8,279	499,280
Liabilities							
Deposits from the public	287,848	11,813	86,257	10,855	3,106	937	400,816
Deposits from banks	2,595	-	538	270	15	-	3,418
Deposits from the government	222	1	201	-	-	-	424
Securities lent or sold under agreements to repurchase	-	-	-	-	4	-	4
Bonds and subordinated notes	578	24,451	156	-	11	-	25,196
Liabilities in respect of derivative instruments	7,496	586	4,590	466	399	803	14,340
Other liabilities	10,734	4,444	797	223	471	359	17,028
Total liabilities	309,473	41,295	92,539	11,814	4,006	2,099	461,226
Surplus assets (liabilities)	57,092	10,192	(30,063)	(4,826)	(521)	6,180	38,054
Effect of non-hedging derivatives:							
Derivative instruments (excluding options)	(33,641)	(1,538)	30,845	3,969	365	-	-
Options in the money, net (in terms of underlying asset)	563	-	(1,219)	675	(19)	-	-
Options out of the money, net (in terms of underlying asset)	(47)	-	(141)	319	(131)	-	-
Overall total	23,967	8,654	(578)	137	(306)	6,180	38,054
Options in the money, net (nominal present value)	495	-	(1,574)	1,058	21	-	-
Options out of the money, net (nominal present value)	392	-	(1,788)	1,508	(112)	-	-

* Including derivative instruments whose underlying asset refers to a non-monetary item.

(1) Including linked to foreign currency.

(2) After deduction of allowances for credit losses attributed to the linkage bases.

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 14 Assets and Liabilities by Linkage Base (continued)

Unaudited
NIS millions

	June 30, 2019						
	Israeli currency		Foreign currency ⁽¹⁾			Non-monetary items*	Total
	Unlinked	CPI-linked	USD	EUR	Other		
Assets							
Cash and deposits with banks	51,044	-	18,790	401	2,678	-	72,913
Securities	36,941	4,444	26,708	1,017	219	1,787	71,116
Securities borrowed or purchased under agreements to resell	326	-	-	-	-	-	326
Net credit to the public ⁽²⁾	212,290	47,946	20,702	4,388	2,242	1,055	288,623
Credit to governments	48	-	1,218	879	-	-	2,145
Investments in equity-basis investees	45	-	-	-	-	60	105
Buildings and equipment	-	-	-	-	-	3,053	3,053
Assets in respect of derivative instruments	5,688	832	1,954	210	135	756	9,575
Other assets	3,929	304	121	118	31	1,085	5,588
Investment constituting a discontinued operation	-	-	-	-	-	803	803
Total assets	310,311	53,526	69,493	7,013	5,305	8,599	454,247
Liabilities							
Deposits from the public	249,688	12,639	74,406	10,753	3,527	1,099	352,112
Deposits from banks	1,654	-	1,035	311	34	-	3,034
Deposits from the government	224	2	96	-	-	-	322
Securities lent or sold under agreements to repurchase	-	-	-	-	19	-	19
Bonds and subordinated notes	925	28,936	197	10	12	-	30,080
Liabilities in respect of derivative instruments	5,953	883	2,303	258	158	725	10,280
Other liabilities	**10,120	**4,552	2,708	246	374	851	18,851
Total liabilities	**268,564	**47,012	80,745	11,578	4,124	2,675	414,698
Surplus assets (liabilities)	**41,747	**6,514	(11,252)	(4,565)	1,181	5,924	39,549
Effect of non-hedging derivatives:							
Derivative instruments (excluding options)	(15,303)	(472)	12,783	4,528	(1,536)	-	-
Options in the money, net (in terms of underlying asset)	1,457	-	(723)	(585)	(149)	-	-
Options out of the money, net (in terms of underlying asset)	(407)	-	(419)	908	(82)	-	-
Overall total	**27,494	**6,042	389	286	(586)	5,924	39,549
Options in the money, net (nominal present value)	472	-	554	(965)	(61)	-	-
Options out of the money, net (nominal present value)	(324)	-	(2,286)	2,754	(144)	-	-

* Including derivative instruments whose underlying asset refers to a non-monetary item.

** Reclassification of employee benefit liability balances from the unlinked segment to the CPI-linked segment.

(1) Including linked to foreign currency.

(2) After deduction of allowances for credit losses attributed to the linkage bases.

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 14 Assets and Liabilities by Linkage Base (continued)

Audited
NIS millions

	December 31, 2019						
	Israeli currency		Foreign currency ⁽¹⁾			Non-monetary items*	Total
	Unlinked	CPI-linked	USD	EUR	Other		
Assets							
Cash and deposits with banks	69,744	-	15,802	204	2,372	-	88,122
Securities	35,283	700	20,687	909	134	1,773	59,486
Securities borrowed or purchased under agreements to resell	471	-	-	-	-	-	471
Net credit to the public ⁽²⁾	216,564	48,735	20,519	4,514	1,964	644	292,940
Credit to governments	66	-	980	925	-	-	1,971
Investments in equity-basis investees	48	-	-	-	-	144	192
Buildings and equipment	-	-	-	-	-	3,233	3,233
Assets in respect of derivative instruments	7,349	755	1,851	245	297	646	11,143
Other assets	4,524	7	77	96	41	536	5,281
Investment constituting a discontinued operation	-	-	-	-	-	849	849
Total assets	334,049	50,197	59,916	6,893	4,808	7,825	463,688
Liabilities							
Deposits from the public	256,968	11,693	78,124	10,755	3,408	697	361,645
Deposits from banks	2,074	-	1,097	336	13	-	3,520
Deposits from the government	386	2	297	-	-	-	685
Securities lent or sold under agreements to repurchase	-	-	-	-	3	-	3
Bonds and subordinated notes	955	25,724	152	10	12	-	26,853
Liabilities in respect of derivative instruments	7,645	975	2,274	249	304	603	12,050
Other liabilities	12,281	3,986	3,588	200	354	302	20,711
Total liabilities	280,309	42,380	85,532	11,550	4,094	1,602	425,467
Surplus assets (liabilities)	53,740	7,817	(25,616)	(4,657)	714	6,223	38,221
Effect of non-hedging derivatives:							
Derivative instruments (excluding options)	(27,418)	(523)	26,470	2,577	(1,106)	-	-
Options in the money, net (in terms of underlying asset)	69	-	(1,543)	1,444	30	-	-
Options out of the money, net (in terms of underlying asset)	(580)	-	(214)	774	20	-	-
Overall total	25,811	7,294	(903)	138	(342)	6,223	38,221
Options in the money, net (nominal present value)	(1,785)	-	(809)	2,736	(142)	-	-
Options out of the money, net (nominal present value)	(3,348)	-	565	2,445	338	-	-

* Including derivative instruments whose underlying asset refers to a non-monetary item.

(1) Including linked to foreign currency.

(2) After deduction of allowances for credit losses attributed to the linkage bases.

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 15 Balances and Fair-Value Estimates of Financial Instruments

Fair value of financial instruments

This note includes information concerning the assessment of the fair value of financial instruments. A "market price" cannot be quoted for the majority of financial instruments at the Bank because no active market exists in which they are traded. Fair value is therefore estimated by means of accepted pricing models, such as the present value of future cash flows discounted by a discounting interest rate that reflects the level of risk inherent in the financial instrument. An estimate of fair value by means of an assessment of future cash flows and the setting of a discounting interest rate is subjective. Therefore, for the majority of financial instruments, the following assessment of fair value is not necessarily an indication of the disposal value of the financial instrument on the reporting date. The fair value is assessed on the basis of the interest rates valid at the reporting date, and does not take interest-rate volatility into account. Under the assumption of different interest rates, fair values would be obtained that may differ materially. This mainly applies to financial instruments that bear a fixed rate of interest or that do not bear interest. In addition, the assessment of fair value does not take into consideration fees to be received or paid in the course of business activity, and does not include the effect of non-controlling interests or tax effects. Moreover, the difference between the balance sheet balance and fair value balances may not be realized, because in the majority of cases the financial instrument may be held to maturity by the Bank. Due to all of these factors, it should be emphasized that data included in this note are insufficient to indicate the value of the banking corporation as a going concern. In addition, due to the broad spectrum of assessment techniques and estimates that can be applied in assessing fair value, caution should be exercised when comparing fair values between different banks.

Principal methods and assumptions used to estimate the fair value of financial instruments

Deposits with banks, nonmarketable bonds and loans, and credit to the government – By discounting future cash flows according to the interest rates at which the Bank executed similar transactions at the reporting date.

Marketable securities – According to market value in the principal market.

Credit to the public – The fair value of the balance of credit to the public is estimated using the method of the present value of future cash flows, discounted by a suitable discount rate. The balance of credit was segmented into homogeneous categories. In each category, the flow of future receipts (principal and interest) was calculated. These receipts were discounted by an interest rate reflecting the level of risk inherent in the credit in that category.

This interest rate was usually determined according to the interest rate at which similar transactions were executed at the Bank at the reporting date.

The fair value of impaired debts was calculated using discount rates reflecting the high credit risk inherent in such debts. In any case, these discount rates were not lower than the highest interest rate used by the Bank in its transactions at the reporting date.

Future cash flows for impaired debts and other debts were calculated after the deduction of the effects of charge-offs and of allowances for credit losses in respect of the debts.

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 15 Balances and Fair-Value Estimates of Financial Instruments (continued)

Charge-offs and allowances for credit losses were attributed to the periods in which the debt was classified, where possible (e.g. when an allowance was calculated on an individual basis according to the present value of a cash flow). In the absence of such data, charge-offs and the allowance are attributed proportionally to the balance of credit, according to the term to maturity at the end of the period.

The calculation of fair value includes assumptions regarding early repayment of housing loans, in accordance with the estimates of the Bank, based on an examination of the historical data regarding early repayment in relation to parameters that explain such repayment. The effect of these assumptions on fair value resulted in a decrease of the fair value by NIS 5 million.

Deposits, bonds, and notes – By discounting future cash flows according to the interest rates at which the corporation raises similar deposits or the Bank issues similar bonds and notes (if a price quoted in an active market is not available) at the reporting date. With regard to bonds and subordinated notes traded as an asset in an active market, fair value is based on quoted market prices or on quotes from traders for an identical liability traded as an asset in an active market.

Inter-customer lending – Presented as credit and deposits, and measured according to the value of the loaned securities on the stock market.

Derivative financial instruments – Derivative financial instruments that have an active market were assessed at the market value established in the principal market.

Derivative financial instruments not traded in an active market were assessed on the basis of models used by the Bank in its routine operations, taking into account the risks inherent in the financial instrument.

The measurement of the fair value of derivative instruments takes the credit risk inherent in such transactions into account, among other factors.

Estimates of the fair value of assets in respect of derivative instruments also reflect the credit risk of the counterparty, and estimates of the fair value of liabilities in respect of derivative instruments also reflect the credit risk of the Bank.

Off-balance sheet financial instruments in which the balance represents credit risk – Fair value is presented according to the balance sheet balance of the fees in the aforesaid transactions, which constitute an approximation of the fair value.

Assets and liabilities for which fair value is measured based on Level 3 data – Items for which fair value is determined based on an indicative price from an independent entity, indicative price of a counterparty to the transaction, or evaluation models in which some of the significant inputs are unobservable; and items for which fair value is determined based on internal calculators or service bureaus, some of the inputs of which are unobservable.

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 15 Balances and Fair-Value Estimates of Financial Instruments (continued)

Unaudited
NIS millions

A. Balances and fair-value estimates of financial instruments

	Balance sheet balance	June 30, 2020			Total	
		Fair value ⁽ⁱ⁾		Level 1		
		Level 1	Level 2			
Financial assets						
Cash and deposits with banks	113,033	2,860	-	110,219	113,079	
Securities*	66,513	47,631	17,178	1,709	66,518	
Securities borrowed or purchased under agreements to resell	240	-	-	240	240	
Net credit to the public***	293,700	3,029	-	292,634	295,663	
Credit to governments	2,548	-	-	2,561	2,561	
Assets in respect of derivative instruments	13,063	826	9,610	2,627	13,063	
Other financial assets	1,241	11	-	1,334	1,345	
Total financial assets	**490,338	54,357	26,788	411,324	492,469	
Financial liabilities						
Deposits from the public***	400,816	4,423	-	397,996	402,419	
Deposits from banks	3,418	-	-	3,421	3,421	
Deposits from the government	424	-	-	439	439	
Securities lent or sold under agreements to repurchase	4	-	-	4	4	
Bonds and subordinated notes	25,196	23,610	1,551	263	25,424	
Liabilities in respect of derivative instruments	14,340	832	10,410	3,098	14,340	
Other financial liabilities	10,017	11	-	10,010	10,021	
Total financial liabilities	**454,215	28,876	11,961	415,231	456,068	
Off-balance sheet financial instruments						
Transactions in which the balance represents credit risk	-	-	-	201	201	

* Includes shares and options for which no fair value is available, which are stated at cost, in the amount of NIS 1,155 million. For further details regarding the balance sheet balance and fair value of securities, see [Note 5](#).

** Of which: assets and liabilities in the amount of NIS 84,046 million and in the amount of NIS 18,810 million, respectively, whose balance sheet balance is identical to their fair value (instruments presented at fair value in the balance sheet). For further information regarding instruments measured at fair value on a recurring basis and on a nonrecurring basis, see [Sections B-F](#).

*** Of which, a total of NIS 36 million in respect of embedded derivative instruments is included in the balance of deposits from the public.

- (1) Level 1 - Fair value measurements using quoted prices on an active market.
- Level 2 - Fair-value measurements using other significant observable inputs.
- Level 3 - Fair-value measurements using significant unobservable inputs.

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 15 Balances and Fair-Value Estimates of Financial Instruments (continued)

Unaudited
NIS millions

A. Balances and fair-value estimates of financial instruments (continued)

	Balance sheet balance	June 30, 2019			Total	
		Fair value ⁽¹⁾		Level 1		
		Level 1	Level 2			
Financial assets						
Cash and deposits with banks	72,913	3,460	-	69,458	72,918	
Securities**	71,116	*55,400	*14,160	1,558	71,118	
Securities borrowed or purchased under agreements to resell	326	-	-	326	326	
Net credit to the public****	288,623	3,852	-	285,764	289,616	
Credit to governments	2,145	-	-	2,155	2,155	
Assets in respect of derivative instruments	9,575	739	5,785	3,051	9,575	
Other financial assets	1,499	471	-	1,030	1,501	
Total financial assets	***446,197	*63,922	*19,945	363,342	447,209	
Financial liabilities						
Deposits from the public****	352,112	4,946	-	348,704	353,650	
Deposits from banks	3,034	-	-	3,035	3,035	
Deposits from the government	322	-	-	336	336	
Securities lent or sold under agreements to repurchase	19	-	-	19	19	
Bonds and subordinated notes	30,080	28,443	2,021	236	30,700	
Liabilities in respect of derivative instruments	10,280	740	5,815	3,725	10,280	
Other financial liabilities	12,282	471	-	11,847	12,318	
Total financial liabilities	***408,129	34,600	7,836	367,902	410,338	
Off-balance sheet financial instruments						
Transactions in which the balance represents credit risk	-	-	-	166	166	

* Reclassified.

** Includes shares and options for which no fair value is available, which are stated at cost, in the amount of NIS 1,065 million. For further details regarding the balance sheet balance and fair value of securities, see [Note 5](#).

*** Of which: assets and liabilities in the amount of NIS 87,114 million and in the amount of NIS 15,732 million, respectively, whose balance sheet balance is identical to their fair value (instruments presented at fair value in the balance sheet). For further information regarding instruments measured at fair value on a recurring basis and on a nonrecurring basis, see [Sections B-F](#).

**** Of which, a total of NIS 35 million in respect of embedded derivative instruments is included in the balance of deposits from the public.

(1) Level 1 – Fair-value measurements using quoted prices on an active market.

Level 2 – Fair-value measurements using other significant observable inputs.

Level 3 – Fair-value measurements using significant unobservable inputs.

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 15 Balances and Fair-Value Estimates of Financial Instruments (continued)

Audited
NIS millions

A. Balances and fair-value estimates of financial instruments (continued)

	Balance sheet balance	December 31, 2019			Total	
		Fair value ⁽¹⁾		Level 1		
		Level 1	Level 2			
Financial assets						
Cash and deposits with banks	88,122	2,887	-	85,255	88,142	
Securities*	59,486	44,374	13,615	1,501	59,490	
Securities borrowed or purchased under agreements to resell	471	-	-	471	471	
Net credit to the public***	292,940	3,411	-	291,570	294,981	
Credit to governments	1,971	-	-	1,982	1,982	
Assets in respect of derivative instruments	11,143	634	9,097	1,412	11,143	
Other financial assets	977	24	-	1,059	1,083	
Total financial assets	**455,110	51,330	22,712	383,250	457,292	
Financial liabilities						
Deposits from the public***	361,645	4,090	-	360,013	364,103	
Deposits from banks	3,520	-	-	3,503	3,503	
Deposits from the government	685	-	-	698	698	
Securities lent or sold under agreements to repurchase	3	-	-	3	3	
Bonds and subordinated notes	26,853	25,977	1,557	48	27,582	
Liabilities in respect of derivative instruments	12,050	638	11,025	387	12,050	
Other financial liabilities	13,173	24	-	13,154	13,178	
Total financial liabilities	**417,929	30,729	12,582	377,806	421,117	
Off-balance sheet financial instruments						
Transactions in which the balance represents credit risk	-	-	-	112	112	

* Includes shares and options for which no fair value is available, which are stated at cost, in the amount of NIS 1,021 million. For further details regarding the balance sheet balance and fair value of securities, see [Note 5](#).

** Of which: assets and liabilities in the amount of NIS 75,702 million and in the amount of NIS 16,207 million, respectively, whose balance sheet balance is identical to their fair value (instruments presented at fair value in the balance sheet). For further information regarding instruments measured at fair value on a recurring basis and on a nonrecurring basis, see [Sections B-F](#).

*** Of which, a total of NIS 43 million in respect of embedded derivative instruments is included in the balance of deposits from the public.

- (1) Level 1 – Fair-value measurements using quoted prices on an active market.
- Level 2 – Fair-value measurements using other significant observable inputs.
- Level 3 – Fair-value measurements using significant unobservable inputs.

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 15 Balances and Fair-Value Estimates of Financial Instruments (continued)

Unaudited
NIS millions

B. Items measured at fair value on a recurring basis

	June 30, 2020				Total fair value			
	Fair value measurements using			Significant unobservable inputs (Level 3)				
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)						
Assets								
Bonds available for sale								
Israeli government bonds	33,342	5,473	-	38,815				
Foreign government bonds	7,271	1,000	-	8,271				
Bonds of foreign financial institutions	79	6,245	175	6,499				
Bonds of foreign others	28	4,111	-	4,139				
Total bonds available for sale	40,720	16,829	175	57,724				
Investments in tradable shares not held for trading	61	349	-	410				
Securities held for trading								
Israeli government bonds	6,846	-	-	6,846				
Foreign government bonds	2	-	-	2				
Tradable shares	2	-	-	2				
Total securities held for trading	6,850	-	-	6,850				
Assets in respect of derivative instruments								
NIS-CPI contracts	-	314	261	575				
Other interest contracts	-	6,480	810	7,290				
Foreign-currency contracts	42	2,352	1,191	3,585				
Share contracts	784	455	337	1,576				
Commodity and other contracts	-	9	28	37				
Credit in respect of inter-customer lending	3,128	-	-	3,128				
Assets in respect of activity in the Maof market	11	-	-	11				
Total assets	51,596	26,788	2,802	81,186				
Liabilities								
Liabilities in respect of derivative instruments								
NIS-CPI contracts	-	432	42	474				
Other interest contracts	-	8,159	460	8,619				
Foreign-currency contracts	42	1,497	2,124	3,663				
Share contracts	790	297	460	1,547				
Commodity and other contracts	-	25	12	37				
Liabilities in respect of embedded derivatives	-	19	17	36				
Deposits in respect of inter-customer lending	3,128	-	-	3,128				
Liabilities in respect of activity in the Maof market	11	-	-	11				
Liabilities in respect of securities lending	1,295	-	-	1,295				
Total liabilities	5,266	10,429	3,115	18,810				

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 15 Balances and Fair-Value Estimates of Financial Instruments (continued)

Unaudited
NIS millions

B. Items measured at fair value on a recurring basis (continued)

	June 30, 2019				
	Fair value measurements using			Total fair value	
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)		
Assets					
Bonds available for sale					
Israeli government bonds	33,795	4,283	-	38,078	
Foreign government bonds	*13,098	*323	-	13,421	
Bonds of financial institutions in Israel	52	-	-	52	
Bonds of foreign financial institutions	207	7,193	183	7,583	
Bonds of others in Israel	-	20	-	20	
Bonds of foreign others	60	2,573	-	2,633	
Total bonds available for sale	*47,212	*14,392	183	61,787	
Investments in tradable shares not held for trading	268	448	-	716	
Securities held for trading					
Israeli government bonds	7,230	-	-	7,230	
Foreign government bonds	4	-	-	4	
Tradable shares	6	-	-	6	
Total securities held for trading	7,240	-	-	7,240	
Assets in respect of derivative instruments					
NIS-CPI contracts	-	273	159	432	
Other interest contracts	-	3,585	1,896	5,481	
Foreign-currency contracts	25	1,765	940	2,730	
Share contracts	714	150	38	902	
Commodity and other contracts	-	12	18	30	
Credit in respect of inter-customer lending	3,865	-	-	3,865	
Assets in respect of activity in the Maof market	471	-	-	471	
Total assets	*59,795	*20,625	3,234	83,654	
Liabilities					
Liabilities in respect of derivative instruments					
NIS-CPI contracts	-	163	91	254	
Other interest contracts	-	4,322	1,740	6,062	
Foreign-currency contracts	25	1,272	1,772	3,069	
Share contracts	715	46	104	865	
Commodity and other contracts	-	12	18	30	
Liabilities in respect of embedded derivatives	-	14	21	35	
Deposits in respect of inter-customer lending	3,865	-	-	3,865	
Liabilities in respect of activity in the Maof market	471	-	-	471	
Liabilities in respect of securities lending	1,081	-	-	1,081	
Total liabilities	6,157	5,829	3,746	15,732	

* Reclassified.

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 15 Balances and Fair-Value Estimates of Financial Instruments (continued)

Audited
NIS millions

B. Items measured at fair value on a recurring basis (continued)

	December 31, 2019				
	Fair value measurements using			Total fair value	
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)		
Assets					
Bonds available for sale					
Israeli government bonds	29,081	4,336	-	33,417	
Foreign government bonds	7,869	239	-	8,108	
Bonds of foreign financial institutions	148	6,505	177	6,830	
Bonds of foreign others	41	2,413	-	2,454	
Total bonds available for sale	37,139	13,493	177	50,809	
Investments in tradable shares not held for trading	628	122	-	750	
Securities held for trading					
Israeli government bonds	6,602	-	-	6,602	
Foreign government bonds	3	-	-	3	
Tradable shares	2	-	-	2	
Total securities held for trading	6,607	-	-	6,607	
Assets in respect of derivative instruments					
NIS-CPI contracts	-	256	116	372	
Other interest contracts	-	5,342	662	6,004	
Foreign-currency contracts	59	3,102	601	3,762	
Share contracts	575	392	23	990	
Commodity and other contracts	-	5	10	15	
Credit in respect of inter-customer lending	3,482	-	-	3,482	
Assets in respect of activity in the Maof market	24	-	-	24	
Total assets	48,514	22,712	1,589	72,815	
Liabilities					
Liabilities in respect of derivative instruments					
NIS-CPI contracts	-	221	3	224	
Other interest contracts	-	6,865	17	6,882	
Foreign-currency contracts	45	3,799	137	3,981	
Share contracts	593	127	229	949	
Commodity and other contracts	-	13	1	14	
Liabilities in respect of embedded derivatives	-	26	17	43	
Deposits in respect of inter-customer lending	3,482	-	-	3,482	
Liabilities in respect of activity in the Maof market	24	-	-	24	
Liabilities in respect of securities lending	608	-	-	608	
Total liabilities	4,752	11,051	404	16,207	

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 15 Balances and Fair-Value Estimates of Financial Instruments (continued)

Unaudited
NIS millions

C. Items measured at fair value on a nonrecurring basis

June 30, 2020				
	Fair value measurements using			
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
Assets measured at fair value on a nonrecurring basis				
Impaired credit the collection of which is contingent on collateral	-	-	603	603
Investments in shares	-	-	-	-
Total	-	-	603	603
				(1)(29)
				(2)-
				(29)

June 30, 2019				
	Fair value measurements using			
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
Assets measured at fair value on a nonrecurring basis				
Impaired credit the collection of which is contingent on collateral	-	-	648	648
Investments in shares	-	-	20	20
Total	-	-	668	668
				(1)(96)
				(2)(8)
				(104)

(1) Losses included in the statement of profit and loss under the item "provision for credit losses."

(2) Losses included in the statement of profit and loss under the item "non-interest financing income."

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 15 Balances and Fair-Value Estimates of Financial Instruments (continued)

Audited
NIS millions

C. Items measured at fair value on a nonrecurring basis (continued)

	December 31, 2019			Total fair value	Total profit (loss) in respect of changes in value in the period ended December 31, 2019		
	Fair value measurements using						
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)				
Assets measured at fair value on a nonrecurring basis							
Impaired credit the collection of which is contingent on collateral	-	-	502	502	(⁽¹⁾ 50		
Investments in shares	-	-	69	69	(⁽²⁾ (21)		
Total	-	-	571	571	29		

(1) Losses included in the statement of profit and loss under the item "provision for credit losses."

(2) Losses included in the statement of profit and loss under the item "non-interest financing income."

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 15 Balances and Fair-Value Estimates of Financial Instruments (continued)

Unaudited
NIS millions

D. Changes in items measured at fair value on a recurring basis included in Level 3

	For the three months ended June 30, 2020								
	Fair value as at March 31, 2020	Gains (losses) included in statement of profit and loss ⁽¹⁾⁽³⁾	Gains (losses) included in equity ⁽²⁾	Acquisitions	Extinguishment	Transfers to Level 3	Transfers from Level 3	Fair value as at June 30, 2020	Unrealized gains (losses) in respect of instruments held as at June 30, 2020
Assets									
Bonds available for sale									
Bonds of foreign financial institutions	185	(4)	(6)	-	-	-	-	175	^{(2)(t)} 11
Net balances in respect of derivative instruments									
NIS-CPI contracts	183	44	-	-	(8)	-	-	219	⁽³⁾ 36
Other interest contracts	221	193	-	2	(66)	-	-	350	^{(3)(t)} 199
Foreign-currency contracts	(102)	(588)	-	(11)	(232)	-	-	(933)	⁽³⁾ 189
Share contracts	1,217	(1,342)	-	-	2	-	-	(123)	⁽³⁾ (775)
Commodity and other contracts	46	(31)	-	4	(3)	-	-	16	⁽³⁾ (16)
Embedded derivatives	(10)	(4)	-	1	(4)	-	-	(17)	⁽³⁾ 6
Total	1,740	(1,732)	(6)	(4)	(311)	-	-	(313)	(350)

(1) Gains (losses) included in the statement of profit and loss under the item "interest income."

(2) Gains (losses) included in equity under the item "adjustments for presentation of securities available for sale at fair value."

(3) Gains (losses) included in the statement of profit and loss under the item "non-interest financing income."

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 15 Balances and Fair-Value Estimates of Financial Instruments (continued)

Unaudited
NIS millions

D. Changes in items measured at fair value on a recurring basis included in Level 3 (continued)

For the three months ended June 30, 2019									
	Fair value as at March 31, 2019	Gains (losses) included in statement of profit and loss ⁽¹⁾⁽³⁾	Gains (losses) included in equity ⁽²⁾	Acquisitions	Extinguishment	Transfers to Level 3	Transfers from Level 3	Fair value as at June 30, 2019	Unrealized gains (losses) in respect of instruments held as at June 30, 2019
Assets									
Bonds available for sale									
Bonds of foreign financial institutions	185	(3)	1	-	-	-	-	183	⁽²⁾⁽¹⁾ 11
Net balances in respect of derivative instruments									
NIS-CPI contracts	67	(4)	-	-	5	-	-	68	⁽³⁾ 1
Other interest contracts	74	(254)	-	(5)	341	-	-	156	⁽³⁾⁽¹⁾ (60)
Foreign-currency contracts	(599)	(1,180)	-	(160)	1,107	-	-	(832)	⁽³⁾ (358)
Share contracts	(59)	(13)	-	(2)	8	-	-	(66)	⁽³⁾ (62)
Commodity and other contracts	1	2	-	(1)	(2)	-	-	-	⁽³⁾ (30)
Embedded derivatives	(24)	(3)	-	-	6	-	-	(21)	⁽³⁾ (11)
Total	(355)	(1,455)	1	(168)	1,465	-	-	(512)	(509)

(1) Gains (losses) included in the statement of profit and loss under the item "interest income."

(2) Gains (losses) included in equity under the item "adjustments for presentation of securities available for sale at fair value."

(3) Gains (losses) included in the statement of profit and loss under the item "non-interest financing income."

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 15 Balances and Fair-Value Estimates of Financial Instruments (continued)

Unaudited
NIS millions

D. Changes in items measured at fair value on a recurring basis included in Level 3 (continued)

For the six months ended June 30, 2020									
	Fair value as at December 31, 2019	Gains (losses) included in statement of profit and loss ⁽¹⁾⁽³⁾	Gains (losses) included in equity ⁽²⁾	Acquisitions	Extinguishment	Transfers to Level 3	Transfers from Level 3	Fair value as at June 30, 2020	Unrealized gains (losses) in respect of instruments held as at June 30, 2020
Assets									
Bonds available for sale									
Bonds of foreign financial institutions	177	1	(3)	-	-	-	-	175	⁽²⁾⁽¹⁾ (3)
Net balances in respect of derivative instruments									
NIS-CPI contracts	113	115	-	-	(9)	-	-	219	⁽³⁾ 106
Other interest contracts	645	(192)	-	9	(112)	-	-	350	⁽³⁾⁽¹⁾ (159)
Foreign-currency contracts	464	(1,093)	-	110	(414)	-	-	(933)	⁽³⁾ (118)
Share contracts	(206)	(6)	-	-	89	-	-	(123)	⁽³⁾ (3)
Commodity and other contracts	9	16	-	-	(9)	-	-	16	⁽³⁾ -
Embedded derivatives	(17)	(3)	-	-	3	-	-	(17)	⁽³⁾ (3)
Total	1,185	(1,162)	(3)	119	(452)	-	-	(313)	(180)

(1) Gains (losses) included in the statement of profit and loss under the item "interest income."

(2) Gains (losses) included in equity under the item "adjustments for presentation of securities available for sale at fair value."

(3) Gains (losses) included in the statement of profit and loss under the item "non-interest financing income."

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 15 Balances and Fair-Value Estimates of Financial Instruments (continued)

Unaudited
NIS millions

D. Changes in items measured at fair value on a recurring basis included in Level 3 (continued)

For the six months ended June 30, 2019									
	Fair value as at December 31, 2018	Gains (losses) included in statement of profit and loss ⁽¹⁾⁽³⁾	Gains (losses) included in equity ⁽²⁾	Acquisitions	Extinguishment	Transfers to Level 3	Transfers from Level 3	Fair value as at June 30, 2019	Unrealized gains (losses) in respect of instruments held as at June 30, 2019
Assets									
Bonds available for sale									
Bonds of foreign financial institutions	191	(9)	1	-	-	-	-	183	⁽²⁾⁽¹⁾ 1
Net balances in respect of derivative instruments									
NIS-CPI contracts	54	10	-	-	4	-	-	68	⁽³⁾ 8
Other interest contracts	596	(771)	-	(15)	346	-	-	156	⁽³⁾⁽¹⁾ (362)
Foreign-currency contracts	404	(1,443)	-	(99)	306	-	-	(832)	⁽³⁾ (463)
Share contracts	62	(129)	-	(3)	4	-	-	(66)	⁽³⁾ (120)
Commodity and other contracts	40	(38)	-	(1)	(1)	-	-	-	⁽³⁾ (38)
Embedded derivatives	(14)	(15)	-	-	8	-	-	(21)	⁽³⁾ (15)
Total	1,333	(2,395)	1	(118)	667	-	-	(512)	(989)

(1) Gains (losses) included in the statement of profit and loss under the item "interest income."

(2) Gains (losses) included in equity under the item "adjustments for presentation of securities available for sale at fair value."

(3) Gains (losses) included in the statement of profit and loss under the item "non-interest financing income."

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 15 Balances and Fair-Value Estimates of Financial Instruments (continued)

Audited
NIS millions

D. Changes in items measured at fair value on a recurring basis included in Level 3 (continued)

For the year ended December 31, 2019									
	Fair value as at December 31, 2018	Gains (losses) included in statement of profit and loss ⁽¹⁾⁽³⁾	Gains (losses) included in equity ⁽²⁾	Acquisitions	Extinguishment	Transfers to Level 3	Transfers from Level 3	Fair value as at December 31, 2019	Unrealized gains (losses) in respect of instruments held as at December 31, 2019
Assets									
Bonds available for sale									
Bonds of foreign financial institutions	191	(12)	(2)	-	-	-	-	177	⁽²⁾⁽¹⁾ (2)
Net balances in respect of derivative instruments									
NIS-CPI contracts	54	83	-	-	(24)	-	-	113	⁽³⁾ 46
Other interest contracts	596	223	-	25	(199)	-	-	645	⁽³⁾⁽¹⁾ 149
Foreign-currency contracts	404	5	-	219	(164)	-	-	464	⁽³⁾ 3
Share contracts	62	(204)	-	-	(64)	-	-	(206)	⁽³⁾ 7
Commodity and other contracts	40	(17)	-	14	(28)	-	-	9	⁽³⁾ (5)
Embedded derivatives	(14)	(9)	-	(1)	7	-	-	(17)	⁽³⁾ (9)
Total	1,333	69	(2)	257	(472)	-	-	1,185	189

(1) Gains (losses) included in the statement of profit and loss under the item "interest income."

(2) Gains (losses) included in equity under the item "adjustments for presentation of securities available for sale at fair value."

(3) Gains (losses) included in the statement of profit and loss under the item "non-interest financing income."

E. During the period, there were no transfers of items measured at fair value from Level 3 measurement to Level 2 measurement, with the exception of transfers due to transaction counterparty risk. In accordance with the policy of the banking corporation, transfers from level to level are recognized as occurring at the end of the reported period.

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 15 Balances and Fair-Value Estimates of Financial Instruments (continued)

Unaudited

F. Additional information regarding significant unobservable inputs and assessment techniques used in the measurement of the fair value of items classified as Level 3

			June 30, 2020	
	Fair value	Assessment technique	Unobservable inputs	Range (weighted average by relative fair value)
NIS millions				
1. Items measured at fair value on a recurring basis				
Assets				
Bonds of foreign financial institutions	175	Quote from transaction counterparty		
Net balances in respect of derivative instruments				
NIS-CPI contracts	219	Currency and interest-rate derivatives pricing model	Transaction counterparty risk	0.47%-18.10% (5.25%)
Other interest contracts	350	Interest-rate derivatives pricing model	Transaction counterparty risk	0.47%-17.62% (3.10%)
Foreign-currency contracts	(933)	Option pricing model	Transaction counterparty risk	0.47%-17.59% (1.54%)
Share contracts	(140)	Share derivatives pricing model	Transaction counterparty risk	0.47%-17.36% (1.45%)
Share contracts	17	Option pricing model	Quote from counterparty	
Foreign-currency contracts	3	Option pricing model	Quote from counterparty	
Share contracts ⁽¹⁾	0.10	Option pricing model	Standard deviation	87.18%-87.18% (87.18%)
			Dividend yield	0.00%-0.00% (0.00%)
			Unlinked NIS interest rate	0.10%-0.10% (0.10%)
Commodity and other contracts	16	Currency derivatives pricing model	Transaction counterparty risk	0.47%-17.24% (3.64%)
Embedded derivatives ⁽²⁾	17	Option pricing model	Quote from counterparty	
2. Items measured at fair value on a nonrecurring basis				
Investment in non-tradable shares	-	Valuation		
Impaired credit the collection of which is contingent on collateral	603	Tradable assets – market value less an appropriate safety coefficient		
		Non-tradable assets – discounted cash flow less an appropriate safety coefficient		

Sensitivity analysis of fair-value measurements classified as Level 3:

- (1) An increase (decrease) in the standard deviation would lead to a significantly higher (lower) fair-value measurement. Conversely, an increase (decrease) in the dividend yield or in the discounting interest rate would lead to a significantly lower (higher) fair-value measurement.
- (2) An increase (decrease) in the discounting interest rate would lead to a significantly lower (higher) fair-value measurement.

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 15 Balances and Fair-Value Estimates of Financial Instruments (continued)

Unaudited

F. Additional information regarding significant unobservable inputs and assessment techniques used in the measurement of the fair value of items classified as Level 3 (continued)

			June 30, 2019	
	Fair value	Assessment technique	Unobservable inputs	Range (weighted average by relative fair value)
NIS millions				
1. Items measured at fair value on a recurring basis				
Assets				
Bonds of foreign financial institutions	183	Quote from transaction counterparty		
Net balances in respect of derivative instruments				
NIS-CPI contracts	68	Currency and interest-rate derivatives pricing model	Transaction counterparty risk	0.14%-5.92% (0.93%)
Other interest contracts	156	Interest-rate derivatives pricing model	Transaction counterparty risk	0.14%-16.54% (118%)
Foreign-currency contracts	(832)	Option pricing model	Transaction counterparty risk	0.14%-16.11% (1.05%)
Share contracts	(88)	Share derivatives pricing model	Transaction counterparty risk	0.14%-15.55% (0.44%)
Share contracts ⁽¹⁾	22	Option pricing model	Quote from counterparty	
			Standard deviation	48.20%-48.20% (48.20%)
			Dividend yield	0.00%-0.00% (0.00%)
			Unlinked NIS interest rate	0.62%-0.62% (0.62%)
Commodity and other contracts	-	Currency derivatives pricing model	Transaction counterparty risk	0.14%-15.45% (3.20%)
Embedded derivatives ⁽²⁾	(21)	Option pricing model	Quote from counterparty	
2. Items measured at fair value on a nonrecurring basis				
Investment in non-tradable shares	20	Valuation		
Impaired credit the collection of which is contingent on collateral	648	Tradable assets – market value less an appropriate safety coefficient		
		Non-tradable assets – discounted cash flow less an appropriate safety coefficient		

Sensitivity analysis of fair-value measurements classified as Level 3:

- (1) An increase (decrease) in the standard deviation would lead to a significantly higher (lower) fair-value measurement. Conversely, an increase (decrease) in the dividend yield or in the discounting interest rate would lead to a significantly lower (higher) fair-value measurement.
- (2) An increase (decrease) in the discounting interest rate would lead to a significantly lower (higher) fair-value measurement.

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 15 Balances and Fair-Value Estimates of Financial Instruments (continued)

Audited

F. Additional information regarding significant unobservable inputs and assessment techniques used in the measurement of the fair value of items classified as Level 3 (continued)

			December 31, 2019	
	Fair value	Assessment technique	Unobservable inputs	Range (weighted average by relative fair value)
NIS millions				
1. Items measured at fair value on a recurring basis				
Assets				
Bonds of foreign financial institutions	177	Quote from transaction counterparty		
Net balances in respect of derivative instruments				
NIS-CPI contracts	113	Currency and interest-rate derivatives pricing model	Transaction counterparty risk	0.41%-4.47% (1.75%)
Other interest contracts	645	Interest-rate derivatives pricing model	Transaction counterparty risk	0.35%-14.74% (1.68%)
Foreign-currency contracts	464	Option pricing model	Transaction counterparty risk	0.33%-14.44% (1.17%)
Share contracts	(223)			0.33%-0.43% (0.34%)
Share contracts	17	Option pricing model	Quote from counterparty	
Share contracts ⁽¹⁾	-	Option pricing model	Standard deviation	76.96%-76.96% (76.96%)
			Dividend yield	0.00%-0.00% (0.00%)
			Unlinked NIS interest rate	0.32%-0.32% (0.32%)
Commodity and other contracts	9	Currency derivatives pricing model	Transaction counterparty risk	1.01%-2.25% (2.00%)
Embedded derivatives ⁽²⁾	17	Option pricing model	Quote from counterparty	
2. Items measured at fair value on a nonrecurring basis				
Investment in non-tradable shares	69	Valuation		
Impaired credit the collection of which is contingent on collateral	502	Tradable assets – market value less an appropriate safety coefficient		
		Non-tradable assets – discounted cash flow less an appropriate safety coefficient		

Sensitivity analysis of fair-value measurements classified as Level 3:

- (1) An increase (decrease) in the standard deviation would lead to a significantly higher (lower) fair-value measurement. Conversely, an increase (decrease) in the dividend yield or in the discounting interest rate would lead to a significantly lower (higher) fair-value measurement.
- (2) An increase (decrease) in the discounting interest rate would lead to a significantly lower (higher) fair-value measurement.

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 16 Regulatory Initiatives

The coronavirus crisis and the banking system

The coronavirus crisis began in Israel in February 2020. In view of the crisis, requests from the banks, and the adjustments necessary in the activity of the banking system, the Bank of Israel issued a series of regulatory reliefs aimed at coping with the crisis.

The Bank of Israel issued Proper Conduct of Banking Business Directive 250, which grants reliefs in many areas.

Proper Conduct of Banking Business Directive 301, "Activity of the Board of Directors" – The board of directors of a bank is permitted to conduct board meetings without convening in person, without the restrictions in Directive 301 regarding the discussions and resolutions permitted in meetings conducted via telecommunications.

Proper Conduct of Banking Business Directive 308A, "Handling of Public Complaints" – Responses to public complaints may be provided in writing or orally, according to the circumstances. The processing, the bank's answer, and the bank's notification to the customer must be documented. In addition, pursuant to Section 10, the Supervisor has been granted authority, under exceptional circumstances, to extend the response and processing time for addressing complaints received.

Proper Conduct of Banking Business Directive 311, "Credit Risk Management" – The tax authorities have announced an extension of the period for submitting financial statements; the extension also applies to cases in which there is a requirement to receive financial statements in order to grant credit to borrowers.

Proper Conduct of Banking Business Directive 315, "Industry Indebtedness Limit" – Total credit (net of indebtedness for national infrastructures) to the construction and real-estate sector is raised from 20% to 22% of total indebtedness of the public. This relief will continue to apply for 24 months from the date of return to routine conditions (i.e., it will expire in September 2022 at the earliest), in order to allow the banks to return to a rate of 20%.

Proper Conduct of Banking Business Directive 325, "Management of Credit Facilities in Current Accounts" – During this period, there are expected to be more customers who encounter cash-flow problems due to the crisis. The amendments to the directive are aimed at allowing banks to accept debits of customers who deviate from the credit facility granted to them, and to provide unilateral additional credit facilities at a volume of NIS 5,000 for private customers and NIS 100,000 for commercial customers, for three days from the formation of the deviation.

Proper Conduct of Banking Business Directive 326, "Project Finance" – The definition stating that a bank must issue a guarantee to a buyer in respect of an amount paid through a payment stub within fourteen days has been canceled.

Proper Conduct of Banking Business Directive 329, "Limits on Issuing Housing Loans" – Banks will be permitted to grant all-purpose loans secured by a mortgage on a residence at a financing rate of up to 70%, versus the present rate of 50%. Loans will be granted according to this relief subject to a declaration of the borrower that the loan is not for the purpose of purchasing a residence as an investment. The bank can also rely on the income of the borrower prior to the period of the coronavirus, under certain conditions.

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 16 Regulatory Initiatives (continued)

Proper Conduct of Banking Business Directive 355, "Business Continuity Management" – Banks are permitted to operate in a reduced format, with minimal impairment of banking services for the public. The Banking Supervision Department has also approved the operation of mobile branches, in accordance with the general permit for banks to open and relocate branches during emergencies. The use of the permit to open mobile branches is limited to the end of the present situation, or until an emergency is declared and other instructions are given.

Proper Conduct of Banking Business Directive 357, "Information Technology Management" – The banks have received a six-month extension of the period for performance of a security survey for systems at high risk and e-banking systems, which was previously performed at least once every eighteen months.

Proper Conduct of Banking Business Directive 360, "Continuous Vacations" – The updates are intended to enable the banking system to manage the implementation of the requirement for continuous vacations in 2020, given that during the emergency period some employees worked in a "capsule" format.

Proper Conduct of Banking Business Directive 367, "E-Banking," and Proper Conduct of Banking Business Directive 420, "Sending Notices via Means of Communication" – In order to support the accessibility of existing communication channels to customers, with an emphasis on possibilities for remote activities, it has been agreed that banks are permitted to proactively send their customers messages through e-banking channels proposing registration for these services and guiding them on how to do so, even without having the customer sign an e-banking agreement. An update has also been issued according to which the volume of activity subject to the reliefs with regard to identification and verification will rise from NIS 50,000 to NIS 100,000.

Proper Conduct of Banking Business Directive 432, "Transferring Activity and Closing a Customer's Account" – The period has been extended from five business days to fourteen business days, from the customer's completion of the required actions.

Proper Conduct of Banking Business Directive 439, "Debits by Authorization" – The Bank of Israel allows banks to receive orders from customers to cancel debits by authorization or account debit authorizations via telephone, rather than only by written notice, provided that the call is documented.

Proper Conduct of Banking Business Directive 450, "Debt Collection Proceedings" – The customer's consent for a debt arrangement can also be obtained via telephone, without a signature.

Proper Conduct of Banking Business Directive 451, "Procedures for Extending Housing Loans" – The periods of time granted to banks for the issuance to customers of letters of intent, confirmation of settlement, and notification of insurance provided for a borrower on behalf of the bank have been extended.

Inception and transitional period – The reliefs were granted in a temporary order expiring September 30, 2020. The Supervisor, with the approval of the Governor of the Bank of Israel, is authorized to extend the temporary order by six additional months.

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 16 Regulatory Initiatives (continued)

Additional reliefs of other regulators

Emergency Regulations – Checks Without Cover: The Emergency Regulations – Checks Without Cover were approved by the government via a telephone survey on March 23, 2020. The regulations state that in view of the spread of the coronavirus, banks shall not restrict an account due to refused checks, during this period. The regulations expired on June 22, 2020. On July 29, the Ministry of Justice issued the draft Checks Without Cover Regulations (Qualifications of the Application of the Law due to the Continuation of the Coronavirus Crisis), 2020. The draft proposes that checks returned from June 23, 2020, to August 10, 2020 should be removed from the list of checks in respect of which an account is restricted.

Regulatory reforms for increased competition in the banking system

Several regulatory initiatives have been formulated over the last few years, with the primary aim of increasing competition in the banking system in Israel; several additional regulatory initiatives are in preliminary stages.

Law for Increasing Competition and Reducing Concentration in the Banking Market in Israel

The Law for Increasing Competition and Reducing Concentration in the Banking Market in Israel (Legislative Amendments), 2017, was published in January 2017, on the basis of the report of the public committee appointed by the Minister of Finance and the Governor of the Bank of Israel (the Strum Committee).

- The law states that credit-card companies are to be separated from the two largest banks (the Bank and Bank Leumi). The Bank completed its separation from the Isracard Group, as required by the Law for Increasing Competition, on March 9, 2020.
- As part of the infant competitor protections for the credit-card companies, the Bank will be required to reduce its credit facilities by 50%, relative to the credit facilities it allocated in 2015, by February 2021. Subsequently, the Bank will not be permitted to enlarge its credit facilities for three additional years. The Bank has begun the reduction of credit facilities and will comply with the schedule as required.

Law for Online Bank Account Switching

The law for the establishment of an automatic bank account switching system, based on the CASS (Current Account Switch Service) established in England, was passed by the Knesset in February 2018, as part of the economic plan (the Arrangements Law) for 2018. According to the law, banks will be required to allow secure online transfers for customers, within seven business days, at no cost to the customer.

In June 2019, the Governor of the Bank of Israel issued initial rules pursuant to the law, concerning the types of accounts for which the banks will be required to allow switching within the system. According to the data of the Bank of Israel, approximately 80% of current accounts of households will be transferable using the system. In June 2019, the Banking Supervision Department issued a draft of rules regarding the types of products transferable using the system. On December 16, 2019, the Bank of Israel issued the Banking Rules (Service to Customers) (Transferring the Financial Activity of Customers Between Banks), and Proper Conduct of Banking Business Directive 448, "Online Transfers of the Financial Activity of Customers Between Banks," which regulates the series of actions required of the receiving bank and the transferring bank when switching banks, and specifies the obligations applicable to each bank. Deferral of the inception of the law by six months, to September 22, 2021, was approved on June 30, 2020.

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 16 Regulatory Initiatives (continued)

Payment services reform

The Payment Services Law, issued in January 2019, will take effect on October 14, 2020, following a postponement. This law replaces the Charge Card Law; in essence, it will cause consumer protections previously restricted to cards to also apply to means of payments at banks, such as transfers from accounts and authorizations to debit accounts. Protections will also apply to innovative means of payment, such as payment applications, electronic wallets, and more. The main preparations required of the Bank concern adaptation of contracts, due disclosure, and notifications required for all means of payment offered by the Bank to its customers; obligations and responsibilities imposed upon the Bank with respect to abuse; and account debit authorizations, to which a section of the law is dedicated. The Bank is preparing to comply with the schedule, as required.

Open API

Within the Law for Increasing Competition in the Banking System, the Bank of Israel initiated the Open Banking Procedure. The procedure establishes rules for viewing by a third party of the financial information of a customer. The procedure states that access to the information of consenting customers will be granted using open API (open banking). The banks will allow third parties a secure connection to their databases, and, after receiving authorization from the customer, the third parties will be able to provide cost comparison and financial information collection services.

In practice, the Bank is obligated to allow the transfer of information regarding customers' accounts to third parties providing customers with consulting, cost comparison, and financial information summation services. Such transfer shall be subject to the customer's approval, and shall be performed using open API. An updated schedule was issued by the Bank of Israel on April 7, 2020: the banks are to be prepared with regard to a consent model, balances, and current-account transactions by March 31, 2021; October 10, 2021 – statements for bank and non-bank charge cards, and access to the issuance of orders to transfer payment from the customer's bank account; March 31, 2022 – access to additional information of customers – credit and loans, deposits and savings, and information regarding the customer's securities portfolio.

The Memorandum of Law for the Provision of Financial Information Services was released for comments from the public on June 24, 2020. The memorandum is expected to be incorporated in the next Arrangements Law.

Additional material directives and initiatives in 2019-2020

- IT services bureau – In March 2019, TCS was selected as the winning supplier to receive a grant from the Ministry of Finance for the establishment of an IT bureau, which will set up IT infrastructures and provide comprehensive banking IT services to financial entities. In August 2019, the Supervisor of Banks instructed the banks to prepare to connect to the IT services bureau during 2020. The Bank is preparing to comply with the directive as required.

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 16 Regulatory Initiatives (continued)

- Proper Conduct of Banking Business Directive, "Consumer Credit Management" – A second draft of a Proper Conduct of Banking Business Directive concerning the management of consumer credit was issued on February 18, 2020. The goal of the directive is to establish minimum standards and norms of conduct expected in the activity of the banking system with households, including:
 - Restriction of the scope of retail credit to the financial capability of the customer, and avoidance of granting credit that may constitute an excessive burden on the household.
 - Strict adherence to appropriate marketing processes towards customers.
 - Strict adherence to relevant and complete disclosure to customers.
 - Ensuring that remuneration mechanisms at the Bank do not encourage unfair conduct.
- Immediate payments – The Bank of Israel has notified the banks that the banks are required to complete connection to the immediate payment system being established at Masav (the Bank Clearing Center) by the end of October 2020. Beginning on that date, the banks are required to allow their customers to receive payments through the immediate payment service. The Bank is preparing to comply with this schedule.
- Exemption from restrictive arrangement for Masav – The Competition Authority has extended the restrictive arrangement exemption for Masav, which permits the cooperation between the member banks. The new exemption establishes conditions requiring Masav to accept, as a participant, any payment services provider legally permitted to participate and represented by a bank; the five largest banks are prohibited from unreasonably refusing to provide a non-bank entity with the representation services required for connection to Masav as a participant. In order to ensure the cooperation of the banks, the Competition Authority has prohibited banks from using the immediate payment system for the purposes of their own payment applications, unless the bank represents a non-bank entity and the represented entity transmits transactions through the immediate payment system, or until June 2022. Concurrently, the Payment Systems Division at the Bank of Israel issued a directive obligating banks not to "unreasonably refuse" the request of a payment services provider for representation in clearing. A bank that receives a request for representation must respond within thirty days, and the preparation period for representation shall be between three and eight months, depending on the type of representation.
- Proper Conduct of Banking Business Directive 432 – On July 1, 2020, the Bank of Israel issued an update of this directive, stating that customers will be permitted to submit a request to transfer a securities portfolio through online means, including submission of the reference materials necessary for examination of the request.

These regulatory initiatives sometimes have an adverse effect on the income and expenses of the Bank, and may sometimes have an adverse effect on the business of the Bank Group in the future. The Bank is reviewing the overall implications of the foregoing for the Bank's income, as well as additional long-term business and operational implications. These effects cannot be quantified at this stage, and depend on customers' behavior, additional regulatory changes, and the activity of competitors, among other factors.

Notes to the Condensed Financial Statements

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Note 17 Effects of the Coronavirus Crisis

The coronavirus spread rapidly around the world during the first quarter of 2020; in response, governments, including in Israel, took defensive measures such as restriction of international travel, quarantines, reduction of congregation and movement, lockdowns, restrictions of the activity of private businesses and of government and municipal services, and more. During the second quarter, as the pace of the spread of the virus slowed, economies began to gradually reopen, in Israel and globally. Towards the end of the second quarter and early in the third quarter, the spread of the virus reaccelerated in Israel, leading the government to apply various defensive measures again. The spread of the virus and the defensive measures taken have caused material economic damage and negative trends in the global economy and in the Israeli economy, and hurt global capital markets and the local market in the first quarter. In response, governments and central banks worldwide, including in Israel, have taken various measures, including grants, loans, intervention in capital markets, and more.

The coronavirus crisis has caused material worsening of activity in the economy in Israel, to which the activity of the Bank is exposed, and it has and is expected to have impacts on the business of the Bank, including due to an increase in credit risk and in liquidity problems of borrowers, in both the corporate and private sectors, and due to the deceleration of economic activity. The reduction of short-term interest rates by the central banks – the rate cuts already performed as well as probable additional reductions – also has the effect of reducing the future financing income and interest income of the Bank. This adds to the decreases in prices of tradable assets and the changes in bond spreads, which have an adverse effect on the value of the tradable assets of the Bank, and additional effects.

In view of the coronavirus crisis, and in order to ensure the ability of the banks to continue to offer credit, on March 31, 2020, the Banking Supervision Department reduced capital requirements for banks, under a temporary order, for a period of six months, with an option for extension. For further details regarding the directives of the Supervisor of Banks, capital-adequacy targets, and dividends, see [Note 9](#), above.

Due to the coronavirus crisis, the Bank recorded an increase in the provision for credit losses in the first half of 2020, in a total amount of approximately NIS 1,622 million. Most of the increase resulted from an increase in the collective allowance, in the amount of approximately NIS 1,409 million, including in respect of housing loans. This increase is further to an increase in the provision for credit losses in the amount of approximately NIS 676 million recorded in the annual financial statements for 2019 (published in the second half of March 2020, after the spread of the coronavirus), which included the effects of the spread of the virus already known at that time. The total increase in the provision for credit losses in respect of the spread of the coronavirus amounts to approximately NIS 2,298 million up to this point. In this context, note that due to the coronavirus crisis, loan payments (principal and/or interest) in the amount of approximately NIS 2,318 million were deferred by June 30, 2020.

Notes to the Condensed Financial Statements

as at June 30, 2020

Note 17 Effects of the Spread of the Coronavirus (continued)

While decreases in prices of tradable assets, and changes in interest-rate curves in Israel and globally and in bond spreads, exerted a negative effect on the value of the tradable assets of the Bank in the first quarter, the markets and the value of these assets recovered in the second quarter. The value of the share portfolio and the available-for-sale bond portfolio rose by approximately NIS 871 million during the second quarter, offsetting the declines of the first quarter (NIS 705 million). The effect of this increase on capital is mitigated by the allocation to capital of offsetting effects, mainly arising from the closing of the credit spreads used to determine the discount rate of employee benefit liabilities; the effect of the decrease in the discount rate led to an increase in the actuarial liability and to a corresponding decrease in capital in the amount of approximately NIS 519 million (compared with an increase in capital of NIS 662 million in the first quarter). As noted, at this stage it is not possible to estimate the full effects of the coronavirus crisis on the Bank or the scope thereof, due to the uncertainty surrounding the duration of the coronavirus crisis, the measures to be taken to stop such spread, and the severity thereof, as well as uncertainty concerning the resulting impacts on economic activity, capital-market trends, and various financial measures to be applied by governments, central banks, and regulators in this area.

Bank Hapoalim

Corporate Governance,
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Corporate Governance, Additional Information, and Appendices

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Corporate Governance, Additional Information, and Appendices

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5. Corporate governance

5.1. Internal audit

Details regarding the Group's internal auditing, including the professional standards under which internal audit operates and the considerations involved in formulating the annual and multi-year work plans, are provided in the Annual Report for 2019. No material changes occurred in this information during the reported period, other than those noted below.

With the development of the coronavirus pandemic, in accordance with the instructions of the Ministry of Health and the Banking Supervision Department, auditing temporarily operated with a reduced workforce. Internal audit reduced its routine activity and rechanneled resources to the examination of immediate risks and to the performance of necessary ad-hoc examinations. Upon resuming routine work amid the coronavirus pandemic, internal audit adjusted its work plan for 2020, with reference to the developments in the risk environment as a result of the crisis.

5.2. Other matters

Oded Eran resigned from his position as Chairman of the Board of Directors and as a director at the Bank on June 18, 2020, for health reasons, after taking a leave of absence due to illness beginning June 9, 2020. Mr. Eran passed away a few days later. The Board of Directors wishes to express its gratitude and appreciation for the late Mr. Eran and his family, for his immense contribution to the Bank during the years of his service, particularly in his leadership of the Board of Directors and in matters of corporate governance.

On June 28, 2020, the Board of Directors of the Bank resolved to elect Mr. Reuven Krupik to the position of Chairman of the Board of Directors of the Bank. This appointment took effect on July 28, 2020, after the Supervisor of Banks gave notice that he had no objection to the appointment. Prior to the appointment, Mr. Krupik served as Acting Chairman of the Board of Directors beginning June 9, 2020.

Further to the request of the Bank, in March 2020 the Committee for the Appointment of Directors at Banking Corporations issued a notice to the public regarding the submission of applications for service as a director at the Bank. In advance of the general meeting for 2020, a call for candidates was issued for three positions. Following the resignation of the late Oded Eran, as noted above, and an additional request by the Bank, the aforesaid committee issued another call for candidates in July 2020, for an additional position. Within the requests of the Bank, the committee was asked to propose candidates to the Bank for a total of four positions ahead of the annual meeting for 2020 (scheduled to convene in October 2020): two external directors, for the positions of Ronit Abramson-Rokach and Dalia Lev, who will complete their first terms of service in February and April 2021, respectively; and two "other" (non-external) directors for the vacant position and for the position of Moshe Koren, who will complete his term of service at the Bank (which has been extended by the Supervisor of Banks) upon the appointment of a director, as noted, after the annual meeting for 2020. In addition to the appointment of directors, as noted, the agenda of the annual meeting for 2020 is also expected to include the following matters: discussion of the financial statements of the Bank for 2019; approval of the reappointment of the external auditors of the Bank; approval of the remuneration policy for officers of the Bank; approval of the terms of service of the Chairman of the Board of Directors of the Bank; and approval of the terms of service and employment of the CEO of the Bank.

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Over the last few months, the Board of Directors of the Bank and the board committees have held frequent discussions of the spread of the coronavirus and the various aspects of its impact on the Bank and on the markets, including the business continuity of the activity of the Bank, the Bank's preparations for various scenarios, and preparation for "the day after." Taking into consideration the circumstances and the regulatory directives, including the Temporary Order issued by the Banking Supervision Department in connection with the crisis, most of the meetings of the Board of Directors and of the board committees have been held through telecommunications since March 2020, without in-person attendance.

Pursuant to the requirement of the Banking Supervision Department, the Board of Directors of the Bank resolved on March 18, 2020, to establish an independent committee headed by Supreme Court Justice (Retired) Prof. Yoram Danziger (the "Committee"). Based on the requirements of the Banking Supervision Department, the Committee will examine the managerial and supervisory processes that allowed the actions that are the subject of the American matter in its entirety, while addressing corporate governance aspects and the conduct of the senior management and the Board of Directors, and in this regard will form recommendations as needed. In addition, and noting the legal proceedings pending in connection with the investigations of the United States authorities, including a petition to approve a derivative claim and a petition for disclosure of documents prior to a derivative claim (see [Note 10](#) to the Condensed Financial Statements), the Board of Directors of the Bank decided that the Committee would also examine whether the best interests of the Bank justify initiating legal proceedings or other measures towards any third party, and/or reaching other arrangements. The Committee will form recommendations regarding the course of action that would optimally serve the best interests of the Bank, in view of all of the circumstances, and will submit its recommendations to the Board of Directors of the Bank. Upon approval of the resolutions with the United States authorities (see [Note 10D](#) to the Condensed Financial Statements), the work of the Committee began. The members of the Committee are: the Honorable Justice (Retired) Prof. Yoram Danziger (chairperson of the Committee), the Honorable Justice (Retired) Yosef Alon, Prof. Gideon Parchomovsky, and Ms. Ronit Abramson-Rokach (an external director of the Bank).

On June 30, 2020, the Board of Directors of the Bank, at the demand of the Banking Supervision Department, resolved to expand the mandate of the Committee to also encompass an examination of the FIFA affair (see [Note 10E](#) to the Condensed Financial Statements). Accordingly, the Committee will also examine the possible courses of action of the Bank to exhaust its rights in the FIFA affair, including in view of the proceeding for the disclosure of documents prior to filing a derivative claim (see [Note 10C\(1\)](#) to the Financial Statements, on page 184). In this context, the Committee will examine, among other matters, whether the best interests of the Bank justify initiating legal proceedings or other measures with any third party, and/or reaching other arrangements. The Committee will also examine the managerial and supervisory processes that allowed the actions that are the subject of the FIFA affair, while addressing corporate governance aspects and the conduct of senior management and the Board of Directors. The Committee will form recommendations regarding the course of action that would optimally serve the best interests of the Bank, in view of all of the circumstances, and will submit its recommendations to the Board of Directors of the Bank.

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On March 31, 2020, the Board of Directors of the Bank resolved to establish a board committee to monitor the implementation of the resolutions of the Bank with the United States authorities and to supervise the implementation of the requirements and obligations of the Bank included in the resolutions. See also [Note 10D](#) and [10E](#) to the Condensed Financial Statements.

In May 2020, the Remuneration Committee (pursuant to Regulation 1B(1) of the Companies Regulations (Reliefs in Transactions with Interested Parties), 2000 (the "Relief Regulations")) and the Board of Directors resolved to approve the extension of the directors' and officers' liability insurance policy of the Bank and of subsidiaries of the Bank for a period of up to one month (i.e. until June 30, 2020, instead of May 31, 2020, the expiration date of the previous insurance policy – see [Standard 29A of the Annual Periodic Report of the Bank for 2019, p. 530-531](#)), in consideration for a total premium of approximately USD 250,000, in order to complete negotiations with insurers regarding renewal of the policy. In June 2020, the Remuneration Committee (pursuant to Regulation 1B(1) of the Relief Regulations) and the Board of Directors of the Bank approved the acquisition of insurance coverage for liability of directors and officers at the Bank Group and monetary indebtedness imposed upon them due to their function as officers. The insurance coverage acquired also includes coverage for the company in respect of amounts for which it indemnifies officers, and in respect of securities claims, within liability limits of approximately USD 178 million, as well as additional coverage for directors and officers (Side A) with liability limits of USD 30 million (approximately USD 208 million in total), beginning July 1, 2020, for a period of twelve months. The total premium for the aforesaid insurance coverage is approximately USD 6.9 million.

Decentralization of the controlling core of the Bank and transition to a bank without a controlling core

Until November 2018, Ms. Shari Arison held the permit for control of the Bank, through Arison Holdings (1998) Ltd. ("Arison Holdings"). On November 22, 2018, Ms. Arison's control permit was replaced by a permit to hold means of control, which she received from the Bank of Israel (a "holding permit"), allowing the control of the Bank to be decentralized, and the Bank became a banking corporation without a controlling core. Pursuant to the terms of the holding permit, Ms. Arison, who holds approximately 15.7% of the shares of the Bank at the date of publication of this statement, is required to sell her holdings in the Bank in excess of 5% within several years (by November 2022, with possible extension by an additional two years, with the approval of the Supervisor of Banks). For additional information regarding the holding permit, the change in the structure of control of the Bank, and the consequences thereof, see [Section 6.6 in the Corporate Governance section of the Annual Financial Statements of the Bank for 2018](#).

6. Additional information regarding the business of the corporation and the management thereof

6.1. Segments of activity based on management approach

6.1.1. Private Customer Segment

General information and segment structure

The Bank provides a wide range of services to private customers, including routine account-management services, credit granting for various purposes, deposits, savings plans, and capital-market activity. In addition, the Bank offers services and solutions to customers with complex financial needs, through advanced products, global asset management, and a professional service package, which includes meetings, proactively initiated telephone calls, and an advanced advisory system aided by decision support tools.

Services are provided to the segment's customers through a network of 205 branches, a mobile branch, and the Bank's first advising center, Poalim Invest Harimon, as well as through direct channels, including self-service stations at branches and on customer premises, Poalim Online, Poalim Mobile, the Poalim by Telephone call center, the interactive voice response (IVR) system for information and transactions, and social media.

As part of the Bank's approach to service and social responsibility, the Bank considers accessibility to people with disabilities an essential issue and its duty as a business; accordingly, all of the Bank's services have been made accessible to people with disabilities.

There has been an ongoing trend of increasing banking activity through unstaffed channels (self-service automatic teller machines, the website, applications, the mobile site, and the automatic voice response at the Poalim by Telephone call center) over the last few years.

In addition to this trend, the Bank has increased the use of the service for scheduling appointments with bankers and added channels for scheduling appointments, allowing customers a high-quality, professional, individual appointment.

Actions taken by the Bank to cope with the spread of the coronavirus

Beyond the routinely operating mobile branch, two emergency mobile branches have been deployed, to enhance banking services. The mobile branches visit residential elderly care facilities, at customers' request, and areas characterized by crowded branches. The number of attendants at branches open to the public has been increased, in order to assist customers in operating digital means and self-service devices, while adhering to the instructions of the Ministry of Health.

Customers are advised to schedule appointments at the personal, private, and business banking departments. Appointments scheduled in advance are recommended for customers interested in cash services from a teller. Service is provided without a scheduled appointment for specified population groups: customers over the age of seventy, pregnant women, people with disabilities, customers without Israeli means of identification, and exceptional cases.

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A dedicated website has been established and is continually maintained, presenting all of the information, means of communication, and key actions taken by the Bank in order to continue to provide professional, accessible, available service. The Bank has made it easier for customers to receive service at the call centers, and added new transactions and options available through the automated voice response system and through bankers. The age threshold of the dedicated line for elderly customers has been lowered from 75 to 70 (customers who call this line receive service from a human banker, with high availability, sensitivity, and professionalism).

As part of the effort to cope with this complex and challenging situation, the Bank has introduced several products and processes aimed at providing relief to our customers, including:

- Allowing suspension of payments on mortgages and other loans, for private and business customers, for a period of up to six months.
- Designated loans for small businesses in amounts of up to NIS 400,000 per borrower, for periods of up to 24 months, with a grace period of up to six months.
- Loans for self-employed individuals, in collaboration with the Israel Chamber of Independent Organizations and Businesses, in amounts of up to NIS 10,000 per borrower, for periods of up to sixty months, with a grace period of up to six months.
- Larger credit facilities for private customers.
- Subsidized loans for Histadrut union workers in amounts of up to NIS 10,000 per borrower, for periods of up to sixty months.

Pension advising

In the second quarter of 2020, the coronavirus crisis continued to affect the behavior of the public and the economy; despite this, provident-fund returns showed a positive correction, due to gains in the capital market.

A gradual return to routine activity began in pension advising, and the number of advisory meetings increased, within the restrictions of the Ministry of Health, with the aim of resuming regular operations.

Technological changes that may have a material impact on the segment

Launch of Bank Hapoalim application

A new application allowing easy banking, which combines the most advanced technological capabilities and an individualized user experience with modern appearance and language and an advanced customer experience, focused value offers, and guidance of customers in informed financial decision-making. The application is being implemented gradually, for Android and iOS.

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Daily banking during the coronavirus period

In light of the coronavirus crisis, the Bank is preparing to expand the number of customers who use digital channels, while offering new digital services, with the aim of providing relief to customers during this period. Among other matters, new services have been made accessible through digital channels: submission of an application to defer mortgage payments directly through the website; deferral of credit-card payments through digital channels; increase of the grace period in Instant Credit to six months; deposits into targeted deposit plans adapted to turbulent market periods through the Bank's website; increase of the amounts of checks that can be deposited using the application; and more.

Regulatory changes – legislative restrictions, standards, and special constraints applicable to the segment

- On March 14, 2018, the Knesset plenum passed the Banking Chapter of the Bank Switching System Law (the plan for increasing competition in the banking market through the removal of barriers to switching), in the second and third readings. Pursuant to the law, banks will allow secure online transfers for customers, within seven business days, at no cost to the customer. The law will take effect within three years. On December 16, 2019, the Banking Supervision Department issued rules regarding the types of products transferable using the system, including authorizations to debit an account, management of negative balances in NIS and in foreign currency, management of securities, and more. A Proper Conduct of Banking Business Directive was also published on December 16, 2019, regulating the series of actions required of the receiving bank and the transferring bank when switching banks, which specifies the obligations applicable to each bank, among other matters. Deferral of the inception of the law by six months, to September 22, 2021, was approved on June 30, 2020.
- The Payment Services Law, issued in January 2019, will take effect on October 14, 2020, following a postponement. This law replaces the Charge Card Law; in essence, it will cause consumer protections previously restricted to cards to also apply to means of payments at banks, such as transfers from accounts and authorizations to debit accounts. Protections will also apply to innovative means of payment, such as payment applications, electronic wallets, and more. The main preparations required of the Bank concern adaptation of contracts, due disclosure, and notifications required for all means of payment offered by the Bank to its customers; obligations and responsibilities imposed upon the Bank with respect to abuse; and account debit authorizations, to which a section of the law is dedicated. The Bank is preparing to comply with the schedule, as required.
- Proper Conduct of Banking Business Directive, "Consumer Credit Management" – A second draft of a Proper Conduct of Banking Business Directive concerning the management of consumer credit was issued on February 18, 2020. The goal of the directive is to establish minimum standards and norms of conduct expected in the activity of the banking system with households, including:
 - Restriction of the scope of retail credit to the financial capability of the customer, and avoidance of granting credit that may constitute an excessive burden on the household.
 - Strict adherence to appropriate marketing processes towards customers.
 - Strict adherence to relevant and complete disclosure to customers.
 - Ensuring that remuneration mechanisms at the Bank do not encourage unfair conduct.

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- Immediate payments – The Bank of Israel has notified the banks that the banks are required to complete connection to the immediate payment system being established at Masav (the Bank Clearing Center) by the end of October 2020. Beginning on that date, the banks are required to allow their customers to receive payments through the immediate payment service. The Bank is preparing to comply with this schedule.
- Exemption from restrictive arrangement for Masav – The Competition Authority has extended the restrictive arrangement exemption for Masav, which permits the cooperation between the member banks. The new exemption establishes conditions requiring Masav to accept, as a participant, any payment services provider legally permitted to participate and represented by a bank; the five largest banks are prohibited from unreasonably refusing to provide a non-bank entity with the representation services required for connection to Masav as a participant. In order to ensure the cooperation of the banks, the Competition Authority has prohibited banks from using the immediate payment system for the purposes of their own payment applications, unless the bank represents a non-bank entity and the represented entity transmits transactions through the immediate payment system, until June 2022. Concurrently, the Payment Systems Division at the Bank of Israel issued a directive obligating banks not to “unreasonably refuse” the request of a payment services provider for representation in clearing. A bank that receives a request for representation must respond within thirty days, and the preparation period for representation shall be between three and eight months, depending on the type of representation.
- Proper Conduct of Banking Business Directive 432 – On July 1, 2020, the Bank of Israel issued an update of this directive, stating that customers will be permitted to submit a request to transfer a securities portfolio through online means, including submission of the reference materials necessary for examination of the request.

These regulatory initiatives sometimes have an adverse effect on the income and expenses of the Bank, and may sometimes have an adverse effect on the business of the Bank Group in the future. The Bank is reviewing the overall implications of the foregoing for the Bank's income, as well as additional long-term business and operational implications. These effects cannot be quantified at this stage, and depend on customers' behavior, additional regulatory changes, and the activity of competitors, among other factors.

For additional information regarding regulatory initiatives that may have an impact on the activity of the segment, including information regarding the Law for Increasing Competition and Reducing Concentration in the Banking Market in Israel (the “Strum Committee”), see [Note 16](#) to the Condensed Financial Statements.

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Table 6-1: Results of operations and principal data of the Private Customer Segment

	For the three months ended June 30		For the six months ended June 30	
	2020	2019*	2020	2019*
	NIS millions			
Total net interest income	549	722	1,204	1,446
Non-interest financing income	3	2	6	4
Total net financing profit	552	724	1,210	1,450
Fees and other income	338	383	744	737
Total income	890	1,107	1,954	2,187
Provision (income) for credit losses	293	65	424	122
Total operating and other expenses	902	886	1,760	1,789
Profit (loss) from continued operations before taxes	(305)	156	(230)	276
Provision for taxes (tax benefit) on profit (loss) from continued operations	(113)	53	(79)	99
Net profit (loss) attributed to shareholders of the Bank	(192)	103	(151)	177
Net credit to the public at the end of the reported period	38,433	42,856	38,433	42,856
Deposits from the public at the end of the reported period	210,550	187,977	210,550	187,977

* Reclassified.

Principal changes in net profit and balance sheet balances

The loss attributed to shareholders of the Bank in the Private Customer Segment totaled NIS 151 million in the first half of 2020, compared with net profit in the amount of NIS 177 million in the same period last year. Most of the decrease resulted from an increase in the provision for credit losses and a decrease in net financing profit. Net financing profit totaled NIS 1,210 million in the first half of 2020, compared with NIS 1,450 million in the same period last year. The decrease resulted from a decrease in credit balances, alongside a decrease in financial spreads on deposits, due to a decrease in the dollar interest rate.

Income from fees totaled NIS 744 million in the first half of 2020, compared with NIS 737 million in the same period last year. The increase mainly resulted from an increase in securities fees. This increase was partly offset by a decrease in account-management fees and in credit-card fees.

The provision for credit losses totaled NIS 424 million in the first half of 2020, compared with NIS 122 million in the same period last year. The increase mainly resulted from an increase in the collective allowance in respect of sound credit, as a result of an increase in allowance rates, due to the uncertainty arising from the effect of the coronavirus on the condition of the economy and of borrowers, and on the ability to identify and estimate credit losses inherent in the portfolio during the present period of significant uncertainty.

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Operating and other expenses of the segment totaled NIS 1,760 million in the first half of 2020, compared with NIS 1,789 million in the same period last year. The decrease mainly resulted from a decrease in salary expenses, resulting from continued cost savings due to efficiency processes; a decrease in bonus amounts, in view of the return on equity attained in the first half of 2020, as a result of the effects of the spread of the coronavirus; and the effects of the wage agreement, pursuant to which equity compensation for employees has been eliminated and replaced by wage increments granted beginning in May. A large expense for equity compensation was recorded in the first half of 2019, due to an increase in the share price of the Bank. By contrast, expenses increased due to a change in the Bank's estimate with regard to the balance of a contingent liability.

Net credit to the public totaled approximately NIS 38.4 billion as at June 30, 2020, compared with approximately NIS 41.5 billion as at December 31, 2019.

Deposits from the public totaled approximately NIS 210.6 billion as at June 30, 2020, compared with approximately NIS 188.8 billion as at December 31, 2019. The increase mainly resulted from customers' transition to conservative investment channels due to the effects of the spread of the coronavirus.

For additional information regarding credit risk with respect to private individuals, see "[Credit risk](#)" in the section "Review of risks" in the Report of the Board of Directors and Board of Management.

6.1.2. Small Business Segment

General information and segment structure

The Bank provides a range of banking services and financial products to small businesses. The segment's activities are conducted through the Bank's nationwide branch network and through the direct channels (see [the section "Private Customer Segment"](#) above). The branch network also provides necessary services to business customers of the Corporate and Commercial Segments.

Services for the segment's customers include routine account management, alongside extensive efforts aimed at support for and growth of this segment, including targeted credit tailored to customers' needs through a wide range of products.

Solutions for customers during the crisis

In addition to the information in the Private Customer Segment, the Bank introduced several products and processes to provide relief to business clients, including:

- Designated loans for small businesses in amounts of up to NIS 400,000 per borrower, for periods of up to 24 months, with a grace period of up to six months.
- Partially state-backed loans in amounts derived from customers' business turnover.

Small Business Segment – technological changes that may have a material impact on the segment

As the spread of the coronavirus began, the Bank took a series of measures aimed at helping small businesses continue their banking activities, including remotely, while offering new services to provide relief to customers during this period.

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Measures to assist small businesses

- Establishment of a designated loan fund for self-employed individuals – In April 2020, the Bank and the organization Lahav founded a loan fund targeted to the self-employed, at a volume of NIS 0.5 billion, with interest rates similar to those offered in state-backed loans. Loan applications are submitted in a quick, convenient process on the website or application.
- Suspension of loans using digital channels – The Bank allows customers to suspend loan payments for several months, through the website or application of the Bank, in order to provide cash-flow relief to small businesses that are not corporations (companies).

Regulatory changes – legislative restrictions, standards, and special constraints applicable to the segment

See "[Private Customer Segment](#)," above.

Table 6-2: Results of operations and principal data of the Small Business Segment

	For the three months ended June 30		For the six months ended June 30	
	2020	2019*	2020	2019*
NIS millions				
Total net interest income	334	407	711	821
Non-interest financing income	1	-	3	1
Total net financing profit	335	407	714	822
Fees and other income	125	145	276	288
Total income	460	552	990	1,110
Provision (income) for credit losses	159	89	299	167
Total operating and other expenses	314	307	608	614
Profit (loss) from continued operations before taxes	(13)	156	83	329
Provision for taxes (tax benefit) on profit (loss) from continued operations	(9)	55	33	121
Net profit (loss) attributed to shareholders of the Bank	(4)	101	50	208
Net credit to the public at the end of the reported period	31,095	31,583	31,095	31,583
Deposits from the public at the end of the reported period	52,853	44,115	52,853	44,115

* Reclassified.

Principal changes in net profit and balance sheet balances

Net profit attributed to shareholders of the Bank in the Small Business Segment totaled NIS 50 million in the first half of 2020, compared with NIS 208 million in the same period last year. The decrease mainly resulted from an increase in the provision for credit losses, and from a decrease in net financing profit.

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Net financing profit totaled NIS 714 million in the first half of 2020, compared with NIS 822 million in the same period last year. The decrease resulted from a decrease in financial spreads on credit and from a decrease in spreads on deposits, due to a decrease in the dollar interest rate.

Income from fees totaled NIS 276 million in the first half of 2020, compared with NIS 288 million in the same period last year. The decrease mainly resulted from a decrease in account-management fees and credit-card fees. This decrease was partly offset by an increase in securities fees.

The provision for credit losses totaled NIS 299 million in the first half of 2020, compared with NIS 167 million in the same period last year. The increase resulted from an increase in the collective allowance in respect of sound credit, as a result of an increase in allowance rates, due to the uncertainty arising from the effect of the coronavirus on the condition of the economy and of borrowers, and on the ability to identify and estimate credit losses inherent in the portfolio during the present period of significant uncertainty.

Net credit to the public totaled approximately NIS 31.1 billion as at June 30, 2020, compared with approximately NIS 31.0 billion as at December 31, 2019.

Deposits from the public totaled approximately NIS 52.9 billion as at June 30, 2020, compared with approximately NIS 46.0 billion as at December 31, 2019.

6.1.3. Housing Loan Segment

General information and segment structure

The Bank offers housing loans to private customers, from Bank funds as well as through government assistance programs, at Mishkan representative offices within branches located nationwide.

Competition

Mortgages are a price-oriented product: a mortgage is a significant economic transaction for households, and customers therefore tend to conduct market surveys and compare prices. This market is therefore characterized by a high level of competition.

Regulatory changes – legislative restrictions, standards, and special constraints applicable to the segment

Extensive, dedicated regulation applies to housing loans, in addition to the general regulation applicable to credit granted by the Bank.

- Since the beginning of the coronavirus crisis, the Bank has allowed customers with housing loans who meet the criteria to defer loan payments for up to three months (principal and interest payments). Following the instruction of the Bank of Israel of May 7, 2020, an extension for three additional months is possible. When loan payments are deferred, the customer does not perform the scheduled payments during the deferral period; the deferred payments are added to the loan principal balance and spread over the remaining period of the original loan.
- Following the instructions of the Bank of Israel of July 10, 2020, customers who have already received a deferral of loan payments can defer the payments until the end of 2020, even if the deferral exceeds six months. Customers who have not yet deferred loan payments can defer payments for a period of six months; the application to defer the loan payments can be submitted until October 30, 2020.

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- In the first quarter of 2020, a relief was granted in Proper Conduct of Banking Business Directive 329, due to the coronavirus crisis, permitting the granting of all-purpose loans with a lien on a residential property at a financing rate of up to 70% (the limit on the financing rate was 50% prior to this relief).
- Additional reliefs due to the coronavirus crisis were granted in Proper Conduct of Banking Business Directive 329 in the second quarter of 2020:
 1. Banking corporations are permitted to consider the average income of a borrower in the three months preceding unpaid leave. The payment to income ratio of the borrower after the unpaid leave begins cannot exceed 70%.
 2. The requirement to raise the common equity Tier 1 capital target at the rate of 1% of the balance of housing loans has been suspended with respect to loans approved during the period of the Temporary Order.

Table 6-3: Results of operations and principal data of the Housing Loan Segment

	For the three months ended June 30		For the six months ended June 30	
	2020		2019*	
	NIS millions			
Total net interest income	240	204	475	398
Fees and other income	12	15	27	30
Total income	252	219	502	428
Provision for credit losses	244	12	276	19
Total operating and other expenses	79	74	153	145
Profit (loss) from continued operations before taxes	(71)	133	73	264
Provision for taxes (tax benefit) on profit (loss) from continued operations	(30)	44	30	93
Net profit (loss) attributed to shareholders of the Bank	(41)	89	43	171
Net credit to the public at the end of the reported period	93,898	85,333	93,898	85,333

* Reclassified.

Principal changes in net profit and balance sheet balances

Net profit attributed to shareholders of the Bank in the Housing Loan Segment totaled NIS 43 million in the first half of 2020, compared with NIS 171 million in the same period last year. The decrease mainly resulted from an increase in the provision for credit losses, partly offset by an increase in net financing profit.

Net financing profit totaled NIS 475 million in the first half of 2020, compared with NIS 398 million in the same period last year. The increase resulted from an increase in credit volumes.

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The provision for credit losses totaled NIS 276 million in the first half of 2020, compared with NIS 19 million in the same period last year. The increase resulted from an increase in the collective allowance in respect of sound credit, as a result of an increase in allowance rates, due to the uncertainty arising from the effect of the coronavirus on the condition of the economy and of borrowers, and on the ability to identify and estimate credit losses inherent in the portfolio during the present period of significant uncertainty.

Credit to the public totaled approximately NIS 93.9 billion as at June 30, 2020, compared with approximately NIS 89.3 billion as at December 31, 2019. The increase resulted from an increase in the volume of activity.

For additional information regarding risks in the housing-loan portfolio, see [Section 3.2.6](#) in the chapter "Review of risks" in the Report of the Board of Directors and Board of Management.

6.1.4. Commercial Segment

General information and segment structure

The Commercial Segment provides a wide range of banking services to middle-market business clients. The segment operates through business centers for established customers and business centers for growing customers. Operational services for the segment's customers are provided by a nationwide network of service centers.

Customers

The main areas of activity of the segment's customers are industry, commerce, and construction and real estate. These customers primarily operate in the domestic market; the segment also serves customers engaged in import and export activities. Most of the growth in this segment stems from the construction and real-estate sector. As part of its strategy, the Bank is focusing on deepening its activity with customers in the commerce sector.

The second quarter this year was characterized by a sharp drop in the level of economic activity, as a result of the lockdowns and restrictions on economic activity. The number of job seekers reached more than one million during the quarter. The government began to lift the restrictions on economic activity in May, following a steep decrease in the number of new coronavirus cases, and the number of workers on unpaid leave began to fall. The number of confirmed new coronavirus cases began to rise again during the month of June. Indicators of economic activity show that economic activity grew after the removal of the restrictions, but remained substantially lower than before the outbreak of the pandemic. The yield-generating commercial real estate sector has been hurt by the decrease in economic activity; uncertainty in the real-estate sector in general has greatly increased, due to the damage to households' income and the expected reduction of activity of business firms.

For further details regarding the effects of the coronavirus, see [the section "Risk management"](#) in the Report of the Board of Directors and Board of Management.

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Table 6-4: Management approach activity segments – results of operations and principal data of the Commercial Segment

	For the three months ended June 30		For the six months ended June 30	
	2020		2019*	
	NIS millions			
Total net interest income	266	273	547	534
Non-interest financing income	3	2	9	5
Total net financing profit	269	275	556	539
Fees and other income	86	91	188	180
Total income	355	366	744	719
Provision for credit losses	123	13	298	14
Total operating and other expenses	122	131	239	253
Profit from continued operations before taxes	110	222	207	452
Provision for taxes on profit from continued operations	44	78	87	165
Net profit attributed to shareholders of the Bank	66	144	120	287
Net credit to the public at the end of the reported period	40,920	38,687	40,920	38,687
Deposits from the public at the end of the reported period	28,060	23,545	28,060	23,545

* Reclassified.

Principal changes in net profit and balance sheet balances

Net profit attributed to shareholders of the Bank in the Commercial Segment totaled NIS 120 million in the first half of 2020, compared with NIS 287 million in the same period last year. The decrease mainly resulted from an increase in the provision for credit losses.

Net financing profit totaled NIS 556 million in the first half of 2020, compared with NIS 539 million in the same period last year. The increase mainly resulted from an increase in the volume of credit.

Income from fees totaled NIS 188 million in the first half of 2020, compared with NIS 180 million in the same period last year. The increase mainly resulted from an increase in fees from financing transactions.

The provision for credit losses totaled NIS 298 million in the first half of 2020, compared with a provision of NIS 14 million in the same period last year. The increase mainly resulted from an increase in the provision recorded on a collective basis in respect of sound credit, due to the uncertainty arising from the effect of the coronavirus on the condition of the economy and of borrowers, and on the ability to identify and estimate credit losses inherent in the portfolio during the present period of significant uncertainty. An additional increase resulted from an increase in the collective allowance in respect of problematic debts.

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Operating and other expenses of the segment totaled NIS 239 million in the first half of 2020, compared with NIS 253 million in the same period last year. The decrease mainly resulted from a decrease in salary expenses, resulting from continued cost savings due to efficiency processes; a decrease in bonus amounts, in view of the return on equity attained in the first half of 2020, as a result of the effects of the spread of the coronavirus; and the effects of the wage agreement, pursuant to which equity compensation for employees has been eliminated and replaced by wage increments granted beginning in May. A large expense for equity compensation was recorded in the first half of 2019, due to an increase in the share price of the Bank.

Net credit to the public totaled approximately NIS 40.9 billion as at June 30, 2020, compared with approximately NIS 40.1 billion as at December 31, 2019.

Deposits from the public totaled approximately NIS 28.1 billion as at June 30, 2020, compared with approximately NIS 25.1 billion as at December 31, 2019. The increase mainly resulted from customers' transition to conservative investment channels due to the effects of the spread of the coronavirus.

6.1.5. Corporate Segment

General information and segment structure

The Corporate Segment specializes in providing financial services to large corporations in Israel. Credit granting constitutes its principal area of activity. The segment operates through three sectors, each of which contains specialist Customer Relationship Managers (CRMs):

- Real estate;
- Industry, commerce, and hotels;
- Infrastructures and energy.

The sector also specializes in complex financing products, including foreign-trade financing, financing of working capital, financing of assets overseas, complex financing transactions, syndication, and credit-risk sales.

Also operating within the Corporate Banking Division is the Special Credit Area, which coordinates the handling of customers experiencing financial difficulties in the Corporate and Commercial Segments and endeavors to assist them in restructuring by providing business support.

For details regarding the effect of the coronavirus outbreak, see [Section 6.1.4](#), "Commercial Segment," above.

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Table 6-5: Management approach activity segments – results of operations and principal data of the Corporate Segment

	For the three months ended June 30		For the six months ended June 30	
	2020		2019*	
	NIS millions			
Total net interest income	354	343	700	687
Non-interest financing income	27	20	72	39
Total net financing profit	381	363	772	726
Fees and other income	130	117	267	233
Total income	511	480	1,039	959
Provision for credit losses	241	116	529	96
Total operating and other expenses	154	155	301	298
Profit (loss) from continued operations before taxes	116	209	209	565
Provision for taxes (tax benefit) on profit (loss) from continued operations	44	69	86	204
Net profit (loss) attributed to shareholders of the Bank	72	140	123	361
Net credit to the public at the end of the reported period	73,868	75,718	73,868	75,718
Deposits from the public at the end of the reported period	54,461	50,014	54,461	50,014

* Reclassified.

Principal changes in net profit and balance sheet balances

Net profit attributed to shareholders of the Bank in the Corporate Segment totaled NIS 123 million in the first half of 2020, compared with NIS 361 million in the same period last year. The decrease mainly resulted from an increase in the provision for credit losses, partly offset by an increase in net financing profit and in income from fees.

Net financing profit totaled NIS 772 million in the first half of 2020, compared with NIS 726 million in the same period last year. The increase resulted from an increase in income from the activity of the dealing room, due to an increase in the volume of transactions as a result of the volatility in the market.

Income from fees totaled NIS 267 million in the first half of 2020, compared with NIS 233 million in the same period last year. The increase mainly resulted from an increase in credit-handling fees and in securities fees. The provision for credit losses totaled NIS 529 million in the first half of 2020, compared with a provision of NIS 96 million in the same period last year. The increase mainly resulted from an increase in the provision on an individual basis, due to a decrease in recovery of charged-off debts, and in the provision recorded on a collective basis in respect of sound credit, due to the uncertainty arising from the effect of the coronavirus on the condition of the economy and of borrowers.

Net credit to the public totaled approximately NIS 73.9 billion as at June 30, 2020, compared with approximately NIS 75.7 billion as at December 31, 2019.

Deposits from the public totaled approximately NIS 54.5 billion as at June 30, 2020, compared with approximately NIS 53.0 billion as at December 31, 2019.

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6.1.6. International activity

General information

The international activity of the Bank Group includes the New York branch and representative offices, Hapoalim Switzerland, and Bank Pozitif in Turkey, as well as relationships with banks around the world.

Most of the international business banking activity of the Bank is conducted through the New York branch, which focuses on providing comprehensive banking services to Israeli companies operating in the United States, as well as to local companies and clients, including credit, foreign trade, deposits, and dealing-room services. The New York branch also offers its customers FDIC deposit insurance. The branch also grants credit through the acquisition of participations.

Activity with banks includes trading through dealing rooms, cooperation in foreign trade and international trade financing, project financing, clearing of payments, and capital-market services (see [the section "Credit exposure to foreign financial institutions"](#)).

In the area of global private banking, the Bank is completing the process of discontinuing its operations overseas and closing its subsidiaries.

Legislative restrictions, standards, and special constraints applicable to international activity

In addition to the rules and limits imposed by the Bank of Israel on the international activity of the Bank Group, pursuant to legislation and regulations, as well as the provisions of permits granted by the Bank of Israel for the acquisition of subsidiaries and/or opening of branches abroad, the activity of the International Banking Segment in the various countries is subject to standards relevant to the nature of activity of the Group in the countries in which its business is conducted (cross-border regulations) and to regulatory supervision by various government agencies in the countries in which the Bank's overseas offices operate, including requirements concerning capital, holdings of liquid assets, compliance, the prohibition of money laundering, etc.

For details regarding the conclusion of the investigation of the Bank Group's business with American customers, see [Note 10D](#) to the Condensed Financial Statements.

For details regarding the conclusion of the investigation of the Bank in connection with senior officials of the Fédération Internationale de Football Association (FIFA), see [Note 10E](#) to the Condensed Financial Statements.

Main international banking units

New York branch

Most of the Bank Group's international business banking is conducted through the New York branch and through representative offices, as well as through relationships maintained with banks around the world. The New York branch has activity in the middle-market sector in the United States, through the development of relationships with and granting of direct credit to local commercial clients. The branch also operates in the syndication market, as a complementary activity.

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Hapoalim (Switzerland) Ltd. (Hapoalim Switzerland)

In September 2017, the Bank decided to act to discontinue the activity of Hapoalim Switzerland; since that time, the Bank has been working to transfer the balance of the global private banking customer asset portfolio of Hapoalim Switzerland at its branches in Switzerland and Luxembourg, through a sale or by other means. The Bank is acting to return the license, as required in order to withdraw the company from the supervisory authority of FINMA.

Banque Hapoalim (Luxembourg) S.A. (Banque Hapoalim Luxembourg)

A banking subsidiary (wholly owned by the Bank), mainly engaged in granting credit to corporations with an affinity to Israel operating in Europe. In June 2019, as part of the process of strengthening control over overseas activities, the Board of Directors of the Bank resolved to act to close Banque Hapoalim Luxembourg, by transferring its existing credit portfolio to Israel or settling its balance, and to continue its financing activity in certain countries in Europe directly through the Bank in Israel. Banque Hapoalim Luxembourg intends to contact the regulator in Luxembourg during the third quarter with a request to return its bank license.

Activity of the Bank in Turkey

The Bank Group currently operates in Turkey through Bank Pozitif Kredi Ve Kalkınma Bankası Anonim Şirketi (hereinafter: "Bank Pozitif"), which specializes in corporate banking.

The Bank's stake in Bank Pozitif stands at 69.8%. For further details, see [Section 2.6](#) in the Report of the Board of Directors and Board of Management.

In view of the economic and political situation in Turkey, a decision was made within the strategic plan of the Bank to act to sell the investment in Bank Pozitif. Accordingly, the Bank is working to gradually reduce the credit portfolio of Bank Pozitif.

In October 2019, the Bank engaged a Turkish investment bank, jointly with the minority shareholder of Bank Pozitif, to assist in finding potential buyers. The Bank estimates that it is not expected to recover the full amount of its investment in the company, and that most of the consideration is likely to be contingent.

In addition, the minority shareholder of Bank Pozitif has contentions against the Bank in connection with the alleged effect of the foregoing on the results of Bank Pozitif. The general manager of the bank resigned in July 2020. Due to the various disagreements, the Bank is conducting ongoing dialogue with the minority shareholder with regard to the conduct of Bank Pozitif and the activity of its board of directors. Within this dialogue, various alternatives are under discussion with respect to the division of the expected consideration from the sale of Bank Pozitif.

Following a proposal received by the Bank for the acquisition of Bank Pozitif, taking into consideration the discussions of the various alternatives with the minority shareholder, as noted, the Bank adjusted the fair value of the expected consideration, stated the value of the investment in capital at a total of approximately NIS 3 million (compared with NIS 33 million as at December 31, 2019), and recorded a provision for impairment in the amount of NIS 30 million. Near the date of publication of the financial statements, the Bank received another proposal from a different offeror, better than the proposal noted above. Taking into consideration, among other matters, the conditions in Turkey, the circumstances of Bank Pozitif, and past experience, the Bank is unable to estimate the probability of realization of this proposal.

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Bank Hapoalim provides a credit line to Bank Pozitif, the pricing of which is based on an ordered methodology. In light of the coronavirus crisis, the increase in market risks in Turkey was reflected in high pricing of the interest on the credit line. The Bank of Israel approved the request of Bank Hapoalim for an exception, such that the interest rate for renewal of the credit line is lower than the interest rate determined by the ordered methodology. This request is based on the challenging conditions of the Turkish economy and of Bank Pozitif, and on the expectations of the Turkish regulator.

Following the aforesaid approval, Bank Hapoalim must deduct the indebtedness in respect of the credit line from its regulatory capital, pursuant to Proper Conduct of Banking Business Directive 312.

Table 6-6: Results of operations and principal data of the International Activity Segment

	For the three months ended June 30		For the six months ended June 30	
	2020		2020	
	NIS millions			
Total net interest income	82	110	187	234
Non-interest financing income	(1)	(12)	18	1
Total net financing profit	81	98	205	235
Fees and other income	13	18	27	34
Total income	94	116	232	269
Provision for credit losses	69	22	107	18
Total operating and other expenses	117	253	320	426
Loss from continued operations before taxes	(92)	(159)	(195)	(175)
Provision for taxes (tax benefit) on profit (loss) from continued operations	(15)	(2)	(20)	15
Net profit (loss)				
Before attribution to non-controlling interests	(77)	(157)	(175)	(190)
Attributed to non-controlling interests	3	4	6	7
Loss attributed to shareholders of the Bank	(74)	(153)	(169)	(183)
Net credit to the public at the end of the reported period	12,772	12,654	12,772	12,654
Deposits from the public at the end of the reported period	17,927	16,957	17,927	16,957

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Principal changes in net profit and balance sheet balances

The loss attributed to shareholders of the Bank in the International Activity Segment totaled NIS 169 million in the first half of 2020, compared with NIS 183 million in the same period last year. The decrease in loss mainly resulted from a decrease in legal expenses, partly offset by expenses recorded in respect of revaluation of the provision in connection with the investigation of the Bank Group's business with American customers. The principal changes in the results of international activity are set out below:

- The loss of the New York branch totaled approximately NIS 33 million in the first half of 2020, compared with net profit of approximately NIS 60 million in the same period last year. The loss mainly resulted from an increase in the provision for credit losses, due to an increase in the rate of the collective allowance, as a result of the uncertainty arising from the effect of the coronavirus on the condition of the economy and of borrowers, and from a decrease in net financing profit.
- The loss of Hapoalim Switzerland totaled approximately NIS 121 million in the first half of 2020, compared with a loss in the amount of approximately NIS 216 million in the same period last year. The decrease in loss resulted from a decrease in legal expenses attributed to the investigation of the Bank Group's business with American customers. However, expenses were recorded in the first half of 2020 in respect of revaluation of the provision for the American investigation, versus income recorded in the same period last year. In addition, a loss was recorded in the first half of 2019 in respect of the transaction for the sale of the customer asset portfolio of Hapoalim Switzerland.
- In the first half of 2020, loss from impairment was recognized in respect of the investment in Pozitif, in the amount of NIS 30 million, and the Bank stated its share in the capital of Pozitif at a total of NIS 3 million.

Total credit to the public in international activity amounted to approximately NIS 12.8 billion as at June 30, 2020, compared with approximately NIS 12.9 billion as at December 31, 2019.

- Credit to the public at the New York branch totaled approximately NIS 12.4 billion as at June 30, 2020, similar to the balance as at December 31, 2019. Credit in middle-market activity totaled approximately NIS 11 billion, of which a total of approximately NIS 4.7 billion in respect of syndication transactions, similar to the balance as at December 31, 2019.
- Credit to the public at Bank Pozitif in Turkey totaled approximately NIS 0.4 billion as at June 30, 2020, similar to the balance at the end of 2019.

Total deposits from the public in international activity amounted to approximately NIS 18.0 billion as at June 30, 2020, compared with approximately NIS 16.1 billion as at December 31, 2019.

- The balance of deposits from the public at the New York branch totaled approximately NIS 18.0 billion as at June 30, 2020, compared with approximately NIS 16.1 billion as at December 31, 2019. In middle-market activity, deposits totaled approximately NIS 7.2 billion, compared with approximately NIS 7.8 billion as at December 31, 2019. The balance of brokered CD deposits from the public totaled approximately NIS 10.8 billion, compared with approximately NIS 8.3 billion as at December 31, 2019.

6.1.7. Financial Management Segment

General information and structure

The activity of this segment includes:

- Activity in the banking book – Management of assets and liabilities, including the management of market and liquidity risks (for details regarding these risks, see [the section "Review of risks"](#) in the Report of the Board of Directors and Board of Management), through the establishment of internal transfer prices (see below), investment portfolio management, issuance of bonds and notes, and the execution of transactions in derivative financial instruments. The segment's activity in the banking book is mostly conducted through the Asset and Liability Management (ALM) units in Israel and abroad, and through the Nostro Investment Management Unit, which is responsible for managing the portfolio of government and corporate bonds and the portfolio of shares, and for coordination of activity at the level of the Group.
- Activity in the trading books – Market making and trading activity in the dealing rooms in the areas of foreign currency, interest rates, and OTC derivatives.
- Activity with customers – The provision of research and trading services to the Bank's customers for the execution of transactions in Israeli and foreign securities through the Brokerage Unit, and execution of transactions for customers in derivative financial instruments in NIS, foreign currency, interest rates, indices, and commodities through the dealing rooms. Service is provided to a range of customers including institutional entities, business firms, selected private customers, and foreign customers. The dealing room also serves as a market maker in government bonds. The segment's activity with customers also includes support for the development and pricing of sophisticated financial products, custody services, tradable and non-tradable derivatives, and operational services for mutual funds.

The Bank provides its customers with advanced trading services in Israeli and foreign securities, as well as in derivative financial instruments, currencies, interest rates, indices, and commodities.

Service is provided to a range of clients, including large institutional entities, portfolio managers, mutual funds, proprietary trading firms, hedge funds, business firms, selected private customers, and foreign customers.

Bank Hapoalim is the largest market maker in the world in NIS/foreign-currency trading. Activity in the dealing room is conducted through dedicated desks providing individual service to customers with unique activities in foreign currency, alongside professional trading departments.

The Brokerage Department at the Bank encompasses the Research Unit and two dealing rooms, one for Israeli securities and one for foreign securities, and offers professional trading services to local and international investors as well as professional analysis services.

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Table 6-7: Management approach activity segments – results of operations and principal data of the Financial Management Segment⁽¹⁾

	For the three months ended June 30		For the six months ended June 30	
	2020		2019	
	NIS millions			
Total net interest income	340	405	530	617
Non-interest financing income	161	143	375	180
Total net financing profit	501	548	905	797
Fees and other income	26	33	52	73
Total income	527	581	957	870
Provision (income) for credit losses	(1)	2	4	4
Total operating and other expenses	128	102	222	205
Profit (loss) from continued operations before taxes	400	477	731	661
Provision for taxes (tax benefit) on profit (loss) from continued operations	132	155	284	209
Profit from continued operations after taxes	268	322	447	452
The Bank's share in profits of equity-basis investees, after taxes	1	4	2	4
Net profit (loss)				
Before attribution to non-controlling interests	269	326	449	456
Attributed to non-controlling interests	2	(1)	4	4
Net profit (loss) attributed to shareholders of the Bank	271	325	453	460
Net credit to the public at the end of the reported period	2,714	1,792	2,714	1,792
Deposits from the public at the end of the reported period	36,965	29,504	36,965	29,504

(1) The Financial Management Segment includes, among other matters, activity with institutional entities, most of which are presented in the information regarding supervisory activity segments as a separate segment.

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Principal changes in net profit and balance sheet balances

Net profit attributed to shareholders of the Bank in the Financial Management Segment totaled NIS 453 million in the first half of 2020, compared with NIS 460 million in the same period last year. The decrease mainly resulted from a decrease in fees, partly offset by an increase in net financing profit.

Net financing profit of the segment totaled NIS 905 million in the first half of 2020, compared with NIS 797 million in the same period last year. The increase resulted from an increase in income from exchange-rate differences, mainly due to hedging of currency exposures of non-monetary items. In addition, income from the activity of the dealing room increased, due to an increase in the volume of transactions as a result of the volatility in the market resulting from the coronavirus crisis. Profit also increased due to a change in the differences between the fair value of derivatives that are part of the asset and liability management of the Bank and the measurement of the same assets on an accrual basis, and profits from investment in bonds increased. By contrast, losses from investment in shares resulted from a decline in the market value of the shares in the capital market in the first quarter, due to the coronavirus crisis, partly offset by an increase in market value in the second quarter. In addition, income from linkage differentials decreased due to changes in the rate of increase of the known CPI between the periods.

Income from fees totaled NIS 52 million in the first half of 2020, compared with NIS 73 million in the same period last year. The decrease mainly resulted from a decrease in operations and trust fees of institutional entities, due to the discontinuation of the activity of providing operational services for provident funds and study funds to management companies in July 2019.

Net credit to the public totaled approximately NIS 2.7 billion as at June 30, 2020, compared with approximately NIS 2.4 billion as at December 31, 2019.

Deposits from the public totaled approximately NIS 37.0 billion as at June 30, 2020, compared with approximately NIS 32.6 billion as at December 31, 2019.

For details regarding the effect of the spread of the coronavirus on foreign financial institutions, see [the section "Credit risk"](#) in the "Review of Risks" in the Report of the Board of Directors and Board of Management.

6.1.8. Adjustments

This section includes activities of the Bank Group with negligible volumes, each of which does not form a reportable segment. This includes, among other things: (1) the results of the subsidiaries Poalim Sahar Ltd., Poalim Capital Markets Investment House Ltd., and Peilim Investment Portfolio Management Ltd.; (2) capital gains from the sale of buildings and equipment; (3) legal and other provisions and expenses in connection with the investigation of the Bank Group's business with American customers not attributed to international activity; (4) adjustments of inter-segmental activities.

The segment also includes the activity of the Isracard Group, which was classified as a discontinued operation, until its distribution as a dividend in kind in March 2020.

Note that during 2020, Poalim Sahar is expected to cease providing custody and brokerage services to customers and to terminate its status as a member of the stock exchange.

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Principal changes in net profit and balance sheet balances

The loss attributed to shareholders of the Bank in the Other Segment totaled NIS 144 million in the first half of 2020, compared with net profit in the amount of NIS 211 million in the same period last year.

The loss from continued operations attributed to shareholders of the Bank in the segment totaled NIS 35 million in the first half of 2020, compared with a loss in the amount of NIS 31 million in the same period last year. The increase in loss mainly resulted from an expense for revaluation of the liability in respect of the provision in connection with the investigation of the Bank Group's business with American customers, compared with income in the same period last year, in which the dollar exchange rate fell. This increase was offset by an increase in profit from the sale of assets and a decrease in legal expenses in connection with the American investigation.

In addition, the Other Segment includes loss attributed to a discontinued operation, which totaled NIS 109 million in the first half of 2020, compared with profit in the amount of NIS 242 million in the same period last year. The loss from a discontinued operation in the first half of 2020 resulted from recognition of loss from impairment of the investment in Isracard, in the amount of approximately NIS 109 million (after tax effect), due to the decrease in the share price to a level lower than the balance of the investment in the Bank's books as at December 31, 2019, compared with the price immediately prior to its distribution as a dividend in kind to the shareholders. The Bank's share in the profits of the Isracard Group and in profit from the sale of 65% of the shares of Isracard, in the amount of NIS 137 million, were included in the same period last year.

6.2. Ratings of the Bank

The following ratings have been assigned to the Bank by rating agencies in Israel and abroad:

Table 6-8: Ratings

	Rating agency	Long-term foreign currency	Short-term foreign currency	Rating outlook	Last update
Israel – sovereign rating					
	Moody's	A1		Stable	April 2020
	S&P	AA-	A-1+	Stable	May 2020
	Fitch Ratings	A+	F1+	Stable	April 2020
Bank Hapoalim					
	Moody's	A2	P-1	Stable	August 2020
	S&P	A	A-1	Stable	July 2020
	Fitch Ratings	A	F1+	Stable	July 2020
	Rating agency	Long-term local currency	Short-term local currency	Rating outlook	Last update
Local rating (in Israel)					
	S&P Maalot	iAAA		Stable	July 2020
	Midroog	Aaa.il	P-1	Stable	December 2019

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In May 2020, S&P Maalot affirmed a rating of AA for notes issued by Poalim Hanpakot Ltd., with a loss-absorption mechanism (CoCo), which will be recognized as Tier 2 capital in accordance with the Basel 3 directives. On the same date, Midroog also affirmed a rating of Aa3 with a Positive outlook for these notes. In August 2020, S&P Maalot affirmed a rating of AA for notes to be issued by the Bank, with a loss-absorption mechanism (CoCo), which will be recognized as Tier 2 capital in accordance with the Basel 3 directives. On the same date, Midroog also affirmed a rating of Aa3 with a Positive outlook for these notes.

6.3. Social involvement and contribution to the community; social responsibility

As part of the Bank Hapoalim Group's vision, strategy, and corporate values, the Bank is committed to an active, leading role in the community, alongside its business leadership and economic initiatives, implemented through "Poalim for the Community" at the Social Banking Center.

This involvement is part of an advanced managerial approach stating that an organization that operates within the community, and draws both its employees and customers from it, is an integral part of that community, and as a business leader, should strengthen the community and take a leading role in the advancement and improvement of conditions for all members of the community, especially those who are underprivileged. In the spirit of this business philosophy, the Bank conducts a varied and extensive range of community-oriented activities that take the form of social involvement, monetary donations, and large-scale volunteer activities.

The community engagement of Poalim for the Community in the first half of 2020 was expressed in a cumulative financial expenditure of approximately NIS 8.6 million.

During this period, as Israeli society contends with the impact of the coronavirus, within the long-standing commitment of the Bank to society and to the community, the Bank has launched several proactive efforts focused on specific goals: assistance for the labor market, assistance for medical and health-care services, and assistance for population segments hurt by the crisis.

Poalim Employment

The coronavirus crisis caused turmoil in the employment market across the economy. Young people just embarking on their careers and adults aged forty or older in various segments found themselves facing a severe crisis. The Bank mobilized to provide support through projects and partnerships focused on boosting employment and offering tools to people ejected from the job market. Notable examples include a joint venture by Bank Hapoalim and the organization Be-Atzmi providing emotional and professional guidance and support during the job search process to thousands of people who have lost their jobs or are looking for work, with referrals to professionals in order to take full advantage of their rights, while building plans for economic behavior and employment suited to them.

Bank Hapoalim also sponsored Career Fair 2020, a virtual high-tech industry job fair conducted via Zoom for engineers in the Arab community.

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Assistance for medical and health-care services

- The Bank donated a total of NIS 750,000 to fifteen hospitals across Israel, for the wards on the front lines of the battle against the coronavirus pandemic.
- 570 food and snack packages were delivered to twenty hospitals nationwide for the medical teams treating coronavirus patients.
- A dedicated button was developed in the Bit application allowing users to donate to Magen David Adom emergency services, quickly and easily, for the acquisition of lifesaving equipment kits for paramedics. The Bank also donated NIS 0.5 million to Magen David Adom.

Assistance and support for population segments hurt by the crisis

- 2,000 food packages were distributed by Bank employees to Holocaust survivors, solitary elderly people, and families in distress.
- Hundreds of craft kits and games were distributed to 120 non-profit organizations, childcare centers, youth clubs, and clubs for the elderly to make prolonged stays at home more pleasant.
- Sponsorship was granted to the 1221 national hotline for elderly people and people with disabilities who need assistance obtaining food and medication.
- Assistance was provided to people experiencing financial distress due to the coronavirus crisis through specializing organizations, such as Paamonim, Chasdei Ley, and Lehetiv.

For further details regarding the activity of the Bank Group in the area of social involvement, contribution to the community, and social responsibility, see [Section 7.8 of the Report on Corporate Governance and Additional Information in the Annual Periodic Report of the Bank for 2019](#).

In July 2020, the Bank published its social, environmental, and economic responsibility report for 2019. The report, prepared in compliance with advanced GRI standards, is available on the Bank's website.

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7. Appendices

7.1. Material developments in income and expenses by quarter

Table 7-1: Quarterly developments in total net financing profit

	2020		2019			
	Q2	Q1	Q4		Q3	Q2
			NIS millions			
Interest income	2,532	2,542	2,772	2,593	3,730	2,825
Interest expenses	(366)	(350)	(479)	(310)	(1,264)	(548)
Net interest income	2,166	2,192	2,293	2,283	2,466	2,277
Non-interest financing income	193	306	246	58	166	89
Total reported financing profit	2,359	2,498	2,539	2,341	2,632	2,366
Excluding effects not from regular activity:						
Income from realization and adjustments to fair value of bonds	95	27	3	169	76	(23)
Profit (loss) from investments in shares	36	(122)	91	12	95	155
Adjustment to fair value of investment in affiliate	(18)	11	7	(63)	-	-
Gains (losses) in respect of loans sold	-	-	8	-	1	-
Adjustments to fair value of derivative instruments ⁽¹⁾	(27)	9	49	(136)	(77)	(97)
Financing income (expenses) from tax hedging of investments overseas ⁽²⁾	(48)	87	(20)	(28)	(35)	(65)
Total income from regular financing activity ⁽³⁾	2,321	2,486	2,401	2,387	2,572	2,396

(1) The effect of the measurement of profit and loss in derivative instruments constituting part of the Bank's asset and liability management strategy on a fair-value basis, versus measurement on an accrual basis.

(2) The effect of hedging the asymmetry in the tax liability in respect of exchange-rate differences in investments in subsidiaries overseas, which are not included in the income base for the calculation of the provision for tax, in contrast to exchange-rate differences in respect of financing sources. The Bank hedges against tax exposure in respect of investments overseas by establishing surplus financing sources against such investments.

(3) Financing profit excluding extraordinary effects, and excluding effects arising mainly from the timing of recording in accounting.

Of which, in respect of the effects of changes in the CPI: an expense of NIS 36 million in the second quarter of 2020; an expense of NIS 70 million in the first quarter of 2020; an expense of NIS 28 million in the fourth quarter of 2019; an expense of NIS 76 million in the third quarter of 2019; income of NIS 158 million in the second quarter of 2019; and an expense of NIS 33 million in the first quarter of 2019.

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Table 7-2: Cumulative provision for credit losses in respect of debts and in respect of off-balance sheet credit instruments, by quarter**

	2020		2019			
	Q2	Q1	Q4	Q3	Q2	Q1
			NIS millions			
Individual provision for credit losses	354	324	966	155	268	230
Decrease in individual allowance for credit losses and recovery of charged off debts	(151)	(122)	(191)	(306)	(254)	(200)
Net individual provision (income) for credit losses	203	202	775	(151)	14	30
Net provision in respect of the collective allowance for credit losses and net charge-offs	925	607	101	111	305	91
Total provision (income) for credit losses*	1,128	809	876	(40)	319	121
* Of which:						
Net provision (income) for credit losses in respect of commercial credit risk	622	656	851	(103)	253	50
Net provision (income) for credit losses in respect of housing credit risk	244	32	13	7	11	4
Net provision for credit losses in respect of other private credit risk	263	120	13	59	54	65
Net provision (income) for credit losses in respect of risk of credit to banks and governments	(1)	1	(1)	(3)	1	2
Total provision (income) for credit losses	1,128	809	876	(40)	319	121
Provision as a percentage of total credit to the public:***						
Percentage of individual provision (income) for credit losses	0.47%	0.43%	1.31%	0.21%	0.37%	0.32%
Gross provision for credit losses as a percentage of the average recorded balance of credit to the public****	1.69%	1.24%	1.45%	0.36%	0.79%	0.45%
Provision (income) for credit losses as a percentage of the average recorded balance of credit to the public	1.49%	1.07%	1.19%	(0.05%)	0.44%	0.17%
Net charge-offs in respect of credit to the public as a percentage of the average recorded balance of credit to the public	0.32%	0.25%	0.17%	0.01%	0.13%	0.17%
Net charge-offs in respect of credit to the public as a percentage of the allowance for credit losses in respect of credit to the public	16.09%	14.20%	10.96%	0.50%	9.47%	12.86%

** Including in respect of housing loans examined according to the extent of arrears.

*** Annualized.

**** The gross provision for credit losses is the total provision for credit losses, excluding the decrease in the individual allowance for credit losses and recovery of charged off debts.

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Table 7-3: Details of fees and other income, by quarter

	2020		2019			
	Q2	Q1	Q4	Q3	Q2	Q1
	NIS millions					
Fees						
Account management fees	184	210	218	222	212	218
Securities activity	197	223	177	173	174	174
Credit cards, net	54	76	85	85	88	63
Credit handling	49	63	76	46	46	54
Financing transaction fees	126	122	122	122	119	116
Other fees	136	169	158	167	165	160
Total fees	746	863	836	815	804	785
Other income	49	22	32	11	29	18
Total fee income and other income	795	885	868	826	833	803

Table 7-4: Details of operating and other expenses, by quarter

	2020		2019			
	Q2	Q1	Q4	Q3	Q2	Q1
	NIS millions					
Salary expenses						
Salaries ⁽¹⁾	931	937	905	904	909	949
Bonuses and share-based compensation	32	25	84	129	126	102
Total wages	963	962	989	1,033	1,035	1,051
Maintenance and depreciation of buildings and equipment						
Others ⁽¹⁾⁽²⁾⁽³⁾	321	321	345	351	324	314
Others ⁽¹⁾⁽²⁾⁽³⁾	542	633	1,603	586	633	512
Total	1,826	1,916	2,937	1,970	1,992	1,877

- (1) Includes expenses (income) for the closure of private-banking activity in Switzerland: income in the amount of NIS 4 million in the fourth quarter of 2019, and an expense in the amount of NIS 76 million in the second quarter of 2019.
- (2) In the second quarter of 2020, includes an expense in the amount of NIS 42 million in respect of legal expenses in connection with the investigation of the Bank Group's business with American customers and the investigation concerning FIFA (a total of NIS 66 million in the first quarter of 2020, a total of NIS 72 million in the fourth quarter of 2019, a total of NIS 100 million in the third quarter of 2019, a total of NIS 111 million in the second quarter of 2019, and a total of NIS 123 million in the first quarter of 2019).
- (3) In the second quarter of 2020, includes income in the amount of NIS 53 million in respect of expenses in connection with the investigation of the Bank Group's business with American clients and the investigation concerning FIFA, mainly due to the decrease in the dollar exchange rate (an expense in the amount of NIS 112 million in the first quarter of 2020, an expense in the amount of NIS 985 million in the fourth quarter of 2019, income in the amount of NIS 51 million in the third quarter of 2019, income in the amount of NIS 41 million in the second quarter of 2019, and income in the amount of NIS 71 million in the first quarter of 2019).

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7.2. Rates of interest income and expenses

Table 7-5: Rates of interest income and expenses of the Bank and its consolidated companies, and analysis of changes in interest income and expenses⁽¹⁾

For the three months ended June 30											
	2020			2019*							
	Average balance ⁽²⁾	Interest income	Rate of income	Average balance ⁽²⁾	Interest income	Rate of income					
	NIS millions			%	NIS millions						
A. Average balances and interest rates											
Interest-bearing assets											
Credit to the public ⁽³⁾ :											
In Israel	276,315	2,161	3.17%	263,603	3,064	4.73%					
Outside Israel	15,309	158	4.19%	16,491	221	5.47%					
Total	291,624	(⁽⁴⁾2,319	3.22%	280,094	(⁽⁴⁾ 3,285	4.77%					
Credit to governments:											
In Israel	2,589	15	2.34%	2,211	19	3.48%					
Outside Israel	-	-	-	-	-	-					
Total	2,589	15	2.34%	2,211	19	3.48%					
Deposits with banks:											
In Israel	7,038	21	1.20%	5,575	37	2.68%					
Outside Israel	138	(1)	(2.87%)	251	(4)	(6.22%)					
Total	7,176	20	1.12%	5,826	33	2.29%					
Deposits with central banks:											
In Israel	66,916	19	0.11%	39,316	26	0.26%					
Outside Israel	12,323	2	0.06%	11,897	69	2.34%					
Total	79,239	21	0.11%	51,213	95	0.74%					
Securities borrowed or purchased under agreements to resell:											
In Israel	304	-	-	596	-	-					
Outside Israel	-	-	-	-	-	-					
Total	304	-	-	596	-	-					

* Includes balances attributed to a discontinued operation.

(1) Data presented after the effect of hedging derivative instruments.

(2) Based on monthly opening balances (in the unlinked Israeli currency segment, based on daily balances).

(3) Before deduction of the average balance sheet balance of the allowance for credit losses. Includes impaired debts that do not accrue interest income.

(4) Fees in the amount of NIS 137 million were included in interest income in the three-month period ended June 30, 2020 (June 30, 2019: NIS 125 million).

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Table 7-5: Rates of interest income and expenses of the Bank and its consolidated companies, and analysis of changes in interest income and expenses⁽¹⁾ (continued)

	For the three months ended June 30					
	2020			2019*		
	Average balance ⁽²⁾	Interest income	Rate of income	Average balance ⁽²⁾	Interest income	Rate of income
	NIS millions		%	NIS millions		%
A. Average balances and interest rates (continued)						
Interest-bearing assets (continued)						
Bonds held to maturity and available for sale ⁽³⁾ :						
In Israel	54,119	128	0.95%	61,007	251	1.66%
Outside Israel	3,196	20	2.53%	2,932	21	2.90%
Total	57,315	148	1.04%	63,939	272	1.71%
Bonds held for trading ⁽³⁾ :						
In Israel	9,938	9	0.36%	5,843	26	1.79%
Outside Israel	3	-	-	13	-	0.00%
Total	9,941	9	0.36%	5,856	26	1.79%
Other assets:						
In Israel	2,502	-	-	1,804	-	-
Outside Israel	-	-	-	1	-	-
Total	2,502	-	-	1,805	-	-
Total interest-bearing assets	450,690	2,532	2.27%	411,540	3,730	3.67%
Non-interest-bearing debtors in respect of credit cards	5,818	-	-	6,734	-	-
Other non-interest-bearing assets ⁽⁴⁾	40,119	-	-	35,920	-	-
Total assets	496,627	-	-	454,194	-	-
Total interest-bearing assets attributed to activities outside Israel	30,969	179	2.33%	31,585	307	3.94%

* Includes balances attributed to a discontinued operation.

(1) Data presented after the effect of hedging derivative instruments.

(2) Based on monthly opening balances (in the unlinked Israeli currency segment, based on daily balances).

(3) The average balance of unrealized gains (losses) from adjustments to fair value of bonds held for trading and of gains (losses) from bonds available for sale, which are included in equity within accumulated other comprehensive income, in the amount of NIS 79 million for the three months ended June 30, 2020 (June 30, 2019: NIS 145 million), were deducted from (added to) the average balance of bonds available for sale and of bonds held for trading.

(4) Includes derivative instruments and other non-interest-bearing assets; net of the allowance for credit losses.

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Table 7-5: Rates of interest income and expenses of the Bank and its consolidated companies, and analysis of changes in interest income and expenses⁽¹⁾ (continued)

	For the three months ended June 30					
	2020			2019*		
	Average balance ⁽²⁾	Interest expenses	Rate of expense	Average balance ⁽²⁾	Interest expenses	Rate of expense
	NIS millions		%	NIS millions		%
A. Average balances and interest rates (continued)						
Interest-bearing liabilities						
Deposits from the public:						
In Israel	202,420	206	0.41%	195,806	547	1.12%
On demand	83,382	5	0.02%	88,657	79	0.36%
Fixed term	119,038	201	0.68%	107,149	468	1.76%
Outside Israel	18,719	64	1.37%	16,529	104	2.54%
On demand	4,732	10	0.85%	3,970	23	2.34%
Fixed term	13,987	54	1.55%	12,559	81	2.60%
Total	221,139	270	0.49%	212,335	651	1.23%
Deposits from the government:						
In Israel	345	1	1.16%	196	1	2.06%
Outside Israel	-	-	-	-	-	-
Total	345	1	1.16%	196	1	2.06%
Deposits from central banks:						
In Israel	311	-	-	-	-	-
Outside Israel	56	-	-	556	3	2.18%
Total	367	-	-	556	3	-
Deposits from banks:						
In Israel	2,720	2	0.29%	2,173	1	0.18%
Outside Israel	136	2	6.01%	242	5	8.52%
Total	2,856	4	0.56%	2,415	6	1.00%
Securities lent or sold under agreements to repurchase:						
In Israel	-	-	-	-	-	-
Outside Israel	3	-	-	15	-	-
Total	3	-	-	13	-	-

* Includes balances attributed to a discontinued operation.

(1) Data presented after the effect of hedging derivative instruments.

(2) Based on monthly opening balances (in the unlinked Israeli currency segment, based on daily balances).

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Table 7-5: Rates of interest income and expenses of the Bank and its consolidated companies, and analysis of changes in interest income and expenses⁽¹⁾ (continued)

	For the three months ended June 30					
	2020			2019*		
	Average balance ⁽²⁾	Interest expenses	Rate of expense	Average balance ⁽²⁾	Interest expenses	Rate of expense
	NIS millions		%	NIS millions		%
A. Average balances and interest rates (continued)						
Interest-bearing liabilities (continued)						
Bonds:						
In Israel	24,533	89	1.46%	29,323	594	8.35%
Outside Israel	169	2	4.82%	266	3	4.59%
Total	24,702	91	1.48%	29,589	597	8.32%
Other liabilities:						
In Israel	753	-	-	604	6	4.03%
Outside Israel	-	-	-	4	-	-
Total	753	-	-	608	6	4.01%
Total interest-bearing liabilities	250,165	366	0.59%	245,712	1,264	2.07%
Non-interest-bearing deposits from the public	174,450	-	-	140,710	-	-
Non-interest-bearing creditors in respect of credit cards	6,664	-	-	6,135	-	-
Other non-interest-bearing liabilities ⁽³⁾	27,591	-	-	22,801	-	-
Total liabilities	458,870	-	-	415,358	-	-
Total capital means	37,757	-	-	38,836	-	-
Total liabilities and capital means	496,627	-	-	454,194	-	-
Interest spread	-	-	1.68%	-	-	1.60%
Net return on interest-bearing assets ⁽⁴⁾						
In Israel	419,721	2,055	1.97%	379,955	2,274	2.42%
Outside Israel	30,969	111	1.44%	31,585	192	2.45%
Total	450,690	2,166	1.94%	411,540	2,466	2.42%
Total interest-bearing liabilities attributed to activities outside Israel	19,083	68	1.43%	17,610	115	2.64%

* Includes balances attributed to a discontinued operation.

(1) Data presented after the effect of hedging derivative instruments.

(2) Based on monthly opening balances (in the unlinked Israeli currency segment, based on daily balances).

(3) Includes derivative instruments.

(4) Net return - net interest income divided by total interest-bearing assets.

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Table 7-5: Rates of interest income and expenses of the Bank and its consolidated companies, and analysis of changes in interest income and expenses⁽¹⁾ (continued)

For the six months ended June 30									
2020			2019*			%			
Average balance ⁽²⁾	Interest income	Rate of income	Average balance ⁽²⁾	Interest income	Rate of income				
NIS millions			NIS millions			%			
A. Average balances and interest rates (continued)									
Interest-bearing assets									
Credit to the public ⁽³⁾ :									
In Israel	273,418	4,279	3.15%	264,509	5,380	4.11%			
Outside Israel	15,415	348	4.57%	16,736	453	5.49%			
Total	288,833	(⁽⁴⁾4,627	3.23%	281,245	⁽⁴⁾ 5,833	4.19%			
Credit to governments:									
In Israel	2,300	28	2.45%	2,208	36	3.29%			
Outside Israel	-	-	-	-	-	-			
Total	2,300	28	2.45%	2,208	36	3.29%			
Deposits with banks:									
In Israel	6,991	56	1.61%	5,361	75	2.82%			
Outside Israel	138	(5)	(7.12%)	261	(8)	(6.04%)			
Total	7,129	51	1.44%	5,622	67	2.40%			
Deposits with central banks:									
In Israel	60,319	52	0.17%	43,796	55	0.25%			
Outside Israel	10,686	32	0.60%	11,137	138	2.49%			
Total	71,005	84	0.24%	54,933	193	0.70%			
Securities borrowed or purchased under agreements to resell:									
In Israel	360	-	-	667	-	-			
Outside Israel	-	-	-	-	-	-			
Total	360	-	-	667	-	-			

* Includes balances attributed to a discontinued operation.

(1) Data presented after the effect of hedging derivative instruments.

(2) Based on monthly opening balances (in the unlinked Israeli currency segment, based on daily balances).

(3) Before deduction of the average balance sheet balance of the allowance for credit losses. Includes impaired debts that do not accrue interest income.

(4) Fees in the amount of NIS 271 million were included in interest income in the period ended June 30, 2020 (June 30, 2019: NIS 254 million).

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Table 7-5: Rates of interest income and expenses of the Bank and its consolidated companies, and analysis of changes in interest income and expenses⁽¹⁾ (continued)

For the six months ended June 30									
2020			2019*						
	Average balance ⁽²⁾	Interest income	Rate of income	Average balance ⁽²⁾	Interest income	Rate of income			
NIS millions			%	NIS millions					
A. Average balances and interest rates (continued)									
Interest-bearing assets (continued)									
Bonds held to maturity and available for sale ⁽³⁾ :									
In Israel	49,813	237	0.95%	55,901	433	1.56%			
Outside Israel	3,102	31	2.01%	3,354	51	3.06%			
Total	52,915	268	1.02%	59,255	484	1.64%			
Bonds held for trading ⁽³⁾ :									
In Israel	9,354	16	0.34%	5,514	32	1.16%			
Outside Israel	3	-	-	25	-	-			
Total	9,357	16	0.34%	5,539	32	1.16%			
Other assets:									
In Israel	2,856	-	-	1,499	-	-			
Outside Israel	-	-	-	1	-	-			
Total	2,856	-	-	1,500	-	-			
Total interest-bearing assets	434,755	5,074	2.35%	410,969	6,645	3.26%			
Non-interest-bearing debtors in respect of credit cards	6,415	-	-	11,603	-	-			
Other non-interest-bearing assets ⁽⁴⁾	38,024	-	-	35,584	-	-			
Total assets	479,194	-	-	458,156	-	-			
Total interest-bearing assets attributed to activities outside Israel	29,344	406	2.79%	31,514	634	4.06%			

* Includes balances attributed to a discontinued operation.

(1) Data presented after the effect of hedging derivative instruments.

(2) Based on monthly opening balances (in the unlinked Israeli currency segment, based on daily balances).

(3) The average balance of unrealized gains (losses) from adjustments to fair value of bonds held for trading and of gains (losses) from bonds available for sale, which are included in equity within accumulated other comprehensive income, in the amount of NIS 197 million for the six months ended June 30, 2020 (June 30, 2019: NIS 41 million), were deducted from (added to) the average balance of bonds available for sale and of bonds held for trading.

(4) Includes derivative instruments and other non-interest-bearing assets; net of the allowance for credit losses.

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Table 7-5: Rates of interest income and expenses of the Bank and its consolidated companies, and analysis of changes in interest income and expenses⁽¹⁾ (continued)

For the six months ended June 30									
2020			2019*			%			
Average balance ⁽²⁾	Interest expenses	Rate of expense	Average balance ⁽²⁾	Interest expenses	Rate of expense				
NIS millions			NIS millions			%			
A. Average balances and interest rates (continued)									
Interest-bearing liabilities									
Deposits from the public:									
In Israel	198,173	447	0.45%	197,094	876	0.89%			
On demand	83,230	23	0.06%	90,149	124	0.28%			
Fixed term	114,943	424	0.74%	106,945	752	1.41%			
Outside Israel	17,031	144	1.70%	16,508	203	2.47%			
On demand	4,731	29	1.23%	3,752	41	2.20%			
Fixed term	12,300	115	1.88%	12,756	162	2.56%			
Total	215,204	591	0.55%	213,602	1,079	1.01%			
Deposits from the government:									
In Israel	440	2	0.91%	180	3	3.36%			
Outside Israel	-	-	-	-	-	-			
Total	440	2	0.91%	180	3	3.36%			
Deposits from central banks:									
In Israel	157	-	-	-	-	-			
Outside Israel	127	1	1.58%	592	7	2.38%			
Total	284	1	0.71%	592	7	2.38%			
Deposits from banks:									
In Israel	2,622	3	0.23%	3,035	3	0.20%			
Outside Israel	139	3	4.36%	255	7	5.57%			
Total	2,761	6	0.44%	3,290	10	0.61%			
Securities lent or sold under agreements to repurchase:									
In Israel	-	-	-	-	-	-			
Outside Israel	3	-	-	8	-	-			
Total	3	-	-	8	-	-			

* Includes balances attributed to a discontinued operation.

(1) Data presented after the effect of hedging derivative instruments.

(2) Based on monthly opening balances (in the unlinked Israeli currency segment, based on daily balances).

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Table 7-5: Rates of interest income and expenses of the Bank and its consolidated companies, and analysis of changes in interest income and expenses⁽¹⁾ (continued)

For the six months ended June 30												
2020			2019*									
	Average balance ⁽²⁾	Interest expenses	Rate of expense	Average balance ⁽²⁾	Interest expenses	Rate of expense						
	NIS millions			NIS millions								
A. Average balances and interest rates (continued)												
Interest-bearing liabilities (continued)												
Bonds:												
In Israel	25,518	112	0.88%	29,326	704	4.86%						
Outside Israel	171	4	4.73%	315	6	3.85%						
Total	25,689	116	0.91%	29,641	710	4.85%						
Other liabilities:												
In Israel	881	-	-	819	5	1.22%						
Outside Israel	1	-	-	6	-	-						
Total	882	-	-	825	5	1.22%						
Total interest-bearing liabilities	245,263	716	0.58%	248,138	1,814	1.47%						
Non-interest-bearing deposits from the public	162,978	-	-	138,697	-	-						
Non-interest-bearing creditors in respect of credit cards	7,283	-	-	10,745	-	-						
Other non-interest-bearing liabilities ⁽³⁾	25,820	-	-	22,157	-	-						
Total liabilities	441,344	-	-	419,737	-	-						
Total capital means	37,850	-	-	38,419	-	-						
Total liabilities and capital means	479,194	-	-	458,156	-	-						
Interest spread	-	-	1.77%	-	-	1.79%						
Net return on interest-bearing assets ⁽⁴⁾												
In Israel	405,411	4,104	2.03%	379,455	4,420	2.34%						
Outside Israel	29,344	254	1.74%	31,514	411	2.63%						
Total	434,755	4,358	2.01%	410,969	4,831	2.36%						
Total interest-bearing liabilities attributed to activities outside Israel	17,472	152	1.75%	17,684	223	2.54%						

* Includes balances attributed to a discontinued operation.

(1) Data presented after the effect of hedging derivative instruments.

(2) Based on monthly opening balances (in the unlinked Israeli currency segment, based on daily balances).

(3) Includes derivative instruments.

(4) Net return - net interest income divided by total interest-bearing assets.

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Table 7-5: Rates of interest income and expenses of the Bank and its consolidated companies, and analysis of changes in interest income and expenses⁽¹⁾ (continued)

	For the three months ended June 30					
	2020			2019*		
	Average balance ⁽²⁾	Interest income/ (expenses)	Rate of income/ (expense)	Average balance ⁽²⁾	Interest income/ (expenses)	Rate of income/ (expense)
	NIS millions	%	NIS millions	%		
B. Average balances and interest rates – additional information regarding interest-bearing assets and liabilities attributed to activity in Israel						
Israeli currency unlinked						
Total interest-bearing assets	328,464	1,882	2.31%	282,864	2,002	2.86%
Total interest-bearing liabilities	154,643	(94)	(0.24%)	146,750	(153)	(0.42%)
Interest spread	-	-	2.07%	-	-	2.44%
Israeli currency CPI-linked						
Total interest-bearing assets	51,183	253	1.99%	51,075	1,097	8.87%
Total interest-bearing liabilities	36,354	(105)	(1.16%)	41,171	(795)	(7.95%)
Interest spread	-	-	0.83%	-	-	0.92%
Foreign currency (includes Israeli currency linked to foreign currency)						
Total interest-bearing assets	40,074	218	2.19%	46,016	324	2.85%
Total interest-bearing liabilities	40,085	(99)	(0.99%)	40,181	(201)	(2.02%)
Interest spread	-	-	1.20%	-	-	0.83%
Total activity in Israel						
Total interest-bearing assets	419,721	2,353	2.26%	379,955	3,423	3.65%
Total interest-bearing liabilities	231,082	(298)	(0.52%)	228,102	(1,149)	(2.03%)
Interest spread	-	-	1.74%	-	-	1.62%

* Includes balances attributed to a discontinued operation.

(1) Data presented after the effect of hedging derivative instruments.

(2) Based on monthly opening balances (in the unlinked Israeli currency segment, based on daily balances).

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Table 7-5: Rates of interest income and expenses of the Bank and its consolidated companies, and analysis of changes in interest income and expenses⁽¹⁾ (continued)

	For the six months ended June 30										
	2020			2019*							
	Average balance ⁽²⁾	Interest income/ (expenses)	Rate of income/ (expense)	Average balance ⁽²⁾	Interest income/ (expenses)	Rate of income/ (expense)					
	NIS millions			%	NIS millions						
B. Average balances and interest rates – additional information regarding interest-bearing assets and liabilities attributed to activity in Israel (continued)											
Israeli currency unlinked											
Total interest-bearing assets	316,359	3,863	2.46%	284,153	4,057	2.88%					
Total interest-bearing liabilities	150,586	(208)	(0.28%)	148,870	(298)	(0.40%)					
Interest spread	-	-	2.18%	-	-	2.48%					
Israeli currency CPI-linked											
Total interest-bearing assets	50,652	365	1.45%	50,329	1,312	5.28%					
Total interest-bearing liabilities	36,827	(97)	(0.53%)	41,019	(891)	(4.39%)					
Interest spread	-	-	0.92%	-	-	0.89%					
Foreign currency (includes Israeli currency linked to foreign currency)											
Total interest-bearing assets	38,400	440	2.30%	44,973	642	2.88%					
Total interest-bearing liabilities	40,378	(259)	(1.29%)	40,565	(402)	(1.99%)					
Interest spread	-	-	1.01%	-	-	0.89%					
Total activity in Israel											
Total interest-bearing assets	405,411	4,668	2.32%	379,455	6,011	3.19%					
Total interest-bearing liabilities	227,791	(564)	(0.50%)	230,454	(1,591)	(1.39%)					
Interest spread	-	-	1.82%	-	-	1.80%					

* Includes balances attributed to a discontinued operation.

(1) Data presented after the effect of hedging derivative instruments.

(2) Based on monthly opening balances (in the unlinked Israeli currency segment, based on daily balances).

Corporate Governance, Additional Information, and Appendices

as at June 30, 2020

Table 7-5: Rates of interest income and expenses of the Bank and its consolidated companies, and analysis of changes in interest income and expenses⁽¹⁾ (continued)

For the three months ended June 30, 2020, vs. the three months ended June 30, 2019*		For the six months ended June 30, 2020, vs. the six months ended June 30, 2019*	
Increase (decrease) due to change ⁽²⁾	Net change	Increase (decrease) due to change ⁽²⁾	Net change
Quantity	Price	Quantity	Price
NIS millions			
C. Analysis of changes in interest income and expenses			
Interest-bearing assets			
Credit to the public:			
In Israel	99	(1,002)	(903)
Outside Israel	(12)	(51)	(63)
Total	87	(1,053)	(966)
Other interest-bearing assets:			
In Israel	36	(203)	(167)
Outside Israel	1	(66)	(65)
Total	37	(269)	(232)
Total interest income	124	(1,322)	(1,198)
Interest-bearing liabilities			
Deposits from the public:			
In Israel	7	(348)	(341)
Outside Israel	7	(47)	(40)
Total	14	(395)	(381)
Other interest-bearing liabilities:			
In Israel	(12)	(498)	(510)
Outside Israel	(8)	1	(7)
Total	(20)	(497)	(517)
Total interest expenses	(6)	(892)	(898)
Total interest income less interest expenses	130	(430)	(300)

* Includes balances attributed to a discontinued operation.

(1) Data presented after the effect of hedging derivative instruments.

(2) The change attributed to change in quantity was calculated by multiplying the new price by the change in quantity. The change attributed to change in price was calculated by multiplying the old quantity by the change in price.

Active market

A market in which transactions in an asset or liability are executed at a sufficient frequency and volume in order to provide pricing information on a regular basis.

Average duration

Weighted average term to maturity of the principal and interest payments on a bond.

B2B**Business to business**

A business activity in which a product is sold or a service is provided by an organization to another organization.

Basel 2/Basel 3

Risk-management regulations for banks, established by the Basel Committee, which supervises and sets standards for supervision of banks worldwide.

Bid-ask spread

The spread between a proposed buying and selling price. Essentially, the difference between the highest price that a buyer is willing to pay for an asset and the lowest price at which the seller is willing to sell it.

Bond

A security that constitutes a certificate of obligation to pay a debt, in which the issuer promises to pay the holder of the bond the amount of principal issued, plus interest/coupon payments, at fixed intervals or upon fulfillment of a particular condition; a financial instrument that can be used by the government and by firms to borrow money from the public.

CPI**Consumer price index**

An index published by the Central Bureau of Statistics, measuring monthly changes in the prices of products and services that compose the "consumption basket" of an average family.

CVA**Credit valuation adjustment**

Calculation of credit risk in derivatives reflecting the potential expected loss to the bank in the event of default by the counterparty.

Debt

A contractual right to receive money on demand, or at fixed or fixable intervals, recognized in the balance sheet of the banking corporation as an asset (e.g. deposits with banks, bonds, securities purchased or sold in agreements to resell, credit to the public, credit to the government, etc.). Debts do not include deposits with the Bank of Israel or assets in respect of derivative instruments.

Debt contingent on collateral

Debt expected to be repaid exclusively from the collateral, where there are no other available and reliable repayment sources.

Derivative instrument

A financial instrument or future contract, the value of which is derived from the value of an underlying asset, for which a market exists wherein its value can be determined.

Dormant shares

Shares held directly by the company itself. These shares are denied rights to capital or voting in the company.

FATCA**Foreign Accounts Tax Compliance Act**

An American law aimed at improving tax enforcement, pursuant to which financial entities outside the United States must report to the US tax authorities on accounts maintained with them and owned by anyone obligated to report to these authorities, even if not a resident of the United States.

FDIC**Federal Deposit Insurance Corporation**

The Federal Deposit Insurance Corporation in the United States.

Financial instrument

Any contract that creates a financial asset in one entity and a financial liability or equity instrument in another entity.

FINMA**Swiss Financial Market Supervisory Authority**

The government agency that supervises financial institutions in Switzerland.

Fixed-term deposits

Deposits in which the depositor does not have the right or authorization to withdraw funds for at least six days from the date of the deposit.

GRI**Global Reporting Initiative**

An international standard for reporting on sustainability and corporate social responsibility.

ICAAP**Internal Capital Adequacy Assessment Process**

An internal process to assess capital adequacy and establish strategy to ensure the capital adequacy of banking corporations. The process is designed to ensure that banking corporations hold adequate capital to support all of the risks inherent in their activities, and that they develop and apply appropriate processes to manage risks. Among other elements, the process includes setting capital targets, performing capital planning processes, and examining the condition of capital under a variety of extreme scenarios.

Indebtedness

As defined in Proper Conduct of Banking Business Directive 313.

LDC**Less developed country**

A country classified by the World Bank as having low or medium revenue.

LTV**Loan to value ratio**

The amount of a loan (including an unutilized approved credit facility) as a percentage of the pledged asset (according to the banking corporation's share in the pledge).

MTM**Mark to market**

Revaluation of a derivative instrument based on price quotes from relevant markets, or in the absence thereof, based on alternative evaluation methods.

NPL**Non-performing loan**

Impaired credit not accruing interest income.

Obligo

Total indebtedness; total liabilities of the customer to the Bank.

Off-balance sheet credit

Commitments to grant credit and guarantees (excluding derivative instruments).

On-demand deposits

Deposits other than fixed-term deposits.

Option

A contract between two parties (the option writer and the option buyer); the option writer grants the option buyer the right to buy or sell a particular asset for a predetermined price, usually at a predetermined time.

OTC derivative**Over-the-counter derivative**

A derivative instrument in which financial institutions contract during the ordinary course of business, for which a market exists where its value can be determined.

Phantom share

An instrument granting cash compensation based on the value of shares of the company, without entitlement to receive the share.

Repurchase/resale agreements

Agreements to purchase or sell securities in consideration for cash or securities, in which, at the time of the transaction, the seller and the buyer agree to perform the reverse transaction at a date and price agreed upon in advance.

Securitization

Non-bank capital raising by a financial entity through special bonds reflecting the expected cash flows in respect of pooled loans.

Subordinated notes

Notes in which rights are subordinate to the claims of all other creditors of the banking corporation, excluding other notes and notes of the same type.

Supervisory capital

Supervisory capital comprises two tiers: Tier 1 capital and Tier 2 capital, as defined in Proper Conduct of Banking Business Directive 202.

Syndication

A transaction in which several lenders jointly grant a loan to a single borrower, but each lender provides a loan to the borrower in a specific amount and has the right to repayment by the borrower. Groups of lenders frequently finance loans together when the amount granted is higher than the amount that any one lender is willing to lend.

Tier 1 capital

Going-concern capital, including common equity Tier 1 capital and additional Tier 1 capital, as defined in Proper Conduct of Banking Business Directive 202.

Tier 2 capital

Gone-concern capital, as defined in Proper Conduct of Banking Business Directive 202.

VaR**Value at risk**

A commonly used statistical model for the quantification of market risks. The model uses historical data to assess the maximum expected loss in respect of a particular position or portfolio, for a defined time horizon, at a defined significance

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