ANNUAL REPORT 2020

מזרחי טפחות
MIZRAHI TEFAHOT

Advanced banking for people, by people.

This report does not constitute a Periodic Report pursuant to the Securities Regulations (Periodic and Immediate Reports), 1970. The Israel Securities Authority's MAGNA website also includes the following reports: The periodic report and the financial statements in XBRL format, the actuarial assessment regarding employee rights at the Bank, a detailed risk management report and additional supervisory information regarding supervisory capital instruments issued by the Bank. In conformity with the Supervisor of Banks' directives, these financial statements, including XBRL format, the Bank's "solo" financial statements, a detailed risk management report and additional supervisory information, as stated, are also available on the Bank website at www.mizrahi-tefahot.co.il/en ▶ financial reports. In accordance with the Equal Rights for Persons with Disabilities (Service Accessibility Adjustments) Regulations, 2013, the website also includes accessible reports.

Mizrahi Tefahot Bank

Annual Report

2020

Main Table of Contents

The Bank has received approval from the Supervisor of Banks to publish its annual financial statement on a consolidated basis only.
Note 37 to the financial statements provides a summary of the Bank's solo financial statements.
A brochure providing Bank information is available on demand and on the Bank's website:
www.mizrahi-tefahot.co.il > about the bank > investor relations > financial information

Message from the Chairman of the Board of Directors

In the name of the Bank's Board of Directors, I am honored to present you with Mizrahi Tefahot's 2020 financial statements.
Most definitely, 2020 was one of the most complicated and challenging years in decades for the global economy, for the Israeli economy and for the local banking system.
The Corona Virus pandemic spread rapidly all around the world, starting early this year, and required highly severe implications, both health-related and economic, to be addressed. Measures such as lock-down and social distancing applied by Governments the world over, designed to slow-down the spread of the virus, resulted in paralysis and near-complete freezing of economic activity across wide swathes of the economy, with sharp, rapid increase in unemployment. Many governments applied expansive fiscal measures, designed to bolster their economies and to help business owners and employees forced out of work for extended periods.
As for the Israeli banking system, the foremost challenge was rapid identification of business and individual clients who were unfortunately facing difficulties, and providing them with unique solutions to help them get through this crisis period.
Starting in March, Mizrahi-Tefahot applied multiple measures to support and help its clients across various segments.
One of the major moves in this direction involved providing a solution for business owners, households and mortgage clients, who faced difficulties making regular loan payments when due. In this year, the Bank of Israel issued multiple outlines regarding delayed repayment of residential mortgages; at first, by implementing a full payment freeze, and late in the year, by way of making partial payments, based on client needs and situation. At the same time, outlines were also applied to delay loan payments for the business segment and for households in the consumer loan segment.
At the same time, the Bank played a significant, active role in providing loans to businesses, in conjunction with state-guaranteed funds. In total, by end of 2020, the Bank extended loans amounting to NIS 5.1 billion in conjunction with these dedicated funds.
Mizrahi-Tefahot bankers continues to maintain constant contact with Bank clients, in order to customize for them unique solutions for these challenging times, in the hope that the vaccination campaign on the one hand and lower morbidity on the other hand, would signal the start of overcoming this crisis and returning soon to normal life.
With regard to Bank results in this past year, the financial statements indicate continued growth in most balance sheet items, along with significant increase in expenses with respect to credit losses – due to the Corona Virus crisis and the negative impact of the near-zero interest environment and inflation.
Closing of the transaction to acquire Union Bank and to turn it into a wholly-owned subsidiary of the Bank has already contributed from the outset to increase in market shares of Mizrahi-Tefahot Group in loans to the public and in deposits from the public in general, and in activity with the business sector in particular.
The merger process of Union Bank into the Bank would be gradual, and we estimate that benefits from this move would be reflected as synergies between the various operations increases and progress would be made in conversion of clients and businesses from Union Bank into Mizrahi-Tefahot.
In 2020, new mortgages reached a record level of NIS 78 billion. Mizrahi-Tefahot continues to maintain its leadership position in this market, despite increased competition and changes to the regulatory environment, while concurrently continuing to increase the business focus in Bank operations, in conformity with the key target of the strategic plan.
Despite the enormous challenge in providing personal, in-person service during a pandemic, the Bank adhered, in 2020 as well, to its unique service concept, and in as much as directives by the Ministry of Health allowed for this, Bank branches operated as usual and provided full service to their clients.
For those who preferred remote service, the Bank provided an advanced technology and digital facility, as well as telephone service, to optimally complement the service from the personal banker at the branch.
Technological development and entry of new players, both local and international, into the financial services playground, would continue to challenge local banks in 2021 as well.
The Bank continues to invest in technological solutions that provide real value to its clients, and is currently reviewing how to optimally incorporate the field of digital payments, given the development of various eWallets and the expected entry of Apple into the Israeli market.
Notably, in 2020 as well, despite all of the restrictions and challenges, Bank employees at branches and headquarters units, continued to volunteer to help under-privileged children and youth, in cooperation with various NGPs and social organizations.
I wish to take this opportunity to express my heartfelt appreciation and gratitude, in my name and in the name of all Board members, to our thousands of dedicated employees and managers, for their outstanding commitment to the Bank and to our clients, by showing up to work, and in particular at branches which constantly serve the public despite the restrictions, lock-downs and the health risk involved in doing so.
We also wish to thank our loyal clients and all of our stake holders for putting their significant trust in us. We shall continue to strictly maintain fair, transparent conduct vis-à-vis all of them, based on the Bank's values and Code of Ethics adopted as an integral part of our organizational culture.

M. Vidman

Sincerely yours,

Moshe Vidman
Chairman of the Board of Directors
Mizrahi Tefahot

Mizrahi Tefahot Bank

Report of the Board of Directors and Management

2020

Table of Contents

List of tables included on the Report of the Board of Directors and Management

Introduction

At the meeting of the Board of Directors of Mizrahi Tefahot Bank held on March 8, 2021, it was resolved to approve and publish the Report of the Board of Directors and Management, the Risk Management Report and Other Supervisory Disclosures and the consolidated financial statements of Mizrahi Tefahot Bank Ltd. and its subsidiaries as of December 31, 2020. Report of the Board of Directors to the General Meeting of Shareholders.

The Report of the Board of Directors and Management, the Risks Report and Other Supervisory Disclosures of the Bank are prepared in conformity with directives and guidelines of the Supervisor of Banks.

The Bank's financial statements are prepared in conformity with generally accepted accounting policies in Israel (Israeli GAAP) and in accordance with Public Reporting Directives of the Supervisor of Banks.

For most topics, the Supervisor of Banks' directives are based on generally acceptable accounting principles for US banks (see also Note 1 to these financial statements).

The Report of the Board of Directors and Management and the 2020 Financial Statements are prepared in conformity with the format stipulated by the Supervisor of Banks. After the Notes to the financial statements is a chapter on corporate governance, audit, other information about the Bank and its management and addendums to the annual financial statements.

Additional information to the financial statements is provided on the Bank website:

www.mizrahi-tefahot.co.il >> about the bank >> investor relations >> financial information.

This additional information includes:

- Detailed Risks Report in conformity with disclosure requirements of Basel Pillar 3 and in conformity with additional recommendations by the Financial Stability Board (FSB).
- Notes to the financial statements for the Bank solo, on demand.

The Bank website also includes additional supervisory information with details of equity instruments issued by the Bank, as well as the financial statements in XBRL format.

In conformity with the Equal Rights to Handicapped Persons Regulations (Service Accessibility Adaptations), 2013, the website also provides accessible reports.

Forward-Looking Information

Some of the information in the Report of the Board of Directors and Management, which does not relate to historical facts, constitutes “forward-looking information”, as defined in the Securities Law, 1968 (hereinafter: “the Law”).

Actual Bank results may materially differ from those provided in the forward-looking information due to a large number of factors including, inter alia, changes in local and global capital markets, macro-economic changes, geo-political changes, changes in legislation and regulation and other changes outside the Bank's control, which may result in non-materialization of estimates and/or in changes to business plans.

Forward-looking information is characterized by the use of certain words or phrases, such as: "we believe", "expected", "forecasted", "estimating", "intending", "planning", "readying", "could change" and similar expressions, in addition to nouns, such as: "plan", "goals", "desire", "need", "could", "will be". These forward-looking information and expressions involve risks and lack of certainty, because they are based on current assessments by the Bank of future events which includes, inter alia: Forecasts of economic developments in Israel and worldwide, especially the state of the economy, including the effect of macroeconomic and geopolitical conditions; changes and developments in the inter-currency markets and the capital markets, and other factors affecting the exposure to financial risks, changes in the financial strength of borrowers, the public’s preferences, legislation, supervisory regulations, the behavior of competitors, aspects related to the Bank’s image, technological developments and human resources issues.

The information presented here relies, inter alia, on publications of the Central Bureau of Statistics and the Ministry of Finance, on data from the Bank of Israel data, the Ministry of Housing and others who issue data and assessments with regard to the capital market in Israel and overseas as well as forecasts and future assessments on various topics, as mentioned above so that there is a possibility that events or developments predicted to be anticipated would not materialize, in whole or in part.

Overview, targets and strategy

This Chapter describes the Bank, its operating sectors, performance, risks to which it is exposed as well as its targets and strategy.

On September 30, 2020, the transaction between the controlling shareholders of Union Bank Le-Israel Ltd. (hereinafter: "Union Bank") and Bank Mizrahi-Tefahot closed, whereby shares of Union Bank held by the controlling shareholders were acquired in exchange for issue of Bank Mizrahi-Tefahot shares and the share purchase from the remaining shareholders was completed.

As from this date, the Bank holds all of the share capital of Union Bank and therefore the Bank has control over Union Bank. Therefore, the Bank's consolidated balance sheet includes Union Bank's balance sheet. The Bank's consolidated balance sheet includes all assets and liabilities of Union Bank, including adjustment to fair value in conformity with valuation for purchase price allocation (PPA) prepared as of September 30, 2020. The consolidated statement of profit and loss includes the profit and loss of Union Bank for the fourth quarter of 2020, as from the initial consolidation date.

The number of shares issued in consideration, according to the agreement, is 19,865,165 and their value as of the transaction date amounted to NIS 1,207 million. The Bank's shareholder equity as of September 30, 2020 increased by the consideration amount with respect to this transaction.

The net amount recognized upon the acquisition date with respect to fair value of identifiable assets acquired and liabilities assumed in the business combination exceeds the consideration provided. The difference amounts to NIS 1.5 billion. This amount, from which later would be deducted the net expense to be recognized by Union Bank with respect to expenses for retirement of some Union Bank employees, was recognized as revenue on the statement of profit and loss over 5 years as from the acquisition date.

For more information see chapter "Significant developments in management of Bank business" below and Note 35 to the financial statements.

Condensed financial information and key performance indicators for the Bank Group

	For the year ended December 31,				
	2020(3)	2019	2018	2017	2016
					NIS in millions
Statement of profit and loss – highlights					
Interest revenues, net	5,820	5,340	4,922	4,347	3,778
Non-interest financing revenues	221	357	445	136	295
Commissions and other revenues	1,892	1,609	1,522	1,517	1,567
Total revenues	**7,933**	**7,306**	**6,889**	**6,000**	**5,640**
Expenses with respect to credit losses	1,050	364	310	192	200
Operating and other expenses	4,279	3,988	(1)4,384	3,611	3,299
Of which: Payroll and associated expenses	2,644	2,562	2,407	2,271	2,035
Pre-tax profit	2,604	2,954	2,195	2,197	2,141
Provision for taxes on profit	903	1,029	922	806	833
Net profit(2)	**1,610**	**1,842**	**(1)1,206**	**1,347**	**1,266**

	2020				2019			
	Fourth Quarter(3)	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
								NIS in millions
Statement of profit and loss – highlights								
Interest revenues, net	1,686	1,464	1,323	1,347	1,352	1,214	1,543	1,231
Non-interest financing revenues	27	54	76	64	64	147	89	57
Commissions and other revenues	557	407	399	529	405	400	395	409
Total revenues	**2,270**	**1,925**	**1,798**	**1,940**	**1,821**	**1,761**	**2,027**	**1,697**
Expenses with respect to credit losses	118	317	270	345	119	70	99	76
Operating and other expenses	1,335	977	950	1,017	993	998	1,011	986
Of which: Payroll and associated expenses	785	619	596	644	628	650	648	636
Pre-tax profit	817	631	578	578	709	693	917	635
Provision for taxes on profit	285	222	196	200	247	251	318	213
Net profit(2)	**506**	**387**	**360**	**357**	**440**	**422**	**576**	**404**

(1) Operating and other expenses in 2018 include a provision amounting to NIS 546 million with respect to the investigation by the US DOJ.
(2) Any mention of "net profit" or "equity" in this Board of Directors' Report refers to net profit and equity attributable to shareholders of the Bank.
(3) As from September 30, 2020 the Bank consolidates the financial statements of Union Bank. The consolidated statement of profit and loss for 2020 includes the financial results of Union Bank for the fourth quarter only, and includes revenues amounting to NIS 51 million with respect to deferred credit balance, net recognized with respect to acquisition of Union Bank which is recognized, excluding tax effect, on profit and loss over 5 years.

Net profit for the Group in 2020 amounted to NIS 1,610 million. Net profit for the Group in 2020, excluding the effect of Union Bank, amounted to NIS 1,543 million, compared to net income of NIS 1,842 million in 2019, a decrease by 16.2%. Group net profit in 2020 was affected, *inter alia*, by the Corona Virus crisis, which resulted in higher expenses with respect to credit losses.

Net profit in 2020 reflects return on equity of 9.5%. Net profit in 2020, excluding the effect of Union Bank, reflects return on equity of 9.3%, compared to 11.9% in 2019.

Net profit for the Group in the fourth quarter of 2020 amounted to NIS 506 million. Net profit for the Group in the fourth quarter of 2020, excluding the effect of Union Bank, amounted to NIS 439 million, compared to NIS 440 million in the corresponding period last year, a decrease by 0.2%.

Net profit in the fourth quarter of 2020 reflects annualized return on equity of 11.4%. Net profit in the fourth quarter of 2020, excluding the effect of Union Bank, reflects return on equity of 10.7%, compared to 11.5% in the corresponding period last year.

The following key factors affected Group profit in 2020, compared to 2019:

- Bank Group profit in 2020 were impacted, *inter alia*, by the Corona Virus crisis, which resulted in increase in expenses with respect to credit losses, by effect of the CPI and by negative impact of lower interest rates in the USA and in Israel.
- Financing revenues, excluding the effect of Union Bank, increased in 2020 by 1.9% compared to 2019.

  The increase in financing revenues results from further growth in current operations, despite a decrease in the Bank of Israel interest rate to 0.1% in early April and the decrease in the US Federal Reserve interest rate, on two occasions in March, to 0.00%-0.25%.

  For more information see under "Analysis of Development in financing revenues from current operations" below.
- Revenues from commissions, excluding the effect of Union Bank increased in 2020 by 4.9% compared to 2019.
- Other revenues include revenues amounting to NIS 51 million with respect to amortization over 5 years of deferred credit balance, net recognized with respect to acquisition of Union Bank, and amortization of intangible assets, as well as NIS 82 million included in the first quarter of this year with respect to an agreement with insurers to conclude derivative proceedings. For more information see chapter "Significant Events in the Bank Group's Business".
- Expenses with respect to credit losses in 2020, excluding the effect of consolidation of Union Bank financial statements, amounted to NIS 1,058 million, compared to NIS 364 million in the corresponding period last year. The increase is primarily due to provision for credit losses on group basis due to the Corona Virus crisis, both with respect to debt in which a risk was found of potential impact to the client's repayment capacity, and with respect to an additional provision component ("Qualitative Component"), calculated by a methodology based on qualitative parameters (macro-economic benchmarks, such as unemployment and growth rates in conformity with the Bank of Israel forecast, and internal benchmarks, such as client ratings), and with respect to a qualitative component, primarily with respect to sectors where activity has slowed down exceptionally, and with respect to mortgage repayment delays, and applies to all credit exposures at the Bank. This is despite the decrease in mortgages in arrears to 1.1% as of December 31, 2020, compared to 1.5% as of December 31, 2019. The qualitative provision is based on judgment exercised and estimate prepared under conditions of uncertainty, and shall be regularly reviewed in view of developments of various indicators. For more information about the provision for credit losses included on these financial statements, see below in chapter "Analysis of evolution of revenues and expenses" and in Notes 13 and 30 to the financial statements.
- Maintaining the level of operational and other expenses, which were impacted, *inter alia*, by the following factors:
- Decrease in payroll expenses (excluding the effect of Union Bank) primarily due to adjustment of variable remuneration components to Bank return and profit and to effect of a voluntary retirement program.
- Increase in maintenance expenses due to increase in rent expenses, further to application of the new standard on leases, and to increase in security expenses due to the Corona Virus outbreak.
- Increase in depreciation expenses for technology investments.

See below for additional influences on each operating expense component.

Multi-period profit, excluding the effect of consolidation of Union Bank financial statements, indicate the following:

- Average annual growth rate of revenues at 7.7%, despite the impact of the lower CPI and low interest environment**.**
- Strong revenue growth, compared to moderate increase in expenses (excluding extraordinary expenses in 2018).

Condensed financial information and key performance indicators for the Bank Group – Continued

	As of December 31,					
	2020		2019	2018	2017	2016
						NIS in millions
	Including Union Bank	Excluding Union Bank				
Balance sheet – key items						
Balance sheet total	360,140	312,252	273,244	257,873	239,572	230,455
Loans to the public, net	245,525	220,828	204,708	194,381	181,118	171,341
Cash and deposits with banks	86,570	74,161	51,672	45,162	41,130	41,725
Securities	17,290	8,448	10,113	11,081	10,133	10,262
Buildings and equipment	1,743	1,444	1,457	1,424	1,403	1,585
Deposits from the public	284,224	246,753	210,984	199,492	183,573	178,252
Debentures and subordinated notes	33,446	(2)29,647	33,460	30,616	29,923	27,034
Deposits from banks	3,779	(3)3,647	714	625	1,125	1,537
Shareholders' equity(1)	18,804	16,995	16,033	14,681	13,685	12,714

As from September 30, 2020, the Bank's consolidated balance sheet includes all assets and liabilities of Union Bank, including adjustment to fair value in conformity with valuation for purchase price allocation (PPA) prepared as of September 30, 2020. For more information see chapter "Significant developments in management of Bank business" below and Note 35 to the financial statements.

Data from the multi-period balance sheet show continued growth in Bank operations.

Average annual growth in 2016-2020, excluding the effect of consolidation of Union Bank financial statements, was:

Balance sheet total	8.3%
Loans to the public, net	6.8%
Deposits from the public	8.7%
Shareholder equity	7.5%

(1) Any mention of "net profit" or "equity" in this Board of Directors' Report refers to net profit and equity attributable to shareholders of the Bank.
(2) Decrease in balance of debentures and subordinated notes is due to subordinated notes that have reached maturity.
(3) The increase in deposits from banks is primarily due to a monetary loan amounting to NIS 2.2 billion received from the Bank of Israel in conjunction with the Bank of Israel plan for providing long-term loans to increase credit supply to micro and small businesses.

Key financial ratios (in percent)

	For the year ended December 31,				
	2020	2019	2018	2017	2016
Key performance benchmarks					
Net profit return on equity[1]	9.5	11.9	[8]8.5	10.2	10.2
Net profit return on risk assets[2]	0.89	1.17	[9]0.83	0.99	0.97
Return on average assets	0.53	0.70	[9]0.49	0.57	0.58
Deposits from the public to loans to the public, net	115.8	103.1	102.6	101.4	104.0
Ratio of Tier I capital to risk components	10.04	10.14	10.01	10.20	10.10
Leverage ratio[3]	5.19	5.55	5.42	5.48	5.27
(Quarterly) liquidity coverage ratio[4]	133	121	116	118	117
Ratio of revenues[5] to average assets	2.63	2.76	2.79	2.55	2.56
Operating expenses to total revenues[6] (Cost-Income Ratio)	53.9	54.6	[8]63.6	60.2	58.5
Basic earnings per share (in NIS)	6.70	7.86	5.17	5.80	5.46
Key credit quality benchmarks – including Union Bank					
Ratio of balance of provision for credit losses to total loans to the public	0.98	0.82	0.80	0.81	0.83
Ratio of impaired debts or debts in arrears 90 days or longer to loans to the public	1.18	1.36	1.23	1.02	0.98
Expenses with respect to credit losses to loans to the public, net for the period	0.43	0.18	0.16	0.11	0.12
Ratio of net accounting write-offs to average loans to the public	0.12	0.11	0.11	0.09	0.11
Key credit quality benchmarks – excluding Union Bank					
Ratio of balance of provision for credit losses to total loans to the public	1.09				
Ratio of impaired debts or debts in arrears 90 days or longer to loans to the public	1.16				
Expenses with respect to credit losses to loans to the public, net for the period	0.48				
Ratio of net accounting write-offs to average loans to the public	0.13				
Additional information					
Share price (in NIS) as of December 31	74.25	92.00	63.14	64.19	56.35
Dividends per share (in Agorot)[7]	75	178	106	144	80
Average number of employees for the Group	6,684	6,373	6,285	6,215	6,103
Ratio of net interest revenues[6] to average assets	1.93	2.02	1.99	1.84	1.72
Ratio of commissions to average assets	0.55	0.58	0.60	0.60	0.65

Financial ratios indicate:

- Net profit return on equity, excluding the effect of Union Bank, was 9.3%. This is despite the effect of increase in expenses for credit losses due to the Corona Virus crisis, the effect of the lower Consumer Price Index, and the negative effect of lower interest rates in the USA and in Israel.
- The ratio of deposits from the public to loans to the public was affected, *inter alia*, by consolidation of Union Bank's financial statements and by significant diversion of client assets from the capital market to deposits from the public. This was also affected by increase in loans due, *inter alia*, to loans amounting to NIS 5.1 billion provided to businesses from State-guaranteed funds, and to the growing need of Bank clients, mostly business clients, due to the Corona Virus crisis, to utilize existing credit facilities available to them.
- The cost-income ratio, excluding the effect of Union Bank, was 52.7%. This was due to higher revenues and to maintaining operational expenses at the same level.
- The Bank efficiently manages its compliance with regulatory targets required for capital adequacy, liquidity and leverage.
- The number of Bank employees grew in line with the Bank's growth strategy with emphasis on the human factor in banking service and in view of the Union Bank acquisition.

Items of profit and loss, balance sheet items and various financial ratios are analyzed in detail in the Report of the Board of Directors and Management, in chapter "Explanation and analysis of results and business standing" and in chapter "Risks overview", as the case may be.

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(1) Any mention of "net profit" or "equity" in this Board of Directors' Report refers to net profit and equity attributable to shareholders of the Bank.
(2) Net profit to average risk assets.
(3) Leverage Ratio – ratio of Tier I capital (according to Basel rules) to total exposure. This ratio is calculated in conformity with Proper Conduct of Banking Business Directive 218
(4) Liquidity Coverage Ratio – ratio of total High-Quality Liquid Assets to net cash outflow. This ratio is calculated in conformity with Proper Conduct of Banking Business Directive 221, in terms of simple averages of daily observations during the most recent reported quarter.
(5) Net interest revenues and non-interest revenues
(6) Total operating and other expenses to total operating and financing revenues before expenses with respect to credit losses.
(7) The rate of dividends is calculated based on the amount of the dividends actually distributed in the reported year.
(8) Net profit return on equity and cost-income ratio in 2018 were affected by a provision amounting to NIS 546 million with respect to the investigation by the US DOJ. The Bank's net profit return on equity and cost-income ratio in 2018 excluding the provisions with respect to the investigation and taking into account the provisions for bonus payments in line with profitability from business operations and related tax expenses in 2018 amounted to: Return on equity – 11.6%. Cost-income ratio – 57.2%.
(9) Return on risk assets and average return on assets in 2018 were affected by the provision with respect to the investigation by the US Department of Justice, as stated above, decrease by 0.30 and 0.18 percentage points, respectively.
(10) As from September 30, 2020 the Bank consolidates the financial statements of Union Bank. The consolidated statement of profit and loss for 2020 includes the financial results of Union Bank for the fourth quarter only.

Bank Group and its lines of business

Mizrahi-Tefahot Bank Ltd. ("the Bank") was among the first banks established in the State of Israel. The Bank was incorporated as a public company on June 6, 1923, under the name Mizrahi Bank Ltd., and it was issued the license to commence business on May 13, 1924. The Bank was founded at the initiative of the World Mizrahi Center, in order to facilitate the financing of settlement, construction, manufacturing, labor and commercial activities of the new settlers in the Land of Israel. In 1969, upon the merger of the businesses of the Bank with the businesses of Hapoel Hamizrahi Bank Ltd., the Bank's name was changed to United Mizrahi Bank Ltd. In 1983, within the framework of the arrangement formulated between the Israeli Government and the Banks, the shares of the Bank were transferred to the control of the State through a securities company that was established for this purpose. In the years 1995 and 1997, the Bank was privatized in two stages, and was transferred to control of the present controlling shareholders. Following the merger between United Mizrahi Bank Ltd and "Tefahot" Israel Mortgage Bank Ltd. ("Tefahot"), the merged bank's name was changed on November 7, 2005 to its present name, Mizrahi-Tefahot Bank Ltd.

For more information about the controlling shareholders of the Bank, see chapter "Corporate Governance, Audit, Other Information about the Bank and its Management" (Controlling shareholders) in these financial statements.

The Bank Group operates in Israel and overseas. The Group is engaged in commercial banking (business and retail) as well as mortgage activities in Israel, through a nation-wide network of 197 branches, business centers and affiliates, excluding Union Bank. Furthermore, business customers are supported by business centers and professional units at Bank headquarters, which specialize by sector. The Bank's overseas operations are conducted via 3 bank affiliates (two branches and a subsidiary[(1)]).

In addition to its banking activities, the Bank Group is engaged in various activities related to the capital market, including: Consultancy for capital market activities, distribution of mutual funds, management of securities portfolios for clients, pension advisory service, trust services, provision of registration services for securities listed on the stock exchange in Israel, operation of provident funds, operation of mutual funds and insurance incidental to mortgages. The Bank Group also engages in credit operations and participates in syndication deals.

The Bank is one of the five largest bank groups in Israel. Below is the Bank Group share out of the Top 5 groups (based on financial statements as of September 30, 2020):

	Including Union Bank	**Excluding Union Bank**
Loans to the public	22.0%	20.2%
Deposits from the public	18.6%	16.6%
Total assets	18.9%	16.8%
Shareholders' equity	14.9%	14.1%

(1) For more information about sale of the subsidiary United Mizrahi Bank (Switzerland) Ltd. to Swiss bank Hyposwiss Private Bank Geneve SA, see chapter "Significant developments in management of Bank business" below.

Major risks

Below are definitions of the major risks to which the Bank is exposed in its operations:

Credit risk – the risk that a borrower or counter-party of the Bank would not fulfill its obligations towards the Bank. Credit concentration risk is due to over-exposure to a borrower / borrower group and to economic sectors.

Market risk – This is the risk of loss in On- and off-balance sheet positions, arising from change in fair value of financial instruments, due to change in market risk factors (interest rates, exchange rates, inflation, prices of equities and commodities).

Interest risk – The risk to Bank profit or to Bank economic capital, primarily due to fluctuations in interest rates, fluctuations of various curves used by the Bank in its business operations or from the fact that a change in interest rates may result in a change in composition of the Bank's assets and liabilities due to exercise of options for early repayment due to change in market interest rates. Changes in interest rates impact Bank profits (change in revenues) and the value of Bank assets (change in fair value).

Liquidity risk – The risk to profit and stability of the banking corporation, due to its inability to satisfy its liquidity requirements, i.e. risk resulting from uncertainty as to the availability of sources and the ability to realize assets within a specified period of time and at a reasonable price.

Operational risk – The risk of loss due to inappropriateness or failure of internal processes, people and systems or due to external events. This risk is inherent in all products, activities, processes and systems. The framework for addressing operational risk includes information security and cyber risk, IT risk and legal risk, as stated below:

Information security and cyber risk – Information security risk is risk arising from faults in protection of the Bank's computer systems and information stored there. Cyber risk arises from an event including an attack on computer systems by or on behalf of internal or external adversaries of the Bank.

IT risk – the risk of failure in the Bank's information and/or IT and operating systems, as well as support that is not appropriate and sufficient for business services and processes required by the Bank to realize its business targets.

Legal risk – Risk of loss due to exposure to fines, lawsuits and/or punitive action due to breach of contract or disagreements. Legal risk also includes risks arising from legal exposure due to Bank conduct with its various stakeholders (such as: clients, suppliers and other third parties).

Compliance and regulatory risk – The risk of imposition of legal or regulatory sanctions, material financial loss or damage to reputation, which the Bank may incur due to its failure to comply with compliance provisions (such as: statutory provisions, regulation, standards and conduct commonly expected from a corporation). The Bank is also exposed to business implications of changes to regulatory provisions. Compliance risk includes conduct risk, which is the risk of impact to Bank trustworthiness in the eyes of its clients, investors, suppliers and all other stake holders, which may also impact public trust in the banking system as a whole. This risk is across the Bank and is based on application of basic values, such as fairness, trustworthiness and transparency.

Cross-border risk – The risk of financial loss (including due to legal proceedings, fines or sanctions imposed by statutory authorities or others in Israel and in other countries) and of damage to reputation, arising from the Bank's failure to comply with statutory provisions originating in other countries – whether provisions are binding on the Bank or provisions which are not binding, but failure to comply with them may cause the Bank to incur damage, or from overseas activities of Bank clients in contravention of any statutory provisions.

AML and terror financing risk – the risk of financial loss (including due to litigation processes, penalties or sanctions imposed by authorities in Israel and in other countries) and impact to reputation, which the Bank may incur due to breach of various statutory provisions regarding the Bank's obligations with regard to AML and terror financing.

Reputation risk – the risk of negative perception by existing clients, potential clients, suppliers, shareholders, investors or regulators which may negatively affect the Bank's capacity to retain or create business relationships and may impact access to financing sources. Thus, the risk to corporate profit, stability or capacity to achieve its objectives, due to impact to reputation which may arise from practices applied by the corporation, its financial standing or negative publicity (whether true or false).

Business-strategic risk is the risk, in real time or potentially in future, of impairment to Bank profits, capital or reputation, due to erroneous business decisions, improper deployment of decisions or insufficient preparation for changes in the business environment. This means the risk that the Bank chose the wrong strategy or that the Bank would not be able to implement the business and strategic plan as planned.

For more information about major and emerging risks, see chapter "Risk Events" below.

For more information see chapter "Risks overview" and the 2020 Risks Management Report on the Bank website.

Business goals and strategy

The strategic plan

On November 21, 2016 the Bank's Board of Directors approved a new strategic plan for 2017-2021 (hereinafter: "the strategic plan"). The strategic plan is designed to achieve the following targets:

- Achieve in 2021,return on net profit attributable to shareholders to shareholders' equity of 11.5% on average and double-digit return over the term of the strategic plan; these rates are based on the ratio of Tier I capital to risk components for the Bank at the minimum set by the Supervisor of Banks plus appropriate safety margin;
- Further organic growth of core Bank operations, at a higher rate than for the Israeli banking system, so as to increase the Bank's market share in the Israeli banking system;

The Bank's growth engines are aimed to grow Bank profitability due, inter alia, to average annual revenue growth rate of 8% (though not in linear fashion), while maintaining expenses at a moderate annual growth rate of 6% (also not in linear fashion).

- Maintain high operating efficiency – achieve a cost-income ratio (total expenses to total revenues) lower than 60% over the plan term and even attempt to improve it to below 55% in 2021.

Further to the Bank's Board of Directors direction to management to prepare for preparation of a new strategic plan for 2021-2025, to be submitted for approval by the Board of Directors in the third quarter of 2020, in view of already achieving the target of the current strategic plan on the 2019 financial statements, in view of the Corona Virus crisis and the associated uncertainty, and in view of closing of the acquisition of all shares of Union Bank Le-Israel Ltd., the Bank's Board of Directors revised its guidance, so that the strategic plan for 2021-2025 shall be brought for approval by the Board of Directors in 2021.

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The Bank's dividends policy as from 2018 is to distribute dividends with respect to quarterly earnings, at up to 40% of net profit attributable to equity holders of the Bank. This policy is subject to the Bank achieving a ratio of Tier I capital to risk components as required by the Supervisor of Banks and maintaining appropriate safety margins. For more information about the Board of Directors' resolution whereby the Bank would avoid making any dividend distribution (including buy-back of Bank shares) for as long as the interim directive with regard to relief for minimum capital ratios which banks are required to maintain is in effect, see chapter "Dividends distribution policy" below.

Plan to relocate Bank headquarters units

On June 19, 2017, the Bank's Board of Directors resolved to take action in order to concentrate, in as much as possible, the Bank's headquarters units in a single site, in Lod. For more information about this contract and capital relief authorized by the Supervisor of Banks with regard to streamlining in the real estate sector, see Note 25 to the financial statements.

Significant developments in business activities

Business in the mortgage market grew in 2020, with housing loan origination in the banking system amounted to NIS 79 billion, an increase by 15% over 2019. The Bank is acting to maintain its leadership position in the mortgage market in terms of market share and in perception and further reinforce the expertise of mortgage bankers. Over the past year, the Bank successfully retained its leadership position in the mortgage sector, while maintaining low risk attributes for LTV and repayment ratio out of borrower income. Upon acquisition of a controlling interest in Union Bank, on September 30, 2020, the Bank Group's market share includes the mortgage operations of Union Bank as well. In January 2021, the Bank of Israel removed the restriction on the share of the loan bearing interest based on the prime lending rate, which may support increased demand for residential mortgages and increase in volume of the turnover.

The household segment is in the midst of continuous growing competition, both from the banking system and from insurance companies and credit card companies. The Bank's target is to increase its market share in the household segment, by expanding the client base with a focus on specific target customers. Regulatory steps to increase competition in the household segment and to remove barriers to account transfer between banks – are an opportunity for increased client recruitment, based on the unique, high-quality personal service provided by the Bank. In this context, the Bank used hybrid banking platform and the LIVE branches to recruit new clients and improve service to current clients, while expanding the value proposition.

The mortgage client base at the Bank offers potential for increase of the client base for commercial activities. The Bank also strives to expand in other client segments, including the Arab, Jewish Orthodox and retiree segments. Bank Yahav and Union Bank bolster the Group's retail segment operations, by expanding and intensifying its operations with salaried employees, while leveraging the capabilities of Bank Yahav's new core banking system.

The Bank focuses its efforts on raising stable, diversified financing sources for different time frames, from private and business clients, so as to further maintain appropriate liquidity ratios, in order to reduce the cost of sources required for its operations and to improve the level of profitability. These efforts resulted in the Bank continuing to significantly increase the scope of retail deposits in 2020, while maintaining high liquidity ratios.

The Bank's business strategy emphasizes significant expansion of the client base and increase of the Bank's market share among small to medium business clients, with regular risk assessment at client level, at sector level and for the economy as a whole. The Bank addresses growing competition in these operating segments by increased marketing activities with clients, with client segmentation by type of occupation and needs and an overall view of their activities, as well as by expanding Bank activity in the State-guaranteed fund for small and medium businesses. In order to expand business in the commercial banking segment, the number of branches focused on providing banking services to business segments was increased, with reinforcing of professional training of the staff and maintaining appropriate underwriting levels. This infrastructure would support further expansion of operations in this segment in coming years. Due to the Corona Virus crisis, the State expanded the scope of State-guaranteed loan funds to the small and medium business segment, and the Bank increased its lending through these funds. The Bank also increased the loan supply in conjunction with a program launched by the Bank of Israel to provide financing sources to the banking system at reduced cost, so as to provide lower-cost loans to the micro and small business segment.

The competition in providing banking and financial services to the business banking segment was affected, in 2020, by strong growth in loans to large businesses. Moreover, competition in this segment have been affected in recent years by expanded operations of non-banking entities, which are focused on providing large-scale credit for long terms. The Bank is dealing with competition in this segment by relying on the advantages of its human resources and on their knowledge and experience in providing professional service and in adapting banking solutions for client needs. The Bank's business strategy in this segment is directed toward maximizing the economic potential of the capital by focusing on activities having high profitability relative to the capital needed for them, Concurrently, the Bank is acting to leverage its professional advantage by increased cooperation in consortiums with other entities.

Due to the Corona Virus crisis, the Bank of Israel launched an outline for postponing credit payments in all operating segments, in order to ease the impact of this crisis. The postponement of credit payments is mostly evident in the micro and small business segment and in mortgages. As of December 2020, the delay period has ended for over 80% of the delayed credit balance. For more information see chapter "Significant Events in the Bank Group's Business" above.

The Bank continues to maintain high operating efficiency through, *inter alia*, reorganization of assets and optimization of the branch network, including opening new branches in locations with potential for business growth – along with steps for streamlining the existing dispersion.. In order to maintain optimal operating efficiency, while further improving work processes, the Bank conducted restructuring as from the start of 2020, and concentrated human and physical resources along with its operations arm under a single division - the Human Capital, Resources and Operations Division. This was done concurrently with concentrating all capital market operations under the Finance Division, with responsibility for all branch operations transferred to the Retail Division. Furthermore, in early 2021, the Bank decided that responsibility for Bank branches in London and in Los Angeles would be transitioned from the Finance Division to the Business Division, in order to enhance the synergies between business operations in Israel and overseas.

On September 30, 2020, the transaction whereby the Bank acquired the shares of Union Bank closed. In conformity with the rationale underlying the transaction to acquire the sixth largest bank in Israel, the joining of Union Bank allows Mizrahi-Tefahot Group to make a significant step forward in market share of various operating areas, with improvement to the mix of sources and uses and increased competitiveness. Union Bank's lending operations in the various segments diversifies Mizrahi-Tefahot's lending mix, in conformity with the Bank's strategic targets, in particular with regard to the business lending segment. The acquisition would allow for economies of scale at the merged bank and would result in operational cost savings.

This information constitutes forward-looking information, as defined in the Securities Law, 1968, based on assumptions, facts and data (hereinafter jointly: "assumptions") brought before the Bank's Board of Directors. These assumptions may not materialize due to factors which are under the Bank's control.

Developments in capital structure

Investments in Bank Capital and Transactions in Bank Shares

- For more information about share issuance in conjunction with an employee' stock option plan, see statement of changes in shareholders equity in the financial statements.
- On June 22, 2020, the Bank's Board of Directors approved, after approval by the Bank's Remuneration Committee, an option offering to Bank officers and to other managers at the Bank and at its subsidiaries. See Note 23 to the financial statements for additional information.

- On September 30, 2020, the transaction between the controlling shareholders of Union Bank and the Bank closed. whereby shares of Union Bank held by the controlling shareholders were acquired in exchange for issue of Bank shares. The number of shares issued in consideration, according to the agreement, is 19,865,165 and their value as of the transaction date amounted to NIS 1,207 million. For more information about share issuance in conjunction with acquisition of Union Bank, including additional cash payment amounting to NIS 16 million, see chapter "Significant developments in management of Bank business" below and Note 35 to the financial statements.
- For more information about changes to the control structure at the Bank, see chapter "Corporate Governance, Audit, Other Information about the Bank and its Management" (Controlling shareholders) in these financial statements.

Raising of capital sources

In conjunction with the Bank's work plan, which is set by the Board of Directors and includes growth objectives for the different operating sectors, an assessment is made of the impact of achieving these objectives on total risk assets for the Bank, and accordingly on its capital adequacy ratio. Accordingly, along with business and profitability objectives, a plan is set to raise capital sources in order to maintain capital adequacy, in accordance with instructions of the Board of Directors concerning capital adequacy.

The plan includes issue of contingent subordinated notes (Contingent Convertibles – CoCo) as needed and should ensure that the overall capital ratio would not be lower than the minimum capital ratio required by the Supervisor of Banks, at 12.18%.

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For more information on issuance of CoCo contingent subordinated notes amounting to NIS 0.4 million in 2020, see "Developments in financing sources" below.

Developments in financing sources

Group financing sources include deposits from the public and from other banks, issuance of types of debentures as well as shareholder equity.

The Group selects the mix of financing sources based on its business objectives, including objectives for profitability, return on equity, liquidity, diversification of sources in Israel and overseas across different currencies, capital adequacy and leverage – subject to statutory limitations applicable to banking corporations and in accordance with the state of the capital market in Israel and globally, and management forecasts regarding development therein.

Deposits

The Bank distinguishes between different source types by term and by client type. The Bank reviews depositor concentration; Management and the Board of Directors have specified restrictions and guidelines with regard to concentration risk which apply to the individual depositor, liquid means with regard to major / institutional depositors and resource composition. Quantitative and qualitative indicators to be regularly monitored, which estimate change in concentration risk –have been specified as part of liquidity risk management.
Deposits from the public for the Group as of December 31, 2020 amounted to
NIS 284.2 billion.

Excluding Union Bank, deposits from the public as of December 31, 2020 amounted to NIS 246.8 billion, compared to NIS 211.0 billion at end of 2019: an increase by 17.0%. Deposits from the public in the NIS-denominated, non-CPI linked segment decreased in 2020 by 18.3%; deposits in the CPI-linked segment increased by 9.8%; and deposits denominated in or linked to foreign currency increased by 14.1%. For more information see chapter "Analysis of developments in assets, liabilities, equity and capital adequacy" below.

Bank of Israel

The Bank of Israel serves as a key party for the short-term financing and absorption of money for the entire banking system, including for the Bank.

Due to the Corona Virus crisis, in April 2020 the Bank of Israel launched a campaign whereby it provided to banks low-cost, long-term financing sources, so that these may be provided as available credit to the business sector.

Note that any bank borrowing funds from the Bank of Israel is required to provide collateral (deposits with the Bank of Israel, securities and as from end of December 2020, also qualified mortgage portfolios) – which is accounted for in current liquidity management.

Another source for raising short-term funds is the inter-bank money market. Excess liquidity in the banking system in Israel remained high in 2020 as well. The Bank of Israel absorbs excess liquidity through monetary deposit tenders for terms of one day, one week and for terms of up to 8 weeks.

Among the factors influencing the scope and types of deposits in the banking system is the monetary policies of the Bank of Israel.

Obligatory notes and debentures issued to the public

The Bank is acting to raise long-term sources via issuances, inter alia via Mizrahi Tefahot Issuance Company Ltd. ("Tefahot Issue"), a wholly-owned subsidiary of the Bank. Over the years, Tefahot Issue Company issued subordinated notes to the public under published prospectuses.

Union Bank raised sources through Igud Issuance Ltd., a wholly-owned and wholly-controlled subsidiary of Union Bank, engaged in issuance of obligatory notes and depositing the proceeds with Union Bank. On December 31, 2020, the Bank announced a resolution to merge Union Bank Issuance Ltd. Into Mizrahi Tefahot Issuance Ltd., subject to fulfillment of suspensive conditions stipulated in the merger agreement between these two entities, hence completion of this agreement is uncertain.

Tefahot Issuance has a shelf prospectus issued on August 4, 2019 (dated August 5, 2019) for issuance of obligatory notes.

In addition to Tefahot Issuance operations, the Bank itself has a shelf prospectus issued on December 3, 2019 (dated December 4, 2019).

In 2020, the Bank conducted no issuances.

On June 30, 2020, Tefahot Issuance issued a new series of CPI-linked debentures (Series 52) of NIS 413 million par value, for consideration amounting to NIS 403 million, as well as CPI-linked debentures by way of expansion of an existing series (Series 46) of NIS 1,197 million par value, for consideration amounting to NIS 1,300 million.

On December 24, 2020, Tefahot Issuance issued a new series (Series 53) of contingent subordinated notes (Contingent Convertibles – CoCo) with par value of NIS 400 million, for consideration of NIS 400 million.
As of the date of these financial statements, total debentures and subordinated notes amounted to NIS 33.4 billion (excluding Union Bank: NIS 29.5 billion), compared to NIS 33.5 billion as of December 31, 2019.

Complex capital instruments

Contingent convertible (CoCo) subordinated notes

Contingent subordinated notes (Contingent Convertibles – CoCo) with loss-absorption provisions through principal write-off (compliant with Basel III provisions and recognized by the supervisor of Banks as Tier II capital), as of December 31, 2020, amounted to NIS 4.5 billion (of which: NIS 0.5 billion in subordinated CoCo notes at Union Bank), compared to NIS 3.6 billion as of December 31, 2019.
For more information about issue of CoCo contingent subordinated notes by Tefahot Issuance, see above.

Other complex capital instruments

A capital note which does not qualify as supervisory capital pursuant to Basel III directives and is gradually written down, as of December 31, 2020 amounted to NIS 2.0 billion (all at the Bank), similar to December 31, 2019.

Other notes

Subordinated notes, which are not considered complex capital instruments (included in Tier II capital for the purpose of maintaining minimum capital ratio in conformity with transitional provisions, and gradually amortized through 2021), as of December 31, 2020, amounted to NIS 4.2 billion (of which: NIS 3.4 billion in subordinated notes at Union Bank), compared to NIS 1.2 billion as of December 31, 2019.

For more information about the credit rating of the Bank, its notes and those of Tefahot Issuance, see chapter "Corporate Governance, Audit, Other Information about the Bank and Management thereof".

Significant developments in management of business operations

Branch deployment

Group branches are primarily aimed at providing professional, high-quality service to clients of all banking segments, close to the location where the service is required (residence, place of business). To this end, branches manage day-to-day client activities and offer to clients and the public at large advanced financial products and services, including advisory services for capital market activity and pension advisory services.
As of December 31, 2020, Group branches are located nationwide, consisting of 232 business centers and branches, including 52 Bank Yahav branches (of which 6 branches providing partial service) and 35 Union Bank branches.
The Bank continues to review its branch network in accordance with its strategic plan, with optimization and location selection based on considerations such as providing optimal service to clients, economic viability considerations etc.
The Bank has started preparing for the start of the merger of some Union Bank branches.
The Bank operates 6 LIVE branches – which are branches providing full personalized service during extended business hours using a range of communication channels between clients and bankers (via telephone, fax, internet, email, SMS, video conferencing).

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Direct channels

The policy applied by the Direct Banking sector concerning direct channels is as follows:

- Apply a multi-channel strategy, at the center of which stands the personal banker, and direct banking services constitute an integral part of it
- Develop the hybrid banking service as a primary channel for communication with the banker.
- Expand the range and diversity of services offered through direct banking channels.

Direct channels offered to Bank clients include:

Hybrid Banking services

Hybrid Banking signifies the integration of personal service accessible to clients with technology.

Hybrid Banking services are provided by Bank branches and banking centers, as follows:

- Bank branches – phone calls, emails and SMS messages from identified clients are directly routed to that client's banker and are answered by the banker or by the backup staff at the branch.
- The branch team at the banking center provides backup to branch bankers, assisting with transactions and providing information to Bank clients, as part of the integrated Hybrid service offered to clients.

On line, cell phone, notification box, IVR and fax services

On line service – allows clients to receive banking information and execute transactions in the account for a range of banking products available to Bank clients.

Account management application – allows one to get most of the E-banking services, using optional fingerprint authentication.

Self-service at branches

- The Bank constantly expands its services to clients through self-service stations.
- Service stations – The Bank provides clients with service stations, allowing them to conduct transactions such as: Taking out a loan, depositing checks and obtaining information about their commercial and mortgage accounts independently, 24 hours a day - even when the branch is closed. Some of the service stations also offer immediate checkbook printing.
- In 2020, the Bank continued a multi-annual campaign to deploy the cash deposit service using self-service stations at the branch.
- ATMs – The Bank owns 208 cash withdrawal machines, some in Bank branches and some are "remote ATMs".

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Expansion of business operations

For more information about the Bank's strategic plan, see chapter "Business goals and strategy (Strategic plan)" above.

Corona Virus pandemic

The Corona Virus crisis currently affecting the entire world, including Israel, has real economic and financial implications, both real and financial, which affect the banking system. For more information about Bank operations, see chapter "Trends, phenomena and material changes" below.

Exchange tender offer for acquisition of Union Bank Le-Israel Ltd.

In conformity with the resolution by the Bank's Board of Directors dated November 27, 2017, the Bank signed an agreement with the controlling shareholders of Bank Igud Le-Israel Ltd. (hereinafter: "Union Bank"), who jointly hold 47.63% of Union Bank's issued and paid-up share capital, to acquire the shares of Union Bank and to merge it with the Bank by way of exchange of shares (hereinafter: "the **agreement**"). Moreover, prior to signing this agreement, notice was received from another Union Bank shareholder who holds (through Trustees) 27.12% of Union Bank's issued and paid-in share capital (hereinafter: "the Other Shareholder"). Later on, Union Bank, the Other Shareholder and the Bank signed multiple addendums to the merger agreement.

On May 30, 2018, the Acting Director General of the Antitrust Authority decided to object to the merger (hereinafter: "the Supervisor" and "the decision", respectively); an appeal was filed in September 2018. On November 28, 2019, the verdict in this appeal was received, such that the decision by the Acting Supervisor to object to the merger was canceled, and the matter was referred back to the Supervisor for a complete decision on setting potential conditions to eliminate concern of impacting competition. On January 8, 2020, the Supervisor issued their decision with regard to the aforementioned conditions ("the original decision on merger conditions").

Further to original decision on merger conditions, on July 14, 2020 the Bank and Peninsula Group Ltd. signed an agreement (hereinafter: "Peninsula" and "the Peninsula agreement" or "the Peninsula transaction") whereby, subject to closing of the transaction subject of the merger agreement and approval by the Supervisor ("the suspensive conditions of Peninsula transaction") and after control over Union Bank would be transferred to the Bank, Igud and Peninsula would sign an agreement regarding sale of the sold operations.

On July 27, 2020, the revised decision by the Supervisor (hereinafter: "the revised decision by the Supervisor") was received, including certain revisions to the original decision on merger conditions, which were discussed by the parties to the merger agreement and the Supervisor, in order for the Peninsula Transaction to comply with conditions stated in the Supervisor's decision. The revised decision by the Supervisor would allow, *inter alia*, for closing of the transaction for sale of the credit portfolio concurrently with closing of the merger. Furthermore, on said date, the Supervisor's approval was received for the identity of the buyer of the credit portfolio and the content of the sold operations of credit to the diamond sector.

On August 30, 2020, the Bank issued an exchange tender offer for Union Bank shares; the acceptance date for this offer was postponed on September 10, 2020 and on September 16, 2020; its terms and conditions were revised on September 17, 2020; the acceptance date for the tender offer was September 23, 2020 and it was concluded on September 30, 2020. In conjunction with the tender offer, the Bank acquired 100% of the issued and paid-in share capital of Union Bank and of voting rights in Union Bank, in exchange for the following: (1) Share issuance by the Bank, where for each Union Bank ordinary shares of NIS 0.01 par value acquired by the Bank, the Bank issued 0.2699694 Bank ordinary shares of NIS 0.1 par value, for total issuance of NIS 19,865,165 par value Bank shares; (2) Cash payment by the Bank amounting to NIS 16 million ("the cash consideration"); (3) Furthermore, a receipt amounting to NIS 37.24 million made by the Other Shareholder was paid in cash; as the Bank was informed, this is payment which the Other Shareholder committed to pay to the controlling shareholder of Union Bank pursuant to agreements between them and as allocated among them, which the controlling shareholder of Union Bank announced their intention to share with public shareholders of Union Bank (other than the Other Shareholder) pro rata to their holding stakes in Union Bank shares ("the additional receipt"). Note that in conformity with the foregoing, each Union Bank share of NIS 0.01 par value entitled Union Bank shareholders to NIS 1.8513449 with respect to the cash consideration and the additional receipts, except for shares of the controlling shareholders and shares of the Other Shareholder. As from September 30, 2020, the Bank holds all of the share capital of Union Bank and therefore the Bank's consolidated balance sheet includes Union Bank's balance sheet.

In conjunction with the tender offer, Shlomo Eliyahu Holdings Ltd. And Eliyahu 1959 Ltd. (Companies controlled by Mr. Shlomo Eliyahu, hereinafter: "Eliyahu") received an allocation of shares that constitute 2.1% of the issued and paid-in share capital of the Bank. As the Bank was informed on October 29, 2020, the holdings of Eliyahu would be counted jointly with holdings of companies controlled by Migdal Holdings Insurance and Finance Ltd. (hereinafter: "Migdal Holdings") (Mr. Shlomo Eliyahu is the controlling shareholder of Migdal Holdings) and after share allocation by the Bank in conjunction with the tender offer, the holding of Bank shares by Eliyahu and by companies controlled by Migdal Holdings exceed 5% of the issued and paid-in share capital of the Bank. Note that further to the tender offer report, on September 21, 2020 the Bank received notice from the Supervisor of Banks, whereby subject to conditions stated in said notice, the Bank of Israel would not initiate nor recommend any enforcement measures against any specific shareholder of Union Bank who, due to accepting the tender offer, would immediately thereafter hold means of control over the Bank that are subject to a permit from the Governor of the Bank of Israel.

On September 13, 2020, the Bank received a letter from the Anti-Trust Authority, whereby the Authority is conducting a review of the circumstances of a decrease in financing provided for diamond operations of Union Bank clients who are subject to the Peninsula Transaction (hereinafter: "diamond financing portfolio"). The Bank was informed by Union Bank that credit for the diamond industry is managed by Union Bank in the normal course of business and that Union Bank operates in conformity with the resolution by the Anti-Trust Supervisor with regard to the merger conditions, with regard to sale of the credit portfolio.

On September 30, 2020, the closing date for the tender offer, Union Bank and Peninsula signed an agreement to sell the diamond financing portfolio, and the aforementioned sale closed. Pursuant to the aforementioned sale agreement, Peninsula paid to Union Bank consideration based on the amount of the diamond financing portfolio (other than loans to clients classified by Union Bank as impaired debts, which were sold to Peninsula for no consideration). As a result of this sale on September 30, 2020, Union Bank recognized a loss amounting to NIS 117 million (NIS 77 million after tax) with respect to sale of the diamond financing portfolio.

On November 29, 2020, the Bank and Union Bank signed an agreement for merger of Union Bank with and into the Bank, such that as from the date when the Registrar of Companies shall provide to the Bank a certificate evidencing execution of the merger, and subject to fulfillment of all suspensive conditions for the merger, as stipulated in the merger agreement ("the Closing Date"), the Bank shall receive all assets, rights and liabilities of Union Bank as-is, retroactively as from December 31, 2020, so that immediately after the Closing Date, the Bank shall have all rights and obligations of Union Bank as they were immediately prior to December 31, 2020, and such transfer shall be deemed to have been made on December 31, 2020. The merger shall take place without any consideration paid nor payable to the Bank and/or to Union Bank, directly nor indirectly, in cash or in kind, due or with respect to the merger. The Bank’s Board of Directors resolved to approve the merger after discussion and evaluation of the financial standing of the Bank and of Union Bank, and has determined that with due attention to the financial standing of the Bank and of Union Bank, the Board believes that there is no reasonable concern that due to the merger, the Bank would not capable of meeting its obligations to its creditors, and based on other reasons cited in the Bank's report of the merger dated November 29, 2020.

On December 27, 2020, the Bank and Union Bank signed an agreement regarding investment of NIS 500 million by the Bank in Union Bank, against allocation of 8,000,000 Union Bank ordinary shares of NIS 0.01 par value each ("the allotted shares") by December 31, 2020, so that Union Bank would be in compliance with the minimum capital and leverage ratios applicable to Union Bank in conformity with Bank of Israel directives.

On December 31, 2020, the Bank announced a resolution to merge Union Bank Issuance Ltd. Into Mizrahi Tefahot Issuance Ltd., subject to fulfillment of suspensive conditions stipulated in the merger agreement between these companies, hence completion of this agreement is uncertain.

For more information about the agreement with Union Bank shareholders and addendums to the agreement, see chapter "Significant developments in management of business operations" in the Report of the Board of Directors and Management for 2017, Immediate Report dated May 30, 2018, reference 2018-01-053347, report dated June 25, 2018, reference no. 2018-01-060643, report dated August 05, 2018, reference no. 2018-01-072859, report dated July 08, 2019, reference no. 2019-01-070000, report dated November 25, 2019, reference no. 2019-01-101892, report dated November 28, 2019, reference no. 2019-01-103980, report dated December 30, 2019, reference no. 2019-01-115755, report dated January 01, 2020, reference no. 2020-01-000351, report dated January 08, 2020, reference no. 2020-01-003750, report dated January 27, 2020, reference no. 2020-01-010362, report dated July 14, 2020, reference no. 2020-01-067528), report dated July 14, 2020 (reference no. 2020-01-074859), report dated July 27, 2020 (reference no. 2020-01-073024), report dated July 27, 2020 (reference no. 2020-01-079680, report dated August 30, 2020, reference no. 2020-01-086407, report dated September 1, 2020, reference no. 2020-01-087430, report dated September 10, 2020, reference no. 2020-01-091030, report dated September 16, 2020, reference no. 2020-01-093247, report dated September 17, 2020, reference no. 2020-01-102456, report dated September 21, 2020, reference no. 2020-01-094324, report dated September 21, 2020, reference no. 2020-01-094330), report dated September 23, 2020 (reference no. 2020-01-095263), report dated September 29, 2020 (reference no. 2020-01-096784), report dated September 15, 2020 (reference no. 2020-01-092182, report dated October 1, 2020, reference no. 2020-01-097936, report dated October 29, 2020, reference no. 2020-01-108700, report dated October 29, 2020, reference no. 2020-01-108688, report dated October 29, 2020, reference no. 2020-01-108694, report dated November 29, 2020, reference no. 2020-01-121201, report dated December 27, 2020, reference no. 2020-01-140532, report dated December 09, 2020, reference no. 2020-01-126304, and report dated December 31, 2020, reference no. 2020-01-142890).

Union Bank merger

Further to closing of the acquisition transaction and in conformity with the rationale underlying the transaction to acquire the sixth largest bank in Israel, the joining of Union Bank allows Mizrahi-Tefahot Group to make a significant step forward in market share of various operating areas, with improvement to the mix of sources and uses and increased competitiveness. Union Bank's lending operations in the various segments diversifies Mizrahi-Tefahot's lending mix, in conformity with the Bank's strategic targets, in particular with regard to the business lending segment. The acquisition would allow for economies of scale at the merged bank and would result in operational cost savings.

The merger project is a material, large-scale and highly complex project which entails a wide range of risks. The project was launched in the fourth quarter of 2020 and is carried out by several extensive joint work teams of Bank Mizrahi Tefahot and Union Bank, managed by a steering committee headed by the Bank President & CEO, with administrations established to carry out the merger plan and a special ad-hoc Board committee established to accompany this project.

The Bank manages the merger project gradually and separately from current business, in order to allow for achievement of the work plan targets concurrently with the merger process.

This information constitutes forward-looking information, as defined in the Securities Law, 1968, based on assumptions, facts and data (hereinafter jointly: "assumptions") brought before the Bank's Board of Directors. These assumptions may not materialize due to factors which are under the Bank's control.

For more information about acquisition of Union Bank, see Note 35 to the financial statements.

Agreement for sale of the Bank in Switzerland

On January 11, 2021, United Mizrahi Overseas Holding Co. B.V.(Netherlands) (hereinafter: "("Mizrahi Overseas Holding"), a wholly-owned subsidiary of the Bank, and Hyposwiss Private Bank Genève SA (hereinafter: "the Buyer") signed an agreement for sale of all shares of United Mizrahi Bank (Switzerland) Ltd. (hereinafter: ("the Bank in Switzerland") owned by Mizrahi Overseas Holding. Mizrahi Overseas Holding assumed liability for 18 months as from the closing date of the agreement, with regard to current business conduct of the Bank in Switzerland over the past four (4) years, except for certain representations, for which Mizrahi Overseas Holding would be liable for 5 years as from the closing date, and in any case, such liability would only apply upon fulfillment of certain cumulative quantitative conditions stipulated in the agreement. Moreover, with respect to other past matters (including the US DOJ investigation), Mizrahi Overseas Holding would be liable for indemnification of unlimited amount to the Buyer for any single claim exceeding CHF 100 thousand. The sale agreement is contingent, *inter alia*, on approval by the regulatory authority in Switzerland.

In conjunction with the sale agreement, the Bank would act so that Mizrahi Overseas Holding will be able to fulfill its obligations pursuant to the agreement. In conformity with the sale agreement, the expected consideration in this transaction amounts to CHF 44 million (the consideration depends on actual client assets upon the relevant calculation date).

Revenues with respect to this sale would be recognized on the statement of profit and loss after approval of this transaction by the regulatory authorities.

Strategic cooperations

In 2020, the Bank continued to conduct syndication transactions, including for sale and sharing of credit risk with institutional investors and financial institutions in Israel and overseas. Further cooperation with institutional investors is part of the Bank's strategic plan.

Significant developments in human resources and administration

Developments in labor relations

Labor and payroll agreements at the Technology Division

On February 4, 2020, a special collective bargaining agreement was signed by the Mizrahi-Tefahot Technology Division Ltd., the New General Labor Union and the Division Employee Council of Mizrahi-Tefahot Technology Division Ltd., whereby the parties agreed to apply the managers' agreement signed by the Bank on December 20, 2018 and the arbitration verdict received by the Bank on January 28, 2019, as stipulated by the company's collective bargaining agreements. This resolved all claims made by the Labor Union and by the Division Employee Council of Mizrahi-Tefahot Technology Division Ltd. on these matters. The signed agreement has no material impact on the Bank's financial statements.

Labor dispute at Union Bank

On August 3, 2017, the New General Labor Union gave notice to Union Bank of a labor dispute called with regard to the clerks sector at Union Bank and with regard to the manager and authorized signatory sector at Union Bank, and notice of a strike called in conformity with the Labor Dispute Resolution Act, 1957, with the effective date listed in said notice being August 20, 2017 and thereafter. As of February 2021, these notices apply to 705 clerks and 225 managers and authorized signatories at Union Bank employed subject to a special collective bargaining agreement. The causes of this dispute, in conformity with notices given by the Labor Union, are avoidance of holding negotiations to sign a collective bargaining agreement with regard to employees' rights due to anticipated reorganization at Union Bank. Demands by the employee representation to ensure the continued employment and to preserve the rights of employees, as customary in the banking system in case of transfer of ownership of a bank, including their terms of employment and other arrangements. Their pay, employment security and remuneration due to implications of the anticipated move and action lacking good faith in labor relations. Further to this notice, on November 12, 2017 the New General Labor Union gave notice of a labor dispute and strike called at Igud Systems Ltd. (hereinafter: "Igud Systems"). Causes of this dispute include, *inter alia*, avoidance of negotiations to sign a collective bargaining agreement to ensure employees' rights due to anticipated reorganization at Union Bank and demands by the employee representation to ensure the continued employment and to preserve the rights of employees. as customary in the banking system in case of transfer of ownership of a bank. Igud Systems is a wholly-controlled subsidiary of Union Bank engaged in providing IT services to Union Bank and to its subsidiarie, with 55 employees for which this dispute is applicable as of February 2021. In recent months, negotiations have been on-going with employee unions of Union Bank, so as to agree on a collective bargaining agreement with regard to employee retirement and hiring of the employees by the Bank.

Developments in logistics

In 2020, the Bank continued the trend of streamlining and utilizing existing resources as follows:
- Streamlining of space and energy usage.
- Optimal deployment of the branch network.
- Further leveraging of infrastructure through temporary leasing of space used by the Bank as reserve for future growth to third parties.
- Complete making Bank branches accessible, in conformity with the new accessibility regulations. For a specific property, a temporary extension was authorized by the Supervisor of Equal Rights to Disabled Persons.
- On April 30, 2017, the Bank's Board of Directors approved a strategic move to relocate operations of Bank headquarters units to one central site in Lod. Thus, in 2017 the Bank acquired land in Lod, with an area of 6,000 m^2, for consideration amounting to NIS 25.8 million, adjacent to the property currently housing the Technology-Logistics Center ("Mizrahi Tefahot Lod"). The plan is to construct another building and to gradually relocate all Bank headquarters units to this building. In 2020, planning of the new campus continued and excavation work started, accompanied by the Antiquities Authority. In the second half of 2020, the project location and scope were reconsidered, given the implications of the Corona Virus pandemic for the office market in Israel. Based on decisions to be made, the project scope or planning may change, but it is expected that construction of the campus would continue on the same site. Project completion and relocation of the units are expected by 2025.

The activities and trends described above are expected to continue in 2021.

This information constitutes forward-looking information, as defined in the Securities Law, 1968, based on assumptions, facts and data (hereinafter jointly: "assumptions") brought before the Bank's Board of Directors. These assumptions may not materialize due to factors which are under the Bank's control.

For more information about human resources at the Bank, organizational structure and senior officers of the Bank, see chapter "Corporate Governance, Audit, Other Information about the Bank and its Management" of these annual reports.

Significant developments in IT

Given current developments in the financial market, the age of current Bank systems and transition of Bank Yahav to a new platform, the Bank launched, in the first quarter of 2019, a project to replace the Bank's capital market core system based on a new platform. This project is in the final detailed design stages and progress is being made on development.

Another significant project has been going on as from the fourth quarter of 2019, to replace the CRM system in order to empower personalized service for each client.

As part of bolstering the Bank's technology infrastructure, the Bank invests in technology systems in order to address the changing challenges in the business environment. The rapid pace of change in technology, changes in making services available to clients and expansion of the range of channels through which the Bank interacts with its clients, require constant investment in technology. These investments are also made in order to upgrade the business capabilities and to comply with new regulatory requirements, such as preparing for Open Banking. The Bank is also developing advanced tools for handling and extracting information from data, in order to improve its capacity to measure and make decisions, both from business marketing aspects and from risk management aspects.

Union Bank

For more information about signing an addendum to the agreement between Union Bank and Bank Leumi, dated May 12, 2020, whereby the parties agreed, *inter alia*, that the agreement would be extended through December 31, 2022, subject to fulfillment of conditions as agreed by Union Bank and Bank Leumi – see chapter "Risks overview" below.

For more information about investments and expenses with respect to IT, see chapter "Analysis of composition of assets, liabilities, capital and capital adequacy" below.

For more information about fixed assets and installations see chapter "Corporate Governance, Audit, Other Information about the Bank and its Management of these annual reports.

Developments in international geographic deployment

The international operations segment of the Bank Group includes business operations and private banking services via subsidiaries and branches in Israel and overseas. Bank Group international operations are primarily focused on private banking and on providing financial services to foreign residents and new immigrants, foreign trade finance, local credit and participation in syndicated loans. In addition, provision of banking services to Israeli clients who have activities outside of Israel. The Bank has affiliates in several countries, as listed in the chapter "Corporate governance, audit, other information about the Bank business and its Management".

In view of the Corona Virus crisis, overseas affiliates operate in restricted scope of work, so as to continue to provide the services required by clients. Branches closely monitor the clients at risk.

The affiliates are in contact with local regulators and operate in conformity with guidelines issued by the latter.

In addition, control of affiliate operations is conducted by the Risks Control Division.

As part of an overall reorganization of the Bank's international structure, on January 11, 2021 an agreement was signed to sell the subsidiary, United Mizrahi Bank (Switzerland) Limited to the Swiss bank Hyposwiss Private Bank Geneve SA. The sale agreement is contingent, *inter alia*, on approval by the regulatory authority in Switzerland. For more information see chapter "Significant developments in management of Bank business" above.

As from early 2021, International Operations overseas report to the Foreign Trade and International Operations Sector of the Bank's Corporate Division. Activity of **international private banking branches in Israel**, serving foreign residents, is part of the Retail Division.

Each overseas affiliate operates subject to local laws and regulations, and is regularly assisted by local legal counsel who specialize in banking operations applicable for each affiliate.

International operations also involve cross-border risk, for more information see chapter "Risks overview" below.

For more information about the various affiliates and their business, see chapter "Corporate Governance, Audit, Other Information about the Bank and its Management (Operating results of overseas operations)" in this annual report.

Other matters

Appointment of Bank President & CEO

On September 16, 2020, Mr. Moshe Lari started their term in office as President & CEO of the Bank, after Mr. Eldad Fresher concluded their term in office. On July 2, 2020, the Bank received notice from the Supervisor of Banks that the Supervisor had no objection to appointment of Mr. Moshe Lari as President & CEO of the Bank.

For more information see Immediate Reports dated February 19, 2020, reference no. 2020-01-017268, report dated February 24, 2020, reference: 2020-01-018846, report dated June 08, 2020, reference: 2020-01-058554, report dated June 08, 2020, reference: 2020-01-058935, report dated June 08, 2020, reference: 2020-01-058938, report dated June 08, 2020, reference: 2020-01-058941, and report dated July 02, 2020, reference: 2020-01-062650).

Appointments to Bank management

On September 16, 2020, Mr. Adi Shachaf started their term in office as Manager, Finance Division after Mr. Moshe Lari concluded their term in office and was appointed Bank President & CEO. On August 24, 2020, the Bank received notice from the Supervisor of Banks that the Supervisor had no objection to appointment of Mr. Adi Shachaf as Manager, Finance Division.

For more information see report dated July 20, 2020 (reference no. 2020-01-070051, and report dated August 24, 2020, reference no. 2020-01-083179).

On January 1, 2020, Mr. Nissan Levi was appointed Manager, Human Capital, Resources and Operations Division, replacing Ms. Rita Rubinstein, who retired after serving as Manager, Human Resources and Administration Division (reference no. 2019-01-108735).

On February 29, 2020, Ms. Maya Feller retired from the position of Bank Secretary. Replacing her, Mr. Ofer Horvitz was appointed Bank Secretary and Manager, Bank Headquarters (reference no. 2019-01-108735).

Amendment of Bylaws

On October 15, 2020, the General Meeting of Bank shareholders approved amendment of Bank Bylaws 142 and 144 with regard to officer indemnification and insurance. This amendment explicitly specifies (for the sake of clarity) that the Bank may contract for insurance and may indemnify for expenses, including reasonable litigation expenses and legal fees, even with regard to a proceeding seeking to impose a monetary sanction, in conformity with Section D of Chapter 4 of Part 9 of the Companies Law, 1999 as amended from time to time.

On December 24, 2020, the General Meeting of Bank shareholders approved an amendment of Bank Bylaws 89.1 and 92, with regard to the term in office of Board members (other than external Board members, as defined in section 1.1 of Bank Bylaws).

For more information see report dated August 27, 2020 (reference no. 2020-01-085165, report dated August 27, 2020, reference no. 2020-01-085147, reports dated October 15, 2020, reference no. 2020-01-103765 and 2020-01-103756, report dated October 18, 2020, reference no. 2020-01-104347, report dated November 16, 2020, reference no. 2020-01-114631, and report dated December 24, 2020, reference no. 2020-01-140142).

Amendment of letter of waiver and commitment to indemnification

On October 15, 2020, the General Meeting of Bank shareholders approved an amendment of the letter of waiver and commitment to indemnification by the Bank for Board members and other officers, including the Bank's President & CEO and controlling shareholders of the Bank and their relatives, as well as employees who serve from time to time, including those who have served in the past or would be appointed in future. The amendment stipulates that the commitment to indemnify shall also apply to expenses, including reasonable litigation expenses and legal fees, even with regard to a proceeding seeking to impose a monetary sanction, as stated in the aforementioned amendment to the Bylaws. The amendment further stipulates that the letter of commitment and anything related to it are subject exclusively to laws of the State of Israel and the Tel Aviv Yafo District Court shall have sole jurisdiction over any such matter. The list of events in the addendum to the letter of commitment was also revised. Pursuant to a resolution by the Audit Committee dated August 17, 2020, the resolution to approve the amended letter of commitment, with regard to its applicability to parties other than controlling shareholders and their relative, would be brought for reapproval as required by law within 9 years after October 15, 2020.

For more information see report dated August 27, 2020 (reference no. 2020-01-085165, report dated August 27, 2020, reference no. 2020-01-085147, report dated October 15, 2020, reference no. 2020-01-103765, report dated October 15, 2020, reference no. 2020-01-103756, report dated October 18, 2020, reference no. 2020-01-104347).

Significant Agreements

For more information about material agreements, see chapter "Corporate Governance, Audit, Other Information about the Bank and its Management " of these annual reports

Corporate responsibility

On July 21, 2020, the Ma'aleh rating was published, and the Bank received the highest rating – Platinum+.

On August 2, 2020, the Bank issued its 2019 Corporate Responsibility Report.

For more information see the Bank's Corporate Responsibility Report on the Bank website:

www.mizrahi-tefahot.co.il >> about the bank >> investor relations

Legal Proceedings

For material changes in legal proceedings to which the Bank is party, see Note 26.C.(10-12) to the financial statements.

Explanation and analysis of results and business standing

This chapter includes a description of trends, phenomena, developments and material changes with regard to results and business condition, including analysis of revenues, expenses and profit as well as analysis of developments in assets, liabilities, capital and capital adequacy. It also describes the results of the Bank's supervisory operating segments and operating results for holdings in major investees.

Trends, phenomena developments and material changes

Significant Events in the Bank Group's Business

Closing of acquisition of Union Bank

For more information about closing the acquisition of all shares of Union Bank, sale of the credit portfolio for financing diamond operations of Union Bank clients, signing the merger agreement with Union Bank, signing of a merger agreement by Mizrahi Tefahot Trust Company Ltd. and Union Bank Trust Company Ltd. And signing of a merger agreement by Mizrahi Tefahot Issuance Company Ltd. and Union Bank Issuance Ltd., see "Significant developments in management of Bank business" above.

Effect of the Corona Virus outbreak

The Corona Virus crisis currently affecting Israel and the entire world has real economic and financial implications, with a sharp decline in economic activity in certain periods, significant increase in the unemployment rate and sharp volatility in financial markets. These events resulted in higher credit risk in the Israeli economy and world-wide. The higher risk level primarily applies to the business segment, especially small and medium businesses, due to reduced economic activity.

Since March 2020, with the Corona Virus outbreak, the Bank raised its Alert Level, convened an extended situation room and specified work principles for maintaining functional continuity and employees' health. The Bank established management and control teams jointly with the relevant entities and took action to address this event, including the following: Dissemination of work guidelines and maintaining hygiene and social distancing, splitting units and branches, transition to capsule-based work, creating an outline for working remotely by means of a fast, structured process, distribution of equipment to improve protection, both personal protective equipment (masks, disinfectant) and barriers and separation means to reduce exposure among employees and to clients and so forth. Concurrently, the Bank monitors cases of morbidity or infection at branches and at headquarters units. The Bank has expanded deployment of internal and external video conferencing systems and has installed a system for chat management and screen sharing. The Bank's Board of Directors, Board committees and Bank management conduct more frequent discussions in order to respond to matters related to this crisis and to constantly review its implications. In February 2021, the Bank organized vaccination venues, in order to allow Bank employees who so wish to get vaccinated.

Business units are regularly in close contact with clients, in order to assess their business standing and the implications of the crisis for these clients, in order to help the business sector face the challenges resulting from this crisis, while maintaining balances and minimizing credit risk. During this period, the Bank of Israel issued a range of relief measures and directives in Proper Conduct of Banking Business Directive 250 "Adjustments to Proper Conduct of Banking Business Directives for addressing the Corona Virus crisis (Interim Directive)". The Bank applies these relief measures and directives and acts to provide appropriate business response for Bank clients in various areas at this time, with constant review of the implications of such activities for risks management.

Furthermore, the Government has issued guidelines for an economic plan to help the economy, and has launched a fund to provide loans to small and large businesses impacted by the Corona Virus crisis.

The Bank has applied a wide range of measures to provide an immediate response to needs arising from the situation, from operational response to clients to adjustments made to the credit underwriting and credit risk policy. Further to the communication from the Supervisor of Banks, dated April 2, 2020, the Bank and the entire banking system acted to support businesses and households in getting through this crisis, by continuing to extend credit to borrowers across all segments, while maintaining responsible credit underwriting procedures but without unneeded stricter underwriting conditions. Action taken by the Bank includes approval of a delay in current repayments for mortgage clients who needed this due to temporary hardship resulting from the crisis. In the first stage, as from March, delays of to 4 months were granted, and later on a further delay through 2020 for clients who had already delayed repayments, and a delay by up to 6 months for clients who have not yet delayed any repayments. As from the end of 2020, in conformity with the Bank of Israel outline, clients who have asked for delays were allowed to resume partial mortgage repayments for up to two years. Delays and revised repayment schedules were also approved for individual and commercial clients who face temporary difficulties; loans guaranteed by the State were extended as part of the Government plan. The Bank also prepared to make arrangements with clients who wish to resume making regular mortgage payments, including allowing partial monthly payment or extension of the loan term.

Total residential mortgages subject to repayment delays reached since March 2020, amount to NIS 45.6 billion. As of January 31, 2021, out of all loans subject to delay, some NIS 42.6 billion resumed payment (of which NIS 13 billion resumed payment in January 2021 and NIS 5.5 billion chose the partial payment track in conformity with the Bank of Israel outline). NIS 1.3 billion is still subject to delay, ending in February-June 2021. Of the loans where payments were resumed in January 2021, only NIS 0.6 billion are in arrears.

Total commercial loans subject to repayment delays reached since March 2020, amount to NIS 7.7 billion. As of January 31, 2021, out of total loans subject to delay, NIS 6.4 billion resumed repayment and NIS 1.3 billion are still subject to delay, expected to end in 2021. Out of the loans still subject to delay in January 2021, loans amounting to NIS 0.6 billion were granted delay exceeding 6 months.

Loans provided by the Bank from the State-guaranteed fund are backed by a State guarantee for 85% of each loan, with an aggregate total of 15% of the entire portfolio, against a deposit made by the client equal to 5% of the loan amount. These loans bear interest at the Prime lending rate + 1.5% on average. During the first year, no principal repayment is due for such loans, and interest is paid by the State. This fund also launched a special track for businesses at high risk ("enhanced track"), with state guarantee for 60% of the portfolio and loan terms identical to those in the general track of this fund. Concurrently, on April 30, 2020, a fund for large businesses was launched, which is guaranteed by the State at 75% per loan and up to 12% in total guarantee.

As of December 31, 2020, the Bank extended loans amounting to NIS 5.1 billion from State-guaranteed funds (as of September 30, 2020: NIS 4.7 billion). Against the loans extended, in conformity with the Bank of Israel outline, the Bank participated and obtained a special-purpose monetary loan from the Bank of Israel whose balance as of December 31, 2020 amounted to NIS 2.2 billion, for 3 years bearing fixed interest at 0.1%.

For more information about group-based provision for credit losses recognized with respect to loans subject to repayment delay, in conformity with the risk attributes thereof, see below.

For more information about loans subject to repayment delay and loans extended from State-guaranteed funds, see chapter "Risks overview – Credit risk". For more information about Bank activities to assist clients, in view of the Corona Virus crisis, see below.

Concurrently with actions taken by the Bank to continue providing service to its clients, special emphasis was placed on potential implications of this crisis on risk management at the Bank. Credit risk is closely monitored by forums headed by the Bank President & CEO and by the Credit Risk Officer, with assessments conducted by the divisions as required, individual monitoring of economic sectors with significant exposure to the crisis and constant monitoring of key benchmarks and specific clients with special sensitivity to implications of this crisis. For all other risks, regular management continues, with emphasis placed on potential other implications of this crisis, if any. Furthermore, normal operations of units and systems related to financial reporting continued, as did controls over disclosure and internal control over financial reporting. For more information about measures and processes applied by the Bank to monitor and manage the various risks, in view of the effect of this crisis, see chapter "Risks Management" below.

The Bank addressed the Corona Virus crisis by providing on-going response to operational requirements, involving costs for technology procurement, upgrade to the remote access system, security, splitting of units and logistics cost for procurement of protective equipment and disinfectant, which had no significant impact on Bank expenses.

Provision for credit losses

The provision for credit losses recognized on these financial statements includes an estimate with respect to the effect of the Corona Virus crisis, primarily reflected in the increase in the group-based provision.

In conformity with directives of the Supervisor of Banks, the Bank applies a methodology for measuring the group provision, which takes into account both past loss rates, since 2011, and adjustments with respect to relevant environmental factors. These factors include the following: Trends in credit volume for each sector as well as sector conditions, macro-economic data, general assessment of credit quality for each economic sector, changes in volume and in trend of balances in arrears, changes to Bank policy on extending credit and so forth.

On April 21, 2020, the Supervisor of Banks issued a circular listing highlights for the financial statements. This circular emphasizes, *inter alia*, that banking corporations should ensure that their public reports reflect the major effects of the Corona Virus crisis, and that provisions for credit losses were made in conservative and cautious fashion. According to the circular, the Supervisor of Banks is aware that under the current circumstances, there is a high degree of uncertainty, which requires banking corporations to exercise significant judgment, and stipulates that qualitative adjustments in calculating the provision should be revised, and amounts of the provision for credit losses should be increased. Over time, as the Bank has more available information, the estimated effects would be revised accordingly. In order to calculate provisions for credit losses, the Bank is required to utilize reliable external sources and the most current macro-economic forecasts as anchor points.

Therefore, the calculation of qualitative adjustments whose results are included on these financial statements, the Bank accounted for various indicators, which affected the model based on the indicator growth rate. Indicators include, *inter alia*, the rate of decrease in borrower ratings in various sectors, the rate of increase in the volume of loans under special terms and conditions for the Corona Virus crisis (delayed payments, loans guaranteed by the State) and the increase in unemployment rate and decrease in growth, in conformity with the Bank of Israel forecast. Moreover, economic sectors were rated based on the severity of impact due to the Corona Virus crisis, and for each sector, an increment was included for the sector risk.

For commercial loans, the qualitative component of the group-based provision on these financial statements was calculated in conformity with the Bank's methodology implemented in 2020, based on current macro-economic data, in conformity with a pessimistic scenario issued by the Bank of Israel in January 2021 – unemployment at 16.3%, estimated negative growth rate for 2020 at 3.7%. Furthermore, the provision also reflects developments throughout the year, and in particular in the fourth quarter of 2020, including resumption of regular payments for a majority of loans for which a delay in repayment was granted, on the one hand, and focused identification of credit risk in specific sub-sectors, on the other hand. Areas where increased risk was identified include: tourism and aviation, restaurants, culture and entertainment, as well as individuals employed in these sectors.

In the housing sector, the provision is calculated by "extent of arrears", as determined by the Supervisor of Banks, and also includes a group-based provision for credit losses which, in conformity with the directives, would be at least 0.35% of the outstanding balance of such loans, as of the report date. For the sake of being conservative, and given the extent of loans granted delay of current repayment, the provision includes another qualitative component, calculated with respect to loans for which delayed repayment, or an outline of reduced payments, was granted, based on the probability of default (PD) and the loss given default (LGD). The qualitative component was adjusted for the risk level of each loan, based on the duration in which the loan has been subject to delay, with a distinction made between loans that resumed full payments, loans that resumed reduced payment in conformity with the agreement period, and loans for which payments were not made.

The new parameters were accounted for in determination of the provision, in conformity with provisions of Appendix J to the Public Reporting Directives, which require the Bank "to take into account all known relevant factors, both internal and external, which may impact the likelihood of debt collection" and whereby the method for calculation of the provision for credit losses should be "consistently applied but, when appropriate, should be revised with respect to new factors that affect the likelihood of collection". The qualitative provision is based on judgment exercised and an estimate prepared under conditions of uncertainty, and shall be regularly reviewed in view of developments of various indicators. The provision rate, based on the model, would continue to be regularly revised in conformity with the various indicators and would also be adapted to future developments.

Expenses with respect to credit losses for 2020 and for the fourth quarter of 2020 amounted to NIS 1,050 million and NIS 118 million, respectively. Excluding the effect of Union Bank, expenses with respect to credit losses amounted to NIS 1,058 million and NIS 126 million, respectively compared to NIS 364 million and NIS 119 million in the corresponding periods last year – a year-over-year increase by NIS 694 million. The increase is primarily due to the reasons listed above. For more information about the provision for credit losses included on these financial statements, see below under "Analysis of evolution of revenues and expenses" and in Notes 13 and 30 to the financial statements.

The qualitative provision is based on judgment exercised and estimate prepared under conditions of uncertainty, and shall be regularly reviewed in view of developments of various indicators.

This information constitutes forward-looking information, as defined in the Securities Law, 1968, based on assumptions, facts and data (hereinafter jointly: "assumptions") brought before the Bank's Board of Directors. These assumptions may not materialize due to factors which are under the Bank's control.

Adoption of recommendations of the independent claim committee to review Bank Group business with US clients with regard to taxation

On March 27, 2019, the Bank's Board of Directors resolved to establish an independent committee (hereinafter: "the Committee") to review certain aspects arising from the DPA (hereinafter: "the Agreement") signed by the Bank and the US Department of Justice with regard to Bank Group business with is US clients in 2002-2012.

On March 31, 2020, the Bank's Board of Directors adopted the Committee's recommendations with regard to not bringing legal proceedings against officers and others at the Bank, and with regard to not drawing personal conclusions with regard to events subject of the Agreement, and to sign a settlement agreement, amounting to USD 23 million, with insurers that have issued a Board member and officer liability insurance policy, subject to approval by the Tel Aviv-Yafo District Court. This amount was recognized as revenues in the first quarter of 2020. On September 8, 2020, a motion was filed with the Tel Aviv District Court, seeking approval for a settlement agreement signed by the plaintiff in a pending case, by the Bank and by UMB (Switzerland) Ltd. and by Mizrahi Tefahot Trust Company Ltd., by insurers that have issued to the Bank a Board member and officer liability insurance policy ("the insurers") and by other defendants in this proceeding (officers and employees). Pursuant to the settlement agreement, the insurers shall pay the Bank a final amount of USD 23 million ("the settlement amount") to settle any claims and potential causes against Board members and officers with respected to Bank Group business with its US clients from taxation aspects. The settlement agreement is subject to approval by the Court. Subject to such approval being given and to payment of the settlement amount, the legal fee of up to NIS 4.9 million (including VAT) would be paid out of the settlement amount.

On May 18, 2020, the Bank's Board of Directors discussed an additional report provided by the Committee to the Board of Directors, concerning review of managerial processes and controls, including with regard to aspects of corporate governance, related to the events covered by the Agreement. This report stipulated that in most areas and processes reviewed by the Committee with regard to the Relevant Period, the Bank has made significant improvements and the Committee made no comments with regard to said improvements. For some of these, the Committee saw fit to recommend that the Bank apply additional processes, beyond the existing ones, and the Board of Directors has adopted most of these recommendations with slight changes.

For more information see Note 26.C.14) to the financial statements.

Allocation of stock options to the Bank's previous President & CEO, Bank officers and other managers at the Bank and its subsidiaries t

On June 22, 2020, the Bank's Board of Directors approved, after approval by the Bank's Remuneration Committee, an option allotment to the Bank President &CEO, to Bank officers and to other managers at the Bank and at its subsidiaries. For more information see Note 23 to the financial statements.

The General Environment and Effect of External Factors on the Bank Group

Major developments in the banking industry in Israel and overseas

The banking system has been facing several key challenges in recent years:

- The global Corona Virus outbreak started in early 2020, with governments around the world and in Israel applying lock-down and social distancing measures in an effort to stop the spread of the virus. This resulted in a global economic crisis, reflected in shut down of large swaths of the global and local economy, with a sharp increase in the unemployment rate. The impact of this crisis is evident on the demand side, due to restrictions imposed on business activity. In an attempt to mitigate the intensity of this impact, governments world-wide applied significant expansive fiscal measures in compensating businesses and employees impacted by this crisis and in extending credit to the business sector. Due to the crisis, the business turnover shrank in Israel and in many world countries, resulting in significant increase in expenses with respect to credit losses in the banking system. Forecasts call for the distribution of a vaccine for the Corona Virus should result in gradual elimination of restrictions on business activity and in recovery of economic growth.
- A low interest rate and inflation environment over time, which impairs bank profitability. In recent years, major world economies have applied expansive monetary policy, against the background of the low inflation environment, so as to energize economic activity. Given the impact to economic activity caused by the Corona Virus crisis, most central banks applied in 2020 expansive monetary measures, including lower interest rates and programs to purchase debentures. In Israel, the monetary interest rate in April was lowered by 0.15 percentage points, to 0.1%, and the Bank of Israel launched a program to purchase Government and corporate debentures. Forecasts call for major central banks to continue their expansive monetary policy, so as to reduce the economic impact caused by the Corona Virus crisis.
- On December 27, 2020, the Bank of Israel issued an update to Proper Conduct of Banking Business Directive 329 concerning "Restrictions on extending residential mortgages ". The update includes elimination of the restriction on lending at the prime lending rate, so that the restriction of at least one third of the mortgage that must bear fixed interest remains, and up to two thirds may be extended bearing variable interest.

  The amendments to the directive pursuant to the circular are effective as from January 17, 2021. For residential mortgages intended to finance early repayment of a loan extended by the Bank or by another bank, the amendment shall apply as from February 28, 2021.
- Rapid development of digital banking based on Internet platforms and increased use of mobile devices, accompanied by regulatory relief from the Bank of Israel, designed to promote digital banking activities. Along with these developments, use of digital channels by households and businesses is constantly growing. Furthermore, the growing digital trends allows technology companies to enter the financial brokerage market, in cooperation with the banking system. The need for social distancing due to the Corona Virus crisis may result in a faster trend towards digital service in banking activities.
- Over the past year, banking activities were affected by implications of the Corona Virus crisis. The State launched special funds to provide State-guaranteed loans to the business sector, which provided loans in significant amounts. Furthermore, the Bank of Israel launched outlines for delaying credit payments, both for the business segment and for households. The most dominant segments in postponement of credit payments are the housing loan segment and the micro and small business segment.

- Competition in the household segment, primarily in the housing segment, and in the small and medium business segments has increased in recent years, given the focus of the banking system on these segments, along with increased new entries from non-banking financial institutions. Separation of credit card companies Isracard and Max (formerly: Leumi Card) from the top two banks was completed in 2019. The credit card companies make increased efforts to grow in retail credit and to expand their non-banking club client base. These effects are accompanied by increased regulation in the following areas: Supervision of prices of banking services; elimination of barriers to account transfer between banks; promotion of the Credit Information Act and creation of a banking ID for increased transparency for consumers and for reducing information gaps; increased competition in the banking sector by encouraging entry of new competitors.
- Digital developments and technology advancement in recent years affect the financial system and change the production function in the banking sector, due to growing reliance on advanced technology. Such technology allows for greater diversity of banking services available through digital channels, while reducing production costs. Given these trends, technology-based financial entities – tech giants, FinTech companies and digital banks – have started making in-roads into the banking sector world-wide. In Israel, a license was awarded in late 2019 to a digital bank.

  In response to these developments, in recent years banks have been undergoing a digital transformation, designed to streamline their production function in the following areas:
  - Deployment of technological improvements for streamlining of operational processes.
  - More digital banking services, so as to expand the product offering to clients and to increase the availability and quality of such products.
  - Gradual replacement of IT systems for improved response time, enhanced flexibility and infrastructure stability.

Concurrently, the banking system applies streamlining measures, reflected in lower headcount and reduced real estate area for branches and for headquarters.

- The Supervisor of Banks launched a project concerning the Open Banking API (Application Programming Interface) standard. Open Banking would allow sharing of financial information of clients, subject to client consent. Such information sharing may result in improved financial services provided to clients and in increased competition for such services.
- Stricter requirements with regard to maintaining liquidity coverage ratio and leverage ratio, in order to improve stability of the banking system. On the other hand, the Supervisor of Banks allowed Israeli banks to issue debentures with a loss-absorption provision, as is common around the world (contingent conversion debentures – CoCo). Such debentures contribute to stability of the issuing bank and to reduced support required from the Government should the bank be in trouble. For more information about issue of contingent subordinated notes (Contingent Convertibles – CoCo), see chapter "Developments in financing sources" above.
- Stricter international regulation is characterized by increased, cross-border enforcement as well as by local taxation issues.
- Increased consumer awareness due, *inter alia*, to increased use of social networks and to technology which allows for easier access to information and to evaluation of financial alternatives. Consequently, the banking world is becoming focused on identifying client needs, while applying privacy protection laws.

This information constitutes forward-looking information, as defined in the Securities Law, 1968, based on assumptions, facts and data (hereinafter jointly: "assumptions") brought before the Bank’s Board of Directors. These assumptions may not materialize due to factors not all of which are under the Bank's control.

Developments in Israel's Economy and in the global economy in 2020

Israeli economy

Real Developments

The global Corona Virus outbreak started in early 2020, with governments around the world and in Israel applying lock-down and social distancing measures in an effort to stop the spread of the virus. This resulted in a global economic crisis, reflected in shut down of large swaths of the global and local economy, with the number of employees terminated or placed on unpaid leave sky rocketing.

This crisis has negatively impacted the supply side, due to impairment of the manufacturing chain of many goods and services and impact on global trade, but also resulted in decrease on the demand side, due to restrictions imposed on business activity. In an attempt to mitigate the intensity of this crisis, governments world-wide applied fiscal measures in compensating businesses and employees impacted by this crisis and in extending credit to the business sector. Most central banks have reduced monetary interest rates, have applied monetary expansion measures and provided liquidity to the markets.

In Israel in 2020, GDP decreased at an annualized 2.4%, after 3.4% growth in 2019 and 3.5% growth in 2018. The lower GDP was primarily impacted by the decrease in private consumption (mostly consumption of services), decrease in investment in fixed assets and decrease in export of services, mostly due to the decline in export of tourism services and export of services by start-up companies. Export of goods increased, primarily due to expansion in export of industrial goods.

In March 2020, the Government of Israel imposed a lock-down; as from the end of April, relief was granted in restrictions on business activity. In June 2020, morbidity started to increase which resulted in early July in the Government reimposing restrictions in early July 2020 and imposing a second lock-down in mid-September 2020 for the duration of the new year holiday period. Even prior to completing the return to normal, in December 2020, a third lock-down was declared. In early 2021, the vaccination campaign for vaccination of the population against the Corona Virus was launched. In view of the rapid progress made in vaccination of the population, the Government resolved to gradually open the economy as from mid-February 2021.

In 2020, the Bank of Israel Composite Index increased by 0.4%, compared to an increase by 3.2% in 2019 and by 3.7% in 2018.

The broad unemployment rate, consisting of the un-employed, those employed but away from work due to the Corona Virus outbreak and those out of employment due to termination or to closure of their place of employment – rose sharply to over 36% in April. In subsequent months, with gradual return to work, the broader unemployment rate stabilized around 11%-12%. Due to the second lock-down being imposed, the broad unemployment rate rose once again, to 23% in early October; as of the second half of December, this rate was at 13.7%.

According to forecast by the Bank of Israel Research Division dated January 2021, GDP in Israel is expected to grow by 3.5%-6.3% in 2021, depending on the success of the population vaccination campaign. The broad unemployment rate should range between 7.7%-11.0% at the end of 2021.

Inflation and exchange rates

Inflation in 2020 was a negative 0.7%, compared to a positive 0.6% last year, affected by the sharp decrease in energy prices due to the crisis, and by the stronger NIS against the currency basket and even more so against the USD. The CPI was mostly affected by lower prices of clothing and footwear, transportation and communications, as well as food, which moderated the overall CPI.

Since the start of the Corona Virus crisis, the NIS was revaluated against the USD, more intensively late in the year. Consequently, the Bank of Israel announced in January 2021 a plan to purchase USD in 2021, up to a total of USD 30 billion.

Below is information about official exchange rates and changes there to:

	December 31, 2020	December 31, 2019	Change in %
Exchange rate of:			
USD (in NIS)	3.215	3.456	(7.0)
EUR (in NIS)	3.944	3.878	1.7

On March 2, 2021, the USD/NIS exchange rate was 3.299 – a 2.6% devaluation compared to December 31, 2020. The EUR/NIS exchange rate on this date was 3.968 – a devaluation of 0.6% compared to December 31, 2020.

Monetary policy

In order to support market liquidity and to ease lending in the economy, the Bank of Israel reduced the monetary interest rate in April 2020, from 0.25% to 0.1%. The Bank of Israel also applied multiple monetary tools, including the following: A plan to purchase Government debentures valued at NIS 85 billion, providing liquidity to the currency market through USD/NIS swap auctions and taking steps to increase credit supply through, *inter alia*, reduced capital requirements for banks. The Bank of Israel also launched a monetary tool for extending long-term loans bearing negative interest rates to the banking system, provided that such loans would be provided to micro and small businesses, as well as a program to purchase corporate debentures in the secondary market, valued at NIS 15 billion.

Fiscal policy

In 2020, the government budget recorded a NIS 160.3 billion cumulative budget deficit, compared to a NIS 52.2 billion cumulative deficit in the corresponding period last year. In total the impact of the Corona Virus crisis on the deficit is estimated at NIS 111.7 billion. The deficit rate for 2020, as percentage of GDP, was at 11.7%, compared to 3.7% in 2019 and 2.9% in 2018. In 2020, expenditure by Government ministries increased by 22.5% and tax collection decreased by a nominal 2.0%. The Ministry of Finance announced an economic plan to support the economy, intended to ensure that appropriate healthcare and civilian assistance is provided, support for economic development, maintaining business continuity and providing social security for households. Out of the plan total value of NIS 137 billion, 80% was actually executed. Due to higher Government expenses and lower tax revenues due to restrictions on economic activity, the ratio of debt to GDP in Israel increased to 73.1%, compared to 60.0% in 2019.

Residential construction and the mortgage market

According to data from the Central Bureau of Statistics, in 2020 demand for new apartments (apartments sold and apartments constructed not for sale, original data) was 52.2 thousand apartments, an increase by 2.2% over 2019 and an increase by 25.6% over 2018. In 2020, residential mortgages given to the public amounted to NIS 79.0 billion, compared to NIS 68.5 billion in 2019 and NIS 60.3 billion in 2018 – an increase by 15% and 31%, respectively.

According to data from the Central Bureau of Statistics, owned housing prices increased in 2020 by 4.0%, following an increase by 3.4% in 2019.

Capital market

Trading on global equity markets in 2020 was mostly positive, led by stock exchanges in the USA and equity benchmarks in the Israeli market were mixed.

The following are changes in key equity indices in Israel (in %):

CPI	2020	2019	2018
Tel-Aviv 35	(11.0)	15.0	(3.0)
Tel-Aviv 125	(3.0)	21.3	(2.3)
Tel-Aviv 90	18.1	40.3	(3.0)

The average daily trading volume in shares and convertible securities in 2020 was NIS 1.9 billion, compared to NIS 1.3 billion in 2019.

The following are changes in key debenture indices in Israel (in %):

CPI	2020	2019	2018
General debentures	0.8	8.7	(1.5)
CPI-indexed Government debentures	1.2	10.3	(1.4)
Non-linked Government debentures	1.3	8.3	(1.2)
Tel Bond 20	(0.2)	8.2	(1.1)
Tel Bond 40	0.1	6.5	(0.5)

Global economy

The US economy shrank in 2020 at an annualized rate of 3.5%, compared to 2.2% growth in 2019. This is due to the Corona Virus pandemic and restrictions imposed on business activity. The Purchasing Manager Indexes declined to historical lows in April 2020, for both service and industrial sectors, but have since recovered to indicate expansion. The US economy lost many jobs in April 2020, but in subsequent months showed some recovery, with the unemployment rate in December 2020 being at 6.7%. The Federal Reserve lowered interest rates in March 2020, by two emergency steps, from 1.5%-1.75% to 0.0%-0.25%, in order to support the US economy. The Fed also announced that it would use all available tools and would continue to purchase debentures "at any price necessary" to safeguard market function. The US Government launched a fiscal program valued at USD 2.3 trillion at the outset of the crisis, in order to bolster the economy. In December 2020, another program was launched, valued at USD 900 billion. In early November 2020, the US presidential election took place and Joe Biden was elected president and was inaugurated on January 20, 2021. In early 2021, a further fiscal plan was announced, valued at USD 1.9 trillion.

The Euro Zone economy shrank in 2020 by an annualized 6.8%, compared to 1.3% growth for all of 2019. The Purchasing Manager Indexes declined to historical lows in April 2020, for both service and industrial sectors, against the backdrop of the Corona Virus spreading across the continent. The index for industrial sectors has recovered significantly since then, and as from July once again indicated expansion, whereas the index in service sectors has yet to recover, given the high level of morbidity and continued restrictions applied to activity across the continent. The ECB maintained interest rates unchanged (at -0.5%), but launched an emergency plan to purchase debentures valued at EUR 1.85 trillion, expanded the loan program for banks and reduced capital requirements for banks. On the fiscal side, EU countries announced a bail-out fund established, valued at EUR 750 billion. In January 2020, the UK left the EU after 47 years. In late December 2020, the UK and the EU signed new trade agreements.

China's GDP grew by 2.3% in 2020, following 6.1% growth in 2019. The Industrial Output Index decreased in the first quarter of 2020, but resumed growth as restrictions on activity were eased. The Retail Trade Index also declined in the first quarter of 2020, but has recovered somewhat since then, although at a slower pace compared to the pre-crisis period. Purchasing Manager Indexes declined sharply in February 2020, as lock-down was imposed in Hubei Province, but recovered significantly in March 2020, indicating a rapid return of activity to a growth trajectory.

The following are changes in key equity indices world-wide (in %):

	2020	2019	2018
Dow Jones	7.3	22.3	(6.7)
S&P 500	16.3	28.9	(7.0)
NASDAQ 100	47.6	38.0	(1.7)
DAX	3.6	23.0	(18.3)
FTSE 100	(14.3)	19.0	(12.3)
CAC	(7.1)	19.1	(11.9)
Nikkei 225	18.4	22.3	(12.1)

Risk events

In 2020, there were no material loss events nor any events with a potential for material loss.

Key and emerging risks

Bank business exposes it to various financial and non-financial risks, which may impact the Bank's business results and reputation.

Top risks and evolving risks are derived from the Bank's business environment, which is impacted by the macro-economic environment, by risk associated with regulation and legislation, by changes to the business model and by social and consumer trends. In recent years, due to changes to the competitive environment, to the consumer environment, to the regulatory environment and to the technology environment, a trend of evolving non-financial risks is becoming apparent.

Top risks are risks arising from developments in the Bank's business environment, which may materialize over the coming 12 months which potentially may materially impact the Bank's financial results and stability. Furthermore, evolving risks are identified, which are risks that may materialize in the longer term and their nature and impact on the Bank are uncertain. Such risks include cyber and information security risk, IT risk and reputational risk.

As noted, the risks mapping is regularly reviewed to ensure that it encompasses all risk associated with business operations at the Bank, and risk arising from market conditions and regulatory requirements.

Material top risks and evolving risks are:

Strategic business risk – increased competition, changes to client behavior and to business models, that may result in material impact on the banking system over the medium to long range. Moreover, regulatory changes (such as: the Credit Data Act and transfer of bank accounts) may impact the Bank's business results. Furthermore, this risk is impacted by the Corona Virus event which may potentially impact the Bank's entire risk profile, due to uncertainty as to further development of this risk and material macro-economic implications arising from it.

Macro-economic risk – the Corona Virus event has significantly impacted both the local and global economies, with a slow-down in economic activity and changes to the macro-economic environment, including: higher unemployment, changes to interest rates, market volatility and changes to asset prices. Materialization of this risk may increase troubled debts and may negatively impact the Bank's business results.

Information security risk – increasing cyber threats towards financial institutions. The Bank applies protective measures in order to limit the ability to conduct unauthorized transactions in client accounts. These actions were taken as part of debriefing processes and lessons learned by the Bank with regard to this emerging threat. The Corona Virus event elevates cyber risk, both due to increase in working remotely, which provided more attack vectors for organizations and due to increased fraud attempts in the shadow of the outbreak.

Technology risk – technology evolution and the age of current systems at the Bank increase the potential damage that may arise from technology risk that are material for proper operations at the Bank. Throughout the Corona Virus crisis, the Technology Division operated in providing full support for regular operations at the Bank and for technology needs required for Bank operations during emergency routine operations. There were no material events and/or malfunctions during this period.

Regulatory risk – increased regulation in Israel and overseas, which increases uncertainty and competition in the business environment, which may require the Bank to prepare and IT costs that may result in risk to the Bank's results. The Bank regularly acts to address the regulatory directives applicable for its operations, while allocating the required resources for addressing these risks. Note that the Bank has zero appetite for non-compliance with applicable regulatory directives of the Bank of Israel. Bank operations with regard to these risks are primarily qualitative actions designed to create the required framework for addressing these emerging risks.

Environmental risk – Environmental risk is the risk of loss due to the impact of costs resulting from environmental protection provisions and enforcement thereof, such as impairment of realized collateral or deterioration in the financial standing of a borrower due to environmental costs resulting from environmental protection provisions. Environmental risk includes climate change, impact to bio-diversity and pollution of air, water and soil.

Therefore, environmental risk may have direct and indirect consequences:

- Direct consequences – may result from cost of environmental hazards incurred by the Bank, direct damage related to climate change or financial loss that may result from adoption of environmental and climate policy, technological developments and changes to market preferences.
- Indirect consequences – may result from deterioration in financial standing of borrowers due to environmental impact and climate change (as part of the Bank's credit risk), materialization of other risks related to environmental risk, such as reputational risk.

For more information, including analysis of major risks to which the Bank is exposed and an overview of their management and evolution in the reported period, including effect of the Corona Virus crisis and acquisition of Union Bank, see chapter "Risks Overview" as well as the 2020 Risks Report available on the Bank website:
www.mizrahi-tefahot.co.il >> about the bank >> investor relations >> financial statements.

Independent Auditors' reports

The Bank's Independent Auditors, from 1995 to date, have been Brightman Almagor Zohar & Co.

The Independent Auditors, in their report, have drawn attention to Note 26.C.11 with regard to claims filed against the Bank and a subsidiary thereof, including motions for class action status.

Events after the date of the financial statements

On January 11, 2021, after the date of the financial statements, an agreement was signed with the Swiss bank Hyposwiss Private Bank Geneve SA. For more information see chapter "Significant developments in management of Bank business" above.

Changes to critical accounting policies and to critical accounting estimates

The financial statements are prepared in accordance with generally accepted accounting policies in Israel (Israeli GAAP) and in accordance with directives and guidance from the Supervisor of Banks. The significant accounting policies are detailed in Note 1 to the financial statements.

Below are changes to critical accounting policies and to critical accounting estimates which impact the operating results in the reported periods:

As stated in Note 1.B to these financial statements, the group-based provision for credit losses is based, *inter alia*, on historical loss rates in the various economic sectors, divided into problematic and non-problematic debt, for the 10 years ended on the report date, and accounts for the effect of deterioration in macro-economic conditions and market activity due to the Corona Virus crisis, on borrowers at the Bank.

For more information see chapter "Significant Events in the Bank Group's Business" above.

For more information about accounting treatment with respect to closing of a transaction whereby the Bank acquired shares of Union Bank, including adjustment to fair value in conformity with valuation for purchase price allocation (PPA) prepared as of September 30, 2020, see chapter "Policies and critical accounting estimates" below.

Material developments in revenues, expenses and other comprehensive income

Net profit for the Group in 2020 amounted to NIS 1,610 million. Net profit for the Group in 2020, excluding the effect of Union Bank, amounted to NIS 1,543 million, compared to net income of NIS 1,842 million in 2019, a decrease by 16.2%.

Net profit in 2020 reflects return on equity of 9.5%. Net profit in 2020, excluding the effect of Union Bank, reflects return on equity of 9.3%, compared to 11.9% in 2019.

Net profit for the Group in the fourth quarter of 2020 amounted to NIS 506 million. Net profit for the Group in the fourth quarter of 2020, excluding the effect of Union Bank, amounted to NIS 439 million, compared to NIS 440 million in the corresponding period last year, a decrease by 0.2%.

Net profit in the fourth quarter of 2020 reflects annualized return on equity of 11.4%. Net profit in the fourth quarter of 2020, excluding the effect of Union Bank, reflects return on equity of 10.7%, compared to 11.5% in the corresponding period last year.

Analysis of developments in revenues, expenses and other comprehensive income

Net interest revenues and non-interest financing revenues(1) in 2020 amounted to NIS 6,041 million, as described on these financial statements. Excluding the effect of Union Bank, revenues amounted to NIS 5,806 million, compared to NIS 5,697 million in 2019, an increase by 1.9%.

Net interest revenues and non-interest financing revenues(1) in the fourth quarter of 2020, as described on these financial statements, amounted to NIS 1,713 million. Excluding the effect of Union Bank, revenues amounted to NIS 1,478 million, compared to NIS 1,416 million in the corresponding period last year, an increase by 4.4%.

Net interest revenues and non-interest financing revenues(1) **from current operations** in 2020 amounted to NIS 5,746 million, as described below. Excluding the effect of Union Bank, revenues amounted to NIS 5,571 million, compared to NIS 5,466 million in 2019, an increase by 1.9%.

Net interest revenues and non-interest financing revenues(1) from current operations in the fourth quarter of 2020, as described below, amounted to NIS 1,587 million. Excluding the effect of Union Bank, revenues amounted to NIS 1,412 million, compared to NIS 1,388 million in the corresponding period last year, an increase by 1.7%.

Below is analysis of development in financing revenues from current operations (NIS in millions):

	All of		
	(3)2020	2019	Change in %
Interest revenues, net	5,820	5,340	
Non-interest financing revenues(1)	221	357	
Total financing revenues (including Union Bank)	**6,041**	**5,697**	**6.0**
Less:			
Effect of CPI	(105)	76	
Revenues from collection of interest on problematic debts	39	44	
Gains from realized debentures and securities not held for trading, and gains from debentures held for trading, net	97	46	
Effect of accounting treatment of derivatives at fair value and others(2)	204	65	
Excluding financing revenues of Union Bank	235	–	
Total effects from other than current operations	**470**	**231**	
Total financing revenues from current operations	**5,571**	**5,466**	**1.9**

Financing revenues from current operations, excluding the effect of Union Bank, increased in 2020 by 1.9% compared to the corresponding period last year, despite a decrease in the Bank of Israel interest rate to 0.1% in early April and the decrease in the US Federal Reserve interest rate, on two occasions in March, to 0.00%-0.25%.

(1) Non-interest financing revenues include effect of fair value and others and expense with respect to linkage differentials on CPI derivative where the corresponding revenue is recognized as interest revenues, in conformity with accounting rules.

(2) The effect of accounting treatment of derivatives at fair value is due to the difference between accounting treatment of balance sheet instruments, charged to the profit and loss statement on an accrual basis (interest, linkage differentials and exchange rate differentials only), vs. derivatives measured at their fair value. Other impacts include the effect of Bank coverage against tax exposure with respect to overseas investments, by allocating excess financing sources against such investments.

(3) As from September 30, 2020 the Bank consolidates the financial statements of Union Bank. The consolidated statement of profit and loss for 2020 includes the financial results of Union Bank for the fourth quarter only.

	2020[3]				2019			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Interest revenues, net	1,686	1,464	1,323	1,347	1,352	1,214	1,543	1,231
Non-interest financing revenues[1]	27	54	76	64	64	147	89	57
Total financing revenues (including Union Bank)	**1,713**	**1,518**	**1,399**	**1,411**	**1,416**	**1,361**	**1,632**	**1,288**
Less:								
Effect of CPI	–	18	(40)	(83)	(36)	(81)	235	(42)
Revenues from collection of interest on problematic debts	12	11	9	7	17	6	9	12
Gains from realized debentures and securities not held for trading, and gains from debentures held for trading, net	1	14	54	28	3	30	1	12
Effect of accounting treatment of derivatives at fair value and others[2]	53	100	8	43	44	34	30	(43)
Excluding financing revenues of Union Bank	235	–	–	–	–	–	–	–
Total effects from other than current operations	**301**	**143**	**31**	**(5)**	**28**	**(11)**	**275**	**(61)**
Total financing revenues from current operations	**1,412**	**1,375**	**1,368**	**1,416**	**1,388**	**1,372**	**1,357**	**1,349**

(1) Non-interest financing revenues include effect of fair value and others and expense with respect to linkage differentials on CPI derivatives, where the corresponding revenue is recognized as interest revenues, in conformity with accounting rules.

(2) The effect of accounting treatment of derivatives at fair value is due to the difference between accounting treatment of balance sheet instruments, charged to the profit and loss statement on an accrual basis (interest, linkage differentials and exchange rate differentials only), vs. derivatives measured at their fair value. Other impacts include the effect of Bank coverage against tax exposure with respect to overseas investments, by allocating excess financing sources against such investments.

(3) As from September 30, 2020 the Bank consolidates the financial statements of Union Bank. The consolidated statement of profit and loss for 2020 includes the financial results of Union Bank for the fourth quarter only.

Below are total financing revenues by supervisory operating segment (NIS in millions):

	For the year ended December 31,			
Operating segment	**2020**	**2019**	**Change amount including Union Bank**	**Change in % including Union Bank**
Individuals:				
Households – residential mortgages	1,923	1,695	228	13.5
Households – other	1,337	1,349	(12)	(0.9)
Private banking	79	86	(7)	(8.1)
Total – individuals	**3,339**	**3,130**	**[1]209**	**6.7**
Business operations:				
Small and micro businesses	1,193	1,150	43	3.7
Medium businesses	311	295	16	5.4
Large businesses	554	526	28	5.3
Institutional investors	99	118	(19)	(16.1)
Total – business operations	**2,157**	**2,089**	**68[1]**	**3.3**
Financial management	341	256	85	33.2
Total activity in Israel	**5,837**	**5,475**	**[1]362**	**6.6**
Overseas operations	204	222	(18)	(8.1)
Total	**6,041**	**5,697**	**344**	**6.0**

(1) As from September 30, 2020 the Bank consolidates the financial statements of Union Bank. The consolidated statement of profit and loss for 2020 includes the financial results of Union Bank for the fourth quarter only. Change amount with respect to individuals, business operations and total operations in Israel, excluding the effect of Union Bank is: 122, (5) and 128, respectively.

For definition of supervisory operating segments and differences between supervisory operating segments and operating segments based on the management approach – see chapter "Supervisory operating segments" below and chapter "Other Information about the Bank and its Management " on the Financial Statements.

Below are average balances of interest-bearing assets attributable to operations in Israel in the various linkage segments (NIS in millions):

	For the year ended December 31,			
Linkage segment	**2020**	**2020**	**2019**	**Change in %**
	Including Union Bank	**Excluding Union Bank**		
Israeli currency – non-linked	204,346	196,077	171,451	14.4
Israeli currency – linked to the CPI	61,359	59,815	56,522	5.8
Foreign currency (including Israeli currency linked to foreign currency)	11,747	11,008	13,383	(17.7)
Total	**277,452**	**266,900**	**241,356**	**10.6**

Changes to average balances of interest-bearing assets in the NIS-denominated segment are due to uses diverted from the foreign currency segment to the NIS-denominated non-linked segment, as part of asset and liability management at the Bank and due to increase in loans to the public.

The average balances in foreign currency decreased due, *inter alia*, to reduction of the Bank securities portfolio denominated in foreign currency.

Below are interest rate spreads (difference between interest income on assets and interest expenses on liabilities)(1) based on average balances(2), attributable to operations in Israel in the various linkage segments, in percent:

	For the year ended December 31,		For the quarter ended December 31,	
Linkage segment	**2020**	**2019**	**2020**	**2019**
Israeli currency – non-linked	1.97	2.07	1.96	2.15
Israeli currency – linked to the CPI	1.49	1.30	1.56	1.43
Foreign currency	1.16	0.77	1.47	1.00
Total	**1.78**	**1.75**	**1.86**	**1.83**

(1) Revenue and expense rates were calculated relative to interest-bearing assets and liabilities.

(2) Average balances before deduction of provision with respect to credit losses.

Changes to interest rate spreads:

In the non-linked NIS-denominated segment, the interest rate spread was affected by a decrease in Bank of Israel interest rates, which mostly affected the asset side, while the capacity to reflect the lower interest rate in deposit spreads is limited.

In the CPI-linked NIS-denominated segment, higher financing margins compared to the corresponding period last year.

In the foreign currency segment, the interest rate spread was affected by the decrease in FED and LIBOR interest rates, which mostly affected the cost of sources, while expenses due to derivatives operations were not included in the interest rate spreads listed above. Including the effect of derivatives, the interest rate spread in foreign currency decreased by 0.15% compared to the corresponding period last year.

For composition of interest rate spreads by different criteria (activity type, linkage segment and quantity and price analysis), more information about non-interest bearing assets and liabilities and information about overseas activities, see appendix "Interest Revenue and Expense Rates" to the quarterly financial statements.

Expenses with respect to credit losses for the Group in 2020 amounted to NIS 1,050 million, or 0.43% of total loans to the public, net. Expenses with respect to credit losses, excluding the effect of Union Bank, in 2020 amounted to NIS 1,058 million, or 0.48% of total loans to the public, net, compared to expenses with respect to credit losses amounting to NIS 364 million in 2019, or 0.18% of total loans to the public, net, for a total increase by NIS 694 million.
Expenses with respect to credit losses for the Group in the fourth quarter of 2020 amounted to NIS 118 million, or 0.19% of total loans to the public, net (annualized). Expenses with respect to credit losses, excluding the effect of Union Bank, amounted to NIS 126 million in the fourth quarter of 2020, or 0.23% of total loans to the public, net (annualized), compared with NIS 119 million in the corresponding period last year – an annualized rate of 0.23% of total loans to the public, net in the corresponding period last year – an increase by NIS 7 million in total.

The increase is primarily due to provision for credit losses on group basis due to the Corona Virus crisis, both with respect to debts in which a risk was found of potential impact to the client's repayment capacity, and with respect to an additional provision component ("Qualitative Component"), calculated by a methodology based on qualitative parameters (macro-economic benchmarks, such as unemployment and growth rates in conformity with the Bank of Israel forecast, and internal benchmarks, such as client ratings), and with respect to a qualitative component, primarily with respect to sectors where activity has slowed down exceptionally, and with respect to mortgage repayment delays, and applies to all credit exposures at the Bank. This is despite the decrease in mortgages in arrears to 1.1% as of December 31, 2020, compared to 1.5% as of December 31, 2019. The qualitative provision is based on judgment exercised and estimate prepared under conditions of uncertainty, and shall be regularly reviewed in view of developments of various indicators. For more information about the provision for credit losses included on these financial statements, see below in chapter "Analysis of evolution of revenues and expenses" and in Notes 13 and 30 to the financial statements.

Development of expenses with respect to credit losses (NIS in millions) is as follows:

	For the year ended December 31,			For the quarter ended December 31,		
	2020		2019	2020		2019
	Including Union Bank(1)	Excluding Union Bank		Including Union Bank	Excluding Union Bank	
Provision for credit losses on individual basis (including accounting write-offs)						
Increased expenses	547	536	477	150	139	161
Reduced expenses	(215)	(215)	(200)	(92)	(92)	(50)
Total individual provision	**332**	**321**	**277**	**58**	**47**	**111**
Provision for credit losses on Group basis:						
By extent of arrears	19	19	14	(4)	(4)	4
Other	699	718	73	64	83	4
Total expenses with respect to credit losses	**1,050**	**1,058**	**364**	**118**	**126**	**119**
Rate of the expenses with respect to credit losses as percentage of total loans to the public, net (annualized)	**0.43%**	**0.48%**	**0.18%**	**0.19%**	**0.23%**	**0.23%**
Of which: With respect to commercial loans other than residential mortgages	**0.86%**	**1.03%**	**0.46%**	**0.49%**	**0.63%**	**0.61%**
Of which: With respect to residential mortgages	**0.18%**	**0.19%**	**0.03%**	**0.02%**	**0.02%**	**0.04%**

(1) As from September 30, 2020 the Bank consolidates the financial statements of Union Bank. The consolidated statement of profit and loss fo 2020 includes the financial results of Union Bank for the fourth quarter only.

Below are details of expenses with respect to credit losses by supervisory operating segments of the Group (NIS in millions):Details of expenses with respect to credit losses by supervisory operating segments of the Group

Operating segments	For the year ended December 31,		For the quarter ended December 31,		Rate of expenses with respect to credit losses(1)			
					Annual		Fourth Quarter	
	2020	2019	2020	2019	2020	2019	2020	2019
Individuals:								
Households – residential mortgages	279	44	7	12	0.18	0.03	0.02	0.04
Households – other	130	99	10	27	0.51	0.46	0.16	0.50
Private banking	6	2	4	1	1.66	0.89	4.49	1.80
Total – individuals	**415**	**145**	**21**	**40**	**0.23**	**0.09**	**0.05**	**0.10**
Business operations:					–	–	–	–
Small and micro businesses	321	166	103	56	1.11	0.80	1.43	1.08
Medium businesses	136	42	36	23	1.44	0.59	1.54	1.31
Large businesses	138	24	(46)	4	0.69	0.16	(0.92)	0.11
Institutional investors	23	(6)	1	–	0.96	(0.38)	0.17	–
Total – business operations	**618**	**226**	**94**	**83**	**1.02**	**0.51**	**0.62**	**0.75**
Financial management	1	(3)	–	(1)	–	–	–	–
Total activity in Israel	**1,034**	**368**	**115**	**122**	**0.43**	**0.18**	**0.19**	**0.24**
Overseas activity	16	(4)	3	(3)	0.42	(0.11)	0.32	(0.33)
Total	**1,050**	**364**	**118**	**119**	**0.43**	**0.18**	**0.19**	**0.23**

(1) As from September 30, 2020 the Bank consolidates the financial statements of Union Bank. The consolidated statement of profit and loss for 2020 includes the financial results of Union Bank for the fourth quarter only.

For definition of supervisory operating segments and differences between supervisory operating segments and operating segments based on the management approach – see chapter "Supervisory operating segments" below and chapter "Other Information about the Bank and its Management " on the Financial Statements.

For more information about analysis of development of loans to the public, see chapter "Analysis of composition of assets, liabilities, capital and capital adequacy" below.

For more information about analysis of credit risk, see chapter "Credit risk" below and the 2020 Risks Report on the Bank website.

Non-interest revenues in 2020 amounted to NIS 2,113 million. Excluding the effect of Union Bank, non-interest revenues amounted to NIS 1,949 million in 2020, compared with NIS 1,966 million in 2019, a decrease by NIS 17 million.

Non-interest revenues in the fourth quarter of 2020 amounted to NIS 584 million. Excluding the effect of Union Bank, non-interest revenues in the fourth quarter of 2020 amounted to NIS 420 million, compared to NIS 469 million in the corresponding period last year, a decrease by NIS 49 million – see explanation below.

Non-interest financing revenues in 2020 amounted to NIS 221 million. Excluding the effect of Union Bank, financing revenues amounted to NIS 169 million in 2020, compared with NIS 357 million in 2019.

The decrease is primarily due to decrease in interest income from derivatives, due to the lower Fed and Bank of Israel interest rates, while the effect of lower interest on the cost of balance sheet sources is mostly reflected in Interest Revenues, Net. Moreover, such revenues in 2019 included gain from shares not held for trading amounting to NIS 58 million.

Non-interest financing revenues in the fourth quarter of 2020 amounted to NIS 27 million. Excluding the effect of Union Bank, non-interest financing expenses in the fourth quarter of 2020 amounted to NIS 25 million, compared to NIS 64 million in the corresponding period last year.

This item includes, *inter alia*, the effect of fair value, gains (losses) from transactions in debentures and securities, as well as linkage differentials on CPI derivatives and the effect of interest accrual (time value) inherent in derivative instruments, where the corresponding revenues (expenses) are recognized as interest revenues, in conformity with accounting rules. See analysis of financing revenues from current operations above.

Commission revenues in 2020 amounted to NIS 1,671 million. Excluding the effect of Union Bank, commission revenues amounted to NIS 1,610 million in 2020, compared with NIS 1,535 million in 2019, an increase by 4.9%, due to continued business expansion.

Commission revenues in the fourth quarter of 2020 amounted to NIS 472 million. Excluding the effect of Union Bank, non-interest revenues amounted to NIS 411 million in the fourth quarter of 2020, compared with NIS 392 million in the corresponding period last year – an increase by 4.8%.

For more information about commission revenues by commission type, see Note 4 to the financial statements.

Other revenues in 2020 amounted to NIS 221 million. Other revenues include NIS 51 million with respect to deferred credit balance, net recognized with respect to acquisition of Union Bank which is recognized on profit and loss over 5 years. Excluding this revenue and the effect of Union Bank, other revenues amounted to NIS 170 million in 2020, compared with NIS 74 million in 2019, an increase by NIS 96 million.

The increase in other revenues is primarily due to revenues amounting to NIS 82 million included in the first quarter of 2020, with respect to an agreement with insurers to conclude derivative proceedings. For more information see chapter "Significant Events in the Bank Group's Business" above.

Other revenues in the fourth quarter of 2020 amounted to NIS 85 million. Excluding the aforementioned revenue of NIS 51 million and effect of Union Bank, other revenues in the fourth quarter of 2020 amounted to NIS 34 million, compared to NIS 13 million in the corresponding period last year, an increase by NIS 21 million, due to capital gain from realized assets in conjunction with asset reorganization and improvements to the Bank's branch network.

Operating and other expenses in 2020 amounted to NIS 4,279 million. Excluding the effect of Union Bank, operating and other expenses amounted to NIS 3,997 million in 2020, compared with NIS 3,988 million in 2019.

Operating and other expenses in the fourth quarter of 2020 amounted to NIS 1,335 million. Excluding the effect of Union Bank, operating and other expenses in the fourth quarter of 2020 amounted to NIS 1,053 million, compared to NIS 993 million in the corresponding period last year.

See details by operating expense component below.

Payroll and associated expenses in 2020 amounted to NIS 2,644 million. Excluding the effect of Union Bank, payroll and associated expenses amounted to NIS 2,524 million in 2020, compared with NIS 2,562 million in 2019, a decrease by 1.5%.

The decrease in payroll expenses is primarily due to adjustment of variable remuneration components to Bank return and profit and to the effect of a voluntary retirement program.

Payroll and associated expenses in the fourth quarter of 2020 amounted to NIS 785 million. Excluding the effect of Union Bank, payroll and associated expenses in the fourth quarter of 2020 amounted to NIS 665 million, compared to NIS 628 million in the corresponding period last year, an increase by 5.9%, primarily due to adjustment of variable remuneration components to Bank return on equity and profit, in view of improved profitability in the fourth quarter of 2020.

Maintenance and depreciation expenses for buildings and equipment in 2020 amounted to NIS 871 million. Excluding the effect of Union Bank, maintenance and depreciation expenses for buildings and equipment amounted to NIS 841 million in 2020, compared with NIS 770 million in 2019, an increase by 9.2%.

Maintenance and depreciation expenses for buildings and equipment in the fourth quarter of 2020 amounted to NIS 250 million. Excluding the effect of Union Bank, maintenance and depreciation expenses for buildings and equipment amounted to NIS 220 million in the fourth quarter of 2020, compared with NIS 192 million in the corresponding period last year – an increase by 14.6%.

The increase in maintenance expenses is primarily due to increase in rent expenses, further to application of the new standard on leases, to an increase in security expenses due to the Corona Virus pandemic and to an increase in amortization expenses with respect to technology investments. For more information about application of the standard concerning leases, see Note 1 to the financial statements.

For more information about expenses with respect to IT, see chapter "Composition and development of assets, liabilities, capital and capital adequacy" below.

Other expenses in 2020 amounted to NIS 764 million. Excluding the effect of Union Bank, other expenses amounted to NIS 632 million in 2020, compared with NIS 656 million in 2019, a decrease by 3.7%.

Other expenses in the fourth quarter of 2020 amounted to NIS 300 million. Excluding the effect of Union Bank, other expenses amounted to NIS 168 million in the fourth quarter of 2020, compared with NIS 173 million in the corresponding period last year – a decrease by 2.9%.

The decrease in other expenses is primarily due to decrease in actuarial components charged in conformity with accounting principles to Other Expenses, due to changes in interest rate curves.

Cost-Income ratio information is as follows(1) (in percent):

	2020				2019			
	Fourth quarter	Third quarter	Second quarter	First quarter	Fourth quarter	Third quarter	Second quarter	First quarter
Cost-income ratio	(3)58.8	50.8	52.8	(2)52.4	54.5	56.7	49.9	58.1

	For the year ended December 31,	
	2020	2019
Cost-income ratio	53.9	54.6

(1) Total operating and other expenses to total operating and financing revenues and expenses with respect to credit losses.

(2) The cost-income ratio net of revenues from agreement with insurers – 54.7%.

(3) Other expenses recognized by Union Bank in the fourth quarter of 2020 increased by NIS 61 million compared to the corresponding peric last year, primarily due to asset amortization and insurance cost, due to acquisition of a controlling interest in the bank and the planne merger. Excluding this unusual increase, the cost-income ratio is 56.1%.

Pre-tax profit for the Group in 2020 amounted to NIS 2,604 million. Excluding the effect of Union Bank, pre-tax profit for the Group amounted to NIS 2,532 million in 2020, compared with NIS 2,954 million in 2019, a decrease by NIS 422 million.

Pre-tax profit for the Group in the fourth quarter of 2020 amounted to NIS 817 million. Excluding the effect of Union Bank, pre-tax profit for the Group amounted to NIS 745 million in the fourth quarter of 2020, compared with NIS 709 million in the corresponding period last year – an increase by 5.1%. See detailed explanation above.

The rate of provision for taxes on profit in 2020 was 34.7% (excluding the effect of Union Bank: 35.5%), compared to 34.8% in 2019.

The rate of provision for taxes on profit in the fourth quarter of 2020 was 34.9% (excluding the effect of Union Bank: 37.6%), compared to 34.8%.

The rate of provision for taxes on profit was affected, *inter alia*, by disallowed expenses for tax purposes with respect to the Bank's employee stock option plans.

See Note 8 to the financial statements for additional information.

The Bank's share of after-tax profit of associated companies in 2020 and in the fourth quarter of this year amounted to gain with of NIS 1 million, compared to no profit with respect to associated companies in the corresponding periods.

The share of non-controlling interest in net results of subsidiaries attributable to Bank Yahav in 2020 amounted to NIS 92 million, compared to NIS 83 million in 2019, an increase by 10.8%.

The share of the non-controlling interests in net results of subsidiaries attributable to Bank Yahav in the fourth quarter of 2020 amounted to NIS 27 million, compared to NIS 22 million in the corresponding period last year.

Net profit attributable to shareholders of the Bank in 2020 amounted to NIS 1,610 million. Excluding the effect of Union Bank, net profit attributable to shareholders of the Bank amounted to NIS 1,543 million in 2020, compared with NIS 1,842 million in 2019, a decrease by 16.2%.

Net profit attributable to shareholders of the Bank in the fourth quarter of 2020 amounted to NIS 506 million. Excluding the effect of Union Bank, net profit attributable to shareholders of the Bank amounted to NIS 439 million in the fourth quarter of 2020, compared with NIS 440 million in the corresponding period last year – a decrease by 0.2%.

Shareholder equity of the Bank includes an increase by NIS 69 million and NIS 27 million in 2020 and in the fourth quarter of 2020, respectively, due to adjustments with respect to employee benefits and to adjustments with respect to presentation of debentures available for sale at fair value ("Other comprehensive income attributable to shareholders of the Bank"), compared to increase by NIS 14 million and a decrease by NIS 14 million in the corresponding periods last year. For more information see Note 10 to the financial statements.

For more information about results of the Bank Group for the interim period, see multi-quarter information for the past two years in Addendums to the financial statements.

Below is the development of Group return[(1)] on equity[(2)] and ratio of Tier I capital to risk components liquidity coverage ratio[(3)] and leverage ratio at the end of the quarter[(4)] (in %):

	2020				2019			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Net return on equity	11.4	9.5	9.0	[(5)]9.1	11.5	11.1	15.8	11.3
Ratio of Tier I capital to risk components at end of quarter	10.04	9.98	9.96	9.89	10.14	10.13	10.23	10.12
(Quarterly) liquidity coverage ratio	133	128	122	117	121	122	118	120
Leverage ratio at end of quarter	5.19	5.23	5.36	5.40	5.55	5.62	5.67	5.54

	For the year ended December 31,	
	2020	2019
Net return on equity	9.5	11.9

(1) Annualized return.

(2) Return on average shareholders' equity, including "total capital resources", as presented in reporting of revenue and expense rates, les average balance of external shareholders' interests and less/plus the average balance of unrealized gains/losses from adjustment to fa value of debentures held for trading as well as gains/losses from debentures available for sale.

(3) Liquidity Coverage Ratio – ratio of total High-Quality Liquid Assets to net cash outflow. This ratio is calculated in conformity with Prop Conduct of Banking Business Directive 221, in terms of simple averages of daily observations during the reported quarter.

(4) Leverage Ratio – ratio of Tier I capital, according to Basel rules, to total exposure. This ratio is calculated in conformity with Proper Condu of Banking Business Directive 218

(5) Net profit return on equity, excluding revenues from agreement with insurers: 7.7%.

Earnings and dividends per ordinary, NIS 0.1 par value share are as follows (in NIS):

	2020				2019			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Basic earnings per share	2.13	1.65	1.53	1.52	1.88	1.80	2.46	1.73
Diluted earnings per share	2.13	1.65	1.53	1.51	1.87	1.79	2.45	1.72
Dividends per share (in Agorot)	–	–	–	75	72	167[(1)]	–	–

	For the year ended December 31,		
	2020	2019	2018
Basic earnings per share	6.70	7.86	5.17
Diluted earnings per share	6.69	7.83	5.15
Dividends per share (in Agorot)	75	178	106

For more information about the resolution by the Bank's Board of Directors to avoid dividend distributions, for as long as the interim directive to reduce the minimum capital ratios the Bank is required to maintain is in effect, see chapter "Dividends" below.

Analysis of composition of assets, liabilities, capital and capital adequacy

Assets and liabilities

Development of key balance sheet items for the Bank Group (NIS in millions) is as follows:

	December 31,			
	2020		2019	Change in %
	Including Union Bank	Excluding Union Bank		Excluding Union Bank
Balance sheet total	360,140	312,252	273,244	14.3
Cash and deposits with banks	86,570	74,161	51,672	43.5
Loans to the public, net	245,525	220,828	204,708	7.9
Securities	17,290	8,448	10,113	(16.5)
Buildings and equipment	1,743	1,444	1,457	(0.9)
Deposits from the public	284,224	246,753	210,984	17.0
Deposits from banks	3,779	3,647	714	410.8
Debentures and subordinated notes	33,446	29,647	33,460	(11.4)
Shareholders' equity	18,804	16,995	16,033	6.0

Cash and deposits with banks – the balance of cash and deposits with banks amounted to NIS 86.6 billion. Cash and deposits with banks, excluding the effect of Union Bank, increased in 2020 by NIS 22.5 billion, and amounted to NIS 74.2 billion. The increase in this balance is part of on-going management of Bank liquidity.

Loans to the public, net – loans to the public, net on the consolidated balance sheet as of December 31, 2020 accounted for 68%. Excluding the effect of Union Bank, loans to the public, net – loans to the public, net accounted for 71% of total assets, compared to 75% at the end of 2019. Loans to the public, net for the Group increased in 2020 by NIS 16.1 billion, an increase by 7.9%.

For more information about on-balance sheet and off-balance sheet credit risk, development of problematic debts and various risk benchmarks with regard to residential mortgages, see chapter "Risks" below and the 2020 Risks Report on the Bank website.

Loans to the public, net by linkage basis (NIS in millions) are as follows:

	Balance as of December 3				Percentage of total loans to th public, net as of December 3		
Linkage segment	202		201	Change in		202	201
	Includin Union Bar	Excludin Union Bar		Excludin Union Bar	Includin Union Bar	Excludin Union Bar	
Israeli currency							
Non-linked	168,78	149,51	137,22	9	68	67	67
CPI-linked	64,52	59,72	57,27	4	26	27	28
Foreign currency and foreign currency linked	12,11	11,58	10,21	13	4	5	5
Non-monetary[(1)]	9						
Total	**245,52**	**220,82**	**204,70**	**7**	**100**	**100**	**100**

(1) Share loaning transactions, included in conformity with Public Reporting Directives under Loans to the Public.

Loans to the public, net by supervisory operating segment (NIS in millions) are:

	2020		2019	Change in % excluding Union Bank
	Including Union Bank	Excluding Union Bank		
Individuals:				
Households – residential mortgages	155,422	145,043	134,637	7.7
Households – other	25,335	20,647	21,632	(4.6)
Private banking	362	350	224	56.3
Total – individuals	**181,119**	**166,040**	**156,493**	**6.1**
Business operations:				
Small and micro businesses	28,948	24,146	20,857	15.8
Medium businesses	9,427	7,611	7,063	7.8
Large businesses	19,859	16,925	15,152	11.7
Institutional investors	2,404	2,338	1,563	49.6
Total – business operations	**60,638**	**51,020**	**44,635**	**14.3**
Overseas operations	3,768	3,768	3,580	5.3
Total	**245,525**	**220,828**	**204,708**	**7.9**

For definition of supervisory operating segments and differences between the supervisory operating segments and operating segments based on the management approach – see chapter "Supervisory operating segments" below and chapter "Other Information about the Bank and its Management" on the Financial Statements.

Below are details of problematic credit risk and non-performing assets before provision for credit losses, in accordance with directives for measurement and disclosure of impaired debts, credit risk and provision for credit losses in reported amounts (NIS in millions):

	As of December 31, 2020								As of December 31, 2019			
	Including Union Bank				Excluding Union Bank							
	Credit risk(1)				Credit risk(1)				Credit risk(1)			
	Commercial	Housing	Individual	Total	Commercial	Housing	Individual	Total	Commercial	Housing	Individual	Total
1. Credit risk at performing credit rating(2)												
Balance sheet credit risk	64,478	154,564	23,716	242,758	53,988	144,221	19,034	217,243	47,384	133,145	19,963	200,492
Off balance sheet credit risk(3)	49,377	16,552	13,530	79,459	43,657	15,666	12,150	71,473	38,725	13,348	11,839	63,912
Total credit risk at performing credit rating	**113,855**	**171,116**	**37,246**	**322,217**	**97,645**	**159,887**	**31,184**	**288,716**	**86,109**	**146,493**	**31,802**	**264,404**
2. Credit risk other than at performing credit rating												
A. Non-problematic	3,697	732	292	4,721	3,697	732	292	4,721	935	899	399	2,233
B. Total problematic	2,289	1,285	201	3,775	1,843	1,249	182	3,274	1,913	1,532	231	3,676
Special supervision(4)	474	1,188	73	1,735	380	1,152	70	1,602	633	1,476	117	2,226
Inferior	259	–	32	291	248	–	24	272	148	–	28	176
Impaired	1,556	97	96	1,749	1,215	97	88	1,400	1,132	56	86	1,274
Total on-balance sheet credit risk other than at performing credit rating	5,986	2,017	493	8,496	5,540	1,981	474	7,995	2,848	2,431	630	5,909
Off-balance sheet credit risk(3) other than at performing credit rating	1,744	–	23	1,767	1,678	–	22	1,700	788	–	4	792
Total credit risk other than at performing credit rating	**7,730**	**2,017**	**516**	**10,263**	**7,218**	**1,981**	**496**	**9,695**	**3,636**	**2,431**	**634**	**6,701**
Of which: Non-impaired debts in arrears 90 days or longer(4)	28	1,176	24	1,228	24	1,140	16	1,180	37	1,476	24	1,537
Total credit risk, including risk to the public(5)	**121,585**	**173,133**	**37,762**	**332,480**	**104,863**	**161,868**	**31,680**	**298,411**	**89,745**	**148,924**	**32,436**	**271,105**
Non-performing assets(6)	**1,408**	**100**	**61**	**1,569**	**1,204**	**97**	**56**	**1,357**	**1,119**	**56**	**55**	**1,230**

(1) On- and off-balance sheet credit is stated before impact of provision for credit losses, and before impact of deductible collateral with respect to indebtedness of borrower and of borrower group.

(2) Credit risk whose credit rating as of the report date matches the credit rating for new credit performance, in conformity with Bank policies.

(3) Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower indebtedness limits.

(4) including with respect to residential mortgages for which a provision was made by extent of arrears, and with respect to residential mortgages for which no provision was made by extent of arrears and which are in arrears 90 days or longer.

(5) On- and off-balance sheet credit risk, including with respect to derivative instruments. Includes: Debts, debentures, securities loaned or purchased ir resale agreements.

(6) Assets not accruing interest.

For more information about credit risk with respect to individuals (excluding residential mortgages), credit risk in the construction and real estate economic sector in Israel and housing loan risk, see chapter "Credit risk" below and chapter "Credit risk" in the 2020 Risks Report available on the Bank website. For more information see also Notes 13 and 30 to the financial statements.

Development of Group credit risk distribution by size of borrower (in %) is as follows:

	2020				2019	
	Including Union Bank		Excluding Union Bank			
Credit risk per borrower (NIS in thousands)	**Share of total Group credit risk**	**Share of total Group number of borrowers**	**Share of total Group credit risk**	**Share of total Group number of borrowers**	**Share of total Group credit risk**	**Share of total Group number of borrowers**
Up to 150	9.9	72.4	9.2	70.2	9.2	70.7
150-600	21.0	17.2	21.7	18.5	19.9	17.1
600-2000	35.2	9.6	36.5	10.4	39.4	11.3
Above 2,000	33.9	0.8	32.6	0.9	31.5	0.9

Credit risk by major economic sectors with respect to borrower operations in Israel[1] (NIS in millions):

	2020				2019	
	Including Union Bank		Excluding Union Bank			
Sector	**On-balance sheet credit risk[1]**	**% of total risk On-balance sheet credit**	**Risk On-balance sheet credit[1]**	**% of total risk On-balance sheet credit**	**Risk On-balance sheet credit[1]**	**% of total risk On-balance sheet credit**
Private individuals (includes mortgage	180,398	72.9	165,318	74.7	155,765	76.5
Construction and real estate	22,453	9.1	18,968	8.5	17,705	8.7
Financial services	9,273	3.7	7,371	3.3	4,668	2.3
Industry	7,991	3.2	6,987	3.1	5,700	2.8
Commerce	11,300	4.6	9,206	4.1	8,272	4.1
Other	16,172	6.5	14,051	6.3	11,390	5.6
Total	**247,587**	**100.0**	**221,901**	**100.0**	**203,500**	**100.0**

(1) Includes credit and investments in debentures by the public, and other assets with respect to derivative instruments of the public.

Credit risk is composed of on-balance-sheet risk and off-balance-sheet credit risk, which are weighted by nature of the borrower and credit type, as per Bank of Israel directives. On-balance-sheet risk includes balances of loans to the public, derivative instruments purchased by the public and Group investment in public debentures. Off-balance-sheet credit risk includes guarantees and transactions in off-balance-sheet instruments, obligations to provide credit and un-utilized credit facilities. Total Group credit risk as of December 31, 2020 amounted to NIS 332 billion. total credit risk to the public excluding Union Bank amounted to NIS 298 billion, compared to NIS 271 billion as of December 31, 2019 – an increase by 10.0%.

Development of key off balance sheet items for the Bank Group (NIS in millions) is as follows:

	December 31, 2020		December 31, 2019	Change rate excluding Union Bank (In %)
	Including Union Bank	**Excluding Union Bank**		
Off balance sheet financial instruments other than derivatives[1]:				
Un-utilized debitory account and other credit facilities in accounts available on demand	20,964	20,148	14,734	36.7
Guarantees to home buyers	11,903	10,651	10,672	(0.2)
Irrevocable commitments for loans approved but not yet granted	31,334	26,602	22,466	18.4
Un-utilized revolving credit card facilities	10,191	8,985	8,160	10.1
Commitments to issue guarantees	11,400	10,141	9,993	1.5
Guarantees and other commitments	9,260	8,475	8,613	(1.6)
Loan guarantees	2,880	2,622	2,898	(9.5)
Documentary credit	311	260	206	26.2
Financial derivatives[2]:				
Total par value of derivative financial instruments	293,100	231,355	265,277	(12.8)
(On-balance sheet) assets with respect to derivative instruments	4,543	3,688	2,578	43.1
(On-balance sheet) liabilities with respect to derivative instruments	5,506	4,319	2,686	60.8

(1) Contractual balances or their stated amounts at the end of the period, before effect of provision for credit losses. See Note 30 to the financial statements for additional information.
(2) Includes forward transactions, swaps, options and credit derivatives.

Securities - investment in securities amounted to NIS 17.3 billion.

Investment in securities, excluding the effect of Union Bank, decreased in 2020 by NIS 1.7 billion, and amounted to NIS 8.4 billion. The decrease in total investment in securities is within asset and liability management of the Bank.

Composition of Group securities by portfolio (NIS in millions) is as follows:

	Carrying amount	Amortized cost (for shares – cost)	Gain from fair value adjustments	Loss from fair value adjustments	Fair value[1]
					December 31, 2020
					Including Union Bank
Debentures held to maturity	3,715	3,715	69	–	3,784
Debentures available for sale	11,738	11,621	[2]119	[2](2)	11,738
Investment in shares not held for trading	426	355	[3]71	–	426
Securities held for trading	1,411	1,415	[3]4	[3](8)	1,411
Total securities	**17,290**	**17,106**	**263**	**(10)**	**17,359**
					Excluding Union Bank
Debentures held to maturity	3,715	3,715	69	–	3,784
Debentures available for sale	4,227	4,196	[2]33	[2](2)	4,227
Investment in shares not held for trading	160	115	[3]45	–	160
Debentures held for trading	346	345	[3]1	–	346
Total securities	**8,448**	**8,371**	**148**	**(2)**	**8,517**
					December 31, 2019
Debentures held to maturity	4,032	4,032	61	–	4,093
Debentures available for sale	5,164	5,109	[2]59	[2](4)	5,164
Investment in shares not held for trading	149	104	[3]45	–	149
Debentures held for trading	768	770	–	[3](2)	768
Total securities	**10,113**	**10,015**	**165**	**(6)**	**10,174**

(1) Fair value data are generally based on stock exchange prices, which do not necessarily reflect the price to be obtained on the sale of a large volume of securities.

(2) Included in shareholders' equity in "adjustments on presentation of securities available for sale at fair value".

(3) Charged to statement of profit and loss but not yet realized.

Distribution of Group security portfolio by linkage segment (NIS in millions) is as follows:

	Balance as of December 31			
	2020		2019	Change in %
	Including Union Bank	Excluding Union Bank		Excluding Union Bank
Israeli currency				
Non-linked	10,937	5,153	5,038	2.3
CPI-linked	1,674	659	607	8.6
Foreign currency and foreign currency linked	4,233	2,476	4,319	(42.7)
Non-monetary items	446	160	149	7.4
Total	**17,290**	**8,448**	**10,113**	**(16.5)**

Distribution of Group security portfolio by issuer type (NIS in millions) is as follows:

	Carrying amount as of		
	December 31, 2020		December 31, 2019
	Including Union Bank	Excluding Union Bank	
Government debentures:			
Government of Israel	14,455	7,335	7,821
Government of USA	451	451	1,781
Total government debentures	**14,906**	**7,786**	**9,602**
Debentures of financial institutions in Israel			
Total debentures of financial institutions in Israel	**622**	**368**	**–**
Debentures of banks in developed nations:			
South Korea	102	102	108
USA	59	–	(2)70
Germany	9	–	44
Other	57	–	(2)140
Total debentures of banks in developed nations	**227**	**102**	**362**
Corporate debentures (composition by sector):			
Rental real estate	439	–	–
Supply of electricity, gas, steam and AC	159	31	–
Mining and excavation	74	–	–
Construction	61	–	–
Industry – chemical industry	59	–	–
Other	264	1	–
Total corporate debentures	**1,056**	**32**	**–**
Asset-backed corporate debentures (ABS)			
Mining and excavation	28	–	–
Others	5	–	–
Total asset-backed corporate debentures (ABS)	**33**	**–**	**–**
Shares and other securities			
Investment in shares not held for trading	**426**	**160**	**149**
Of which: Shares for which no fair value is available(1)	216	59	49
Shares and other securities held for trading	**20**	**–**	**–**
Total shares and other securities	**446**	**160**	**149**
Total securities	**17,290**	**8,448**	**10,113**

(1) Generally shown at cost (net of impairment), adjusted for changes in observed prices in ordinary transactions for similar or identical investments of the same issuer.
(2) Includes exposure to Multi-party Development Banks (MDB).

For more information about investments in securities and impairment of a temporary nature of securities available for sale, listing the duration of impairment and its rate out of the amortized cost, see Note 12 to the financial statements.

Buildings and equipment – The balance of buildings and equipment amounted to NIS 1.7 billion.

Buildings and equipment, excluding the effect of Union Bank, decreased in 2020 by NIS 13 million, and amounted to NIS 1.4 billion. The decrease in buildings and equipment is due to current change with respect to depreciation and to new investments, primarily in technology.

Investments and expenses with respect to IT

Below is information about investments and expenses for the Bank with respect to IT.

IT-related expenses, as listed on the statement of profit and loss (NIS in millions):

	For the year ended December 31 (reported amounts)							
	2020[(1)]				2019			
	Software	**Hardware**	**Other**	**Total**	**Software**	**Hardware**	**Other**	**Total**
Payroll and associated expenses[(2)]	292	62	5	359	263	58	4	656
Usage license expenses not capitalized to assets[(3)]	130	13	–	143	129	9	–	267
Outsourcing expenses[(4)]	[(7)]244	11	8	263	135	5	8	228
Depreciation expenses[(5)]	201	45	–	246	168	34	–	421
Other expenses[(6)]	44	8	–	52	37	7	–	87
Total expenses	**911**	**139**	**13**	**1,063**	**733**	**113**	**12**	**1,660**

Total cost with respect to IT recognized as assets on the financial statements in the reported period

Additional IT-related assets not expensed (NIS in millions):

	For the year ended December 31 (reported amounts)							
	2020[(1)]				2019			
	Software	**Hardware**	**Other**	**Total**	**Software**	**Hardware**	**Other**	**Total**
Payroll and associated expenses[(2)]	18	–	–	18	13	–	–	13
Cost of acquisition of usage licenses[(3)]	93	66	–	159	111	45	–	156
Outsourcing expenses[(4)]	103	8	1	112	94	–	–	94
Total	**214**	**74**	**1**	**289**	**218**	**45**	**–**	**263**

Balance of IT-related assets at the end of the reported period

Balance of IT-related assets (NIS in millions):

	For the year ended December 31 (reported amounts)							
	2020				2019			
	Software	**Hardware**	**Other**	**Total**	**Software**	**Hardware**	**Other**	**Total**
Total depreciated balance	595	131	2	[(8)]728	544	100	2	647
Of which: Payroll and associated expenses	71	1	–	72	38	–	–	38

(1) As from September 30, 2020 the Bank consolidates the financial statements of Union Bank. The consolidated statement of profit and loss for 2020 includes the financial results of Union Bank for the fourth quarter only.

(2) Includes payroll of hardware and software professionals as well as payroll of other IT staff, such as: administrative staff, maintenance staff and operations staff. Payroll costs added to assets include labor costs for development of software for the Bank's own use, capitalized to assets in accordance with generally accepted accounting principles.

(3) These expenses primarily consist of current software maintenance. These expenses are included on the financial statements under "Maintenance and depreciation expenses for buildings and equipment". Additions to assets are with respect to usage licenses and software purchases.

(4) These expenses are with respect to hardware and software maintenance by external employees. These expenses are included on the financial statements under "Maintenance and depreciation expenses for buildings and equipment". Additions to assets with respect to outsourcing include cost of external employees employed by the Bank to develop software for the Bank's own use.

(5) For more information about accounting policies with regard to depreciation expenses, see Notes 1.D.8 and 16 to the financial statements.

(6) Includes expenses with respect to rent and taxes, communication and general & administrative expenses.

(7) As from January 1, 2017, Bank Yahav receives IT and operating services from an international Tata Group company. The company specializes, inter alia, in providing IT services to financial institutions and banking corporations world-wide. In this regard, Bank Yahav uses a core banking system which includes banking services in various channels, based on the bank's lines of business. The cost of the service in 2020 amounted to NIS 99 million (in 2019: NIS 96 million).

(8) Amortized balance excluding Union Bank: NIS 675 thousand.

Deposits from the public – As of December 31, 2020, deposits from the public accounted for 79% of total assets on consolidated basis. This rate remains un-changed excluding the effect of Union Bank, compared to 77% as of December 31, 2019. In 2020, deposits from the public for the Bank Group, excluding the effect of Union Bank, increased by NIS 35.8 billion, an increase by 17.0%. The increase in deposits from the public is due to significant diversion of client assets from the capital market to Bank deposits, as well as to proactive deposit recruitment activity by the Bank. Deposits from the public include deposits from retail clients, corporations, financial entities and others.

Composition of deposits from the public by linkage segments (NIS in millions) is as follows:

Linkage segment	Balance as of December 31				Percentage of total deposits from the public, net as of December 31		
	2020		2019	Change in %	2020		2019
	Including Union Bank	Excluding Union Bank		Excluding Union Bank	Including Union Bank	Excluding Union Bank	
Israeli currency							
Non-linked	218,008	188,057	158,980	18.3	76.7	76.2	75.4
CPI-linked	16,457	15,747	14,345	9.8	5.8	6.4	6.8
Foreign currency and foreign currency linked	49,661	42,949	37,659	14.1	17.5	17.4	17.9
Non-monetary	98	–	–	–	–	–	–
Total	**284,224**	**246,753**	**210,984**	**17.0**	**100.0**	**100.0**	**100.0**

Composition of deposits from the public by supervisory operating segments (NIS in millions) is as follows:

	As of December 31,			Change rate excluding Union Bank (In %)
	2020		2019	
	Including Union Bank	Excluding Union Bank		
Individuals:				
Households – other	114,987	101,616	86,076	18.1
Private banking	20,178	16,881	14,839	13.8
Total – individuals	**135,165**	**118,497**	**100,915**	**17.4**
Business operations:				
Small and micro businesses	44,382	37,588	26,725	40.6
Medium businesses	14,406	11,756	8,935	31.6
Large businesses	38,094	29,129	25,155	15.8
Institutional investors	47,566	45,172	45,330	(0.3)
Total – business operations	**144,448**	**123,645**	**106,145**	**16.5**
Overseas operations	4,611	4,611	3,924	17.5
Total	**284,224**	**246,753**	**210,984**	**17.0**

Evolution of deposits from the public for the Group by depositor size (NIS in millions) is as follows

	For the year ended December 31,		
	2020		2019
	Including Union Bank	Excluding Union Bank	
Maximum deposit (NIS in millions)			
Up to 1	94,031	82,646	72,152
Over 1 to 10	73,376	61,980	50,875
Over 10 to 100	41,781	35,223	29,582
Over 100 to 500	35,060	28,342	22,193
Above 500	39,976	38,562	36,182
Total	**284,224**	**246,753**	**210,984**

Deposits from banks – The balance of deposits from banks as of December 31, 2020 amounted to NIS 3.8 billion.

The balance of deposits from banks as of December 31, 2020, excluding the effect of Union Bank, amounted to NIS 3.6 billion, compared to NIS 0.7 billion as of December 31, 2019. The increase in deposits from banks is primarily due to a monetary loan amounting to NIS 2.2 billion received from the Bank of Israel in conjunction with the Bank of Israel plan for providing long-term loans to increase credit supply to micro and small businesses.

For more information on the evolution of the composition of deposits from the public and the evolution of the composition of deposits from banks, see Notes 18 and 19 to the financial statements.

Debentures and subordinated notes – The balance of debentures and subordinated notes as of December 31, 2020 amounted to NIS 33.4 billion.

The balance of debentures and subordinated notes as of December 31, 2020, excluding the effect of Union Bank, amounted to NIS 29.6 billion, a decrease by NIS 3.8 billion compared to December 31, 2019. See also chapter "Developments in financing sources" above.

For more information about balances of assets and liabilities for the Bank Group for interim periods, see multi-quarter information for the past two years in Addendums to the annual financial statements.

Capital, capital adequacy and leverage

Shareholders' equity attributable to shareholders of the Bank – Shareholders' equity attributable to equity holders of the Bank as of December 31, 2020 amounted to NIS 18.8 billion, compared to NIS 16.0 billion as of December 31, 2019. The increase in shareholder equity is due, *inter alia*, to the Union Bank acquisition transaction, whereby the Bank acquired 100% of Union Bank shares in exchange for issuing Bank shares amounting to NIS 1.2 billion.

Below is the composition of shareholders' equity (NIS in millions):

	As of December 31,		Rate of change
	2020	**2019**	**(In %)**
Share capital and premium[(1)]	3,445	2,232	54.3
Capital reserve from benefit from share-based payment transactions	87	70	24.3
Total cumulative other loss[(2)(3)]	(276)	(332)	(16.9)
Retained earnings[(4)]	15,548	14,063	10.6
Total	**18,804**	**16,033**	**17.3**

(1) For more information about share issuance, see statement of changes to shareholders' equity.

(2) For more information about other comprehensive income (loss), see consolidated statements of comprehensive income and Note 10 to the financial statements.

(3) Includes actuarial liability with respect to employees' retirement program, see Notes 22 and 25 to the financial statements.

(4) For more information about developments in revenues and expenses accumulated to retained earnings in the reported period, see chapter "Material developments in revenues, expenses and other comprehensive income" above.

The ratio of shareholders' equity to total assets for the Group as of December 31, 2020 was 5.22%, compared to 5.87% as of the end of 2019.

Capital adequacy

Supervisory capital

The Bank assesses its capital adequacy in accordance with Basel rules, as prescribed by Proper Conduct of Banking Business Directives 201-211. The Bank applies the standard approach in assessing exposure to credit risk, operational risk and market risk.

Capital is composed of two tiers: Tier I capital (including Tier I equity and Tier I additional capital) and Tier II capital.

Tier I capital primarily consists of equity components attributable to shareholders of the Bank (accounting equity on the books) and non-controlling interests, which is the primary component for loss absorption.

Additional Tier I capital consists of equity instruments which fulfill the requirements specified in the directives. As of December 31, 2020, the Bank had no equity instruments included in additional Tier I capital.

Tier II capital consists of the group-based provision for credit losses and CoCo (Contingent Convertible) capital instruments, which include a provision for absorbing loss of principal when the Tier I Capital ratio drops below the specified quantitative trigger level, or upon receiving notice from the Supervisor of Banks, whereby activating the provision for absorbing loss of principal is required to ensure stability of the banking corporation (a Bank "non existence" event). For more information about issue of debentures and contingent subordinated notes (Contingent Convertibles – CoCo) in 2020, see chapter "Developments in financing sources" above.

Subordinated notes, recognized as Tier II capital instruments under the previous directives, no longer qualify as supervisory capital under the current directives (primarily due to lacking loss absorption provisions) and are amortized over the term of the transitional provisions through January 1, 2022.

Capital planning at the Bank

Capital planning in the normal course of business – The Bank prepares a detailed, multi-annual capital planning forecast, taking the following into consideration: Expected growth rates of risk assets and profitability, the strategic plan, dividends distribution policy, capital targets and leverage, appropriate safety margins and other factors.

The Bank regularly monitors the actual results vs. the forecast, revises the forecast as required and reviews any necessary actions in order to achieve the specified capital targets.

The sensitivity of the Bank's capital adequacy ratio to changes in Tier I capital and risk assets is:

Change in Tier I capital by NIS 100 million would result in a change in Tier I capital adequacy ratio of 0.05%. Change in risk assets by NIS 1 billion would result in a change in Tier I capital adequacy ratio of 0.05%.

Internal capital adequacy assessment process – The Bank uses this process to verify the existence of a sufficient capital absorption buffer to address various risks associated with Bank operations, including stress scenarios.

The planning horizon is three years, in which the Bank challenges the capital planning by a range of stress scenarios involving significant impact to Bank profitability, erosion of Bank capital and increase in risk assets. Results of the Bank's most recent capital planning indicate that the capital absorption buffer included in the minimum capital requirement in conformity with Bank of Israel directives is sufficient.

Consequently, the Bank stipulated that the the Bank's target Tier I capital for capital planning would be as required by directives of the Supervisor of Banks, plus appropriate safety margins.

For more information see the 2020 Risks Report available on the Bank website.

Capital adequacy target

The Bank applies provisions for capital measurement and adequacy, based on Basel III provisions, as published by the Supervisor of Banks and as incorporated in Proper Conduct of Banking Business Directives 201-211. As per instructions of the Supervisor of Banks, the Bank is required to maintain a minimum Tier I equity ratio of no less than 9% and a minimum total equity ratio of no less than 12.5% of weighted total of risk components of its balance sheet assets and off-balance-sheet items. The directives specify the manner of calculation of total capital and total risk components

An additional capital requirement was added to these ratios at 1% of the housing loan balance as of the report date.

On March 31, 2020, Proper Conduct of Banking Business Directive 250 "Adjustments to Proper Conduct of Banking Business Directives for addressing the Corona Virus (Interim Directive)" was issued, whereby the Supervisor of Banks reduced the minimum capital ratios to be maintained by banks in the normal course of business, by one percentage point, for as long as this interim directive is in effect. This was based on the expectation that banks would use their excess capital, due to the reduced capital requirements, to support economic activity in the market, to increase loans and to provide support for households and for the business segment, rather than for other purposes, such as dividend distribution or share buy-back, for as long as this interim directive is in effect. On April 27, 2020, a further update to Directive 250 was issued, whereby the additional capital requirement of 1% of the outstanding balance of residential mortgages would not apply to residential mortgages to be provided during this crisis period.

On September 16, 2020, a further update to the directive was issued, whereby validity of relief provided for in the Interim Directive was extended for a further 6 months, through March 31, 2021, and in order to allow the Bank to return to the minimum capital ratios upon expiration of the Interim Directive, this relief would continue to apply for a further 24 months, provided that capital ratios would be no lower than the capital ratios upon expiration of the Interim Directive, or the minimum capital ratios applicable to the banking corporation prior to the Interim Directive, whichever is lower.

Consequently, the Bank's minimum ratio of Tier I capital to risk assets, including the additional capital requirement of 1% of the balance of residential mortgages, as of December 31, 2020, would be at least 8.68%, and the total capital ratio would be at least 12.18% (with additional safety margins as appropriate).

For more information about issue of contingent subordinated notes (Contingent Convertibles – CoCo), see chapter "Developments in financing sources" above.

For more information about initial consolidation of Union Bank and deferred credit balance included on the consolidated balance sheet, see Note 25. F. to the financial statements.

For more information about the Board of Directors resolutions with regard to capital to risk components ratio and to dividends distribution policy, see Note 25 to the financial statements and chapter "Analysis of composition of assets, liabilities, capital and capital adequacy" (Dividends distribution policy) below.

Below is calculation of the capital adequacy ratio (NIS in millions):

	As of December 31,	
	2020	**2019**
Capital for purpose of calculating the capital ratio		
Tier I shareholders' equity	20,137	16,520
Tier I capital	20,137	16,520
Tier II capital	7,176	6,090
Total capital	**27,313**	**22,610**
Weighted risk asset balances		
Credit risk	185,392	150,878
Market risks	2,228	1,791
Operational risk	12,864	10,189
Total weighted risk asset balances	**(1)200,484**	**162,858**

(1) Weighted risk asset balances as of December 31, 2020 include NIS 23.7 billion with respect to Union Bank. As from September 30, the Bank consolidates the financial statements of Union Bank. For more information about the acquisition of Union Bank, see Note 25.F. to the financial statements.

Development of Group ratio of capital to risk components is as follows (in %):

	As of December 31,	
	2020	**2019**
Ratio of Tier I capital to risk components	10.04	10.14
Ratio of Tier I capital to risk components	10.04	10.14
Ratio of total capital to risk components	13.62	13.88
Minimum Tier I capital ratio required by Supervisor of Banks	8.68	9.83
Total minimum capital ratio required by the directives of the Supervisor of Banks	12.18	13.33
2. Significant subsidiaries (in percent)		
Bank Yahav for Government Employees Ltd. and its subsidiaries		
Ratio of Tier I capital to risk components	9.44	9.51
Ratio of total capital to risk components	12.76	9.51
Minimum Tier I capital ratio required by Supervisor of Banks	8.00	13.22
Total minimum capital ratio required by the directives of the Supervisor of Banks	11.50	9.00
Union Bank Le-Israel Ltd. and its subsidiaries		
Ratio of Tier I capital to risk components	12.91	
Ratio of total capital to risk components	16.23	
Minimum Tier I capital ratio required by Supervisor of Banks	8.44	
Total minimum capital ratio required by the directives of the Supervisor of Banks	11.94	

Composition of risk assets and capital requirements with respect to credit risk by exposure group are as follows (NIS in millions):

	As of December 31, 2020		As of December 31, 2019	
Exposure group	**Weighted risk asset balances**	**Capital requirement(1)**	**Weighted risk asset balances**	**Capital requirement(2)**
Sovereign debts	135	16	90	12
Public sector entity debts	368	45	208	28
Banking corporation debts	1,416	172	517	69
Corporate debts	56,194	6,844	44,210	5,893
Debts secured by commercial real estate	6,758	823	4,101	547
Retail exposure to individuals	18,325	2,232	15,372	2,049
Loans to small businesses	10,342	1,260	8,309	1,108
Residential mortgages	83,351	10,152	72,671	9,687
Other assets	8,016	976	5,016	669
Total	**184,905**	**22,520**	**150,494**	**20,062**

(1) The capital requirement was calculated at 12.18% of risk asset balances. For more information about reduction of minimum capital ratios which banks are required to maintain in the normal course of business, by one percentage point, see Note 25.E. to the financial statements

(2) The capital requirement was calculated at 13.33% of risk asset balances.

Risk assets and capital requirements with respect to market risk, CVA risk and operational risk are as follows (NIS in millions):

	December 31, 2020		December 31, 2019	
Exposure group	**Weighted risk asset balances**	**Capital requirement[(1)]**	**Weighted risk asset balances**	**Capital requirement[(2)]**
Market risk	2,228	271	1,791	239
CVA risk[(3)]	487	59	384	51
Operational Risk[(4)]	12,864	1,567	10,189	1,358
Total	**15,579**	**1,897**	**12,364**	**1,648**
Total risk assets	**200,484**	**24,417**	**162,858**	**21,710**

(1) The capital requirement was calculated at 12.18% of risk asset balances. For more information about reduction of minimum capital ratios which banks are required to maintain in the normal course of business, by one percentage point, see Note 25.E. to the financial statements.
(2) The capital requirement was calculated at 13.33% of risk asset balances.
(3) Credit Value Adjustments – mark to market with respect to credit risk of counter-party, in conformity with Basel III provisions.
(4) Capital allocation with respect to operational risk was calculated using the standard approach.

Leverage ratio

The Bank applies Proper Banking Conduct Directive 218 with regard to leverage ratio, which adopts the Basel Committee recommendations with regard to leverage ratio.

The leverage ratio is reflected in percent, defined as the ratio of Tier I capital to total exposure. Total exposure for the Bank is the sum of balance sheet exposures, exposures to derivatives, to financing transactions for securities and off-balance sheet items.

On November 15, 2020, the Supervisor of Banks issued a circular regarding "Adjustments to Proper Conduct of Banking Business Directives for addressing the Corona Virus (Interim Directive)", updating Proper Conduct of Banking Business Directive 250, whereby the leverage ratio shall be at least 4.5% on consolidated basis, compared to 5% prior to this change, from November 15, 2020 through March 31, 2021. For more information see Note 25.I. to the financial statements.

Below is the Bank's leverage ratio:

the Bank's leverage ratio

	As of December 31,	
	2020	**2019**
1. Consolidated data		
Tier I capital	20,137	16,520
Total exposure	[(1)]388,370	297,779
	In %	
Leverage ratio	5.19	5.55
Minimum leverage ratio required by the Supervisor of Banks	4.50	5.00
2. Significant subsidiaries		
Bank Yahav for Government Employees Ltd. and its subsidiaries		
Leverage ratio	5.07	5.56
Minimum leverage ratio required by the Supervisor of Banks	4.50	4.70
Union Bank Le-Israel Ltd. and its subsidiaries		
Leverage ratio	6.12	
Minimum leverage ratio required by the Supervisor of Banks	4.50	

(1) Total exposure as of December 31, 2020 include NIS 49.8 billion with respect to Union Bank. As from September 30, the Bank consolidates the financial statements of Union Bank. For more information about the acquisition of Union Bank, see Note 25.F. to the financial statements.

For more information see Note 25 to the financial statements and the 2020 Risks Report on the Bank website.

Dividends

Dividend distribution policies

The Bank's dividends policy as from 2018 is to distribute dividends with respect to quarterly earnings, at up to 40% of net profit attributable to equity holders of the Bank. This policy is subject to the Bank achieving a ratio of Tier I capital to risk components as required by the Supervisor of Banks and maintaining appropriate safety margins.
On March 29, 2020, the Supervisor of Banks issued an interim directive with regard to relief for minimum capital ratios which banks are required to maintain, and with regard to expectation that banks would use the excess capital, due to reduced capital requirements, to support economic activity in the economy, to increase loans and to provide support for households and for the business segment, rather than for other purposes, including dividend distribution or share buy-back. For more information see chapter "Significant Events in the Bank Group's Business" above.
Further to the foregoing, on April 13, 2020, the Board of Directors resolved that the Bank would avoid any dividend distributions (including buy-back of Bank shares), for as long as this interim directive is in effect; that is due, *inter alia*, to the position of the Supervisor of Banks as noted above and with due attention to the foregoing, including the uncertainty associated with implications of the Corona Virus crisis for the Bank, as stated above.
For more information about the summary of previous resolutions by the Board of Directors with regard to the dividends distribution policy, see Note 24 to the financial statements.

Dividends distribution

Dividends declaration

Below are details of dividends distributed by the Bank since 2018 (in reported amounts):

Declaration date	Payment date	Dividends per share (Agorot)	Dividends as percent of profit	Total dividends paid (NIS in millions)
February 26, 2018	March 26, 2018	47.03	0.30	109.5
May 07, 2018	June 05, 2018	58.91	0.40	137.2
Total dividends distributed in 2018(1)				**246.7**
August 12, 2019	August 27, 2019	167.21	(3)0.40	392.0
November 18, 2019	December 03, 2019	71.89	0.40	168.8
Total dividends distributed in 2019(2)				**560.8**
February 24, 2020	March 11, 2020	74.89	0.40	176.0

(1) Total dividends distributed with respect to 2018 earnings – NIS 137.2 million.
(2) Total dividends distributed with respect to 2019 earnings – NIS 560.8 million.
(3) Dividend rate as percentage of net profit in the first half of 2019.

Other Off Balance Sheet Activity

Below is the development of off balance sheet monetary assets held on behalf of Bank Group clients, for which the Bank Group provides management, operating and/or custodial services (NIS in millions):

	As of December 31,			Change rate
	2020		2019	(In %)
	Including Union Bank	Excluding Union Bank		Excluding Union Bank
Securities(1)	465,591	441,039	452,549	(2.5)
Assets of provident funds for which the Group provides operating services	97,895	97,895	93,336	4.9
Assets held in trust by the Bank Group	70,254	57,392	68,308	(16.0)
Assets of mutual funds for which the Bank provides operating services	11,585	11,585	13,546	(14.5)
Other assets under management(2)	14,597	14,299	15,519	(7.9)

(1) Value of securities portfolios in Bank custody, held by clients, including balance of securities of provident funds and mutual funds to which the Bank provides operating services. Note that the balance of client operations presented includes, in addition to the balance of securities for mutual funds as noted above, also the value of participation units in such funds held by Bank clients.

(2) Including:
- Loan balances secured by deposits whose repayment to the depositor is contingent upon collection of the loan balance. With respect to these balances, the Bank receives margin or commissions Revenues.
- Other loans managed by the Bank, including residential mortgages managed and operated by the Bank on behalf of others.

Description of Businesses of the Bank Group by Supervisory Operating Segment

Supervisory operating segments

According to the Public Reporting Regulation with regard to supervisory operating segments, the Bank is required to provide, on its financial statements, disclosure with regard to supervisory operating segments in conformity with a uniform, comparable layout specified by the Supervisor of Banks; attribution to supervisory operating segments is typically determined by the client's turnover (annual sales or annual revenues).

Supervisory operating segments include operating segments for individuals and operating segments for business clients other than individuals (including institutional investors and financial management of the Bank).

Individuals are defined as persons with no indebtedness to the Bank or whose indebtedness is classified as indebtedness of "individuals – residential mortgages and others", in conformity with definitions of credit risk classification by economic sector.

The Bank's operating segments by the "management approach" are based on client attribution to the organizational structure responsible in the past period.

However, client attribution to supervisory operating segments is based on uniform definitions specified by the Supervisor of Banks, as set forth in Note 29 to the financial statements.

There is a strong correlation between attributes specified by management for client attribution to the responsible division and the supervisory definitions.

However, according to "the management approach", in some cases the final client attribution may be based on other parameters, such as: specialization of a certain unit in activity types of clients or past experience working with the client, which result in business and service-related advantages to client attribution to the specific division.

Given the Supervisor of Banks' requirement to discuss and analyze the supervisory operating segments in the Report of the Board of Directors and Management and given the correlation between supervisory operating segments and the "management approach", the segment information (both quantitative and qualitative) is briefly presented below for each segment, as follows:

- Supervisory definition of the segment
- Brief qualitative description of the segment (using "management approach").
- Explanation of differences between the "supervisory" definition and how business is actually managed (using the "management approach")
- Financial results of the segment (using the "supervisory approach")

As from September 30, 2020 the Bank's consolidated balance sheet includes Union Bank's balance sheet.
The consolidated statement of profit and loss includes the profit and loss of Union Bank for the fourth quarter of 2020.

For more information and detailed description of the segments, see chapter "Corporate Governance" of these annual financial statements.
Financial results using "management approach" are presented in Note 29 to the financial statements.

Below is a summary of financial results by supervisory operating segment (NIS in millions):

	Net profit[1]		Share of total net profit (in %)	
	For the year ended December 31,		For the year ended December 31,	
	2020	2019	2020	2019
Individuals:				
Households – residential mortgages	726	756	44.8	41.0
Households – other	(10)	52	–	2.8
Private banking	(2)65	2	4.0	0.1
Total – individuals	**781**	**810**	**48.8**	**43.9**
Business operations:				
Small and micro businesses	327	410	20.2	22.3
Medium businesses	88	144	5.4	7.8
Large businesses	203	297	12.5	16.1
Institutional investors	10	27	0.6	1.5
Total – business operations	**628**	**878**	**38.7**	**47.7**
Financial management	116	39	7.2	2.1
Total activity in Israel	**1,525**	**1,727**	**94.7**	**93.7**
Overseas operations	85	115	5.3	6.3
Total	**1,610**	**1,842**	**100.0**	**100.0**

(1) As from September 30, 2020 the Bank consolidates the financial statements of Union Bank. The consolidated statement of profit and loss for 2020 includes the financial results of Union Bank for the fourth quarter only.
(2) Includes revenues of NIS 82 million (NIS 54 million after tax) with respect to indemnification from insurers. For more information see chapter "Overview, targets and strategy".

For more information about operating results in conformity with the management approach, see Note 29 to the financial statements.

Household segment

The supervisory definition

In conformity with the supervisory definition, the household segment includes individuals, other than those clients included in the private banking segment. Thus, this segment excludes individuals with financial assets in excess of NIS 3 million. Individuals are defined as persons with no indebtedness to the Bank or whose indebtedness is classified as indebtedness of "individuals – residential mortgages " and "individuals – other", in conformity with definitions of credit risk classification by economic sector.

Brief description of segment attributes (using the "management approach")

The household segment mainly consists of individual clients, with low levels of indebtedness and relatively small-scale financial activity. Segment clients include those with individual accounts, joint accounts for spouses etc. as well as mortgage borrowers. The segment is highly diversified, and is handled by the Bank's Retail Division.

Differences between the management approach and the supervisory definition

- Some individual clients attributed to the private banking segment using the "management approach" are classified to the household segment using supervisory segments. The difference is primarily due to clients' financial assets used for client classification – the Bank threshold for client classification according to the "management approach" is NIS 1 million, lower than the supervisory definition.
- As a rule, individual clients are attributed to the household segment. According to the supervisory approach, individual clients with high indebtedness or with business attributes are classified to the business operating segments, rather than to the household segment.

Developments in the household segment during the reported period

- In conjunction with acquisition of a controlling interest in Union Bank, operations valued at NIS 15 billion were added to this segment, of which NIS 10.3 billion in residential mortgages and NIS 4.7 billion in other loans to households.
- In 2020, public efforts continued, designed to encourage non-bank entities to enter the competition in the household segment and to increase competition in consumer credit. Along with the Increased Competition and Reduced

Concentration in Israeli Banking Act, there are several legislative and regulatory efforts under way, which should result in increased competition in this segment, including operation of the credit information database, launched in April 2019, the project for arranging account relocation between banks, expected to go live in September 2021, and a project for arranging a system for sharing banking information by definition of a standard Open Banking API, expected to go live in stages starting in 2021.

- In 2020, branch closures and elimination of teller positions at branches of some banks continued, although more moderately than in previous years, with clients referred to digital solutions. Consequently and in conformity with legislation dated August 2016 of the Banking Act (Licensing) (Amendment no. 22), 2016, any banking corporation seeking to close a permanent branch is required to obtain permission from the Supervisor of Banks after filing a written justification and application to do so.
- In the credit card market, regulatory changes continued due, *inter alia*, to implementation of the Increased Competition and Reduced Concentration in Israeli Banking Act. In 2019, the process of separating credit card companies from banks started. Furthermore, several significant agreements have been signed by credit card companies and retail clubs, for joint issuing of non-bank cards. In 2020, significant change took place in the credit card market, due to the schedule set by the Bank of Israel for conducting transactions by merchants using terminals supporting EMV technology (for reading a chip located on the credit card) and preparation for entry of international payment applications into the Israeli market. In this regard, the Bank and Apple signed an agreement, whereby Bank clients would be able to pay using Apple Pay by means of bank credit cards. The Bank also allows payments to be made using digital wallets of 3 credit card companies, and is evaluating other possibilities for making payments using wallets on Android devices.

This information constitutes forward-looking information, as defined in the Securities Law, 1968, based on assumptions, facts and data (hereinafter jointly: "assumptions") brought before the Bank's Board of Directors. These assumptions may not materialize due to factors which are under the Bank's control.

For more information and detailed description of products and services, key markets and distribution channels, business strategy and layout of competition in this segment and changes to them, see chapter "Corporate Governance" of these annual financial statements.

Analysis of operating results in the household segment

	For the year ended December 31,					
	2020			2019		
	NIS in millions					
	Other	Residential mortgages	Total	Other	Residential mortgages	Total
Profit and profitability						
Total interest revenues, net	1,329	1,929	3,258	1,349	1,695	3,044
Non-interest financing revenues (expenses)	8	(6)	2	–	–	–
Commissions and other revenues	574	146	720	526	160	686
Total revenues	**1,911**	**2,069**	**3,980**	**1,875**	**1,855**	**3,730**
Expenses with respect to credit losses	130	279	409	99	44	143
Operating and other expenses	1,724	678	2,402	1,628	651	2,279
Profit before provision for taxes	57	1,112	1,169	148	1,160	1,308
Provision for taxes	20	386	406	52	404	456
After-tax profit	**37**	**726**	**763**	**96**	**756**	**852**
Net profit (loss):						
Attributable to non-controlling interests	(47)	–	(47)	(44)	–	(44)
Attributable to shareholders of the banking corporation	**(10)**	**726**	**716**	**52**	**756**	**808**
Balance sheet – key items:						
Loans to the public (end balance)	25,643	156,364	182,007	21,893	135,311	157,204
Loans to the public, net (end balance)	25,335	155,422	180,757	21,632	134,637	156,269
Deposits from the public (end balance)	114,987	–	114,987	86,076	–	86,076
Average balance of loans to the public	21,398	142,921	164,319	20,708	130,749	151,457
Average balance of deposits from the public	99,635	–	99,635	84,672	–	84,672
Average balance of risk assets	20,182	82,671	102,853	19,016	74,823	93,839
Credit margins and deposit margins:						
Margin from credit granting operations	861	1,831	2,692	831	1,622	2,453
Margin from activities of receiving deposits	458	–	458	516	–	516
Other	10	98	108	2	73	75
Total interest revenues, net	**1,329**	**1,929**	**3,258**	**1,349**	**1,695**	**3,044**

Contribution of the household segment (in conformity with the supervisory definitions) to Group profit in 2020 amounted to NIS 716 million, excluding the effect of Union Bank, amounted to NIS 725 million, compared to NIS 808 million in the corresponding period last year.

Below are key factors affecting the change in segment contribution:

Contribution of residential mortgages (including general-purpose loans secured by a lien on a residential apartment) in 2020 amounted to NIS 726 million, excluding the effect of Union Bank amounted to NIS 727 million, compared to NIS 756 million in the corresponding period last year. Total interest revenues, net amounted to NIS 1,929 million, excluding the effect of Union Bank amounted to NIS 1,902 million, compared to NIS 1,695 million in the corresponding period last year, an increase by 12.2% – primarily due to an increase of NIS 9.8 billion in average loan balance.

In 2020, the Bank recognized expenses with respect to credit losses amounting to NIS 279 million, compared to NIS 44 million in the corresponding period last year. The increase is primarily due to group-based provision for credit losses with respect to effect of the Corona Virus crisis. For more information see chapter "Significant Events in the Bank Group's Business" above.

Operating expenses amounted to NIS 678 million, excluding the effect of Union Bank amounted to NIS 639 billion, compared to NIS 651 billion in the corresponding period last year, primarily due to decrease in payroll and associated expenses.

Results of other household operations (other than residential mortgages) in 2020, amounted to loss of NIS 10 million, excluding the effect of Union Bank amounted to loss of NIS 2 million, compared to profit of NIS 52 million in the corresponding period last year. Total interest revenues, net amounted to NIS 1,329 million, excluding the effect of Union Bank amounted to NIS 1,274 million, compared to NIS 1,349 million in the corresponding period last year, a decrease by 5.6% – primarily due to the effect of the lower Prime lending rate. Commissions and other revenues amounted to NIS 574 million, excluding Union Bank amounted to NIS 554 million, compared to NIS 526 million in the corresponding period last year – an increase by 5.3%, primarily due to increase in revenues from commissions on securities.

Expenses with respect to credit losses amounted to NIS 130 million, excluding the effect of Union Bank amounted to NIS 125 million, compared to NIS 99 million in the corresponding period last year. The increase is primarily due to group-based provision for credit losses with respect to effect of the Corona Virus crisis. For more information see chapter "Significant Events in the Bank Group's Business" above.

Operating expenses amounted to NIS 1,724 million, excluding Union Bank amounted to NIS 1,634 million, compared to NIS 1,628 million, an increase by NIS 6 million, primarily due to increase in maintenance expenses due to higher rent expenses, further to application of the new standard with regard to leases, and to higher security expenses due to the Corona Virus outbreak and to higher amortization expenses for investments in technology.
For more details and extensive information about results of this segment and operating results in conformity with management's approach – see Note 29 to the financial statements.

Private Banking Segment

The supervisory definition

According to the supervisory definition, the private banking segment consists of individuals whose financial assets with the bank (including deposits, securities portfolios and other financial assets) exceed NIS 3 million.

Brief description of segment attributes (using the "management approach")

The private banking segment provides banking services in Israel to both Israeli clients and foreign resident clients. Private banking is the concept of banking services geared to clients with high financial wealth, with a considerable part of their activity executed in the management of financial assets. Private banking segment clients are individual clients with liquid deposits and investments in securities in excess of NIS 3 million.
Financial consulting, which is part of the service offered to this operating segment, is provided to the clients of the segments who have signed consulting agreements. A response is also provided for other financial needs of these clients, while providing high-quality personal service and offering a range of advanced products.
This segment has potential for expanding business relationships with clients from a high socio-economic standing, who demand personal, professional service which is highly available.

Differences between the management approach and the supervisory definition

- Some individual clients attributed to the private banking segment using the "management approach" are classified to the household segment using supervisory segments. The difference is primarily due to clients' financial assets used for client classification – the Bank threshold for client classification according to the "management approach" is NIS 1 million, lower than the supervisory definition.

- The private banking segment according to the management approach also includes businesses with liquid assets in excess of NIS 8 million. These clients are classified to the business operating segments under the supervisory approach.

Developments in the private banking segment during the reported period

Over the past year there were no material market developments nor material changes in client attributes in the private banking segment.

For more information and detailed description of products and services, key markets and distribution channels and layout of competition in this segment and changes there to, see chapter "Corporate Governance" of these annual financial statements.

Analysis of operating results of the private banking segment

	For the year ended December 31,	
	2020	2019
	NIS in millions	
Profit and profitability		
Total interest revenues, net	79	86
Non-interest financing revenues	–	–
Commissions and other revenues	99	11
Total revenues	**178**	**97**
Expenses with respect to credit losses	6	2
Operating and other expenses	72	92
Profit before provision for taxes	100	3
Provision for taxes	35	1
Net profit	**65**	**2**
Balance sheet – key items:		
Loans to the public (end balance)	370	227
Loans to the public, net (end balance)	362	224
Deposits from the public (end balance)	20,178	14,839
Average balance of loans to the public	178	112
Average balance of deposits from the public	17,072	13,938
Average balance of risk assets	70	26
Credit margins and deposit margins:		
Margin from credit granting operations	1	–
Margin from activities of receiving deposits	76	86
Other	2	–
Total interest revenues, net	**79**	**86**

Contribution of the private banking segment (in conformity with the supervisory definitions) in 2020 amounted to NIS 65 million, excluding the effect of Union Bank, amounted to NIS 61 million, compared to NIS 2 million in the corresponding period last year. The change is primarily due to revenues amounting to NIS 54 million after tax, with respect to the agreement with insurers as stated below.

Total interest revenues, net amounted to NIS 79 million, excluding the effect of Union Bank amounted to NIS 76 million, compared to NIS 86 million in the corresponding period last year. The decrease is primarily due to a decrease in deposit margin.

Other revenues included revenues amounting to NIS 82 million (NIS 54 million after tax) with respect to an agreement with insurers to conclude derivative proceedings. For more information see chapter "Overview, targets and strategy".

Commissions and other revenues, excluding revenues with respect to the agreement with insurers and excluding the effect of Union Bank, amounted to NIS 14 million, compared to NIS 11 million in the corresponding period last year. The increase is primarily in revenues from commissions on securities.

Operating expenses amounted to NIS 72 million, excluding the effect of Union Bank amounted to NIS 71 million, compared to NIS 92 million in the corresponding period last year. The decrease is primarily due to decrease in legal expenses by NIS

13 million, and to improvement in expense attribution between the private banking segment and the overseas operations segment.

For more details and extensive information about results of this segment and operating results in conformity with management's approach – see Note 29 to the financial statements.

Micro and Small Business Segment

The supervisory definition

The micro and small business segment includes businesses with annual turnover below NIS 50 million.

Brief description of segment attributes (using the "management approach")

The micro and small business segment operates in the Retail Division, primarily consisting of small companies and small business clients, with annual turnover below NIS 10 million (micro business), as well as annual turnover between NIS 10 million and NIS 50 million (small business). In conformity with the management approach, in some cases clients may cross the turnover threshold and still be served by the Retail Division.

This segment is characterized by large client diversification. In view of the fact that the availability of data and their quality regarding the clients of this segment is relatively lower than for major business clients, there is a need for professional service and appropriate means of control, in order to assess the quality of the client for the purpose of extending credit. Additionally, this segment is characterized by a high percentage of collateral required from the clients to ensure credit repayment.

Differences between the management approach and the supervisory definition

- Business clients with liquid assets in excess of NIS 8 million are attributed to the private banking segment according to the management approach. According to the supervisory segment approach, these clients are classified to the micro and small business segment, based on their annual turnover.
- Business clients currently attributed to commercial banking using the management approach and whose annual turnover is lower than NIS 50 million, are classified to the micro and small business segment using the supervisory approach.

Developments in the micro and small business segment during the reported period

Growing competition among banks in the small business segment continued to accelerate over the past year. In addition, a number of public actions were taken to encourage entry of non-bank entities into the market for credit to small business.

Changes to client attributes in this segment

This segment is highly diversified as for clients, with strong collateral requirements from clients to secure repayment of credit. In 2020, due to the Corona Virus crisis, special loans were extended to clients from State-guaranteed funds for small and medium businesses, to help address the Corona Virus crisis.

For more information and detailed description of products and services, key markets and distribution channels, business strategy and layout of competition in this segment and changes to them, see chapter "Corporate Governance" of these annual financial statements.

Analysis of operating results of micro and small business segment

	For the year ended December 31,	
	2020	2019
	NIS in millions	
Profit and profitability		
Total interest revenues, net	1,188	1,150
Non-interest financing revenues	–	–
Commissions and other revenues	440	387
Total revenues	**1,628**	**1,537**
Expenses with respect to credit losses	321	166
Operating and other expenses	803	734
Profit before provision for taxes	504	637
Provision for taxes	175	222
After-tax profit	**329**	**415**
Net profit attributed to non-controlling interests	(5)	(5)
Net profit attributable to shareholders of the banking corporation	**324**	**410**
Balance sheet – key items:		
Loans to the public (end balance)	29,514	21,241
Loans to the public, net (end balance)	28,948	20,857
Deposits from the public (end balance)	44,382	26,725
Average balance of loans to the public	23,880	20,412
Average balance of deposits from the public	34,255	25,283
Average balance of risk assets	22,792	19,517
Credit margins and deposit margins:		
Margin from credit granting operations	1,026	984
Margin from activities of receiving deposits	122	142
Other	40	24
Total interest revenues, net	**1,188**	**1,150**

Contribution of the micro and small business segment (in conformity with the supervisory definitions) to Group profit in 2020 amounted to NIS 324 million, excluding the effect of Union Bank, amounted to NIS 311 million, compared to NIS 410 million in the corresponding period last year.

Below are key factors affecting the change in segment contribution:

Interest revenues, net amounted to NIS 1,188 million, excluding the effect of Union Bank amounted to NIS 1,152 million, compared to NIS 1,150 million in the corresponding period last year. The increase is primarily due to increase in average loan and deposit amounts, offset by decrease in financing margin, primarily due to effect of the lower Prime lending rate.

Commissions and other revenues amounted to NIS 440 million, excluding Union Bank amounted to NIS 416 million, compared to NIS 387 million in the corresponding period last year – an increase by 7.5%, primarily due to increase in revenues from commissions on securities and commissions from financing business.

Expenses with respect to credit losses amounted to NIS 321 million, excluding the effect of Union Bank amounted to NIS 325 million, compared to NIS 166 million in the corresponding period last year. The increase is primarily due to group-based provision for credit losses with respect to effect of the Corona Virus crisis. For more information see chapter "Significant Events in the Bank Group's Business" above.

Operating expenses amounted to NIS 803 million, excluding the effect of Union Bank amounted to NIS 754 million, compared to NIS 734 million in the corresponding period last year. The increase is primarily due to improved expense attribution between the housing loan segment and the micro and small businesses segment, as well as to change in attribution of technology expenses.

For more details and extensive information about results of this segment and operating results in conformity with management's approach – see Note 29 to the financial statements.

Medium business segment

The supervisory definition

The medium business segment includes businesses with annual turnover higher than NIS 50 million and lower than NIS 250 million.

Brief description of segment attributes (using the "management approach")

The medium business segment primarily includes medium-sized private and public companies (Middle Market), with turnover between NIS 30 and 120 million.

Clients in this segment are primarily served by the Bank's Corporate Division, primarily by the Business Sector, operating three business centers nation-wide.

In general, as from 2019, new clients are classified in conformity with the supervisory approach – those with annual turnover over NIS 50 million and under NIS 250 million.

Segment clients primarily operating in the real estate sector are served by the Construction and Real Estate sector of the Corporate Division, which specializes in provision of dedicated services to this sector.

Clients in this segment, operating across all economic sectors, use a range of banking services, associated with a relatively high ratio of required collateral compared to Business Banking segment clients.

Differences between the management approach and the supervisory definition

- The commercial banking segment, according to management approach, includes businesses with turnover between NIS 30 million and NIS 120 million. This means that some commercial banking clients (under management approach) whose turnover is below NIS 50 million are classified to the micro and small business segment using the supervisory operating segments.
- On the other hand, business clients attributed to the business banking segment using the management approach and whose annual turnover is lower than NIS 250 million, are attributed to the medium business segment using the supervisory approach.
- In general, as from 2019 new clients are classified in conformity with the supervisory definition, resulting in better alignment of the management approach with the supervisory approach, as noted above.

For more information and detailed description of products and services, key markets and distribution channels, business strategy and layout of competition in this segment and changes to them, see chapter "Corporate Governance" of these annual financial statements.

Analysis of operating results in the medium business segment

	For the year ended December 31,	
	2020	2019
	NIS in millions	
Profit and profitability		
Total interest revenues, net	309	295
Non-interest financing revenues	1	–
Commissions and other revenues	96	90
Total revenues	**406**	**385**
Expenses with respect to credit losses	136	42
Operating and other expenses	136	122
Profit before provision for taxes	134	221
Provision for taxes	46	77
Net profit	**88**	**144**
Balance sheet – key items:		
Loans to the public (end balance)	9,660	7,196
Loans to the public, net (end balance)	9,427	7,063
Deposits from the public (end balance)	14,406	8,935
Average balance of loans to the public	8,108	7,104
Average balance of deposits from the public	10,570	8,388
Average balance of risk assets	9,192	8,157
Credit margins and deposit margins:		
Margin from credit granting operations	260	240
Margin from activities of receiving deposits	36	46
Other	13	9
Total interest revenues, net	**309**	**295**

Contribution of the medium business segment (in conformity with the supervisory definitions) to Group profit in 2020 amounted to NIS 88 million, excluding the effect of Union Bank, amounted to NIS 84 million, compared to NIS 144 million in the corresponding period last year.

Interest revenues, net amounted to NIS 309 million, excluding the effect of Union Bank amounted to NIS 298 million, compared to NIS 295 million in the corresponding period last year.

Commissions and other revenues amounted to NIS 96 million, excluding the effect of Union Bank amounted to NIS 92 million, compared to NIS 90 million in the corresponding period last year.

Expenses with respect to credit losses amounted to NIS 136 million, excluding the effect of Union Bank amounted to NIS 138 million, compared to NIS 42 million in the corresponding period last year. The increase is primarily due to group-based provision for credit losses with respect to effect of the Corona Virus crisis. For more information see chapter "Significant Events in the Bank Group's Business" above.

Operating expenses amounted to NIS 136 million, excluding the effect of Union Bank amounted to NIS 122 million, similar to the corresponding period last year. For more details and extensive information about results of this segment and operating results in conformity with management's approach – see Note 29 to the financial statements.

Large business segment

The supervisory definition

The large business segment includes businesses with annual turnover higher than NIS 250 million.

Brief description of segment attributes (using the "management approach")

The segment specializes in providing complete banking and financing services to the largest companies, in a range of sectors, with turnover exceeding NIS 120 million.

In general, as from 2019, new clients are classified in conformity with the supervisory approach – those with annual turnover over NIS 250 million.

Segment clients are served under responsibility of the Bank's Corporate Division, primarily by the Large Corporation Sector. Segment clients operating in the real estate sector are served by the Construction and Real Estate sector of the Corporate Division, which specializes in provision of dedicated services to this sector.

In its activities in this segment, the Bank emphasizes expansion of the current client base and improved profitability through expansion of activity in financing areas with very high profitability relative to capital, such as trading room transactions, including transactions in derivatives and other products provided to clients by the trading room.

Differences between the management approach and the supervisory definition

- The business banking segment, according to management approach, includes businesses with turnover in excess of NIS 120 million. This means that some business banking clients (under the management approach) whose turnover is below NIS 250 million are classified to the medium business segment using the supervisory approach.
- Institutional investors served, under the management approach, by business banking are presented as a separate segment under supervisory operating segments.
- In general, as from 2019 new clients are classified in conformity with the supervisory definition, except for institutional investors, as noted above, resulting in better alignment of the management approach with the supervisory approach, as noted above.

For more information and detailed description of products and services, key markets and distribution channels, business strategy and layout of competition in this segment and changes to them, see chapter "Corporate Governance" of these annual financial statements.

Analysis of operating results in the large business segment

	For the year ended December 31,	
	2020	2019
	NIS in millions	
Profit and profitability		
Total interest revenues, net	561	526
Non-interest financing revenues (expenses)	(1)	–
Commissions and other revenues	134	143
Total revenues	**694**	**669**
Expenses with respect to credit losses	138	24
Operating and other expenses	239	190
Profit before provision for taxes	317	455
Provision for taxes	110	158
Net profit	**207**	**297**
Balance sheet – key items:		
Loans to the public (end balance)	20,169	15,357
Loans to the public, net (end balance)	19,859	15,152
Deposits from the public (end balance)	38,094	25,155
Average balance of loans to the public	19,125	16,881
Average balance of deposits from the public	31,004	25,985
Average balance of risk assets	25,729	23,107
Credit margins and deposit margins:		
Margin from credit granting operations	475	434
Margin from activities of receiving deposits	59	70
Other	27	22
Total interest revenues, net	**561**	**526**

Contribution of the large business segment (in conformity with the supervisory definitions) to Group profit in 2020 amounted to NIS 207 million, excluding the effect of Union Bank, amounted to NIS 214 million, compared to NIS 297 million in the corresponding period last year.

Interest revenues, net amounted to NIS 561 million, excluding the effect of Union Bank amounted to NIS 542 million, compared to NIS 526 million in the corresponding period last year. The increase is primarily due to increase in average loan and deposit amounts and to increase in lending margins.

Commissions and other revenues amounted to NIS 134 million, excluding the effect of Union Bank amounted to NIS 128 million, compared to NIS 143 million in the corresponding period last year. A decrease primarily due to commission in a specific transaction recognized in the corresponding period last year.

Expenses with respect to credit losses amounted to NIS 138 million, excluding the effect of Union Bank amounted to NIS 145 million, compared to NIS 24 million in the corresponding period last year. The increase is primarily due to group-based provision for credit losses with respect to effect of the Corona Virus crisis. For more information see chapter "Significant Events in the Bank Group's Business" above.

Operating expenses amounted to NIS 239 million, excluding the effect of Union Bank amounted to NIS 194 million, compared to NIS 190 million in the corresponding period last year.

For more details and extensive information about results of this segment and operating results in conformity with management's approach – see Note 29 to the financial statements.

Institutional investor segment

The supervisory definition

This segment includes provident funds, pension funds, study funds, mutual funds, ETFs, insurance companies and stock exchange members who manage client portfolios.

Brief description of segment attributes (using the "management approach")

This segment provides service to financial asset managers, incorporating activities involving providing services to financial asset managers:
insurance companies, managers of provident funds, study funds and pension funds, managers of mutual funds and ETFs, stock exchange members and investment portfolio managers.
Segment operations includes operating these financial assets and providing banking services to their managers.
Services include: asset valuation, generating control reports, reporting to authorities, accounting, administration of accounts and rights of provident fund members and calculation of returns. Banking services also include credit of various types and transactions involving derivative instruments.
The Bank has agreements in place to provide operating services to provident fund management companies, some of which are associated with the sale of provident funds previously owned by the Bank. As for mutual funds, the Bank has agreements in place to provide services to mutual fund management companies.
The segment also provides comprehensive service to management companies of provident funds and mutual funds.

Differences between the management approach and the supervisory definition

Under the management approach, institutional investors are administered by the business banking and by the financial management segment, but are presented as a separate segment under supervisory operating segments.
For more information and detailed description of products and services, key markets and distribution channels, business strategy and layout of competition in this segment and changes to them, see chapter "Corporate Governance" of these annual financial statements.

Analysis of operating results of institutional investor segment

	For the year ended December 31,	
	2020	**2019**
		NIS in millions
Profit and profitability		
Total interest revenues, net	98	118
Non-interest financing revenues	1	–
Commissions and other revenues	56	39
Total revenues	**155**	**157**
Expenses (reduction of expenses) with respect to credit losses	23	(6)
Operating and other expenses	117	121
Profit before provision for taxes	15	42
Provision for taxes	5	15
Net profit	**10**	**27**
Balance sheet – key items:		
Loans to the public (end balance)	2,434	1,569
Loans to the public, net (end balance)	2,404	1,563
Deposits from the public (end balance)	47,566	45,330
Average balance of loans to the public	1,108	1,051
Average balance of deposits from the public	41,903	39,992
Average balance of risk assets	2,455	2,029
Credit margins and deposit margins:		
Margin from credit granting operations	26	19
Margin from activities of receiving deposits	66	93
Other	6	6
Total interest revenues, net	**98**	**118**

Contribution of the institutional investor segment (in conformity with the supervisory definitions) to Group profit in 2020 amounted to NIS 10 million, excluding the effect of Union Bank, amounted to NIS 8 million, compared to NIS 27 million in the corresponding period last year.

Interest revenues, net amounted to NIS 98 million, excluding the effect of Union Bank amounted to NIS 94 million, compared to NIS 118 million in the corresponding period last year. The decrease is primarily due to the lower deposit margin, due to the decrease in the Prime lending rate.

Commissions and other revenues amounted to NIS 56 million, excluding the effect of Union Bank amounted to NIS 55 million, compared to NIS 39 million in the corresponding period last year, primarily due to increase in commission revenues from securities.

Expenses with respect to credit losses amounted to an expense of NIS 23 million, compared to a decrease in expenses of NIS 6 million in the corresponding period last year.

Operating expenses amounted to NIS 117 million, excluding the effect of Union Bank amounted to NIS 114 billion, compared to NIS 121 billion in the corresponding period last year.

For more details and extensive information about results of this segment and operating results in conformity with management's approach – see Note 29 to the financial statements.

Financial Management Segment

The supervisory definition

The financial management segment includes trading operations, asset and liability management and non-banking investments.

Trade operations – Investment in securities held for trading, market making operations for securities, operations involving derivative instruments not designated as hedges and which are not part of asset and liability management for the Bank, borrowing of securities for trading, short selling of securities, underwriting services for securities.

Asset and liability management – including investment in debentures available for sale and in debentures held to maturity, hedging using derivative instruments, ALM hedging, currency hedging of investments overseas.

Real investments – Investment in shares available for sale and in associated companies of businesses.

Other financial management operations – management, operation, trust and custody services for banks, sale and management of loan portfolios.

Brief description of segment attributes (using the "management approach")

Financial management at the Bank is conducted by the Finance Division. The financial management segment operates in Israel and overseas in several key areas: Management of Bank assets and liabilities, management of the debenture portfolio, management of exposure to market risk and liquidity management as well as trading room operations in the financial and capital markets, in conformity with management's viewpoint as to management of these activities.

Asset and liability management operations are managed by the Financial Management Sector, including management of sources and uses, exposures to market risk – including management of liquidity, basis and interest risk, management of transfer prices ("shadow prices"), pricing of special financial transactions and management of the debenture portfolio.

Trading operations are carried out by the Trading Room, including the Bank's activity in foreign currency, options, interest derivatives, securities in Israel and overseas and financial assets, with local and overseas entities as counter-parties.

The Division also includes a unit dedicated to managing relations with financial institutions and investors. This unit is in charge of all activities with overseas banks, including management of correspondent accounts, obtaining and providing service and developing activities in support of Bank client needs.

Business in this segment is subject to the relevant risk management policy and to restrictions imposed by the Board of Directors and by management on various exposure levels.

This segment also includes Bank activity in securities for the Bank (in the available-for-sale portfolio and in the held-for-trading portfolio), and as from September 30, 2020 also includes activity at Union Bank. This activity, including at Union Bank, includes adjustment of the portfolio structure and composition to the business environment, to the state of the capital market in Israel and world-wide, to restrictions on risk assets, while maintaining appropriate level of revenues and creating an anchor for future long-term revenues, in conformity with the risk appetite specified by the Board of Directors.

Differences between the management approach and the supervisory definition

Under the management approach, institutional investors are administered by the financial management segment, but are presented as a separate segment under supervisory operating segments.

Developments in the financial management segment during the reported period

- The global Corona Virus pandemic caused sharp volatility in global capital markets, including in the Israeli capital market, which included, *inter alia*, massive withdrawals from funds specializing in Government debentures, with movement by institutional investors required to bolster USD collateral for their operations in foreign securities. Consequently, the Government debenture market and the local foreign currency market showed signs of distress and lack of liquidity, which ended when the Bank of Israel intervened and launched plans at that time designed to support the markets, and thereby provided USD to the local market and absorbed excess supply of Government and corporate debentures.
- Growing competition in the banking sector, along with a downward trend in commissions and spreads.
- Regulatory changes in the global and local markets.

For more information and detailed description of products and services, key markets and distribution channels, business strategy and layout of competition in this segment and changes to them, see chapter "Corporate Governance" of these annual financial statements.

Analysis of operating results of the financial management segment

	For the year ended December 31,	
	2020	2019
	NIS in millions	
Profit and profitability		
Total interest revenues (expenses), net	133	(93)
Non-interest financing revenues	208	349
Commissions and other revenues	316	223
Total revenues	**657**	**479**
Expenses (reduction of expenses) with respect to credit losses	1	(3)
Operating and other expenses	421	371
Profit before provision for taxes	235	111
Provision for taxes	81	38
After-tax profit	154	73
Share of banking corporation in earnings of associated companies	1	–
Net profit before attribution to non-controlling interests	155	73
Net profit attributed to non-controlling interests	(40)	(34)
Net profit attributable to shareholders of the banking corporation	**115**	**39**
Balance sheet – key items:		
Average balance of risk assets	8,010	6,694
Credit margins and deposit margins:		
Margin from credit granting operations	–	–
Margin from activities of receiving deposits	–	–
Other	133	(93)
Total interest expenses, net	**133**	**(93)**

Contribution of the financial management segment (in conformity with the supervisory definitions) to Group profit in 2020 amounted to NIS 115 million, excluding the effect of Union Bank, amounted to NIS 57 million, compared to NIS 39 million in the corresponding period last year.
Financing revenues, net amounted to NIS 341 million, excluding the effect of Union Bank amounted to NIS 265 million, compared to NIS 256 million in the corresponding period last year. The change in financing revenues, net is due to further growth in current operations, despite the lower interest rates of the Bank of Israel and of the US Federal Reserve Bank. For more information see chapter "Analysis of developments in revenues, expenses and other comprehensive income".
Commissions and other revenues amounted to NIS 316 million, excluding the effect of Union Bank amounted to NIS 265 million, compared to NIS 223 million in the corresponding period last year. Other revenues include NIS 51 million with respect to deferred credit balance, net recognized with respect to acquisition of Union Bank.
Operating expenses amounted to NIS 421 million, excluding the effect of Union Bank amounted to NIS 380 million, compared to NIS 371 million in the corresponding period last year.
For more details and extensive information about results of this segment and operating results in conformity with management's approach – see Note 29 to the financial statements.

Operating results of overseas operations

The supervisory definition

The Bank's overseas operations are presented separately, divided into operations involving individuals and business operations.

Brief description of segment attributes (using the "management approach")

The Bank Group's international operations include providing banking services to businesses and private banking services to individuals, through subsidiaries and branches overseas. The Group's international operations include: private banking services, foreign trade financing local credit for purchase of real estate; commercial financing and participation in syndicated lending. Through 2020, International operations, in Israel and overseas, report to the Private Banking and International Operations sector in the Bank's Financial Division.

Differences between the management approach and the supervisory definition

Business and individual clients at overseas branches classified into the various operating segments in conformity with the management approach, are classified into the overseas operations segment in the disclosure of supervisory operating segments.

Business and individual clients at overseas branches are presented as a separate segment under supervisory operating segments and under the management approach are managed by the various operating segments – mostly private and business banking.

Developments in the overseas operations segment during the reported period

In recent years, competition with affiliates of Israeli banks overseas has diminished. Furthermore, global regulatory changes have resulted in a change in business focus and changes to client preferences.

For more information about agreement to sell the subsidiary United Mizrahi Bank (Switzerland) Ltd. to Swiss bank Hyposwiss Private Bank Geneve SA, see chapter "Significant developments in management of business operations" above.

For more information and detailed description of products and services, key markets and distribution channels, business strategy and layout of competition in this segment and changes to them, see chapter "Corporate Governance" of these annual financial statements.

Analysis of operating results of overseas operations

	For the year ended December 31,	
	2020	**2019**
		NIS in millions
Profit and profitability		
Total interest revenues, net	194	214
Non-interest financing revenues	10	8
Commissions and other revenues	31	30
Total revenues	**235**	**252**
Expenses (reduction of expenses) with respect to credit losses	16	(4)
Operating and other expenses	89	79
Profit before provision for taxes	130	177
Provision for taxes	45	62
Net profit	**85**	**115**
Balance sheet – key items:		
Loans to the public (end balance)	3,804	3,607
Loans to the public, net (end balance)	3,768	3,580
Deposits from the public (end balance)	4,611	3,924
Average balance of loans to the public	3,300	3,228
Average balance of deposits from the public	4,742	5,273
Average balance of risk assets	4,544	4,179
Credit margins and deposit margins:		
Margin from credit granting operations	107	108
Margin from activities of receiving deposits	10	11
Other	77	95
Total interest revenues, net	**194**	**214**

Contribution of overseas operations to Group profit in 2020 amounted to NIS 85 million, compared to NIS 115 million in the corresponding period last year.
Interest revenues, net, amounted to NIS 194 million, compared to NIS 214 million in the corresponding period last year. The decrease in interest revenues for overseas operations is primarily due to the lower Fed interest rates compared to the corresponding period last year.

In the current period, expenses with respect to credit losses amounted to NIS 16 million, compared to a decrease in expense amounting to NIS 4 million in the corresponding period last year. The increase is primarily due to overseas affiliates applying the policy with regard to provision for credit losses, which includes an estimate of the effect of the Corona Virus crisis, which is reflected in the group-based provision. For more information see chapter "Significant Events in the Bank Group's Business" above.

Operating expenses amounted to NIS 89 million, compared to NIS 79 million in the corresponding period last year.
For more details and extensive information about results of this segment and operating results in conformity with management's approach – see Note 29 to the financial statements.

Major Investee companies

Contribution of investees to net operating profit in 2020 amounted to NIS 194 million. Contribution of investees to net operating profit, excluding the effect of Union Bank, in 2020 amounted to NIS 175 million, similar to 2019. These data include impact of changes in exchange rates on the balance of investment in overseas investee companies, covered by the Bank's own sources.

Excluding the aforementioned effect of exchange rates, contribution of investees amounted to NIS 198 million. Excluding the effect of Union Bank, contribution of investees amounted to NIS 179 million in 2020, compared with NIS 193 million in 2019.

See below for details of the effect of investees. For more information see Note 29 to the financial statements (Operating Segments and Geographic Regions).

Union Bank Le-Israel Ltd. (hereinafter: "Union Bank")

Union Bank is a banking corporation operating in accordance with a "Bank" license as per provisions of the Banking Act (Licensing), 1981. On September 30, 2020, the transaction between controlling shareholders of Union Bank and Bank Mizrahi-Tefahot closed, whereby shares of Union Bank held by the controlling shareholders were acquired in exchange for issue of Bank Mizrahi-Tefahot shares and the share purchase from the remaining shareholders was completed. See Note 35 to the financial statements for details.

As from this date, the Bank holds all of the share capital of Union Bank and therefore the Bank has control over Union Bank. Therefore, the Bank's consolidated balance sheet includes all assets and liabilities of Union Bank, based on their valuation (PPA). Since the initial consolidation date is September 30, 2020, the effect on profit and loss for 2020 was inclusion of financial results of Union Bank for the fourth quarter only.

Contribution of Union Bank to Group profit in the fourth quarter of 2020 amounted to NIS 13 million, including adjustment amounting to NIS 16 million recognized by Union Bank in the fourth quarter of 2020 and included in the cost of assets acquired upon the acquisition date. Reported total assets for Union Bank as of December 31, 2020 amounted to NIS 47,663 million. Reported loans to the public net as of December 31, 2020 amounted to NIS 24,571 million. Reported deposits from the public as of December 31, 2020 amounted to NIS 37,361 billion. The effect of consolidation of Union Bank on the financial statements resulted in an increase by NIS 47,888 billion in total assets, an increase by NIS 24,697 billion in total loans to the public, net and an increase by NIS 37,471 billion in total deposits from the public.

Bank Yahav for Government Employees Ltd. (hereinafter: "Bank Yahav").

Bank Yahav is a banking corporation operating in accordance with a "Bank" license as per provisions of the Banking Act (Licensing), 1981. On January 28, 2009, the replacement license for the Bank's previous license dated January 11, 2005, was received which allows the Bank to do business with government and public sector employees. In accordance with the replacement license, Bank Yahav may engage in new operations and may expand its client base, subject to advance permission by the Supervisor of Banks.

Concurrently with receiving the replacement license, Bank Yahav received approval from the Supervisor of Banks to provide services to individual clients (such as salaried employees, self employed and households) and to corporations, provided that credit granted to corporations shall not exceed the specified limit. Bank Yahav operates in accordance with the replacement license, subject to policies of the Bank Yahav Board of Directors on this matter.

Bank Yahav's contribution to Group net profit in 2020 amounted to NIS 92 million, compared with NIS 83 million in 2019. Net profit was primarily affected by increase in interest revenues, net, primarily due to increase in operations in the NIS-denominated segment and increase in non-interest revenues. Net profit return on equity for Bank Yahav amounted in 2020 to 11.2%, compared to 11.3% in 2019. Bank Yahav's balance sheet total as of December 31, 2020 amounted to NIS 33,463 million, compared to NIS 27,299 million as of December 31, 2019, an increase by 23%. The balance of loans to the public, net as of December 31, 2020 amounted to NIS 10,575 million, compared to NIS 10,880 million as of December 31, 2019, a decrease by 3%. The balance of deposits from the public as of December 31, 2020 amounted to NIS 29,328 million, compared to NIS 23,345 million as of December 31, 2019, an increase by 26%.

Tefahot Insurance Agency (1989) Ltd. "Tefahot Insurance")

Tefahot Insurance is an insurance agency wholly owned by the Bank, which sells life insurance policies and property insurance policies of clients obtaining mortgages from the Bank. Net profit of Tefahot Insurance Agency in 2020, excluding financing revenues, net from excess cash of the company (hereinafter: "Net profit from current operations") amounted to NIS 67 million, compared to NIS 68 million in 2019. Net profit return on equity was 5.4% in 2020, compared to return of 6.1% in 2019.

Other investee companies operating in Israel

Other investee companies operating in Israel, wholly controlled by the Bank and supported by Bank infrastructure, contributed to the Bank's net profit in 2020 NIS 28 million, net – compared to loss of NIS 16 million in 2019. This includes profit amounting to NIS 23 million in 2020 (NIS 9 million in 2019) from operations of Mizrahi Tefahot Trust Company Ltd. (hereinafter: "Trust Company"). The increase in the Trust Company profit is due to indemnification received from insurers.

On November 8, 2020, the General Meetings of shareholders and Board of Directors of the relevant subsidiaries approved the merger of Union Bank Trust Company Ltd. and Mizrahi Tefahot Trust Company Ltd.

United Mizrahi Bank (Switzerland) Ltd.

United Mizrahi Bank (Switzerland) Ltd. ("Mizrahi Bank Switzerland") is focused on international private banking services. The Swiss bank is held by a wholly-owned Bank subsidiary, UMOHC B.V. ("United Mizrahi Overseas Holding Company"), incorporated in Holland.

Net profit of Mizrahi Bank Switzerland in 2020 amounted to CHF 0.1 million, compared to CHF 1.9 million in 2019.

Mizrahi Bank Switzerland's balance sheet total as of December 31, 2020 amounted to CHF 130 million, compared to CHF 121 million as of December 31, 2019.

Interest revenues and net interest revenues in 2020 amounted to CHF 1.5 million, compared to CHF 2.3 million in 2019. Income before tax in 2020 amounted to CHF 0.1 million, compared to CHF 2.4 million in 2019. Income before tax net of exchange rate effects in 2020 amounted to NIS 0.3 million, compared to NIS 8.7 million in 2019.

The balance of loans to the public as of December 31, 2020 amounted to CHF 46 million, compared to CHF 52 million as of December 31, 2019. Deposits with banks as of December 31, 2020 amounted to CHF 80 million, compared to CHF 65 million as of December 31, 2019. Deposits from the public as of December 31, 2020 amounted to CHF 92 million, compared to CHF 80 million as of December 31, 2019.

These data exclude off-balance-sheet items, such as fiduciary deposits and client security portfolios which are major components of the Bank's business operations in Switzerland.

For more information about an agreement to sell the subsidiary United Mizrahi Bank (Switzerland) Ltd. to Swiss bank Hyposwiss Private Bank Geneve SA, see chapter "Significant developments in management of business operations" above.

Investments in shares

The Bank manages nostro investments in shares. As from January 1, 2019, shares in which the Bank invested are presented as shares in the Bank's securities portfolio and under investment in associated companies, where the Bank has a material investment in such entity.

Some of the investments (which are not negotiable and have no fair value available) are generally presented at cost (net of impairment), adjusted for changes in observed prices in ordinary transactions for similar or identical investments of the same issuer. Other investments (negotiable and with fair value available) are presented at market value thereof, and unrealized changes to fair value are recognized on the statement of profit and loss.

Bank Group investments in shares as of December 31, 2020 amounted to NIS 477 million (Bank investments in shares, excluding Union Bank, amounted to NIS 191 million), compared to NIS 181 million as of December 31, 2019, as set forth below:

	For the year ended December 31,		
	2020		2019
	NIS in millions		
	Including Union Bank	Excluding Union Bank	
Under "securities not held for trading":			
Participation units in equity funds	112	76	66
Negotiable investments	193	83	82
Investments in corporations presented on cost basis	121	1	1
Total under "securities not held for trading"	**426**	**160**	**149**
Shares held for trading	20	–	–
Total under "securities held for trading"	**20**	**–**	**–**
Under "investment in associated companies":			
Investment in Psagot Jerusalem(1)	19	19	19
Investments in mezzanine funds(2)	9	9	11
Investment in Rosario Capital(3)	3	3	2
Total investment in associated companies	**31**	**31**	**32**
Total investment in shares	**477**	**191**	**181**

(1) Psagot Jerusalem is a private company which acquired land in the Jerusalem area to be developed for residential construction. The carrying amount of Bank investments as of December 31, 2020 and as of December 31, 2019 amounted to NIS 35 million. For more information about investment in Psagot Jerusalem, see Note 15 to the financial statements.

(2) A mezzanine fund is a fund for interim financing, providing companies in various sectors with financing complementary to bank credit. This financing is typically extended in return for interest, stock options and other equity instruments.

(3) Rosario Capital is a private company engaged in underwriting, assistance and advisory services for private and public issuances, mergers and acquisitions, investment in securities and distribution of securities.

Bank Group net profit from investments in shares, after provision for impairment, in 2020 amounted to NIS 51 million (Bank net profit from investments in shares, excluding Union Bank, amounted to NIS 12 million), compared to NIS 58 million in 2019.

For more information about investment in shares held for trading and shares not held for trading, see Note 12 to the financial statements.

Risks overview

Overview of risks and manner of managing them

The Bank is engaged in commercial banking operations (business and retail) and in mortgage operations, where the Bank is a leader in the Israeli banking system. Day-to-day activities in a variety of balance sheet and off-balance-sheet financial instruments expose the Group to various financial risks, such as: Market and credit risks, liquidity risk and credit risks, as well as non-financial risks, such as: Operational risks (including IT risk and information and cyber security risk), compliance and regulatory risks, business=strategic risk and reputational risk. Risks management at the Bank is conducted from a comprehensive viewpoint and in conformity with regulatory requirements, so as to support achievement of the Group's strategic objectives, while assuming risks in an informed manner and maintaining a risk level in line with the overall risk appetite specified by the Bank’s Board of Directors.

The risk appetite defines, at the highest level, the overall risk level which the Bank wishes to and can assume. The risk appetite defines where the Bank would like to be in terms of reward (proceeds/benefit) vs. risk (cost) from a forward-looking viewpoint. Risk appetite is defined in qualitative and quantitative terms in the normal course of business and under stress scenarios, and is based on the risk strategy and on basic principles of the Bank's business and strategic plan, on the required liquidity and capital for achieving the strategic objectives and on results of the various stress scenarios tested by the Bank.

Risk tolerance is a specific determination of risk levels for all risks to which the Bank is exposed. Risk levels are determined by a range of qualitative and quantitative parameters, in support of achieving the business goals, while keeping the Bank within the overall limits of the specified risk appetite and subject to strict regulatory restrictions. These risk restrictions, on aggregate, reflect the overall risk level which the Bank is willing and able to assume.

In 2020, There were no deviations from the risk appetite specified by the Bank's Board of Directors for various risks. Risk benchmarks are within a reasonable distance from restrictions specified and in line with the strategic plan outline and with current work plans. Key financial ratios and profitability benchmarks show stable profit and capital for the Bank. The Bank has sufficient capital buffers to achieve its capital objectives under normal business conditions as well as under stress scenarios.

For more information about assessment of the impact of all risk factors, see table "Risk factor assessment" below. In 2020, the Bank's overall risk profile increased compared to 2019, primarily due to implications of the Corona Virus pandemic, which resulted in economic crisis in Israel and world-wide. The level of credit risk increased somewhat, in particular in the small business segment, which was materially impacted by the Corona Virus restrictions. Moreover, there was some increase in operational risk, including information security and human resource risk and in business-strategic risk affected by implications of the Corona Virus crisis and by implications of the Union Bank merger on the ability of the bank to meet the target of its strategic plan.

Risks at the Bank with a risk level other than Low typically arise from inherent risk in Bank operations, and are in line with the specified risk appetite principles.

Risks description

The Bank has in place an extensive framework for management and control of the risks to which the Bank is exposed, including an organizational structure to support management and control of such risks. Risks are managed at the Group in conformity with Bank of Israel's Proper Business Conduct Directive 310 "Risks management" and in conformity with the risks management and control framework specified based on recommendations of the Basel Committee in Pillar 2 – including required changes upon Basel III coming into effect.

The Bank's Board of Directors and the Board's Risks Management Committee are responsible for setting the required principles for management and control of the various risks to which the Bank is exposed in its operations, including setting risk strategy and setting the risk appetite in conformity with the Bank's overall strategy, as well as supervision of Bank compliance with the specified guidelines and risk appetite.

Bank management is committed to regular management of material risks to which the Bank is exposed and to implementation of principles stipulated by the Bank's Board of Directors for addressing such risks.

The organizational culture for risks management and corporate governance at the Bank is the main means for risks mitigation existing at the Bank. Proper corporate governance supports the risks management culture and processes for risks management and control at the Bank are efficient, comprehensive and ensure its stability over time. A strong risk culture and good communications between the three lines of defense are key features of appropriate risk management governance. All risks to which the Bank is exposed are regularly and effectively managed and monitored by the relevant units.

The Bank has in place a structured process for mapping and identification of specific risk associated with Bank operations, determined based on a materiality threshold, in accordance with the potential damage which the Bank may incur under scenarios of varying intensity. Materiality is considered before putting into use the risk mitigation measures, including: management and control, guidelines for handling the various material risks, as identified and mapped, including: risk appetite, measurement method, on-going monitoring of the Bank's risk profile, given the risk appetite specified by the Board of Directors, management and mitigation of any risk are included in specific policy documents.

The Bank has a framework policy on risk management and control, which includes corporate governance for risk management, the Bank's overall risk appetite, mapping of material risks, principles of risk measurement and management, and the reporting required under normal conditions and in emergency. All custom policy documents are discussed and approved annually by the Board of Directors.

The Bank's business model is based on the business strategy and overall risk appetite principles of the Bank.

The Bank is acting in conformity with the outline of the five-year strategic plan. The current strategic plan was approved in November 2016 and its principles have been made public. Further to the Bank's Board of Directors directing management to prepare for preparation of a new strategic plan for 2021-2025, to be submitted for approval by the Board of Directors in the third quarter of 2020, in view of achievement of the target of the current strategic plan on the 2019 financial statements, in view of the Corona Virus crisis and the associated uncertainty, and in view of closing of the acquisition of all shares of Union Bank Le-Israel Ltd., the Bank's Board of Directors revised its guidance, so that the strategic plan for 2021-2025 shall be brought for approval by the Board of Directors in 2021.

Business-strategic risk is the risk, in real time or in future, to Bank profits, capital, reputation or status, due to erroneous business decisions, improper deployment of decisions by the Bank or inappropriate alignment of the Bank to changes in the business environment in which it operates.

Business-strategic risk is inherent in all Bank operations and is impacted both by internal factors (such as: corporate governance failures, credit failures and exposures, technological risk and other factors) and by external factors (such as: regulatory changes, competition risk, changes to consumer behavior, macro-economic factors and other factors).

Bank management regular monitors the achievement of work plan targets. The Risks Control Division maintains regular processes to challenge the work plans and achievement of strategic plan targets.

Credit risk is the primary risk faced by banking corporations in the course of their business. At the Bank, credit risk is primarily due to retail credit operations, mainly residential mortgages. In 2020, the risk level in the loan portfolio increased, primarily due to implications of the global Corona Virus pandemic. In the housing loan portfolio, the risk level increased from Low to Low-Medium, due to continued uncertainty with regard to implications of the Corona Virus crisis.

In conformity with principles of the five-year strategic plan, the Bank strives to maintain and establish its leadership position in the retail sector and to increase focus on and expand operations of the business segments. The Bank monitors and manages risk in the loan portfolio using various tools, including by development and deployment of advanced models. For more details see chapter "Credit risk" below.

In the business sector, the Bank operates while regularly assessing risk at client level, at sector level and for the economy as a whole (sector concentration). Operations in this area have been affected in recent years by expanded operations of institutional investors and insurance companies, which are focused on providing large-scale credit for long terms.

In conformity with the Supervisor of Banks' directives, the minimum regulatory required liquidity coverage ratio is 100%. The Bank maintains high liquidity ratios with appropriate safety margins and a stable source structure.

The Bank has low exposure to overseas operations, as are its operations in nostro investments, primarily designed for investment of excess liquidity in high-quality assets with minimal credit risk.

Developments in technology and ever increasing sophistication of those involved in cyber attacks result in higher risk, as well as more intense management and monitoring of operational risks, IT risks and information and cyber security risks.

The Bank Group is exposed to the effect of regulatory changes and macro-economic changes in Israel and world-wide on its business, in conformity with the strategic plan outline. The Bank reviews, monitors and prepares for these effects as part of its regular operations and estimates risk under stress scenarios, as well.

Compliance and regulatory risk reflect the risk of imposition of financial sanctions and enforcement procedures, which may be applied by competent authorities, as well as of claims against the Bank and implications for reputational risk.

Conduct risk is included under compliance risk – the Bank acts in this area to maintain a fair relationship with Bank clients and other stake holders and to reduce exposure to materialization of risk and failure events in this area. Fairness is a basic value in the Bank's Code of Ethics.

The Bank has the business, legal and operating infrastructure to manage these exposures and to take proactive action to mitigate and/or hedge risk, in order to limit its exposure. The Bank has flexibility in management of physical assets as well as financial assets and liabilities, and in making changes to risk assets and capital, in the course of normal operations, so as to achieve the strategic targets.

Risk appetite and risks management

The risk appetite defines, at the highest level, the overall risk level which the Bank wishes to and can assume. The risk appetite defines where the Bank would like to be in terms of reward (proceeds/benefit) vs. risk (cost) from a forward-looking viewpoint. The Bank's risk appetite is specified for all material risks using quantitative and qualitative restrictions; the quantitative restrictions are mostly specified as percentage of Tier I shareholder equity at the Bank. Risk appetite is defined for most risks in the normal course of business and under stress scenarios, based on the outcome of various stress scenarios applied by the Bank, and in line with the Bank's risk strategy and on basic principles of the Bank's business and strategic plan and on the required liquidity and capital for achieving the strategic objectives. Each year, the risk appetite is challenged by the Chief Risks Officer, management and the Board of Directors, in view of the business targets specified in work plans, in conformity with the strategic plan, the risk profile and outcome of the qualitative risk management assessment process conducted by Bank managers. This process is designed to review the level of various risks and their expected development over the coming year. Consequently, the Bank's business strategy is supported by an appropriate risk appetite framework with constant monitoring of the risk profile and with alerts issued if the risk profile reaches the specified limits for risk appetite.

Stress scenarios

Stress scenarios are risk management techniques used to assess Bank exposure to risks, both currently and from a forward-looking viewpoint. Stress scenarios allow the Bank to understand the impact of various stress events on Bank stability and provide an additional integral tool to approaches, benchmarks and models used in risk management. The outcome of stress scenarios are used by the Bank to challenge the risk appetite and capital planning, to identify significant risk concentrations and weaknesses in the portfolio, provide a tool to support business decision making and provide an additional tool for risks measurement in quantitative models for identification of risks not identified by the models. The Bank has a diverse range of calculation methodologies for conducting stress scenarios, calculated to assess the potential impact of various risks to the Bank's business and financial targets.

The primary uses of stress scenarios and guidelines for setting them are specified in the policy document "General framework policy for risk management and control". The Bank extensively uses the results of stress scenarios to estimate the potential impact of various risks to the Bank's business and financial targets, as part of the capital planning process and the ICAAP document. The ICAAP process reviews whether the Bank has sufficient capital to fulfill the work plan and the current capital planning, challenged by a range of stress scenarios at various severity levels. These stress scenarios impact

Bank profitability by causing potential loss due to material risks for Bank operations: credit risk, credit concentration risk, market risk and interest risk in the bank portfolio, operational risk including information and cyber security risk, technology risk as well as other risks. The stress scenarios strongly emphasize the Bank's mortgage portfolio and business lending operations. Results of the Bank's most recent capital planning, submitted to the Bank of Israel in December 2020, based on data for end the third quarter of 2020, based on the Bank's work plans and current capital planning and for a three-year planning horizon, indicates that the Bank has a sufficient capital absorption cushion to face the range of risks associated with Bank operations, even in case of stress events.

Moreover, in 2020 two system-wide stress scenarios were conducted (in June and in October), which are uniform scenarios conducted by the supervisor of Banks for the banking system. In this y ear, these two scenarios were based on renewed outbreak of the Corona Virus and the lock-down in the local economy, and continued through 2022. The objective of the stress scenario is to test bank stability, management and means of addressing the implications of the Corona Virus crisis, with the Bank of Israel and the Supervisor of Banks reviewing the measures required to support the economy and therefore testing the stability of the banking system using these scenarios.
The stress scenario issued by the Supervisor of Banks In October 2020 is stricter than the previously issued scenario, in line with deterioration in the economic impact to the economy due to the Corona Virus crisis occurring during the second lock-down. The scenario is a macro-economic scenario based on evolution of the Corona Virus event and its implications for economic activity; the scenario included two further waves of morbidity resulting in decrease in economic activity.

Results of this scenario, provided to the Bank of Israel in early December 2020, indicate that the Bank is capable of withstanding the impact of the Corona Virus crisis and potential losses that may be incurred under the stress scenario, and to maintain capital ratios that exceed the minimum capital ratios required by the Supervisor of Banks, which were temporarily reduced in conformity with the crisis period (for more information about relief measures with regard to capital requirements, see chapter "Capital, capital adequacy and leverage" below).

Risks Document

The quarterly risks document is a report used as a primary tool by the Board of Directors to maintain effective monitoring of management actions and compatibility with the specified risk appetite and risks management framework. The document presents, clearly and concisely, evolution of the risk profile vs. the risk appetite, both quantitative and qualitative, risk meters showing the distance from the specified limit, reporting of exceptions and actions taken by management's to return to the outline, results of stress scenarios and forward-looking analysis to review Bank stability, material lessons learned with regard to various risks, monitoring of material issues raised in the ICAAP process, in conformity with risks identified in the risks map, and other quantitative / qualitative information with regard to anticipated developments at the Bank and/or in the banking system.

For more information see the 2020 Risks Report available on the Bank website.

Risk factor assessment

Below is a mapping of risk factors, their potential impact on the Bank Group and executives appointed Risk Owners for each risk factor:

Risk factor	Risk factor impact	Risk Owner
Overall effect of credit risks	Medium	Manager, Corporate Division
Risk from quality of borrowers and collateral	Medium	
Risk from industry concentration	Low-medium	
Risk from concentration of borrowers/ borrower groups	Low	
Risk with respect to mortgage portfolio	Low-medium	
Overall effect of market risks(1)	Low-medium	Manager, Financial Division
Interest risk	Low-medium	
Inflation risk	Low-medium	
Exchange rate risk	Low	
Liquidity risk	Low-medium	Manager, Financial Division
Overall effect of operational risk	Medium	Manager, Risks Control Division
Cyber and information security	Medium	Manager, Risks Control Division
Information technology risk	Medium	Manager, Mizrahi-Tefahot Technology Division Ltd.
Legal risk	Low-medium	Chief Legal Counsel
Compliance and regulatory risk	Low-medium	Manager, Risks Control Division
AML and terror financing risk	Low-medium	Manager, Risks Control Division
Cross-border risk	Low-medium	Manager, Risks Control Division
Reputation risk(2)	Low	Manager, Marketing, Promotion and Corporate Development Division
Business-strategic risk(3)	Low-medium	President & CEO

(1) Includes options and shares risk mapped at Union Bank.
(2) The risk of impairment of the Bank's results due to negative reports about the Bank.
(3) The definition of Business-strategic risk includes the capital planning and management process.

The impact of the various risks factors in the table above have been determined based on management assessment, as provided from time to time. This includes assessment of risks associated with the Union Bank merger, which does not materially change the Group's overall risk level. These assessments are based on monitoring of various quantitative risk benchmarks specified by the Bank, includes the expected direction of their development and are based on qualitative assessment of risks management and the effectiveness of control circles, in line with the Bank's ICAAP process and its results , led by the Bank's Risk Managers.
Since the start of 2020, the Bank's overall risk profile increased due to higher credit risk due to implications of the global Corona Virus pandemic, which started in Israel in late February 2020, intensified in March and still continues to evolve and affect the Israeli and global economy, so that at this time, it is not possible yet to assess the full impact of this crisis on the quality of the Bank's loan portfolio. The Bank regularly reviews the risk benchmarks and adapts them to current business operations as necessary, subject to and in line with the Bank's overall risk appetite for various risks.

The overall effect of credit risk and risk associated with quality of borrowers and collateral increased in the first quarter of 2020 from Low-Medium to Medium and remained Medium throughout 2020. The higher risk level also applies to the individual segment, but primarily applies to the business segment, especially small and medium businesses, due to various restrictions with regard to social distancing imposed on different sectors in Israel. Material risk factors are the sharp increase in unemployment rate, slow-down in economic activity, and in particular in specific economic sectors (such as: Aviation, fashion, hotels, accommodation and dining services, leisure and culture) which were negatively impacted, and volatility in financial markets affecting the collateral value. These factors may result in more clients facing difficulties over time. The Bank strictly manages and monitors its credit risk and has taken active steps in conformity with the situation, in order to help clients get through this crisis period and to reduce the likelihood of default, while maintaining the risk management policy of the Bank. As part of these steps, a delay by several months was approved for current payments to mortgage clients who needed this, due to temporary difficulties due to the crisis; delays and updated payment schedules were also approved for individual and commercial clients who face temporary difficulties; loans guaranteed by the State were extended as part of the Government plan. For quantitative data with regard to Bank activity designed to help clients in view of the Corona Virus crisis, see chapter "Significant events in the Bank Group's business" of the Report of the Board of Directors and Management.

In the second quarter of 2020, the risk level in the housing loan portfolio was raised from Low to Low-Medium, due to on-going uncertainty with regard to further development of the crisis, and remained Low-Medium through 2020. In order to assist clients with a mortgage at the Bank, the Bank has allowed clients to receive a full or partial repayment delay. In the first stage, as from March 2020, delays of to 4 months were granted, and later on a further delay through 2020 for clients who had already delayed repayments, and a delay by up to 6 months for clients who have not yet delayed any repayments. As from the end of 2020, in conformity with the Bank of Israel outline, clients who have asked for delays were allowed to resume partial mortgage repayments for up to two years. Delays and revised repayment schedules were also approved for individual and commercial clients who face temporary difficulties; loans guaranteed by the State were extended as part of the Government plan. The Bank also prepared to make arrangements with clients who wish to resume making regular mortgage payments, including allowing partial monthly payment or extension of the loan term. The delayed payments were re-attributed over the remaining mortgage term. The Bank closely monitors this activity and risk aspects with regard to the following: The delayed amount, number of applications, delay period, borrower profile, LTV ratio and so forth. One of the key parameters for risk review is borrower behavior after expiration of the repayment delay.

The Bank continues to monitor development of borrower behavior after expiration of the repayment delay in subsequent months, and the rate of further delay extensions in conformity with the Bank of Israel's revised outline. The Bank also applied the mortgage underwriting process, in conformity with relief granted by the Bank of Israel with regard to review of repayment capacity, considering the pre-crisis income level and expectation of return to employment later on. The Bank of Israel has also allowed clients in the individual segment and in the business segment to delay and reschedule payments in conformity with outlines regularly updated by the Bank of Israel in conformity with developments. The Bank closely monitors the risk aspects with regard to the following: Number of loans subject to delay, the delay period, the delay amount and other attributes. For more information about loans subject to repayment delay and loans extended from State-guaranteed funds, see chapter "Risks overview – Credit risk" in the Report of the Board of Directors and Management.

One of the key parameters for risk review is borrower behavior after expiration of the repayment delay. Note that out of total residential mortgages for which delay was granted in 2020, by January 31, 2021 loans amounting to NIS 42.6 billion resumed payment (of which NIS 13 billion resumed payment in January 2021 and NIS 5.5 chose the partial payment track). NIS 3 billion is still subject to delay, ending in February-June 2021.

Of the loans where payments were resumed in January 2021, only NIS 0.5 billion are in arrears.

Out of total loans for which delay was granted in 2020, loans valued at NIS 6.4 billion resumed repayment by January 31, 2021and loans valued at NIS 1.3 billion are still subject to delay, expected to end in 2021. Out of the loans still subject to delay in January 2021, loans amounting to NIS 0.6 billion were granted delay exceeding 6 months.

Assessment of all risk factors other than the aforementioned credit risk (including the housing loan portfolio) remained unchanged from end of 2019.

Risks with a risk level other than Low typically arise from inherent risk in Bank operations, and are in line with the specified risk appetite principles.

Technology risk and cyber and information security risk are material risks for the Bank and the potential damage due to materialization of such risk may be significant, during routine operations and even more so during an emergency. Activity during the crisis was managed in a focused manner, with all efforts marshaled to provide the service required for the Bank, focused on needs that changed along the way, taking most of the steps to reduce potential risk in as much as possible. In actual fact, there were no material events related to technology nor to cyber and information security.

Liquidity risk remained Low-Medium. In February 2020, the Bank raised its alert level to increased alert level due to concern about the Corona Virus outbreak and the sharp declines on stock exchanges. In early March, the Bank raised its state of alert for liquidity, from increased alert level to Yellow, an alert level including operating measures designed to ensure that the Bank maintains appropriate liquidity during crisis periods, due to the Corona Virus outbreak and further sharp declines in stock markets, both globally and in particular in Israel. The alert level returned down to increased alert level in mid-May, with resumption of routine operations. During all of the third quarter of 2002, the alert level at the Bank was High Alert. During the current period, the Bank closely monitors (at daily level) qualitative and quantitative indicators (both internal and external) and conducts daily reviews of multiple stress scenarios for various time frames – liquidity is appropriate across all these scenarios and the Bank is in compliance with all internal limitations. According to the liquidity planning for the short term and for longer terms, the Bank is expected to further maintain appropriate liquidity ratios, with due consideration to its known operations and to expected operations including assumptions appropriate for crisis situations.

Reputation risk remained low; the Bank continues to regularly monitor the impact of the Corona Virus outbreak and the impact of the Union Bank merger, and no material effect is evident with regard to reputation risk of the Bank.

The Bank regularly reviews the implications of this crisis on business-strategic risk. At this stage and due to the current uncertainty, the full impact of the crisis on Bank operations may not be assessed. For more information about the Bank's strategic plan, see above under "Risks description".

The Bank conducts processes for risk identification and measurement, based on a range of methodologies to assess risk levels and exposure to various risks, in the normal course of business and under stress scenarios. The Bank applies quantitative measurement methods (models, benchmarks / indicators, scenarios and sensitivity analysis, *inter alia*) and qualitative measurement methods (expert assessments and surveys).

For more information see the 2020 Risks Report available on the Bank website.

Credit risk

Risk description

Credit risk is the risk that a borrower or counter-party of the Bank would not fulfill its obligations towards the Bank. This risk is affected by multiple factors: Business risk due to client activities, concentration risk due to over-exposure to a borrower / borrower group and to economic sectors, geographic concentration risk, risk due to exogenous changes which mostly involve changes to the borrower's macro-economic environment, environmental risks, overseas credit risks and operational risks which, should they materialize, would have implications for credit risks. Moreover, such risk is interrelated to multiple other risks, such as market and interest risk, liquidity risk, compliance risks and other risks.

Description of risk appetite and management guidelines

Credit risk management at the Bank is carried out in conformity with Directive 311 "Credit risk management" of the Bank of Israel.
The Bank's Board of Directors has set credit policy, based upon the Bank's objectives and business strategy, emphasizing macro-economic changes in Israel and overseas and their implications on credit risk. The credit policies includes other policy documents which discuss the relevant risks to the Bank's credit operations, including: Credit concentration policy, which ensures that the credit concentration level at the Bank is regularly managed and monitored; derivatives policy, which stipulates the principles for management and monitoring of Bank clients with activity involving derivatives and securities; collateral policy, which stipulates the principles required for management of client collateral, safety factors required by transaction type and risk factors; and the environmental risks policy.
Risk appetite consists of a long list of benchmarks and risk factors relevant to the Bank's credit operations, including: Economic sectors, borrower groups, risk factors in the mortgage portfolio, unique activity types, overseas operations etc. and other risk factors relevant for the Bank's credit risk profile and its business operations. Credit risk is also monitored using a range of stress scenarios, which estimate the potential impact of stress events on the Bank's credit portfolio. This is done, *inter alia*, in order to review the stability of Bank capital to various stress events and as part of the ICAAP process.

Monitoring of the risk profile, in view of the specified risk appetite, is made at the frequency specified under the credit policies, and compliance with these limitations is reported to Bank's Board of Directors and management. The Bank's credit policies prescribe principles and rules for making credit available and for the management and control over the loan portfolio, in order to preserve its quality and reduce the inherent risk. These principles and rules enable controlled management of the risk involved in granting loans to borrowers, at the level of the individual borrower, group of borrowers and the level of economic and business sectors. The credit policies are reviewed during the year, in view of developments in the business environment in which the Bank and Bank clients operate and the policy is revised as needed.

Corona Virus crisis

The Corona Virus crisis currently affecting Israel and the entire world has implications which directly concern credit risk at the Bank. See also chapter "Significant Events in the Bank Group's Business" above.

The Bank has applied a wide range of measures to provide an immediate response to needs arising from the situation, from operational response to clients to adjustments made to the credit underwriting and credit risk policy.

In order to help clients get through this crisis period and to reduce the likelihood of default, while maintaining the risk management policy of the Bank, the Bank has taken multiple steps. A delay by several months was approved for current payments to mortgage clients who needed this, due to temporary difficulties due to the crisis; delays and updated payment schedules were also approved for individual and commercial clients who face temporary difficulties; loans guaranteed by the State were extended as part of the Government plan as described below. For more information about debt whose terms and conditions were changed in conjunction with addressing the Corona Virus crisis, and total loans extended from the State-guaranteed fund, see chapter "Significant Events in the Bank Group's Business" above.

Further to the communication from the Supervisor of Banks, dated April 2, 2020, the Bank and the entire banking system acted to support businesses and households in getting through this crisis, by continuing to extend credit to borrowers across all segments, while maintaining responsible credit underwriting procedures but without unneeded stricter underwriting conditions.

The Bank closely manages and monitors credit risk through, *inter alia*, on-going activity of forums headed by the Bank President & CEO and by the Corporate Division Manager, and attended by the Risk Control Division and representatives of the corporate divisions. In addition, regular assessments are conducted by divisions. At these meetings, economic sectors with high exposure to the crisis are individually monitored, as are key benchmarks determined and specific clients who are significantly impacted by the crisis. The business units are regularly in close contact with clients, in order to assess their business standing and the implications of the crisis for these clients, in order to help the business sector face the challenges resulting from this crisis, while maintaining balances and minimizing credit risk.

The three lines of defense in the credit area:

First line of defense – credit-related business lines at the Bank

- Retail Division – This division consolidates most of the bank credit activity of individual clients, including mortgages and the activity of small business clients. Bank branches and business centers operate under this division in eight geographic regions.
- Business Banking Division – This division handles most banking activity of business clients (including from the real estate and construction sector) of medium to large business operations.
- In early 2021, client activity of the Finance Division was divided across two divisions – overseas international activity is now part of the Bank's Corporate Division, Activity of international private banking branches in Israel, serving foreign residents, is now part of the Retail Division.

For more information about client attributes in each segment, see chapter "Explanation and analysis of results and business standing" (Description of Bank Group business by operating segment) above.

The professional units in each of these client segments are responsible for regularly verification, monitoring and control of exposure to clients and operating segments for which they are responsible. This line of defense includes specific control units, such as division controllers and other control functions. These operations are incorporated in specific procedures, which ensure implementation of the specified principles for risk management.

Second line of defense – Risks Control – The Risks Control Division acts as the Bank's independent risks management function, thus serving as the second line of defense within corporate governance for risk management. Its activities include post-factum assessment, independent of Bank entities which approve credit, of borrower quality and quality of the Bank's credit portfolio, as well as producing an independent opinion for credit to material clients, as part of the credit approval process.

Second line of defense – Financial Information and Reporting Division – The Financial Information and Reporting Division is responsible for credit classification, for determination of provisions for credit losses, as well as for challenging the discovery and dissemination processes of problematic debt.

Second line of defense – Legal Division – Responsible for statutory provisions and legislative changes that impact Bank operations and for providing current legal counsel to Bank units, as well as handling lawsuits brought against the Bank.

Third line of defense – Internal Audit – Internal Audit serves as the third line of defense within corporate governance for risks management, operating in line with the work plan for auditing the Bank's credit operations.

The Bank operates on multiple levels to monitor and mitigate credit risk in as much as possible, from the credit approval stage, emphasizing the required collateral and financial covenants specified in accordance with procedures, authorization and diversification policies specified by the Bank, through to regular control by business units and dedicated control units operating within the lines of business. This is done with constant effort invested in improving the professional expertise of those involved with credit, by means of banking courses and training, as well as professional seminars at all levels. Concurrently, the Bank invests extensive resources in improving its control mechanisms and IT systems available to decision makers in the credit sector.
The overall impact of credit risk increased in 2020, due to the Corona Virus crisis, from Low-Medium to Medium; The risk level in the housing loan portfolio also increased from Low to Low-Medium.
Most of the Retail Division clients (both small businesses and households) are rated using advanced custom models. In 2020, the Bank continued to deploy, implement and use advanced models under development for optimal analysis and management of retail credit, including an update and re definition of some risk benchmarks which are closely monitored due, *inter alia*, to implications of the Corona Virus crisis. Actual current management at the Retail Division is primarily based on the MADHOM system (advanced rating, underwriting and management system). As part of this effort, the Bank's Training Center conducts customized activity for deployment of diverse uses of the model outcomes at branches.
For more information about key processes involved in management and control of credit risk at the Bank, see the 2020 Risks Report on the Bank website.

Handling of non-performing loans and collection of debts – The handling of problem loans requires special focus and professionalism, other than the level that approved or processed the credit extended and collateral received. Initial identification is typically computer-based by designated departments for identification and control. Identified clients are handled by the Special Client Sector of the Corporate Division.
In order to identify credit risk materializing, or which may materialize, at the Bank, the Bank regularly conducts a process to review and identify debts, based on specified criteria. Some of these criteria require debt to be classified as problematic debt, while others provide a warning and allow the professional entity to exercise discretion. Debts are reviewed by a ranking of authorizations specified in Bank procedures. This authorization ranking includes individual authorizations, from branch and headquarters staff, to authorizations at higher levels with regard to classifications and provisions. A built-in, independent control process is conducted by regional management and by designated units at headquarters. The Information and Reporting Division forms a second line in the classification and provision setting process; he is responsible, in conformity with Proper Conduct of Banking Business Directive 311, for being the independent factor in charge of classification and setting the provision for credit losses.
A computer system which supports application of measurement and disclosure provisions for impaired debts, credit risk and provision for credit losses, including in identification and control processes, carries out logical, criteria-based testing and determines defaults for debts classification as debts under special supervision, inferior debt, impaired debt or debt in restructuring, as required.
Identification of residential mortgages (mortgages) with risk attributes is automated by identifying criteria for arrears and other qualitative criteria. In early stages of arrears, the Bank mostly applies automated collection processes. Later on, the Bank applies proactive processes, both internal and external, including legal proceedings, if needed.
For more information about impaired debts, credit risk and provision for credit losses, see Note 1.E.6. to the financial statements and the chapter "Credit risk" of the 2020 Risks Report on the Bank website.

Analysis of credit quality and problematic credit risk

Significant exposure to groups of borrowers

Disclosure of credit risk with respect to significant exposure to borrower groups is provided with regard to each group of borrowers whose net indebtedness, on a consolidated basis, after allowed deductions pursuant to Proper Conduct of Banking Business Directive 313, exceeds 15% of the banking corporation's capital (as defined in Regulation 313).

As of December 31, 2020, the Bank had no borrower group which meets the aforementioned criteria.

Bank business with major borrower groups is conducted subject to several guidelines designed to mitigate risk associated with such activity:

- Activity with borrower groups is primarily done with established, leading public companies.
- Credit is mostly provided for short- and medium term, to be used in current operations of these companies.
- Credit is diversified among Group companies operating in different segments and economic sectors.
- Credit is provided, in as much as possible, to companies which are not mutually dependent or which are subject to mutual covenants or guarantees.

The Bank takes the following steps in order to manage exposure to groups of borrowers:

- Set financial covenants as needed.
- Provide credit against collateral, in as much as possible, and closely monitor exposure not secured by collateral.
- Closely monitor company operations and financial results.
- Closely monitor compliance of borrower group companies with financial covenants, if and when specified.

Major borrowers

Below is the sector composition of the top 6 borrowers for the Group as of December 31, 2020 (NIS in millions):

Borrower no.	Sector	On-balance sheet credit risk(1)	Off balance sheet credit risk(1)	Total credit risk(1)
1.	Financial services	219	1,099	1,318
2.	Financial services	184	1,000	1,184
3.	Power	808	329	(2)1137
4.	Industry and production	252	829	(2)1081
5.	Financial services	19	950	969
6.	Construction and real estate	294	531	825

(1) On- and off-balance sheet credit risk is stated before impact of provision for credit losses, and before impact of deductible collateral with respect to indebtedness of borrower and of borrower group.

(2) Of which, with respect to Union Bank: NIS 145 million in the electricity sector and NIS 163 million in the industrial sector.

Leveraged financing

Leveraged financing is credit financing provided to customers which fulfills one of the following criteria:

1. **Credit for an equity transaction would be classified according to one of the following rules:**
   - Credit for an equity transaction (as defined below), provided that the balance of such credit exceeds 0.5% of Bank capital or NIS 35 million, whichever is higher.
   - For credit financing acquisition of equity interest in another banking corporation, or in a banking holding corporation, provided that the balance of such credit exceeds NIS 35 million.
   - Additional credit extended to the borrower after the financing date for the equity transaction, with repayment primarily based on the cash flows derived from the equity interest whose purchase was financed by the banking corporation.

   "Equity transaction": A transaction with one of the following goals:
   - Buyback – purchase or repurchase, by the borrower, of the borrower's issued capital (including an employees' stock purchase plan).
   - Acquisition of another corporation – the purchase of any capital rights in another corporation, or the purchase of all, or a significant share, of the assets of another corporation.
   - Capital distribution – the payment of dividends or another transaction whose goal is to increase shareholder value.

   An equity transaction, with regard to leveraged financing, is one where the loan balance exceeds 0.5% of Bank capital and where the LTV ratio exceeds 50%.

2. **Financing for leveraged companies**, which is credit extended to companies with attributes which indicate that an adverse change in the global economic environment or in the specific environment of the sector in which they do business, may significantly impact their capacity to repay the bank. The Bank has specified criteria for defining credit included in this category, based on the business client's credit risk rating, as reflected by the Bank's rating model; it also specified benchmarks for leveraging (i.e. for significantly high deviation from typical norms for the sector), determined based on generally accepted financial ratios among Bank clients with material credit in major economic sectors in which the Bank operates. Leverage benchmarks and economic sectors are reviewed based on changes to the business environment and are modified as necessary. Borrowers flagged for one or more of the criteria specified are individually evaluated by a forum which includes representatives from the Corporate Division, the Risks Control Division and the Accounting and Financial Reporting Division, which reviews revisions and changes to financial parameters of the company and the economic environment in which it operates.

Details of Bank exposure to credit constituting leveraged financing are as follows:

Credit for equity transactions (NIS in millions):

	December 31, 2020				December 31, 2019			
Economic sector of acquired company	Balance sheet credit risk	Off-balance sheet credit risk	Total credit risk	Individual provision for credit losses	Balance sheet credit risk	Off-balance sheet credit risk	Total credit risk	Individual provision for credit losses
Commerce	139	–	139	–	153	–	153	–
Total	**139**	**–**	**139**	**–**	**306**	**–**	**306**	**–**

Credit to leveraged companies (NIS in millions):

Economic sector of borrower	December 31, 2020 Balance sheet credit risk	Off-balance sheet credit risk	Total credit risk	Individual provision for credit losses	December 31, 2019 Balance sheet credit risk	Off-balance sheet credit risk	Total credit risk	Individual provision for credit losses
Mining and excavation[(1)]	91	–	91	–	–	–	–	–
Construction and real estate	28	–	28	–	355	–	355	–
Water	–	–	–	–	36	40	76	16
Power	100	–	100	–	–	–	–	–
Trading[(1)]	453	19	472	34	412	88	500	–
Transport and storage[(1)]	213	20	233	11	–	–	–	–
Information and communications	–	–	–	–	45	86	131	–
Financial services[(1)]	145	–	145	21	124	–	124	3
Public and community services	133	8	141	–	134	8	142	–
Total	**1,163**	**47**	**1,210**	**66**	**1,106**	**222**	**1,328**	**19**

(1) Of which: Loans to leveraged companies extended by Union Bank, amounting to NIS 91 million in the mining and quarrying sector, NIS 75 million in the trading sector, NIS 91 million in the transportation and storage sector and NIS 24 million in the financial services sector.

Developments in problematic credit risk

Below is a summary of overall problematic credit risk and non-performing assets before provision for credit losses, in accordance with provisions for measurement and disclosure of impaired debts, credit risk and provision for credit losses (NIS in millions):

	Total credit risk		
	December 31, 2020		December 31, 2019
	Including Union Bank	Excluding Union Bank	
Problematic credit risk:			
Impaired credit risk	1,808	1,459	1,328
Inferior credit risk	439	353	242
Credit risk under special supervision – housing	1,188	1,152	1,476
Credit risk under special supervision – other	583	486	833
Total problematic credit risk	**4,018**	**3,450**	**3,879**

Major risk benchmarks related to credit quality (in percent):

	December 31, 2020			December 31, 2019
	Including Union Bank	Excluding Union Bank	Union Bank data	
Ratio of impaired loans to the public to total loans to the public	0.7	0.6	1.2	0.6
Ratio of impaired loans to the public to total non-residential mortgages	1.8	1.7	2.1	1.7
Ratio of problematic loans to the public to total non-residential mortgages	2.7	2.6	2.9	3.0
Ratio of residential mortgages in arrears 90 days or l onger to total loans to the public [(1)(2)]	0.5	0.6	0.1	0.7
Ratio of problematic credit risk to total credit risk with respect to the public	1.2	1.2	1.7	1.4

(1) This non-housing rate is negligible.

For more information see chapter "Explanation and analysis of results and business standing" above.

Below is current data about Bank activities to assist clients, in view of the Corona Virus crisis (including Union Bank) (NIS in millions):

	As of January 31, 2021							
	Debts subject to delayed repayments[(1)]			Further details of recorded debt balance of debts subject to delayed repayment				
					Non-problematic debts			
Loans to the public	**Recorded debt balance**	**Number of loans**	**Payment amounts delayed**	**Problematic debts**	**Debts not at performing credit rating**	**Debts at performing credit rating, in arrears 30 days or longer**	**Debts at performing credit rating, not in arrears**	**Total non-problematic debts**
Large businesses	32	7	23	-	-	-	32	32
Medium businesses	42	17	4	-	-	-	42	42
Small businesses	922	2,388	207	17	-	13	892	905
Private individuals	257	5,843	37	7	10	1	239	250
residential mortgages	8,776	[(2)]11,457	687	213	155	44	8,364	8,563
Total as of January 31, 2021	**10,029**	**19,712**	**958**	**[(3)] 237**	**165**	**58**	**9,569**	**9,792**
Of which, with respect to complete delay	4,434	12,590	371	120	65	28	4,221	4,314
Of which, with respect to partial delay in conformity with the Bank of Israel outline	5,595	7,122	587	117	100	30	5,348	5,478
Of which, with respect to acquisition of Union Bank								
Residential mortgages	**134**	**161**	**6**	**-**	**-**	**2**	**132**	**134**
Other	**83**	**1,342**	**8**	**1**	**-**	**-**	**82**	**82**

	As of January 31, 2021				
	Further details of debts subject to delayed repayment, by repayment delay period[(4)]		Debt for which the payment delay period has expired, as of the report date		Credit provided in State funds
	Non-problematic debts				
Loans to the public	**Debts subject to delay of 3 to 6 months**	**Debts subject to delay of 6 months or longer**	**Recorded debt balance**	**Of which: In arrears 30 days or longer**	**Recorded debt balance**
Large businesses	9	–	896	4	959
Medium businesses	6	35	270	2	609
Small businesses	269	527	2,606	81	3,603
Private individuals	126	43	772	13	–
Residential mortgages	2,484	5,845	36,232	505	–
Total as of January 31, 2021	**2,894**	**6,451**	**40,775**	**605**	**5,171**
Of which, with respect to complete delay	2,815	1,075	–	–	–
Of which, with respect to partial delay in conformity with the Bank of Israel outline	79	5,376	–	–	–
Of which, with respect to acquisition of Union Bank					
Residential mortgages	**78**	**42**	**1,797**	**10**	**–**
Other	**40**	**8**	**441**	**22**	**202**

(1) Of which: Delays granted other than in conjunction with an across-the-board program amounted to NIS 524 million.
(2) Number of Borrowers.
(3) Of which: Impaired debts not accruing interest revenues amounting to NIS 3 million.
(4) The repayment delay period is the cumulative delay period granted to debt since the start of the Corona Virus crisis, excluding any delay to which the borrower is entitled by law.

Below is current data about Bank activities to assist clients, in view of the Corona Virus crisis (including Union Bank) (NIS in millions) – continued:

	As of December 31, 2020							
	Debts subject to delayed repayments(1)				Further details of recorded debt balance of debts subject to delayed repayment			
					Non-problematic debts			
Loans to the public	Recorded debt balance	Number of loans	Payment amounts delayed	Proble-matic debts	Debts not at perfor-ming credit rating	Debts at perfor-ming credit rating, in arrears 30 days or longer	Debts at perfor-ming credit rating, not in arrears	Total non-proble-matic debts
Large businesses	72	16	28	-	-	-	72	72
Medium businesses	56	26	13	-	6	-	50	56
Small businesses	1,592	4,080	321	35	168	5	1,384	1,557
Private individuals	399	9,217	57	8	11	2	378	391
Residential mortgages	22,625	(2)30,112	870	368	301	25	21,931	22,257
Total as of December 31, 2020	**24,744**	**43,451**	**1,289**	**(3)411**	**486**	**32**	**23,815**	**24,333**
Of which, with respect to acquisition of Union Bank								
Residential mortgages	**133**	**174**	**5**	**-**	**-**	**2**	**131**	**133**
Other	**164**	**2,413**	**14**	**1**	**-**	**-**	**163**	**163**
Total as of September 30, 2020	**25,505**	**44,963**	**1,325**	**(3)448**	**388**	**44**	**24,625**	**25,057**
Total as of June 30, 2020	**41,033**	**78,267**	**1,397**	**587**	**483**	**205**	**39,757**	**40,445**

	As of December 31, 2020				
	Further details of debts subject to delayed repayment, by repayment delay period(4)		Debt for which the payment delay period has expired, as of the report date		Credit provided in State funds
	Non-problematic debts				
Loans to the public	Debts subject to delay of 3 to 6 months	Debts subject to delay of 6 months or longer	Recorded debt balance	Of which: In arrears 30 days or longer	Recorded debt balance
Large businesses	10	–	877	3	919
Medium businesses	9	43	267	2	603
Small businesses	512	842	2,088	76	3,552
Private individuals	181	93	929	10	–
Residential mortgages	7,098	13,464	22,116	261	–
Total as of December 31, 2020	**7,810**	**14,442**	**26,277**	**352**	**5,074**
Of which, with respect to acquisition of Union Bank					
Residential mortgages	**106**	**12**	**1,811**	**14**	**–**
Other	**91**	**16**	**669**	**24**	**202**
Total as of September 30, 2020	**8,088**	**14,833**	**26,165**	**349**	**4,685**
Total as of June 30, 2020	**39,247**	**170**	**3,552**	**1**	**3,459**

(1) Of which: Delays granted other than in conjunction with an across-the-board program amounted to NIS 1,124 million (as of September 30, 2020: NIS 1,414 million).

(2) Number of Borrowers.

(3) Of which: Impaired debts not accruing interest revenues amounting to NIS 11 million (as of September 30, 2020: NIS 37 million).

(4) The repayment delay period is the cumulative delay period granted to debt since the start of the Corona Virus crisis, excluding any delay to which the borrower is entitled by law.

The Bank has applied a wide range of measures to provide an immediate response to needs arising from the situation, from operational response to clients to adjustments made to the credit underwriting and credit risk policy. Further to the communication from the Supervisor of Banks, dated April 2, 2020, the Bank and the entire banking system acted to support businesses and households in getting through this crisis, by continuing to extend credit to borrowers across all segments, while maintaining responsible credit underwriting procedures but without unneeded stricter underwriting conditions. Action taken by the Bank includes approval of a delay in current repayments for mortgage clients who needed this due to temporary hardship resulting from the crisis. In the first stage, as from March, delays of to 4 months were granted, and later on a further delay through 2020 for clients who had already delayed repayments, and a delay by up to 6 months for clients who have not yet delayed any repayments. As from the end of 2020, in conformity with the Bank of Israel outline, clients who have asked for delays were allowed to resume partial mortgage repayments for up to two years. Delays and revised repayment schedules were also approved for individual and commercial clients who face temporary difficulties; loans guaranteed by the State were extended as part of the Government plan. The Bank also prepared to make arrangements with clients who wish to resume making regular mortgage payments, including allowing partial monthly payment or extension of the loan term.

Total residential mortgages subject to repayment delays reached since March 2020, amount to NIS 45.6 billion. As of January 31, 2021, out of all loans subject to delay, some NIS 42.6 billion resumed payment (of which NIS 13 billion resumed payment in January 2021 and NIS 5.5 billion chose the partial payment track). NIS 3 billion is still subject to delay, ending in February-June 2021. Of the loans where payments were resumed in January 2021, only NIS 0.5 billion are in arrears.

Total commercial loans subject to repayment delays reached since March 2020, amount to NIS 7.7 billion. As of January 31, 2021, out of total loans subject to delay, NIS 6.4 billion resumed repayment and NIS 1.3 billion are still subject to delay, expected to end in 2021. Out of the loans still subject to delay in January 2021, loans amounting to NIS 0.6 billion were granted delay exceeding 6 months.

Below is a summary of impaired debt under restructuring made or in default (NIS in millions):

	December 31, 2020		December 31, 2019	
	Recorded debt balance	Recorded debt balance	Recorded debt balance	Recorded debt balance
	Before restructuring	After restructuring	Before restructuring	After restructuring
Restructurings made	252	237	123	122

	December 31, 2020	December 31, 2019
	Recorded debt balance	Recorded debt balance
Restructurings made which are in default	9	11

For more information see Note 30.B.2.C to the financial statements.

Analysis of changes to impaired debts

Movement in impaired debts and impaired debt under restructuring (NIS in millions):

Movement in impaired debts with respect to loans to the public[(1)]	**For the year ended December 31, 2020**			**For the year ended December 31, 2019**		
	Commercial	**Individual**	**Total**	**Commercial**	**Individual**	**Total**
Balance of impaired debts at start of the year	1,132	142	1,274	964	137	1,101
Debts classified as impaired during the year	696	78	774	706	101	807
Debts reclassified as non-impaired during the year	(70)	(3)	(73)	(83)	(19)	(102)
Impaired debts written off	(183)	(23)	(206)	(117)	(20)	(137)
Impaired debts repaid	(384)	(26)	(410)	(412)	(72)	(484)
Other changes	95	16	111	74	15	89
Acquisition of Union Bank	221	9	230	–	–	–
Balance of impaired debts at end of the year	**1,507**	**193**	**1,700**	**1,132**	**142**	**1,274**

(1) Includes: Movement in problematic debts under restructuring	**For the year ended December 31, 2020**			**For the year ended December 31, 2019**		
	Commercial	**Individual**	**Total**	**Commercial**	**Individual**	**Total**
Balance of problematic debts under restructuring at start of year	266	65	331	290	58	348
Restructuring made during the year	209	38	247	62	45	107
Debt reclassified as non-impaired due to subsequent restructuring	(10)	(4)	(14)	(6)	(1)	(7)
Debts under restructuring written off	(52)	(17)	(69)	(19)	(17)	(36)
Debts under restructuring repaid	(65)	(23)	(88)	(75)	(20)	(95)
Other changes	39	8	47	14	–	14
Acquisition of Union Bank	127	8	135	–	–	–
Balance of problematic debts under restructuring at end of year	**514**	**75**	**589**	**266**	**65**	**331**

For more information about problematic credit risk, see Notes 13 and 30 to the financial statements.

Analysis of provision for credit losses

Analysis of movement in balance of provision for credit losses (NIS in millions):

	For the year ended December 31, 2020					
	Provision for credit losses					
	Loans to the public					
	Commercial	Housing	Individual – other	Total	Banks and governments	Total
Balance of provision for credit losses at start of period	865	674	273	1,812	1	1,813
Expenses with respect to credit losses	634	279	136	1,049	1	1,050
Accounting write-offs	(304)	(12)	(153)	(469)	–	(469)
Recovery of debts written off for accounting purposes in previous years	119	1	76	196	–	196
Net accounting write-offs	(185)	(11)	(77)	(273)	–	(273)
Acquisition of Union Bank	69	–	8	77	–	77
Balance of provision for credit losses at end of period	**1,383**	**942**	**340**	**2,665**	**2**	**2,667**

	For the year ended December 31, 2019					
Balance of provision for credit losses at start of period	766	644	263	1,673	4	1,677
Expenses with respect to credit losses	222	44	101	367	(3)	364
Accounting write-offs	(237)	(15)	(155)	(407)	–	(407)
Recovery of debts written off for accounting purposes in previous years	114	1	64	179	–	179
Net accounting write-offs	(123)	(14)	(91)	(228)	–	(228)
Balance of provision for credit losses at end of period	**865**	**674**	**273**	**1,812**	**1**	**1,813**

For more information about provision for credit losses see Notes 13 and 30 to the financial statements.

Major risk benchmarks related to provision for credit losses (in percent):

	December 31, 2020	December 31, 2019
Ratio of provision for credit losses to total loans to the public	1.1	0.9
Ratio of provision for credit losses to total credit risk with respect to the public	0.8	0.7

	Year ended	
	December 31, 2020	December 31, 2019
Ratio of expenses with respect to credit losses to average balance of loans to the public, gross	0.5	0.2
Ratio of net write-offs to average balance of loans to the public, gross	0.1	0.1
Ratio of expenses with respect to credit losses to average balance of loans to the public, net	0.5	0.2
Of which: With respect to commercial loans other than residential mortgages (1)	1.0	0.5
Ratio of net write-offs to average balance of loans to the public, net	0.1	0.1

(1) The rate with respect to residential mortgages with respect to credit is negligible.

For more information about changes to components of the provision for credit losses, see chapter "Material developments in revenues, expenses and other comprehensive income" above.

Credit risk to individuals (excluding residential mortgages)(1)

The household segment is a key growth engine and a significant component of the Bank's strategic plan for 2017-2021.

The individual client segment is highly diversified – by number of clients and by geographic location. Most clients in this segment are salaried employees with an individual account or joint household account. A recession in non-banking operations is a major risk factor for household activity and higher unemployment may increase the number of clients who face difficulties.

Credit policies and work procedures with regard to extending credit, including to individual clients, include directives and guidelines with regard to credit underwriting and adapting credit to client needs and repayment capacity: Review of credit objective, requested LTV, loan term, analysis of client's repayment capacity and repayment sources, for all of their indebtedness. This includes review of various economic parameters of the client based, inter alia, on the client's regular income(2), pledged or unencumbered savings, knowledge of the client and past experience working with the client.

The Bank regularly monitors the risk level in the loan portfolio to individuals, including by using an internal model for credit rating of individual clients, monitoring and analysis of expenses with respect to credit losses and by conducting various stress tests, including stress tests in conformity with Bank of Israel directives, which include scenarios such as: economic recession, significant increase in unemployment and higher interest rates. In 2020, special monitoring was applied to evolution of this risk, due to implications of the Corona Virus crisis for unemployment and payment ethics in the market. For more information about credit risk management following the Corona Virus crisis, see chapter "Credit risks" and chapter "Explanation and analysis of results and business standing".

Below is information about credit risk to individuals – balances and various risk attributes as of December 31 (NIS in millions):

	December 31,		
	2020		2019
	Including Union Bank	Excluding Union Bank	
Debts			
Checking balances	1,771	1,644	2,133
Utilized credit card balances	4,262	3,791	3,973
Auto loans – adjustable interest	1,985	474	671
Auto loans – fixed interest	2,564	961	926
Other loans and credit – variable interest	13,063	12,235	12,515
Other loans and credit – fixed interest	388	235	258
Total debts (on-balance sheet credit)	**24,033**	**19,340**	**20,476**
Un-utilized facilities, guarantees and other commitments			
Checking accounts – un-utilized facilities	5,145	4,705	4,172
Credit cards – un-utilized facilities	8,077	7,166	6,627
Guarantees	218	191	187
Other liabilities	42	42	33
Total un-utilized facilities, guarantees and other commitments (off-balance sheet credit)	**13,482**	**12,104**	**11,019**
Total credit risk to individuals	**37,515**	**31,444**	**31,495**
Of which:			
Bullet / balloon loans(3)	376	309	469
Financial asset portfolio and other collateral against credit risk(4)			
Financial assets portfolio:			
Deposits	3,905	3,863	3,723
Securities	244	209	219
Other monetary assets	286	286	328
Other collateral(5)	3,964	663	880
Total financial assets portfolio and other collateral against credit risk	**8,399**	**5,021**	**5,150**

(1) As defined in Proper Conduct of Banking Business Directive 451.

(2) For measuring regular income in client accounts, the Bank uses "credit turnover" data for the account, including inter alia salaries and regular pensions.

(3) Loans with a grace period for principal longer than one year.

(4) Amounts presented are the financial assets portfolio and other collateral, only up to client debt amount.

(5) Collateral is after applying the safety factor, in conformity with Bank factors accounted for when extending credit. The decrease is primarily due to downward revision of safety factors for vehicles and the maximum vehicle age accounted for in calculating the collateral value.

Below is composition by size of borrower indebtedness[1]:

	As of December 31, 2020								As of December 31, 2019			
	Including Union Bank				Excluding Union Bank							
Loan ceiling and credit risk (NIS in thousands)	**Number of Borrowers**	**Balance sheet credit risk**	**Off-balance sheet credit risk**	**Total credit risk**	**Number of Borrowers**	**Balance sheet credit risk**	**Off-balance sheet credit risk**	**Total credit risk**	**Number of Borrowers**	**Balance sheet credit risk**	**Off-balance sheet credit risk**	**Total credit risk**
Up to 10	331,016	491	1,615	2,106	210,572	268	391	659	190,638	278	353	632
Above 10 Up to 20	110,237	773	919	1,692	91,390	492	826	1,318	88,589	522	758	1,280
Above 20 Up to 40	142,499	1,998	2,159	4,157	122,065	1,385	2,127	3,512	117,661	1,456	1,953	3,409
Above 40 Up to 80	149,065	4,853	3,660	8,513	127,608	3,600	3,649	7,249	124,853	3,789	3,312	7,101
Above 80 Up to 150	95,072	7,187	3,085	10,272	80,625	5,594	3,067	8,661	82,644	6,074	2,786	8,860
Above 150 Up to 300	43,006	6,954	1,721	8,675	39,661	6,317	1,721	8,038	41,126	6,754	1,570	8,324
Above 300	4,205	1,777	323	2,100	4,032	1,684	323	2,007	4,000	1,603	287	1,890
Total	**875,100**	**24,033**	**13,482**	**37,515**	**675,953**	**19,340**	**12,104**	**31,444**	**649,511**	**20,476**	**11,019**	**31,496**

(1) Number of borrowers is for total on- and off-balance sheet credit risk.

Composition of on-balance sheet credit by fixed income[1] in account:

	As of December 31, 2020				As of December 31, 2019	
	Including Union Bank		Excluding Union Bank			
Income	**NIS in millions**	**In %**	**NIS in millions**	**In %**	**NIS in millions**	**In %**
Accounts with no fixed income for the account[2]	5,484	22.8	1,954	10.0	1,601	7.8
Less than NIS 10 thousand.	4,893	20.4	4,691	24.3	5,402	26.4
Between NIS 10 thousand and NIS 20 thousand	7,543	31.4	7,225	37.4	7,768	37.9
Over NIS 20 thousand	6,113	25.4	5,470	28.3	5,705	27.9
Total	**24,033**	**100.0**	**19,340**	**100.0**	**20,476**	**100.0**

(1) For measuring regular income in client accounts, the Bank uses "credit turnover" data for the account, including inter alia salaries and regular pensions.

(2) Primarily with respect to loans extended in conjunction with assignment of vehicle portfolios and loans extended by Igud Leasing. Due to the nature of account management, this revenue is not reflected in the current account.

Below is composition of on-balance sheet credit by remaining term to maturity[1]:

	As of December 31, 2020				As of December 31, 2019	
Term to maturity	**NIS in millions**	**In %**	**NIS in millions**	**In %**	**NIS in millions**	**In %**
	Consolidated		**Excluding Union Bank**			
Up to 1 year	3,676	20.4	3,647	26.2	3,669	25.5
Over 1 year to 3 years	5,608	31.2	4,502	32.4	4,805	33.4
Over 3 years to 5 years	4,515	25.1	2,554	18.4	2,640	18.4
Over 5 years to 7 years	2,082	11.6	1,466	10.5	1,513	10.5
Over 7 years[2]	2,119	11.7	1,735	12.5	1,743	12.2
Total	**18,000**	**100.0**	**13,905**	**100.0**	**14,370**	**100.0**

(1) Excluding checking account and credit cards.

(2) Primarily loans to salaried Government employees, where loan repayment is directly deducted from the client's pay check and which bear significantly lower risk than similar loans for the same term.

Problematic credit risk before provision for credit losses (NIS in millions):

	As of December 31, 2020						As of December 31, 2019		
	Including Union Bank			Excluding Union Bank					
	Credit risk(1)			Credit risk(1)			Credit risk(1)		
	On balance sheet	Off balance sheet	Including	On balance sheet	Off balance sheet	Including	On balance sheet	Off balance sheet	Including
Balance of problematic credit risk	201	4	205	182	3	185	231	3	234
Problematic credit risk rate(2)	0.84%	0.03%	0.55%	0.94%	0.02%	0.59%	1.13%	0.03%	0.74%

(1) On- and off-balance sheet credit before impact of provision for credit losses, and before impact of deductible collateral with respect to indebtedness of borrower and of borrower group.
(2) The ratio of problematic credit risk to total credit risk before provision for credit losses.

Below is the expense rate with respect to credit losses to individuals (annualized)

	For the year ended December 31,		
	2020		2019
	Including Union Bank	Excluding Union Bank	
Expenses with respect to credit losses as percentage of total loans to the public to individuals	0.56%	0.67%	0.49%

Data for credit risk to individuals show that:

- Total debts by individuals (on-balance sheet credit) increased by 17.4% compared to December 31, 2019, primarily due to acquisition of Union Bank. (Excluding Union Bank, decrease by 5.5% compared to December 31, 2019).

Composition of debts as of December 31, 2020:	
Checking accounts	7.4%
Credit cards	17.7%
Auto loans	18.9%
Other loans and credit	56.0%

- The change in composition in 2020 is primarily reflected in increase in car loans at the expense of other loans and credit, due to the large vehicle assignment portfolio acquired from Union Bank.
- Of all debts (on-balance sheet credit) as of December 31, 2020, 26% is secured by financial assets and other collateral in the client's account (excluding Union Bank) (compared to 25% as of December 31, 2019).

Given the risk attributes of this segment, the rate of group-based qualitative provision for individuals is higher than in other segments, in conformity with guidelines from the Supervisor of Banks.

Credit risk in construction and real estate economic sector in Israel

Credit operations in this sector account for a significant component of credit operations of the Corporate Division. In financing the construction and real estate industry, specific analysis and monitoring tools are used to assist the Bank in reaching decisions on the granting of financial support to the various projects. Construction financing in this industry is focused mainly on residential construction in areas with strong demand in central Israel at mid-level prices. In addition, the financing is allocated between geographic regions, based inter alia on relevant demand. In extending credit for construction, the Bank focuses on the financial support method (closed assistance). The application of this method is designed to reduce the exposure to risks in the granting of the loans, because it incorporates current and close monitoring of the progress of the financed projects, both before the loans are provided, and as the project receives the financial support, while maintaining a distinction between the financed projects and the business risks inherent in the other activities of the developer-borrower. The Bank is assisted by outside construction supervisors, and also relies on liens on the land in the project, to secure the loans. Loans are issued for financed projects only by business centers and branches with professional knowledge of the subject, and under the supervision of the construction and real estate sector. The Bank also sets policies and rules for financing other real estate transactions, such as financing for rental properties, Construction, purchase groups, urban renewal, National Zoning Plan 38 etc. Moreover, in order to minimize risk, the Bank insures the portfolio of Housing bonds and some performance guarantees in assisted projects with overseas reinsurers.

Immediately prior to the Corona Virus crisis, this sector posted high sales and significant demand. Due to the crisis and lock-downs imposed in the local economy, sales of residential apartments decreased somewhat in March-April, but recovered later in the year. Planning processes for marketing by Israel Land Administration and construction starts also slowed down. Rental real estate properties saw a specific decrease in demand. However, this sector was classified as critical for the economy and therefore, work on construction sites continues, although not to the same extent as in normal times.

Below is information about credit risk in the construction and real estate economic sector in Israel, by real estate collateral type (NIS in millions):

							December 31, 2020
			Credit risk		Total problematic credit risk	Balance of provision for credit losses	
	On balance sheet(2)	Off balance sheet(3)	Including	Impaired	Other problematic(4)	Balance sheet credit risk	Off-balance sheet credit risk
	Credit risk to the public including Union Bank(1)						
Housing	12,084	17,254	29,338	53	33	96	52
Commercial and industrial	6,715	1,762	8,477	92	4	56	7
Total secured by real estate in Israel:	**18,799**	**19,016**	**37,815**	**145**	**37**	**152**	**59**
Not secured by real estate in Israel	3,654	4,511	8,165	154	102	43	38
Total for construction and real estate economic sector in Israel	**22,453**	**23,527**	**45,980**	**299**	**139**	**195**	**97**
Of which: Designated for project assistance	10,093	16,024	26,117	27	32	91	55

							December 31, 2020
	Credit risk to the public excluding Union Bank(1)						
Secured by real estate in Israel:							
Housing	10,316	15,824	26,140	34	7	96	40
Commercial and industrial	5,922	1,429	7,351	92	4	56	6
Total secured by real estate in Israel:	**16,238**	**17,253**	**33,491**	**126**	**11**	**152**	**46**
Not secured by real estate in Israel	2,730	3,724	6,454	117	102	43	19
Total for construction and real estate economic sector in Israel	**18,968**	**20,977**	**39,945**	**243**	**113**	**195**	**65**
Of which: Designated for project assistance	8,857	14,772	23,629	27	32	91	44

							December 31, 2019
	Credit risk to the public(1)						
Secured by real estate in Israel:							
Housing	9,538	16,332	25,870	30	51	74	34
Commercial and industrial	6,118	1,171	7,289	80	362	47	2
Total secured by real estate in Israel:	**15,656**	**17,503**	**33,159**	**110**	**413**	**121**	**36**
Not secured by real estate in Israel	2,104	2,998	5,102	117	55	38	18
Total for construction and real estate economic sector in Israel	**17,760**	**20,501**	**38,261**	**227**	**468**	**159**	**54**
Of which: Designated for project assistance	8,606	14,224	22,830	13	61	73	35

(1) On- and off-balance sheet credit risk, problematic credit risk and impaired loans to the public are stated before impact of provision for credit losses, and before impact of deductible collateral with respect to indebtedness of borrower.
(2) Loans to the public, investment in debentures by the public, other debt by the public and other assets with respect to derivative instruments against the public.
(3) Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower indebtedness limits.
(4) On- and off-balance sheet credit risk with respect to the public, which is inferior or under special supervision.

Below is information about credit risk in the construction and real estate economic sector in Israel, by asset status (NIS in millions):

	December 31, 2020						2019		
	On balance sheet	Off balance sheet	Including	On balance sheet	Off balance sheet	Including	On balance sheet	Off balance sheet	Including
	Credit risk including Union Bank(1)			Credit risk excluding Union Bank(1)			Credit risk(1)		
Real estate collateral in Israel									
Real estate yet to be completely constructed:									
Raw land	5,500	916	6,416	4,443	774	5,217	3,858	539	4,397
Real estate under construction	7,299	16,909	24,208	6,793	15,723	22,516	6,986	15,557	22,543
Real estate completely constructed	6,000	1,191	7,191	5,002	756	5,758	4,812	1,407	6,219
Total credit secured by real estate in Israel	**18,799**	**19,016**	**37,815**	**16,238**	**17,253**	**33,491**	**15,656**	**17,503**	**33,159**
Not secured by real estate in Israel	3,654	4,511	8,165	2,730	3,724	6,454	2,104	2,998	5,102
Total credit risk for construction and real estate	**22,453**	**23,527**	**45,980**	**18,968**	**20,977**	**39,945**	**17,760**	**20,501**	**38,261**

(1) On- and off-balance sheet credit risk, problematic credit risk and impaired loans to the public are stated before impact of provision for credit losses, and before impact of deductible collateral with respect to indebtedness of borrower.

Credit risk data for the construction and real estate clients sector as of December 31, 2020 show that 44.7% of the on-balance sheet credit risk and 68.1% of the off-balance sheet credit risk is associated with closed assistance to real estate projects, mostly for residential construction in areas of strong demand in Central Israel, Haifa, Be'er Sheva and Jerusalem. Most of the off-balance sheet credit is due to guarantees provided to home buyers pursuant to the Sale Act.

Most of the credit risk in the construction and real estate sector is backed by real estate fully pledged to secure loan repayment. Note that for credit not secured by real estate collateral, there is other collateral in place, such as: deposits, securities etc.

The share of the construction and real estate sector in Israel out of total credit risk to the public at the Bank as of December 31, 2020, as presented in chapter "Risks" below (Credit Risk by Economic Sector) and in chapter "Credit risk" of the 2020 Risks Report, is 14.1%. (Excluding Union Bank: 13.6%).

Note that according to Proper Conduct of Banking Business Directive 315, the rate of indebtedness of the construction and real estate sector (for calculation of sector concentration) is 9.9% (excluding liabilities, including contingent liabilities to extend credit or to provide guarantees and amounts of Housing bonds for which the Bank has obtained an insurance policy).

Credit risk[2] by economic sector

As of December 31, 2020

Reported amounts (NIS in millions)

Including Union Bank

	Total credit risk[1]				Off balance sheet debts[2] and credit risk (other than derivatives)[3]						
		Of which:							Credit losses[4]		
	Total	Credit performance rating[4]	Credit in good standing other than at performing credit rating[5]	Problematic[6]	Total	Debts	Problematic[6]	Impaired	Expenses with respect to credit losses[8]	Net accounting write-off[8]	Balance of provision for credit losses
Borrower activity in Israel											
Public – commercial											
Agriculture, forestry and fishing	1,168	1,139	20	9	1,168	905	9	6	2	–	10
Mining and excavation	698	652	6	40	597	345	40	–	6	–	10
Industry and production	13,593	12,724	317	552	13,324	7,795	552	389	73	34	208
Of which: Diamonds	1,528	1,379	18	131	1,527	1,013	131	91	5	3	23
Construction and real estate – construction[7]	39,023	36,618	2,064	341	38,957	16,451	341	214	57	21	250
Construction and real estate – real estate operations	6,957	6,380	480	97	6,753	5,737	97	85	(10)	(18)	42
Electricity and water delivery	5,661	5,616	34	11	5,161	3,211	11	–	7	–	18
Commerce	15,033	13,643	901	489	14,791	11,122	489	387	117	81	245
Hotels, dining and food services	2,073	1,712	214	147	2,073	1,650	147	54	82	9	104
Transport and storage	2,533	2,207	82	244	2,489	1,497	244	104	70	7	92
Information and communications	1,966	1,782	109	75	1,870	1,169	75	10	34	10	36
Financial services	18,780	18,528	63	189	15,902	7,812	189	150	67	2	148
Other business services	5,900	5,489	248	163	5,892	3,969	163	118	69	35	107
Public and community services	3,429	3,093	304	32	3,421	2,721	32	18	18	4	30
Total commercial	**116,814**	**109,583**	**4,842**	**2,389**	**112,398**	**64,384**	**2,389**	**1,535**	**592**	**185**	**1,300**
Private individuals – residential mortgages	172,876	170,859	732	1,285	172,876	156,324	1,285	97	279	11	941
Private individuals – other	37,632	37,116	311	205	37,515	24,033	205	96	135	77	339
Total public – activity in Israel	**327,322**	**317,558**	**5,885**	**3,879**	**322,789**	**244,741**	**3,879**	**1,728**	**1,006**	**273**	**2,580**
Banks in Israel	2,179	2,179	–	–	556	512	–	–	–	–	–
Government of Israel	14,709	14,709	–	–	60	60	–	–	–	–	–
Total activity in Israel	**344,210**	**334,446**	**5,885**	**3,879**	**323,405**	**245,313**	**3,879**	**1,728**	**1,006**	**273**	**2,580**
Borrower activity overseas											
Total public – activity overseas	5,158	4,659	360	139	4,689	3,217	139	80	43	–	85
Overseas banks	13,723	13,723	–	–	11,843	11,755	–	–	1	–	2
Overseas governments	1,004	1,004	–	–	553	553	–	–	–	–	–
Total activity overseas	**19,885**	**19,386**	**360**	**139**	**17,085**	**15,525**	**139**	**80**	**44**	**–**	**87**
Total	**364,095**	**353,832**	**6,245**	**4,018**	**340,490**	**260,838**	**4,018**	**1,808**	**1,050**	**273**	**2,667**

(1) On- and off-balance sheet credit risk, including with respect to derivative instruments (NIS in millions): Debts[2] – 260,838; debentures – 16,864; securities borrowed or acquired in conjunction with resale agreements – 200; Assets with respect to derivative instruments – 4,543; and Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower indebtedness limits – 81,650.

(2) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements.

(3) Includes with respect to off-balance sheet credit instruments (included on balance sheet under Other Liabilities).

(4) Credit risk whose credit rating as of the report date matches the credit rating for new credit performance, in conformity with Bank policies.

(5) Credit in good standing at a low rating, for which Bank policy includes specific restrictions on extending such credit.

(6) On- and off-balance sheet credit risk which is impaired, inferior or under special supervision, including with respect to residential mortgages for which a provision was made by extent of arrears, and residential mortgages for which no provision was made by extent of arrears and which are in arrears of 90 days or longer.

(7) Includes on-balance sheet credit risk amounting to NIS 2,068 million and off-balance sheet credit risk amounting to NIS 2,213 million, provided to certain purchase groups in the process of construction and includes off-balance sheet credit risk amounting to NIS 5,521 million for which insurance has been acquired to cover the portfolio of Housing bonds and performance guarantees pursuant to the Sale Law from international re-insurers.

(8) As from September 30, 2020 the Bank consolidates the financial statements of Union Bank. The consolidated statement of profit and loss for 2020 includes the financial results of Union Bank.

Credit Risk(2) by Economic Sector – Continued

As of December 31, 2020

Reported amounts (NIS in millions)

Excluding Union Bank

	Total credit risk(1)				Off balance sheet debts(2) and credit risk (other than derivatives)(3)						
		Of which:							Credit losses(4)		
	Total	Credit performance rating(4)	Credit in good standing other than at performing credit rating(5)	Problematic(6)	Total	Debts	Problematic(6)	Impaired	Expenses with respect to credit losses	Net accounting write-offs	Balance of provision for credit losses
Borrower activity in Israel											
Public – commercial											
Agriculture, forestry and fishing	1,008	979	20	9	1,008	767	9	6	2	–	10
Mining and excavation	433	396	6	31	431	230	31	–	6	–	10
Industry and production	11,908	11,165	317	426	11,740	6,880	426	312	78	34	205
Of which: Diamonds	1,528	1,379	18	131	1,527	1,013	131	91	5	3	23
Construction and real estate – construction(7)	34,593	32,254	2,064	275	34,585	14,288	275	170	58	21	220
Construction and real estate – real estate operations	5,352	4,791	480	81	5,342	4,666	81	73	(9)	(18)	40
Electricity and water delivery	5,064	5,019	34	11	4,692	2,979	11	–	8	–	17
Commerce	12,135	10,843	901	391	11,970	9,090	391	311	120	81	243
Hotels, dining and food services	1,846	1,546	214	86	1,846	1,462	86	30	82	9	102
Transport and storage	2,233	1,995	82	156	2,195	1,253	156	23	69	7	80
Information and communications	1,550	1,380	109	61	1,541	950	61	10	35	10	35
Financial services	15,982	15,759	63	160	13,503	6,161	160	126	67	2	147
Other business services	5,400	4,993	248	159	5,395	3,688	159	115	70	34	106
Public and community services	2,919	2,584	304	31	2,913	2,334	31	18	19	4	30
Total commercial	**100,423**	**93,704**	**4,842**	**1,877**	**97,161**	**54,748**	**1,877**	**1,194**	**605**	**184**	**1,245**
Private individuals – residential mortgages	161,611	159,630	732	1,249	161,611	145,945	1,249	97	279	11	941
Private individuals – other	31,550	31,054	311	185	31,444	19,340	185	88	130	68	335
Total public – activity in Israel	**293,584**	**284,388**	**5,885**	**3,311**	**290,216**	**220,033**	**3,311**	**1,379**	**1,014**	**263**	**2,521**
Banks in Israel	1,615	1,615	–	–	317	273	–	–	–	–	–
Government of Israel	7,589	7,589	–	–	60	60	–	–	–	–	–
Total activity in Israel	**302,788**	**293,592**	**5,885**	**3,311**	**290,593**	**220,366**	**3,311**	**1,379**	**1,014**	**263**	**2,521**
Borrower activity overseas											
Total public – activity overseas	4,827	4,328	360	139	4,688	3,217	139	80	43	–	85
Overseas banks	12,522	12,522	–	–	11,359	11,271	–	–	1	–	2
Overseas governments	1,004	1,004	–	–	553	553	–	–	–	–	–
Total activity overseas	**18,353**	**17,854**	**360**	**139**	**16,600**	**15,041**	**139**	**80**	**44**	**–**	**87**
Total	**321,141**	**311,446**	**6,245**	**3,450**	**307,193**	**235,407**	**3,450**	**1,459**	**1,058**	**263**	**2,608**

(1) On- and off-balance sheet credit risk, including with respect to derivative instruments (NIS in millions): Debts(2) – 235,407; debentures – 8,828; securities borrowed or acquired in conjunction with resale agreements – 194; Assets with respect to derivative instruments – 3,688; and Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower indebtedness limits – 73,564.

(2) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements.

(3) Includes with respect to off-balance sheet credit instruments (included on balance sheet under Other Liabilities).

(4) Credit risk whose credit rating as of the report date matches the credit rating for new credit performance, in conformity with Bank policies.

(5) Credit in good standing at a low rating, for which Bank policy includes specific restrictions on extending such credit.

(6) On- and off-balance sheet credit risk which is impaired, inferior or under special supervision, including with respect to residential mortgages for which a provision was made by extent of arrears, and residential mortgages for which no provision was made by extent of arrears and which are in arrears of 90 days or longer.

(7) Includes on-balance sheet credit risk amounting to NIS 2,061 million and off-balance sheet credit risk amounting to NIS 2,204 million, provided to certain purchase groups in the process of construction and includes off-balance sheet credit risk amounting to NIS 5,069 million for which insurance has been acquired to cover the portfolio of Housing bonds and performance guarantees pursuant to the Sale Law from international re-insurers.

Credit risk[2] by economic sector – Consolidated – Continued

As of December 31, 2019

Reported amounts (NIS in millions)

	Total credit risk[1]				Off balance sheet debts[2] and credit risk (other than derivatives)[3]						
		Of which:							Credit losses[4]		
	Total	Credit perfor-mance rating[4][8]	Credit in good standing other than at performing credit rating[5]	Proble-matic[6]	Total	Debts	Proble-matic[6]	Impaired	Expenses with respect to credit losses	Net accountin g write-offs	Balance of provision for credit losses
Borrower activity in Israel											
Public – commercial											
Agriculture, forestry and fishing	895	868	12	15	895	673	15	7	1	1	8
Mining and excavation	539	539	–	–	519	351	–	–	–	–	4
Industry and production[8]	10,832	10,195	239	398	10,726	6,401	398	280	58	25	162
Of which: Diamonds	1,693	1,528	60	105	1,693	1,129	105	95	(6)	(3)	21
Construction and real estate – construction[7]	33,320	32,567	483	270	33,318	13,417	270	165	9	(9)	183
Construction and real estate – real estate operations[8]	4,941	4,433	83	425	4,936	4,339	425	62	(24)	1	30
Electricity and water delivery[8]	2,833	2,768	49	16	2,387	1,612	16	3	–	1	9
Commerce	10,715	9,994	264	457	10,575	8,180	457	331	87	63	204
Hotels, dining and food services[8]	1,415	1,312	55	48	1,414	1,082	48	28	11	10	29
Transport and storage	1,888	1,821	26	41	1,881	1,233	41	22	15	7	18
Information and communications	1,282	1,161	94	27	1,272	643	27	22	(2)	(3)	10
Financial services	9,845	9,661	–	144	7,791	4,033	144	135	15	2	82
Other business services	4,991	4,829	53	109	4,981	3,444	109	68	40	21	70
Public and community services	2,632	2,439	157	36	2,620	2,117	36	25	4	4	15
Total commercial	**86,128**	**82,587**	**1,515**	**1,986**	**83,315**	**47,525**	**1,986**	**1,148**	**214**	**123**	**824**
Private individuals – residential mortgages [8]	148,626	146,195	899	1,532	148,626	135,278	1,532	56	44	14	673
Private individuals – other	31,802	31,165	403	234	31,495	20,476	234	87	101	91	273
Total public – activity in Israel	**266,556**	**259,947**	**2,817**	**3,752**	**263,436**	**203,279**	**3,752**	**1,291**	**359**	**228**	**1,770**
Banks in Israel	657	657	–	–	151	110	–	–	–	–	–
Government of Israel	7,941	7,941	–	–	–	–	–	–	–	–	–
Total activity in Israel	**275,154**	**268,545**	**2,817**	**3,752**	**263,587**	**203,389**	**3,752**	**1,291**	**359**	**228**	**1,770**
Borrower activity overseas											
Total public – activity overseas[8]	4,549	4,457	5	127	4,493	3,122	127	37	8	–	42
Overseas banks	8,881	8,881	–	–	7,155	7,150	–	–	(3)	–	1
Overseas governments	2,437	2,437	–	–	656	656	–	–	–	–	–
Total activity overseas	**15,867**	**15,775**	**5**	**127**	**12,304**	**10,928**	**127**	**37**	**5**	**–**	**43**
Total	**291,021**	**284,320**	**2,822**	**3,879**	**275,891**	**214,317**	**3,879**	**1,328**	**364**	**228**	**1,813**

(1) On- and off-balance sheet credit risk, including with respect to derivative instruments (NIS in millions): Debts[2] – 214,317; debentures – 9,964; securities borrowed or acquired in conjunction with resale agreements – 120; Assets with respect to derivative instruments – 2,578; and Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower indebtedness limits – 64,042.
(2) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements.
(3) Includes with respect to off-balance sheet credit instruments (included on balance sheet under Other Liabilities).
(4) Credit risk whose credit rating as of the report date matches the credit rating for new credit performance, in conformity with Bank policies.
(5) Credit in good standing at a low rating, for which Bank policy includes specific restrictions on extending such credit.
(6) On- and off-balance sheet credit risk which is impaired, inferior or under special supervision, including with respect to residential mortgages for which a provision was made by extent of arrears, and residential mortgages for which no provision was made by extent of arrears and which are in arrears of 90 days or longer.
(7) Includes on-balance sheet credit risk amounting to NIS 1,759 million and off-balance sheet credit risk amounting to NIS 2,501 million, provided to certain purchase groups in the process of construction and includes off-balance sheet credit risk amounting to NIS 5,571 million for which insurance has been acquired to cover the portfolio of Housing bonds and performance guarantees pursuant to the Sale Law from international re-insurers.
(8) Reclassified.

Key exposure to Foreign Countries – consolidated[1]

Reported amounts (NIS in millions)

Country	December 31, 2020				December 31, 2019		
					Exposure		
	On balance sheet[2]	Off-balance sheet[2][3][4]	Total	Excluding Union Bank	On balance sheet[2]	Off-balance sheet[2][3][4]	Total
USA	12,844	581	13,425	12,735	10,030	556	10,586
France	1,586	2,255	3,841	3,650	1,418	2,226	3,644
UK	2,465	764	3,229	2,474	2,041	1,115	3,156
Germany	161	2,844	3,005	2,742	132	2,922	3,054
Other	3,317	1,845	5,162	4,179	2,415	1,000	3,415
Total exposure to foreign countries	**20,373**	**8,289**	**28,662**	**25,780**	**16,036**	**7,819**	**23,855**
Of which: To Greece, Portugal, Spain, Italy	44	39	83	64	42	33	75
Of which: Total exposure to LDC countries	516	142	658	507	409	83	492
Of which: Total exposure to foreign countries facing liquidity issues	–	–	–	–	–	–	–

(1) Based on final risk, after effect of guarantees, liquid collateral and credit derivatives

(2) On- and off-balance sheet credit risk is stated before impact of provision for credit losses, and before impact of deductible collateral with respect to indebtedness of borrower and of borrower group.

(3) Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower indebtedness limits, in conformity with Proper Conduct of Banking Business Directive 313.

(4) The balance of off-balance sheet exposure includes NIS 5,653 million with respect to acquiring insurance from international reinsurers for the portfolio of Housing bonds for borrowers in the real estate sector in Israel. (As of December 31, 2019: NIS 5,571 million).For more information about revision of the Credit Conversion Factor (CCF) applied to guarantees to secure investments by apartment buyers pursuant to the Sale Act. See Note 25 to the financial statements.

(5) As of December 31, 2020 and December 31, 2019, the Bank has no exposure to foreign countries facing liquidity issues.

The exposure presented above represents, in accordance with directives of the Supervisor of Banks, exposure based on final risk. The party bearing the final risk is an individual, business, institution or instrument which provides "credit reinforcement" to the Bank, such as guarantees, collateral, insurance contracts or credit derivatives. When no "credit reinforcement" exists, the party bearing the final risk is the debtor.

The row "Total exposure to LDC countries" includes total exposure to countries classified as "Less Developed Countries" (LDC) in Proper Conduct of Bank Businesses 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 affiliates of the banking corporation in foreign country to local residents. Cross-border balance sheet exposure includes balance sheet exposure of Israeli offices of the banking corporation to residents of the foreign country and balance sheet exposure of overseas affiliates of the banking corporation to non-residents of the country where the affiliate is located.

Credit exposure to foreign financial institutions

Below is information on the Bank's exposure to foreign financial institutions[1][2] (NIS in millions):

External credit rating	On-balance sheet credit risk[3] Before offset of deposits with respect to master netting agreements[5]	After offset of deposits with respect to master netting agreements[6]	Off balance sheet credit risk[4]	Current credit exposure Before offset of deposits with respect to master netting agreements	After offset of deposits with respect to master netting agreements[5]	Current credit exposure Excluding Union Bank, after offset of deposits with respect to master netting agreements
	As of December 31, 2020[7]					
AAA to AA-	1,092	1,041	5,489	6,581	6,530	6,505
A+ to A-	1,229	1,168	260	1,489	1,428	305
BBB+ to BBB-	83	83	20	103	103	26
BB+ to B-	85	85	24	109	109	24
Lower than B-	–	–	–	–	–	–
Unrated	23	23	–	23	23	23
Total credit exposure to foreign financial institutions	**2,512**	**2,400**	**5,793**	**8,305**	**8,193**	**6,883**

External credit rating	On-balance sheet credit risk[3] Before offset of deposits with respect to master netting agreements[5]	After offset of deposits with respect to master netting agreements[6]	Off balance sheet credit risk[4]	Current credit exposure Before offset of deposits with respect to master netting agreements	After offset of deposits with respect to master netting agreements[5]
	As of December 31, 2019				
AAA to AA-	756	711	5,616	6,372	6,327
A+ to A-	183	112	229	412	341
BBB+ to BBB-	11	9	10	21	19
BB+ to B-	–	–	26	26	26
Lower than B-	–	–	–	–	–
Unrated	10	–	–	10	–
Total credit exposure to foreign financial institutions	**960**	**832**	**5,881**	**6,841**	**6,713**

(1) Foreign financial institutions include: banks, investment banks, brokers/dealers, insurance companies, institutional entities and entities controlled by these entities. Bank exposure is almost entirely to banks and investment banks primarily incorporated in the UK, USA, Germany, Switzerland and France.
(2) After deduction of provision for credit losses.
(3) Bank deposits, loans to the public, investment in debentures, securities borrowed or acquired in conjunction with resale agreements and other assets with respect to derivative instruments.
(4) The balance of off-balance sheet exposure to financial institutions includes NIS 5,653 million as of December 31, 2020 (as of December 31, 2019: NIS 5,571 million) with respect to acquiring insurance from international reinsurers for the portfolio of Housing bonds for borrowers in the real estate sector in Israel as well as guarantees and additional commitments to extend credit, including guarantees to secure indebtedness of third parties.
(5) Presented net of fair value of liabilities with respect to derivative instruments for counter-parties which have signed master netting agreements.
(6) With respect to offset of cash deposits used as collateral for transactions with regard to financial derivative instruments.
(7) Including Union Bank data.

Due to potential implications of the economic crisis resulting from the Corona Virus pandemic for the condition of many financial institutions world-wide, credit spread volatility in the first half of 2020 increased during the crisis period. Many financial institutions had their rating outlook lowered, with some ratings lowered as well. In the second half of 2020, financial markets seem to have stabilized, although the financial system is still associated with increased risk. During this period and in line with developments, the Bank closely monitored all exposure frameworks of the Bank, analysis and review of relevant risks by various parameters, and in line with the level of business activity with counter-parties, the Bank revised the various exposure frameworks (right-sizing).

As of December 31, 2020 and December 31, 2019 there was no problematic commercial credit risk, net.

Problematic credit risk – credit risk for impaired, inferior credit or credit under special supervision.

The aforementioned credit exposure excludes exposure to financial institutions for which complete, explicit government guarantees are in place, and exclude investments in asset-backed securities. For more information with regard to credit exposure composition with respect to derivative instruments vis-à-vis banks and dealers/brokers (domestic and foreign), see Note 28.C. to the financial statements.
Some of the exposures listed in the above table are included under "Credit Risk by Economic Sector", under "Financial services". This includes deposits with banks, loans to the public, public investment in debentures and other assets with respect to derivative instruments. Futures transactions, weighted in accordance with rules stated in Proper Business Conduct Directive 313, are included as part of off-balance sheet credit risk, and are excluded from the above table.

In conjunction with its policies regarding management of exposure to foreign financial institutions, the Bank's Board of Directors sets, inter alia, the risk appetite – i.e. the maximum exposure limit for states and foreign financial institutions, while adjusting the exposure limit to the risk assessment for each state and financial institution. Exposure limits are set based, inter alia, on rating of the various nations and financial institutions and on Bank assessment of the risk level in a manner which diversifies exposure.

The Bank determines the exposure limit to each financial institution based on the most recent rating available for said institution, provided by three of the leading international rating agencies are used – based on financial information for the institution under review, based on their policy. Exposure limits per institution include maximum exposure amount and maximum time to maturity for different types of activities and transactions. To this end, the existence (or absence) of an offset agreement for derivative operations with these financial institution is also taken into consideration. The policies also specify a hierarchy of authority for approval of specific transactions within the exposure limits.

The Bank monitors current ratings published for financial institutions to which it has exposure, and adjusts the exposure limits and actual exposure, as required, to the current rating. The Bank also reviews on a regular basis any additional information available with regard to these institutions in order to monitor exposures even where the credit rating may not reflect the complete picture of the situation.

The Bank takes into consideration the maturity dates of its credit exposures in conjunction with the Bank's liquidity requirements. Deposits are normally deposited for short terms, whereas exposure with respect to derivative instruments and investments in securities are for longer terms.

Ratings – Bank activity with overseas entities generates exposure to nations and to financial institutions. The Bank has set policies with regard to evaluation and routing of risk arising from this exposure. For credit risk exposure management, as stated above, the Bank uses ratings by independent rating agencies, primarily: Fitch, Standard & Poor's, and Moody's. These ratings are accounted for as part of the considerations in setting limits on the Bank's exposure to nations and banks, intended primarily for derivatives operations, financing and guarantees for foreign trade and various investments. The external ratings form a basis for in-house analysis of a country or counter-party, conducted by the Bank. Other data from various sources used for this analysis are also taken into account. The Bank's assessment of the counter-party may differ from that of the rating agency.

As noted above, the Bank acquires the ratings, and analysis underlying such ratings, from Fitch, Standard & Poor's and Moody's. Ratings and analysis are periodically updated by the rating agencies and the Bank uses the most current information available when setting facilities or when evaluating a counter-party.

Housing credit risk

In conjunction with credit risks management, the Bank takes various actions to manage, control and mitigate risks associated with provision of residential mortgages . The Bank estimates the risk profile associated with provision of residential mortgages as low, relative to the inherent risk in the Bank's overall loan portfolio, due to the high level of client dispersion, geographic dispersion of borrowers, relatively low leverage, which recently has decreased recently due to Bank of Israel directives, intensive review procedures of borrower quality and their repayment capacity, and securing credit with property as collateral.
The Bank acts regularly to control and manage the risk associated with residential mortgages, for which the Retail Division, the Risks Control Division and other Bank entities are responsible. This activity includes portfolio analysis by inherent risk factors (LTV, repayment ratio, geographic location, loan age, income decile etc.) and carrying out a variety of stress scenarios to review the impact of macro-economic factors on portfolio risk level – primarily the impact of the unemployment rate and interest rates. The Bank has an advanced model for rating residential mortgages, which includes a rating for each loan and calculation of potential loss in case of failure. This model is part of the Bank's existing monitoring tools.

Risk appetite and risk profile in mortgage segment

As part of its credit risk policies, the Bank has set various restrictions on housing loan operations, to account for major risk factors. These factors are evaluated from time to time and additional restrictions are imposed as needed, i.e. based on the actual risk profile of the mortgage portfolio and its developing trend, as well as on regulatory directives from the Bank of Israel.
The risk appetite for mortgages is defined using multiple risk benchmarks, which evaluate credit risk and concentration risk aspects at regular performance level. These benchmarks include: differential risk premium (reflecting the risk of the mortgagee), the LTV ratio, of the loan, property location (geographic risk), credit quality benchmark (see below under

Credit Control), loan repayment to income ratio, loan purpose, loan term, loan track mix, property type, document quality, normative interest rate, financial wealth and cross restrictions on combinations of multiple parameters.

The Bank constantly monitors the risk profile of the mortgage portfolio and its development over time, in view of the specified risk appetite. In particular, this monitoring is conducted through the Bank's quarterly risks document which is presented to and approved by Bank Management, the Board of Directors and its Risks Management Committee. Such monitoring reveals that leading risk benchmarks continue to remain relatively low. These benchmarks include: LTV ratios, repayment ratio, rate of obligation in default and, in particular, the rate of arrears for new loans (one year since origination), which is testimony to the high quality of underwriting at the Bank. Note that the average LTV ratio for the Bank's mortgage portfolio (at end of December 2020) was 52.7% (53.4% excluding Union Bank), reflecting the LTV ratio upon loan origination – see more details below. The Bank also estimates the "actual" LTV ratio for the portfolio, based on changes to property values, based on estimates by the Central Bureau of Statistics against the outstanding portfolio balances. This ratio is lower than the original LTV ratio due to the constantly higher housing prices, reflected by the mortgage inventory in the portfolio. These data support the Bank's estimate that the potential for loss due to the Bank's mortgage portfolio, even in scenarios involving material decline in housing prices, is low. In addition, the Bank regularly reviews its mortgage portfolio under stress conditions, including under significant change in macro-economic conditions, using multiple methodologies. The outcome of stress testing indicates that portfolio risk has decreased and that the potential impact of a severe stress event in the market is low.

In a scenario of deterioration in conditions of borrowers in the Bank's housing loan portfolio, the Bank has exposure to the risk of impairment to borrower ability to make current repayments, with concurrent material decline in value of collateral and other expenses and costs which the Bank may incur, including legal expenses, alternative housing expenses and other expenses.

In order to minimize the risk of overall impairment to borrower ability to make repayments, the Bank maintains a conservative policy on loan repayment ratio. Even in case of impairment to borrower ability to make repayments, the Bank has wide safety margins, due to its conservative policy on the rate of financing, in order to ensure full coverage of outstanding debt and additional costs, even in case of significant decline in value of real estate collateral. For more information see risk attributes in the housing loan portfolio below.

Stress scenarios tested by the Bank, which assume impairment to borrower income and decline in value of real estate collateral, show that even under scenarios of highly significant price decline, the potential damage to the Bank is within the boundaries of its risk appetite.

Corona Virus pandemic

Due to the Corona Virus outbreak, the Bank is preparing to provide a response with regard to mortgage execution and management. Activities were implemented with due consideration to directives of the Bank of Israel (including relief provided for), so as to support and assist our clients during the crisis, while monitoring risk and adjusting credit policy.

The Bank closely monitors the developments and implications of the Corona Virus outbreak on its clients, with attention paid to factors that may affect the risk level in the mortgage portfolio. Criteria for loan approval have been adapted to accommodate clients on unpaid leave, taking into account their pre-crisis income, in conformity with Bank of Israel directives.

In order to assist clients with a loan at the Bank, the Bank has allowed clients to receive a full or partial repayment delay, in conformity with updates to the Bank of Israel outline. The Bank closely monitors this activity with regard to the following: Delayed amount, number of applications, repayments delay period, borrower profile, LTV ratio and so forth.

Volume of mortgages granted by the Household segment is as follows:

	Loans granted (NIS in millions)			Change in %	
	2020	**2019**	**2018**	**2019-2020**	**2018-2020**
Mortgages issued (for housing and any purpose) out of Bank funds	27,074	23,702	21,406	14.2	26.5
From funds of the Finance Ministry					
Directed loans	343	357	294	(3.9)	16.7
Standing loans and grants	125	90	73	38.9	71.2
Total new loans	**27,542**	**24,149**	**21,773**	**14.1**	**26.5**
Refinanced loans	4,304	3,862	2,251	11.4	91.2
Total loan origination(1)	**31,846**	**28,011**	**24,024**	**13.7(2)**	**32.6(2)**
Number of borrowers (includes refinanced loans)	52,922	46,883	43,801	12.9	20.8

(1) Of which: Loan origination amounting to NIS 534 million by Union Bank in the fourth quarter of 2020.
(2) Excluding the effect of Union Bank: 11.8% and 30.3%, respectively.

Below are details of various risk attributes of the housing loan portfolio[(1)] as of December 31, 2020 including Union Bank (NIS in millions):

LTV ratio	Repayment ratio out of regular income	Loan age[(2)] (time elapsed since loan grant) Up to 3 months	3-12 months	1-2 years	2-5 years	5-10 years	Over 10 years	Total
Up to 60%	Up to 35%	3,539	9,951	13,540	30,671	23,217	8,889	89,807
	50%-35%	401	1,045	1,097	3,940	5,553	2,327	14,363
	80%-50%	–	2	1	6	864	664	1,537
	Over 80%	–	–	–	1	66	93	160
75%-60%	Up to 35%	2,572	6,613	7,434	14,030	10,965	2,337	43,951
	50%-35%	280	603	500	1,513	1,854	776	5,526
	80%-50%	–	–	–	1	206	174	381
	Over 80%	–	–	–	–	3	23	26
Over 75%	Up to 35%	30	123	139	224	505	980	2,001
	50%-35%	2	6	6	19	110	297	440
	80%-50%	–	–	–	1	9	91	101
	Over 80%	–	–	–	–	3	16	19
Total		**6,824**	**18,343**	**22,717**	**50,406**	**43,355**	**16,667**	**158,312**
Of which:								
Loans granted with original amount over NIS 2 million		681	1,602	1,566	3,236	2,157	603	9,845
Percentage of total residential mortgages		10.0%	8.7%	6.9%	6.4%	5.0%	3.6%	6.2%
Loans bearing variable interest:								
Non-linked, at prime lending rate		1,927	5,655	6,957	14,228	13,005	7,139	48,911
CPI-linked[(3)]		111	229	319	409	1,166	3,172	5,406
In foreign currency[(3)]		143	341	623	1,300	1,058	601	4,066
Total		**2,181**	**6,225**	**7,899**	**15,937**	**15,229**	**10,912**	**58,383**
Non-linked loans at prime lending rate, as percentage of total residential mortgages		28.2%	30.8%	30.6%	28.2%	30.0%	42.8%	30.9%
CPI-linked loans bearing variable interest as percentage of total residential mortgages		1.6%	1.2%	1.4%	0.8%	2.7%	19.0%	3.4%
Loans with LTV over 75% as percentage of total residential mortgages		0.5%	0.7%	0.6%	0.5%	1.4%	8.3%	1.6%

(1) Balance of residential mortgages after provision by extent of arrears.
(2) The loan balances presented above are aged based on the date of loan origination, and include under the same age group any loan balances actually provided at a later date. Furthermore, loan refinancing does not modify the loan age, i.e. the loan balance is attributed to the original loan origination date. This treatment also applies to refinancing of "directed" loans originally guaranteed by the State and refinanced to loans for which the Bank is responsible.
(3) Pursuant to directives by the Supervisor of Banks, these include loans for which the interest rate is adjusted more frequently than once every 5 years (not inclusive).

Below are details of various risk attributes of the housing loan portfolio[1] as of December 31, 2020 excluding Union Bank (NIS in millions):

LTV ratio	Repayment ratio	Loan age[2] (time elapsed since loan grant)						
	out of regular income	Up to 3 months	3-12 months	1-2 years	2-5 years	5-10 years	Over 10 years	Total
Up to 60%	Up to 35%	3,053	9,010	12,485	28,217	21,616	8,529	82,910
	50%-35%	370	940	952	3,579	5,002	1,932	12,775
	80%-50%	–	2	1	6	864	664	1,537
	Over 80%	–	–	–	1	66	93	160
75%-60%	Up to 35%	2,405	6,311	7,111	13,683	10,794	2,252	42,556
	50%-35%	259	571	466	1,445	1,735	576	5,052
	80%-50%	–	–	–	1	206	174	381
	Over 80%	–	–	–	–	3	23	26
Over 75%	Up to 35%	30	122	138	224	496	972	1,982
	50%-35%	2	6	6	19	107	287	427
	80%-50%	–	–	–	1	9	91	101
	Over 80%	–	–	–	–	3	16	19
Total		**6,119**	**16,962**	**21,159**	**47,176**	**40,901**	**15,609**	**147,926**
Of which:								
Loans granted with original amount over NIS 2 million		574	1,457	1,409	2,937	1,933	508	8,818
Percentage of total residential mortgages		9.4%	8.6%	6.7%	6.2%	4.7%	3.3%	6.0%
Loans bearing variable interest:								
Non-linked, at prime lending rate		1,710	5,224	6,448	13,287	12,019	6,462	45,150
CPI-linked[3]		1	13	32	51	784	3,069	3,950
In foreign currency[3]		143	341	623	1,300	1,035	559	4,001
Total		**1,854**	**5,578**	**7,103**	**14,638**	**13,838**	**10,090**	**53,101**
Non-linked loans at prime lending rate, as percentage of total residential mortgages		27.9%	30.8%	30.5%	28.2%	29.4%	41.4%	30.5%
CPI-linked loans bearing variable interest as percentage of total residential mortgages		–	0.1%	0.2%	0.1%	1.9%	19.7%	2.7%
Loans with LTV over 75% as percentage of total residential mortgages		0.5%	0.8%	0.7%	0.5%	1.5%	8.8%	1.7%

(1) Balance of residential mortgages after provision by extent of arrears.

(2) The loan balances presented above are aged based on the date of loan origination, and include under the same age group any loan balances actually provided at a later date. Furthermore, loan refinancing does not modify the loan age, i.e. the loan balance is attributed to the original loan origination date. This treatment also applies to refinancing of "directed" loans originally guaranteed by the State and refinanced to loans for which the Bank is responsible.

(3) Pursuant to directives by the Supervisor of Banks, these include loans for which the interest rate is adjusted more frequently than once every 5 years (not inclusive).

Attributes of the Bank's housing loan portfolio

The Bank's policies with regard to mortgages are based on a conservative approach, limiting specific risk for each loan by evaluating various attributes. These attributes include: LTV ratio, ratio of repayment to regular borrower income, and borrower capacity to make current repayments even under scenarios involving a change in interest rates. Whenever loans are granted with attributes which do not meet one or more of the standards set by the Bank for these attributes, the Bank requires additional bolstering for the loan, such as guarantors for the loan, proven repayment capacity not based on regular borrower income etc. In recent years, due to expansion of the housing market and relatively low interest environment, the Bank has enhanced measures taken to monitor and mitigate risk, as reflected by a significant decrease in loan risk factors, as detailed below (all data below as of December 31, 2020).

LTV ratio

One of the key parameters used by the Bank in minimizing risk in its housing loan portfolio is the LTV ratio (ratio of loan amount to value of the property pledged as collateral).

The average loan-to-value ratio for the Bank's mortgage portfolio as of December 31, 2020 was 52.7% (53.4% excluding Union Bank), compared to 52.7% on December 31, 2019 and to 52.6% on December 31, 2018. Out of the total loan portfolio of the Bank, amounting to NIS 158.3 billion (NIS 147.9 billion excluding Union Bank), some 98.4% (98.3% excluding Union Bank) were granted with an original LTV ratio under 75%, which secures the loan even in case of an extreme 25% decrease in value of the property pledged as collateral.

The LTV ratio in this report is the historical LTV ratio calculated upon loan approval, and does not account for any current repayments which reduce the loan balance nor any changes in value of properties pledged as collateral. The significant increase in housing prices, as from late 2008 and, conversely, reduced loan balances due to current repayments result in a decrease in the current "actual" LTV ratio and, as noted above, based on changes to property values as estimated by the Central Bureau of Statistics, against current portfolio balances. This ratio is significantly lower than the historical LTV ratio. Total loans granted at LTV ratios over 75% in the past two years amounted to NIS 0.3 billion, or only 0.2% of the total housing loan portfolio.

Note, in this regard, that the Bank's average LTV ratio as of December 31, 2020, based on current outstanding balances (with no change to property value due to changes in housing prices) would have decreased as follows: For loans originated up to one year ago – by 4%; for loans originated one to 5 years ago – by 6%; and for loans originated over 5 years ago – by 19%; for all loans in total – by 11%.

The percentage of loans granted with a high LTV ratio (over 75%) out of total housing loan portfolio of the Bank to 0.7% for loans granted 1-2 years ago, 0.8% for loans granted 3-12 months ago and 0.5% for loans granted in the fourth quarter of 2020.

Repayment as percentage of regular income

The LTV ratio of a housing loan is a benchmark of loan security, regardless of borrower attributes. Therefore, in addition, when a mortgage is approved, the Bank requires borrowers to show their capacity to make current loan repayments on schedule, primarily by calculating the ratio of monthly repayment to regular borrower income.

The average repayment ratio for the Bank's housing loan portfolio is 25.6% (25.5% excluding Union Bank). Some 86.2% of the Bank's mortgage portfolio were granted to borrowers with a repayment ratio under 35% (the average repayment ratio for these borrowers is 23%). Some 12.3% of the mortgage portfolio was granted to borrowers with a repayment ratio of 35% to 50% (the average repayment ratio for these borrowers is 39.1%). Some 1.4% of mortgages was granted to borrowers with a repayment ratio of 50% to 80% (the average repayment ratio for these borrowers is 59.3%), and only 0.1% were granted to borrowers with a repayment ratio over 80% (the average repayment ratio for these borrowers is 92.1%).

At Union Bank, most of the housing loan portfolio has a repayment ratio lower than 35%.

The loans with a high repayment ratio are loans granted to borrowers with significant other assets, whose repayment capacity is not necessarily based on current income, to borrowers with very high income where the repayment ratio is less significant, or where additional bolstering of the loan is in place, in addition to the pledged property and repayment capacity of the borrower, such as financially robust guarantors.

Loans bearing variable interest

The Bank offers clients residential mortgages which in part bear adjustable interest and in part are linked (to CPI, foreign currency) or non-linked (NIS-denominated loans).

The Supervisor of Banks has limited the share of the loan bearing variable interest within 5 years, to 33% of the total loan at most, and further stipulated that a banking corporation may not approve residential mortgages where the percentage of the loan bearing variable interest exceeds 67% of the total loan, regardless of the frequency of interest rate changes. The Bank provides clients with the knowledge and expertise of its staff in order for clients to understand the risk involved with a loan bearing adjustable interest and how this risk may be mitigated or avoided. The Bank advises clients to attribute appropriate weighting to this risk, and to be cautious when deciding upon the loan composition.

Total loans linked to the prime lending rate granted over the past two years, which constitute the major portion of risk associated with such mortgages, is NIS 14.5 billion (NIS 13.4 billion excluding Union Bank), or only 9.2% of the housing loan portfolio (9% excluding Union Bank).

Note however that before approving a loan linked to the prime lending rate, similar to loan approvals for other variable interest tracks, the Bank reviews the repayment capacity of the borrower under scenarios where the prime lending rate would increase to the "normative interest rate".

Loan amount

Loans granted by the Bank with an original amount over NIS 2 million amounted in total to NIS 9.8 billion (NIS 8.8 billion excluding Union Bank) on December 31, 2020, or only 6.2% of the Bank's housing loan portfolio (6% excluding Union Bank).

Provision by extent of arrears

Below are details of the provision for credit losses with respect to residential mortgages for which a minimum provision for credit losses was made by extent of arrears, in accordance with appendix to Proper Conduct of Banking Business Directive 314, as of December 31, 2020 (NIS in millions):

	Including Union Bank							
	Extent of arrears							
		In arrears 90 days or longer					Balance with respect to refinanced loans in arrears(2)	Total
	In arrears 30 to 89 days(1)	90 days to 6 months	6-15 months	15-33 months	Over 33 months	Total over 90 days		
Amount in arrears	7	21	12	19	201	253	35	295
Of which: Balance of provision for interest(3)	–	–	–	1	111	112	7	119
Recorded debt balance	434	681	162	123	141	1,107	71	1,612
Balance of provision for credit losses (4)	–	–	23	59	101	183	36	219
Debt balance, net	**434**	**681**	**139**	**64**	**40**	**924**	**35**	**1,393**

	Excluding Union Bank							
	Extent of arrears							
		In arrears 90 days or longer					Balance with respect to refinanced loans in arrears(2)	Total
	In arrears 30 to 89 days(1)	90 days to 6 months	6-15 months	15-33 months	Over 33 months	Total over 90 days		
Amount in arrears	7	20	11	19	199	249	35	291
Of which: Balance of provision for interest(3)	–	–	–	1	110	111	7	118
Recorded debt balance	409	663	147	121	140	1,071	71	1,551
Balance of provision for credit losses (4)	–	–	23	59	101	183	36	219
Debt balance, net	**409**	**663**	**124**	**62**	**39**	**888**	**35**	**1,332**

(1) In conformity with Public Reporting Directives, excludes the balance of residential mortgages in arrears up to 2 months.
(2) Loans for which an agreement was signed for repayment of arrears by borrower, where a change was made in the repayment schedule for the loan balance not yet due.
(3) With respect to interest on amounts in arrears.
(4) Excludes balance of provision for interest.

Means for risk management in residential mortgages

Means for risk management in residential mortgages include:

- Underwriting process – residential mortgages are evaluated and approved based on the following criteria:
  - Loan approval criteria include: Accumulated experience at the Bank with regard to residential mortgages; Results of current credit reviews; Review of loan portfolios carried out by a special-purpose nation-wide examination center; Assessment of credit risks in different areas of the country; Borrower quality and repayment capacity; Proposed property collateral and guarantors; Nature of the transaction.
  - Credit authorization – Specification of the party authorized to approve a loan is based on data in the credit application and the risk associated there with.
  - Model for determination of differential risk premium – This model was developed by the Bank, based on past empirical data, for rating transaction risk.
  - Built-in controls in loan origination system – These controls include: Ensure information completeness; Control over transactions based on authorizations; Work flow process.

- Mortgage-related training – The Bank's Training Center delivers courses for training, development and improvement of all those involved in provision of residential mortgages.
- Professional conferences – In these conferences, extensive reviews of developments in the mortgage market are presented, along with steps to be taken to handle the risks associated with such developments.
- Regular monitoring of borrower condition and of the housing loan portfolio – At the individual loan level, the Bank acts to identify as early as possible any symptoms indicating a decline in borrower repayment capacity, in order to identify as soon as possible any credit failure situation. The Bank applies multiple control types, including regular internal controls at branches, regions and headquarters.

Entities participating in risk management and control for residential mortgages

- Mortgage Management Department of the Retail Division – This department handles different events which occur during the loan term.
- The National Examination Center of the Retail Division – Loan files are sent to this Center prior to origination. These files are reviewed by the Center, in order to verify that the branch did carry out the actions required according to Bank procedures, regulations and instructions of the loan approver.
- Collection Department – Handles debts collection from borrowers in arrears and realization of properties.
- Arrears Forum – The Forum specifies targets for debts processing and for reducing arrears.
- Legal Division – As part of the underwriting process, collateral for non-standard loans and for high-value loans are reviewed.
- Risks Control Division – The Risks Control Division monitors the quality of the Bank's loan portfolio and the evolution of the Bank portfolio's risk profile, in view of the specified risk appetite. The division is responsible for regularly applying stress scenarios to the Bank's mortgage portfolio.
- Credit risks and credit concentration monitoring forum – The Bank operates a forum for monitoring credit risks, headed by the Manager, Risks Control Division, which promotes issues such as: review of credit policy and, in particular, changes to the risk appetite specified there, analysis of credit portfolio risk level, application of advanced modeling approaches, supervision of design and application process of stress scenarios, and monitoring of the risk profile of the Bank's loan portfolio.
- Internal Audit – The work plan for Internal Audit with regard to loans includes, inter alia, reference to review of entities involved in loan approval, origination, administration and control.

Tools for risk mitigation in residential mortgages

- Collateral – In accordance with Bank procedures for mortgages, loans are only provided if secured by property collateral. In some cases, the Bank demands guarantors for the debt, in addition to property collateral.
- Insurance – According to Bank procedures, all properties serving as collateral must be insured under property insurance. In addition, the borrowers are insured by life insurance assigned to the Bank in case of death prior to complete repayment of the loan.
- Loan To Value (LTV) Ratio – The maximum LTV ratio approved by the Bank is determined by the credit policies and is periodically reviewed. Generally, the Bank requires borrowers to contribute part of the financing for the acquisition. This self-equity payment forms a safety cushion in case the property is realized during a down-turn in the real estate market. Furthermore,the rate of the borrower's participation is a further indication of the borrower's financial robustness.

For more information about operations of these entities, see the 2020 Risks Report on the Bank website.

Sale of housing loan portfolios

Transactions involving sale of housing loan portfolios transfer the entire credit risk from the Bank to the buyer, and are backed by legal and accounting opinions that establish a True Sale. The Bank only retains the operational risk, with respect to the Bank's commitment to the buyer to operate these loans, to collect and transfer funds and to provide regular reports. In order to minimize this operational risk, the Bank has created a computer-based operational mechanism to manage these loans and to generate regular reports to the buyers. Moreover, an annual external review (ISAE3402) is conducted of the integrity and effectiveness of processes and controls for management of the loan portfolios sold.

For more information about the Bank of Israel revision of Proper Conduct of Banking Business Directive 329 concerning "Restrictions on extending residential mortgages ", see chapter "The General Environment and Effect of External Factors on the Bank Group" above and chapter "Corporate Governance, Audit, Other Information about the Bank and Management thereof" (Legislation and Supervision of Bank Group Operations).

For more information about housing credit risk, see also the 2020 Risks Report available on the Bank website.

Environmental risks

For more information about environmental risks, see Other Risks below.

Market risk and interest risk

Risk description

Market risk – This is the risk of loss from on– and off-balance sheet positions, arising from change in fair value of financial instruments, due to change in market risk factors (interest rates, exchange rates, inflation, prices of equities and commodities).

Interest risk in the banking portfolio is the risk to Bank profit (change in revenues) or to the Bank's economic value, primarily due to changes in the structure of interest rate curves relevant for Bank operations, non-identical fluctuations of various curves used by the Bank for pricing and management of its exposures, or from the fact that a change in interest rates may result in a change in composition of the Bank's assets and liabilities due to exercise of options for early repayment due to change in market interest rates.

Overview of market and interest risk and guidelines for its management

The Bank has no exposure to commodities and its exposure to equities is not material; thus, the Bank's major exposure to market risk is due to basis risk – which is due to Bank assets and liabilities being denominated in different currencies or linkage segments – and to interest risk in the banking book. Changes in interest rates impact Bank profits (change in revenues) and the value of Bank assets (change in fair value).

Market risk and interest risk form an integral part of banking business and of management of Bank assets and liabilities. However, excessive market risk and/or interest risk may expose the Bank to loss and may pose a threat to Bank capital. Therefore, the Bank's Board of Directors and management have specified, in the Bank's structured process for risks mapping and identification, that market risk and interest risk are material risks and that management of these risks is critical for stability of the Bank, especially in view of the low interest rate environment and the potential for change in market interest trend. Management of these risks is designed to maintain a reasonable risk level, in conformity with the exposure caps, i.e. the risk appetite specified for these risks, while taking advantage of opportunities and constant monitoring of the risk profile, so that the Bank would not be exposed to significant losses.

Management of market risk and interest risk at the Bank consists of two main risk focus points:

- Bank portfolio – This portfolio, which is the Bank's primary activity and risk, consists of all transactions not included in the trading portfolio, including financial derivatives used to hedge the bank portfolio. This portfolio is exposed to interest and inflation risk. The measure of exposure which the Bank wishes to retain is due to the Bank's business operations and is reflected in the Bank's financial statements. This exposure is limited by the risk appetite, specified individually for market risk and interest risk in the bank portfolio, which is reviewed by the Bank daily, using various tools and models. Any deviation from or even getting close to the specified exposure limits are regularly reported and immediately addressed, in conformity with principles specified in the policy document created by the Bank. Management of this risk is designed to maintain a reasonable risk level, in conformity with the risk appetite specified for such risk, while taking advantage of opportunities and constant monitoring of the risk profile, so that the Bank would not be exposed to significant losses.
- Trading portfolio – The portfolio consists of positions in financial instruments held for trade or for hedging of other components in the trading portfolio. The consolidated portfolio (including Union Bank) includes portfolios managed by the trading room and portfolios of debentures held for trade and strategy in Israeli currency and in foreign currency – as well as derivatives designated for execution of strategies. The portfolio also includes hedging transactions for instruments included in the trading portfolio. This portfolio is associated with risk that is not high.

Market risk and interest risk are managed at Group level, including the Bank's overseas affiliates and subsidiaries. Operations vis-à-vis Bank Yahav and Union Bank are regularly coordinated, in particular for setting the Group risk appetite, which requires monitoring of the Group-level risk profile. Policy principles were specified in line with Bank strategy and with regulatory requirements, i.e. Proper Conduct of Banking Business Directives of the Bank of Israel, relevant Basel Committee directives and in line with globally accepted best practice.

As part of risk management, the Bank is required to allocate capital, as part of Basel II, Pillar 1, against risk in the trading portfolio, in conformity with Proper Conduct of Banking Business Directive 208 "Capital measurement and adequacy – market risk" which includes the Basel II directives with regard to definition, management and revaluation of the trading portfolio.

Overall market risk is categorized as Low-Medium. The market risk in the trading portfolio is minimal, in line with Bank policy. The bank portfolio includes the positions not classified as negotiable positions in the trading portfolio. The Bank handles interest risk in the bank portfolio and overall additional capital allocation with respect to it, in conformity with Basel Pillar 2. Capital allocation in conformity with Basel Pillar 2 is reviewed both under scenarios which reflect the normal life state and under stress scenarios, including systemic scenarios and stressed scenarios. This is done as part of the ICAAP process, as described in chapter "Capital adequacy".

The structure of the Bank's assets and liabilities portfolio, which is weighted towards the mortgage portfolio, produces medium-term uses for which the Bank requires sources. Due to incomplete alignment of the average duration of uses and the average duration of sources, the Bank's economic value is exposed to changes in interest rate curves.
This risk is monitored on a regular basis, both in managing interest risk for the overall portfolio in VaR terms, and in EVE (Economic Value of Equity) terms, as well as another range of scenarios which mostly reflect stress conditions. Assessment of Bank exposure to interest risks in the fourth quarter of 2020 remained at Low-Medium, see explanation below. It is Bank policy to raise medium-term sources for custom deposits, which both provide a solution for client needs and constitute a medium-term source for hedging interest rate exposures.
For more information about these models, their use and their limitations, see the 2020 Risks Report on the Bank website.

Means of supervision over and implementation of the policy

The Bank has put in place an organizational structure for management of market risks and interest risks in the bank portfolio, which includes the Board of Directors, Management and the three lines of defense. This structure is supported by special committees and forums, created for such risks management and in order to create an internal controls system, designed to prevent deviation from Bank policy in its activity in the trading portfolio and in the bank portfolio.

For more information about market and interest risk, see also the 2020 Risks Report available on the Bank website.

Hedging and risks mitigation policy

A major tool for management and mitigation of interest risk is setting shadow prices at the Bank (transfer pricing). Shadow prices at the Bank are determined daily by the Asset and Liability Management Department (hereinafter: "ALM") of the Financial Management Sector and reflect the needs for management of various exposures under the policy on risk / reward management.

Another tool is buying / selling government debentures. The Asset and Liability Management Department o the Financial Management Sector also manages the interest and/or basis position through forward contracts, swap transactions and options. The advantages of using these tools stem from the ability of rapid execution at large amounts, which allows for dynamic, effective management of market and interest exposures for asset and liability management by the Bank, within a reasonable time frame. In addition, these transactions are unfunded, are highly liquid and are conducted through the Bank's trading room.

Derivatives transactions, which are identified as hedging balance sheet positions in accordance with accounting rules, are to be specified as hedge accounting transactions, in accordance with the Bank's hedging procedure. Hedge effectiveness is the degree of correlation between changes in fair value or between cash flows of the hedged item and of the hedging derivative. The hedge is considered highly effective if the changes in fair value or cash flows of the hedged item, are nearly fully set off by changes in fair value or cash flows of the hedged instrument. Hedge effectiveness is tested quarterly.

At least once a year, the Bank reviews the underlying assumptions of models used to manage market and interest risks, including behavioral assumptions made in order to determine forecasting of certain instruments.

The Bank reviews the concentration of interest risk by linkage segment and by major instrument type. The concentration map is discussed annually by the risks management committee.

The Bank constantly acts to increase awareness of market and interest risks in the bank portfolio at Group level, including at overseas units of the Bank, through operating procedures, training and seminars on this topic. Furthermore, constant contact is maintained with all relevant units for management of market and interest risk. Coordination between units is designed to achieve a uniform methodology for management of market and interest risks in the bank portfolio.

Measurement of market and credit risks exposure and their management using models for risks management

Measurement of market and interest risks is supported by a wide range of information systems, models, processes, risk benchmarks and stress tests, which are regularly evaluated, through internal controls processes at the Bank, including continuous validation processes.
The Bank has two major models for managing its market and interest risks: The VaR model and the EVE model. The Bank calculates these benchmarks, as well as other benchmarks used for management of such risks, at least once per day.
The VAR model is a statistical model that estimates the loss expected for the Bank in a certain investment period and at a predetermined statistical level of assurance. This model measures risk level in terms of money, where the Bank aligns the investment horizon for the portfolios reviewed using this benchmark. The Bank uses a combination of multiple methods for VaR calculation, commonly used around the world. The VaR calculation is in addition to a back testing calculation, designed to review the quality of its calculation estimates, i.e. evaluate the model forecast, compared to actual results.
EVE (Economic Value of Equity) is a model which reflects the economic value approach. This is the Bank's main model for estimating interest risk in the bank portfolio, which evaluates changes in economic value of the portfolio under various assumptions of changes to interest rate curves, under normal conditions and under stress conditions, including a concurrent increase / decrease in the interest rate curve. In addition, the Bank has various stress tests at different severity levels, designed to review its risk profile under stress conditions, in view of the risk appetite determined by the Board of

Directors. The Bank also applies innovative methods to review interest risk in the bank portfolio under emergency conditions, including under stress scenarios of an economic outline. This scenario is based on the Bank's understanding as to development under stress conditions of macro-economic conditions relevant for these risks. The Bank also performs a scenario where the interest rate curve shifts in non-parallel fashion. Such scenario complements the EVE approach, which is based on parallel move of interest rate curves.

Bank methods for measuring risk values are conservative in many aspects, in line with common practice for implementation of the Basel principles. This reliably reflects the interest exposure, including effects of behavioral options inherent in the mortgage portfolio and in the deposit portfolio, which are dependent on interest.

The market risk in the trading portfolio is minimal, in line with Bank policy. The Bank structure, which is weighted towards the mortgage portfolio, produces long-term uses for which the Bank requires sources. The Bank regularly reviews the risk estimation methodology, in line with global common practice. Thus, in the first quarter of 2020, measurement methods were slightly revised to also include future receipts with respect to early repayment commission expected under the various scenarios. Consequently, the risk measured under lower interest scenarios decreased.

Note that Union Bank's nostro portfolio reflects risk that is higher than the Bank's risk appetite. However, at the Bank level on consolidated basis, the impact of this portfolio is not material

Assessment of Bank exposure to interest risks in the third quarter of 2020 remained at Low-Medium, see explanation below.

The fourth quarter of 2020 saw a slight decrease the medium range and a slight increase in the long term of the zero coupon NIS interest rate curve, and a decrease across the entire CPI-linked curve. In this quarter, inflationary expectations increased somewhat. The Bank continued to strictly manage its CPI-linked position, based on creating a daily linkage balance sheet and establishing a forecast position under various scenarios.

Risk values measured in the normal course of business and under stress scenarios were slightly higher compared to the third quarter of this year, primarily due to current banking operations in the mortgage segment, and range at levels lower than the specified risk appetite.

Assessment of Bank exposure to interest risks in the fourth quarter of 2020 remained at Low-Medium, see explanation below.

Below is the VaR for the Bank Group (NIS in millions):

Bank

	2020	**2019**
At end of period	770	484
Maximum value during period	(JUN) 1,055	(JUN) 626
Minimum value during period	(JAN) 443	(MAR) 431

The increase in VaR was mostly due to severe fluctuations in interest rate curves during the Corona Virus crisis.
Market risk is primarily due to interest risk in the bank portfolio, as presented below.
Back-testing of the historical-analytic VaR model shows one case in which the daily loss exceeded the forecast VaR value. This number of cases is within the criteria specified by the Basel Committee for review of the VaR model quality.

Analysis of interest risk in bank portfolio

Below is the effect[1] of a parallel shift of the curve by 2% on the economic value of the Bank's portfolio in EVE terms (NIS in millions):

parallel

	December 31, 2020					
	Change in fair value					
	Israeli currency		Foreign currency			
	Non-linked	Linked to CPI	Dollar	EUR	Other	Total
	Including Union Bank					
2% increase	(369)	(1,558)	195	(10)	15	(1,727)
Decrease by 2%	(38)	1,254	(199)	52	(17)	1,052
	December 31, 2020					
	Excluding Union Bank					
2% increase	(211)	(1,507)	247	12	18	(1,441)
Decrease by 2%	(197)	1,203	(251)	30	(20)	765
	December 31, 2019					
2% increase	55	(1,304)	372	67	12	(798)
Decrease by 2%	(1,211)	799	(401)	(40)	(12)	(865)

(1) Calculated based on current data used for actual interest risk management.

In preparing the mortgage repayment cash flows forecast for the Bank, assumptions with regard to the prepayment rate and manner are taken into account.
Credit balances in checking accounts are attributed in line with common practice in conformity with the Basel directives, i.e. over an average term of 3-4 years for different client types.
The Bank regularly reviews the risk estimation methodology, in line with global common practice. In the first quarter of 2020, measurement methods were slightly revised to also include future receipts with respect to early repayment commission expected under the various scenarios. Further to these changes, improvement was seen in the lower interest rate scenario.

In 2020, the Bank's VaR increased, primarily due to current mortgage performance.

Quantitative information about interest risk – Sensitivity analysis

Net adjusted fair value(1) of financial instruments of the Bank and its subsidiaries thereof:

value

	As of December 31, 2020						As of December 31, 2019		
	NIS	Foreign currency(2)	Total	NIS	Foreign currency(2)	Total	NIS	Foreign currency(2)	Total
	Including Union Bank			Excluding Union Bank					
Net adjusted fair value(1)	15,227	236	15,463	12,855	87	12,942	13,202	295	13,497
Of which: Banking portfolio	(4,109)	16,203	12,094	(5,674)	16,128	10,454	(2,411)	14,562	12,151

Impact of change scenarios in interest rates on net adjusted fair value(1) of the Bank and its subsidiaries

	As of December 31, 2020						As of December 31, 2019		
	NIS	Foreign currency(2)	Total	NIS	Foreign currency(2)	Total	NIS	Foreign currency(2)	Total
Concurrent changes	Including Union Bank			Excluding Union Bank					
Concurrent 1% increase	(35)	91	56	81	118	199	148	211	359
Of which: Banking portfolio	(48)	118	70	69	142	211	141	233	374
Concurrent 1% decrease	(35)	(99)	(134)	(134)	(120)	(254)	(715)	(200)	(915)
Of which: Banking portfolio	(10)	(68)	(78)	(123)	(91)	(214)	(709)	(242)	(951)
Non-concurrent changes									
Steeper(3)	(399)	(8)	(407)	(372)	(10)	(382)	(304)	(60)	(364)
Shallower(4)	624	46	670	705	46	751	35	111	146
Short-term interest increase	263	82	345	566	99	665	347	180	527
Short-term interest decrease	222	(87)	135	(90)	(103)	(193)	(545)	(183)	(728)

(1) Net fair value of financial instruments, except for non-monetary items, after effect of liability with respect to employee rights and attribution of on-call deposits to terms.

(2) Includes Israeli currency linked to foreign currency.

(3) Short-term interest decrease and long-term interest increase.

(4) Short-term interest increase and long-term interest decrease.

In the fourth quarter of 2019, the cross-impact of interest rate change scenarios and behavioral scenarios in the mortgage portfolio and in the deposit portfolio were revised, including with regard to sensitivity of net adjusted fair value to changes in interest rates.

Moreover, the measurement method was revised in the first quarter of 2020, as noted above, to include future receipts with respect to early repayment commissions expected to be received under the different scenarios.
The difference between Bank exposure to changes in interest according to net adjusted fair value and sensitivity of economic value (EVE) presented above, under a 1% concurrent shift of the curve, amounts to NIS 680 million.
Most of this difference is due to use of different capitalization curves. The capitalization curves used to analyze sensitivity of economic value (EVE) are transfer pricing curves, while discount rates used to present net adjusted fair value are possible discount rates for similar transactions on the balance sheet date, reflecting the inherent risk for a similar client. See Note 33 to the financial statements for additional information.
Note that the internal rate of return and the average effective duration, as presented under Bank exposure to changes in interest rates on the Risks Report, are average data and therefore it is not possible to make deductions based on a linear change there to with regard to sensitivity of net adjusted fair value to changes in interest rates.

Impact of change scenarios in interest rates on net interest revenues and non-interest financing revenues[1]:

	As of December 31, 2020						As of December 31, 2019		
	Interest revenues	Non-interest financing revenues[3]	Total	Interest revenues	Non-interest financing revenues[3]	Total	Interest revenues	Non-interest financing revenues[3]	Total
Concurrent changes[2]	Including Union Bank			Excluding Union Bank					
Concurrent 1% increase	1,145	145	1,290	1,013	104	1,117	733	248	981
Of which: Banking portfolio	1,148	125	1,273	1,016	88	1,104	734	168	902
Concurrent 1% decrease	256	(160)	96	323	(107)	216	6	(245)	(239)
Of which: Banking portfolio	256	(141)	115	323	(91)	232	6	(177)	(171)

(1) For a one-year term.

(2) Changes to risk-free interest.

(3) Includes the effect of fair value, gain (loss) from transactions in debentures and the effect of interest accrual for transactions in derivatives.

Below are the key assumptions and effects underlying the above data:

- Credit balances in checking accounts are attributed in line with common practice in conformity with the Basel directives, i.e. over an average term of 3-4 years for different client types.
- When calculating sensitivity of interest revenues in the non-linked segment, the risk-free interest rate is capped at 0%. No such cap is applied to other linkage segments (except for deposits with central banks).
- No cap is applied when calculating non-interest financing revenues.
- In a rising interest scenario, the increase in revenues is primarily due to increase in assets at Prime lending rate.
- The decrease in NIS yield in 2020 resulted in a lower effect in the decreasing interest scenario (due to being cut-off at zero).

For more information about interest risk, see the Detailed Risk Management Report on the Bank website.

For further details of assumptions used in calculation of the fair value of financial instruments, see Note 33 to the financial statements.

CPI and exchange rate

Overview of inflation and currency risks and guidelines for its management

Inflation exposure – The risk appetite varies with expected profit from holding a position and the Bank's capacity to reduce the exposure within a reasonable time frame. This exposure is included among the risk appetite benchmarks and models applied by the Bank to all market risks.
Currency exposures – It is Bank policy to maintain minimal (operating) currency positions, except for specific strategic positions approved by the different committees and/or Trading Room positions, in conformity with approved risk restrictions. Foreign currency strategic positions are capped by a Stop Loss mechanism to restrict and reduce risk.
Derivatives in the bank portfolio used for economic hedging of balance sheet activity, or which cannot be defined as an accounting hedge, impact accounting profit and loss. The gap derives from difference in accounting treatment between balance sheet items and derivatives other than accounting hedges. This effect is regularly monitored and managed subject to guidelines specified by management, by the Financial Management Sector and is reported and discussed by various risks management committees.

Presented below are major data reflecting CPI and exchange rate exposures, as reflected in the financial statements, while relating to the difference between the accounting presentation and measurement of economic exposure:

Financial capital – As of December 31, 2020, the Group capital exceeded its non-monetary items by NIS 18,234 million. Free capital of the Group, which includes financial capital, was used in 2020 to finance uses in the NIS segment, in line with current policies on resource and use management in the bank portfolio.

Linkage status – Details on the assets and liabilities in the various linkage segments at December 31, 2020 and 2019 are presented in Note 31 to the financial statements. However, the extent of the Bank's economic exposure is not fully reflected in the positions included in this note because of differences between the accounting approach and the economic approach with regard to capital items, non-monetary items and investments in investee companies, as explained below.

Surplus CPI-linked assets of the Group, which include balance sheet and off-balance-sheet items as of December 31, 2020 as presented in Note 31 to the financial statements, amounts to NIS 18.6 billion, representing the economic exposure. In December 2019, excess assets in this segment amounted to NIS 13.4 billion.

Excess assets in foreign currency for the Group as of December 31, 2020 amounted to NIS 354 million. After adjustment of the economic reference to deposits used to cover investments in overseas subsidiaries, which are presented as non-monetary items, and to temporary impairment of investments in securities, the position in this segment amounts to surplus uses of NIS 400 million. As of December 31, 2019, the foreign currency position for the Group, after the aforementioned adjustments and after attribution of the general and supplementary provision for doubtful debts to free capital, amounted to surplus uses of NIS 168 million. The position in the non-linked NIS segment balances the open economic positions in the CPI-linked and foreign currency segments.

The Bank has CPI-linked uses due to current operations in the mortgage portfolio linked to the CPI, for which the Bank raises CPI-linked sources, including debenture issues and deposits from the public. The Bank uses financial derivatives to actively manage this exposure, in line with the specified exposure policy.

The Report of the Board of Directors and Management presents the Group's exposure to interest on a consolidated basis,s presented in terms of average effective duration and in terms of fair value. Cash flows used in calculating exposure are based on assumptions with regard to withdrawal rates at exit points for deposits and early mortgage repayment rates. The percentage of withdrawals is based on empirical data.

For further details of assumptions used in calculation of cash flows and fair value of financial instruments, see Note 33 to the financial statements.

Below is analysis of the sensitivity of Bank Group capital to changes in major exchange rates and in the CPI (before tax effect) as of December 31, 2020, capital increase (erosion) (NIS in millions):

				Scenarios	Historical stress scenario[(1)]	
	10% increase	**5% increase**	**Decrease by 5%**	**Decrease by 10%**	**Maximum increase**	**Maximum decrease**
CPI[(2)]	1,906.9	954.1	(973.4)	(1,946.8)	184.1	(160.5)
Dollar	28.5	13.3	(18.9)	(40.6)	9.3	(6.2)
Pound Sterling	0.9	0.4	0.1	0.1	0.1	0.2
Yen	0.1	0.1	0.4	1.8	–	0.6
EUR	(11.8)	(6.9)	2.2	0.2	0.6	(0.1)
Swiss Franc	(0.3)	(0.2)	0.2	0.3	(0.2)	0.1

(1) Stress scenarios were calculated based on daily changes in the exchange rate and monthly changes in the CPI, in the last 10 years.

(2) Capital sensitivity to a 3% increase / decrease in the CPI is NIS 525.4 million and NIS (536.5) million, respectively.

(3) Including Union Bank.

Share price risk

For more information about share price risk, see the 2020 Risks Report available on the Bank website.

For more information about equity investments in the bank portfolio, see chapter "Major investee companies" above, the 2020 Risks Report on the Bank website and Notes 12 and 15.A to the financial statements.

Liquidity and financing risk

Risk description

Liquidity risk – risk resulting from uncertainty as to the availability of sources and the ability to realize assets within a specified period of time and at a reasonable price.

Financing risk – risk resulting from shortage of financing sources or too high costs to raise such sources.

Overview of liquidity risk and guidelines for management

Liquidity risk is managed in conjunction with Proper Conduct of Banking Business Directive 310 "Risks management", Directive 342 "Liquidity risk management" and Directive 221 "Liquidity coverage ratio". The risk is managed subject to the limitations of the Board of Directors and Executive Management in an effort to minimize the losses deriving from an investment of surplus liquidity in assets that are highly liquid, but have a low yield.

Liquidity risk management is governed by a policies document submitted annually or more frequently for approval by the Board of Directors. The policies document covers how risk is managed, including roles and responsibilities of the various organs, the regular management of liquidity risk, all parameters used for risk measurement in the normal course of business and under various stress scenarios, restrictions specified by the Board of Directors and by management, including restrictions on source concentration and composition, as well as a detailed emergency plan for handling a liquidity crisis, including various states of alert for liquidity risk management and potential means under each scenario type and the estimated time for execution.

The Bank's Board of Directors sets strategy for liquidity risk management and the risk appetite in conformity with regulatory requirements, using a range of restrictions on three risk dimensions: Normal course of business, scenarios (liquidity coverage ratio and minimum liquidity ratio – internal model) and concentration. Bank management has specified a further set of restrictions to serve as management guidelines – beyond those specified by the Board of Directors. In 2020 there were no recorded deviations from the Board of Directors' restrictions.

The Bank applies tools for monitoring liquidity risk using endogenous and exogenous indicators, which may point to an increase in risk up to crisis status. The Bank developed an integrated benchmark for monitoring financial markets in Israel, in order to identify any instability in the financial system in Israel – this benchmark is a decision-support tool for declaring a state of alert due to systemic failure.

In February 2020, the Bank raised its alert level to increased alert level. The decision to raise the alert level was due to concern with regard to the Corona Virus outbreak and the sharp declines in stock markets.

In early March, the Bank raised its state of alert for liquidity, from increased alert level to Yellow, an alert level including operating measures designed to ensure that the Bank maintains appropriate liquidity during crisis periods, due to the Corona Virus outbreak and further sharp declines in stock markets, both globally and in particular in Israel, and due to the integrated benchmark for monitoring financial[1] markets reaching record levels.

The alert level returned down to increased alert level in mid-May, with resumption of routine operations. During all of the third quarter of 2020, the alert level at the Bank was High Alert. During the current period, the Bank closely monitored (at daily level) qualitative and quantitative indicators (both internal and external) and conducts daily reviews of multiple stress scenarios for various time frames – liquidity is appropriate across all these scenarios and the Bank is in compliance with all internal limitations.

For more information about liquidity risk, see also the 2020 Risks Report available on the Bank website.

Overview of financing risk and guidelines for its management

Financing risk is managed, as part of the liquidity risk, using Board and Management restrictions on concentration of financing sources and through reduced dependence on material counter-parties.

Concentration of financing sources is monitored through a wide range of restrictions set by the Board of Directors, management as well as by key risk indicators, classified into several sub-categories: Size, client type, individual depositor, number of clients, product, currency and average deposit term. A "comprehensive index" was defined, which averages all indicators related to concentration of financing sources. Current management of source composition includes setting policies on source diversification and financing terms as well as setting specific targets for risk benchmarks. Concentration is monitored daily and is regularly managed and reported.

The Bank's main financing sources are stable and diverse sources for different time horizons – retail and business deposits, long-term deposits from financial institutions and issues of debentures and notes. The Bank sees the great importance of diversification of its financing sources and acts proactively to identify sources for longer terms, including through a wide range of deposits offered by the Bank to its clients, deposits with unique attributes, which allow clients to benefit from relatively high

(1) A benchmark developed by the Bank for identifying and monitoring financial markets in Israel, in order to identify any instability in the financial system in Israel – this benchmark is a decision-support tool for declaring a state of alert due to systemic failure.

interest over the long term with optional liquidity during the deposit term. In 2020, concentration risk for financing sources remained low.

Furthermore, exposure to derivatives is regularly managed, in line with the exposure to each counter-party, counter-party collateral is immediately increased or collateral is immediately demanded from the counter-party.

For more information about financing sources, see chapter "Developments in financing sources" above.

For more information about financing risk, see also the 2020 Risks Report available on the Bank website.

Liquidity coverage ratio

In conformity with Proper Conduct of Banking Business Directive 221 "Liquidity coverage ratio", the minimum regulatory requirement is 100%. This Directive stipulates minimum liquidity ratios for a one-month term (regulatory LCR), calculated based on uniform multipliers for the banking system, specified by the Bank of Israel based on Basel III directives. As part of its risks management policy, the Bank's Board of Directors specified that additional safety cushions are to be maintained, beyond the regulatory minimum ratio; so that the target liquidity coverage ratio for the Bank and the Group would by 5% higher than the minimum required. This ratio is managed and reported for all currencies in aggregate and for NIS separately, both at Bank level and on Group basis. The ratio for the Bank solo and the consolidated ratio are calculated daily and reported as the average of daily observations over 90 days prior to the report date. This directive is in addition to liquidity risk management using internal models, as stipulated by Directive 342, as described above.

The average liquidity coverage ratio (consolidated, including data for Union Bank) for the fourth quarter of 2020 was 133% (excluding Union Bank: 128%%). As noted above, in 2020 there were no recorded deviations from these restrictions.

For more information about liquidity risk, see also the 2020 Risks Report available on the Bank website.

For more information about the Bank's cash flows by maturity, see Note 32 to the financial statements.

As of December 31, 2020, the balance of the three largest depositor groups at the Bank Group amounted to NIS 8.2 billion.

The Bank consistently acts, as part of its strategy on resource and use management, to raise long-term sources.

The Bank's NIS-denominated balance sheet sources for terms longer than 1 month, as percentage of total NIS-denominated sources as of December 31, 2020, was 53% (similar to December 31, 2019), of which balance sheet sources for terms longer than 1 year – 38% (as of December 31, 2019: 43%).

Most of the Bank's balance sheet sources in foreign currency as of December 31, 2020 are for terms of up to 1 year, constituting 89% of total foreign currency-denominated sources (as of December 31, 2018: 97%), of which 34% are sources for terms longer than 3 months (similar to December 31, 2019).

The NIS-denominated sources have longer terms than foreign currency-denominated sources, in line with the longer term use of NIS-denominated funds, primarily for mortgages denominated in NIS.

The Bank also conducts a significant volume of futures transactions to divert excess liquidity between NIS and foreign currency and by conforming the terms, as part of dynamic management of sources and uses.

Soliciting sources and Bank liquidity status – During 2020, there was an increase in the Bank's balance of deposits from the public. Deposits from the public amounted to NIS 284.2 billion as of December 31, 2020.

Excluding the effect of Union Bank, deposits from the public increased from NIS 211.0 billion on December 31, 2019 to NIS 246.8 billion on December 31, 2020, an increase by 17.0%. In the non-linked segment, total deposits from the public amounted to NIS 218.0 billion, an increase by 18.3% compared to end of 2019. In the CPI-linked sector, deposits from the public amounted to NIS 16.5 billion, an increase by 9.8%, and in the foreign currency sector – to NIS 49.7 billion, an increase by 14.1% compared to end of 2019.

Operational risk

Risk description

Operational risk is defined by the Bank of Israel as the risk of loss due to inappropriateness or failure of internal procedures, people, systems or due to external events.

The Bank has defined a framework for management of operational risks, which includes a definition of corporate governance that specifies the roles and responsibilities of the lines of defense and the importance of deploying an appropriate operational risk management culture at the Bank.

The Bank actively handles operational risk in order to support operations of the business units, to improve major business processes associated with their operations and thus, to increase business value, rather than only reduce expected loss due to operational risk.

Operational risk includes information security and cyber risk, IT risk and legal risk.

Overview of operational risk and guidelines for management thereof

With the developments in global markets and the higher complexity of financial activity and supporting technological infrastructure, an understanding has emerged, that Bank exposure to potential loss due to failures in regular operating activity may impact the business activity. Operating failure events which occurred at financial institutions have increased legislator awareness and financial institutions' awareness of materiality of operating failure events, to the large potential for damage which may be caused by such operational risk event and to their main attributes, as follows:

Operating events may occur throughout the organization and are inherent to financial institution operations.

Operational risk may potentially impact earnings, revenues, value and reputation of the Bank.

Operational risk has inter-relationships with other risks, such as market risk, credit risk, liquidity risk, reputation risk and other risks. Thus, for example, materialization of an operational risk event may cause reputation risk to materialize, after which the Bank may face a liquidity event.

Some operating failures have very low probability of materialization, but relatively large damage potential.

Operational risk has diverse instances, from human error, malfunction in technological systems, fraud, embezzlement, war, fire, robbery etc.

Operating events sometimes occur which are not under control of the financial institution, and may develop as a result of external events, some of which are unforeseen, with chances of occurring which cannot be estimated in advance, such as: natural disaster (earthquake, flooding), plague and security event.

Bank management and the Board of Directors attach great importance to managing this risk, due to its materiality, as part of the Bank's overall framework for risks management and control. The Board of Directors and management have determined that management of operational risk requires creation of an appropriate culture within the organization, by means of training, dissemination of related content and application of increased alert level standards of internal control at all levels.

The Bank has a framework policy on operational risk management that specifies the principles whereby the Bank manages operational risk, risk materiality, how it is managed, measurement and monitoring processes and actions taken by the Bank to mitigate such risk. The Operational Risk Owner at the Bank is the Manager, Risks Control Division – who is also the Bank's Chief Risks Officer. The framework stipulated also includes the framework required for handling fraud and embezzlement risks, which are part of the operational risk categories according to Bank of Israel directives. The Bank is acting to deploy a framework for addressing operational risk which is not only defensive, i.e. acting only to minimize potential loss due to operational risk events, but also actively strives to regulate aspects of operational risk in systems, processes and controls applied by the Bank, in order to support achievement of its business targets.

Bank policy specifies the Bank's operational risk appetite from several aspects: qualitative and quantitative in the normal course of business and under stress scenarios, the Bank's quantitative risk appetite, in terms of actual annual damage, is 1% of the Bank's Tier I shareholder equity. This risk appetite is constantly monitored by follow up on any default events which caused a loss, managed by category of operational risk, in conformity with Bank of Israel directives and also includes loss due to legal risk, information security and cyber risk, including fraud and embezzlement risk. The policy also specifies a qualitative risk appetite for potential loss in the normal course of business and under stress events, by the different risk categories.

The policy document was approved by Bank management and by the Board of Directors in 2020, as part of the approval process of all policy documents for risk management and control.

The Bank allocates capital with respect to operational risk using the standard approach. According to this approach, the Bank was segmented into eight lines of business, as stipulated by the Bank of Israel, with a standard risk weighting assigned to each line of business, reflecting its sensitivity to loss with respect to operational risk. This segmentation and treatment of the required capital allocation are incorporated in a specific policies document which governs the aspects required for capital allocation using the standard approach and, in particular, specified the lines of business in Bank operations.

The Bank framework for handling operational risk is reviewed quarterly, as part of the Bank's Risks Document. The quantitative and qualitative risk profile is presented in this context in view of the risk appetite, the operational risk map and the most material events which occurred during the quarter are also presented and analyzed.

The Bank is prepared to put in place comprehensive infrastructure for addressing fraud and embezzlement risk. As part of this effort, the Bank operates a system for monitoring fraud and embezzlement based on the use of business rules designed to identify suspect activity. The framework for handling fraud and embezzlement risk includes a combination of Bank factors: Risks Controls, information security and cyber, human resources and the Technology Division.

On September 30, 2020, the transaction whereby the Bank acquired the shares of Union Bank closed. The merger transaction is a material, large-scale process entailing challenges to risk management. The process involves multiple operating aspects, such as data transfer and system merger and conversion. Moreover, the control quality at Union Bank may decrease in the short term through completion of this merger, and therefore the potential for realization of operational risk increases.

Operational risk mitigation

Due to the significance of operational risk, the Bank takes different steps to mitigate this risk. One of the key tools is conducting operational risk surveys for all Bank operations, to create and manage the risks map on a regular basis. The surveys are conducted as risk self-assessment (RSA), where the business unit (the first line of defense) assesses the risks associated with its operations. The Risks Control Division provides guidance to the business unit with regard to the methodology for conducting the survey and for effective assessment of the existing risks, and challenges the survey outcome. Note that in

2020, the Bank launched a new three-year plan to conduct surveys, after completing the three-year process for conducting operational risk surveys for all Bank operations in 2019. The methodology for conducting surveys consists of four stages: Assessment of inherent risk, assessment of the effectiveness of controls, assessment of residual risk, and managing the findings and risk mitigation processes.

Another key process is to instill a corporate culture which promotes strong awareness of operational risk, and of deployment of risk-mitigating processes. Operational risk trustees were appointed at headquarters and in branches, serving as the long arm of the Operational Risks Owner in this process. The Bank initiates delivery of in-person and technology-based training about operational risk to new employees and to units and populations within such units which were identified as being associated with high operational risk, as well as conducting seminars to provide regular guidance to operational risk trustees at headquarters and in branches.

One of the risk mitigation tools used by the Bank is debriefing and lesson learning flowing internal and/or external events. Conclusions formulated by this process are incorporated into work processes, systems, training content and procedures – and are also disseminated to operational risk trustees for deployment at their units.

The Bank has established policies and operating plans for a time of emergency, for backup, recovery and business continuity in case of physical damage to Bank infrastructure. This plan, supported by emergency procedures and pre-appointed officers, is exercised annually and the conclusions from such exercises is incorporated into the action plan.

Mitigating operational risk through insurance – the Bank is insured under a banking insurance policies, against damage which may be incurred in the course of normal operations, as a result of human error, fraud, embezzlement etc. The Bank acquires an officers' insurance policies, which applies to all officers at the Bank and at the different Bank Group companies, which provides insurance coverage for personal claims which may be filed against officers with respect to their actions in the course of their position with Group companies. Obtaining such an officer liability insurance policy is subject to approval by the General Meeting of Bank shareholders.

The Bank has obtained specific insurance policies for property damage and liability, which provide insurance coverage of Bank property and liability. The Bank also has insurance coverage under a custom cyber insurance policy, an additional layer over the banking insurance policy, which adds coverage related to computer-based crimes to the banking insurance policy. The Bank has a specific policies document which governs insurance aspects related to Bank operations.

Business continuity

The Bank applies Proper Conduct of Banking Business Directive 355 concerning "Management of business continuity".
Since March 2020, with the Corona Virus outbreak, the Bank raised its Alert Level, convened an extended situation room and specified work principles for maintaining functional continuity and employees' health. The Bank established management and control teams jointly with the relevant entities and took action to address this event, including the following: Dissemination of work guidelines and maintaining hygiene and social distancing, splitting units and branches, transition to capsule-based work, creating an outline for working remotely by means of a fast, structured process and so forth. Concurrently, the Bank monitors cases of morbidity or infection at branches and at headquarters units and the date of return to work. The Bank has expanded deployment of internal and external video conferencing systems and has installed a system for chat management and screen sharing.

With regard to suppliers and service providers, the Bank has mapped all critical suppliers and service providers for IT, logistics and security and has assessed their capacity to continue providing service even under the current restrictions.

As for Group-wide control, the Bank conducts a structured process to monitor operations of Bank Yahav and Union Bank under routine Corona Virus conditions, including daily report received of employees who are sick / in isolation and any unusual events. Similar monitoring is in place for operations of the Bank's overseas affiliates.

In the fourth quarter of 2020, the Bank continued to implement the work plan concurrently with the Corona Virus event and implications thereof, including: Updates to branch emergency files (procedures, checklists, forms and so forth), further deployment of business continuity in branches, jointly with the Training Center, by providing training and remote learning, and a drill involving manual work at the cash center under a scenario where communication is lost. In this quarter, a second technology drill took place, including system activation in the DRP site, jointly with the Business Continuity Department and Bank units. Furthermore, preparations started for conducting drills in the first half of 2021, including a drill led by the Currency Department of the Bank of Israel, to test cash operations and transportation under an earthquake scenario.

For more information see chapter "Significant Events in the Bank Group's Business" above.

Information security and cyber security

Information security and cyber risk – Information security risk is risk arising from faults in protection of the Bank's computer systems and information stored there. Cyber risk arises from an event including an attack on computer systems by or on behalf of internal or external adversaries of the Bank.

Directive 361 with regard to Cyber Defense Management provides guidelines for proper management of cyber risks, which require expansion and adjustment of the IT risks management framework with regard to the threat space perception and the required defensive capabilities. Accordingly, the Bank has approved strategy and comprehensive cyber defense policies and has specified the defense lines for their implementation , has appointed an Information Security and Cyber Defense Manager, reporting to the Manager, Risks Control Division – responsible, inter alia, for setting policies on information security and cyber defense at the Bank, development of a cyber defense work plan, monitoring the implementation of this work plan and review of the effectiveness of systems and processes for information security and cyber defense.

Direct banking systems at the Bank include information security processes in conformity with Proper Conduct of Banking Business Directive 367, including authentication mechanisms, transmission of information to clients and identification of exceptional transactions.

In the fourth quarter of 2020, risk remained Medium. In this quarter, a small number of fraud attempts against clients were identified (through fishing attacks), which resulted in stealing their account credentials in order to conduct unauthorized transactions in their accounts by means of social engineering attempts conducted against clients. Thanks to defensive measures applied by the Bank, in the great majority of these fraud attempts, there were no unauthorized transactions in client accounts. However, a few such attempts were successful, causing the Bank to incur damage amounting to NIS 57 thousand.

The Bank continues to reinforce the defense mechanisms applied in Bank systems, in order to further limit the ability to defraud clients and to conduct unauthorized transactions in client accounts. These actions were taken as part of debriefing processes and lessons learned by the Bank with regard to this emerging threat.

During the Corona Virus crisis, the Bank's information security team operates fully and continuously, improving and bolstering defense capabilities and mechanisms, in conformity with expansion of threats and challenging needs which the Bank is required to face.

We should note that the Corona Virus pandemic has increased alert level cyber risk across the world, both due to increase in working remotely, which provided more attack vectors for organizations and due to increased fraud attempts in the shadow of the outbreak. Bank operations during this period retained the risk level at the Bank unchanged.

Information technology risk

In recent years, the risks associated with IT management have increased, due to development and deployment of new technologies and evolution of new risk and threats. Other than under routine conditions, the IT management framework addresses system failures, such as: system faults and preparation for emergency situations. This is also intended to ensure that the Bank maintain business continuity during an alert or emergency. This may mitigate reputation risks and business risks which could arise under such conditions.

The Technology Division Manager is responsible for management of IT assets and the management framework is specified in a special policies document, in line with principles specified in policy documents on risks management and control at the Bank. The IT asset management policy is in line with requirements of the Supervisor of Banks and, in particular, with the principles stipulated in Proper Conduct of Banking Business Directive 357 "IT management"; Proper Conduct of Banking Business Directive 350 "Operational risk management"; Proper Conduct of Banking Business Directive 355 "Business continuity management" and Proper Conduct of Banking Business Directive 361 "Cyber security management". Risk appetite is defined in quantitative and qualitative terms under normal and emergency scenarios, with the Bank's risk appetite in operational aspects for IT risk included under management of operational risk appetite. Risk appetite for technology aspects is defined by multiple benchmarks, including risk levels on the map of technology risk and specific risk appetite for diverse risk factors.

The Bank operates multiple measures to mitigate risk, including use of indicators (KRI) and support systems. Note that the SOC (Security Operation Center) operates 24/7 and is responsible for monitoring Bank infrastructure and systems, analyzing logs and identifying anomalies in real time, unusual behavior of users and systems in the network from information and cyber security aspects. The Bank also established this year the NOC (Network Operations Center), operating 24/7 as an operational unit for presenting the unified picture of enterprise infrastructure, capability for monitoring and forecasting faults, analyzing logs and identifying anomalies from technology risk aspects.

Given current developments in the financial market, the age of current Bank systems and transition of Bank Yahav to a new platform, the Bank launched, in the first quarter of 2019, a project to replace the Bank's capital market core system based on a new platform. This project is in the final detailed design stages and progress is being made on development.

Moreover, in the fourth quarter of 2019 the Bank launched a project to replace the CRM system.

This information constitutes forward-looking information, as defined in the Securities Law, 1968, based on assumptions, facts and data (hereinafter jointly: "assumptions") brought before the Bank's Board of Directors. These assumptions may not materialize due to factors which are under the Bank's control.

The risk level in 2020 and throughout the Corona Virus crisis remained unchanged. The Technology Division operated in providing full support for regular operations at the Bank and for technology needs required for Bank operations during emergency routine operations. There were no material events and/or malfunctions during this period.

For more information about contracting between Union Bank and Bank Leumi with regard to Union Bank's IT systems, see "Description of effects of Union Bank acquisition" at the top of chapter "Risks overview".

Legal risk

Legal risk – Risk of loss due to exposure to fines, lawsuits and/or punitive action due to breach of contract or disagreements. Legal risk includes risks arising from legal exposure due to Bank conduct with its various interested parties (such as: clients, suppliers and other third parties).

Legal risk includes absence of potential for legal enforcement of an agreement and includes, but is not limited to exposure to fines or penalties arising from supervisory action, as well as from individual arrangements. Legal risk also includes risks

arising from legal exposure due to Bank conduct with its various stakeholders (such as: clients, suppliers and other third parties).
The Bank's Legal Division regularly analyzes the legal risk components, the risk boundaries (arising, for example, from the counter-party identity, from creation of collateral etc.) as well as specific risk attributes while reviewing its risk level and exposure with attention to the different lines of business at the Bank and provides current legal advice to the Bank and its various units.
In the fourth quarter of 2020, the level of legal risk remained low-medium.

Review of legal risk level in 2020 included, inter alia, a review of potential implications of the Corona Virus crisis on legal risk, which found that in general, there was no impact on the level of legal risk and the quality of management of said risk.

For more information about operational risk, see also the 2020 Risks Report available on the Bank website.

Other risks

Compliance and regulatory risk

Risk description

Compliance risk is the risk of imposition of legal or regulatory sanctions, material financial loss or impact to reputation, which the Bank may incur due to its failure to comply with compliance provisions.

Compliance risk includes conduct risk, cross-border risk and AML and terror financing risk, presented separately below.

Overview of compliance and regulatory risk and guidelines for management thereof

The compliance and regulatory Risk Manager for the Bank is the Manager, Risks Control Division. The Compliance Officer is responsible for continuous management of this risk.
The Bank has specified a multi-annual work plan for the Compliance Function, which includes qualitative targets for reducing compliance risk across the Bank.
The Bank operates in conformity with policies on compliance and regulation risk management, approved by the Bank's Board of Directors. The Compliance Officer acts to deploy a compliance culture at the Bank, its subsidiaries and overseas affiliates by implementing a Group policy and supervising the implementation of appropriate compliance processes at subsidiaries and affiliates. Compliance risk is managed by identification, documentation and assessment of compliance risk associated with business operations of the Bank, including developments related to new products, business conduct, lines of business or new clients, or to material changes to any of the above. The Bank conducts compliance surveys in various compliance areas, so as to ensure the effectiveness of compliance risk management activities.
The Bank deals fairly with all stake holders. The value of fairness is enterprise-wide and is based on application of basic values: integrity, fairness and transparency. The Bank strives to maintain a fair relationship with its clients and with other stake holders, places the client at the center of its business operations and strictly adheres to business fairness in all its operations. Fairness is a basic value in the Bank's Code of Ethics and the Bank takes action to deploy and implement the value of Fairness among employees.
The Bank has an internal enforcement program for securities and for anti-trust law,
The Bank has minimal risk appetite for compliance and regulatory risk, with regard to compliance with statutory provisions applicable to the Bank.
Compliance risk remained unchanged in 2020, at Low-Medium.
This risk assessment is due, inter alia, to addressing of risks classified as high and to further enhancement of controls and conducting deployment processes and improvement in efficiency of work processes in this area, while incorporating technology improvements. During this year, the Bank took action to implement the applicable directives by the various regulators in the wake of the Corona Virus pandemic. The Bank also applies regular controls, in order to monitor compliance risk that may materialize during this period.
The Bank has internal enforcement programs for securities and for anti-trust law.
For more information about compliance and regulation risk, see also the 2020 Risks Report available on the Bank website.

Cross-border risk

Risk description

Cross-border risk is the risk of financial loss (including due to legal proceedings, fines or sanctions imposed by statutory authorities or others in Israel and in other countries) and of impact to reputation, arising from the Bank's failure to comply with statutory provisions originating in other countries – whether provisions binding on the Bank or provisions which are not binding, but failure to comply with them may cause the Bank to incur damage, or from overseas activities of Bank clients in contravention of any statutory provisions.
Cross-border risk includes, inter alia, risk of damage, including impact to reputation, due to lawsuits or other enforcement proceedings brought by authorities in other countries, with regard to foreign tax laws applicable to certain Bank clients, AML

and terror financing laws, sanctions imposed by international bodies and foreign authorities or other laws. Cross-border risk also applies to the Bank's overseas affiliates, in activity with foreign-resident clients.
Cross-border risk includes the risk arising from obligations arising from US tax laws applicable to Bank Group operations outside of the USA (the Foreign Account Tax Compliance Act – "FATCA" and Qualified Intermediary – "QI"). This risk is also due to obligations stipulated by the Common Reporting Standard (CRS) issued by the OECD.

Overview of cross-border risk and guidelines for management thereof

The Bank has zero appetite for cross-border risk. Therefore, the Bank has specified that any faults discovered with regard to cross-border risk would be addressed by Bank units as a top priority. The Bank has specified a multi-annual work plan for the Compliance Function, which includes required action for reducing compliance risk across the Bank.
Cross-border risk remained unchanged in 2020 and is defined as low-medium. The Bank manages this risk through revision of procedures, IT support for work processes, delivery of training, activities of foreign residents in specialized branches, definition of cross-border risk level, definition of in-depth controls program for FATCA in conformity with the FATCA program, foreign resident operations at specialized branches and definition of work routines in processes that require reporting with regard to FATCA and to CRS.
In the third quarter of this year, the Bank has provided reports to the Tax Authority, in conformity with regulations for applying the FACTA agreement and the information exchange agreement in conformity with CRS.
For more information about cross-border risk, see also the 2020 Risks Report available on the Bank website.

AML and terror financing risk

Risk description

AML and terror financing risk is the risk of financial loss (including due to legal proceedings, penalties or sanctions imposed by authorities in Israel and in other countries) and impact to reputation, which the Bank may incur due to breach of various statutory provisions regarding the Bank's obligations with regard to AML and terror financing.

Overview of AML and terror financing risk and guidelines for management thereof

The Bank regards itself as a partner in the international AML and terror financing effort and takes part in the international effort against bribery and corruption, acting to identify, monitor and follow up on activities and clients that may be exposed to bribery and corruption. The Bank also avoids any activities opposed to the international sanctions regime of OFAC (of the US Department of Treasury) and of the European Union.
The Bank applies on a Group basis, with required changes, its policies in this area as well as statutory provisions, at its subsidiaries and branches in Israel and overseas.
The Bank applies a risk-based approach to account opening and management, allocating resources in conformity with the risk level of the account and activity, reflected inter alia by enhanced controls and appropriate custom training.
The Bank has near-zero risk appetite with regard to AML risk.
AML and terror financing risk remained unchanged in 2020 at Low-Medium. This risk assessment is due, inter alia, to continued intensive training and deployment activity, along with risk-focused controls, including risk arising from the Corona Virus crisis, improvement of documents and classifications and taking effective action to avoid recurrence of extraordinary events and compliance failures. The new AML system – MEA – in order to identify unusual activity and for reporting to the AML Authority, is operating in branches on regular basis and enables close control over the banking activity. In the third quarter of this year, the Bank provided to the Bank of Israel its semi-annual report of compliance risk, in the new format pursuant to Reporting Regulation 825.
For more information about AML, see also the 2020 Risks Report available on the Bank website.

Reputational risk

Risk description

The Bank has mapped reputation risk as a material risk, because past events indicate that impact to the reputation of a financial institution may result in significant loss of value. Reputation risk is a stand-alone risk, but may also arise from materialization of other risks at the Bank, such as materialization of an operational risk event. Furthermore, impact to Bank reputation may bring about the materialization of other risks, in particular liquidity risk – with growing demand by clients to withdraw deposits.

Overview of reputational risk and guidelines for management thereof

The Bank has defined its risk appetite for reputation risk as minimal. In recent years, the Bank took action to put in place a framework for handling reputation risk. The Bank considers that this risk should be addressed based on similar principles to those used to address other risks, such as credit risk or market risk – even though this risk is considered harder to quantify.
The Reputational Risk Manager is the Manager, Marketing, Promotion and Business Development Division at the Bank.
Reputation risk is managed in conformity with the policy on three levels: In advance (under normal conditions), in real time (alert condition) and in retrospect.

The Bank monitors and reviews the impact of the Corona Virus pandemic, globally and in Israel, on business activity as a whole and on reputation risk in particular, with regard to negative perception of the Bank specifically, and as part of the overall perception of the banking system. The Bank also monitors and reviews the impact of the Union Bank merger on reputational risk.
Bank management believes that at this stage, the reputational risk level has not changed materially. The Bank continues to regularly monitor these matters.
For more information about reputation risk, see also the 2020 Risks Report available on the Bank website.

Business-strategic risk

Risk description

Business-strategic risk is the risk, in real time or potentially in future, of impact to Bank profits, capital or reputation, due to erroneous business decisions, improper deployment of decisions or insufficient preparation for changes in the business environment. This means the risk that the Bank chose the wrong strategy or that the Bank would not be able to implement the business and strategic plan as planned. The materiality of business-strategic risk requires the Bank to take measures which would allow it to manage this risk and take steps for assessment and early identification of events which may preclude implementation of the strategy.

Overview of business-strategic risk and guidelines for its management

The Bank operates in conformity with the outline of a five-year strategic plan, most recently approved by the Bank's Board of Directors on November 21, 2016, whose principles have been made public. Material deviation from Bank strategy is subject to approval by the Bank's Board of Directors. Risk is monitored by the Financial Information and Reporting Division, and is challenged by the Risks Control Division.

The Business-Strategic Risk Owner is the President & CEO; based on his guidance, management periodically reviews the implementation of the strategy: monitoring of regulatory, economic or technology developments which affect the strategy and initiating annual work plans derived from and in conformity with the strategic plan. In addition, the Financial Information and Reporting Division and the Risks Control Division regularly and independently monitor business-strategic risk from different control aspects, primarily the following: achievement of targets, risk mapping and identification, stress testing, threat tests and continuous monitoring of the risk profile in view of the Bank's risk appetite. In addition to continuous monitoring of the implementation of work plans and aligning them with the strategic outline, the Bank also monitors developments of external factors which may impact the Bank's business-strategic risk. The work plans of Bank divisions are adapted, when needed, to the changing business environment in order to achieve business targets and the strategic outline. The Bank is prepared for emergencies so as to reduce the impact to the Bank's business and strategic plan, should extreme economic or geo-political conditions evolve.

Developments in the business environment which may impact strategic risk

- The global Corona Virus outbreak has resulted in a slow-down in global economic activity, a sharp increase in unemployment and impact on activities of business segments, and in particular in the small business segment. Forecasts call for the distribution of a vaccine for the Corona Virus should result in gradual elimination of restrictions on business activity and return to normal operations. However, there is a risk that the vaccination process may be slow and may delay the recovery in demand and return of the economy to normal operations. The Bank regularly monitors the potential implications of a global and local economic slow-down, which may lead to deterioration in the financial standing of households or may impact the stability of businesses in various economic sectors, in particular in the commerce and services sectors.
- Technological developments in the world of finance and changes to consumer preferences result in growing transition of banking activity to digital channels. The evolution of open banking may result in greater competition for pricing, in particular with regard to payments and money transfers. Given these developments, there is growing concern of a division of the basket of banking products and of increased competitive threat to the banking system due to non-bank financial entities and technology companies entering banking activity segments. The Bank is preparing for this changing world of technology by adapting the banking production function through, inter alia, investing in technology.
- The impact of regulatory provisions in core areas of banking operations, including the potential impact of the Increased Competition and Reduced Concentration in Israeli Banking Act. The objective of this Act is to increase competition in retail banking services, with reference to both supply (adding new players) and demand (increasing consumer capacity to compare the costs of financial services).
- On September 30, 2020, the transaction whereby the Bank acquired the shares of Union Bank closed. The merger transaction is a material, large-scale and highly complex project which entails a wide range of risks. The Bank is preparing in extensive work teams with comprehensive management by steering committees and administrations to carry out the merger plan. Risk management is an integral and dynamic part of all work teams, and the Chief Risks Officer reviews and integrates all risks of this project ans the required mitigation to mitigate and manage such risk. The Bank manages the merger project separately from current business, in order to allow for achievement of the work plan targets concurrently with the merger process.

This information constitutes forward-looking information, as defined in the Securities Law, 1968, based on assumptions, facts and data (hereinafter jointly: "assumptions") brought before the Bank's Board of Directors. These assumptions may not materialize due to factors which are under the Bank's control.
For more information about strategic-business risk, see also the 2020 Risks Report available on the Bank website.

Environmental risks

Environmental risk to the Bank is the risk of loss which may be incurred due to deterioration in the borrower's financial position due to high costs incurred as a result of environmental hazard and regulation concerning environmental protection, or due to impairment of collateral exposed to environmental risk or to the Bank being indirectly liable for an environmental hazard caused by a project funded by the Bank. Environmental risk also includes other risks derived from this risk (goodwill, third party liability etc.) In recent years, global awareness of the potential financial exposure arising from regulations related to environmental protection has grown.
The Bank has a structured methodology for identification, assessment and handling of environmental risk and acts to incorporate management of exposure to environmental risk within all risks at the Bank, including specification of work processes for identification of significant risk when extending credit and inclusion of risk assessment, if any, within periodic assessment of quality of credit extended.
For more information see the Bank's Corporate Social Responsibility Report on the Bank website:
www.mizrahi-tefahot.co.il >> about the bank >> investor relations

Policies and critical accounting estimates

The Bank's financial statements are prepared in conformity with generally accepted accounting policies in Israel (Israeli GAAP) and in accordance with Public Reporting Directives of the Supervisor of Banks.

For most topics, these directives are based on generally acceptable accounting practices by US banks. For other, less material topics, these directives are based on International Financial Reporting Standards (IFRS) and on generally accepted accounting principles in Israel (Israeli GAAP). When International Financial Reporting Standards (IFRS) allow multiple alternatives, or do not specifically refer to a certain situation, these directives prescribe specific implementation guidelines, mostly based on generally acceptable accounting practices by US banks.

The significant accounting policies are detailed in Note 1 to the financial statements.

The application of generally accepted accounting principles by management at the time that the financial statements are prepared occasionally involves various assumptions, assessments and estimates that affect the amounts and business results reported in the financial statements. Some of the assumptions, assessments and estimates are critical to the financial position or the results of operations reflected in the Group's financial statements, because of the materiality of the matter, complexity of calculations or the extent of the probability that matters shrouded in uncertainty will be realized.

The following were used in assumptions, assessments and estimates:

Provision for credit losses

- Individual provision – The Bank regularly reviews the forecasted expected credit losses, based on actual cash flows, and adjusts the individual provision to the current forecast.
- Group provision – based on historical loss rates in various economic sectors, divided into problematic and non-problematic debt, for the period from January 1, 2011 through the report date. The Bank also accounts for relevant environmental factors, including trends in credit volume for each sector as well as sector condition, macro-economic data, general quality assessment of credit to each economic sector, changes in volume and in trend of balances in arrears and impaired balances and the effect of changes in credit concentration. Furthermore, the rate of adjustment with respect to relevant environmental factors for group provision for credit losses with respect to individuals is not less than 0.75% of the non-impaired consumer credit balance (excluding credit due to receivables for bank credit cards without interest charge).
  The group-based provision accounts for the effect of deterioration in macro-economic conditions and market activity due to the Corona Virus crisis, on borrowers at the Bank. For more information see below and see chapter "Significant Events in the Bank Group's Business" above.
- residential mortgages – A minimum provision with respect to residential mortgages is calculated based on the formula stipulated by the Supervisor of Banks, by extent of arrears, such that the provision rate is higher the longer the arrears. This directive applies to all residential mortgages, other than loans not repaid by periodic installments and loans used to finance activity of a business nature. The group-based provision for credit losses with respect to residential mortgages shall be at least 0.35% of the balance of such loans as of the report date.
- Off-balance sheet credit – The provision is based on provision rates specified for total credit exposure (as stated above), accounting for expected credit realization rate for the off-balance sheet credit risk.

Sensitivity of provisions for credit losses to changes in economic conditions is due to a significant number of connections and mutual effects: Effect on certain clients who cannot meet their obligations, and consequently subject to a specific provision; effect on certain clients who are facing difficulties that require classification as inferior or under special supervision, and consequently the group-based provision with respect there to has increased; effect on the additional qualitative component of the group-based provision, through parameters of growth and unemployment that are part of the model; additional effect on the additional qualitative component, through other parameters affected by unemployment and growth, such as the number of Watchlists and average rating of clients.
In October 2020, the Bank conducted a system-wide scenario conducted by the Supervisor of Banks for the banking system, further to the scenario conducted in June 2020. The stress scenario was based on renewed outbreak of the Corona Virus and the lock-down in the local economy, and continued through 2022. The stress scenario assumes, inter alia, 38% negative growth in 2020, standard unemployment rate peaking at 10.5%, 11% decline in housing prices, up to 3% currency devaluation, 16% decline in the equity benchmark (at the peak of the scenario) and so on. Results of this scenario indicate that the provision for credit losses for 2021 under the stress scenario may reach NIS 2.5 billion, an annualized provision rate of 1.02% of total loans, compared to 0.43% on the financial statements for 2020.

For more information see Note 1.F. 6 to the financial statements.

Derivative instruments

Instruments measured at fair value are divided into 3 levels:

Level 1 – fair value measured using prices quoted for identical instruments on an active market accessible by the Bank upon the measurement date.

Level 2 – fair value measured using observed data, either direct or indirect, which are not quoted prices as stipulated under Level 1. Level 2 data include quoted market data on active markets, or on non-active markets, if they exist, or data derived from or based upon such observed market data.

Level 3 – fair value measured by using non-observed data.

The Bank estimates credit risk for derivative instruments using a model based on indications of credit quality of the counter-party, derived from prices of debt instruments of the counter-party traded on an active market, and from prices of credit derivative instruments based on the counter-party's credit quality. In the absence of such indications, the Bank calculates the adjustments based on internal ratings. The Bank reviews the materiality of the credit risk component compared to fair value as a whole, in conjunction with review of instrument classification under fair value ranking levels.

Fair value measurement of a derivative instrument, when no quoted prices, liquid collateral or offset agreements exist which adequately secure the derivative's credit quality, and when no market information exists as to the credit quality of the counter-party (such as CDS or negotiable debentures of the counter-party) – shall be classified as a Level 3 fair value measurement.

For more information see Note 1.F. 16 to the financial statements. For details of derivatives measured at fair value by different fair value levels – see Note 33 to the financial statements.

Business combinations

On September 30, 2020, the transaction whereby the Bank acquired the shares of Union Bank closed. Pursuant to provisions of ASC805, the consideration for a business combination is measured at the aggregate fair value of assets given, liabilities incurred and equity instruments issued by the Group in consideration for achieving control over the acquired entity. In order to determine the fair value of Union Bank assets and liabilities, the Bank used assumptions, assessments and estimates.

See Note 35.B to the financial statements for additional information.

Securities

Securities in the portfolio held for trading and in the portfolio available for sale are presented at fair value. Securities classified in the portfolio held to maturity are measured at amortized cost. The fair value of the securities is determined based on quoted market prices in active markets for the securities or for securities with similar terms, i.e. stock market price, quotes from recognized data services, such as Bloomberg, or quotes from banks acceptable to the Bank. The Bank uses internal models for reviewing the fair value of financial instruments for which there is no quote on a stock exchange, and does not rely entirely on prices obtained from counter-parties or from quoting firms.

For more information see Note 1.F. 5 to the financial statements. For details of securities measured at fair value by different fair value levels – see Note 33 to the financial statements.

Liabilities with respect to employees' rights

are calculated using actuarial models, based on a discount rate determined based on the yield of Government debentures in Israel plus the average yield spread for corporate debentures rated AA (international rating scale) or higher upon the report date. For practical reasons, the spread would be determined by the difference between yields to maturity, by term to maturity, for corporate debentures rated AA or higher in the USA – and yields to maturity, for the same term to maturity, for US government debentures, all as of the report date. The actuarial models include assumptions related to the mortality tables, disability rates, departure rates and wage hike rates. A change in any of the parameters could lead to a change in the amount of the Bank's liabilities for employees' rights.

Group liabilities for employees' rights calculated based on an actuarial model amount to NIS 2,542 million (excluding Union Bank: NIS 1,558 million). (Including provision for employees' retirement at beneficial terms).

The following is a sensitivity analysis of total provision for employees' rights to changes in key assumptions used as basis for the actuarial estimate, as of the transition date (NIS in millions):

	1% increase	1% change in annual payroll increase		1% change in departure rate before retirement age	
	in discount rate	Increase	Decrease	Increase	Decrease
Severance pay provision	(135)	139	(116)	134	(131)
Budgetary pension	(39)	–	–	–	–
Other	(90)	11	(10)	(12)	10

For more information see Note 1.F. 12 to the financial statements.

Share-based payment transactions

The financial statements include the benefit value of the stock option plan for the Bank President & CEO and for Bank managers, estimated based on the opinion of an expert external consultant, using generally accepted models, including the Black & Scholes model, the binomial model and the Monte Carlo model, based on various assumptions, mainly with regard to expected exercise date of the options and standard deviation of Bank share price. Changes in the price of the Bank's share, the standard deviation for the Bank's shares and other factors which could affect the economic value of the benefit.

Some of the Bank's stock option plans include multiple lots which vest on specified dates. The number of options which the offerees may actually exercise, will be primarily based on the net operating profit return on the Bank's average shareholders' equity, up to an annual rate of return equal to 13%, as well as on other parameters (for more information see Note 23 to the financial statements), based on the exercise eligibility formula, as stated in the option plan. As of December 31, 2020, the number of options which each offeree may exercise have been adjusted based on actual parameters for each year of the plan.

For more information see Note 1.F. 13 and Note 23 to the financial statements.

Provisions with respect to contingent liabilities and lawsuits

The financial statements include appropriate provisions to cover possible damages, where, in the opinion of the Bank's Management, based on the opinion of its legal counsel, a provision is required.

In accordance with the guidelines of the Supervisor of Banks, claims have been classified according to the range of probability of realization of the risk exposure, as follows:

1) Probable risk: there is a probability of more than 70% of a loss from the claim. For claims whose probability of realization has been classified as Probable, an appropriate provision was made in the financial statements.
2) Reasonably Possible risk: there is a probability of between 20% and 70% that a loss will be sustained from the claim. For claims whose probability of realization has been classified as Reasonably Possible, an appropriate provision is made in specific instances in the financial statements, at the discretion of Bank Management and based on the opinion of legal counsel.
3) Remote risk: there is a probability of less than 20% of a loss from the claim. For claims whose probability of realization has been classified as Remote, no provision is made in the financial statements.

Note 26.C. provides disclosure of material claims (whose amount, excluding interest and expenses, is over 1% of equity attributable to equity holders of the Bank).

Likewise, disclosure is given to motions for recognition as class actions, when the amount claimed in them is material, when, in the estimation of the Bank's management, based on the opinion of its legal counsel, it is not possible, on the date of preparing these financial statements, to estimate their possible outcome, and therefore, no provision was recorded for them.

In accordance with the directives of the Supervisor of Banks, the Bank is permitted to determine for class actions that it is not possible to estimate the prospects for realization of the exposure to risk in the four financial statements published since the claim was filed, or in case of delay of proceedings by decision of the Court. Beyond this, only in rare cases is the Bank permitted to determine that the prospects for realizing the exposure cannot be determined.

Note that the provision for legal claims and contingent liabilities depends on multiple factors and involves a high degree of uncertainty. New information to be received by the Bank in the future with regard to existing exposures as of the approval date of the financial statements may materially impact the exposure amount or the provision required with respect to such exposure.

Provision for impairment of non-financial assets

Provision for impairment, if needed, is based on assessor valuations updated by the assessor or valuator as required.

For more information see Note 1.F. 8 and 9 to the financial statements.

Deferred taxes

Deferred taxes are recognized with respect to temporary difference between the carrying amount of asset and liabilities for the purpose of financial reporting, and their value for tax purposes.

Deferred taxes are measured so as to reflect the tax implications expected to arise from the manner in which the Bank, at the end of the reported period, anticipates recovering or discharging the carrying amount of assets and liabilities.

Deferred taxes are measured using tax rates expected to apply to temporary differences when realized, based on statutes enacted, or essentially enacted, as of the balance sheet date.

Deferred tax assets are recognized with respect to carry-forward loss, tax credits and deductible temporary differences, when taxable revenue is more likely than not in future, which may enable utilization of these deferred tax assets.

For more information see Note 1.F. 17 to the financial statements.

Uncertain tax positions

The Bank only recognizes the effect of tax positions if it is more likely than not that those positions would be accepted by the Tax Authority or by the Court. Tax positions recognized are measured at the maximum amount whose likelihood of realization exceeds 50%. Changes in recognition or measurement are reflected in the period in which a change in circumstances resulted in a change in judgment.

The consolidated balance sheet as of December 31, 2020 includes deferred taxes, net amounting to NIS 1,537 million (excludes deferred taxes with respect to securities, which do not affect the provision for taxes). an increase by 1% in tax rates would cause a decrease by NIS 45 million in the provision for taxes.

For more information see Note 1.F. 17 to the financial statements.

Controls and Procedures

In accordance with the Public Reporting Directives of the Supervisor of Banks, based on requirements stipulated in Sections 302 and 404 of the American Sarbanes Oxley Act, the Bank President & CEO and the Chief Accountant of the Bank have each separately signed a Certification attached to the financial statements on "Disclosure Controls and Procedures (hereinafter: "Disclosure Certification").

The Disclosure Certification relates to the controls and procedures that were designed to assure that the information that the Bank requires for disclosure in accordance with the Public Reporting Directives of the Supervisor of Banks, is accumulated, processed and sent to the Bank's Executive Management in a manner that enables decisions to be reached at an appropriate time, with respect to disclosure requirements. The certification also refers to setting of internal controls over financial reporting intended to provide a reasonable degree of certainty with regard to the reliability of financial reporting and to the fact that the financial statements for external use are prepared in accordance with generally accepted accounting principles and with directives and guidelines of the Supervisor of Banks.

Controls and procedures with regard to disclosure

At the end of the period covered by this Report, the Bank's management, together with the Bank President & CEO and the Chief Accountant of the Bank, evaluated the effectiveness of the Bank's disclosure controls and procedures. Based on this evaluation, the Bank President & CEO and Chief Accountant of the Bank concluded that at the end of this period, the disclosure controls and procedures are effective for recording, processing, summarizing and reporting the information that the Bank is required to disclose in the annual report, in accordance with the Public Reporting Directives of the Supervisor of Banks, on the date stipulated in these Directives.

Developments in internal controls

In the fourth quarter of 2020, no change occurred in the Bank's internal controls over financial reporting that had a material effect, or can reasonably be expected to have an effect on the Bank's internal controls over financial reporting, except for adjustment of controls with respect to initial consolidation of Union Bank.

In accordance with the directive by the Supervisor of Banks with regard to adoption of provisions of Section 404 of the Sarbanes-Oxley Act, this report includes a declaration concerning the responsibility of management and the Board of Directors for setting and maintaining proper internal controls over financial reporting and management's assessment of the effectiveness of internal controls over financial reporting as of the date of the financial statements. Concurrently, the opinion of the Bank's independent auditors with regard to appropriateness of the Bank's internal controls over financial reporting in accordance with the applicable standards of the Public Company Accounting Oversight Board (PCAOB) is also provided.

M. Vidman

Moshe Vidman
Chairman of the Board of Directors

Lari Moshe

Moshe Lari
President & CEO

Approval date:
Ramat Gan, March 8, 2021

Certification by the President & CEO – Disclosure and internal controls

As of December 31, 2020

Certification

I, MOSHE LARI, certify that:

1. I have reviewed the annual report of Bank Mizrahi Tefahot Ltd. ("the Bank") for 2020 ("the Report").
2. Based on my knowledge, this Report does not contain any untrue statement of a material fact nor omit to state any material fact necessary so that the statements included therein, in light of the circumstances under which such statements were made, would not be misleading with respect to the period covered by the Report.
3. Based on my knowledge, the financial statements and other financial information included in the Report fairly present, in all material respects, the financial condition, results of operations, and changes in shareholders' equity and cash flows of the Bank as of the dates and for the periods presented in this Report.
4. I and others at the Bank who provide this certification, are responsible for determining and maintaining controls and procedures with regard to disclosure(1) and to the Bank's internal controls over financial reporting(1) as well as:
   A. We have determined such controls and procedures, or caused these controls and procedures to be determined under our supervision, for the purpose of ensuring that material information relating to the Bank, including its subsidiaries, is made known to us by others in the Bank and in those entities, particularly during the period in which the Report is being prepared;

   B. We have set such internal controls over financial reporting, or had it set under our supervision, intended to provide a reasonable degree of certainty with regard to the reliability of financial reporting and to the fact that the financial statements for external use are prepared in accordance with generally accepted accounting principles and with directives and guidelines of the Supervisor of Banks;

   C. We have evaluated the effectiveness of the Bank's disclosure controls and procedures and have presented in this report our conclusions about the effectiveness of the disclosure controls and procedures in this Report, as of the end of the period covered by this Report based on our evaluation; and

   D. We have disclosed in this Report any change in the Bank's internal controls over financial reporting that occurred during the fourth quarter, that has materially affected, or is reasonably likely to materially affect, the Bank's internal controls over financial reporting; and
5. I and others in the Bank who are declaring this certification, have disclosed, based on our most recent evaluation of the internal controls over financial reporting, to the Bank's independent auditors, the Board of Directors and the Audit Committee of the Board of Directors of the Bank:
   A. All significant deficiencies and material weaknesses in the determination or operation of internal controls over financial reporting which are reasonably likely to impair the Bank's ability to record, process, summarize and report financial information; and

   B. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Bank's internal controls over financial reporting.

The aforesaid does not derogate from my responsibility or the responsibility of any other person according to the law.

Lari Moshe

Moshe Lari

President & CEO

Ramat Gan, March 8, 2021

(1) As defined in Public Reporting Directives with regard to "Report of the Board of Directors and Management".

Certification by the Chief Accountant – Disclosure and internal controls

As of December 31, 2020

Certification

I, MENAHEM AVIV, certify that:

1. I have reviewed the annual report of Bank Mizrahi Tefahot Ltd. ("the Bank") for 2020 ("the Report").
2. Based on my knowledge, this Report does not contain any untrue statement of a material fact nor omit to state any material fact necessary so that the statements included therein, in light of the circumstances under which such statements were made, would not be misleading with respect to the period covered by the Report.
3. Based on my knowledge, the financial statements and other financial information included in the Report fairly present, in all material respects, the financial condition, results of operations, and changes in shareholders' equity and cash flows of the Bank as of and for the periods presented in this Report.
4. I and others at the Bank who provide this certification, are responsible for determining and maintaining controls and procedures with regard to disclosure(1) and to the Bank's internal controls over financial reporting(1) as well as:
   A. We have determined such controls and procedures, or caused these controls and procedures to be determined under our supervision, for the purpose of ensuring that material information relating to the Bank, including its subsidiaries, is made known to us by others in the Bank and in those entities, particularly during the period in which the Report is being prepared;
   B. We have set such internal controls over financial reporting, or had it set under our supervision, intended to provide a reasonable degree of certainty with regard to the reliability of financial reporting and to the fact that the financial statements for external use are prepared in accordance with generally accepted accounting principles and with directives and guidelines of the Supervisor of Banks;
   C. We have evaluated the effectiveness of the Bank's disclosure controls and procedures and have presented in this report our conclusions about the effectiveness of the disclosure controls and procedures in this Report, as of the end of the period covered by this Report based on our evaluation; and
   D. We have disclosed in this Report any change in the Bank's internal controls over financial reporting that occurred during the fourth quarter, that has materially affected, or is reasonably likely to materially affect, the Bank's internal controls over financial reporting; and
5. I and others in the Bank who are declaring this certification, have disclosed, based on our most recent evaluation of the internal controls over financial reporting, to the Bank's independent auditors, the Board of Directors and the Audit Committee of the Board of Directors of the Bank:
   A. All significant deficiencies and material weaknesses in the determination or operation of internal controls over financial reporting which are reasonably likely to impair the Bank's ability to record, process, summarize and report financial information; and
   B. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Bank's internal controls over financial reporting.

The aforesaid does not derogate from my responsibility or the responsibility of any other person according to the law.

Menahem Aviv

Vice-president, Chief Accountant

Ramat Gan, March 8, 2021

(1) As defined in Public Reporting Directives with regard to "Report of the Board of Directors and Management".

Report of the Board of Directors and Management as to Internal Controls over Financial Reporting

The Board of Directors and Management of Mizrahi Tefahot Bank Ltd. (hereinafter: "the Bank") are responsible for establishing and maintaining proper internal controls over financial reporting (as defined in Public Reporting Directives with regard to "Report of the Board of Directors and Management"). The Bank's internal controls system has been designed to provide the Bank's Board of Directors and management a reasonable degree of certainty as to proper preparation and presentation of financial statements published in accordance with generally accepted accounting principles and with directives and guidelines of the Supervisor of Banks. Regardless of the quality of the design there of, all internal controls systems have inherent limitations. Therefore, even should it be determined that these systems are effective, they may only provide a reasonable degree of certainty with regard to preparation and presentation of financial statements.

The management, under supervision of the Board of Directors, maintains a comprehensive system of controls intended to ensure that transactions are executed in line with management authorization, that assets are protected, and that accounting records are reliable. Furthermore, management under supervision of the Board of Directors, takes steps to ensure that information and communication channels are effective and monitor execution, including execution of internal control procedures.

The Bank's management, under supervision of the Board of Directors, has evaluated the effectiveness of the Bank's internal controls system over financial reporting as of December 31, 2020 based on criteria stipulated in the internal control model of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on the aforementioned evaluation, management believes that as of December 31, 2020, the Bank's internal controls over financial reporting are effective.

The effectiveness of the Bank's internal controls over financial reporting as of December 31, 2020 was audited by the Bank's independent auditors, Brightman Almagor Zohar & Coas noted in their report on page 132, which includes their unqualified , . opinion as to the effectiveness of the Bank's internal controls over financial reporting as of December 31, 2020.

M. Vidman	Lari Moshe	
Moshe Vidman	**Moshe Lari**	**Menahem Aviv**
Chairman of the Board of Directors	President & CEO	Vice-president, Chief Accountant

Approval date:
Ramat Gan, March 8, 2021

Deloitte.

Independent Auditors' Report to Shareholders of Bank Mizrahi-Tefahot Limited

We have audited the accompanying consolidated balance sheets of Mizrahi Tefahot Limited and its subsidiaries ("the Bank") as of December 31, 2020 and 2019, and the statements of profit and loss, consolidated statements of comprehensive income, consolidated statements of changes to equity and consolidated statements of cash flows – for each of the three years in the period ended December 31, 2020. The Bank's Board of Directors and management are responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audit.

We have not audited the financial statements of subsidiaries whose assets included in consolidation account for 5.05% and 6.06% of total consolidated assets as of December 31, 2020 and 2019, respectively and whose net interest revenues before expenses with respect to credit losses, included in the consolidated statements of profit and loss, account for 8.06%, 9.29% and 8.54%, respectively of total consolidated net interest revenues before expenses with respect to credit losses for the years ended December 31, 2020, 2019 and 2018, respectively. The financial statements of these companies were audited by other auditors, whose reports were furnished to us, and our opinion, insofar as it relates to amounts included with respect to these companies, is based on the reports of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards in Israel, including those prescribed by the Auditors' Regulations (Mode of Performance), 1973 and certain auditing standards, the application of which was prescribed by the directives of the Supervisor of Banks. These regulations require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors and by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the above consolidated financial statements present fairly, in all material respects, the financial position – of the Bank – as of December 31, 2020 and 2019, and the results of operations, changes in shareholders' equity and cash flows of the Bank for each of the three years in the period ended December 31, 2020, in conformity with generally accepted accounting principles in Israel (Israeli GAAP). Also, in our opinion, the financial statements have been prepared in accordance with the directives and guidelines of the Supervisor of Banks.

Without qualifying our aforementioned opinion, we draw your attention to Note 26.C. section 11 with regard to lawsuits filed against the Bank and its subsidiary, including requests to recognize them as class actions

We have also audited in accordance with PCAOB standards in the USA with regard to audit of internal controls over financial reporting, as adopted by the Institute of Certified Public Accountants in Israel, the internal controls over financial reporting at the Bank as of December 31, 2020, based on criteria specified in the integrated framework for internal controls published by COSO, and our report dated March 8, 2021 included an unqualified opinion on the effectiveness of internal controls over financial reporting at the Bank.

Brightman Almagor Zohar & Co.

Brightman Almagor Zohar & Co.
A Firm in the Deloitte Global Network
Certified Public Accountants

Ramat Gan, March 8, 2021

We have been serving as the Bank's Independent Auditor since 1995.

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Deloitte.

Independent Auditors' Report to Shareholders of Bank Mizrahi-Tefahot Limited Pursuant to Public Reporting Directives of the Supervisor of Banks Concerning Internal Controls over financial Reporting

We have audited the internal controls over financial reporting at Bank Mizrahi Tefahot Ltd. and subsidiaries (hereinafter jointly: "the Bank") as of December 31, 2020, based on criteria stipulated by the integrated framework for internal controls published by the Committee of Sponsoring Organizations of the Tread way Commission (hereinafter: "COSO"). The Bank's Board of Directors and management are responsible for maintaining effective internal controls over financial reporting, and for evaluating the effectiveness of said internal controls over financial reporting which is included in the attached enclosed report of the Board of Directors and management with regard to internal controls over financial reporting. We are responsible for our opinion on the Bank's internal controls over financial reporting, based on our audit.

We have not audited the effectiveness of internal controls over financial reporting at subsidiaries whose assets and net interest revenue before expenses with respect to credit losses, included in consolidation, account for 5.05% and 8.06%, respectively of the referring amounts on the consolidated financial statements as of December 31, 2020 and for the year then ended. The effectiveness of internal controls over financial reporting at these companies was audited by other independent auditors whose reports have been provided to us and our opinion, in as much as it refers to effectiveness of internal controls over financial reporting at these companies, Is based on the reports of these other independent auditors.

We have conducted our audit in accordance with standards of the Public Company Accounting Oversight Board (PCAOB) in the USA with regard to audit of internal controls over financial reporting, as adopted by the Institute of Certified Public Accountants in Israel. In accordance with these standards, we are required to plan and perform the audit and obtain a reasonable degree of assurance as to the maintenance of effective internal controls over financial reporting, in all material aspects. Our audit included: obtaining an understanding of the internal controls over financial reporting, assessing the risk of existence of a material weakness, and also testing and evaluating of the design and operating effectiveness of internal controls based on the assessed risk. Our audit also included performing such other procedures which we considered necessary under the circumstances. We believe that our audits and the reports of the other independent auditors provide a reasonable basis for our opinion.

A bank's internal controls over financial reporting is a process designed to provide a reasonable degree of certainty as to the reliability of financial reporting and preparation of financial statements for external use in accordance with Israeli GAAP, and directives and guidelines of the Supervisor of Banks. A bank's internal controls over financial reporting include policies and procedures which: (1) refer to record keeping which, with reasonable detail, accurately and properly reflects transactions and transfers of Bank assets (including their removal from Bank ownership); (2) provide a reasonable degree of certainty that transactions are properly recorded so as to allow for preparation of financial statements in accordance with Israeli GAAP and directives and guidelines of the Supervisor of Banks, and that the Bank's receipts and expenditures are made exclusively in line with authorizations of the Bank's management and Board members; and (3) provide a reasonable degree of certainty with regard to avoidance or timely discovery of any unauthorized acquisition, use or transfer of Bank assets (including removal from Bank ownership) which may materially impact the financial statements.

Due to structural limitations, internal controls over financial reporting may not prevent or disclose misleading presentation. Also, reaching conclusions about the future on the basis of any current assessment of effectiveness is exposed to the risk that controls will become unsuitable due to changes in circumstances or that the extent of observance of the policies or procedures will change adversely

In our opinion, the Bank maintained, in all material aspects, effective internal controls over financial reporting as of December 31, 2020 based on criteria stipulated in the integrated framework for internal controls published by COSO.

We have also audited, in accordance with generally accepted auditing standards in Israel and certain audit standards whose application to audits of banking corporations was stipulated in directives of and guidance from the Supervisor of Banks, the Bank's consolidated balance sheet as of December 31, 2020 and 2019 and the consolidated statements of profit and loss, consolidated statements of comprehensive income, consolidated statements of changes to equity and consolidates statements of cash flows for each of the three years ended December 31, 2020, and our report dated March 8, 2021 includes an unqualified opinion on the aforementioned financial statements, based upon our audit and on the reports of other independent auditors, as well as drawing of attention to claims filed against the Bank and its subsidiary and motions to approve them as class actions.

Brightman Almagor Zohar & Co.

Brightman Almagor Zohar & Co.
A Firm in the Deloitte Global Network
Certified Public Accountants

Ramat Gan, March 8, 2021

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Mizrahi Tefahot Bank
Financial Statements

2020

Table of Contents

Consolidated statement of profit and loss

For the year ended December 31,

Reported amounts (NIS in millions)

	Note	2020	2019	2018
Interest revenues	2	7,528	7,711	7,359
Interest expenses	2	1,708	2,371	2,437
Interest revenues, net	2	5,820	5,340	4,922
Expenses with respect to credit losses	13.30	1,050	364	310
Interest revenues, net after expenses with respect to credit losses		**4,770**	**4,976**	**4,612**
Non-interest revenues				
Non-interest financing revenues	3	221	357	445
Commissions	4	1,671	1,535	1,475
Other revenues	5	221	74	47
Total non-interest revenues		**2,113**	**1,966**	**1,967**
Operating and other expenses				
Payroll and associated expenses	6	2,644	2,562	2,407
Maintenance and depreciation of buildings and equipment	16	871	770	747
Other expenses	7	764	656	1,230
Total operating and other expenses		**4,279**	**3,988**	**4,384**
Pre-tax profit		2,604	2,954	2,195
Provision for taxes on profit	8	903	1,029	922
After-tax profit		**1,701**	**1,925**	**1,273**
Share of profits of associated companies, after tax effect	15	1	–	1
Net profit:				
Before attribution to non-controlling interests		1,702	1,925	1,274
Attributable to non-controlling interests		(92)	(83)	(68)
Attributable to shareholders of the Bank		**1,610**	**1,842**	**1,206**
Diluted earnings per share[(1)] (in NIS)	9			
Basic earnings				
Net profit attributable to shareholders of the Bank		**6.70**	**7.86**	**5.17**
Diluted earnings				
Net profit attributable to shareholders of the Bank		**6.69**	**7.83**	**5.15**

(1) Share of NIS 0.1 par value.

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

Moshe Vidman	**Moshe Lari**	**Menahem Aviv**
Chairman of the Board of Directors	President & CEO	Vice-president, Chief Accountant

Approval date:

Ramat Gan, March 8, 2021

Consolidated statement of comprehensive income

For the year ended December 31,

Reported amounts (NIS in millions)

	Note	2020	2019	2018
Net profit:				
Before attribution to non-controlling interests		1,702	1,925	1,274
Attributable to non-controlling interests		(92)	(83)	(68)
Net profit attributable to shareholders of the Bank		**1,610**	**1,842**	**1,206**
Other comprehensive income (loss) before taxes	10			
Adjustments for presentation of available-for-sale securities at fair value, net		69	144	(68)
Adjustments from translation of financial statements of investments in associated companies(1)		–	–	1
Net gains (losses) with respect to cash flows hedging		3	6	–
Adjustments of liabilities with respect to employees' benefits(2)		14	(152)	121
Total other comprehensive income (loss), before tax		**86**	**(2)**	**54**
Related tax effect		(29)	1	(18)
Other comprehensive income (loss) after taxes(3)				
Other comprehensive income (loss), before attribution to non-controlling interests		57	(1)	36
Less other comprehensive income (loss) attributed to non-controlling interests		1	(15)	(1)
Other comprehensive income (loss) attributed to shareholders of the Bank, after taxes		**56**	**14**	**37**
Comprehensive income:				
Before attribution to non-controlling interests		1,759	1,924	1,310
Attributable to non-controlling interests		(93)	(68)	(67)
Comprehensive income attributable to shareholders of the Bank		**1,666**	**1,856**	**1,243**

(1) Translation adjustments of financial statements of associated companies whose functional currency differs from the Bank's functional currency.

(2) Includes adjustments with respect to actuarial estimates included in the reported period for defined-benefit pension plans and current amortization of adjustments with respect to liabilities to profit and loss.

(3) For more information see Note 10 – Cumulative Other Comprehensive Income (Loss).

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

Consolidated balance sheet

As of December 31,

Reported amounts (NIS in millions)

	Note	2020	2019
Assets			
Cash and deposits with banks	11	86,570	51,672
Securities[1][2]	12	17,290	10,113
Securities loaned or purchased under resale agreements	27	200	120
Loans to the public	13.30	247,958	206,401
Provision for credit losses	13.30	(2,433)	(1,693)
Loans to the public, net	13.30	245,525	204,708
Loans to Governments	14	613	656
Investments in associated companies	15	31	32
Buildings and equipment	16	1,743	1,457
Intangible assets and goodwill	15.D	239	87
Assets with respect to derivative instruments	28	4,543	2,578
Other assets	17	3,386	1,821
Total assets		**360,140**	**273,244**
Liabilities and Equity			
Deposits from the public	18	284,224	210,984
Deposits from banks	19	3,779	714
Deposits from the Government		70	29
Debentures and subordinated notes	20	33,446	33,460
Liabilities with respect to derivative instruments	28	5,506	2,686
Other liabilities [3]	30.E, 21	13,446	8,566
Total liabilities		**340,471**	**256,439**
Shareholders' equity attributable to shareholders of the Bank		18,804	16,033
Non-controlling interests		865	772
Total equity	**24**	**19,669**	**16,805**
Total liabilities and equity		**360,140**	**273,244**

(1) Of which: NIS 13,359 million recognized on the financial statements at fair value (on December 31, 2019: NIS 6,032 million).
(2) For more information with regard to securities pledged to lenders, see Note 27.
(3) Of which: Provision for credit losses with respect to off balance sheet credit instruments amounting to NIS 232 million (on December 31, 2019: NIS 119 million).

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

Statement of Changes in Shareholders' Equity

For the year ended December 31,

Reported amounts (NIS in millions)

	Share capital and premium[(1)]	Capital reserve from benefit from share-based payment transactions	Total paid-up share capital and capital reserves	Cumulative other comprehensive income (loss)[(2)]	Retained earnings[(3)]	Total shareholder equity	Non-controlling interests	Total equity
Balance as of December 31, 2017	**2,180**	**65**	**2,245**	**(383)**	**11,823**	**13,685**	**642**	**14,327**
Net profit for the period	–	–	–	–	1,206	1,206	68	1,274
Dividends paid[(7)]	–	–	–	–	(247)	(247)	–	(247)
Realization of share-based payment transactions[(4)]	17	(17)	–	–	–	–	–	–
Other comprehensive income (loss), net, after tax	–	–	–	37	–	37	(1)	36
Balance as of December 31, 2018	**2,197**	**48**	**2,245**	**(346)**	**12,782**	**14,681**	**709**	**15,390**
Net profit for the period	–	–	–	–	1,842	1,842	83	1,925
Dividends paid[(7)]	–	–	–	–	(561)	(561)	–	(561)
Benefit from share-based payment transactions	–	57	57	–	–	57	–	57
Realization of share-based payment transactions[(4)]	35	(35)	–	–	–	–	–	–
Dividends attributable to non-controlling interest in subsidiary	–	–	–	–	–	–	(5)	(5)
Other comprehensive income (loss), net, after tax	–	–	–	14	–	14	(15)	(1)
Balance as of December 31, 2019	**2,232**	**70**	**2,302**	**(332)**	**14,063**	**16,033**	**772**	**16,805**
Cumulative effect of initial application of US GAAP[(5)]	–	–	–	–	51	51	–	51
Adjusted balance as of January 1, 2020 after initial application	2,232	70	2,302	(332)	14,114	16,084	772	16,856
Net profit for the period	–	–	–	–	1,610	1,610	92	1,702
Dividends paid[(7)]	–	–	–	–	(176)	(176)	–	(176)
Benefit from share-based payment transactions	–	23	23	–	–	23	–	23
Realization of share-based payment transactions[(4)]	6	(6)	–	–	–	–	–	–
Shares issued[(6)]	1,207	–	1,207	–	–	1,207	–	1,207
Other comprehensive income (loss), net, after tax	–	–	–	56	–	56	1	57
Balance as of December 31, 2020	**3,445**	**87**	**3,532**	**(276)**	**15,548**	**18,804**	**865**	**19,669**

(1) Share premium generated prior to March 31, 1986.
(2) For more information see Note 10 – Cumulative Other Comprehensive Income (Loss).
(3) For details on various limitations on dividend distributions, see Note 24.
(4) In 2020, the Bank issued 266,111 ordinary shares of NIS 0.1 par value each for exercise of options pursuant to the Employees' Stock Option Plan, and issued to the President 17,840 ordinary shares of NIS 0.1 par value each. In 2019, the Bank issued 1,472,307 ordinary shares of NIS 0.1 par value each for exercise of options pursuant to the Employees' Stock Option Plan, and issued to the President 85,880 ordinary shares of NIS 0.1 par value each. In 2018, the Bank issued 699,128 ordinary shares of NIS 0.1 par value each for exercise of options pursuant to the Employees' Stock Option Plan, and issued to the President 30,580 ordinary shares of NIS 0.1 par value each.
(5) Cumulative effect of initial application of generally accepted accounting principles for banks in the USA with regard to leases (ASU-2016-02) and updates there to. See also Note 1.E.1.
(6) Includes shares issued in conjunction with acquisition of Union Bank. For more information see Notes 35.B. and 25.N.
(7) On March 26, 2018, June 5, 2018, August 27, 2019, December 3, 2019 and March 11, 2020, the Bank paid dividends amounting to NIS 110,137, 392, 169 and 176 million, respectively, in conformity with a decision by the Bank/s Board of Directors.

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

Statement of cash flows – consolidated

For the year ended December 31,

Reported amounts (NIS in millions)

	2020	2019	2018
Cash flows provided by current operations			
Net profit	1,702	1,925	1,274
Adjustments			
Share of the Bank in undistributed earnings of associated companies	(1)	–	(1)
Depreciation of buildings and equipment (including impairment)	283	245	238
Expenses with respect to credit losses	1,050	364	310
Gain from sale of securities available for sale	(101)	(35)	(18)
Realized and unrealized loss (gain) from adjustment to fair value of securities held for trading	(35)	(11)	1
Realized and unrealized loss (gain) from adjustments to fair value of shares not held for trading	3	(47)	–
Gain from sale of buildings and equipment	(41)	(26)	–
Impairment of shares not held for trading	–	6	–
Expenses arising from share-based payment transactions	23	57	–
Deferred taxes, net	(188)	79	(111)
Change in employees' provisions and liabilities	1	57	63
Adjustments with respect to exchange rate differentials	285	232	(129)
Gain from sale of loan portfolios	–	–	–
Accrual differences included with investment and financing operations	63	566	67
Net change in current assets			
Assets with respect to derivative instruments	(1,060)	668	181
Securities held for trading	596	(469)	(80)
Other assets, net	(630)	(67)	49
Net change in current liabilities			
Liabilities with respect to derivative instruments	1,690	(975)	579
Other liabilities	1,423	274	551
Net cash provided by current operations	**5,063**	**2,843**	**2,974**

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

Statement of cash flows – consolidated – continued

For the year ended December 31,

Reported amounts (NIS in millions)

	2020	2019	2018
Cash flows provided by investment activities			
Net change in deposits with banks	1,120	(1,643)	52
Net change in loans to the public	(16,195)	(10,480)	(15,522)
Net change in loans to Governments	43	12	(56)
Net change in securities loaned or acquired in resale agreements	(24)	(94)	50
Acquisition of debentures held to maturity	(954)	(1,662)	(1,396)
Proceeds from redemption of securities held to maturity	1,216	1,452	723
Acquisition of securities available for sale	(4,806)	(5,517)	(2,459)
Proceeds from sale of securities available for sale	4,751	3,517	838
Proceeds from redemption of securities available for sale	1,030	3,265	1,695
Proceeds from sale of loan portfolios	40	577	2,350
Acquisition of initially consolidated subsidiary – Union Bank	10,280	–	–
Purchase of loan portfolios – public	(576)	(782)	(377)
Purchase of loan portfolios – Government	–	(38)	(118)
Acquisition of buildings and equipment	(288)	(300)	(259)
Proceeds from sale of buildings and equipment	73	57	–
Proceeds from realized investment in associated companies	2	–	1
Net cash used in investment activities	**(4,288)**	**(11,636)**	**(14,478)**
Cash flows provided by financing operations			
Net change in deposits from the public	36,372	11,492	15,919
Net change in deposits from banks	2,946	89	(500)
Net change in deposits from Government	41	(13)	(9)
Issuance of debentures and subordinated notes	2,010	6,634	711
Redemption of debentures and subordinated notes	(5,666)	(3,744)	(415)
Dividends paid to shareholders	(176)	(561)	(247)
Dividends paid to external shareholders in subsidiaries	–	(5)	–
Net cash provided by financing operations	**35,527**	**13,892**	**15,459**
Increase (decrease) in cash	36,302	5,099	3,955
Cash balance at beginning of the period	49,448	44,581	40,497
Effect of changes in exchange rate on cash balances	(285)	(232)	129
Cash balance at end of the period	**85,465**	**49,448**	**44,581**
Interest and taxes paid / received			
Interest received	7,679	6,872	6,837
Interest paid	2,258	2,369	2,219
Dividends received	3	17	7
Income taxes received	67	178	97
Income taxes paid	1,124	1,135	1,145
Appendix A – Non-cash Investment and Financing Transactions			
Acquisition of buildings and equipment	8	–	14
Sales of buildings and equipment	–	5	–
Shares issued in conjunction with acquisition of Union Bank	(1,207)	–	–

Statement of cash flows – consolidated – continued

For the year ended December 31,

Reported amounts (NIS in millions)

Appendix B – Initial consolidation of Union Bank

	2020
Assets and liabilities acquired and cash paid, as of the consolidation date:	
Cash acquired	10,296
Assets (other than cash)	36,480
Liabilities	44,091
Identified assets and liabilities	**2,685**
Deferred credit balance from acquisition	(1,462)
Total acquisition cost	**1,223**
Less non-cash consideration paid	1,207
Consideration paid in cash	16
Less cash acquired	10,296
Net cash flow provided by consolidation of Union Bank	(10,280)

Note 1 – Reporting Principles and Accounting Policies

A. Overview

1) On March 8, 2021, the Bank's Board of Directors authorized publication of these consolidated financial statements as of December 31, 2020.

2) The financial statements are prepared in conformity with generally accepted accounting policies in Israel (Israeli GAAP) and in accordance with Public Reporting Directives of the Supervisor of Banks.
For most topics, the Supervisor of Banks' directives are based on generally acceptable accounting practices by banks in the United States. For other, less material topics, these directives are based on International Financial Reporting Standards (IFRS) and on generally accepted accounting principles in Israel (Israeli GAAP).
When International Financial Reporting Standards (IFRS) allow multiple alternatives, or do not specifically refer to a certain situation, these directives prescribe specific implementation guidelines, mostly based on generally acceptable accounting practices by banks in the United States..

3) In conformity with the Supervisor of Banks' Public Reporting Directives, the Bank may – under certain circumstances stated in the directives – present annual financial statements on a consolidated basis only.
In conformity with approval of the Supervisor of Banks, the Bank presents its annual financial statements on a consolidated basis only.
For more information about the condensed financial statements of the Bank solo, including balance sheet, statement of profit and loss and statement of cash flows, see Note 37 to the financial statements. Data for the Bank solo is available on the Bank website:
www.mizrahi-tefahot.co.il >> about the bank >> investor relations >> financial statements.

4) Definitions
"International Financial Reporting Standards" – Standards and interpretations adopted by the International Accounting Standards Board (hereinafter: "IASB"), which include International Financial Reporting Standards (hereinafter: "IFRS") and International Accounting Standards (hereinafter: "IAS"), including interpretations of these standards determined by the International Financial Reporting Interpretations Committee (IFRIC) or interpretations by the Standing Interpretations Committee (SIC), respectively.
"Generally accepted accounting principles for banks in the United States" Accounting rules which American banks traded in the USA are required to apply. These principles are specified by banking supervisory authorities in the USA, the US SEC, the US Financial Accounting Standards Board and other US entities; they are applied in conformity with the hierarchy specified in FAS 168 (ASC 105-10) – Codification of accounting standards of the US Financial Accounting Standards Board and GAAP hierarchy. In addition, as stipulated by the Supervisor of Banks, notwithstanding the hierarchy specified in the American FAS 168, it has been clarified that any position made public by US banking supervision authorities or by the team of the US banking supervision authorities , with regard to application of generally accepted accounting principles in the USA, is a Generally Accepted Accounting Principle for Banks in the USA.
"FASB" – Financial Accounting Standards Board in the USA.
"The Bank" – Bank Mizrahi-Tefahot Ltd.
"Subsidiaries" – entities whose financial statements are fully consolidated with those of the Bank, directly or indirectly.
"Bank Group" – The Bank and its subsidiaries.
"Associated companies" – Entities in which the Group has material influence over financial and operational policies, but over which it has no control. Investment in associated companies is included in the financial statements using the equity method.
"Investees" – Subsidiaries and associated companies.
"Overseas affiliates" – Representatives, branches or subsidiaries of the Bank outside Israel.
"Functional currency" – The currency of the primary economic environment in which the Bank operates. This is typically the currency of the environment in which the corporation generates and expends most of its cash.
"Presentation currency" – The currency in which the financial statements are presented.
"Adjusted amount" – Historical nominal amount, adjusted for changes in the economic purchasing power of Israeli currency.
"Reported amount" – An amount adjusted as of December 31, 2003 (hereinafter: "the transition date"), plus amounts in nominal values that were added after the transition date, minus amounts deducted after the transition date.
"Cost" – Cost in reported amount.
"Related parties" and "Interested parties" – As defined in Section 80 of the Public Reporting Directives.

Note 1 – Reporting Principles and Accounting Policies – continued

B. Preparation basis of the financial statements

1) Principles of financial reporting
The Bank's financial statements are prepared in conformity with generally accepted accounting policies in Israel (Israeli GAAP) and in accordance with Public Reporting Directives of the Supervisor of Banks. See above in section A.2).

2) Functional currency and reporting currency
The consolidated financial statements are presented in NIS, which is the Bank's functional currency, rounded to the nearest one million, unless otherwise indicated. NIS is the currency which reflects the principal economic environment in which then Bank operates. For information about the functional currency of overseas banking affiliates, see section F. 1 below.

3) Measurement basis

The financial statements were prepared based on historical cost, except for the following items:

- Financial derivative instruments and other financial instruments that are measured at fair value through profit and loss (such as: investments in securities in the held-for-trade portfolio or instruments for which the fair value option was selected);
- Financial instruments classified as available for sale;
- Liability with respect to share-based payment;
- Non-current assets held for sale and asset group held for sale;
- Deferred tax assets and liabilities
- Various provisions, such as provisions for credit losses and provision for legal claims;
- Assets and liabilities with respect to employees' benefits;
- Investments in associated companies.

The value of non-monetary assets and capital items measured based on historical cost was adjusted for changes in the Consumer Price Index through December 31, 2003. Through this date, the Israeli economy was considered a hyper-inflationary economy. As from January 1, 2004, the Bank prepares its financial statements in reported amounts.

4) Use of estimates

In preparing the consolidated financial statements in accordance with Israeli GAAP and with directives and guidelines of the Supervisor of Banks, Bank management is required to use judgment, assessments, estimates and assumptions which impact implementation policies and amounts of assets and liabilities, revenues and expenses. Note that actual results may differ from these estimates.
When formulating accounting estimates during preparation of the financial statements, Bank management is required to make assumptions with regard to circumstances and events involving significant uncertainty. In its judgment when determining these estimates, Bank management relies on past experience, various facts, external factors and reasonable assumptions in accordance with the appropriate circumstances for each estimate.
These estimates and assumptions are regularly reviewed, and changes to accounting estimates are recognized in the period in which these estimates were revised and in any affected future period.
As stated in section 1.F.6)D. below, the group-based provision for credit losses for 2020 was based, inter alia, on historical loss rates in various economic sectors, divided into problematic and non-problematic debt, for the 10 years ended on December 31, 2020, in conformity with directives of the Supervisor of Banks.
For more information about supervisory highlights with regard to accounting treatment of debt, and public reporting in view of the Corona Virus crisis, see section E.3. below.

Note 1 – Reporting Principles and Accounting Policies – continued

C. Effect of the Corona Virus crisis

The Corona Virus outbreak and global pandemic resulted in a global healthcare and economic crisis. The virus outbreak in January 2020 started to impact most world countries in the first quarter of 2020. In response, many governments, including the Israeli Government, implemented defensive measures, such as restrictions on travel between countries, isolation, reduced crowding and movement, lock-downs, restrictions on operations of private businesses and Government and municipal services and so forth. At the outset of this crisis, prices of securities on various major stock exchanges around the world declined sharply, with increased volatility in prices of commodities, diverse assets and in foreign currency exchange rates. Given the significant uncertainty with regard to evolution of the crisis and its cumulative negative implications over the long term, many countries – including Israel – may encounter economic recession. In early December 2020, emergency use of two vaccines for COVID-19 was authorized. Pursuant to this emergency authorization, an extensive vaccination effort started around the world late in the fourth quarter, as reflected in the high vaccination rate in Israel among medical teams and among the population at risk. However, due to the sharp increase in those testing positive to Corona Virus in the fourth quarter, a third lock-down was implemented in Israel, with renewed strict restrictions on movement and activity.

The virus outbreak resulted in material deterioration in economic activity in Israel, to which Bank operations are exposed and which has other effects on Bank operations, including with respect to further increase in credit risk and liquidity issues among borrowers, both in the business segment and in the private segment, and with regard to the economic slow-down. In 2020, the Bank recognized expenses with respect to credit losses amounting to NIS 1,050 million, mostly due to the crisis resulting from the Corona Virus outbreak, as well as short-term interest rates lowered by central banks and further potential lowering which may take place and may impact the Bank's interest revenues and expenses, as well as actuarial obligations recognized with respect to defined benefit plans for employees.

For more information about the impact of the Corona Virus pandemic on Group business, see the following Notes:

Note 1.E.3	regarding supervisory highlights with regard to accounting treatment of debt, and public reporting in view of the Corona Virus crisis;
Note 13	regarding credit risk, loans to the public and provision for credit losses;
Note 25	regarding capital adequacy, leverage and liquidity pursuant to directives of the Supervisor of Banks;
Note 30	regarding additional information about credit risk, loans to the public and provision for credit losses; and
Note 35A	regarding the effect of the Corona Virus outbreak

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D. Accounting policy for new transactions – acquisition of Union Bank shares

On September 30, 2020, the transaction whereby the Bank acquired the shares of Union Bank closed. The Bank accounted for this acquisition in conformity with provisions of ASC 805-10. For more information, see Note 35.B. below.

E. Initial application of accounting standards, accounting standard updates and directives of the Supervisor of Banks

As from reporting periods starting on January 1, 2020 (unless otherwise noted), the Bank applies the following new accounting standards and directives:

1. Reporting by banking corporations and credit card issuers in Israel, in conformity with generally accepted accounting principles in the USA with regard to leases;
2. Updated standard 2017-04 in the codification with regard to impairment of goodwill;
3. Supervisory highlights regarding the accounting treatment of debt and public reporting in view of the Corona Virus crisis;

Below is a description of the substance of changes made to accounting policies and reporting regulations in the consolidated financial statements and description of the effect of their initial application, if any.

Note 1 – Reporting Principles and Accounting Policies – continued

1. Reporting by banking corporations and credit card issuers in Israel, in conformity with generally accepted accounting principles in the USA with regard to leases

On July 1, 2018, the Supervisor of Banks issued a circular concerning reporting by banking corporations and credit card issuers in Israel, in conformity with US GAAP regarding leases. This circular adopts generally accepted accounting principles for banks in the USA with regard to leases, including the presentation, measurement and disclosure rules specified in topic 842 of the codification regarding leases.

Highlights of the changes to accounting treatment on the financial statements due to application of the circular include the following: Lease of assets for terms longer than 12 months would be recognized on the balance sheet, even if the lease is classified as an operational lease; for operational lease transactions, an asset would be recognized on the balance sheet, reflecting the corporation's right to use the leased asset ("right-to-use asset") against recognition of a liability to make lease payments, whose amount equals the present value of future lease payments; transactions where a banking corporation sells and leases back an asset may, in certain cases, be deemed sale transactions for accounting purposes, subject to fulfillment of certain conditions listed in topic 842 of the codification; with regard to capital adequacy, risk assets with respect to leases recognized on the balance sheet would be weighted at 100% with regard to the minimum capital adequacy ratio.

The new provisions are applied as from January 1, 2020 by way of adjusted retroactive application, with the cumulative effect charged to retained earnings upon the initial application date with no re-statement of comparative figures.

As allowed by transitional provisions of the standard, the Bank has elected to apply the following transitional relief measures:

- Preserve estimates with regard to identification of the existence of a lease and its classification f as an operational or financial lease, with respect to all agreements in place as of the initial application date, and to preserve the assessment of qualification for capitalization of initial direct costs, which have been determined prior to the initial application date, in conformity with the provisions of the current standard.
- Use of hindsight to determine the lease term for leases that include optional extension or termination and to assess impairment of right-to-use assets.

Application of the new provisions resulted in an increase by NIS 591 million in Other Assets and in an identical increase in Other Liabilities with respect to leases as of January 1, 2020, and in an increase by NIS 51 million in Retained Earnings as of January 1, 2020, due to the cumulative effect of recognition of deferred gain from sale and lease-back transactions. Application of these provisions has no material impact on the Bank's statement of profit and loss.

Application of the new provisions had no material effect on capital adequacy ratios and on the leverage ratio of the Bank.

2. Updated standard 2017-04 in the codification with regard to impairment of goodwill

In January 2017, FASB issued an update regarding simplified accounting treatment of impairment of goodwill, which amends provisions of Topic 350 of the codification regarding "Intangible assets – goodwill and others" (hereinafter: "the Amendment").
In conformity with the Amendment, *inter alia*, the requirement to apply the two-stage test for review of impairment of goodwill was eliminated. Thus, calculation of the implied fair value of goodwill is no longer required, but rather a two-stage test should be applied for each reporting unit, whereby impairment of goodwill is to be recognized as the amount of the difference between the fair value of the reported unit and its carrying amount, taking into account the effect of taxes on income. However, the impairment loss may not exceed the goodwill allocated to the reporting unit.
The new provisions were applied as from January 1, 2020 by way of prospective application.
Application of these directives had no material impact on the financial statements.

3. Supervisory highlights regarding the accounting treatment of debt and public reporting in view of the Corona Virus crisis

On April 21, 2020, the Bank of Israel issued a letter regarding "Corona Virus crisis – supervisory highlights regarding the accounting treatment of debts and public reporting".
In this letter and in view of the Corona Virus outbreak, the Supervisor of Banks adopted directives and relief measures provided by US supervisory authorities.

Note 1 – Reporting Principles and Accounting Policies – continued

In conformity with the letter from the Supervisor of Banks and given current circumstances and the high level of uncertainty, banks are required to exercise considerable judgment in assessing credit losses. In this regard, Bank management should evaluate all available information and should determine the best estimate, making revisions to qualitative adjustments in calculation of the provision, and increasing the amounts included in the provision for credit losses. This is so as to ensure that provisions for credit losses are sufficient to cover, in conservative and careful fashion, the current estimate of expected credit losses in the Bank's loan portfolio, including the impact of the Corona Virus crisis. Over time, as the Bank has more information available with regard to the likelihood of collection from borrowers, the estimated impact should be adjusted for such additional information.

The key provisions are as follows:

A. In conformity with the letter from the Supervisor of Banks and given current circumstances and the high level of uncertainty, banks are required to exercise considerable judgment in assessing credit losses. In this regard, Bank management should evaluate all available information and should determine the best estimate, making revisions to qualitative adjustments in calculation of the provision, and increasing the amounts included in the provision for credit losses. This is so as to ensure that provisions for credit losses are sufficient to cover, in conservative and careful fashion, the current estimate of expected credit losses in the Bank's loan portfolio, including the impact of the Corona Virus crisis. Over time, as the Bank has more information available with regard to the likelihood of collection from borrowers, the estimated impact should be adjusted for such additional information.
B. As for treatment of debts with changes made to terms and conditions, it was decided that debt should not be classified under restructuring of problematic debt when short-term changes are made to payments due to the Corona Virus crisis, to borrowers who were not previously in arrears.
C. As for determination of the state of arrears, debt which previously were not in arrears of up to 30 days and for which such delay was granted, would not be deemed loans in arrears during the period of such delay. Moreover, in case of such delay in payments for debt that was in arrears prior to such delay, the state of arrears should be frozen during the delay in payment (unless such debt was classified as impaired, or was subject to accounting write-off).
D. During the period of such short-term arrangements, these loans would generally not be reported as non-accruing impaired loans. Should new information be gathered pointing to a decrease in likelihood of repayment of any specific loan, or non-payment of any specific loan, the Bank should act in conformity with Public Reporting Directives on this matter.
E. As for residential mortgages where a minimum provision should be calculated by extent of arrears, such short-term delay of principal or interest payments for a loan that did not constitute problematic debt prior to such delay, generally should not be classified as debt under restructuring.

Pursuant to the Supervisor of Banks' directive dated June 16, 2020, the Bank continues to operate in conformity with the aforementioned guidance. The Bank is also required to expand disclosure in the Board of Directors' report regarding, inter alia, the connection between changes to the provision for credit losses and other credit quality benchmarks and internal assumptions made by the Bank, as well as with regard to debt whose terms and conditions were changed in conjunction with "addressing the Corona Virus crisis".

On October 11, 2020, the Supervisor of Banks issued a document regarding supervisory highlights for further changes to loan terms and conditions which, inter alia, instructs banks to continue operating pursuant to the directives issued in April 2020, with careful management of credit risk; banking corporations are required to evaluate any further change to loans on aggregate, so as to determine whether such change constitutes restructuring of troubled debt and to act in accordance with common practices for prudent risk management.

The letter by the Supervisor of Banks dated December 3, 2020 with regard to "Corona Virus crisis – highlights with respect to the additional outline for postponed payments" stipulates that banking corporations that elect not to classify under restructuring of problematic debt loans not in arrears 30 days or longer upon the date of payment postponement, for which payments were postponed until March 31, 2021 as part of the additional outline for postponed payments, shall include on their quarterly and annual reports in 2021 issued to the public pro-forma disclosure to show the major effects of implementation of such election on their financial statements.

Note 1 – Reporting Principles and Accounting Policies – continued

On March 31, 2020, a circular was issued regarding "Adjustments to Proper Conduct of Banking Business Directives for addressing the Corona Virus Crisis (Interim Directive)". In conformity with this circular, the minimum capital ratios which banks are required to maintain were reduced by one percentage point for the effective duration of the Interim Directive. In order to allow banks to return to the minimum capital ratios upon expiration of the Interim Directive, this relief would continue to apply for a further 24 months, provided that capital ratios would be no lower than the capital ratios upon expiration of the Interim Directive, or the minimum capital ratios applicable to the banking corporation immediately prior to the Interim Directive, whichever is lower.
On April 27, 2020, an update to the Interim Directive dated March 31, 2020 was issued, whereby residential mortgages to be extended during the crisis would not be subject to the additional capital requirement of 1% of the outstanding balance of residential mortgages.
On September 16, 2020, a further update to the directive was issued, whereby validity of relief provided for in the Interim Directive was extended for a further 6 months, through March 31, 2021.

On November 15, 2020, a further update to the Directive was issued. According to this circular, the minimum required leverage ratio was revised to 5.5% for banking corporations whose total assets on their consolidated balance sheet account for 24% or more of the total for the banking system, and 4.5% for all other banking corporations.

The Bank applies the relief measures provided in the directives, and their effect is included in the financial statements as of December 31, 2020.

F. Accounting policies applied in preparing the financial statements

1) Foreign currency and linkage:

A. Foreign currency transactions

Upon recognition of a foreign currency transaction, any asset, liability, revenue, expense, gain or loss from the transaction are translated, upon initial recognition, to the functional currency of the Bank and its affiliates (NIS), using the exchange rate in effect as of the transaction date.

Upon each reporting date, monetary assets and liabilities denominated in foreign currency as of the reporting date are translated into the functional currency at the exchange rate as of that date.

Non-monetary assets and liabilities denominated in foreign currency and measured at fair value, are translated into the functional currency using the exchange rate effective as of the date on which the fair value is determined.

Non-monetary items denominated in foreign currency and measured at historical cost, are translated at the exchange rate as of the transaction date.

Gains or losses from translation of foreign currency transactions due to currency fluctuations between the transaction date and the settlement date / the balance sheet date, including with respect to exchange rate differences with respect to available-for-sale debt instruments which, according to the Public Reporting Directives, would continue to be recognized on the statement of profit and loss through December 31, 2021 (as stipulated in transitional provisions for 2019, recognized on the statement of profit and loss gains or losses from translation differences (non-interest financing revenues), except for:

- The effective portion of gain or loss with respect to a hedging instrument in a cash flow hedge.
- Exchange rate differentials with respect to items that are part of a net investment.
- Exchange rate differentials with respect to equity financial instruments classified as available for sale (except in a case of impairment, in which case translation differences recognized under Other Comprehensive Income are reclassified to profit and loss).

B. Overseas banking affiliates

The Bank treats its overseas banking affiliates as those whose functional currency is the same as the Bank's (NIS).

Assets and Liabilities linked to the CPI which are not measured at fair value, are included based on the linkage terms specified for each balance.

Below is information about major official exchange rates, the Consumer Price Index and changes:

	As of December 31,			Change in %		
	2020	**2019**	**2018**	**2020**	**2019**	**2018**
Consumer Price Index:						
CPI for December (points)	107.3	108.0	107.4	(0.7)	0.6	0.8
Known CPI for November (points)	107.4	108.0	107.7	(0.6)	0.3	1.2
Exchange rate of:						
USD (in NIS)	3.215	3.456	3.748	(7.0)	(7.8)	8.1
EUR (in NIS)	3.944	3.878	4.292	1.7	(9.6)	3.3

Note 1 – Reporting Principles and Accounting Policies – continued

2) Consolidation basis

A. Subsidiaries in which the Bank does not hold more than 50%

The Bank holds 50% of the issued and paid-in share capital of Bank Yahav for Government Employees Ltd. (hereinafter: "Bank Yahav"). The balance of the issued and paid-in share capital is held by a single shareholder and the Bank has no excess legal rights. The Supervisor of Banks has allowed the Bank to consolidate the financial statements of Bank Yahav under the circumstances concerning the Bank's influence over management of Bank Yahav business and in conformity with Section 9G of the Public Reporting Directives.

For more information about the balance of the investment in investee companies and the contribution to net profit attributable to shareholders of the Bank, see Note 15 to the financial statements.

B. Subsidiaries

Financial statements of subsidiaries are included in the consolidated financial statements from the date control is achieved and through the date control is terminated. Accounting policies of subsidiaries were modified as needed, to align them with the accounting policies of the Bank.

For more information about achieving control over Union Bank, see section D. above.

C. Non-controlling interests

Non-controlling interests are any shareholders' equity in a subsidiary which is not attributable, directly or indirectly, to the parent company.

Attribution of Comprehensive Income to shareholders.

Profit or loss and any Other Comprehensive Income item are attributed to the controlling shareholder of the Bank and to non-controlling interests. Total profit, loss and Other Comprehensive Income are attributed to the owners of the Bank and to non-controlling interests, even if this results in a negative balance of non-controlling interests.

D. Investments in associated companies

In reviewing the existence of material influence, the assumption is that a holding stake of 20%-50% in an investee confers material influence.

Investment in associated companies is accounted for using the equity method and is initially recognized at cost. The investment cost includes transaction costs.

Investment in an associated company is evaluated for impairment when events or changes in circumstances indicate that the carrying amount of such investment is not recoverable. Impairment is recognized when impairment is other-than-temporary in nature.

The consolidated financial statements include the Group's share of revenues and expenses, profit or loss and other comprehensive income of investee companies treated according to the equity method. After required adjustments to align accounting policies with those of the Group, from the date when material influence is achieved through the date when material influence is discontinued.

E. Transactions canceled upon consolidation

Mutual balances within the Group and unrealized revenues and expenses arising from inter-company transactions have been canceled in the course of preparing the consolidated financial statements.

3) Offset of assets and liabilities

The Bank offsets assets and liabilities arising from the same counter-party and will present their net balance on the balance sheet, when all of the following conditions are met:

- The banking corporation has an enforceable legal right to offset assets against liabilities with regard to said liabilities
- The banking corporation intends to repay the liabilities and realize the assets on a net basis or concurrently;
- Both the banking corporation and the counter-party owe each other amounts which may be determined.

Note 1 – Reporting Principles and Accounting Policies – continued

It was further stipulated that a banking corporation should offset deposits whose repayment to the depositor is contingent on the extent of collection of borrowing against those deposits, when the banking corporation has no risk of credit losses.

However, the banking corporation may not offset amounts on the balance sheet without prior approval of the Supervisor of Banks.

Currently, it is Bank policy to present exposures with transactions on a gross basis, except for deposits whose repayment to the depositor is contingent on the extent of collection of borrowing, as described above. Accordingly, designated deposits for extending credit, for which repayment to the depositor is contingent upon the collection of the loan (when the Bank Group is not at risk of credit loss) were set off against the loans issued out of these deposits. The interest margins from this activity are presented in the statement of profit and loss under “commissions”.

4) Basis of recognition of revenues and expenses

A. Interest revenues and expenses are included on an accrual basis, except as follows:

1) Interest accrued on problematic debt classified as non-performing debt is recognized as revenue on a cash basis when there is no doubt about collection of the outstanding recorded balance of the non-performing debt. In such cases, the amount collected on account of interest to be recognized as interest revenues, is limited to the amount which would have accrued in the reported period on the outstanding recorded debt balance at the contractual interest rate. Interest revenues on a cash basis are classified as interest revenues under the relevant item on the statement of profit and loss.
When collection of the outstanding recorded balance is doubtful, all payments collected serve to decrease the loan principal, until such doubt has been eliminated. Moreover, interest on amounts in arrears with respect to residential mortgages are recognized in the statement of profit and loss based on actual collection.
For more information about interest accrual for impaired debt under restructuring, see section 6)C. below.
2) Securities – see section 5 below.
3) Financial derivative instruments – see section 15 below.

B. Commissions revenues with respect to services rendered (such as: activities in securities and derivative instruments, credit cards, account management, handling of credit, conversion differences and foreign trade activities) are recognized in profit and loss when the Bank becomes eligible to receive them. Certain commissions, such as commissions with respect to guarantees and certain commissions with respect to project support, are recognized on a relative basis over the transaction term.

C. Other revenues and expenses – are recognized on the accrual basis.

D. Measuring interest revenues
As from January 1, 2014, the Bank applies the Supervisor of Banks' directives with regard to adoption of adoption of generally accepted accounting principles for banks in the USA with regard to measuring interest revenues (ASC 310-20 in the codification). These principles stipulate that commissions from loan origination would not be recognized in the statement of profit and loss, but rather would be accounted for in calculating the effective interest for the loan.

Changes to terms and conditions of debt

In case of refinancing or restructuring of non-problematic debt, the Bank reviews whether a material change was made to terms of the loan. Accordingly, the Bank evaluates whether the present value of cash flows under the new terms and conditions of the loan differs by at least 10% from the present value of remaining cash flows under the current terms and conditions (plus early repayment fee), or whether this involves a change in loan currency. In such cases, all unamortized commissions and early repayment commissions collected from the client with respect to changes to the terms and conditions of the loan are recognized in profit & loss. Otherwise, these commissions are included as part of net investment in the new loan and are recognized as adjustments to returns, as described above.

Note 1 – Reporting Principles and Accounting Policies – continued

Early repayment commissions

Early repayment commissions are immediately recognized under Interest Revenues, except for such commissions included as part of net investment in the new loan, which are recognized as an adjustment of yield.

5) Securities

A. Securities in which the Bank invests are classified as follows:

1) Debentures held to maturity – debentures which the Bank intends and is able to hold to maturity, except for debentures subject to early redemption or other disposal, such that the Bank would not recoup substantially all of its recognized investment. Debentures held to maturity are carried on the balance sheet at par value plus interest and linkage differentials and accrued exchange rate differentials, considering the relative share of premium or discount and net of loss with respect to other-than-temporary impairment
2) Debentures available for sale – debentures not classified as debentures held to maturity or as securities held for trading. Debentures available for sale are carried on the balance sheet at fair value as of the reporting date. Any unrealized gains or losses from adjustment to fair value are not included in the statement of profit and loss and are reported net of the appropriate tax reserve, under a separate equity item under Cumulative Other Comprehensive Income, except for loss with respect to other-than-temporary impairment. For securities which include embedded derivatives – see section 15.C below.
3) Securities held for trading – securities acquired and held in order to be sold in the near term, or securities which the Bank has elected to measure at fair value through profit & loss using the fair value option, except for shares for which no fair value is available. Securities held for trading are carried on the balance sheet at fair value as of the report date. Unrealized gains or losses from the adjustments to fair value are charged to the statement of profit and loss.
4) Shares not held for trading
Shares that have an available fair value are carried on the balance sheet at fair value as of the report date. Unrealized gains or losses from the adjustment to fair value are charged to the statement of profit and loss.
Shares for which no fair value is available are carried on the balance sheet at cost net of impairment, plus or minus observed price changes in ordinary transactions for similar or identical investments of the same issuer. Unrealized gains or losses from the adjustments to such observed price changes are recorded to the statement of profit and loss.

B. Bank investments in other funds not accounted for using the equity method, are stated at cost net of any other-than-temporary impairment loss. Gain from these investments are recognized in the Statement of Profit and Loss upon realization of the investment. Dividends received from Bank investments in these funds are recorded to profit & loss when the Bank has the right to receive them, up to the amount of earnings accumulated since this investment was acquired.

C. The cost of realized securities is calculated on FIFO basis, except for securities acquired as part of hedging relations, or in conjunction with creating a strategic position or for any other specific purpose, which is separately identified.

D. With regard to calculation of fair value, see section 16 below.

E. Impairment:

Pursuant to directives and guidelines of the Supervisor of Banks, the Bank periodically evaluates whether impairment of the fair value of securities classified under the available-for-sale portfolio or the held-to-maturity portfolio, below their cost (or the amortized cost for debentures held to maturity), is of an other-than-temporary nature.
To this end, the following indicators, inter alia, are evaluated:
- Intent and capacity of the Bank to hold the securities for a sufficient period which would allow the security to recover its original cost.

Note 1 – Reporting Principles and Accounting Policies – continued

- The time period during which the value of the security was lower than its cost.
- The ratio of impairment to total cost.
- Adverse change in conditions of the issuer or of the economy as a whole.
- Evaluation of conditions reflecting the financial standing of the issuing entity, including whether or not the impairment is due to individual reasons related to the issuer or to existence of any macro-economic conditions.

Furthermore, in any of the following situations, the Bank recognizes other-than-temporary impairment:
- Debenture sold prior to publication of the issue date to the public of the report for that period.
- Debenture which, close to the issue date of the report to the public for that period, the Bank intends to sell within a short time.
- Debenture is significantly impaired between the debenture's rating on the date of acquisition by the Bank and its rating on the date of publication of the report for that period.
- Debenture classified by the Bank as problematical after its acquisition.
- Debenture which is in payment default after its acquisition.
- Debenture whose fair value as of the end of the reported period and close to the issue date of the financial statements, was significantly lower than its amortized cost. Unless the Bank has solid objective evidence and careful analysis of all relevant factors, which prove with high certainty that impairment is of other than a temporary nature.

For this purpose, a significant rate is a rate higher than 20%. However, should the Bank have objective evidence that impairment is of a temporary nature, an exception may be made with regard to this rate.
If the impairment of fair value is deemed to be other-than-temporary in nature, the cost of the security is written down to its fair value, so that any loss amounts referring to securities classified as available for sale, accrued in equity under Other Comprehensive Income, would be classified upon impairment to the statement of profit and loss. This value would serve as the new cost basis. Appreciation in subsequent reported periods (for securities classified in the available-for-sale portfolio) are recognized to a separate section in equity under Cumulative Other Comprehensive Income, and are not recorded in profit and loss.

Securities – shares for which no fair value is available

In each reported period, the Bank conducts a qualitative assessment, taking into account impairment indications, in order to assess whether shares for which no fair value is available have been impaired. If this assessment shows impairment of the investment in shares, the Bank estimates the fair value of the investment in shares, to determine the amount of impairment loss.

6) Impaired debt, credit risk and provision for credit losses

A. Pursuant to the Supervisor of Banks' directive on measurement and disclosure of impaired debt, credit risk and provision for credit losses, the Bank applies as from January 1, 2011 the rules stipulated by codification of US accounting standards ASC 310 and the position of the US banking supervision authorities and of the US SEC, as adopted in the Public Reporting Directives, in position statements and guidelines of the Supervisor of Banks. Moreover, as from the aforementioned date, the Bank applies the Supervisor of Banks' guideline with regard to treatment of problematic debt. Moreover, as from January 1, 2013, the Bank applies the Supervisor of Banks' directive with regard to updated disclosure of credit quality of debts and of provision for credit losses.

Furthermore, the Supervisor of Banks revises from time to time the Public Reporting Directives and the Q&A File with regard to the manner of implementation of the directives with regard to impaired debt and provision for credit losses, in order to incorporate directives on this matter applicable to banks in the USA, including directives of US supervisory authorities. As from 2016, the guidelines were revised, inter alia, with regard to treatment of restructuring of problematic debt, regulations with regard to the manner of classification of debts based on primary repayment source, as well as certain regulations with regard to the manner of evaluation of debts.

Note 1 – Reporting Principles and Accounting Policies – continued

B. Loans to the public and other debt balances

The directive is applied for all debt balances, such as: deposits with banks, debentures, securities borrowed or purchased in resale agreements, loans to the public and loans to the government. Loans to the public and other debt balances for which no specific rules on measurement of provision for credit losses were specified in the Public Reporting Regulations (such as: loans to the government, deposits with banks and other assets) are reported in the Bank's accounts at their recorded debt balance.

The recorded debt balance is defined as the debt balance after accounting write-offs but before deduction of the provision for credit losses for that debt. The recorded debt balance does not include accrued interest not recognized, or previously recognized and then canceled.

As for other debt balances, for which there are specific rules in place with regard to measurement and recognition of a provision for impairment (such as debentures), the Bank continues to apply the measurement rules as specified in section 5 above.

C. Identification and classification of problematic debt

The Bank classifies all problematic debt and problematic off-balance sheet credit items under: special supervision, inferior or impaired. Debt under special supervision is a debt with potential weaknesses, which require special attention by Bank Management. Should these weaknesses not be addressed, the likelihood of debt repayment may deteriorate. Inferior debt is debt insufficiently protected by collateral or by debtor repayment capacity, and for which the Bank may incur a loss if faults are not corrected.

In conformity with Bank policy, debt in excess of NIS 700 thousand is classified as impaired when, based on current information and events, it is expected that the Bank will be unable to collect all amounts due pursuant to contractual terms of the debt contract. In any case, debt in excess of NIS 700 thousand is classified as impaired debt when its principal or interest is in arrears over 90 days, unless the debt is well secured and is in collection proceedings. Further, any debt whose terms and conditions have been changed in conjunction with restructuring of problematic debt would be classified as impaired debt, unless prior to and following such restructuring, a provision for credit losses by extent of arrears was made with respect to the debt pursuant to the appendix to Proper Conduct of Banking Business Directive 314 concerning "Proper assessment of credit risks to proper measurement of debts".
Debts under NIS 700 thousand in arrears 90 days are assessed on a Group basis and in such case, classified as inferior debt.
Decisions with regard to debt classification are made based, inter alia, on athe past-due status of the debt, assessment of the borrower's financial standing and repayment capacity, assessment of the primary debt repayment source, existence of collateral and its status, the financial standing of guarantors, if any and their commitment to support the debt and the borrower's capacity to obtain financing from third parties.

As from July 1, 2017, the Bank applies the update to Q&A file issued by the Supervisor of Banks, concerning "Implementation of Public Reporting Directives with regard to impaired debts, credit risk and provision for credit losses".

The update primarily concerns debt classification, definition of impaired debt and measurement of specific provision for credit losses. Appropriate debt classification, through default or when default is highly probable, is based in general on the debtor's repayment capacity, i.e. expected robustness of the primary repayment source, despite support from secondary and tertiary repayment sources (such as: collateral, guarantor support, refinancing by a third party).

The file included, inter alia, a question with regard to definition of primary repayment source.

Primary repayment source is defined as a sustainable cash source over time, which must be controlled by the debtor and must be separated, explicitly or by substance, for debt coverage. The Q&A file clarified that for a repayment source to be considered a primary repayment source, the Bank must show that the debtor is highly likely to generate, within a reasonable time, suitable cash flows from continued business operations, to be used to repay all of the necessary payments in full and when due, as stated in the agreement.

The Bank has revised its policy on identification and classification of problematic debt, so that debt has been assigned repayment sources from business cash flows, except for certain cases where, in the normal course of business, debt should be repaid out of the cash flows generated by the financed property.

Note 1 – Reporting Principles and Accounting Policies – continued

Debt restructuring and treatment of problematic debt in restructuring – In general, when it is possible to reach a debt repayment arrangement without impact on collateral available to the Bank and without taking any legal proceedings, the Bank gives preference to reaching a debt repayment arrangement.

In order to improve loan collection and to avoid, in as much as possible, debt collection default – the Bank makes attempts to reach arrangements on debt repayment prior to taking legal proceedings or even during and after taking such action, which may include: Deferral of payment date, debt redeployment, reduced interest rates, changes to repayment schedule, changes to debt terms in order to align it with the borrower's financing structure, debt consolidation for the borrower, transfer of debt to other borrowers in a borrower group under joint control, renewed evaluation of financial covenants imposed on the borrower etc.

Debt which has been formally restructured as problematic debt is defined as debt for which, for economic or legal reasons related to financial difficulties of the debtor, the Bank has made a concession by way of modification to terms of the debt, designed to ease the burden on the debtor of cash payments in the near term (reduction or deferral of cash payments due from the debtor), or by way of receiving other assets as debt repayment (in whole or in part).

In order to determine whether a debt arrangement executed by the Bank constitutes problematic debt restructuring, the Bank conducts a qualitative evaluation of all terms of the arrangement and the circumstances under which it was made in order to determine whether: (1) the creditor is in financial duress; and (2) the Bank made a concession to the debtor in conjunction with the arrangement.

In order to determine whether the creditor is in financial duress, the Bank evaluates whether there are indications of the creditor being in financial duress at the time of the arrangement, or for the existence of a reasonable likelihood that the borrower would be in financial duress if not for the arrangement. Inter alia, the Bank reviews the existence of one or more of the following circumstances:

- The debtor is currently in payment default for any of its debts. Moreover, the Bank estimates whether it is expected that the debtor would be in payment default for any of its debts in the foreseeable future, if the change is not made. This means that the Bank may conclude that the debtor is in financial difficulties, even if the debtor is not currently in payment default.
- The debtor has declared bankruptcy or is in Receivership or any in any other bankruptcy or Receivership proceedings.
- There is significant doubt about the debtor continuing as a going concern.
- The debtor has securities that have been delisted, are in the process of being delisted or are being threatened with delisting from the stock exchange.
- According to estimates and projections which only include the debtor's current capabilities, the Bank expects specific cash flows for the debtor entity would be insufficient to service any of its debt (principal and interest) in conformity with contractual terms of the existing agreement in the foreseeable future.
- Without the existing change, the debtor would be unable to obtain cash from sources other than the current lenders, at effective interest rates equal to the prevailing market interest rates for similar debt of a non-problematic debtor.
- The Bank concludes that a concession was made to the debtor in conjunction with the arrangement, even if the contractual interest rate was increased in the arrangement – if one or more of the following exists: Due to the restructuring, the Bank does not expect to collect all debt amounts (including accrued interest pursuant to contractual terms); the current fair value of collateral, for debts contingent on collateral, does not cover the contractual debt balance and indicates inability to collect all debt amounts; the debtor is unable to raise funds at customary market rates for debt with similar terms and characteristics as those of the debt arrangement. If a the Bank does not perform such a process of an additional underwriting upon renewal of inferior debt, or if there is no change in debt pricing or if pricing has not been adjusted to align with the risk prior to renewal, or the borrower does not provide additional means to compensate for the increase in risk due to the borrower's financial difficulties, it is presumed that such renewal is restructuring of problematic debt.

  The Bank does not classify debt as restructured problematic debt, if in conjunction with the arrangement, it granted to the debtor a deferral of in payments which is not material considering the payment frequency, the contractual term to maturity and the expected effective maturity of the original debt. For this matter, if multiple arrangements took place involving changes to debt terms, the Bank accounts for the accumulated effect of previous structurings in order to determine whether the deferral of payments is not material.

Note 1 – Reporting Principles and Accounting Policies – continued

Handling of debt under restructuring and subsequent restructuring – restructured debt, including debt assessed on a group basis prior to restructuring, shall be classified as impaired debt and shall be individually assessed for making a provision for credit losses. In general, reorganized problematic debt would continue to be measured and classified as impaired debt until fully repaid. However, under certain circumstances, when debt is restructured as problematic debt restructuring and later on, the Bank and the debtor have signed an additional restructuring agreement, the Bank is no longer required to treat the debt as restructured problematic debt if the following conditions are fulfilled:

- The debtor is no longer facing financial difficulties upon the date of the subsequent restructuring.
- According to terms of the subsequent restructuring, the banking corporation did not grant a concession to the debtor.

Such debt which has been subsequently restructured and from which the Impaired classification has been removed, is to be evaluated on a group basis in order to quantify the provision for credit losses and the recorded debt balance will not change during the subsequent structuring (unless cash has been received or paid).

If, in subsequent periods, such debt has been individually evaluated and it was found that impairment should be recognized with respect to it, or if it undergoes problematic debt restructuring, the Bank would reclassify it as Impaired Debt and would treat it as reorganization of problematic debt.

Reinstatement of impaired debt to non-impaired status – impaired debt is reclassified as non-impaired debt upon one of these conditions occurring:

- It includes no principal or interest components which are past due, and the Bank anticipates payment of the outstanding principal and interest in full according to contractual terms (includes amounts subject to accounting write-off or provision).
- When the debt has become well-secured and is in collection proceedings.

Rules governing reinstatement from the Impaired classification, as noted above, shall not apply to debt classified as impaired due to restructuring of problematic debt.

Reinstatement of impaired debt to impaired and accruing status – debt which has been formally restructured, such that after restructuring all of the following conditions are fulfilled::

- There is reasonable certainty that the debt would be repaid and will perform according to its new terms, based on a current, well-documented credit evaluation of the debtor's financial situation and repayment schedule according to its new terms.
- The debtor has made cash and cash equivalent payments over a reasonable period of at least six months for loans repaid (principal and interest) by monthly installments, or has repaid 20% of the restructured debt for loans with longer maturities.
- The loan, after restructuring, is not in arrears of 90 days or more.

D. Provision for credit losses

The Bank has put in place procedures for classification of credit and for measurement of provision for credit losses, in order to maintain an appropriate provision to cover expected credit losses with regard to the Bank's loan portfolio. Further, the Bank has put in place procedures to be followed, an appropriate provision to cover expected credit losses with regard to off-balance sheet credit instruments (such as: commitments to provide credit, unutilized credit facilities and different types of guarantees).

The provision to cover expected credit losses from the credit portfolio is estimated under one of the following tracks: "individual provision" or "group provision". Further, the Bank evaluates the overall appropriateness of the provision for credit losses.

Such evaluation of debts in order to determine the provision and debt handling is consistently applied to all debts in excess of NIS 700 thousand and in conformity with the Bank's credit management policy – and no transition is made, during the debt term, between the individual evaluation track and the group-based evaluation track – unless in case of restructuring of problematic debt, as noted above.

Individual provision for credit losses – According to Bank policies, this is applied for any debts determined to be impaired, whose original contractual balance (including accounting write-offs, unrecognized interest, provisions for credit losses and collateral) is NIS 700 thousand or higher.

Note 1 – Reporting Principles and Accounting Policies – continued

An individual provision is also applied to any debt whose terms have been changed in conjunction with restructuring of problematic debt, unless this debt is subject to a provision by extent of arrears. The individual provision for credit losses is estimated based on expected future cash flows, discounted using the effective interest rate of the original debt. When debt is contingent on collateral, or when the Bank has determined that seizure of an asset is expected, the individual provision for credit loss is evaluated based on the fair value of the collateral pledged to secure such debt, after application of consistent, conservative factors to reflect, inter alia, the volatility in fair value of such collateral, the time it would take until actual realization and the expected cost for selling the collateral. For this matter, the Bank defines debt as debt contingent upon collateral, when it is expected to be exclusively repaid by the pledged collateral, or when the Bank expects repayment from the asset even with no specific pledge on such asset, provided that the borrower has no other reliable sources available for repayment.

The Bank regularly evaluates the forecasted expected credit losses, based on actual cash flows, and adjusts the individual provision to the current forecast. Actual credit losses may differ from the Bank's original estimates upon classification of the debt as impaired.

Group provision for credit losses – This is applied for large, homogeneous groups of small debts (whose balance is below NIS 700 thousand, according to Bank policy) (such as: credit card debts, residential mortgages and consumer debts repaid by installments) as well as for large, non-impaired debts. The provision for credit losses with respect to debts based on a group estimate, other than residential mortgages for which the provision has been calculated based on a formula specified by the Supervisor of Banks based on extent of arrears, is calculated based on rules specified in FAS 5 (ASC 450) as topic 450 of the codification "Accounting treatment of contingencies" and in conformity with directives and guidance from the Supervisor of Banks. The group-based provision for credit losses is based, inter alia, on historical loss rates in various economic sectors, divided into problematic and non-problematic debt.

On February 20, 2017, the Supervisor of Banks issued a circular concerning provision for credit losses, whereby the "range of years" used as a component in determining the group-based provision for credit losses, should continue to include 2011 on the financial statements for 2016 and 2017. The instructions were revised and the range of years continues to grow, pending new instructions.

In addition to the average range of historic loss rates for various economic sectors, as per the above, for determining the appropriate rate of provision, the Bank also considers relevant environmental factors, including trends in credit volumes for each sector as well as sector conditions, macro-economic data, general quality assessment of credit to each economic sector, changes in volume and in trend of balances in arrears and impaired balances and the effect of changes in credit concentration.

In conformity with directives of the Supervisor of Banks, the Bank has formulated a methodology for measuring the group provision, which takes into account both past loss rates and adjustments with respect to relevant environmental factors.

Furthermore, in conformity with the Supervisor of Banks' guideline, the rate of adjustment with respect to relevant environmental factors for the group provision for credit losses with respect to individuals is 0.75% of the non-impaired consumer credit balance (excluding credit with respect to receivables for bank credit cards without interest charge). This is based on a specific directive by the Supervisor of Banks, dated January 19, 2015.

On July 10, 2017, the Supervisor of Banks issued a circular updating Proper Conduct of Banking Business Directive 314 concerning "Proper assessment of credit risk and proper measurement of debts". According to this circular, as from 2018, when determining the provision for credit losses, credit for which there are no current financial statements should also be weighted.

Residential mortgages – A minimum provision with respect to residential mortgages is calculated based on the formula stipulated by the Supervisor of Banks, by extent of arrears, such that the provision rate is higher the longer the arrears. This directive applies to all residential mortgages, other than loans not repaid by periodic installments and loans used to finance activity of a business nature.

The Bank also applies Proper Conduct of Banking Business Directive 329 concerning "Restrictions on provision of residential mortgages".

In conformity with these directives, the Bank has set policies designed to ensure that the Bank would be in compliance with stipulations of this directive and that, as from June 30, 2013, the balance of the group provision for credit losses with respect to residential mortgages shall be at least 0.35% of the outstanding balance of such loans as of the report date.

Note 1 – Reporting Principles and Accounting Policies – continued

Off-balance sheet credit – The required provision with regard to off-balance sheet credit instruments is assessed as per rules stated in FAS 5. The provision estimated on a group basis for off-balance sheet credit instruments is based on provision rates specified for total credit exposure (as stated above), while considering expected credit realization rate for the off-balance sheet credit risk. The credit realization rate is calculated by the Bank, inter alia, based on credit conversion factors, as stated in Proper Conduct of Banking Business Directive 203 "Measurement and capital adequacy – Credit risk – Standard approach" with certain adjustments.

Further, the Bank reviews the overall appropriateness of the provision for credit losses. Such assessment of appropriateness is based on Management discretion, taking into account the inherent risk in the credit portfolio and in assessment methods applied by the Bank to determine the provision.

Furthermore, in view of the Corona Virus outbreak and the significant uncertainty associated with estimation of credit losses in each of the loan portfolios negatively impacted by this situation, the Bank has made a further adjustment to the provision factor, so as to reflect the negative impact of this crisis on borrowers' repayment capacity.

Therefore, the calculation of qualitative adjustments whose results are included on these financial statements, the Bank accounted for various indicators, which affected the model based on the indicator growth rate. Indicators include, inter alia, the rate of decrease in borrower ratings in various sectors, the rate of increase in the volume of loans under special terms and conditions for the Corona Virus crisis (delayed payments, loans guaranteed by the State) and the increase in unemployment rate and decrease in growth, in conformity with the Bank of Israel forecast. Moreover, economic sectors were rated based on the severity of impact due to the Corona Virus crisis, and for each sector, an increment was included for the specific sector risk.

For more information about adoption of updates to US GAAP with regard to provision for credit losses (ASU 2016-13), as from January 1, 2022, see section G. below.

E. Revenue recognition

Upon classification of debt as impaired, the Bank classifies the debt as non-accruing interest revenue debt and discontinues accrual of interest revenues with respect to it, except as stated above for certain restructured debt. Further, upon classification of debt as impaired, the Bank reverses all accrued and uncollected interest revenues recognized as income in profit and loss. The debt continues to be classified as non-accruing debt for as long as it is classified as impaired debt. For further information about revenue recognition on the cash basis with respect to debt classified as impaired, see section 4 above.

For debt reviewed and provided for on a group basis, the Bank discontinues accrual of interest revenues when conditions for accounting write-off of the debt are fulfilled, usually after 150 days in arrears, unless the debt is well-secured and in collection proceedings. Such debts are subject to assessment of provision for credit losses, which ensures that Bank profit is not skewed upwards.

F. Accounting write-off

The Bank makes accounting write-offs of any debt, or part of it, individually assessed as not collectible and of low value, so that maintaining it as an asset is not justified, or any debt which is subject to long-term collection efforts by the Bank (typically defined as terms in excess of two years). For debt whose collection is contingent on collateral, the Bank immediately writes off the debt against the balance of the provision for credit losses of the part of the recorded debt balance in excess of the fair value of the collateral. For debt assessed on a group basis, write-off rules have been put in place based on extent of arrears (mostly – over 150 consecutive days in arrears) and on other problem parameters. Note that accounting write-offs do not involve any legal concession, and merely reduce the debt balance reported for accounting purposes, while creating a new cost basis for the debt in Bank accounts.

Debts which has been reviewed on a group basis and classified as impaired due to restructuring of problematic debt, are subject to accounting write-off no later than the date when the debt is in arrears 60 days or longer, with regard to terms and conditions of such restructuring.

7) Transfer and service of financial assets and discharge of liabilities

The Bank applies the measurement and disclosure rules stated in sub-topic 860-10 of the codification, with regard to transfer and service of financial assets, for handling the transfer of financial assets and discharging of liabilities.

Note 1 – Reporting Principles and Accounting Policies – continued

Under these rules, the accounting treatment of transfer of a financial asset would only be deemed a sale if all of these conditions are fulfilled: (1) the transferred financial asset was separated from the transferring entity, even in case of bankruptcy or other Receivership; (2) any recipient may pledge or replace the assets (or the beneficiary interests) received, and there is no condition which limits the recipient from exercising their right to pledge or exchange the financial assets, and grants the transferor a non-trivial benefit; (3) the transferor, or subsidiaries consolidated with its financial statements , or their agents do not retain effective control over the financial assets or beneficiary interests related to these transferred assets.

In transactions involving transfer of financial assets, if it is determined that the transferor maintains effective control over transferred assets, the asset transfer shall be accounted for as secured debt. When all of the following conditions are satisfied, inter alia, effective control over the asset is maintained:

- The assets repurchased or redeemed are identical or essentially identical to the transferred assets;
- The agreement is to repurchase or redeem them prior to maturity, at a fixed or determinable price.
- The agreement is made simultaneously with the transfer.

Moreover, for the transfer of part of a financial asset to be considered a sale, the transferred part must fulfill the definition of participatory rights. Participatory rights must fulfill the following criteria: the interest should represent an interest proportional to the complete financial asset; all cash flows received from the assets are divided among participatory interest pro-rata to their ownership stake; interests are not subordinated to other interests; there is no recourse to the transferor or to other holders of participatory interests (other than in case of breach of presentations or obligations, current contractual obligations to service the financial asset as a whole and management of the transfer contract, and contractual obligations to share in offset of any benefits received by any holder of participatory interests); and the transferor and the holder of participatory interests have no right to pledge or replace the financial asset in whole, unless all holders of participatory interests agree to pledge or replace the financial asset in whole.

If the transaction fulfills the conditions for treating it as a sale, the transferred financial assets are removed from the Bank's balance sheet. If the sale conditions are not fulfilled, the transfer is considered as secured debt. Sale of part of a financial asset, other than a participatory right, is treated as secured debt – that is, the transferred assets remain on the Bank's balance sheet and proceeds from the sale are recognized as a Bank liability.

The Bank applies specific provisions specified in Public Reporting Directives for handling transactions to borrow or loan securities, in which lending is made against the borrower's general credit and collateral quality, where the borrower does not provide as collateral for the loaner liquid instruments specifically related to the securities loaning transaction, which the loaner may sell or pledge.

Such loaning and borrowing are treated as credit or deposit, measured at fair value of the related security. Revenues on the accrual basis with respect to such securities are recognized as interest revenue from credit and changes to fair value (in excess of changes to the accrual basis) are recognized under Non-interest Financing Revenues in case of securities in the held-for-trade portfolio or under Other Comprehensive Income in case of securities available for sale.

The Bank only removes a liability if it has been settled, i.e. if one of the following conditions has been fulfilled: (a) the Bank has paid the lender and has been released from its commitment for said liability; or (b) the Bank was legally released in a judicial process or by consent of the lender, being the major debtor for said liability.

For details of syndication transactions, see Note 30 to the financial statements.

Transactions for loaning securities managed as credit transactions

The Bank applies specific provisions specified in Public Reporting Directives for handling transactions to borrow or loan securities, in which lending is made against the borrower's general credit and collateral quality, where the borrower does not provide as collateral for the loaner liquid instruments specifically related to the securities loaning transaction, which the loaner may sell or pledge.

Note 1 – Reporting Principles and Accounting Policies – continued

Handling un-secured loaning of securities from the available-for-sale portfolio or from the trading portfolio.
When the Bank loans securities to cover short selling by the borrower, the Bank de-recognizes the loaned securities and recognizes credit equal to the market value of these securities on the loaning date. In subsequent periods, the Bank measures the credit extended in the same way it measured the securities prior to loaning. Credit is measured at market value, revenues on the accrual basis are recognized as interest income from credit and changes to market value (in excess of changes on the accrual basis) are recognized under Non-interest Financing Revenues in case of securities in the held-for-trade portfolio or under Other Comprehensive Income in case of debentures available for sale. Upon concluding the loaning, the Bank recognizes once again the securities and de-recognizes the credit.

8) Buildings, equipment and software

This item includes investments by the Bank in fixed assets (including payments on account), assets leased by the Bank under a financing lease, and cost of software for its own use, recognized as an asset.

Buildings and equipment

Recognition and Measurement
Fixed asset items are measured at cost net of accumulated depreciation and accumulated impairment loss, if any. Cost includes any cost directly attributable to acquisition of the asset. Cost of self-constructed assets includes the cost of materials and direct labor, as well as any additional cost directly attributable to bringing the asset to the required location and state so as to operate as intended by management.
When significant portions of fixed asset items have a different useful life, they are treated as separate fixed asset items. The cost of purchased software, which is an integral part of operation of related equipment, is recognized as part of the cost of such equipment. Furthermore, in conformity with Public Reporting Directives, the Bank classifies under "Buildings and equipment" the cost of software assets acquired, or costs capitalized to an asset with respect to self-developed software for in-house use. For more information about the accounting treatment of the cost of software for in-house use, see below.
Gain or loss from disposition of fixed asset items is determined by comparing the proceeds from asset disposition to its book value and are recognized, net, under "Other revenues" in the statement of profit and loss.

Subsequent costs

Current maintenance costs of fixed asset items are charged to profit and loss when incurred.

Depreciation

Depreciation is methodical allocation of the depreciable amount of an asset over its useful life. A depreciable amount is the asset cost, or another amount which is a substitute for such cost, less the residual value of the asset.
Depreciation is charged to the statement of profit and loss using the straight line method over the estimated useful life of each part of the fixed asset items – since this method best reflects the anticipated consumption pattern of future economic benefits inherent in the asset. Leasehold improvements are depreciated over the lease term or the length of useful life, whichever is shorter. Owned land is not depreciated.
An asset is depreciated when available for use, i.e. when it has reached the location and state required for it to be put into operation as intended by management.
For more information about estimated useful life of buildings and equipment, as of December 31, 2020, see Note 16 to the financial statements.

Impairment

The Bank reviews non-current assets (or asset groups) for impairment when events or changes in circumstances occur, indicating that the depreciated cost may not be recoverable.
For the purpose of impairment evaluation and measurement, the Bank groups an asset (or asset group) together with other assets and liabilities at the lowest level that generates cash flows, which is independent of cash flows for other groups of assets and liabilities. Impairment loss recognized is only charged to an asset (or asset group) within the scope of Section 360 of the Codification.
Impairment loss is only recognized if the carrying amounts of a non-current asset (asset group) is not recoverable and exceeds its fair value. The book value is not recoverable if it exceeds total non-capitalized cash flows expected from use of the non-current asset (asset group) and its realization.

Note 1 – Reporting Principles and Accounting Policies – continued

Impairment loss is equal to the difference between the book value of the non-current asset (asset group) and its fair value, and is charged to the statement of profit and loss.
When impairment loss is recognized, the adjusted book value of the non-current asset (asset group) becomes the new cost basis. These losses are not canceled in subsequent periods, even in case of appreciation.

Software

Recognition

The Bank applies US GAAP, including the presentation, measurement and disclosure rules specified in provisions of ASC 350 "Intangible assets – Goodwill" and others. The Bank also applies the Bank of Israel directive concerning capitalization of in-house software development costs, as follows:

- Setting of a materiality threshold for capitalization of each software development project; The materiality threshold specified by the Bank is NIS 450 thousand.
- Revision of the useful life of capitalized software costs, so as not to exceed 5 years.
- With respect to software development projects for which the total cost which may be capitalized is higher than the specified materiality threshold, capitalization factors would be specified for work hours – factors which would take into account the potential for deviation in recording work hours and for economic inefficiency.

In conformity with Public Reporting Directives, the Bank classifies under "Buildings and equipment" the cost of software assets acquired, or costs capitalized to an asset with respect to self-developed software for in-house use.

Software acquired by the Group is measured at cost, net of accumulated amortization and impairment loss.

Cost associated with software development or adaptation for in-house use are capitalized only if the development cost may be reliably measured, the software is technically and commercially feasible, future economic benefits are expected and the Bank has the intention and sufficient resources to complete development and to use the software. Cost recognized as an intangible asset with respect to development activities includes direct costs of materials, services and direct payroll cost with respect to employees. Other costs associated with development activities and research costs are charged to the statement of profit and loss when incurred.

In subsequent periods, capitalized development costs are measured at cost net of accumulated amortization and impairment loss.

Subsequent costs

Cost of upgrades and improvements to software for own use are only capitalized if the expenses incurred are expected to result in additional functionality. Other subsequent costs are recognized as an expense when incurred.

Amortization

Depreciation is methodical allocation of the depreciable amount of an asset over its useful life. A depreciable amount is the asset cost, or another amount which is a substitute for such cost, less the residual value of the asset.

Intangible assets generated from a software project are amortized to the statement of profit and loss using the straight line method over the useful life of the software but not to exceed 5 years, as noted above, as from the date on which the software is ready for its designated use. In this regard, the software is ready for its designated use when all material testing has been completed.

Impairment of cost of in-house development of computer software

Impairment of such intangible assets is recognized and measured upon occurrence of any event or change in circumstances that indicate that it is possible that the book value of the asset may not be recovered.

Events or changes in circumstances which may indicate impairment are:

- It is not expected that the software would provide significant potential service;
- A significant change has occurred in the manner or scope of use or expected use of the software;
- A material modification to the software has been made or will be made in the future;
- The costs of development or adaptation of software designated for in-house use significantly exceed the amount anticipated in advance.

When it is no longer expected that software development would be completed, the Bank adjusts the book value of the software to be the lower of its book value and fair value net of selling costs.

Note 1 – Reporting Principles and Accounting Policies – continued

9) Intangible assets and goodwill

The Bank applies US GAAP with regard to intangible assets including the presentation, measurement and disclosure rules specified in provisions of ASC 350 "Intangible assets – Goodwill and other".

Intangible assets with unspecified useful life are evaluated if there are indicators of impairment at the Asset Group level. An asset group is the smallest group of assets and liabilities which generates a separate cash flow. First is an evaluation of whether the book value of the asset group is higher than the non-discounted cash flow amount expected to result from it. If so, impairment is to be recognized equal to the difference between the book value and the fair value of the asset group. Impairment is to be proportionately attributed solely to assets in the asset group, provided that the value of any individual asset does not drop below its fair value.

Assets of unspecified useful life are reviewed for impairment at least once per year. They should be evaluated as to whether the book value of the asset exceeds its fair value. If so, impairment is to be recognized, to the extent to the difference between the book value and the fair value.

Goodwill is not systematically amortized.

Development costs of acquired software or costs capitalized to an asset with respect to software developed in-house for in-house use, are classified under "Buildings and equipment".

For more information about implementation of US GAAP for impairment of goodwill (ASU 2017-04) as from January 1, 2020, see section D. 2. above.

10) Leases

Contracts that confer on the Bank control over use of an asset in conjunction with a lease for a certain duration in exchange for consideration, are accounted for as leases. Upon initial recognition, a liability is recognized equal to the present value of future rent payments during the lease term (these payments exclude variable lease payments) and concurrently, a right-to-use asset is recognized equal to the amount of the liability with respect to the lease, adjusted for lease payments made in advance or accrued and net of lease incentives, plus direct costs incurred with respect to the lease.

The lease term is the period for which the lease may not be terminated, along with periods subject to an option to extend or terminate the lease, if it is reasonably certain that the lessee would or would not exercise such option, respectively, and along with periods subject to an option to extend or terminate the lease where the lessor has control over the right to exercise such option.

The Bank has elected to apply the practical relief whereby short-term leases, for terms of up to one year, are accounted for by recognizing the lease fees to profit and loss using the straight line method over the lease term, without recognizing a right-to-use asset and/or liability with respect to the lease on the statement of financial position.

Subsequent measurement

After initial recognition, liabilities with respect to leases (whether an operational lease or a financial lease) are measured at amortized cost using the effective interest method. The Bank also reviews a right-to-use asset (with respect to operational or financial lease) for impairment in conformity with provisions of sub-topic 360-10-35 of the codification with regard to impairment with respect to fixed assets.

Lease payments

Operational lease

Lease payments, other than variable leasing fees, are charged to profit and loss using the straight line method over the lease term. Lease incentives received are recognized as an integral part of all lease expenses using the straight line method over the lease term. Variable lease payments which depend on an index or on interest are recognized on the statement of profit and loss in the period when varied. Variable lease payments which do not depend on an index or on interest are recognized on the statement of profit and loss in the period when it is expected that the specific objective resulting in variance of the lease payments would be achieved, and are reversed in the period when that specific objective is no longer expected to be achieved.

Upon each subsequent reporting date, a right-to-use asset is recognized equal to the depreciated cost of the liability with respect to the lease, adjusted for lease payments made in advance or accrued and net of lease incentives, plus direct costs yet to be amortized and net of impairment loss accumulated with respect to the right-to-use asset.

For more information about reporting by banking corporations and credit card issuers in Israel, in conformity with generally accepted accounting principles in the USA with regard to leases as from January 1, 2020, see section D. 1. above.

Note 1 – Reporting Principles and Accounting Policies – continued

11) Contingent liabilities

The financial statements include appropriate provisions to cover possible damages, where, in the opinion of the Bank's Management, based on the opinion of its legal counsel, a provision is required.

In accordance with the guidelines of the Supervisor of Banks, claims have been classified according to the range of probability of realization of the risk exposure, as follows:

A. Probable risk: there is a probability of more than 70% of a loss from the claim. For claims whose probability of realization has been classified as Probable, an appropriate provision was made in the financial statements.

B. Reasonably Possible risk: there is a probability of between 20% and 70% that a loss will be sustained from the claim. For claims whose probability of realization has been classified as Reasonably Possible, an appropriate provision is made in specific instances in the financial statements, at the discretion of Bank Management and based on the opinion of legal counsel.

C. Remote risk: there is a probability of less than 20% of a loss from the claim. For claims whose probability of realization has been classified as Remote, no provision is made in the financial statements.

See Note 26.C.10 for disclosure of material claims (whose amount, excluding interest and expenses, is over 1% of shareholders' equity attributable to shareholders of the Bank.

Likewise, Note 26.C.11 provides disclosure of motions for recognition as class actions, when the amount claimed in them is material, and to appeals to the High Court of Justice when, in the opinion of the Bank's Management, based, according to the case on the opinion of the its subsidiaries' managements and on the opinion of its legal counsel, it is not possible at this stage to estimate their possible outcome, and therefore, no provision was recorded for them.

In accordance with the directives of the Supervisor of Banks, the Bank is permitted to determine for class actions that it is not possible to estimate the prospects for realization of the exposure to risk in the four financial statements published since the claim was filed, or in case of delay of proceedings by decision of the Court. Beyond this, only in rare cases is the Bank permitted to determine that the prospects for realizing the exposure cannot be determined.

Motions for class action status and a motion for approval of a derivative claim are pending against the Bank and subsidiaries, where the amount claimed is material, as stated in Note 26 below, which, in the opinion of the Bank's management, based on the opinion of the managements of its subsidiaries, and on the opinion of their legal counsel, the prospects for which cannot be estimated on the date of the financial statements, so that no provision was made for these.

12) Employee rights

The Bank applies the Supervisor of Bank's directives with regard to adoption of US GAAP concerning employees' rights. These principles were codified in the following codification sections (hereinafter: "the directives").

- ASC 710 – Compensation – General.
- ASC 712 – Compensation – Non retirement post employment benefits.
- ASC 715 – Compensation – Retirement benefits.
- ASC 718 – Compensation – Stock Compensation.
- ASC 420 – Exit or Disposal Cost Obligations.

According to the directives, banking corporations should classify employees' benefits according to groups listed in US GAAP, including setting of clear policies and procedures as to how different types of benefits may be distinguished. Employees' benefits fall into the following categories:

- Benefits prior to termination.
- Benefits post termination and prior to retirement.
- Post-retirement benefits.

Furthermore, the principle set by the Supervisor of Banks whereby a liability should be included with respect to a material obligation – should be maintained. It is expected that in cases where the Bank expects payment of benefits beyond contractual terms, they would adjust these to situations where a material obligation exists.

According to the Supervisor of Banks' directives, the discount rate for employee benefits is calculated based on yields of government debentures in Israel plus the average spread for corporate debentures rated AA (international rating scale) or higher as of the reporting date. For practical reasons, the spread would be determined by the difference between yields to maturity, by terms to maturity, for corporate debentures rated AA or higher in the USA – and yields to maturity, for the same terms to maturity, for US government debentures, all as of the reporting date.

Note 1 – Reporting Principles and Accounting Policies – continued

Below are details of benefit groups at the Bank:

Post-retirement benefits – pension, severance pay and other benefits – defined-benefit programs

The Bank recognizes amounts with regard to pension programs and other post-retirement programs based on calculations which include actuarial and other assumptions, including: discount rates, mortality rates, increase in remuneration and turnover.

The Bank regularly examines the need to update actuarial assumptions used in the model.

Changes to assumptions are generally recognized, subject to provisions listed below, first in Cumulative Other Comprehensive Income and are amortized to Profit and Loss in subsequent periods, in conformity with the remaining average terms of service for employees expected to receive benefits.

The liability is accrued over the relevant period, determined in conformity with rules listed in Section 715 of the codification.

The Bank applies the Supervisor of Banks' guidelines with regard to internal controls over the financial reporting process with regard to employees' rights, including with regard to review of a "commitment in substance" to award benefits to Bank employees with respect to increased severance pay and/or early retirement.

For more information about updates to standards with regard to changes to disclosure requirements for defined benefit plans (ASU 2018-14) as from January 1, 2021, see section G. below.

Other long-term benefits to active employees:

- The liability is accrued over the period of eligibility for this benefit.
- In calculating the liability, the Bank accounts for discount rates and for actuarial assumptions.
- All components of the benefit cost for the period, including actuarial gains and losses, are recorded to Profit and Loss.

Absence eligible for compensation – paid leave and sick leave:

The liability with respect to paid leave is measured on a current basis, without use of discount rates and actuarial assumptions.

The Bank does not accrue a liability with respect to sick leave utilized during current service.

For more information about employees' benefits, see Note 22 to the financial statements.

As for accounting treatment of actuarial gains / losses recognized under Other Comprehensive Income due to changes to discount rates:

The actuarial loss as of January 1, 2013, arising from the difference between the discount rate used for calculation of provisions to cover employee rights, linked to the Consumer Price Index, as stipulated by the interim directive in the Public Reporting Directives (4%) – and the discount rates as of that date for CPI-linked employee liabilities, determined based on the new rules as noted above (hereinafter: "the loss") is included under Cumulative Other Comprehensive Income.

Any actuarial gains recognized as from January 1, 2013, due to current changes in discount rates during the reported period, would be included under Cumulative Other Comprehensive Income and would decrease the loss balance recorded as noted above – down to zero.

Actuarial losses due to current changes in discount rates during the reported year and actuarial gains due to current changes in discount rates during the reported year after the loss balance has been decreased to zero as noted above, would be amortized using the straight line method over the remaining average terms of service for employees expected to receive benefits over the plan term.

Other actuarial gains and losses(not due to changes in discount rates) as of January 1, 2013 and in subsequent periods are to be included in cumulative other comprehensive income and would be amortized using the straight line method over the average remaining service period of employees expected to receive plan benefits.

Principles of accounting treatment of the streamlining plan:

On December 27, 2016, the Bank's Board of Directors approved the streamlining program recommended by Bank management, whereby early retirement would be made possible for 300 employees in 2017-2021, at improved conditions.

Note 1 – Reporting Principles and Accounting Policies – continued

The cost of update to the actuarial liability with respect to the streamlining program, recorded in the financial statements as of December 31, 2016, amounts to NIS 286 million; the cost net of tax, amounting to NIS 188 million, was charged to shareholders' equity (under Other Comprehensive Income).

In subsequent periods, the Bank amortizes the plan costs to the statement of profit and loss, under "Actuarial gain and loss" using the straight line method over the average remaining service period for the employees, which is at 15 years.

If, in certain periods, total severance pay payments should exceed the cost of service and cost of interest recognized for that year and a settlement would take place (in conformity with US GAAP concerning employees rights), then the ratio of amortization of "actuarial gain and loss" would be adjusted for the settlement pace of the actuarial liability in that period, respectively.

In conformity with the Supervisor of Banks' letter dated January 12, 2016, with regard to operating streamlining of the Israeli banking system, the Supervisor of Banks allowed capital relief with respect to this plan. The Bank applies this capital relief so that supervisory capital used to calculate capital adequacy is adjusted (increased) and the capital effect of the streamlining (a decrease by 0.14%) is applied on a straight line basis as from 2017, over a five-year period.

See Notes 22 and 25 to the financial statements for further information.

Streamlining program at Bank Yahav

In 2017, the Board of Directors of Bank Yahav approved streamlining measures, including a voluntary retirement program. Bank Yahav was granted approval for this program by the Supervisor of Banks, as required in the streamlining directive.

Voluntary retirement is offered to employees in conformity with criteria stated in the program. The costs of actuarial liability with respect to the retirement program at Bank Yahav amounted to NIS 35 million before tax (NIS 23 million after tax).

As per guidelines of the Bank of Israel, supervisory capital used to calculate capital adequacy is adjusted (increased) and the capital effect of the streamlining is applied on a straight line basis over a five-year period.

Streamlining program at Union Bank

On November 29, 2018, the Union Bank Board of Directors approved the principles of a streamlining action plan, whose objectives are, inter alia, increasing the Bank's capital ratios.

On December 31, 2018, the Union Bank Board of Directors resolved to approve a voluntary retirement program as part of the streamlining program, whereby 70 Bank employees are to retire (there are 5 remaining employees, expected to retire in 2021). The benefits offered, based on employee age and seniority, include early pension payments through the retirement age by law; or increased severance pay, by an average 270%, based on attributes of the retiring employees' demographics. It is possible that retirement terms and conditions could offer additional, non-material benefits.

On January 17, 2019, the Supervisor of Banks approved relief, whereby Union Bank may account for the impact of Program cost with regard to calculation of capital adequacy over five years.

Consequently, and in conformity with the Supervisor of Banks' Public Reporting Regulations with regard to employee rights, Union Bank recognized a loss with respect to reduction of defined benefit plans, i.e. when an event significantly reduces the number of future years of service expected for employees in the benefit plan, or eliminates for a significant number of employees the accrual of defined benefits with respect to all or part of their future service, in conformity with Bank policy.

The total cost of the Program, as estimated by Union Bank management, based on actuarial calculations, amounted to NIS 80 million before tax effect. This cost was charged to profit and loss on the 2018 financial statements, due to meeting the definition of "plan reduction", in conformity with the Supervisor of Banks' Public Reporting Regulations with regard to employee rights. This amount was revised to NIS 71 million in 2019.

13) Share-based payment transactions (employee stock options)

The Bank applies provisions of ASC 718 "Share-based payment transactions" with regard to options granted to employees. In conformity with these provisions, the Bank recognizes payroll expenses due to the granted options. Expenses are recognized based on fair value of the options on the grant date, concurrently with an increase in capital over the term of service for which the options are granted.

Note 1 – Reporting Principles and Accounting Policies – continued

When determining the fair value of options upon the grant date, vesting restrictions due to market conditions (such as vesting contingent on share price) are taken into account. Other qualitative restrictions which do not concern market conditions (such as: discretionary component of benefit grant) have no impact on determining fair value upon the grant date and are reflected in current expensing of the benefit granted. As allowed by the standard, the Bank treats each granted lot as a separate grant.

As for a grant in the ordinary income track, tax authorities in Israel allow an expense to be recognized upon option exercise, so that a tax benefit is expected and deferred taxes should be recognized. According to provisions of the standard, the tax benefit would be recognized based on the cumulative expense amount in the accounts, multiplied by the tax rate. Upon exercise of the options, when the allowed expense for income tax exceeds the expense recognized in the accounts, the difference, multiplied by the tax rate, would be recorded to profit and loss. As for the capital track, the Taxes Authority does not recognize expenses upon option exercise.

14) Guarantees

Guarantees are contracts which require the guarantor, on contingent basis, to make payments to the guaranteed party upon occurrence of conditions requiring the guarantee to be exercised. The guarantee obligation is measured upon initial recognition at the higher of the fair value or the amount of expected loss provisions with respect to them. The obligation is de-recognized when the Bank no longer bears the risk.

15) Derivative instruments and hedging activities

A. The Bank performs transactions in derivative instruments, including currency and interest contracts and credit derivative contracts. The currency contracts include forwards, futures, swaps and options. These trades are executed in all linkage sectors. The trades are executed with the public and with banks in Israel and overseas, as part of the Bank's day-to-day activities as a market maker, and as part of the overall strategy of managing the expedient level of exposure for the various market risks, including basis and interest risks – risks to which the Bank is exposed in its everyday activities.

B. Derivative instruments are stated at fair value on the Bank balance sheet, under Assets or Liabilities, as the case may be. Changes to fair value of derivative instruments, other than derivatives used as cash flow hedges, are recognized in the Statement of Profit and Loss.

C. It is possible that the Bank will enter into a contract, which by itself is not a derivative instrument, but contains an embedded derivative. When an embedded derivative has economic characteristics that are not clearly and closely tied to the economic characteristics of the host contract, and a separate instrument with the same conditions as the embedded derivative would qualify as a derivative, then the embedded derivative is detached from the host contract and is treated as a hedge by itself.

A detached embedded derivative is stated in the balance sheet together with the host contract. Changes in fair value of detached embedded derivatives are immediately charged to profit and Loss.

D. In certain cases, in which the embedded derivative must be detached from the host contract, the Bank adopts policies of measuring the entire contract according to its fair value, and records the changes in its fair value in the statement of profit and loss. These policies was adopted for structured securities in the available-for-sale portfolio.

Hedge accounting

The Bank is exposed to market risks due to its business operations. As part of the Bank's overall strategy for management of exposure to such risks, the Bank designates certain financial instruments as fair value hedges and as cash flow hedges.

Upon the hedge relationship start date, the Bank formally documents the hedge relationship and the objective of its risks management and strategy for executing this hedge. Documentation includes identification of each of the following: Hedging instrument; hedged item or transaction; nature of hedged risk; method to be applied by the Bank to assess the effectiveness of hedge relationship, offsetting exposure to changes in fair value of the hedged item (for fair value hedge), or offsetting exposure to changes in cash flows with respect to the hedged transaction (for cash flow hedge), attributable to the hedged risk.

Note 1 – Reporting Principles and Accounting Policies – continued

Fair value hedge

The Bank designates derivative instruments as hedges for exposure to changes in fair value of an asset or liability, or an identified part of them, which is attributable to a specific risk.

When a derivative instrument is used as a hedging instrument for fair value hedge, the changes to fair value included in assessment of the hedge effectiveness are currently recognized in the statement of profit and loss, presented under the same item as effects of the hedged item. Gain or loss (i.e. change in fair value) with respect to the hedged item attributable to the hedged risk is accounted for as adjustment to the book value of the hedged item and is currently recognized in the statement of profit and loss. The adjustment to book value amount of the hedged item shall be accounted for similarly to other components of the its book value.

The preliminary value of components excluded from assessment of hedge effectiveness is recognized in the statement of profit and loss, methodically and rationally over the term of the hedging instrument, with the difference between changes to fair value of components excluded from assessment of hedge effectiveness and amounts methodically and rationally recognized in the statement of profit and loss, recognized under Other Comprehensive Income.

The Bank discontinues hedge accounting when: The criteria for applying hedge accounting cease to exist; the derivative expires, is sold, canceled or realized, or when the Bank discontinues the designation of hedge relationships.

Amount in Other Comprehensive Income (AOCI) related to amounts excluded from assessment of hedge effectiveness are recognized in the statement of profit and loss in the period when the hedged item was de-recognized from the accounts. For all other discontinued fair value hedges, Amounts in Other Comprehensive Income (AOCI) related to amounts excluded from assessment of hedge effectiveness are recognized in the statement of profit and loss similarly to other components included in the book value of the hedged asset or liability.

Cash flows hedges

The Bank designates derivative instruments as hedges for exposure to changes in expected future cash flows attributable to a specific risk.

When a derivative instrument is used as a hedging instrument for a cash flow hedge, changes to fair value included in assessment of the hedge effectiveness are regularly recognized in Other Comprehensive Income. These amounts are re-classified to the statement of profit and loss in the period(s) in which the hedged anticipated transaction impacts earnings, and are presented under the same item as effects of the hedged item.

The Bank has elected to regularly recognize changes to fair value of components excluded from assessment of hedge effectiveness in profit and loss, under the same item as effects of the hedged item.

The Bank discontinues hedge accounting when: The criteria for applying hedge accounting cease to exist; the derivative expires, is sold, canceled or realized, or when the Bank discontinues the designation of hedge relationships.

Net gain or loss with respect to the hedging instrument, related to a discontinued cash flow hedge, continue to be reported under cumulative Other Comprehensive Income (AOCI), unless it is probable that the anticipated transaction would not take place by the end of the original term determined (as documented at the start of the hedging relationship), or within two months thereafter.

If the anticipated hedged transaction is not expected to take place, whether by the end of the original term determined or within two months thereafter, net gain or loss with respect to the hedging instrument reported in cumulative Other Comprehensive Income is immediately reclassified to the statement of profit and loss.

Economic hedge

Hedge accounting is not applied for derivative instruments used as part of the Bank's asset and liability management (ALM). Changes to fair value of such derivatives are recognized in profit and loss when created.

16) Fair value

A. Fair value is defined as the price which would have been obtained upon sale of an asset, or the price which would have been paid upon transfer of a liability, in a regular transaction between market participants on the measurement date. The standard requires, inter alia, for assessment of fair value, that maximum use be made of observed data and minimum use be made of non-observed data. Observed data reflects information available in the market, obtained from independent sources whereas non-observed data reflects assumptions by the Bank. Sub-topic 820-10 of the codification lists a hierarchy of measurement techniques, based on the source of data used to determine fair value. These data sources result in the following fair value ranking:

Note 1 – Reporting Principles and Accounting Policies – continued

Level 1 – fair value measured using prices quoted for identical instruments on an active market accessible by the Bank on the measurement date.

Level 2 – fair value measured using observed data, either direct or indirect, which are not quoted prices as stipulated under Level 1. Level 2 data include use of quoted market data in active markets, or in non-active markets, if they exist, or data derived from or based upon such observed market data.

Level 3 – fair value measured by using non-observed data.

The standard stipulates that the Bank should reflect credit risk and non-performance risk in measuring the fair value of debt, including derivative instruments that it issued and are measured at fair value. Non-performance risk includes the Bank's credit risk, but is not limited to this risk alone.

The Bank assesses credit risk for derivative instruments as follows:

- When there is sufficient liquid collateral with respect to the exposure, which specifically secures the derivative instrument at a high legal level of certainty, the Bank assumes that credit risk is zero, and does not adjust the fair value with respect to credit quality of the counter-party.
- In other cases, the Bank estimates the fair value based on indications from transactions in an active market of the credit quality of the counter party, if such indications are available with reasonable effort. The Bank derives these indications, inter alia, from prices of debt instruments of the counter-party traded on an active market, and from prices of credit derivatives based on the credit quality of the counter-party. In the absence of such indications, the Bank calculates the adjustments based on internal ratings.

When the counter-party exposure, on a consolidated basis, is not material, the Bank calculates the aforementioned adjustment on a group basis, using a benchmark for credit quality by groups of similar counter-parties, e.g. based on internal ratings.

Further, the Bank conducts reasonability testing of results obtained from internal assessment with regard to changes in market spreads, and makes the required adjustments, if any.

In order to adapt the Bank's valuation methods to the exit price principle and to guidelines stated in the standard, the Bank is required to review the valuation methods applied for measuring fair value, taking into consideration the relevant circumstances of the various transactions, including recent transaction prices on the market, indicative prices from valuation services and results of back testing of similar transaction types.

In accordance with Bank of Israel directives, fair value measurement of a derivative instrument, when no quoted prices, liquid collateral or offset agreements exist which adequately secure the derivative's credit quality, and when no market information exists as to the credit quality of the counter-party (such as CDS or negotiable debentures of the counter-party) – shall be classified as a Level 3 fair value measurement.

For more information about adoption of updates to US GAAP with regard to disclosure requirements concerning fair value measurement as from January 1, 2021, see section G. below.

How fair value is determined:

1) Securities

Fair value of securities held for trading, debentures available for sale and shares not held for trading is determined based on quoted market prices on the major market. When there are multiple markets on which the security is traded, the estimate is based on the quoted market price on the most effective market. In such cases, the fair value of the Bank's investment in securities is the product of the number of units at the aforementioned quoted market price. The quoted price used to determine fair value is not adjusted for the size of the Bank's position relative to the trading volume (holding size factor).

If such quoted market price is not available, the fair value estimate is based on the best available information, with maximum use of observed data and taking into account the risk inherent in the financial instrument (market risk, credit risk, non-negotiability etc.), except for shares not held for trading for which no fair value is available, which are measured as stated in Note 1.F.(5) above.

2) Financial derivative instruments

Financial derivative instruments with an active market are valued based on market value, determined on the primary market, or in the absence of a primary market – using a quoted market price on the most effective market. Derivative financial instruments not traded on an active market are valued using models which take into account the risk inherent in the derivative instrument (market risk, credit risk etc.)

Note 1 – Reporting Principles and Accounting Policies – continued

3) Financial instruments other than derivatives

Most of the financial instruments in this category (such as: loans to the public and loans to the Government, deposits from the public and deposits with banks, non-negotiable subordinated notes and bonds) no "market price" is quotable, since there is no active market on which they are traded. Therefore, the fair value is estimated using acceptable pricing models, such as present value of future cash flows, discounted at an interest rate that reflects the level of risk inherent in the financial instrument. To this end, the future cash flows for impaired and other debts have been calculated net of effects of accounting write-offs and provision for credit losses with respect to the debts.

For more information about principal methods and assumptions used in estimating fair value, see Note 33 to the financial statements.

B. Fair value option

Sub-topic 825-10 of the codification allows banking corporations to elect, upon specified election dates, to measure at fair value financial instruments and certain other items ("qualified items") which, according to Public Reporting Directives, are not required to be measured at fair value. Unrealized gains and losses due to changes in fair value of items for which the fair value option has been selected, are recognized in the statement of profit and loss at each subsequent reporting date. Furthermore, prepaid costs and commissions related to items for which the fair value option has been elected, are recognized in the statement of profit and loss as they are incurred. Election of the fair value option, as stated above, is made for each instrument individually, and may not be canceled.

Further, the standard stipulates presentation and disclosure requirements designed to assist in comparing banking corporations which elect different measurement bases for similar types of assets and liabilities.

Notwithstanding the foregoing, the Supervisor of Banks' directives with regard to application of the standard have clarified that a banking corporation may not elect the fair value option, unless the banking corporation had previously developed knowledge, systems, procedures and high-level controls which would allow it to measure the item with a high degree of reliability. Therefore, the Bank may not elect the fair value option for any asset which may be classified under Level 2 or Level 3 of the fair value ranking, nor for any liability, without prior consent of the Supervisor of Banks.

17) Taxes on income

Taxes on income include current and deferred taxes. Current and deferred taxes are recorded to the statement of profit and loss, or recorded directly to equity if they arise from items directly recognized in equity. The provision for taxes on income of the Bank and its subsidiaries that are financial institutions for VAT purposes includes profit tax levied on earnings under the Value Added Tax Law. The payroll tax levied on the salaries of financial institutions is included under "Payroll and associated expenses".

A. Current taxes

Current taxes are taxes on income paid or payable (or refundable) for the current period, as determined by application of statutory tax provisions legislated with regard to taxable income. Current taxes include changes in tax payments with regard to previous years.

B. Deferred taxes

Deferred tax liabilities and deferred tax assets reflect the future effects on taxes on income, due to temporary differences and carry-forward losses existing at the end of the period.

The Bank recognizes deferred tax liabilities with respect to taxable temporary differences. In conformity with directives of the Supervisor of Banks, as from January 1, 2017 the Bank recognizes a deferred tax liability with respect to undistributed earnings of subsidiaries accumulated since January 1, 2017.

The Bank recognizes deferred tax assets with respect to all deductible temporary differences and carry-forward losses, while concurrently recognizing a separate valuation allowance for the amount included in the asset that is more likely than not to be realized.

Deferred tax liabilities or deferred tax assets are measured using the statutory tax rates legislated, that are expected to apply to taxable income in the period when the deferred tax liability is expected to be settled or the deferred tax asset is expected to be realized.

Note 1 – Reporting Principles and Accounting Policies – continued

C. Offset of deferred tax assets and liabilities

The Bank offsets deferred tax assets and deferred tax liabilities, as well as any related valuation allowance, for a specific taxable component and within a specific tax jurisdiction.

D. Uncertain tax positions

The Bank applies the rules for recognition, measurement and disclosure stipulated in FIN 48. In conformity with these rules, the Bank only recognizes the effect of tax positions if it is more likely than not that those positions would be accepted by the tax authorities or by the Court. Tax positions recognized are measured at the maximum amount whose likelihood of realization exceeds 50%. Changes in recognition or measurement are reflected in the period in which a change in circumstances resulted in a change in judgment.

For more information about adoption of updates to US GAAP with regard to simplified accounting treatment of taxes on income (ASU 2019-12) as from January 1, 2021, see section G. below.

18) Earnings per share

The Bank presents earnings per share data, both basic and diluted, for its ordinary share capital. Basic earnings per share is calculated by dividing the earnings attributable to holders of ordinary shares of the Group, by the weighted average number of ordinary shares outstanding during the period, after adjustment for treasury shares.
Diluted earnings per share is calculated by adjusting earnings (such as adjustment for after-tax effect of dividends, financing costs and other changes, if any) related to holders of ordinary shares, and adjusting the weighted average number of ordinary shares outstanding, after adjustment for treasury shares and for the effect of all potentially dilutive ordinary shares, including stock options granted to employees.

19) The Bank's operating segments

A. Supervisory operating segments

A supervisory operating segment is a Bank component engaged in certain activities or grouping clients in certain classifications, as specified by the Supervisor of Banks. The format for reporting Bank supervisory operating segments was prescribed in Public Reporting Directives by the Supervisor of Banks.

A supervisory operating segment is mostly specified in terms of client classification. Individual clients are classified based on financial assets for the household and private banking segments. Clients other than individuals are primarily classified based on their turnover for business segments (separated into small and micro business, medium business and large business), institutional entities and the financial management segment.

Furthermore, the Bank is required to apply disclosure requirements for supervisory segments based on the management approach, when such operating segments materially differ from the supervisory operating segments.

On September 10, 2015, the Supervisor of Banks issued an updated Q&A file, which includes certain relief with regard to client categorization by operating segments based on their volume of revenues – when this data is not typical or is unavailable to the Bank. According to the Q&A file, in such cases the Bank may categorize clients into operating segments based on other parameters, in line with total client indebtedness. Thus, in some cases listed in the Q&A file, clients may be categorized based on the number of employees or total assets on their balance sheet. If this information is also not available, the client may be categorized, in such cases, based on its total financial assets with the bank, multiplied by a specified factor.

B. Operating segments – the management approach

In addition to uniform reporting by supervisory operating segments, the Supervisor of Banks' circular dated November 3, 2014 stipulates that disclosure of "Operating segments in conformity with the management approach" should be provided in conformity with generally acceptable accounting practices by banks in the United States with regard to operating segments (included in ASC 280), if there is a material difference between the management approach and supervisory reportable segments.

Note 1 – Reporting Principles and Accounting Policies – continued

An operating segment in conformity with the management approach is a Bank component with operations which may derive revenues and incur expenses which meet the following criteria:

- Its operating results are regularly reviewed by chief decision makers at the Bank for the purpose of making decisions about resource allocation and performance evaluation, and
- Separate financial information is available with regard to it.

In fact, there is a correlation between the supervisory operating segments and "operating segments in conformity with the management approach" but never the less, there are some differences in client attribution to segments and in decision making. Therefore, the financial statements also include reporting of operating results in conformity with "the management approach", as noted above.

For more information about criteria for client classification into supervisory segments and into segments in conformity with the management approach and for differences between them and additional extensive segment information, see Note 29 to the financial statements.

20) Transactions with controlling shareholders

The Bank applies US GAAP for accounting treatment of transactions between the Bank and its controlling shareholder and a company controlled by the Bank. In cases where the aforementioned rules do not refer to the manner of treatment, the Bank applies the rules stated in Standard 23 of the Israel Accounting Standards Board concerning the accounting treatment of transactions between an entity and its controlling shareholder.

Assets and liabilities subject to a transaction with a controlling shareholder are measured at fair value as of the transaction date.

G. New accounting standards and new directives by the Supervisor of Banks prior to their implementation

Standard / update topic	Issue date	Start date	Issued by	Standard summary	Effect on the Bank's financial statements
Adoption of updates to US GAAP with regard to provision for credit losses ASU 2016-13	March 2018	January 1, 2022	Supervisor of Banks	Provision for credit losses is to be calculated in conformity with the expected loss over the credit term. This is in lieu of estimation of the loss incurred and yet to be identified; estimation of the provision for credit losses shall include significant use of forward-looking information, reflecting reasonable forecasts with regard to future economic events; the new rules for calculating the provision for credit losses shall apply to loans (including residential mortgages), debentures held to maturity and certain off-balance sheet credit exposures. Moreover, in April 2019, the US Financial Accounting Standards Board ("FASB") published a comment with regard to accounting treatment of recoveries and extension options for measuring expected credit losses ASU 2019-04. On December 1, 2020, the Supervisor of Banks issued a circular regarding "Supervisory capital – Effect of implementation of accounting principles with respect to expected credit losses". This circular stipulates transitional provisions to be applicable to the effect of initial adoption of the new rules regarding expected credit losses, so as to reduce unexpected effects of application of these rules on supervisory capital, in conformity with guidance from the Basel Committee on Bank Supervision and supervisory authorities for banks in the USA and in other countries. Moreover, on February 2, 2021, the Supervisor of Banks issued a circular regarding "Expected credit losses from financial instruments" which, inter alia, rescinded the requirement to calculate a group-based provision at a minimum of 0.35% with respect to residential mortgages, and rescinded the requirement to calculate the minimum provision by extent of arrears, as well as added amendments to provisions whereby banking corporations are required to deduct from Tier I capital amounts with respect to residential mortgages classified over time as non-accruing loans.	The Bank is reviewing the effect of the revisions on its financial statements.

Note 1 – Reporting Principles and Accounting Policies – continued

G. New accounting standards and new directives by the Supervisor of Banks prior to their implementation – Continued

Standard / update topic	Issue date	Start date	Issued by	Standard summary	Effect on the Bank's financial statements
Updated standard with regard to changes to disclosure requirements of defined benefit plans ASU 2018-14	August 2018	January 1, 2021	US Financial Accounting Standards Board ("FASB")	Elimination of the required presentation of estimated amounts under Cumulative Other Comprehensive Income expected to be deducted from Cumulative Other Comprehensive Income to the Statement of Profit and Loss as an expense in the following year; Elimination of the required presentation of future annual benefit amounts covered by insurance contracts and significant transactions between the entity or related parties and the plan; details to be provided of reasons for material gains or losses associated with a change in liability with respect to a defined benefit in the period; Clarification of disclosure requirements for entities with two or more plans.	No effect on the financial statements, other than change to presentation in the Note on employees' rights.
Updated standard with regard to changes to disclosure requirements of fair value measurement ASU 2018-13	August 2018	December 31, 2021	US Financial Accounting Standards Board ("FASB")	The following requirements have been eliminated: Presentation of amounts and reasons for transfer between Level 1 and Level 2 of the fair value ranking; disclosure of information on bank policy on determining when such transfers are deemed to have occurred; providing a literal description of sensitivity to changes in unobserved data for repeated fair value measurements classified as Level 3 of the fair value ranking; required presentation of changes to Other Comprehensive Income unrealized in the period for assets held at end of the period.	There is no impact on the financial statements, other than a change to presentation in the Note on balances and estimates of fair value of financial instruments.
Simplified accounting treatment of taxes on income ASU 2019-12	December 2019	January 1, 2021	US Financial Accounting Standards Board ("FASB")	Highlights of revised topics: Allocation of income tax expenses or benefits to continued operations, discontinued operations, other comprehensive income and items recognized directly in equity; recognition of deferred tax liabilities with respect to temporary differences liable for tax with respect to an investment in a foreign associated company; calculation of tax income with respect to accrued losses on interim financial statements; recognition of the effect of changes in tax legislation or in tax rates on interim financial statements; assessment of the increase in tax base for goodwill to determine whether it would be accounted for as part of a business combination or as a separate transaction.	No material effect is expected.
Discontinued use of LIBOR	July 2017	Gradually through December 31, 2021	FCA (the Financial Conduct Authority in the UK) and the SEC (U.S. Securities and Exchange Commission)	A decision has been made to gradually discontinue use of LIBOR. Further to this decision, diverse teams have been set up around the world, in order to determine alternative interest rate benchmarks.	Wide-ranging implications are expected for the Bank, including economic, operating and accounting implications, that would require review of terms and effectiveness of accounting hedges, review of the treatment of revised debt agreements and review of the impact on discount rates and on setting the fair value ranking. The Bank has started preparing for this change. However, at this stage and due to absence of directives with regard to implementation of the transition, the impact on the Bank due to discontinued use of LIBOR cannot be assessed.
Updated standard regarding relief due to the impact of interest rate benchmark reform on financial reporting ASU 2020-04	March 2020	May be applied as from the financial statements for the first quarter of 2020, subject to specific scope provisions stated in the standard	US Financial Accounting Standards Board ("FASB")	In conformity with the interest rate benchmark reform, inter-bank interest rates (IBOR rates) would be discontinued and replaced by alternative interest rate benchmarks that may be observed or that are based on actual transactions, thus less sensitive to manipulation. The update stipulates, inter alia, the treatment of Contract modifications Hedge accounting Debentures held to maturity	The Bank is reviewing the effect of the revisions on its financial statements.

Note 2 – Interest revenues and expenses
For the year ended December 31,

Reported amounts (NIS in millions)

	2020[5]	2019	2018
A. Interest revenues[1]			
From loans to the public	7,299	7,293	7,049
From loans to Governments	22	33	25
From deposits with the Bank of Israel and from cash	90	203	102
From deposits with banks	11	16	9
From securities loaned or acquired in resale agreements[2]	–	–	–
From debentures	106	166	174
Total interest revenues	**7,528**	**7,711**	**7,359**
B. Interest expenses			
On deposits from the public	1,316	1,787	1,628
On deposits from governments	4	1	2
On deposits from banks	7	8	11
On debentures and subordinated notes	380	573	793
On other liabilities	1	2	3
Total interest expenses	**1,708**	**2,371**	**2,437**
Total interest revenues, net	**5,820**	**5,340**	**4,922**
C. Details of net effect of hedging derivative instruments on interest revenues and expenses[3]	17	22	4
D. Details of interest revenues on accrual basis from debentures			
Held to maturity	22	35	45
Available for sale	78	130	126
For trading[4]	6	1	3
Total included under interest revenues	**106**	**166**	**174**

(1) Includes the effective element in the hedging ratios.

(2) Balance lower than NIS 0.5 million.

(3) Details of effect of hedging derivative instruments: on interest revenues, net

(4) Net interest revenues from trading operations for 2020, as presented in Note 29, amounting to NIS 8 million (in 2019 and 2018: net interest expenses amounting to NIS 47 million and NIS 46 million, respectively), include interest revenues from debentures held for trading, amounting to NIS 6 million (in 2019 and 2018: NIS 3 million for each year, respectively), as stated above, linkage differentials amounting to NIS 4 million as well as inter-segment expenses amounting to NIS 2 million (in 2019 and 2018: NIS 48 million and NIS 49 million, respectively) with respect to internal transactions between the Assets and Liability Management segment and the trading segment.

(5) As from September 30, 2020 the Bank consolidates the financial statements of Union Bank. The consolidated statement of profit and loss for 2020 includes the financial results of Union Bank for the fourth quarter only.

Note 3 – Non-interest financing revenues
For the year ended December 31,

Reported amounts (NIS in millions)

	2020[8]	2019	2018
A. Non-interest financing revenues (expenses) with respect to non-trading purposes			
1. From activity in derivative instruments			
Non-effective element of hedging ratios[1]	–	–	1
Net revenues (expenses) with respect to ALM derivative instruments[2]	(1,020)	(1,151)	1,406
Total from activity in derivative instruments	**(1,020)**	**(1,151)**	**1,407**
2. From investment in debentures			
Gains from sale of debentures available for sale[3]	101	35	8
Provision for impairment of available-for-sale debentures	–	–	–
Total from investment in debentures	**101**	**35**	**8**
3. Exchange rate differences, net	**920**	**1,267**	**(1,081)**
4. Gains from investment in shares			
Gains from sale of shares not held for trading	13	2	10
Provision for impairment of shares not held for trading	–	(6)	–
Dividends from shares not held for trading	15	17	7
Unrealized gains (losses)[5]	23	45	–
Total from investment in shares	**51**	**58**	**17**
5. Net gains with respect to loans sold	**–**	**–**	**–**
Total non-interest financing revenues with respect to non-trading purposes	**52**	**209**	**351**
B. Non-interest financing revenues (expenses) with respect to trading operations[4]			
Net revenues (expenses) with respect to other derivative instruments	137	137	95
Realized gains (losses) from adjustment to fair value of debentures held for trading, net	31	13	(1)
Unrealized losses from adjustment to fair value of debentures held for trading, net	1	(2)	–
Total from trading operations[6][7]	**169**	**148**	**94**
Details of non-interest financing revenues (expenses) with respect to trading operations, by risk exposure			
Interest exposure	(27)	59	68
Foreign currency exposure	196	92	21
Exposure to shares	–	(3)	5
Exposure to commodities and others	–	–	–
Total	**169**	**148**	**94**

(1) Excludes the effective element in the hedging ratios.
(2) Derivative instruments which constitute part of the Bank's asset and liability management system, which were not designated as hedges.
(3) Reclassified from Cumulative Other Comprehensive Income.
(4) Includes exchange rate differentials resulting from trading operations.
(5) Including gains / losses from measurement at fair value of shares for which fair value is available, and upward / downward adjustment of shares for which no fair value is available.
(6) For interest revenues from investments in debentures held for trading, see Note 2.D.
(7) Financing revenues other than interest from trading operations for 2020, as presented in Note 29, amounting to NIS 121 million (in 2019 and 2018: NIS 141 million and NIS 131 million, respectively), include total revenues from trading operations, as stated above, amounting to NIS 141 million (in 2019 and 2018: NIS 148 million and NIS 94 million, respectively), as well as exchange rate differentials (difference between exchange rate differentials with respect to ALM derivative operations and exchange rate differentials for balance sheet operations) amounting to NIS (7) million (in 2019 and 2018: NIS (7) million and NIS 37 million, respectively) as stated above.
(8) As from September 30, 2020 the Bank consolidates the financial statements of Union Bank. The consolidated statement of profit and loss for 2020 includes the financial results of Union Bank for the fourth quarter only.

Note 4 – Commissions

For the year ended December 31,
Reported amounts (NIS in millions)

	2020[1]	2019	2018
Account management[2]	356	360	344
Credit cards	190	190	189
Activities involving securities	282	193	199
Commissions on distribution of financial products[3]	56	54	59
Provident fund operations	22	23	23
Handling credit	39	34	31
Conversion differences	255	221	208
Foreign trade activity	40	43	43
Net revenues from credit portfolio service	38	43	45
Life insurance distribution commissions	100	107	103
Home insurance distribution commissions	15	17	16
Other commissions	41	42	45
Total commissions other than from financing business	**1,434**	**1,327**	**1,305**
Commissions from financing transactions[4]	237	208	170
Total commissions	**1,671**	**1,535**	**1,475**

(1) As from September 30, 2020 the Bank consolidates the financial statements of Union Bank. The consolidated statement of profit and loss for 2020 includes the financial results of Union Bank for the fourth quarter only.
(2) In Israeli and foreign currency
(3) Includes distribution commissions from mutual funds and pension products.
(4) After effect of risk sale by acquiring an insurance policy for housing bonds, amounting to NIS 72 million (in 2019 and 2018: NIS 67 million and NIS 54 million, respectively).

Note 4A – Revenue from contracts with clients[5]

Reported amounts (NIS in millions)

	Households – other	Households – mortgages	Private banking	Small businesses	Commercial banking	Business banking	Financial manage-ment	Total
								2020[1]
Account management[2]	140	–	8	167	16	20	5	356
Credit cards	148	–	1	36	3	2	–	190
Activities involving securities	149	–	24	20	6	41	42	282
Commissions on distribution of financial products[3]	46	3	2	3	–	1	1	56
Provident fund operations	–	–	–	–	–	–	22	22
Handling credit	6	6	–	15	2	9	1	39
Conversion differences	54	–	13	56	8	11	113	255
Foreign trade activity	–	–	–	18	9	13	–	40
Net revenues from credit portfolio service	9	22	–	–	–	4	3	38
Life insurance distribution commissions	–	100	–	–	–	–	–	100
Home insurance distribution commissions	–	15	–	–	–	–	–	15
Other commissions	9	3	5	–	1	13	10	41
Total commissions other than from financing business	**561**	**149**	**53**	**315**	**45**	**114**	**197**	**1,434**
Commissions from financing transactions[4]	7	7	–	35	20	168	–	237
Total commissions	**568**	**156**	**53**	**350**	**65**	**282**	**197**	**1,671**

	Households – other	Households – mortgages	Private banking	Small businesses	Commercial banking	Business banking	Financial manage ment	Total
								2019
Account management[1]	146	–	13	164	18	15	4	360
Credit cards	151	–	1	33	3	2	–	190
Activities involving securities	108	–	23	12	4	21	25	193
Commissions on distribution of financial products[2]	50	–	1	2	–	1	–	54
Provident fund operations	–	–	–	–	–	–	23	23
Handling credit	5	4	–	14	1	10	–	34
Conversion differences	60	–	17	52	6	12	74	221
Foreign trade activity	–	–	–	16	9	18	–	43
Net revenues from credit portfolio service	9	26	–	–	–	3	5	43
Life insurance distribution commissions	–	107	–	–	–	–	–	107
Home insurance distribution commissions	–	17	–	–	–	–	–	17
Other commissions	8	–	5	3	1	7	18	42
Total commissions other than from financing business	**537**	**154**	**60**	**296**	**42**	**89**	**149**	**1,327**
Commissions from financing transactions[3]	5	5	–	36	17	145	–	208
Total commissions	**542**	**159**	**60**	**332**	**59**	**234**	**149**	**1,535**

(1) As from September 30, 2020 the Bank consolidates the financial statements of Union Bank. The consolidated statement of profit and loss for 2020 includes the financial results of Union Bank for the fourth quarter only.
(2) In Israeli and foreign currency
(3) Includes distribution commissions from mutual funds and pension products.
(4) After effect of risk sale by acquiring an insurance policy for housing bonds, amounting to NIS 72 million (in 2019 and 2018: NIS 67 million and NIS 54 million, respectively).
(5) Classification of revenues to operating segments is based on the management approach.

Note 5 – Other revenues

For the year ended December 31,
Reported amounts (NIS in millions)

	2020[1]	2019	2018
Capital gain from sale of buildings and equipment	41	26	–
Trustee fees	16	20	24
Revenues from security services	11	11	11
Rent revenues	4	10	9
Amortization of deferred credit balance	51	-	-
Other	[2]98	7	3
Total other revenues	**221**	**74**	**47**

(1) As from September 30, 2020 the Bank consolidates the financial statements of Union Bank. The consolidated statement of profit and loss for 2020 includes the financial results of Union Bank for the fourth quarter only.

(2) Includes revenues of NIS 82 million with respect to indemnification from insurers.

Note 6 – Salaries and Related Expenses
For the year ended December 31,

Reported amounts (NIS in millions)

	(4)2020	2019	2018
Salaries (including bonuses)	1,812	1,756	(1)1,681
Expense due to transactions accounted for as share-based payment transactions settled using equity instruments(2)	23	57	–
Other associated expenses, including study fund and paid leave	106	81	78
Long-term benefits	14	23	22
National Insurance and VAT on salaries	427	428	418
Expenses with respect to pension (including severance pay and provident funds)			
Defined benefit – cost of service(3)	75	48	48
Defined contribution	158	146	135
Other post-employment benefits and post-retirement benefits, other than pension payment(3)	8	6	7
Expenses with respect to other employees' benefits	21	17	18
Total salaries and related expenses	**2,644**	**2,562**	**2,407**
Of which: Payroll and associated expenses overseas	**50**	**51**	**49**

(1) For more information about an arbitration verdict, a collective bargaining agreement with the Managers Association and a payroll agreement in the Technology Division, see Note 22, sections 7-10.

(2) See Note 23 "Share-based Payment Transactions".

(3) See Note 22 "Employees' Rights".

(4) As from September 30, 2020 the Bank consolidates the financial statements of Union Bank. The consolidated statement of profit and loss for 2020 includes the financial results of Union Bank for the fourth quarter only.

Note 7 – Other Expenses
For the year ended December 31,
Reported amounts (NIS in millions)

	2020[1]	2019	2018
Expenses with respect to pension (including severance pay and provident funds), defined benefit (excluding cost of service)	79	76	75
Marketing and advertising	68	67	61
Communications	43	41	41
Computer	219	139	131
Office expenses	46	37	36
Insurance	25	12	12
Professional services	124	113	129
Board members' fees	10	9	9
Training and continuing education	7	15	14
Commissions	40	33	32
Cars and travel	31	36	35
Other	72	78	655
Total other expenses	**764**	**656**	**1,230**

(1) As from September 30, 2020 the Bank consolidates the financial statements of Union Bank. The consolidated statement of profit and loss for 2020 includes the financial results of Union Bank for the fourth quarter only.

Note 8 – Provision for Taxes on Profit

For the year ended December 31,
Reported amounts (NIS in millions)

A. Composition

	2020[1]	2019	2018
Current taxes –			
For the current year	1,087	943	1,022
For prior years	4	7	11
Total current taxes	**1,091**	**950**	**1,033**
Changes in deferred taxes –			
For the current year	(184)	82	(108)
For prior years	(4)	(3)	(3)
Total deferred taxes	**(188)**	**79**	**(111)**
Total provision for taxes on income	**903**	**1,029**	**922**
Includes provision for income tax overseas	**35**	**46**	**62**

B. The table excludes the tax effect with respect to certain items recognized directly in equity in each period. The tax effect of all items recognized directly in equity amounted to decrease by NIS 6 million in 2020, compared to NIS 51 million in 2019 and decrease by NIS 43 million in 2018.

C. Below is a reconciliation between the theoretical tax amount that would be applicable had the profit been taxable at the statutory tax rate applicable to banks in Israel, and between the provision for taxes on profit as included in the statement of profit and loss:

	2020[1]	2019	2018
Pre-tax profit	**2,604**	**2,954**	**2,195**
Statutory tax rate applicable to a bank in Israel	**34.19%**	**34.19%**	**34.19%**
Tax amount based on statutory tax rate	890	1,010	750
Tax (tax saving) from:			
Income of subsidiaries in Israel[2]	(3)	(3)	5
Income of subsidiaries overseas	2	4	(10)
Exempt and reduced tax rate revenues	(1)	(4)	(2)
Adjustment differences on depreciation, amortization and capital gains	–	(1)	(5)
Other non-deductible expenses[3]	25	20	186
Temporary differences for which deferred taxes have not been recorded	5	(1)	(11)
Taxes with respect to previous years:			
Additional amounts payable for problematic debts	2	3	7
Others	3	1	2
Amortization of deferred credit balance[4]	(20)	–	–
Total provision for taxes on income	**903**	**1,029**	**922**

(1) As from September 30, 2020 the Bank consolidates the financial statements of Union Bank. The consolidated statement of profit and loss for 2020 includes the financial results of Union Bank for the fourth quarter only.

(2) Includes revenues of auxiliary corporations.

(3) In 2018, includes expenses amounting to NIS 152 million with respect to DPA signed with the US Department of Justice, for more information see Note 26.C. to the financial statements.

(4) Revenue recognition with respect to deferred credit balance from acquisition of Union Bank, as from September 30, 2020.

Note 8 – Provision for Taxes on Profit – continued
For the year ended December 31,

Reported amounts (NIS in millions)

D. Deferred tax assets and provision for deferred taxes

	Balances as of December 31,						
	2019	**Changes charged to profit and loss**	**Changes charged to Other Comprehensive Income**	**Changes charged to equity**	**Business combination[(1)]**	**2020**	**Average tax rate in %**
Deferred tax assets[(2)]:							
Provision for credit losses	562	213	–	–	146	921	34.2
Provision for vacation pay, long-service bonuses and employees' rights	94	(5)	–	–	41	130	33.4
Excess liabilities with respect to employees' benefits over plan assets	479	17	(5)	–	191	682	34.2
Carry-forward tax loss[(3)]	7	(14)	–	–	22	15	34.2
Other – from monetary items	7	(5)	–	–	–	2	23.0
Other – from non-monetary items	26	2	–	(19)	–	9	34.2
Deferred tax balance, gross	**1,175**	**208**	**(5)**	**(19)**	**400**	**1,759**	**34.1**
Provision for tax asset	–	–	–	–	–	–	
Tax asset balance net of provision for deferred taxes	**1,175**	**208**	**(5)**	**(19)**	**400**	**1,759**	**34.1**
Deferred tax liabilities with respect to[(2)]:							
Fixed assets and leases	23	1	–	–	–	24	23.0
Securities[(4)]	–	–	–	–	–	–	–
Investments in investees	60	24	–	–	–	84	12.0
Other – from monetary items[(5)]	4	–	1	–	–	5	34.2
Other – from non-monetary items, net	–	–	–	–	10	10	34.2
Tax reserve with respect to PPA adjustments	–	(5)	–	–	104	99	34.2
Deferred tax liability balance, gross	**87**	**20**	**1**	**–**	**114**	**222**	**24.6**
Deferred tax balance, net	**1,088**	**188**	**(6)**	**(19)**	**286**	**1,537**	

(1) As from September 30, 2020 the Bank consolidates the financial statements of Union Bank. For further details, see Note 35

(2) The Bank assummes that, with respect to all of the aforementioned deferred taxes, it is more likely than not that future operating results would generate sufficient taxable income to realize these deferred tax assets.

(3) Carry-forward tax loss with respect to subsidiaries in Israel and overseas

(4) Changes in this item with respect to a loss amounting to NIS 8 million due to adjustment of fair value of securities available for sale (previous year – gain amounting to NIS 50 million) were charged to a separate item in shareholders' equity.

(5) Changes in this item amounting to NIS 1 million due to net loss from cash flow hedges (previous year – loss amounting to NIS 2 million) were charged to a separate item in shareholders' equity.

Note 8 – Provision for Taxes on Profit – continued
For the year ended December 31,

Reported amounts (NIS in millions)

D. Deferred tax assets and provision for deferred taxes – Continued

	Balances as of December 31,					
	2018	Changes charged to profit and loss	Changes charged to Other Comprehensive Income	Changes charged to equity	2019	Average tax rate in %
Deferred tax assets[1]:						
Provision for credit losses	548	14	–	–	562	34.2
Provision for vacation pay, long-service bonuses and employees' rights	117	(23)	–	–	94	33.4
Excess liabilities with respect to employees' benefits over plan assets	407	19	53	–	479	34.2
Deferred taxes with respect to provision for DPA signed with US DOJ	65	(65)	–	–	–	34.2
Carry-forward tax loss[2]	–	7	–		7	34.2
Other – from monetary items	20	(13)	–	–	7	23.0
Other – from non-monetary items	26	–	–	–	26	34.2
Deferred tax balance, gross	1,183	(61)	53	–	1,175	34.1
Provision for tax asset	**–**	**–**	**–**	**–**	**–**	**–**
Tax asset balance net of provision for deferred taxes	**1,183**	**(61)**	**53**	**–**	**1,175**	**34**
Fixed assets and leases	19	4	–	–	23	23.0
Securities[3]	–	–	–	–	–	–
Investments in investees	39	21	–	–	60	12.0
Other – from monetary items[4]	9	(7)	2	–	4	34.2
Other – from non-monetary items, net	–	–	–	–	–	–
Deferred tax liability balance, gross	**67**	**18**	**2**	**–**	**87**	**16.0**
Tax balance, net	**1,116**	**(79)**	**51**	**–**	**1,088**	

(1) The Bank assumes that, with respect to all of the aforementioned deferred taxes, it is more likely than not that future operating results would generate sufficient taxable income to realize these deferred tax assets.

(2) Carry-forward tax loss with respect to overseas subsidiary.

(3) Changes in this item with respect to gain amounting to NIS 50 million due to adjustment of fair value of securities available for sale (previous year – loss amounting to NIS 25 million) were charged to a separate item in shareholders' equity.

(4) Changes in this item amounting to NIS 2 million due to net loss from cash flow hedges (previous year – loss amounting to NIS 0.4 million) were charged to a separate item in shareholders' equity.

E. In conformity with directives of the Supervisor of Banks, as from January 1, 2017 the Bank recognizes a deferred tax liability with respect to undistributed earnings of subsidiaries accrued since January 1, 2017. Total liability as of December 31, 2020: NIS 84 million (as of December 31, 2019: NIS 60 million).

F. The Bank has a subsidiary in Holland (United Mizrahi International Holding Company Ltd. B.V. Holland). The company in Holland has carry-forward losses which have no effect on the Bank's tax liability.

Note 8 – Provision for Taxes on Profit – continued
For the year ended December 31,

Reported amounts (NIS in millions)

G. Legislation changes with regard to tax

1. Corporate tax

On December 22, 2016 the Knesset plenum approved the Economic Streamlining Act (Legislation Amendments to Achieve Budget Goals for 2017 and 2018 Budget Years), 2016, which stipulated a reduction of the corporate tax rate from 25% to 23% in two steps: the first step, to 24%, as from January 2017 and the second step, to 23%, as from January 2018.

Deferred tax balances were calculated using the new tax rates, as stated in the Economic Streamlining Act (Legislation Amendments to Achieve Budget Goals for 2017 and 2018 Budget Years), based on the tax rate expected to apply upon the reversal date.

2. VAT, profit tax and payroll tax

On October 12, 2015, the Knesset plenum enacted the VAT Ordinance (VAT Rate for Non-Profits and Financial Institutions) (Revised), -2015. Stipulating that profit tax and payroll tax rates applicable to financial Institutions would decrease from 18% to 17% as from October 1, 2015. Due to said change, the statutory tax rate applicable to financial institutions decreased to 35% in 2017 and to 34.2% as from 2018.

Following the aforementioned amendments, the statutory tax rates applicable to banking corporations have been amended as follows:

Tax year	Profit tax rate	Income tax rate	Total tax rate
2018 and later	17%	23%	34.19%

The tax indebtedness of Bank subsidiaries is determined based on applicable tax rates in those countries. For overseas branches, the Bank supplements the tax indebtedness based on the tax rate in Israel.

H. The Bank has finalized tax assessments through 2016.

The Bank received agreed withholding deduction tax assessments through the 2017 tax year.

Bank Yahav has finalized tax assessments through 2015.

The Bank has finalized tax assessments through 2013. With respect to 2014-2017, the Bank has signed a tax assessment agreement with the Tax Authority, except for one issue that is not material for the financial statements.

Note 9 – Earnings per Ordinary Share

	For the year ended December 31,		
	Reported amounts (NIS in millions)		
	2020	2019	2018
Net profit used to calculate earnings per share:			
Basic and diluted earnings per share			
Total net profit attributable to shareholders of the Bank	**1,610**	**1,842**	**1,206**
Weighted average number of shares (in thousands of shares)[(1)(2)]			
Weighted average number of ordinary shares used to calculate basic earnings	240,462	234,268	233,079
Weighted average number of ordinary shares used to calculate diluted earnings	240,797	235,124	234,317
Earnings per share:			
Total basic earnings attributable to holders of ordinary Bank shares	**6.70**	**7.86**	**5.17**
Total diluted earnings attributable to holders of ordinary Bank shares	**6.69**	**7.83**	**5.15**

(1) Share of NIS 0.1 par value.

(2) The weighted average number of ordinary shares used to calculate diluted earnings per share includes the number of options due to share-based payment transactions. For more information see Note 23 to the financial statements.

Note 10 – Cumulative other comprehensive income (loss)

Reported amounts (NIS in millions)

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

	Other comprehensive income (loss), before attribution to non-controlling interests						
	Adjustments for presentation of available-for-sale securities at fair value	Translation adjustments[(1)]	Net gains (losses) from cash flow hedges	Adjustments with respect to employees' benefits	Total	Other comprehensive income attribu-ted to non-controlling interests	Other comprehensive income attributable to share-Holders of the Bank
Balance as of January 1, 2018	**(15)**	**(2)**	**4**	**(387)**	**(400)**	**(17)**	**(383)**
Net change in the period	(43)	1	–	[(2)]78	36	(1)	37
Balance as of December 31, 2018	**(58)**	**(1)**	**4**	**(309)**	**(364)**	**(18)**	**(346)**
Net change in the period	94	–	4	[(2)](99)	(1)	(15)	14
Balance as of December 31, 2019	**36**	**(1)**	**8**	**(408)**	**(365)**	**(33)**	**(332)**
Net change in the period	46	–	2	[(2)]9	57	1	56
Balance as of December 31, 2020	**82**	**(1)**	**10**	**(399)**	**(308)**	**(32)**	**(276)**

(1) Translation adjustments of financial statements of associated companies whose functional currency differs from the Bank's functional currency.

(2) Primarily consists of the effect of changes in interest rates on the actuarial liability, as well as deduction of the capital reserve for the streamlining program.

Note 10 – Cumulative other comprehensive income (loss) – continued

Reported amounts (NIS in millions)

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

	For the year ended December 31,								
			2020			2019			2018
	Before tax	Tax effect	After tax	Before tax	Tax effect	Afte r tax	Before tax	Tax effect	After tax
Change in items of other comprehensive income (loss), before attribution to non-controlling interests:									
Adjustments for presentation of available-for-sale securities at fair value									
Net unrealized gains (losses) from adjustments to fair value	170	(58)	112	179	(62)	117	(60)	22	(38)
Losses (gains) with respect to available-for-sale securities reclassified to the statement of profit and loss[1]	(101)	35	(66)	(35)	12	(23)	(8)	3	(5)
Net change in the period	**69**	**(23)**	**46**	**144**	**(50)**	**94**	**(68)**	**25**	**(43)**
Translation adjustments									
Adjustments from translation of financial statements[2]	–	–	–	–	–	–	1	–	1
Net change in the period	**–**	**–**	**–**	**–**	**–**	**–**	**1**	**–**	**1**
Cash flows hedges									
Net gains (losses) with respect to cash flows hedging	3	(1)	2	6	(2)	4	–	–	–
Net (gains) losses with respect to cash flow hedges reclassified to the statement of profit and loss[3]	–	–	–	–	–	–	–	–	–
Net change in the period	**3**	**(1)**	**2**	**6**	**(2)**	**4**	**–**	**–**	**–**
Employees' benefits									
Net actuarial gain (loss) for the period	(33)	11	[5](22)	(188)	65	[5](123)	85	(31)	[5]54
Net losses reclassified to the statement of profit and loss[4]	47	(16)	31	36	(12)	24	36	(12)	24
Net change in the period	**14**	**(5)**	**9**	**(152)**	**53**	**(99)**	**121**	**(43)**	**78**
Total net change in the period	**86**	**(29)**	**57**	**(2)**	**1**	**(1)**	**54**	**(18)**	**36**
Total net change in the period attributable to non-controlling interests	**2**	**(1)**	**1**	**(24)**	**9**	**(15)**	**(1)**	**–**	**(1)**
Total net change in the period attributable to shareholders of the Bank	**84**	**(28)**	**56**	**22**	**(8)**	**14**	**55**	**(18)**	**37**

(1) Pre-tax amount included in the statement of profit and loss under "Non-interest financing revenues". For details, see Note 3.A.2.
(2) Translation adjustments of financial statements of associated companies whose functional currency differs from the Bank's functional currency.
(3) Pre-tax amount included in the statement of profit and loss under "Non-interest financing revenues". For details, see Note 3.A.1.
(4) Pre-tax amounts are included under "Salaries and related expenses" in the statement of profit and loss. For more information see Note 22.C.2.
(5) Primarily consists of the effect of changes in interest rates on the actuarial liability, as well as deduction of the capital reserve for the streamlining program.

Note 11 – Cash and Deposits with Banks
As of December 31,

Reported amounts (NIS in millions)

	2020		2019
	Including Union Bank	**Excluding Union Bank**	
Cash and deposits with central banks	84,450	72,763	50,924
Deposits with commercial banks	2,120	1,398	748
Total cash and deposits with banks	**86,570**	**74,161**	**51,672**
Includes: Cash, deposits with banks and deposits with central banks for an original period of up to three months	85,465	73,059	49,448

For more information about liens see Note 27 below.

Note 12 – Securities
As of December 31, 2020
Reported amounts (NIS in millions)

Including Union Bank

	Carrying amount	Amortized cost	Adjustments to fair value yet to be recognized		Fair value[1]
			Gains	Losses	
(1) Debentures held to maturity					
of Government of Israel	3,315	3,315	63	–	3,378
Of financial institutions in Israel	368	368	6	–	374
Of others in Israel	32	32	–	–	32
Total debentures held to maturity	**3,715**	**3,715**	**69**	**–**	**3,784**

	Carrying amount	Amortized cost	Cumulative other comprehensive income[4]		Fair value[1]
			Gains	Losses	
(2) Debentures available for sale					
of Government of Israel	9,798	9,728	72	(2)	9,798
Of foreign governments[3]	451	446	5	–	451
Of financial institutions in Israel	252	250	2	–	252
Of foreign financial institutions	227	225	2	–	227
Asset-backed (ABS)	33	33	–	–	33
Of others in Israel	683	653	30	–	683
Of others overseas	294	286	8	–	294
Total debentures available for sale	**11,738**	**11,621**	**119**	**(2)**	**11,738**

Note 12 – Securities – Continued
As of December 31, 2020
Reported amounts (NIS in millions)

Including Union Bank – continued

	Carrying amount	Cost	Adjustments to fair value yet to be realized[5] Gains	Losses	Fair value[1]
(3) Investment in shares not held for trading	**426**	**355**	**71**	**–**	**426**
Of which: Shares for which no fair value is available[6]	216	216	–	–	216
Total securities not held for trading	**15,879**	**15,691**	**259**	**(2)**	**15,948**

	Carrying amount	Amortized cost (for shares – cost)	Adjustments to fair value yet to be realized[5] Gains	Losses	Fair value[1]
(4) Debentures held for trading					
of Government of Israel	1,342	1,348	2	(8)	1,342
Of financial institutions in Israel	2	2	–	–	2
Of others in Israel	20	19	1	–	20
Of others overseas	27	26	1	–	27
Total debentures held for trading	**1,391**	**1,395**	**4**	**(8)**	**1,391**
Shares and other securities	20	20	–	–	20
Total securities held for trading	**1,411**	**1,415**	**4**	**(8)**	**1,411**
Total securities[2]	**17,290**	**17,106**	**263**	**(10)**	**17,359**
(5) Additional information about debentures					
Recorded debt balance of					
Impaired debentures not accruing interest revenues					47
					47

(1) Fair value data are generally based on stock exchange prices, which do not necessarily reflect the price to be obtained on the sale of a large volume of securities.

(2) Of which: Securities pledged to lenders, amounting to NIS 1,018 million and securities provided as collateral to lenders, amounting to NIS 150 million.

(3) US government debentures.

(4) Included in shareholders' equity in "adjustments on presentation of debentures available for sale at fair value".

(5) Charged to statement of profit and loss but not yet realized.

(6) Generally shown at cost (net of impairment), adjusted for changes in observed prices in ordinary transactions for similar or identical investments of the same issuer.

Remarks:

– For more information about operations involving investments in debentures – see Notes 2.D, 3.A.2 and 3.B For more information of investments in shares – see Note 3.A.4.

– The distinction between Israeli and foreign debentures was made in conformity with the country of residence of the entity which issued the securities.

Note 12 – Securities – Continued
As of December 31, 2020
Reported amounts (NIS in millions)

Excluding Union Bank

	Carrying amount	Amortized cost	Adjustments to fair value yet to be recognized		Fair value[1]
			Gains	Losses	
(1) Debentures held to maturity					
of Government of Israel	3,315	3,315	63	–	3,378
Of financial institutions in Israel	368	368	6	–	374
Of others in Israel	32	32	–	–	32
Total debentures held to maturity	**3,715**	**3,715**	**69**	**–**	**3,784**
	Carrying amount	**Amortized cost**	**Cumulative other comprehensive income[4]**		**Fair value[1]**
			Gains	**Losses**	
(2) Debentures available for sale					
of Government of Israel	3,674	3,648	28	(2)	3,674
Of foreign governments[3]	451	446	5	–	451
Of foreign financial institutions	102	102	–	–	102
Total debentures available for sale	**4,227**	**4,196**	**33**	**(2)**	**4,227**
	Carrying amount	**Cost**	**Adjustments to fair value yet to be realized[5]**		**Fair value[1]**
			Gains	**Losses**	
(3) Investment in shares not held for trading	**160**	**115**	**45**	**–**	**160**
Of which: Shares for which no fair value is available[6]	59	59	–	–	59
Total securities not held for trading	**8,102**	**8,026**	**147**	**(2)**	**8,171**
	Carrying amount	**Amortized cost**	**Adjustments to fair value yet to be realized[5]**		**Fair value[1]**
			Gains	**Losses**	
(4) Debentures held for trading					
of Government of Israel	346	345	1	–	346
Total debentures held for trading	**346**	**345**	**1**	**–**	**346**
Total securities[2]	**8,448**	**8,371**	**148**	**(2)**	**8,517**

(1) Fair value data are generally based on stock exchange prices, which do not necessarily reflect the price to be obtained on the sale of a large volume of securities.
(2) Of which: Securities pledged to lenders, amounting to NIS 712 million and securities provided as collateral to lenders, amounting to NIS 150 million.
(3) US government debentures.
(4) Included in shareholders' equity in "adjustments on presentation of debentures available for sale at fair value".
(5) Charged to statement of profit and loss but not yet realized.
(6) Generally shown at cost (net of impairment), adjusted for changes in observed prices in ordinary transactions for similar or identical investments of the same issuer.

Remarks:
- For more information about operations involving investments in debentures – see Notes 2.D, 3.A.2 and 3.B For more information of investments in shares – see Note 3.A.4.
- The distinction between Israeli and foreign debentures was made in conformity with the country of residence of the entity which issued the securities.

Note 12 – Securities – Continued
As of December 31, 2019
Reported amounts (NIS in millions)

	Carrying amount	Amortized cost	Adjustments to fair value yet to be recognized Gains	Losses	Fair value(1)
(1) Debentures held to maturity					
of Government of Israel	4,032	4,032	61	–	4,093
Total debentures held to maturity	**4,032**	**4,032**	**61**	**–**	**4,093**
	Carrying amount	**Amortized cost**	**Cumulative other comprehensive income(5) Gains**	**Losses**	**Fair value(1)**
(2) Debentures available for sale					
of Government of Israel	3,362	3,308	55	(1)	3,362
Of foreign governments(3)	1,440	1,442	1	(3)	1,440
Of foreign financial institutions(4)	362	359	3	–	362
Total debentures available for sale	**5,164**	**5,109**	**59**	**(4)**	**5,164**
	Carrying amount	**Cost**	**Adjustments to fair value yet to be realized(6) Gains**	**Losses**	**Fair value(1)**
(3) Investment in shares not held for trading	**149**	**104**	**45**	**–**	**149**
Of which: Shares for which no fair value is available(7)	49	49	–	–	49
Total securities not held for trading	**9,345**	**9,245**	**165**	**(4)**	**9,406**
	Carrying amount	**Amortized cost**	**Adjustments to fair value yet to be realized(6) Gains**	**Losses**	**Fair value(1)**
(4) Debentures held for trading					
of Government of Israel	427	427	–	–	427
Of foreign governments (3)(8)	341	343	–	(2)	341
Total debentures held for trading	**768**	**770**	**–**	**(2)**	**768**
Total securities(2)	**10,113**	**10,015**	**165**	**(6)**	**10,174**

(1) Fair value data are generally based on stock exchange prices, which do not necessarily reflect the price to be obtained on the sale of a large volume of securities.
(2) Of which: Securities pledged to lenders, amounting to NIS 502 million and securities provided as collateral to lenders, amounting to NIS 35 million.
(3) US government debentures.
(4) Includes exposure to Multi-party Development Banks (MDB).
(5) Included in shareholders' equity in "adjustments on presentation of debentures available for sale at fair value".
(6) Charged to statement of profit and loss but not yet realized.
(7) Generally shown at cost (net of impairment), adjusted for changes in observed prices in ordinary transactions for similar or identical investments of the same issuer.
(8) Securities classified as held for trading, because the Bank elected to present them in accordance with the fair value option in Section 20 of Public Reporting Directives, even though they had not been acquired for trade.

Remarks:
– For more information about operations involving investments in debentures – see Notes 2.D, 3.A.2 and 3.B For more information of investments in shares – see Note 3.A.4.
– The distinction between Israeli and foreign debentures was made in conformity with the country of residence of the entity which issued the securities.

Note 12 – Securities – Continued

Reported amounts (NIS in millions)

(6) Fair value and unrealized losses, by time period and impairment rate, of debentures available for sale and held to maturity, which include unrealized loss:

	Less than 12 months				12 months or more			
	Fair value[1] (to maturity – amortized cost)	Unrealized losses 20%-0%	Unrealized losses 40%-20%	Total	Fair value[1] (to maturity – amortized cost)	Unrealized losses 20%-0%	Unrealized losses 40%-20%	Total
								As of December 31, 2020
								Including Union Bank
Debentures held to maturity								
of Government of Israel	20	[3]–	–	–	–	–	–	–
Total – debentures held to maturity	**20**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Debentures available for sale								
of Government of Israel	390	1	–	1	9	1	–	1
Of foreign governments[2]	31	[3]–	–	–	–	–	–	–
Total debentures available for sale	**421**	**1**	**–**	**1**	**9**	**1**	**–**	**1**
								Excluding Union Bank
Debentures held to maturity								
of Government of Israel	20	[3]–	–	–	–	–	–	–
Total – debentures held to maturity	**20**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Debentures available for sale								
of Government of Israel	390	1	–	1	9	1	–	1
Of foreign governments[2]	31	–	–	–	–	–	–	–
Total debentures available for sale	**421**	**1**	**–**	**1**	**9**	**1**	**–**	**1**
								As of December 31, 2019
Debentures available for sale								
of Government of Israel	124	[3]–	–	–	10	1	–	1
Of foreign governments[2]	14	[3]–	–	–	979	3	–	3
Total debentures available for sale	**138**	**–**	**–**	**–**	**989**	**4**	**–**	**4**

(1) Fair value data are generally based on stock exchange prices, which do not necessarily reflect the price to be obtained on the sale of a large volume of securities.

(2) US government debentures.

(3) Balance lower than NIS 1 million.

(7) Asset-backed and mortgage-backed securities

	Carrying amount	Amortized cost	Cumulative other comprehensive income – Gains	Cumulative other comprehensive income – Losses	Fair value	Carrying amount excluding Union Bank
						As of December 31, 2020
Asset-backed debentures[1]	33	33	–	–	33	–
Total asset-backed debentures available for sale	**33**	**33**	**–**	**–**	**33**	**–**

(1) Of which:
NIS 21 million of non-negotiable debentures rated AA (rated in 2020), backed by cash flow from sale of petroleum.
NIS 4 million of non-negotiable debentures rated A (rated in 2020), backed by cash flow from loans.
NIS 3 million of non-negotiable debentures rated A+ (rated in 2020), backed by cash flow from sale of petroleum.
NIS 2 million of non-negotiable debentures rated AA (rated in 2019), backed by cash flow from loans for purchase of automobiles and by automobiles.
NIS 1 million of non-negotiable debentures rated A (rated in 2020), backed by cash flow from loans for purchase of automobiles and by automobiles.
NIS 1 million of non-negotiable debentures rated AAA (rated in 2020), backed by cash flow from property tax payments.
NIS 1 million of non-negotiable debentures rated AA (rated in 2020), backed by cash flow from debentures issued by an infrastructure company.

As December 31, 2019 there was no balance of asset-backed or mortgage-backed securities.

Note 13 – Credit risk, loans to the public and provision for credit losses

Reported amounts (NIS in millions)

A. Debts[1] loans to the public and balance of provision for credit losses

Including Union Bank

	December 31, 2020					
	Loans to the public					
	Commercial	Housing	Individual – other	Total	Banks and governments	Total
Recorded debt balance of debts [1]						
reviewed on individual basis	56,478	97	948	57,523	12,880	70,403
reviewed on group basis	10,731	156,484	23,220	190,435	–	190,435
Of which: By extent of arrears	1,951	156,484	–	158,435	–	158,435
Total debts	**67,209**	[2]**156,581**	**24,168**	**247,958**	**12,880**	**260,838**
Of which:						
Impaired debts under restructuring	514	–	75	589	–	589
Other impaired debts	993	97	21	1,111	–	1,111
Total impaired debts	**1,507**	**97**	**96**	**1,700**	**–**	**1,700**
Debts in arrears 90 days or longer	28	1,176	24	1,228	–	1,228
Other problematic debts	705	12	81	798	–	798
Total problematic debts	**2,240**	**1,285**	**201**	**3,726**	**–**	**3,726**
Provision for credit losses with respect to debts [1][4]						
reviewed on individual basis	1,001	1	37	1,039	2	1,041
reviewed on group basis	174	941	279	1,394	–	1,394
Of which: Provision by extent of arrears[3]	10	941	–	951	–	951
Total provision for credit losses	**1,175**	**942**	**316**	**2,433**	**2**	**2,435**
Of which: With respect to impaired debts	**316**	**1**	**22**	**339**	**–**	**339**

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.

(2) Includes general-purpose loans secured by a lien on a residential apartment, amounting to NIS 9,690 million.

(3) Includes balance of provision beyond that required by extent of arrears, calculated on individual basis amounting to NIS 10 million, and calculated on group basis amounting to NIS 732 million. For details see Note 1.F.6.

(4) The provision amount includes estimated credit losses at Union Bank, included in the balance of loans to the public at Union Bank, as presented on the consolidated balance sheet.

Note 13 – Credit risk, loans to the public and provision for credit losses
Reported amounts (NIS in millions)

A. Debts[1], loans to the public and balance of provision for credit losses – continued

Excluding Union Bank

	December 31, 2020					
	Loans to the public					
	Commercial	Housing	Individual – other	Total	Banks and governments	Total
Recorded debt balance of debts [1]						
reviewed on individual basis	47,389	97	897	48,383	12,157	60,540
reviewed on group basis	10,184	146,105	18,578	174,867	–	174,867
Of which: By extent of arrears	1,944	146,105	–	148,049	–	148,049
Total debts	**57,573**	**146,202[2]**	**19,475**	**223,250**	**12,157**	**235,407**
Of which:						
Impaired debts under restructuring	391	–	67	458	–	458
Other impaired debts	824	97	21	942	–	942
Total impaired debts	**1,215**	**97**	**88**	**1,400**	**–**	**1,400**
Debts in arrears 90 days or longer	24	1,140	16	1,180	–	1,180
Other problematic debts	604	12	78	694	–	694
Total problematic debts	**1,843**	**1,249**	**182**	**3,274**	**–**	**3,274**
Provision for credit losses with respect to debts [1]						
reviewed on individual basis	1,001	1	37	1,039	2	1,041
reviewed on group basis	174	941	279	1,394	–	1,394
Of which: Provision by extent of arrears[3]	10	941	–	951	–	951
Total provision for credit losses	**1,175**	**942**	**316**	**2,433**	**2**	**2,435**
Of which: With respect to impaired debts	**316**	**1**	**22**	**339**	**–**	**339**

Union Bank data

	December 31, 2020					
	Loans to the public					
	Commercial	Housing	Individual – other	Total	Banks and governments	Total
Recorded debt balance of debts [1]						
reviewed on individual basis	9,089	–	51	9,140	723	9,863
reviewed on group basis	547	10,379	4,642	15,568	–	15,568
Of which: By extent of arrears	7	10,379	–	10,386	–	10,386
Total debts	**9,636**	**[4]10,379**	**4,693**	**24,708**	**723**	**25,431**
Of which:						
Impaired debts under restructuring	123	–	8	131	–	131
Other impaired debts	169	–	–	169	–	169
Total impaired debts	**292**	**–**	**8**	**300**	**–**	**300**
Debts in arrears 90 days or longer	4	36	8	48	–	48
Other problematic debts	101	–	3	104	–	104
Total problematic debts	**397**	**36**	**19**	**452**	**–**	**452**
Estimated credit losses at Union Bank, included in the balance of loans to the public at Union Bank, as presented on the consolidated balance sheet.	152	54	112	318	–	318

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.

(2) Includes general-purpose loans secured by a lien on a residential apartment, amounting to NIS 9,349 million.

(3) Includes balance of provision beyond that required by extent of arrears, calculated on individual basis amounting to NIS 10 million, and calculated on group basis amounting to NIS 732 million. For details see Note 1.F.6.

(4) Includes general-purpose loans secured by a lien on a residential apartment, amounting to NIS 341 million.

Note 13 – Credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

A. Debts[1], loans to the public and balance of provision for credit losses – continued

	December 31, 2019					
	Loans to the public					
	Commercial	Housing	Individual – other	Total	Banks and governments	Total
Recorded debt balance of debts[1]						
reviewed on individual basis	41,317	56	729	42,102	7,916	50,018
reviewed on group basis	8,915	135,520	19,864	164,299	–	164,299
Of which: By extent of arrears	1,638	135,520	–	137,158	–	137,158
Total debts	**50,232**	**[2]135576**	**20,593**	**206,401**	**7,916**	**214,317**
Of which:						
Impaired debts under restructuring	266	–	65	331	–	331
Other impaired debts	866	56	21	943	–	943
Total impaired debts	**1,132**	**56**	**86**	**1,274**	**–**	**1,274**
Debts in arrears 90 days or longer	37	1,476	24	1,537	–	1,537
Other problematic debts	744	–	121	865	–	865
Total problematic debts	**1,913**	**1,532**	**231**	**3,676**	**–**	**3,676**
Provision for credit losses with respec t to debts [1]						
reviewed on individual basis	640	2	31	673	1	674
reviewed on group basis	115	672	233	1,020	–	1,020
Of which: Provision by extent of arrears[3]	6	672	–	678	–	678
Total provision for credit losses	**755**	**674**	**264**	**1,693**	**1**	**1,694**
Of which: With respect to impaired debts	**230**	**2**	**22**	**254**	**–**	**254**

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.

(2) Includes general-purpose loans secured by a lien on a residential apartment, amounting to NIS 7,696 million.

(3) Includes balance of provision beyond that required by extent of arrears, calculated on individual basis amounting to NIS 11 million, and calculated on group basis amounting to NIS 475 million. For details see Note 1.F.6.

Note 13 – Credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Change in balance of provision for credit losses

Including Union Bank

	For the year ended December 31, 2020					
	Provision for credit losses					
	Loans to the public					
	Commercial	Housing	Individual – other	Total	Banks and governments	Total
Balance of provision for credit losses at start of period	865	674	273	1,812	1	1,813
Expenses with respect to credit losses	634	279	136	1,049	1	1,050
Accounting write-offs(1)	(304)	(12)	(153)	(469)	–	(469)
Collection of debts written off for accounting purposes in previous years(1)	119	1	76	196	–	196
Net accounting write-offs	(185)	(11)	(77)	(273)	–	(273)
Acquisition of Union Bank	69	–	8	77	–	77
Balance of provision for credit losses at end of period	**1,383**	**942**	**340**	**2,665**	**2**	**2,667**
Of which: With respect to off balance sheet credit instruments	**208**	**–**	**24**	**232**	**–**	**232**

	For the year ended December 31, 2019					
Balance of provision for credit losses at start of period	766	644	263	1,673	4	1,677
Expenses with respect to credit losses	222	44	101	367	(3)	364
Accounting write-offs(1)	(237)	(15)	(155)	(407)	–	(407)
Collection of debts written off for accounting purposes in previous years(1)	114	1	64	179	–	179
Net accounting write-offs	(123)	(14)	(91)	(228)	–	(228)
Balance of provision for credit losses at end of period	**865**	**674**	**273**	**1,812**	**1**	**1,813**
Of which: With respect to off balance sheet credit instruments	**110**	**–**	**9**	**119**	**–**	**119**

	For the year ended December 31, 2018					
Balance of provision for credit losses at start of period	699	630	245	1,574	1	1,575
Expenses with respect to credit losses	164	36	107	307	3	310
Accounting write-offs(1)	(199)	(24)	(153)	(376)	–	(376)
Collection of debts written off for accounting purposes in previous years(1)	102	2	64	168	–	168
Net accounting write-offs	(97)	(22)	(89)	(208)	–	(208)
Balance of provision for credit losses at end of period	**766**	**644**	**263**	**1,673**	**4**	**1,677**
Of which: With respect to off balance sheet credit instruments	**88**	**–**	**10**	**98**	**–**	**98**

(1) Accounting write-offs presented in the Note primarily consist of write-offs of a technical nature, due to passage of time of clients being in arrears, in conformity with US standards applicable to the Bank in this regard. Thus, for example, the balance of the provision for large impaired debts will typically be written off after two years. Debt measured on a group basis will be written off after 150 days in arrears. This means that the Bank's collection efforts may sometimes take longer when compared to the timing for write-off according to accounting rules. Consequently, relatively high balances of "accounting write-offs" and relatively high balances of "Recovery of debts written off in previous years" are presented.

Note 14 – Loans to Governments
As of December 31,

Reported amounts (NIS in millions)

	2020	2019
Loans to Government of Israel	60	–
Loans to foreign governments	553	656
Total loans to governments	**613**	**656**

Note 15 – Investments in and Details of Investees
As of December 31,

Reported amounts (NIS in millions)

A. Item composition:

	2020	2019
	Associated companies	**Associated companies**
Investment in shares stated on equity basis	(4)	(3)
Subordinated notes and capital notes	35	35
Total investments	**31**	**32**
Of which:		
Losses accrued since acquisition date	(16)	(16)
Post-acquisition items accrued in shareholders' equity:		
Adjustments from translation of financial statements	(1)	(1)

B. Bank's share in net profits of associated companies, net:

	2020	2019	2018
Bank's share in net profits of associated companies(1)(2)	1	–	1

(1) There are no losses or reversal of losses from impairment of investee companies.

(2) The tax effect on earnings of associated companies is less than NIS 1 million.

Note 15 – Investments in and Details of Investees – continued
Reported amounts (NIS in millions)

	Company information	Share in capital conferring rights to profits		Share in voting rights	
		As of December 31,			
		2020	2019	2020	2019
C. Details of principal investees[(2)]:					
1) Subsidiaries					
Union Bank Le-Israel Ltd.[(11)]	The Bank	100%	100%	100%	100%
Bank Yahav for Government Employees Ltd.[(3)]	The Bank	50%	50%	50%	50%
Tefahot Insurance Agency (1989) Ltd.	Insurance agency	100%	100%	100%	100%
Mizrahi International Holding Company Ltd. (B.V. Holland)[(4)]	International holding company	100%	100%	100%	100%
Etgar Investment Portfolio Management Company of the Mizrahi Tefahot Group Ltd.	Portfolio management	100%	100%	100%	100%
Mizrahi Tefahot Issue Company Ltd.	Issuance company	100%	100%	100%	100%
Mizrahi Tefahot Trust Company Ltd.	Trust company	100%	100%	100%	100%
2) Associated companies					
Psagot Jerusalem Ltd. ("Psagot")	Land for construction	[(8)]20%	[(8)]20%	20%	20%
Rosario Capital Ltd. ("Rosario")	Underwriting company	19.99%	19.99%	19.99%	19.99%
Mustang Mezzanine Fund Limited Partnership	Extending credit	20%	20%	–	–
Planus Technology Fund	Extending credit	20%	20%	–	–
3) Main subsidiary of a subsidiary of United Mizrahi Overseas International Holding Ltd. (BV Holland)					
United Mizrahi Bank (Switzerland) Ltd.[(6)]	Commercial bank	100%	100%	100%	100%
4) Main subsidiaries of a subsidiary of Union Bank Le-Israel Ltd.[(14)]					
Union Investments and Development (A.S.I.) Ltd.	Real investments	100%	100%	100%	100%
Union Leasing Ltd.	Leasing	100%	100%	100%	100%
Union Bank Trust Company Ltd.	Trust services	100%	100%	100%	100%
Carmel-Union Mortgages and Investments Ltd.	Bank operating services	100%	100%	100%	100%
Livluv Insurance Agency (1993) Ltd.	Real estate insurance	100%	100%	100%	100%
Union Issuance Ltd.	Issuance of obligatory notes	100%	100%	100%	100%
Igudim Insurance Agency	Insurance agent	100%	100%	100%	100%

	December 31, 2020		
	Cost	Accumulated amortization	Amortized balance
D. Balance of goodwill with respect to investees:[(3)(13)]	140	53	87

(1) Includes capital notes.
(2) The above list does not include wholly owned and controlled subsidiaries constituting property companies that provide services to the Bank, or companies that provide services to the Bank, and whose assets and liabilities and operating results are included in the Bank's financial statements.
(3) Balance of goodwill with respect to acquisition of Bank Yahav is included on the consolidated balance sheet under Intangible Assets and Goodwill.
(4) The Company is incorporated in Holland. regarding a subsidiary of the Company, see section C.3.
(5) Includes loss due to devaluation of the shekel, relative to foreign currency exchange rates, amounting to NIS 4 million (2019 – loss amounting to NIS 19 million).
(6) United Mizrahi Bank (Switzerland) Ltd. is a commercial bank registered in Switzerland. The investment is presented on the Bank's financial statements as an affiliate whose functional currency is identical to the Bank's.
On January 11, 2021 an agreement was signed to sell the subsidiary, United Mizrahi Bank (Switzerland) Limited to the Swiss bank Hyposwiss Private Bank Geneve SA. The sale agreement is contingent, *inter alia*, on approval by the regulatory authority in Switzerland.
(7) Includes loss due to devaluation of the shekel relative to CHF exchange rates, amounting to NIS 4 million (2019 – loss amounting to NIS 7 million).
(8) Share of contribution in case of loss is 27%.
(9) Includes goodwill balance included on the consolidated balance sheet under "Intangible assets and goodwill".
(10) Including adjustments from translation of financial statements and adjustments with respect to presentation of certain securities of investees at fair value and changes to Other Comprehensive Income with respect to employee benefits.
(11) Furthermore, deferred credit balance with respect to acquisition of Union Bank is included on the consolidated balance sheet under "Other Liabilities", amounting to NIS 1.5 billion. For more information about the acquisition of Union Bank, see Note 35.
The Bank also invested NIS 500 million in Union Bank, against share allocation.
(12) Includes attribution of potential tax implications with respect to the investigation by the US Department of Justice.
(13) The goodwill balance includes goodwill with respect to acquisition of Tefahot Mortgage Bank Ltd., whose amortized balance as of December 31, 2020 amounted to NIS 14 million (identical to amortized balance as of December 31, 2019 and as of December 31, 2018), and with respect to acquisition of Adanim Mortgage Bank Ltd., whose amortized balance as of December 31, 2020 amounted to NIS 4 million (identical to amortized balance as of December 31, 2019 and as of December 31, 2018).
(14) The Bank is acting in as much as possible to merge Union Bank subsidiaries with and into Bank subsidiaries.

Investment in shares at equity value[9]		Goodwill balance [3]		Other capital investments		Contribution to net profit (loss) attributable to shareholders of the banking corporation		Dividends recorded		Other items accrued under shareholders equity[10]	
As of December 31,								For the year ended December 31,			
2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
3,051	–	–	–	[11]500	–	19	–	–	–	–	–
934	840	69	69	–	–	92	83	–	(5)	(1)	(15)
1,195	1,127	–	–	–	–	67	83	–	–	–	–
225	228	–	–	–	–	[5](3)	[5](8)	–	–	–	–
28	27	–	–	–	–	–	–	–	–	–	–
60	57	–	–	–	–	3	3	–	–	–	–
84	61	–	–	–	–	23	9	–	–	–	–
											–
(16)	(16)	–	–	[1]35	[1]35	–	–	–	–	–	–
3	2	–	–	–	–	1	–	(1)	–	–	–
8	11	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–	–
133	133	–	–	–	–	–	[7][12](1)	–	–	–	–
266	–	–	–	–	–	11	–	–	–	2	–
801	–	–	–	–	–	7	–	–	–	–	–
68	–	–	–	–	–	1	–	–	–	–	–
105	–	–	–	–	–	1	–	–	–	–	
43	–	–	–	–	–	–	–	–	–	–	–
32	–	–	–	–	–	1	–	–	–	–	–
18	–	–	–	–	–	1	–	–	–	–	–

Note 16 – Buildings and Equipment

Reported amounts (NIS in millions)

	Buildings and land (including installations and leasehold improvements)[1]	Equipment, furniture, and vehicles	Cost of software	Total
A. Composition				
Cost of assets				
Cost of assets as of December 31, 2018	**1,271**	**1,294**	**2,080**	**4,645**
Additions	36	34	230	300
Disposals	(59)	–	–	(59)
Cost of assets as of December 31, 2019	**1,248**	**1,328**	**2,310**	**4,886**
Additions	40	36	221	297
Disposals	(76)	–	–	(76)
Initial consolidation of Union Bank[2]	467	380	519	1,366
Cost of assets as of December 31, 2020	**1,679**	**1,744**	**3,050**	**6,473**
Depreciation and impairment losses				
Accumulated depreciation as of December 31, 2018	**580**	**1,044**	**1,597**	**3,221**
Depreciation	35	36	174	245
Impairment	–	–	–	–
Disposals	(37)	–	–	(37)
Accumulated depreciation as of December 31, 2019	**578**	**1,080**	**1,771**	**3,429**
Depreciation	38	40	198	276
Impairment	–	–	7	7
Disposals	(44)	–	–	(44)
Initial consolidation of Union Bank[2]	232	349	481	1,062
Accumulated depreciation as of December 31, 2020	**804**	**1,469**	**2,457**	**4,730**
Book value[3]:				
As of December 31, 2018	**691**	**250**	**483**	**1,424**
As of December 31, 2019	**670**	**248**	**539**	**1,457**
As of December 31, 2020	**875**	**275**	**593**	**1,743**
Weighted average depreciation rate as of December 31, 2019	4.1%	13.2%	23.4%	
Weighted average depreciation rate as of December 31, 2020	4.0%	13.7%	23.6%	

B. Additional information

Depreciation rates are as follows:

Buildings	4%-2%
Leasehold improvements	7%
Office equipment and furniture	25%-6%
Vehicles	20%-15%
Computers, software usage rights and costs	33%-20%

(1) Installations, rights in leasehold and payments on account of some of the buildings and leasing rights, amounting to NIS 109 million (as of December 31, 2019: NIS 84 million) have yet to be recorded at the Land Registry Office in the name of the Bank or its subsidiaries.

(2) As from September 30, 2020 the Bank consolidates the financial statements of Union Bank. The consolidated statement of profit and loss for 2020 includes the financial results of Union Bank for the fourth quarter only.

(3) Includes amortized capitalized cost of independently developed computer software as of December 31, 2020 amounting to NIS 444 million (December 31, 2019: NIS 401 million; December 31, 2018: NIS 353 million). For more information about policy on software cost capitalization, see Note 1.D.8.

Note 16 – Buildings and Equipment – continued

Reported amounts (NIS in millions)

C. Assets not used by the Group (depreciable balance):

	Consolidated	
	December 31,	
	2020	2019
Not designated for sale	34	8
Includes – leased to others	26	8
Designated for sale(1)	6	–

(1) In addition, assets used by the Group and designated for sale of December 31, 2020 amounted to NIS 2 million (as of December 31, 2019: NIS 23 million).

D. As of December 31, 2020, the Bank Group has an obligation to acquire and refurbish buildings, amounting to NIS 18 million (December 31, 2019 – NIS 17 million).

E. In 2017, the Bank acquired land in order to locate, in as much as possible, the Bank's headquarters units in a single site, in Lod. The acquisition cost amounted to NIS 27 million. For information about this commitment, its effect on the financial statements and capital relief authorized by the Supervisor of Banks with regard to streamlining in the real estate sector, see Note 25.

F. Information with respect to leases

Expenses with respect to leases:

	2020
Expenses with respect to operational leases	118
Total expenses with respect to leases	**118**

Additional information about leases:

	2020
Capital gain from sale and lease-back transactions, net	40
Cash flow with respect to current operations with respect to operational leases	104
Right-to-use assets recognized with respect to new operational leases	24
Weighted average remaining term (in years)	4.2
Weighted average discount rate	1.2

Non-capitalized cash flows and liabilities with respect to operational leases, by term to maturity:

	2020	
	Non-capitalized cash flows	Liability with respect to lease
Up to 1 year	36	36
Over 1 year to 2 years	112	111
Over 2 years to 3 years	93	92
Over 3 years to 4 years	83	80
Over 4 years to 5 years	67	64
Over 5 years	280	248
Total	**671**	**631**

Note 17 – Other Assets

Reported amounts (NIS in millions)

	December 31,		
	2020		2019
	Including Union Bank	Excluding Union Bank	
Deferred taxes receivable, net[(1)]	1,759	1,371	1,175
Excess of advance tax payments over current provisions	278	241	149
Revenues receivable	202	192	127
Issuance expenses for debentures and subordinated notes[(2)]	79	79	89
Right-to-use asset with respect to operational lease[(3)(4)]	630	574	–
Other receivables and debit balances	438	301	281
Total other assets	**3,386**	**2,758**	**1,821**

(1) For further details, see Note 8.
(2) For more information about debentures and subordinated notes see Note 20.
(3) For more information about right-to-use asset with respect to operational lease, see Note 16.
(4) For more information about initial application of generally accepted accounting principles for banks in the USA with regard to leases, see Note 1.E.1.

Note 18 – Deposits from the Public

As of December 31,

Reported amounts (NIS in millions)

A. Deposit types by location and depositor type

	2020		2019
	Including Union Bank	Excluding Union Bank	
In Israel			
On-call			
Non interest-bearing	91,615	74,469	52,930
Interest-bearing	40,893	35,178	28,977
Total on-call	**132,508**	**109,647**	**81,907**
Term deposits	147,105	132,495	125,153
Total deposits in Israel[1]	**279,613**	**242,142**	**207,060**
Outside of Israel			
On-call			
Non interest-bearing	961	961	529
Interest-bearing	3	3	3
Total on-call	**964**	**964**	**532**
Term deposits	3,647	3,647	3,392
Total deposits overseas	**4,611**	**4,611**	**3,924**
Total deposits from the public	**284,224**	**246,753**	**210,984**

(1) Includes:			
Deposits from individuals	**135,165**	**118,436**	**100,915**
Deposits from institutional investors	**47,566**	**45,179**	**45,330**
Deposits from corporations and others	**96,882**	**78,527**	**60,815**

B. Deposits from the public by size

	2020		2019
	Including Union Bank	Excluding Union Bank	
Maximum deposit (NIS in millions)			
Up to 1	94,031	82,646	72,152
Over 1 to 10	73,376	61,980	50,875
Over 10 to 100	41,781	35,223	29,582
Over 100 to 500	35,060	28,342	22,193
Above 500	39,976	38,562	36,182
Total	**284,224**	**246,753**	**210,984**

Note 19 – Deposits from Banks

As of December 31,

Reported amounts (NIS in millions)

	December 31,		
	2020		2019
	Including Union Bank	Excluding Union Bank	
In Israel			
Commercial banks:			
On-call deposits	670	568	324
Term deposits	612	612	296
Acceptances	253	253	84
Central banks:			
Term deposits	2,200	2,200	–
Outside of Israel			
Commercial banks:			
On-call deposits	37	14	9
Term deposits	–	–	1
Acceptances	7	–	–
Total deposits from banks	**3,779**	**3,647**	**714**

Note 20 – Debentures and Subordinated Notes

As of December 31,

Reported amounts (NIS in millions)

	Average maturity in years [1]	Internal rate of return[2]	December 31, 2020 Including Union Bank	December 31, 2020 Excluding Union Bank	December 31, 2019
Debentures and subordinated notes not convertible into shares:					
In Israeli currency – non-linked					
Debentures	2.83	2.27%	6,957	5,981	8,102
Subordinated notes[3]	1.36	3.00%	192	192	192
In Israeli currency – CPI-linked					
Debentures	3.73	0.53%	18,311	16,906	19,000
Subordinated notes[3]	6.70	1.60%	4,823	3,405	3,008
Debentures and subordinated notes convertible into shares:					
In Israeli currency – CPI-linked					
Subordinated notes[3]	3.16	4.71%	3,163	3,163	3,158
Total debentures and subordinated notes	**3.90**	**1.38%**	**33,446**	**29,647**	**33,460**

(1) Average maturity is the average of the repayment periods, weighted by the flows discounted according to the internal rate of return.

(2) Internal rate of return is the interest rate used to discount the projected flow of payments to the carrying value in the financial statements.

(3) Upon liquidation, the subordinated notes issued by the Bank and included under this item are repayable after all other liabilities.

A. On October 30, 2006, the Bank's Board of Directors approved the issuance of Bank subordinated notes (Series A) which will be deemed complex capital instruments ("Upper Tier II capital"), as the term is defined in Proper Business Conduct Directive 311 and in accordance with the approval received from the Supervisor of Banks on November 12, 2006), amounting up to NIS 500 million. The subordinated notes are obligatory notes that, if certain events specified in advance in their terms should occur, will be converted in a forced conversion, according to a formula prescribed in advance, into shares of the Bank. On November 15, 2006, Ma'alot Israel Securities Rating Company Ltd. issued a rating of AA- for the subordinated notes issued. The rating of the subordinated notes in its offering is based on the rating of the Bank's debentures, including subordinated notes, with the changes required by the terms of the subordinated notes.
On September 15, 2009, the Bank and the Trustee for the Bank's subordinated capital notes (Series A) signed an addendum, revising the Deed of Trust dated November 16, 2006, which is effective as of the signing date there of ("the revision"). According to the revision, the capital note section stipulating that interest payment to holders of capital notes would be suspended, inter alia, in case "within a period of six consecutive quarters, the financial statements for the most recent of which was published prior to the date set for payment of such interest, the Bank has not reported a cumulative net profit" (i.e. if the simple summation of quarterly net profit or loss amounts stated on the Bank financial statements, with respect to six consecutive quarters, should be negative).
On January 4, 2017, Maalot announced that the subordinated capital notes, which qualify as Tier II equity in conformity with transitional provisions of Basel III, are rated ilA+.
The balance of subordinated capital notes (Series A) as of December 31, 2020 amounted to NIS 2,043 million, NIS 1,623 million par value, issued for consideration of NIS 1,644 million. These capital notes are listed for trading on the Tel Aviv Stock Exchange and mature on January 2, 2022.

B. Mizrahi Tefahot Issue Company ("the Company"), a company wholly-owned and controlled by the Bank, issued to the public CPI-linked pursuant to prospectus, debentures and subordinated notes with a par value of NIS 19,535 million and non-linked debentures with a par value of NIS 5,873 million, as of December 31, 2020, and deposited the proceeds in the Bank earmarked for its day-to-day activities.
In 2020, the Company issued a new series of debentures (Series 52), linked to the Consumer Price Index, with par value of NIS 413 million, as well as debentures (Series 46) by way of series expansion, linked to the Consumer Price Index, with par value of NIS 1,197 million. Gross proceeds from these two series amounted to NIS 1,703 million. The Company also issued contingent subordinated notes (Contingent Convertibles – CoCo) (Series 53) with loss-absorption provisions through principal write-off (compliant with Basel III provisions and recognized by the supervisor of Banks as Tier II capital), with total par value of NIS 400 million. These capital notes are listed for trading on the Tel Aviv Stock Exchange.

Note 20 – Debentures and Subordinated Notes – continued

C. In December 2015 and in January 2016, the Bank issued contingent subordinated notes (Contingent Convertibles – CoCo) with loss-absorption provisions through principal write-off, amounting to NIS 600 million. These notes qualify for recognition as Tier II equity pursuant to Basel III provisions.

The notes include loss-absorption provisions if the Bank's Tier I capital should drop below 5% or in case of another event leading to non-sustainability of the Bank, in conformity with the Supervisor of Banks' decision. In such case, the notes would be partially or completely written off.
Should the Tier I capital ratio exceed the minimum required ratio, the Bank may announce a write-off of principal, in whole or in part. Rating agency Standard & Poor's Ma'alot rated the contingent subordinated notes ilAA-. In July 2016 and in August 2017, Bank Yahav issued contingent subordinated notes (Contingent Convertibles – CoCo) with loss-absorption provisions through principal write-off, amounting to NIS 218 million and NIS 120 million, respectively. These notes qualify for recognition as Tier II equity pursuant to Basel III provisions.

In August 2018, Bank Yahav issued, by private placement, contingent convertible subordinated notes (CoCo) amounting to NIS 180 million. The subordinated notes stipulate that in case of a dissolution event, the instrument principal would be erased. These notes qualify for recognition as Tier II equity pursuant to Basel III provisions.
In August 2018, Bank Yahav made a full, early redemption, as approved by the Bank of Israel, of CPI-linked notes amounting to NIS 620 million, issued in 2009 and 2010 to Bank Mizrahi-Tefahot.

Note 21 – Other Liabilities

Reported amounts (NIS in millions)

	December 31,		
	2020		2019
	Including Union Bank	**Excluding Union Bank**	
Provision for deferred taxes, net[(1)]	222	113	87
Excess of provision over funding severance pay, retirement and pension[(2)]	1,909	1,300	1,317
Unearned revenues	206	188	260
Deferred credit balance from acquisition of Union Bank[(3)]	1,403	–	–
Accrued expenses	591	437	515
Provision for vacations and long- service bonus	244	167	180
Guarantees payable	116	116	114
Provision for doubtful debts for off-balance sheet items	232	184	119
Payables for credit card operations	5,431	4,842	4,874
Market value of securities sold short	986	600	349
Liabilities with respect to operational leases[(4)(5)]	631	575	–
Other payables and credit balances	1,475	1,434	751
Total other liabilities	**13,446**	**9,956**	**8,566**

(1) For further details, see Note 8.
(2) For more information see Note 22 "Employee rights".
(3) For further details, see Note 35.
(4) For more information about liability with respect to operational leases, see Note 16.
(5) For more information about initial application of generally accepted accounting principles for banks in the USA with regard to leases, see Note 1.E.1 to the financial statements.

Note 22 – Employees' Rights

A. Description of benefits

1. Below is a summary of the terms of office and employment of the Chairman of the Board of Directors, Mr. Moshe Vidman.

   Mr. Moshe Vidman serves as Chairman of the Bank's Board of Directors, in a full-time position equivalent, as from December 1, 2012.

   On February 14, 2017, the General Meeting of Bank shareholders approved, in line with the resolution by the Board of Directors and after approval by the Remuneration Committee, the terms of office and employment of Mr. Vidman as Chairman of the Bank's Board of Directors in line with a new officer remuneration policy, also approved by the General Meeting on said date, which was made to conform to provisions of the Remuneration of Officers in Financial Corporations Act (Special Permission and Non-allowance of Expenses for Tax Purposes with Respect to Excessive Remuneration), 2016 ("the Executive Remuneration Act") and following revisions to Proper Conduct of Banking Business Directive 301A on remuneration ("the new remuneration policy").

   For complete information about terms of office and employment of the Chairman of the Board of Directors, see Appendix B to report dated January 9, 2017 and report dated February 14, 2017.

   The employment term according to the approved employment agreement ("the amended employment agreement") is from December 1, 2016 through December 31, 2017 and will be automatically renewed, every year, for one additional year – all subject to provisions of the amended employment agreement ("the additional employment term").

   Notwithstanding the foregoing, either party may announce discontinuation of employment at any time during the additional employment period, for any reason and with no need to justify their position to the other party, subject to providing six months' advance notice to the other party.

   During the advance notice period, the Chairman of the Board of Directors will be required to fully work as usual, but the Bank may waive such notice period, in whole or in part, and may terminate employment of the Chairman of the Board of Directors; in such case, the Bank will pay to the Chairman of the Board of Directors for the portion of the advance notice period for which the Bank waived the Chairman's work – in an amount equal to the salary for the waived period plus an amount equal to Bank contributions to provident fund, retirement fund, severance pay and study fund as stated above.

   In conformity with the amended employment agreement, the Chairman of the Board of Directors will be entitled to monthly salary of NIS 189,660. This salary is fully linked to changes in the Consumer Price Index. The Bank provides to the Chairman of the Board of Directors a budget equal to 14.83% for contributions towards provident fund, retirement fund and severance pay payable by the Bank (6.5% for provident fund and 8.33% for severance pay). The Chairman of the Board of Directors is also eligible to employer contributions to a study fund at 7.5% of the salary. These amounts are contributed to provident / pension / study funds as selected by the Chairman of the Board of Directors.

   Should the Chairman of the Board of Directors request, from time to time, the Bank would update the Chairman's monthly salary, subject to required adjustments and changes to payment of associated expenses, so that any increase or decrease in the salary would be against concurrent decrease or increase in associated expenses and vice versa, provided that the total cost of employment of the Chairman would remain unchanged, including the tax cost to the Bank, all subject to statutory provisions and subject to the maximum remuneration allowed by the Executive Remuneration Act and the statutory rate of contributions to severance pay and provident funds.

   Upon approval of the terms of office and employment of the Chairman of the Board of Directors by the Remuneration Committee and by the Board of Directors, the total maximum remuneration which the Bank may have paid to the Chairman of the Board of Directors (subject to obtaining statutory approvals), pursuant to Section 2(b) to the Executive Remuneration Act, amounted to NIS 2,746 thousand per annum (for this matter, any remuneration for which expenses are not expected pursuant to GAAP and contribution towards severance pay and provident funds by law would not be taken into account).

   Pursuant to terms of employment and office of the Chairman of the Board of Directors, should the maximum remuneration pursuant to the Executive Remuneration Act, including pursuant to Section 2(b) of the Act, allow this, the Bank would pay the Chairman of the Board of Directors an additional fixed remuneration component equal to up to 2 months' salary (based on the salary for December of that year). With respect to this additional fixed remuneration component, the Bank would make all statutory payments and contributions as well as contribution towards severance pay and provident funds by law.

Note 22 – Employees' Rights – Continued

Since the expense with respect to cost of salary to be incurred by the Bank, directly or indirectly, in the tax year with respect to the Chairman of the Board of Directors would exceed the "Maximum payment", as defined in Section 4 of the Executive Remuneration Act, part of the remuneration payable to the Chairman of the Board of Directors would not be tax deductible for the Bank pursuant to provisions of the aforementioned Section 4.

Upon termination of employment pursuant to the amended employment agreement, the Bank will pay to the Chairman of the Board of Directors an acclimation bonus in exchange for non-competition, equal to three monthly salaries ("Acclimation Bonus for the Chairman of the Board of Directors").

The amended employment agreement clarifies that the Acclimation Bonus payable to the Chairman of the Board of Directors, as noted above, is the only acclimation bonus to which the Chairman of the Board of Directors would be entitled upon termination of the employment term pursuant to the amended employment agreement.

Furthermore, upon termination of employment pursuant to the amended employment agreement, the Bank would pay the Chairman of the Board of Directors the retirement bonus to which the Chairman is eligible pursuant to the Previous Employment Agreement. for the employment term from December 1, 2012 to November 30, 2015, equal to 150% of the Chairman's final salary, according to the Previous Employment Agreement for 2012-2015, multiplied by the number of years in office (three years), in conformity with the Previous Employment Agreement for said period ("Retirement Bonus for the Chairman of the Board of Directors").

Note that the cost of the Retirement Bonus for the Chairman of the Board of Directors and Acclimation Bonus for the Chairman of the Board of Directors, payable to the Chairman of the Board of Directors, as noted above, has been fully provided for on the Bank's financial statements prior to the end of the transition period for the Executive Remuneration Act.

Should the Chairman of the Board of Directors be eligible for severance pay, pursuant to the Severance Pay Law, 1963 ("the Severance Pay Law") and should the amount accrued in the provident fund with respect to Bank contributions towards severance pay (8.33%) and all accrued returns as of the termination date and as reported by the provident fund, be lower than the Severance Pay Amount, as defined in the Severance Pay Law, gross (hereinafter: "statutory severance pay"), then the aforementioned Retirement Bonus for the Chairman of the Board of Directors, in whole or as required, will be on account of the statutory severance pay; should the amount accrued in the provident fund plus the Retirement Bonus for the Chairman of the Board of Directors amount together be lower than the statutory severance pay – then the Bank will make up the difference up to the statutory severance pay.

2. On June 17, 2013, the Bank Board of Directors approved the appointment of Mr. Eldad Fresher as Bank President & CEO, and his term in office was concluded on September 15, 2020 ("the Former Bank President & CEO").

   On December 18, 2019, the General Meeting of Bank shareholders approved, in line with the resolution by the Board of Directors and after approval by the Remuneration Committee, the terms of office and employment of Mr. Fresher as Bank President & CEO, in line with a revised officer remuneration policy, also approved by the General Meeting on said date.

   The Former Bank President & CEO was entitled to monthly salary at NIS 238,000, fully linked to changes in the Consumer Price Index. The Bank provided to the Former Bank President & CEO a budget of 15.83% for contributions to provident, pension and severance pay funds (5% for provident funds and 8.33% for severance pay); the Bank also obtained, on behalf of the Former Bank President & CEO, disability insurance by payment at 2.5% or such rate as to provide to the Former Bank President & CEO a disability pension equal to 75% of their salary, whichever is lower). The Former Bank President & CEO was also eligible to employer contributions to a study fund at 7.5% of the salary. These amounts are contributed to provident / pension / study funds as selected by the Former Bank President & CEO.

   Should the Former Bank President & CEO request, from time to time, the Bank would update the Bank President & CEO's monthly salary, subject to required adjustments and changes to payment of associated expenses, so that any increase or decrease in the salary would be against concurrent decrease or increase in associated expenses and vice versa, provided that the total cost of employment of the Former Bank President & CEO would remain unchanged, including the tax cost to the Bank, all subject to statutory provisions and subject to the maximum remuneration allowed by the Executive Remuneration Act and the statutory rate of contributions to severance pay and provident funds.

Note 22 – Employees' Rights – Continued

Upon approval of the terms of office and employment of the Former Bank President & CEO by the Remuneration Committee and by the Board of Directors, the total maximum remuneration which the Bank may have paid to the Former Bank President & CEO (subject to obtaining statutory approvals), pursuant to Section 2(b) to the Executive Remuneration Act, amounted to NIS 3,456 thousand per annum and severance pay and provident funds by law.

Since the expense with respect to cost of salary incurred by the Bank, directly or indirectly, in the tax year with respect to the Former Bank President & CEO exceeded the "Maximum payment", as defined in Section 4 of the Executive Remuneration Act, part of the remuneration payable to the Former Bank President & CEO was not tax deductible for the Bank pursuant to provisions of the aforementioned Section 4.

Upon termination of employment pursuant to the additional employment agreement, the Bank paid to the Former Bank President & CEO an acclimation bonus in exchange for non-competition, equal to six monthly salaries ("Acclimation Bonus for the Bank President & CEO").

Furthermore, upon termination of employment pursuant to the amended employment agreement, the Bank paid the Former Bank President & CEO a retirement bonus equal to 150% of the last monthly salary of the Former Bank President & CEO prior to end of the transition period pursuant to the Executive Remuneration Act (October 12, 2016) multiplied by the number of years of service with the Bank through the end of the transition period, all subject to provisions of Section 4.9.4 of Addendum B to the immediate report issued by the Bank on May 4, 2014 ("Retirement Bonus to Bank President & CEO").

Note that the cost of the Retirement Bonus for the Former Bank President & CEO and Acclimation Bonus for the Former Bank President & CEO paid to the Former Bank President & CEO, as noted above, has been fully provided for on the Bank's financial statements prior to the end of the transition period for the Executive Remuneration Act. The Retirement Bonus for the Former Bank President & CEO and one half of the Acclimation Bonus for the Former Bank President & CEO were deemed variable retirement remuneration, payable in 4 lots, three of which would be deferred and payable in the three years subsequent to the employment termination date. All provided that the financial statements published soon prior to payment of any such deferred lot would not include deviation in excess of 10% of the minimum ratios for total capital adequacy and Tier I capital adequacy.

On October 15, 2020, the General Meeting of Bank shareholders approved, in line with the resolution by the Board of Directors and after approval by the Remuneration Committee, the terms of office and employment of Mr. Moshe Lari as Bank President & CEO ("the Current Bank President & CEO").

The Current Bank President & CEO is entitled to gross monthly salary of NIS 230,000. This salary is fully linked to changes in the Consumer Price Index ("Salary"). Notwithstanding the foregoing, in case of decrease in the CPI, the Salary would not be reduced accordingly. The Bank provides to the Current Bank President & CEO a budget of 15.83% for Bank contributions towards provident, pension and severance pay funds, to be transferred in whole or in part and as the case may be, to one or more provident funds as selected by the Current Bank President & CEO and in conformity with the cumulative conditions stated in Appendix D to the report convening the General Meeting, dated August 27, 2020.

The Current Bank President & CEO is also eligible to employer contributions to a study fund of the former's choice at 7.5% of the Salary.

Upon approval of the terms of office and employment of the Current Bank President & CEO by the Remuneration Committee and by the Board of Directors, the total maximum remuneration which the Bank may pay to the Current Bank President & CEO (subject to obtaining statutory approvals), pursuant to Section 2(b) of the Remuneration of Officers in Financial Corporations Act (Special Permission and Non-allowance of Expenses for Tax Purposes with Respect to Excessive Remuneration), 2016 (hereinafter: "the Executive Remuneration Act") amounted to NIS 3,456 thousand per annum and severance pay and provident funds by law.

Upon termination of employment, the Bank will pay to the Current Bank President & CEO an acclimation bonus in exchange for non-competition, equal to six monthly salaries (excluding social benefits), as they were immediately prior to their appointment to Current Bank President & CEO. He would also be entitled to social benefits with respect to this amount (to be accrued over the first two years in office as Bank President & CEO) (all these amounts jointly: "Acclimation Bonus for the Current Bank President & CEO").

Note 22 – Employees' Rights – Continued

The Remuneration Committee and the Board of Directors may award to the Current Bank President & CEO an additional acclimation bonus amounting to the difference between the Acclimation Bonus for the Current Bank President & CEO and an amount equal to six salaries, as they may be at that time, plus social benefits with respect there to, all subject to the maximum allowed by the Executive Remuneration Act.

Furthermore, upon termination of employment, the Bank would pay to the Current Bank President & CEO a retirement bonus equal to 150% of their monthly salary for December 2016 multiplied by the number of years of service to the Bank through 2016.

The Remuneration Committee and the Board of Directors may, at their own discretion, award to the Current Bank President & CEO performance-based remuneration – a monetary bonus not to exceed three salaries ("the maximum bonus") or part thereof for part of the bonus year. Notwithstanding the foregoing, should the Remuneration Committee and the Board of Directors resolve that the performance-based bonus awarded for a given year to officers (other than the Current Bank President & CEO or Board members) would also include equity-based remuneration, they may resolve, at their own discretion, that the performance-based remuneration to be awarded to the Bank President & CEO for the bonus year would constitute, in whole or in part, equity-based remuneration. The value of equity-based remuneration to be awarded to the Current Bank President & CEO for that bonus year (if awarded) would not exceed (on aggregate 100% of the maximum bonus.

Eligibility of the Current Bank President & CEO for any performance-based remuneration, should it be awarded, would be contingent on the Bank's total capital adequacy ratio and Tier I capital adequacy ratio, in conformity with the Bank's annual financial statements for the bonus year, would not be lower than the minimum ratios stipulated by Bank of Israel directives.

The variable remuneration to be awarded to the Current Bank President & CEO would be subject to restitution provisions as per Section 6.10 of the Bank's remuneration policy. Such restitution provisions would not apply to half of the acclimation bonus pursuant to terms of employment of the Current Bank President & CEO, prior to being appointed Current Bank President & CEO, which constitutes variable remuneration (due to transitional provisions of the Supervisor of Bank's directive with regard to absence of impact to previously accrued rights).

Either party may announce discontinuation of employment at any time, for any reason and with no need to justify their position to the other party, subject to providing to the other party six months' advance notice.

During the early notification period, the Current Bank President & CEO would be required to work as usual and in full, but the Bank may waive such period, in whole or in part, and may terminate the work of the Current Bank President & CEO. In such case, the Bank will pay to the Current Bank President & CEO for the portion of the notice period in which the Bank waived the Current Bank President & CEO's work – in an amount equal to the salary for the waived period plus an amount equal to Bank contributions to provident fund, retirement fund, severance pay and study fund as stated above.

3. Officer remuneration policy

On December 18, 2019, the General Meeting of Bank shareholders approved, after approval by the Board of Directors and recommendation by the Remuneration Committee, the revised officer remuneration policy at the Bank (hereinafter "revised officer remuneration policy"), effective for three (3) years as from January 1, 2020. The revised remuneration policy incorporates provisions of the Corporate Act, 1999, the Remuneration of Officers in Financial Corporations Act (Special Permission and Non-allowance of Expenses for Tax Purposes with Respect to Excessive Remuneration), 2016 ("the Executive Remuneration Act") and Proper Conduct of Banking Business Directive 301A "Remuneration" with general principles which the Bank's Board of Directors, after recommendations by the Remuneration Committee, saw fit to adopt with regard to officer remuneration at the Bank with due attention, inter alia, to the Bank's strategic plan and to current employment terms of officers at the Bank. On December 24, 2020, the General Meeting of Bank shareholders approved, after approval by the Board of Directors and recommendation by the Remuneration Committee, revision of the revised officer remuneration policy at the Bank with regard to officer liability insurance.

In 2019, the officer remuneration policy in effect was the policy approved, after recommendation from the Remuneration Committee and approval by the Board of Directors, by the General Meeting of shareholders on February 14, 2017, and the remuneration policy for all Bank employees other than officers, approved in March 2017 by the Bank Board of Directors, after approval by the Remuneration Committee.

Note 22 – Employees' Rights – Continued

The revised remuneration policy incorporates provisions of the Corporate Act and the Supervisor of Bank's directives with regard to remuneration. The remuneration of officers, other than Board members, will include two major components: monthly salary (and associated components) and performance-based variable remuneration (based on the Bank's performance targets, on individual performance benchmarks and including discretionary remuneration), to include a monetary bonus and which may include long-term equity-based remuneration not to exceed one half of the performance-based variable remuneration. The remuneration package may also include remuneration related to retirement.

The mid-term remuneration (annual bonus) and the long-term remuneration are designed to align the interests of officers with those of the Bank and to strengthen the link between overall Bank performance and the officer's contribution to achievement of such performance to the officer's remuneration, in line with the Bank's risk profile.

In conformity with the remuneration policy, the maximum variable remuneration shall not exceed 85% of the fixed remuneration, except under special conditions, where the maximum variable remuneration may not exceed 170% of the fixed remuneration. The Bank's Board of Directors also stipulated that the maximum variable remuneration for officers who are gatekeepers would not exceed 55% of fixed remuneration and that such officers would be eligible for an additional fixed component (named "Retention bonus" in the previous policy) equal to two months' salary, which constitutes fixed remuneration pursuant to the remuneration policy.

In conformity with the remuneration policy, the maximum remuneration as defined in the Executive Remuneration Act (i.e. excluding payments for severance pay and provident funds by law) for the Chairman of the Board of Directors and the Bank President & CEO would be less than 35 times the lowest salary of any full-time Bank employee, including contractors. The maximum remuneration of other officers (other than Board members) would be NIS 2.5 million (plus linkage differentials to the Consumer Price Index, as stated in the Executive Remuneration Act).

The policy stipulates that the variable remuneration may be subject to restitution, in whole or in part, under circumstances listed in the remuneration policy.

Information with regard to the revised remuneration policy, its principles and scope (Addendum B) were provided in reports dated November 11, 2019, December 18, 2019, December 22, 2019 and December 24, 2020.

As from January 1, 2017, the notice period to the Bank from the Bank President & CEO and from other officers reporting there to, including the Chief Internal Auditor with regard to termination of their employment with the Bank, would be of 6 months.

4. Senior officers are eligible upon their retirement to an acclimation grant equal up to six months' salary, for which a provision was recorded in the financial statements.

5. Remuneration policy for all Bank employees

   In February 2020, the Board of Directors resolved, after receiving the recommendation from the Remuneration Committee, to approve a revised remuneration policy for all Bank employees, other than officers who are subject to the revised remuneration policy for Bank officers, as noted above (hereinafter: "the revised remuneration policy for all Bank employees").

   The revised remuneration policy for all Bank employees discusses remuneration terms of key employees at the Bank and those of other managers at the Bank and of other Bank employees for 2020-2022. In 2019, the effective remuneration policy for employees other than officers was the one approved in March 2017.

   The terms of office or employment of Bank employees include fixed and variable remuneration, as customary at the Bank, as well as retirement terms and any other benefit, payment or commitment to make a payment, provided with respect to the aforementioned office or employment.

6. On June 22, 2020, the Bank's Board of Directors, after receiving approval by the Remuneration Committee, approved the offering of options to the Bank President & CEO for 2019 and to officers of the Bank (other than the Bank President & CEO and Bank Board members) and to other managers at the Bank and at Bank subsidiaries for 2020, pursuant to Section 15b(1)(a) of the Securities Act, as stated in the employee offering outline dated June 22, 2020. For more information about this allotment, see Note 23.B.3.

Note 22 – Employees' Rights – Continued

7. On September 16, 2009, a special collective bargaining agreement was signed by the Bank and by the Employee Union, whereby the special collective bargaining agreement signed on April 27, 2006 was extended by a further 5 years, from January 1, 2011 through December 31, 2015. This agreement was approved by the Bank Board of Directors on October 19, 2009.

   In late 2015, an economic arbitration process (hereinafter: "arbitration") was launched between the Bank and the Mizrahi Tefahot Employees Union ("the Employee Union"), to discuss the demands made by the Employee Union for 2005-2015.

   On January 28, 2019, an arbitration verdict was issued to the Bank and the Employees' Association, which stipulated that the Bank is to pay a one-time compensation payment, amounting to NIS 94.3 million (cost) to employees who are members of the Employees' Association, who worked for the Bank from January 1, 2005 through December 31, 2015, or during part of this period, and who work for the Bank on the date of issue of this arbitration verdict, as well as to employees who are members of the Employees' Association who worked during said period and retired after June 30, 2013 due to reaching the retirement age. This compensation is payable in two installments: in May 2019 and in April 2020. The arbitration verdict also accepted some of the demands for various benefits, including an increase of contribution to provident funds, to 7% as from January 1, 2019 and to 7.5% as from January 1, 2021.

   The 2018 financial statements included expenses amounting to NIS 94.3 million (NIS 62 million after tax) with respect to the non-recurring compensation. Moreover, the Bank estimates the additional payroll expenses per year, as from 2019, at NIS 15 million (before tax).

8. On December 3, 2017, a collective bargaining agreement was signed with the Employees' Union and on December 11, 2017 this agreement was approved by the qualified organs of the Bank (hereinafter: "the new collective bargaining agreement").

   Below are highlights of the new collective bargaining agreement:

   - The agreement applies to the period 2016-2021.
   - Full and complete labor relations would be maintained throughout the term of the agreement.
   - Bank employees would be engaged and would assist in successful completion of moves to acquire and/or merge another bank, other than the four major banks and including success of the merger with Union Bank LeIsrael Ltd. at no additional cost to the Bank.
   - During this period, fixed pay increases and differential pay increases would be given.
   - The seniority increase to be given to new employees hired by the Bank as from signing the agreement would be lower than the current one.
   - A bonus would be given contingent on Bank performance (return on equity), including a gradual increase based on achievement of the strategic plan targets.
   - Employees employed by the Bank upon signing the agreement would receive a special perseverance and engagement bonus, equal to one half of a 13th monthly salary (based on the value as of the agreement signing date), for each year from 2018 through 2021 in return for their actual work during these years, where the bonus part with regard to 2019 being contingent on overall agreement as to how Union Bank employees would be included in the collective bargaining agreement. The contingent part has been postponed until 2021.
   - The voluntary retirement plan approved by the Bank's Board of Directors on December 27, 2016 would be implemented.
   - Various understandings were reached to allow the Bank additional managerial flexibility with regard to human resources.

9. On December 20, 2018, a collective bargaining agreement was signed with the Managers' Organization for 2018-2022. Below are highlights of the new collective bargaining agreement:

   - This agreement includes a new pay structure, consisting of base pay, additional seniority pay, additional management pay, global overtime and expense reimbursement (per diem, car expenses, education and so forth).
   - The base pay includes all fixed monthly pay components paid prior to the effective start date of this agreement, except for additional seniority pay and additional management pay.
   - The annual additional seniority pay would be at 1% of the base pay.
   - The additional management pay would be determined based on managerial complexity.
   - Overtime will be paid on a global basis.
   - Updated contribution towards expenses for kindergarten, after-school activity and higher education for managers' children.
   - Voluntary retirement program.
   - Monthly pay increase of NIS 2,500 per manager, as from January 1, 2018.
   - Differential pay increase for managers for 2019-2022 (based on return on equity for 2020-2022).
   - Absolutely complete calm labor relations throughout the term of the agreement.

Note 22 – Employees' Rights – Continued

10. Labor and payroll agreements at the Technology Division
    - Employment terms of employees of Mizrahi Tefahot Technology Division Ltd. (hereinafter: "the Technology Division") are arranged in the labor constitution that was signed in 1989 and in a series of agreements signed by the Technology Division Employee Council, the Labor Union and the Technology Division over the years.
    - Employees of the Technology Division have their pay linked to the pay for Bank employees.
    - On February 4, 2020, a special collective bargaining agreement was signed by the Mizrahi-Tefahot Technology Division Ltd., the New General Labor Union and the Division Employee Council of Mizrahi-Tefahot Technology Division Ltd., whereby the parties agreed to apply the managers' agreement signed by the Bank on December 20, 2018 and the arbitration verdict received by the Bank on January 28, 2019, as stipulated by the company's collective bargaining agreements. This resolved all claims made by the Labor Union and by the Division Employee Council of Mizrahi-Tefahot Technology Division Ltd. on these matters. The signed agreement has no material impact on the Bank's financial statements.

11. Some Bank employees who take early retirement, sometimes receive, upon retirement, higher amounts than their entitlement pursuant to the law and to agreements. Sometimes the Bank pays these employees a pension until they reach the full retirement age. According to the Supervisor of Banks' directive, an actuarial reserve with respect to these payments is included on the financial statements.

12. On December 27, 2016, the Bank's Board of Directors approved the streamlining program recommended by Bank management, whereby early retirement would be made possible for 300 employees in 2017-2021, at improved conditions.
    - Note that the retiring employees, who would be allowed to take such early retirement, include Bank employees and 50 employees of a wholly-owned and wholly-controlled subsidiary of the Bank, Mizrahi-Tefahot Technology Division Ltd. The number of retiring employees from each group may change, but the total number will not exceed 300.
    - In conformity with the streamlining plan, the retiring employees would be entitled to an early pension through the official retirement age or to increased severance pay at 150% (in addition to receiving ownership of provident fund accounts in their name), based on the criteria listed in the plan. It is possible that retirement terms and conditions could offer additional, non-material benefits to such employees.
    - The cost of update to the actuarial liability with respect to the streamlining program, recorded on the financial statements as of December 31, 2016, amounted to NIS 286 million; the cost net of tax, amounting to NIS 188 million, was charged in that quarter to equity (under Other Comprehensive Income).

13. A small group of employees who retired in the past is entitled to a fixed monthly pension from the Bank. Employees who retired from the Bank prior to June 30, 1997 are entitled to pension payments from the Bank for certain salary components. Bank retirees are also eligible to receive non-pension benefits. The Bank's liability for these payments is covered by provisions, based on an actuarial calculation.

14. Personal employment contracts have been signed with a group of senior employees, entitling them to a special bonus upon termination, under the circumstances prescribed in the agreements that could, in a few years' time, reach seventeen months' salary for certain employees with high seniority. These employees are entitled upon retirement to moneys and other rights accrued on their behalf in various funds as well as to advance termination notice three to six months in advance. The Bank has no intention to terminate any of these senior Bank employees. The Bank's liability for these payments is covered by provisions, based on an actuarial calculation.

15. Long-service bonuses
    - Bank employees are entitled to special lump-sum bonuses upon attaining thirteen and eighteen years of service. A provision for these liabilities was recorded in the financial statements according to an actuarial calculation based on past experience and the likelihood that the employee will still be employed by the Bank on the vesting date.

16. Reserve with respect to tuition pay
    - Bank employees under the collective bargaining agreement hired by August 16, 2017 are entitled to tuition reimbursement for biblical studies and for higher education, based on reimbursement percentage customary at the Bank. A provision for these liabilities was recorded in the financial statements according to an actuarial calculation based on past experience and the likelihood that the employee is still employed by the Bank.

Note 22 – Employees' Rights – Continued

17. Reserves with respect to long-service bonuses, tuition and voluntary retirement programs were made based on an actuarial calculation, with the discount rate based on the yield of Government debentures in Israel plus the average yield spread for corporate debentures rated AA (international rating scale) or higher upon the report date. For practical reasons, the spread would be determined by the difference between yields to maturity, by terms to maturity, for corporate debentures rated AA or higher in the USA – and yields to maturity, for the same terms to maturity, for US government debentures, all as of the reporting date.

    The calculation takes into account future real increase in pay of between 3.50%-4.50%.

    The provision with respect to voluntary retirement was calculated in conformity with the retirees' eligibility to have their pension linked to the Consumer Price Index.

18. Bank Yahav

    Bank Yahav has a defined benefit plan, funded and unfunded, with respect to all of its employees. The plan provides a defined benefit based on years of service and most recent salary.

    Bank Yahav's obligation to pay severance or retirement pay is primarily covered by current deposits based on the salary for pension purposes to official provident and pension funds in the name of the employees. Bank Yahav customarily makes up the difference, for employees eligible to receive severance pay, between the employee's most recent salary multiplied by their number of years in service and the amount accrued in their name in the aforementioned provident funds. Bank Yahav may not withdraw the funded amounts other than for severance payment.

    To some of its employees, Bank Yahav committed to transfer, upon termination of their employment for any reason, the severance pay component of recognized provident funds (pursuant to Section 14 of the Severance Pay Law). The Bank is not required to supplement the difference for these employees between the employee's most recent salary multiplied by their number of years in service and the amount accrued in their name in the aforementioned provident funds.

    In 2017, the Bank Yahav Board of Directors approved the voluntary retirement program, as recommended by Bank Yahav management.

    Bank Yahav was granted approval for this program by the Supervisor of Banks, as required in the streamlining directive. Pursuant to the program, early retirement of employees would be authorized subject to criteria stated in the program. The costs of actuarial liability with respect to employees amounted to NIS 35 million before tax (NIS 23 million after tax effect).

    On January 17, 2019, Bank Yahav signed a new collective bargaining agreement with employee representation which governs labor and remuneration for 2018-2022.

19. Union Bank

    Retirement program

    On December 31, 2018, the Union Bank Board of Directors resolved to approve a voluntary retirement program for 70 employees, as part of streamlining measures applied by Union Bank (hereinafter: "the Program"), whereby 70 Union Bank employees would retire (there are 5 employees remaining, expected to retire in 2021). The benefits offered, based on employee age and seniority, include early pension payments through the retirement age by law; or increased severance pay, by an average 270%, based on attributes of the retiring employees' demographics. It is possible that retirement terms and conditions could offer additional, non-material benefits.

    On January 17, 2019, the Supervisor of Banks approved relief, whereby Union Bank may account for the impact of Program cost with regard to calculation of capital adequacy over five years.

    Consequently, and in conformity with the Supervisor of Banks' Public Reporting Regulations with regard to employee rights, Union Bank recognized a loss with respect to reduction of defined benefit plans, i.e. when an event significantly reduces the number of future years of service expected for employees in the benefit plan, or eliminates for a significant number of employees the accrual of defined benefits with respect to all or part of their future service, in conformity with Union Bank policy.

    The total cost of the Program, as estimated by Union Bank management, based on actuarial calculations, amounted to NIS 80 million before tax effect. This cost was charged to profit and loss on Union Bank's 2018 financial statements, due to meeting the definition of "plan reduction", in conformity with the Supervisor of Banks' Public Reporting Regulations with regard to employee rights and as stated above. This amount was revised to NIS 71 million in 2019.

Note 22 – Employees' Rights – Continued

Labor dispute at Union Bank

On August 3, 2017, the New General Labor Union gave notice to Union Bank of a labor dispute called with regard to the clerks sector at Union Bank and with regard to the manager and authorized signatory sector at Union Bank, and notice of a general strike called in conformity with the Labor Dispute Resolution Act, 1957, with the effective date listed in said notice being August 20, 2017 and thereafter. As of February 2021, these notices apply to 705 clerks and 225 managers and authorized signatories at Union Bank employed subject to a special collective bargaining agreement. The causes of this dispute, in conformity with notices given by the Labor Union, are avoidance of negotiations to sign a collective bargaining agreement with regard to employees' rights due to anticipated re-organization at Union Bank. Demands by the employee representation to ensure the continued employment and to preserve the rights of employees, as customary in the banking system in case of transfer of ownership of a bank, including their terms of employment and other arrangements. Their pay, employment security and remuneration due to implications of the anticipated move and action lacking good faith in labor relations. Further to this notice, on November 12, 2017 the New General Labor Union gave notice of a labor dispute and strike called at Igud Systems Ltd. (hereinafter: "Igud Systems"). Causes of this dispute include, *inter alia*, avoidance of negotiations to sign a collective bargaining agreement to ensure employees' rights due to anticipated re-organization at Union Bank and demands by the employee representation to ensure the continued employment and to preserve the rights of employees. as customary in the banking system in case of transfer of ownership of a bank. Igud Systems is a wholly-controlled subsidiary of Union Bank engaged in providing IT services to Union Bank and to subsidiaries thereof, with 55 employees for which this dispute is applicable as of February 2021. In recent months, negotiations have been on-going with employee unions of Union Bank, so as to agree on a collective bargaining agreement with regard to employee retirement and hiring of the employees by the Bank.

B. Liability amounts with respect to benefits by type:

	December 31,		
	2020		2019
	NIS in millions		
	Including Union Bank	Excluding Union Bank	
Post-retirement benefits[1]			
Liability amount	236	193	184
Benefits post termination and prior to retirement[2]			
Liability amount	2,134	1,249	1,269
Fair value of plan assets	461	142	136
Excess liability over plan assets	**1,673**	**1,107**	**1,133**
Benefits prior to termination[3]			
Liability amount	173	117	115
Excess liability included under Other Liabilities	**2,082**	**1,417**	**1,432**
Of which: With respect to overseas employee benefits	**3**	**3**	**10**

(1) Holiday gifts and other post-retirement employee benefits

(2) Pension, severance pay and other benefits in defined-benefit plan, including balance of liability with respect to employees who have retired.

(3) Primarily jubilee bonus and tuition for current employees.

Note 22 – Employees' Rights – Continued

C. Defined benefit plans (pension, severance pay and other benefits)[1]

1. Obligations and funding status

1.1. Change in obligations with respect to expected benefit

	December 31, 2020	December 31, 2019
	NIS in millions	
Obligation with respect to expected benefit at start of period	1,453	1,250
Initial consolidation of Union Bank	891	–
Cost of service	70	51
Cost of interest	32	47
Actuarial loss (gain)	28	181
Benefits paid	(104)	(76)
Obligation with respect to expected benefit at end of period	**2,370**	**1,453**
Obligation with respect to cumulative benefit at end of period[2]	**2,104**	**1,319**

(1) Post-employment pre-retirement benefits and post-retirement benefits, including balance of liability with respect to employees who have retired.

(2) Excludes any assumptions with regard to level of future remuneration.

1.2. Change in fair value of plan assets and plan funding status

	December 31, 2020	December 31, 2019
	NIS in millions	
Fair value of plan assets at start of period	136	116
Initial consolidation of Union Bank	329	-
Actual return on plan assets	5	17
Deposits to plan by the Bank	6	6
Benefits paid	(15)	(3)
Fair value of plan assets at end of period	**461**	**136**
Funding status – net asset recognized at end of period	**461**	**136**

1.3. Amounts recognized on the consolidated balance sheet

	December 31, 2020		December 31, 2019
	NIS in millions		
	Including Union Bank	Excluding Union Bank	
Amounts recognized under Other Liabilities	**1,909**	**1,300**	**1,317**

1.4. Amounts recognized under Other Comprehensive Income (Loss), before tax effect

	December 31, 2020		December 31, 2019
	NIS in millions		
	Including Union Bank	Excluding Union Bank	
Net actuarial loss	(584)	(543)	(615)
Net liability with respect to transition	–	–	–
Total – recognized under Other Comprehensive Income	**(584)**	**(543)**	**(615)**

Note 22 – Employee Rights – Continued

C. Defined benefit plans (pension, severance pay and other benefits)(1) – Continued

1.5. Plans for which the obligation with respect to cumulative and expected benefit exceeds plan assets

	December 31,		
	2020		2019
	NIS in millions		
	Including Union Bank	Excluding Union Bank	
Obligation with respect to expected benefit	2,370	1,485	1,453
Obligation with respect to cumulative benefit	2,104	1,242	1,319
Fair value of plan assets	461	142	136

2. Expenses during the reported period

2.1. Net benefit cost components recognized in profit and loss

	For the year ended December 31,		
	2020	2019	2018
	NIS in millions		
Under payroll and associated expenses			
Cost of service	70	51	51
Under other expenses			
Cost of interest	32	47	42
Expected return on plan assets	(6)	(4)	(5)
Deduction of non-allowed amounts:			
Net actuarial loss	47	36	36
Total under other expenses	**73**	**79**	**73**
Total benefit cost, net	**143**	**130**	**124**

2.2. Changes to plan assets and benefit obligation recognized under Other Comprehensive Income (Loss), before tax effect

	For the year ended December 31,		
	2020	2019	2018
	NIS in millions		
Net actuarial loss (gain) for the period	33	188	(85)
Amortization of actuarial loss(2)	(47)	(36)	(36)
Total – recognized under Other Comprehensive Income	**(14)**	**152**	**(121)**
Total benefit cost, net	**143**	**130**	**124**
Total recognized under benefit cost, net for the period and under Other Comprehensive Income	**129**	**282**	**3**

2.3. Estimated amounts included under Cumulative Other Comprehensive Income expected to be deducted from Cumulative Other Comprehensive Income to the Statement of Profit and Loss as expense in 2020, before tax effect

	NIS in millions
Net actuarial loss	54
Total expected to be deducted from Cumulative Other Comprehensive Income	**54**

(1) Post-employment pre-retirement benefits and post-retirement benefits, including balance of liability with respect to employees who have retired.

(2) Actuarial loss due to current changes in discount rates during the reported year would be amortized using the straight line method over the remaining average term of service for employees expected to receive benefits over the plan term or, alternatively, over the average remaining term for receipt of benefits by employees. See also Note 1.F.12 to the financial statements.

Note 22 – Employees' Rights – Continued

3. Assumptions

3.1 Assumptions based on weighted average, used to determine the obligation with respect to benefit and to measure the benefit cost, net

3.1.1. Key assumptions used to determine the obligation with respect to benefit:

	December 31, 2020	December 31, 2019
		In %
Discount rate	0.47	0.57
Discount rate – CPI	1.40	2.00
Departure rate	2.65	2.65
Remuneration increase rate	3.50	3.50

3.1.2. Key assumptions used to measure benefit cost for the period (in %):

	December 31, 2020	December 31, 2019	December 31, 2018
			In %
Discount rate	2.02	4.02	3.25
Expected long-term return on plan assets	4.43	3.52	3.85
Remuneration increase rate	3.50	3.50	2.14

3.2. Effect of change of 1 percentage point on obligation with respect to expected benefit, before tax effect:

	Increase by 1 percentage point		Decrease by 1 percentage point	
	December 31,		December 31,	
	2020	2019	2020	2019
Discount rate	(228)	(141)	287	173
Departure rate	131	157	(129)	(159)
Remuneration increase rate	139	105	(116)	(88)

Note 22 – Employees' Rights – Continued

4. Plan assets

4.1. Fair value composition of plan assets

Asset type		December 31, 2020					2019
		Level 1	Level 2	Level 3	Total	Total excluding Union Bank	
Cash and deposits with banks		15	–	–	15	–	–
Shares		79	2	–	81	54	34
Government assistance to legacy pension funds		–	10	–	10	10	10
Other		9	64	15	88	15	17
Debentures:	Government	46	126	–	172	16	40
	Designated Government	–	9	–	9	9	9
	Corporate	40	46	–	86	38	26
Total		**189**	**257**	**15**	**461**	**142**	**136**

4.2. Fair value of plan assets by asset type and allocation target for 2020 (in %)

Asset type		Allocation target For 2021	Percentage of plan assets As of December 31, 2020	2019
Cash and deposits with banks		3	3	–
Shares		18	18	25
Government assistance to legacy pension funds		2	2	8
Other		19	19	12
Debentures:	Government	37	37	29
	Designated Government	2	2	7
	Corporate	19	19	19
Total		**100**	**100**	**100**

5. cash flows

5.1. Deposits to defined-benefit pension plan

Asset type	Allocation target For 2021(1)	Actual deposits For the year ended December 31, 2020	2019
Deposits	9	7	6

(1) Estimated deposits expected to be paid into defined-benefit pension plans in 2021.

5.2 Cash flows – Benefits which the corporation expects to pay in future:

Year	NIS in millions
2021	159
2022	122
2023	119
2024	113
2025	105
2026-2030	448
2031 and later	1,081
Total	**2,147**

Note 23 – Share-based Payment Transactions

A. Stock option plan for the Former Bank President & CEO

As part of the 2014 option plan and in conformity with its terms and conditions, the Bank alloted to a trustee, on behalf of the Former Bank President & CEO, options in three annual lots as follows: 186,915 options for 2014, 177,720 options for 2015 and 172,503 options for 2016. Each option may be exercised for one Bank ordinary share of NIS 0.1 par value, subject to adjustments for bonus share distribution, rights issuance, share split or reverse-split, dividend distributions etc.

Assuming full exercise of all options, and assuming allotment of the maximum possible number of exercise shares, all options allotted under the stock option plan to the Bank President pursuant to the option plan (based on the report "Equity status and securities registries of the corporation and changes there to", issued by the Bank on April 10, 2014) would be equal to 0.23% of the Bank's issued share capital and voting rights (after allotment of the full number of exercise shares), and assuming full dilution – 0.18% of the Bank's issued share capital and voting rights.

The Former Bank President & CEO's eligibility for options allotted with respect to any bonus year is contingent on the following threshold conditions being fulfilled for the bonus year:

1. Return on equity for the bonus year shall be at least 9%.
2. Overall capital adequacy ratio and core capital adequacy ratio for the Bank, for the bonus year, shall be no less than the minimum ratios specified in Bank of Israel directives.

The Former Bank President's eligibility for options included in any annual lot would be calculated soon after publication of the Bank's financial statements for the bonus year for which the annual lot has been allotted, based on fulfillment of the specified eligibility conditions.

Each of the annual lots for 2014-2016 would vest in three equal parts as from April 1 of 2016-2020.

The exercise price for each option to be allotted to the Former Bank President pursuant to the plan is NIS 46.19(1) plus CPI linkage differentials, from the known CPI upon approval by the Board of Directors to the known CPI upon the exercise date. The exercise price was determined based on the average closing price per Bank ordinary share on the stock exchange over the thirty trading days preceding the date of approval by the Board of Directors. Accordingly, note that on the exercise date, the Former Bank President would not be required to pay the exercise price – which would only serve to determine the monetary benefit amount and the number of exercise shares actually allotted to the Former Bank President & CEO.

For calculation of fair value as of approval of the option award by the General Meeting of Bank shareholders, as noted above, the following terms of the option plan were taken into account as well as annualized standard deviation between 26.7%-32.1%, reflecting the standard deviation for periods of 3.41-7.42 years. Risk-free interest ranges between (0.82%)-0.55% for the various lots.

Based on these assumptions, the average fair value of each option awarded to the Former Bank President pursuant to the option plan, as of the approval date of option award by the General Meeting of Bank shareholders, is as follows: Options included in the first lot – NIS 7.90; options included in the second lot – NIS 8.37; options included in the third lot – NIS 8.67.

Accordingly, the theoretical benefit value of the options in this plan (the fair value), calculated in accordance with accounting standards, amounts to NIS 4.5 million (NIS 5.3 million including Payroll Tax). This value will be recognized over the eligibility period in non-linear fashion.

The options would be allotted under the "wages" track, pursuant to the Section 102 of the Income Tax Ordinance. Therefore, any benefit arising to the Former Bank President & CEO from exercise of these options shall be taxed at the marginal tax rate applicable to the Former Bank President & CEO upon exercise of the options. The Bank would be required to pay the payroll tax with respect to the benefit arising to the Former Bank President & CEO from exercise of the options under the stock option plan. Furthermore, upon payment of the tax with respect to this benefit by the Former Bank President & CEO, the Bank may make a deduction for tax purposes with respect to the aforementioned options based on the effective tax rate applicable upon the exercise date.

As part of the 2019 option plan, the Bank allotted 22,148 options to the Former Bank President & CEO. Each option may be exercised for one Bank ordinary share of NIS 0.1 par value, subject to adjustments for bonus share distribution, rights issuance, share split or reverse-split, dividend distributions etc.

The options allotted with respect to 2019 may be exercised as from July 26, 2022. The exercise price for each option allotted to the Former Bank President pursuant to the plan is NIS 70.88(1) plus CPI linkage differentials, from the known CPI upon approval by the Board of Directors to the known CPI upon the exercise date.

(1) Plus linkage differentials and adjustment.

Note 23 – Share-based Payment Transactions – continued

The exercise price was determined based on the average closing price per Bank ordinary share on the stock exchange over the thirty trading days preceding the date of approval by the Board of Directors. Accordingly, note that on the exercise date, the Former Bank President would not be required to pay the exercise price – which would only serve to determine the monetary benefit amount and the number of exercise shares to be actually allotted to the Former Bank President & CEO.

For calculation of fair value as of approval of the option award by the General Meeting of Bank shareholders, as noted above, the following terms of the option plan were taken into account as well as annualized standard deviation between 22.84%-22.33%, reflecting the standard deviation for periods of 3.59-5.30 years. Risk-free interest ranges between (0.58%)-(0.73%) for the various lots.

Based on these assumptions, the average fair value of each option awarded to the Former Bank President pursuant to the option plan, as of the approval date of option award by the General Meeting of Bank shareholders, is NIS 10.61.

Accordingly, the theoretical benefit value of the options in this plan (the fair value), calculated in accordance with accounting standards, amounts to NIS 235 thousand.

The options were allotted under the "Capital Gain" track, pursuant to the Section 102 of the Income Tax Ordinance. Therefore, any benefit arising to the offerees from exercise of these options will be taxed at the capital gain tax rate applicable to the offerees upon exercise of the options. Therefore, the Bank would not be liable for wages tax with respect to the benefit arising to offerees from exercise of the options pursuant to the option plan. Furthermore, upon payment of tax with respect to this benefit by the offerees, the Bank would not have any tax deductible expense with respect to the aforementioned options.

In 2020, the Former Bank President & CEO exercised 40,558 options from previous plans (in 2019: 198,861 options) at an exercise price of NIS 46.19[(1)] (same in 2019). The average share price upon exercise of options into shares in 2020 was NIS 71.74 (in 2019: NIS 76.05). In conformity with financial results for 2016, in 2017, some 50,827 options with an exercise price of NIS 46.19[(1)] expired.

As of December 31, 2020, the Former Bank President & CEO had 22,148 options (as of December 31, 2019: 40,558 options; as of December 31, 2018: 239,419 options) at an exercise price of NIS 70.88[(1)] (in 2017-2019 the exercise price was NIS 46.19).

B. Stock option plan for employees

1. On June 10, 2014, the General Meeting of Bank shareholders approved, after approval by the Board of Directors and recommendation by the Remuneration Committee, the revised officer remuneration policy at the Bank.

   On June 19, 2014, the Bank's Board of Directors approved, after approval by the Remuneration Committee on June 16, 2014, the offering of options to Bank officers, pursuant to section 15B(1)(a) of the Securities Act. Further, the Bank's Board of Directors approved, after approval by the Remuneration Committee, an option offering to key Bank employees and to other managers of the Bank and its subsidiaries, pursuant to section 15B(1)(a) of the Securities Act, all as delisted a report issued by the Bank on June 19, 2014 (hereinafter: "the outline report").

   As resolved by the Board of Directors on June 19, 2014, the following option plans were approved:

   Option plan A – up to 2,083,197 options A to be awarded to up to eight Bank officers who are not gatekeepers, exercisable for up to 2,083,197 Bank ordinary shares of NIS 0.1 par value each.

   Option plan B – up to 873,066 options B to be awarded to up to five Bank officers who are gatekeepers, exercisable for up to 873,066 Bank ordinary shares of NIS 0.1 par value each.

   Option plan C – up to 2,708,060 options C to be awarded to up to forty-three key Bank employees and up to ten managers at Bank subsidiaries, which have been approved for inclusion in this group, exercisable for up to 2,708,060 Bank ordinary shares of NIS 0.1 par value each.

   Option plan D – up to 1,183,110 options D to be awarded to up to twenty-eight managers employed by the Bank subject to individual employment contracts and up to eight managers at Bank subsidiaries, which have been approved for inclusion in this group, exercisable for up to 1,183,110 Bank ordinary shares of NIS 0.1 par value each.

   Option plan E – up to 5,046,390 options E to be awarded to up to two hundred fifty-three managers employed by the Bank subject to collective bargaining agreements, exercisable for up to 5,046,390 Bank ordinary shares of NIS 0.1 par value each.

(1) Plus linkage differentials and adjustment.

Note 23 – Share-based Payment Transactions – continued

Threshold conditions and eligibility conditions for options

An offeree's eligibility for options pursuant to each of the aforementioned option plans, for any bonus year, is contingent on fulfillment of all of the following threshold conditions in the bonus year:

- Return on equity for the bonus year shall be at least 9%.
- Overall capital adequacy ratio and core capital adequacy ratio for the Bank, for the bonus year, shall be no less than the minimum ratios specified in Bank of Israel directives.

In addition, eligibility conditions for options would be based on the following criteria:

- Options A and options B to be issued to offerees who are officers of the Bank, as noted above, constitute part of these officers' variable remuneration. Officer eligibility to options A or to options B included in any annual lot would be determined based on four criteria which are measurable "company-wide criteria" (hereinafter: "the quantitative benchmarks") and on two qualitative criteria based on supervisor assessment of achievement of individual targets (hereinafter: "the individual targets") of the officer specified in the employee offering outline and on assessment of the officer's performance by the supervisor at the latter's discretion (hereinafter: "supervisor's discretion"). The individual targets and supervisor's discretion, hereinafter: "the qualitative benchmarks").
- The total weight assigned to quantitative benchmarks would be 80% of the annual lot of options A or options B. The total weight assigned to the qualitative benchmarks would be 20%: the weight assigned to the individual target benchmark would be 10% and the weight assigned to the supervisor's discretion benchmark would be 10%.

Eligibility of offerees who are not officers of the Bank to options C and options D, with respect to any bonus year, would be determined based on the quantitative benchmarks and would not be based on any qualitative benchmark. Eligibility of offerees who are not officers of the Bank to options C and options E, with respect to any bonus year, would be determined based on the quantitative benchmarks and on the quality rating assigned to such offerees, as stated in section 2.12.9 of the outline report.

The quantitative benchmarks specified in the option plan are: return on equity, return on Bank shares relative to benchmark, operating efficiency ratio and average ratio of deposits to loans.

The theoretical benefit value of the options in these plans, calculated in accordance with accounting standards, amounts to NIS 96 million (NIS 113 million including Payroll Tax). When spreading the theoretical benefit value in the Bank's accounts, the estimated expected churn rate for plan offerees would be taken into account.

The options would be allotted under the "wages" track, pursuant to the Section 102 of the Income Tax Ordinance. Therefore, any benefit arising to the offerees from exercise of these options shall be taxed at the marginal tax rate applicable to the offerees upon exercise of the options. The Bank would be required to pay the wages tax with respect to the benefit arising to the offerees from exercise of the options under the stock option plan. Furthermore, upon payment of the tax with respect to this benefit by the offerees, the Bank may make deduct the expenses for tax purposes with respect to the aforementioned options based on the effective tax rate applicable upon the exercise date.

All other details of the plans and the outline of offering to employees (including the threshold conditions for eligibility for options, vesting and exercise periods of options and the Board of Directors' authority to reduce the number of options and provisions with regard to reimbursement of the monetary benefit are described in an Immediate Report dated June 19, 2014.

On August 3, 2015, the Bank's Board of Directors, after receiving the recommendation of the Bank Remuneration Committee, resolved to approve the outline of an offering to employees, whereby the Bank would allot 229,990 options to 19 offerees who are managers at the Bank.

The option plan is based on the principles of the stock option plan approved by the Bank in 2014, according to which the Bank allotted options to managers on June 19, 2014. See below.

The options were allotted as follows:

- Up to 11,494 options D to be awarded to up to one Bank officer who is employed by an individual employment contract, exercisable for up to 11,494 Bank ordinary shares of NIS 0.1 par value each. In conformity with Option Plan D dated June 19, 2014.
- Up to 218,496 options E to be awarded to up to eighteen managers employed by the Bank subject to collective bargaining agreements, exercisable for up to 218,496 Bank ordinary shares of NIS 0.1 par value each. In conformity with Option Plan E dated June 19, 2014.

Note 23 – Share-based Payment Transactions – continued

The theoretical benefit value of the options in these plans, calculated in accordance with accounting standards, amounts to NIS 1.6 million (NIS 1.9 million including Wages Tax). When spreading the theoretical benefit value in the Bank's accounts, the estimated expected churn rate for plan offerees would be taken into account.

All other details of the plans and the outline of offering to employees (including the threshold conditions for eligibility for options, vesting and exercise periods of options and the Board of Directors' authority to reduce the number of options and provisions with regard to reimbursement of the monetary benefit are described in an Immediate Report dated August 03, 2015.

Below are the assumptions used in calculating the fair value of a single option, as well as the resulting fair value per single option, for each of the lots awarded on June 19, 2014:

	Lot 1	Lot 2	Lot 3	Total
Option plan A				
Number of options (in thousands)	728	690	665	2,083
Annualized standard deviation	28.99%-20.07%	34.72%-22.00%	25.94%-35.64%	
Exercise price (in NIS)	46.21	46.21	46.21	
Risk-free interest rate	0.08%-(0.45%)	0.64%-(0.87%)	1.08%-(0.70%)	
Term to expiration (in years)	2.75-4.75	3.75-5.75	4.75-6.75	
Fair value per single option	7.70	8.12	8.43	
Total fair value per lot, NIS in thousands	5,605	5,605	5,605	16,815
Option plan B				
Number of options (in thousands)	314	284	275	873
Annualized standard deviation	28.99%-20.07%	34.72%-22.00%	25.94%-35.64%	
Exercise price (in NIS)	46.21	46.21	46.21	
Risk-free interest rate	0.08%-(0.45%)	0.64%-(0.87%)	1.08%-(0.70%)	
Term to expiration (in years)	2.75-4.75	3.75-5.75	4.75-6.75	
Fair value per single option	7.73	8.17	8.43	
Total fair value per lot, NIS in thousands	2,428	2,319	2,319	7,066
Option plan C				
Number of options (in thousands)	917	896	896	
Annualized standard deviation	28.99%-20.07%	34.72%-22.00%	25.94%-35.64%	2,709
Exercise price (in NIS)	46.21	46.21	46.21	
Risk-free interest rate	0.08%-(0.45%)	0.64%-(0.87%)	1.08%-(0.70%)	
Term to expiration (in years)	2.75-4.75	3.75-5.75	4.75-6.75	
Fair value per single option	7.64	8.06	8.35	
Total fair value per lot (NIS in thousands)	7,006	7,222	7,482	21,710
Option plan D				
Number of options (in thousands)	394	394	394	1,182
Annualized standard deviation	27.06%-20.07%	28.31%-22.00%	25.94%-26.81%	
Exercise price (in NIS)	46.21	46.21	46.21	
Risk-free interest rate	(0.12%)-(0.16%)	0.26%-(0.87%)	0.61%-(0.70%)	
Term to expiration (in years)	4.50	4.50	4.50	
Fair value per single option	8.42	8.17	7.64	
Total fair value per lot (NIS in thousands)	3,317	3,219	3,010	9,546
Option plan E				
Number of options (in thousands)	1,682	1,682	1,682	5,046
Annualized standard deviation	27.06%-20.07%	28.31%-22.00%	25.94%-26.81%	
Exercise price (in NIS)	46.21	46.21	46.21	
Risk-free interest rate	(0.12%)-(0.16%)	0.26%-(0.87%)	0.61%-(0.70%)	
Term to expiration (in years)	4.50	4.50	4.50	
Fair value per single option	8.42	8.17	7.64	
Total fair value per lot (NIS in thousands)	14,162	13,742	12,850	40,754

Note 23 – Share-based Payment Transactions – continued

Below are the assumptions used in calculating the fair value of a single option, as well as the resulting fair value per single option, for each of the lots awarded on August 03, 2015:

	Lot 1	Lot 2	Total
Option plan D			
Number of options (in thousands)	6	6	12
Annualized standard deviation	21.01%-17.48%	22.92%-17.48%	
Exercise price (in NIS)	[1]47.76	[1]47.76	
Risk-free interest rate	(0.58%)-(0.86%)	(0.45%)-(0.86%)	
Term to expiration (in years)	3.50	3.50	
Fair value per single option	7.08	6.91	
Total fair value per lot (NIS in thousands)	40	40	80
Option plan E			
Number of options (in thousands)	109	109	218
Annualized standard deviation	21.01%-17.48%	22.92%-17.48%	
Exercise price (in NIS)	47.76	47.76	
Risk-free interest rate	(0.58%)-(0.86%)	(0.45%)-(0.86%)	
Term to expiration (in years)	3.50	3.50	
Fair value per single option	7.08	6.91	
Total fair value per lot (NIS in thousands)	774	755	1,529

(1) Plus linkage differentials and dividend adjustment.

Details of the number of stock options and their exercise price for all plans are as follows:

	2020		2019		2018	
	Number of options	**Weighted average exercise price (in NIS)**	**Number of options**	**Weighted average exercise price (in NIS)**	**Number of options**	**Weighted average exercise price (in NIS)**
Outstanding at year start	440,984	46.21	2,951,940	46.22	4,827,012	46.23
Granted during the year	–	–	–	–	–	–
Forfeited during the year	14,165	46.21	–	–	–	–
Exercised during the year[1]	386,495	46.21	2,510,956	46.23	1,875,072	46.26
Outstanding at year end	40,324	46.21	440,984	46.21	2,951,940	46.22

(1) The weighted average share price upon exercise of options into shares during 2020 was NIS 72.90 (2019 – NIS 71.75).

Below is information about stock options outstanding at year end by exercise price range:

Exercise price range	**December 31, 2020**	**December 31, 2019**	**December 31, 2018**
(in NIS)	**40-50**	**40-50**	**40-50**
Number of stock options	40,324	440,984	2,951,940
Weighted average exercise price (in NIS)	46.21	46.21	46.22
Weighted average remaining contractual term (in years)	0.75	1.68	1.10
Of which vested:			
Number of stock options	40,324	30,822	1,724,155
Weighted average exercise price (in NIS)	46.21	46.21	46.23

Note 23 – Share-based Payment Transactions – continued

2. On February 14, 2017, the General Meeting of Bank shareholders approved, after approval by the Board of Directors and recommendation by the Remuneration Committee, the revised officer remuneration policy at the Bank, effective for three years as from January 1, 2017.

   On August 31, 2017, the Bank's Board of Directors approved, after approval by the Remuneration Committee on June 12, 2017, the offering of options to Bank officers, pursuant to section 15B(1)(a) of the Securities Act. Further, the Bank's Board of Directors approved, after approval by the Remuneration Committee, an option offering to key Bank employees and to other managers of the Bank and its subsidiaries, pursuant to section 15B(1)(a) of the Securities Act, all as delisted a report issued by the Bank on August 31, 2017 (hereinafter: "the outline report"). (In addition, stock option reserves were approved to be issued in two additional annual lots for 2018 and 2019, in addition to those allocated in 2017, which issue would be subject to the required approvals from the Remuneration Committee and the Board of Directors in due course).

   As resolved by the Board of Directors on August 31, 2017, the following option plans were approved:

   - Option plan A – up to 572,985 options A to be awarded to up to seven Bank officers who are not gatekeepers, exercisable for up to 572,985 Bank ordinary shares of NIS 0.1 par value each.
   - Option plan B – up to 254,076 options B to be awarded to up to five Bank officers who are gatekeepers, exercisable for up to 254,076 Bank ordinary shares of NIS 0.1 par value each.
   - Option plan C – up to 180,353 options C to be awarded to up to four key Bank employees and up to three key employees at Bank subsidiaries, which have been approved for inclusion in this group, exercisable for up to 180,353 Bank ordinary shares of NIS 0.1 par value each.
   - Option plan D – up to 978,796 options D to be awarded to up to sixty-nine managers employed by the Bank subject to individual employment contracts and up to thirty-one other managers at the Bank and at Bank subsidiaries, which have been approved for inclusion in this group, exercisable for up to 978,796 Bank ordinary shares of NIS 0.1 par value each.
   - Option plan E – up to 1,365,244 options E to be awarded to up to two hundred sixty-seven managers employed by the Bank subject to collective bargaining agreements, exercisable for up to 1,365,244 Bank ordinary shares of NIS 0.1 par value each.

   The options issued in the name of the Trustee on behalf of each officer, pursuant to option plans A,B or C were in three equal lots, which may be exercised as from April 1, 2019, April 1, 2020 and April 1, 2021 and would expire eighteen months after said date.

   All options issued pursuant to option plans D and E may be exercised in a single lot from the 2nd to the 5th anniversaries of the issue date.

   An offeree's eligibility for options pursuant to each of the aforementioned option plans, for any bonus year, is contingent on fulfillment of all of the following threshold conditions in the bonus year:

   Return on equity for the bonus year shall be at least 9%;

   Overall capital adequacy ratio and core capital adequacy ratio for the Bank, for the bonus year, shall be no less than the minimum ratios specified in Bank of Israel directives. In addition, eligibility conditions for options would be based on the following criteria:

   - Options A and options B issued to offerees who are officers of the Bank, as noted above, constitute part of these officers' variable remuneration. Officer eligibility to options A or to options B included in the annual lot for 2017 would be determined based on four criteria which are measurable "company-wide criteria" (hereinafter: "the quantitative benchmarks") and on two qualitative criteria based on supervisor assessment of achievement of individual targets (hereinafter: "the individual targets") of the officer specified in the employee offering outline and on assessment of the officer's performance by the supervisor at the latter's discretion (hereinafter: "supervisor's discretion"). The individual targets and supervisor's discretion, hereinafter: "the qualitative benchmarks").The total weight of quantitative benchmarks would be forty-two percent of the annual lot of options A and thirty percent of the annual lot of options B. The total weight assigned to the qualitative benchmarks would be fifty-two percent of the annual lot of options: the weight assigned to the individual target benchmark would be thirty-six percent and the weight assigned to the supervisor's discretion benchmark would be twenty-two percent. The total weight of qualitative benchmarks would be fifty-eight percent of the annual lot of options A and forty percent for options B. The total weight assigned to the qualitative benchmarks would be seventy percent of the annual lot of options: the weight assigned to the individual target benchmark would be thirty-six percent and the weight assigned to the supervisor's discretion benchmark for options A would be forty percent for options B.

Note 23 – Share-based Payment Transactions – continued

- Eligibility of offerees who are not officers of the Bank to options C and options D, with respect to any bonus year, would be determined based on the quantitative benchmarks and would not be based on any qualitative benchmark. Eligibility of offerees who are not officers of the Bank to options C and options E, with respect to any bonus year, would be determined based on the quantitative benchmarks and on the quality rating assigned to such offerees, as stated in section 2.12.9 of the outline report.

The quantitative benchmarks specified in the option plan are: return on equity, return on Bank shares relative to banking benchmark, operating efficiency ratio and average ratio of deposits to loans.

The theoretical benefit value of the options in these plans, calculated in accordance with accounting rules of US standards pursuant to ASC718, amounts to NIS 28 million. When spreading the theoretical benefit value in the Bank's accounts, the estimated expected churn rate for plan offerees would be taken into account.
The options were allotted under the "Capital Gain" track, pursuant to the Section 102 of the Income Tax Ordinance. Therefore, any benefit arising to the offerees from exercise of these options will be taxed at the capital gain tax rate applicable to the offerees upon exercise of the options. All other details of the plans and the outline of offering to employees (including the threshold conditions for eligibility for options, vesting and exercise periods of options and the Board of Directors' authority to reduce the number of options and provisions with regard to reimbursement of the monetary benefit are described in an Immediate Report dated August 31, 2017.
In 2018, no options were issued under any of the plans listed in the outline report.
On April 11, 2019, the Bank's Board of Directors, after receiving the recommendation of the Bank Remuneration Committee, resolved to approve allotment of options to other officers and managers of the Bank and its subsidiaries, whereby the Bank would allot 4,363,275 options to 396 offerees. The options were allotted pursuant to the employee offering outline, issued by the Bank on August 31, 2017 ("the 2017 outline").
The options were allotted as follows:
- Up to 357,140 options A to be awarded pursuant to option plan A to up to 7 Bank officers who are not gatekeepers.
- Up to 159,145 options B to be awarded pursuant to option plan B to up to 5 Bank officers who are not gatekeepers.
- Up to 263,975 options C to be awarded pursuant to option plan C to up to 4 key employees of the Bank and 19 key employees of Bank subsidiaries.
- Up to 1,430,360 options D to be awarded pursuant to option plan D to up to 98 managers employed by the Bank subject to individual employment contracts and to other managers at the Bank and at Bank subsidiaries, which have been approved for inclusion in this group for the purpose of the outline.
- Up to 2,152,655 options E to be awarded pursuant to option plan E to up to 267 managers employed by the Bank subject to collective bargaining agreements.

The theoretical benefit value of the options in these plans, calculated in accordance with accounting rules of US standards pursuant to ASC718, amounts to NIS 57 million. When spreading the theoretical benefit value in the Bank's accounts, the estimated expected churn rate for plan offerees would be taken into account.
All other details of the plans and the outline of offering to employees (including the threshold conditions for eligibility for options, vesting and exercise periods of options and the Board of Directors' authority to reduce the number of options and provisions with regard to reimbursement of the monetary benefit are described in an Immediate Report dated April 11, 2019.

Below are the assumptions used in calculating the fair value of a single option, as well as the resulting fair value per single option, for options awarded on August 31, 2017:

Exercise price	NIS 64.65(1)
Risk-free interest rate	(0.44%)–0.39%
Annualized standard deviation	16.54%–19.11%

Option plan					
	A	**B**	**C**	**D**	**E**
Number of options (in thousands)	573	254	180	979	1,365
Term to expiration (in years)	3.09-5.09	3.09-5.09	3.09-5.09	5.09	5.09
Average fair value per single option	(2)7.33	(2)7.36	7.22	8.63	8.63
Total fair value (NIS in thousands)	4,200	1,869	1,300	8,449	11,780

(1) Plus linkage differentials and dividend adjustment.
(2) Fair value with respect to supervisor's discretion and achievement of individual targets components was recalculated as of December 31, 2017.

Note 23 – Share-based Payment Transactions – continued

Below are the assumptions used in calculating the fair value of a single option, as well as the resulting fair value per single option, for options awarded on April 11, 2019:

Exercise price	NIS 72.37[(1)]
Risk-free interest rate	(0.10%)–(0.55%)
Annualized standard deviation	17.74%–18.03%

Option plan	A	B	C	D	E
Number of options (in thousands)	347	156	264	1,430	2,153
Term to expiration (in years)	3.48-5.48	3.48-5.48	3.48-5.48	5.15	5.15
Average fair value per single option	11.76	11.75	11.82	13.42	13.42
Total fair value (NIS in thousands)	4,198	1,868	3,120	19,191	28,893

(1) Plus linkage differentials and dividend adjustment.

Details of the number of stock options and their exercise price for all plans are as follows:

	2020		2019		2018	
	Number of options	**Weighted average exercise price (in NIS)**	**Number of options**	**Weighted average exercise price (in NIS)**	**Number of options**	**Weighted average exercise price (in NIS)**
Outstanding at year start	5,344,353	70.94	2,604,052	64.65	3,350,957	64.65
Granted during the year[(1)]	–	–	4,363,275	72.37	–	–
Forfeited during the year	2,883	64.79	13,456	72.37	746,905	64.65
Exercised during the year[(2)]	333,728	64.65	1,609,518	64.65	–	–
Outstanding at year end	5,007,742	71.36	5,344,353	70.94	2,604,052	64.65

(1) The weighted average fair value of stock options granted in 2019 was NIS 13.13.
(2) The weighted average share price upon exercise of options into shares during 2020 was NIS 92.77 (2019 – NIS 88.66).

Below is information about stock options outstanding at year end by exercise price range:

Exercise price range	**December 31, 2020**	**December 31, 2019**	**December 31, 2018**
(in NIS)	**70-80**	**70-80**	**60-70**
Number of stock options	5,007,742	5,344,353	2,604,052
Weighted average exercise price (in NIS)	71.36	70.94	64.65
Weighted average remaining contractual term (in years)	3.00	3.83	3.50
Of which vested:			
Number of stock options	371,090	420,866	–
Weighted average exercise price (in NIS)	64.65	64.65	–

Note 23 – Share-based Payment Transactions – continued

3. On June 22, 2020, the Bank's Board of Directors, after receiving approval by the Remuneration Committee dated June 8, 2020, approved the offering of options with respect to 2019 to officers of the Bank (other than the Bank President & CEO and Bank Board members) and to other managers at the Bank and at Bank subsidiaries for 2020, pursuant to Section 15b(1)(a) of the Securities Act, as stated in the employee offering outline dated June 22, 2020 (hereinafter: "the Employee Offering Memorandum" or "the Memorandum").

   As resolved by the Board of Directors on June 22, 2020, the following option plans were approved:
   For the Bank's previous President & CEO with respect to 2019:

   - Option plan 1 – 22,148 options 1 exercisable for up to 22,148 Bank ordinary shares of NIS 0.1 par value each.

   For other Bank managers with respect to 2020:

   - Option plan A – up to 343,527 options A to be awarded to up to six Bank officers who are not gatekeepers, exercisable for up to 343,527 Bank ordinary shares of NIS 0.1 par value each. (Includes allotment of 42,627 options A awarded to the Bank President & CEO with respect to the period from January 1, 2020 through September 15, 2020.
   - Option plan B – up to 199,500 options B to be awarded to up to five Bank officers who are gatekeepers, exercisable for up to 199,500 Bank ordinary shares of NIS 0.1 par value each.
   - Option plan C – up to 517,700 options C to be awarded to up to eighteen key Bank employees and up to sixteen key employees at Bank subsidiaries, which have been approved for inclusion in this group, exercisable for up to 517,700 Bank ordinary shares of NIS 0.1 par value each.
   - Option plan D – up to 779,930 options D to be awarded to up to fifty-six managers employed by the Bank subject to individual employment contracts and up to twenty-seven other managers at the Bank and at Bank subsidiaries, which have been approved for inclusion in this group, exercisable for up to 779,930 Bank ordinary shares of NIS 0.1 par value each.
   - Option plan E – up to 1,454,530 options E to be awarded to up to two hundred sixty-eight managers employed by the Bank subject to collective bargaining agreements, exercisable for up to 1,454,530 Bank ordinary shares of NIS 0.1 par value each.

   The number of exercise shares, as stated above, is the maximum number of shares arising from exercise of all options which may be issued pursuant to all plans. However, the number of options which offerees may actually exercise, pursuant to terms of each plan, would be derived from the eligibility terms set for each plan, as follows. Furthermore, allotment of the maximum number of exercise shares is merely theoretical, since in actual fact the Bank would not allot to the offerees the full number of exercise shares arising from the options which the offerees may exercise pursuant to terms of each plan – but only the number of shares reflecting the monetary benefit inherent in those options, based, inter alia, on the closing price cap of NIS 110 plus linkage differentials from the known CPI upon approval by the Board of Directors to the known CPI upon the exercise date.
   Also note that in case of dividend distribution, bonus share distribution, rights issuance, share capital split or reverse split or re-organization of the Bank, adjustments would be made as stated in the Employee Offering Memorandum.
   The options issued in the name of the previous Trustee on behalf of the Bank President & CEO, pursuant to options plan 1, may be exercised as from the second anniversary of the issue date and would expire two years after the vesting date, as defined in the Memorandum.
   The options issued in the name of the Trustee on behalf of each officer, pursuant to option plans A,B and key employees in plan C would be in three equal lots, which may be exercised as from two years after: (1) The issuance date; (2) April 1, 2023; and (3) April 1, 2024, and each lot of options would expire 18 months after each of said dates.
   All options issued pursuant to option plans D and E may be exercised in a single lot from the second anniversary of the issue date and would expire two years after the vesting date, as defined in the Memorandum.
   An offeree's eligibility for options pursuant to option plans A-E above would be contingent on the Bank's total capital adequacy ratio and Tier I capital ratio for the award year, would not be lower than the minimum ratios stipulated by Bank of Israel directives.
   In addition, eligibility conditions for options would be based on the following criteria:

   - Options A and options B issued to offerees who are officers of the Bank, as noted above, constitute part of these officers' variable remuneration. Officer eligibility to options A or to options B would be determined based on four criteria which are measurable "company-wide criteria" (hereinafter: "the quantitative benchmarks") and based on a qualitative criterion based on supervisor assessment of achievement of individual targets of the officer.

Note 23 – Share-based Payment Transactions – continued

- Eligibility of offerees who are not officers of the Bank to options C and options D, with respect to any bonus year, would be determined based on the quantitative benchmarks and would not be based on any qualitative benchmark. Eligibility of offerees who are not officers of the Bank to options C and options E, with respect to any bonus year, would be determined based on the quantitative benchmarks and on the quality rating assigned to such offerees, as stated in section 2.12.10 of the Memorandum.

The quantitative benchmarks specified in the option plan are: return on equity, return on Bank shares relative to benchmark, operating efficiency ratio and average ratio of deposits to loans.
The theoretical benefit value of the options in these approved lots, calculated in accordance with US accounting rules (ASC 718 "Share-based Payment"), amounts to NIS 23 million.
The theoretical lot value was recognized in Bank accounts over the vesting period, i.e. from the second quarter of 2020 through the end of the year.

The options were allotted under the "Capital Gain" track, pursuant to the Section 102 of the Income Tax Ordinance. Therefore, any benefit arising to the offerees from exercise of these options will be taxed at the capital gain tax rate applicable to the offerees upon exercise of the options. All other details of the plans and the outline of offering to employees (including the threshold conditions for eligibility for options, vesting and exercise periods of options and the Board of Directors' authority to reduce the number of options and provisions with regard to reimbursement of the monetary benefit are described in the employee offering outline dated June 22, 2020.

Below are the assumptions used in calculating the fair value of a single option, as well as the resulting fair value per single option, for options awarded on June 22, 2020:

Exercise price	NIS 70.88[(1)]
Risk-free interest rate	(0.58%)–(0.44%)
Annualized standard deviation	24.09%–26.06%

Option plan					
	A	**B**	**C**	**D**	**E**
Number of options (in thousands)	344	199	518	780	1,454
Term to expiration (in years)	3.59-5.30	3.59-5.30	3.59-5.30	4.08	4.08
Average fair value per single option	9.97	10.00	9.89	10.41	10.41
Total fair value (NIS in thousands)	3,430	1,990	5,123	8,120	15,136

(1) Plus linkage differentials and dividend adjustment.

Details of the number of stock options and their exercise price for all plans are as follows:

	2020	
	Number of options	**Weighted average exercise price (in NIS)**
Outstanding at year start	–	–
Granted during the year[(1)]	3,295,187	70.88
Forfeited during the year	1,030,699	70.88
Exercised during the year	–	–
Outstanding at year end	2,264,488	70.88

(1) The weighted average fair value of stock options granted in 2020 was NIS 10.26.

Note 23 – Share-based Payment Transactions – continued

Below is information about stock options outstanding at year end by exercise price range:

Exercise price range	**December 31, 2020**
(in NIS)	**70-80**
Number of stock options	2,264,488
Weighted average exercise price (in NIS)	70.88
Weighted average remaining contractual term (in years)	3.66
Of which vested:	
Number of stock options	–
Weighted average exercise price (in NIS)	–

Note 24 – Share Capital and Shareholders' Equity[1]

A. Details on share capital of the Bank (in NIS):

	Registered		**Issued and paid-in**	
	December 31,		**December 31,**	
	2020	**2019**	**2020**	**2019**
Ordinary shares, NIS 0.1 par value[2]	40,000,000	40,000,000	[3]25,505,652	23,490,740

(1) For allotment of stock options – see Note 23 to the financial statements.
(2) The shares are listed for trading on the Tel Aviv Stock Exchange.
(3) For more information about the acquisition of Union Bank, see Note 35.

B. Policies for distribution of dividends

The Bank's dividends policy as from 2018 is to distribute dividends with respect to quarterly earnings, at up to 40% of net profit attributable to equity holders of the Bank. This policy is subject to the Bank achieving a ratio of Tier I capital to risk components as required by the Supervisor of Banks and maintaining appropriate safety margins.

On March 31, 2020, the Supervisor of Banks issued an interim directive with regard to relief for minimum capital ratios which banks are required to maintain, and with regard to expectation that banks would use the excess capital, due to reduced capital requirements, to support economic activity in the economy, to increase loans and to provide support for households and for the business segment, rather than for other purposes, including dividend distribution or share buy-back.

Further to the foregoing, on April 13, 2020, the Board of Directors resolved that the Bank would avoid any dividend distributions (including buy-back of Bank shares), for as long as this interim directive is in effect; that is due, *inter alia*, to the position of the Supervisor of Banks as noted above and with due attention to the foregoing, including the uncertainty associated with implications of the Corona Virus crisis for the Bank, as stated above.

For more information and for a summary of previous decisions by the Board of Directors with regard to dividends distribution policy, see Note 24 to the 2017 financial statements.

Note 24 – Share Capital and Shareholders' Equity[1] continued

Below are details of dividends distributed by the Bank since 2018 (in reported amounts):

Declaration date	Payment date	Dividends per share	Dividends as percent of profit	Total dividends paid
		(Agorot)		(NIS in millions)
February 26, 2018	March 26, 2018	47.03	0.30	109.5
May 7, 2018	June 5, 2018	58.91	0.40	137.2
Total dividends distributed in 2018[1]				**246.7**
August 12, 2019	August 27, 2019	167.21	[3]0.40	392.0
November 18, 2019	December 3, 2019	71.89	0.40	168.8
Total dividends distributed in 2019[2]				**560.8**
February 24, 2020	March 11, 2020	74.89	0.40	176.0

(1) Total dividends distributed with respect to 2018 earnings – NIS 137.2 million.
(2) Total dividends distributed with respect to 2019 earnings – NIS 560.8 million.
(3) Dividend rate as percentage of net profit in the first half of 2019.

C. Information on n limitations on distribution of dividends is provided below:

- According to the directives of the Supervisor of Banks with respect to a distribution of dividends by banking corporations, a bank may not distribute cash dividends, as long as its non-monetary assets exceed its shareholder equity. As of December 31, 2014, the Bank's reported capital exceeds its non-monetary assets by NIS 7,371 million.
- The permit issued to the purchasers of the controlling interest by the Governor of the Bank of Israel stipulates that dividends will not be distributed out of profits accruing until September 30, 1994, the amount of which (after capitalization to a capital reserve in 1998) is NIS 100 million.

Furthermore, the Bank may not distribute dividends without prior consent of the Supervisor of Banks for such distribution, when:

1. The Bank's retained earnings, net of negative differences included under Other Comprehensive Income, are not positive.
2. One or more of the most recent three years ended in comprehensive loss.
3. Cumulative results for the three quarters ending at the end of the interim period for which the most recent financial statements have been published – show a comprehensive loss.

In a letter from the Supervisor of Banks with regard to the Basel III framework – minimum core capital ratios, banks were required, *inter alia*, to avoid distributions of dividends if it may cause them to fail to achieve the set capital targets. For more information see Note 25.E.

D. On June 2, 2014, the Bank applied to the Supervisor of Banks for approval of a buy-back of 5 million Bank shares.

On July 17, 2014, the Bank submitted the detailed buy-back plan by date, as requested by the Supervisor of Banks.

The buy-back plan which was presented is in five stages, from the fourth quarter of 2015 to the fourth quarter of 2017, with restrictions for each buy-back lot and in total not to exceed 5 million shares. According to the plan, the Bank would sell any surplus shares after the end date for exercising all options under the stock option plan.

On July 27, 2014, the Supervisor of Banks approved the buy-back plan subject to conditions set between the Bank and the Supervisor of Banks.

On August 13, 2014, the Bank's Board of Directors approved the aforementioned share buy-back outline.

On February 1, 2018, the Bank applied to the Supervisor of Banks for approval of a buy-back of 5 million Bank shares. The share purchase is to be conducted against shares allotted or to be alloted pursuant to the stock option plans for 2014-2016 and the stock option plans for 2017-2019. On July 23, 2018, the Supervisor of Banks approved the buy-back plan subject to conditions specified.

Buy-back of Bank shares is tantamount to a distribution of dividends.

To date, the Bank has not bought back any of its shares pursuant to the aforementioned buy-back plans.

For more information about share-based payment transactions, see Note 23 "Share-based Payment Transactions".

Note 25 – Capital Adequacy, liquidity and leverage

Reported amounts (NIS in millions)

A. Capital adequacy

Calculated in accordance with Proper Conduct of Banking Business Directives 201-211 "Measurement and Capital Adequacy"

	As of December 31,	
	2020	**2019**
1. Consolidated data		
A. Capital for purpose of calculating the capital ratio		
Tier I capital(1)	20,137	16,520
Tier I capital(1)	20,137	16,520
Tier II capital	7,176	6,090
Total capital(1)	**27,313**	**22,610**
B. Weighted risk asset balances		
Credit risk	185,392	150,878
Market risks	2,228	1,791
Operational risk	12,864	10,189
Total weighted risk asset balances(2)	**(3)200,484**	**162,858**
	In %	
C. Ratio of capital to risk components		
Ratio of Tier I capital to risk components	10.04	10.14
Ratio of Tier I capital to risk components	10.04	10.14
Ratio of total capital to risk components	13.62	13.88
Minimum Tier I capital ratio required by Supervisor of Banks(4)	8.68	9.83
Total minimum capital ratio required by the Supervisor of Banks(4)	12.18	13.33
2. Significant subsidiaries		
Bank Yahav for Government Employees Ltd. and its subsidiaries		
Ratio of Tier I capital to risk components	9.44	9.51
Ratio of Tier I capital to risk components	9.44	9.51
Ratio of total capital to risk components	12.76	13.22
Minimum Tier I capital ratio required by Supervisor of Banks	8.00	9.00
Total minimum capital ratio required by the Supervisor of Banks	11.50	12.50
Union Bank Le-Israel Ltd. and its subsidiaries		
Ratio of Tier I capital to risk components	12.91	
Ratio of Tier I capital to risk components	12.91	
Ratio of total capital to risk components	16.23	
Minimum Tier I capital ratio required by Supervisor of Banks	8.44	
Total minimum capital ratio required by the Supervisor of Banks	11.94	

(1) These data include adjustments with respect to streamlining programs charged proportionately over 5 years since their start date. For more information, see section 3.A below.

(2) Of the total weighted balance of risk assets, NIS 54 million was deducted due to adjustments with respect to the streamlining plan (December 31, 2019: NIS 139 million).

(3) Weighted risk asset balances as of December 31, 2020 include NIS 23.7 billion with respect to Union Bank. As from September 30, the Bank consolidates the financial statements of Union Bank. For more information about acquisition of Union Bank, see section F. below.

(4) For more information about reduction of minimum capital ratios which banks are required to maintain in the normal course of business, by one percentage point, see section E. below.

An additional capital requirement was added to these ratios at 1% of the housing loan balance as of the report date, excluding residential mortgages extended during the Corona Virus crisis.

Note 25 – Capital adequacy, liquidity and leverage – Continued

Reported amounts (NIS in millions)

A. Capital adequacy – Continued

Calculated in accordance with Proper Conduct of Banking Business Directives 201-211 "Measurement and Capital Adequacy" – continued

	As of December 31,	
	2020	2019
3. Capital components for calculating the capital ratio (on consolidated data)		
A. Tier I shareholders' equity		
Shareholders' equity	19,669	16,805
Differences between shareholders' equity and Tier I capital	(438)	(315)
Total Tier I capital before supervisory adjustments and deductions	**19,231**	**16,490**
Supervisory adjustments and deductions:		
Goodwill and intangible assets	(187)	(87)
Deferred tax assets	(127)	–
Supervisory adjustments and other deductions(1)	1,099	(14)
Total supervisory adjustments and deductions, before adjustments with respect to the streamlining plan – Tier I capital	785	(101)
Total adjustments with respect to the streamlining program(2)	121	131
Total Tier I capital after supervisory adjustments and deductions	**20,137**	**16,520**
B. Tier II capital		
Tier II capital: Instruments, before deductions	4,861	4,544
Tier II capital: Provisions, before deductions	2,315	1,546
Total Tier II capital, before deductions	**7,176**	**6,090**
Deductions:		
Total deductions – Tier II capital	–	–
Total Tier II capital	**7,176**	**6,090**
Total capital	**27,313**	**22,610**

4. Effect of adjustments with respect to streamlining plan on Tier I capital ratio:

	As of December 31,	
	2020	2019
		In %
Ratio of capital to risk components		
Ratio of Tier I capital to risk components, before effect of adjustments with respect to the streamlining plan(2)	9.98	10.05
Effect of adjustments with respect to the streamlining plan	0.06	0.09
Ratio of Tier I capital to risk components after application of transitional provisions	10.04	10.14

(1) Includes deferred credit balance from acquisition of Union Bank. For more information, see section F. below.

(2) Of which, NIS 117 million with respect to streamlining program concerning employees and NIS 3 million with respect to streamlining program concerning real estate. As of December 31, 2019: NIS 102 million with respect to streamlining program concerning employees and NIS 29 million with respect to streamlining program concerning real estate.

Note 25 – Capital adequacy, liquidity and leverage – Continued

Reported amounts (NIS in millions)

B. Liquidity coverage ratio

Calculated in accordance with Proper Conduct of Banking Business Directive 221 "Liquidity coverage ratio"

	As of December 31,	
	2020	2019
		In %
1. Consolidated data		
Liquidity coverage ratio(1)	133	121
Minimum liquidity coverage ratio required by the Supervisor of Banks	100	100
2. Bank data		
Liquidity coverage ratio(1)	129	122
Minimum liquidity coverage ratio required by the Supervisor of Banks	100	100
3. Significant subsidiaries		
Bank Yahav for Government Employees Ltd. and its subsidiaries		
Liquidity coverage ratio(1)	249	208
Minimum liquidity coverage ratio required by the Supervisor of Banks	100	100
Union Bank Le-Israel Ltd. and its subsidiaries		
Liquidity coverage ratio(1)	161	
Minimum liquidity coverage ratio required by the Supervisor of Banks	100	

(1) In terms of simple average of daily observations during the reported quarter.

C. Leverage ratio

Calculated in conformity with Proper Conduct of Banking Business Directive 218 "Leverage ratio"

	As of December 31,	
	2020	2019
1. Consolidated data		
Tier I capital(1)	20,137	16,520
Total exposure	(2)388,370	297,779
		In %
Leverage ratio	5.19	5.55
Minimum leverage ratio required by the Supervisor of Banks(3)	4.50	5.00
2. Significant subsidiaries		
Bank Yahav for Government Employees Ltd. and its subsidiaries		
Leverage ratio	5.07	5.56
Minimum leverage ratio required by the Supervisor of Banks	4.50	4.70
Union Bank Le-Israel Ltd. and its subsidiaries		
Leverage ratio	6.12	
Minimum leverage ratio required by the Supervisor of Banks	4.50	

(1) For effect of adjustments with respect to the streamlining program, see sections A.3, A.4 above.

(2) Total exposure as of December 31, 2020 include NIS 49.8 billion with respect to Union Bank. As from September 30, the Bank consolidates the financial statements of Union Bank. For more information about acquisition of Union Bank, see section F. below.

(3) Banking corporations are required to achieve the minimum leverage ratio required by the Supervisor of Banks as from January 1, 2018. For more information about reduction of minimum leverage ratio which banks are required to maintain in the normal course of business, by one half of a percentage point, see section I. below.

Note 25 – Capital adequacy, liquidity and leverage – Continued

D. Basel III

As from January 1, 2014, the Bank applies Proper Conduct of Banking Business Directives 201-211 with regard to capital measurement and adequacy, as amended to align them with Basel III directives.

The Basel III directives stipulated significant changes to calculation of regulatory capital requirements, including with regard to the following:

- Supervisory capital components
- Deductions from capital and supervisory adjustments
- Treatment of exposures to financial corporations
- Treatment of exposures to credit risk with respect to impaired debt
- Capital allocation with respect to CVA risk

These regulations are applied gradually, in line with transitional provisions specified in Proper Conduct of Banking Business Directive 299 with regard to "Capital measurement and adequacy – Supervisory capital – Transitional provisions", in order to allow for compliance with new supervisory capital requirements in applying Basel III and to specify a transition period pending full application. The transitional provisions refer, *inter alia*, to supervisory adjustments and deductions from capital, and to capital instruments that do not qualify for inclusion in supervisory capital based on the new criteria listed in the Basel directives. In particular, according to the transitional provisions, supervisory adjustments and deductions from capital, as well as non-controlling interest that do not qualify for inclusion in supervisory capital, were gradually deducted from capital at 20% per year, from January 1, 2014 to January 1, 2018. Capital instruments that no longer qualify as supervisory capital were recognized up to 80% on January 1, 2014, and this cap is further reduced by 10% in each subsequent year, until January 1, 2022. As from January 1, 2018, the transitional provisions with regard to supervisory adjustments and deductions from regulatory capital expired and are at 100%. Furthermore, the cap for instruments qualifying as supervisory capital is at 20%. As from January 1, 2021, the cap would be at 10%.

E. Minimum capital ratio requirement

As per instructions of the Supervisor of Banks, the Bank is required to maintain a minimum Tier I equity ratio of no less than 9% and a minimum total equity ratio of no less than 12.5% of weighted total of risk components of its balance sheet assets and off-balance-sheet items. The directives specify the manner of calculation of total capital and total risk components

An additional capital requirement was added to these ratios at 1% of the housing loan balance as of the report date.

On March 31, 2020, Proper Conduct of Banking Business Directive 250 "Adjustments to Proper Conduct of Banking Business Directives for addressing the Corona Virus (Interim Directive)" was issued, whereby the Supervisor of Banks reduced the minimum capital ratios to be maintained by banks in the normal course of business, by one percentage point, for as long as this interim directive is in effect. This was based on the expectation that banks would use their excess capital, due to the reduced capital requirements, to support economic activity in the market, to increase loans and to provide support for households and for the business segment, rather than for other purposes, such as dividend distribution or share buy-back, for as long as this interim directive is in effect. On April 27, 2020, a further update to Directive 250 was issued, whereby the additional capital requirement of 1% of the outstanding balance of residential mortgages would not apply to residential mortgages to be provided during this crisis period.

On September 16, 2020, a further update to the directive was issued, whereby validity of relief provided for in the Interim Directive was extended for a further 6 months, through March 31, 2021, and in order to allow the Bank to return to the minimum capital ratios upon expiration of the Interim Directive, this relief would continue to apply for a further 24 months, provided that capital ratios would be no lower than the capital ratios upon expiration of the Interim Directive, or the minimum capital ratios applicable to the banking corporation prior to the Interim Directive, whichever is lower.

Consequently, the Bank's minimum ratio of Tier I capital to risk assets, including the additional capital requirement of 1% of the balance of residential mortgages, as of December 31, 2020, would be at least 8.68%, and the total capital ratio would be at least 12.18% (with additional safety margins as appropriate).

Note 25 – Capital adequacy, liquidity and leverage – Continued

F. Acquisition of Union Bank

On September 30, 2020, the transaction between the controlling shareholders of Union Bank Le-Israel Ltd. (hereinafter: "Union Bank") and Bank Mizrahi-Tefahot closed, whereby shares of Union Bank held by the controlling shareholders were acquired in exchange for issue of Bank Mizrahi-Tefahot shares. As from this date, the Bank holds all of the share capital of Union Bank and therefore the Bank has control over Union Bank.

The number of shares issued in consideration, according to the agreement, is 19,865,165 and their value as of the transaction date amounted to NIS 1,207 million. Accordingly, the Bank's shareholder equity as of September 30, 2020 increased by this amount.

As from September 30, the Bank's consolidated balance sheet includes all assets and liabilities of Union Bank, as well as a credit balance of NIS 1.5 billion with respect to deferred credit balance from acquisition of Union Bank, to be recognized on the consolidated statement of profit and loss over 5 years from the acquisition date.

In conformity with guidance from the Supervisor of Banks, the deferred credit balance of NIS 1.5 billion, net of estimated cost of the planned retirement program at Union Bank (NIS 0.3 million) was immediately recognized in Tier I capital and in total capital of the Bank on September 30, 2020.

See Note 35 to the financial statements for additional information.

G. Issue of subordinated notes with loss-absorption provisions

Since 2015, the Bank has been issuing contingent convertible (CoCo) subordinated notes with loss-absorption provisions by principal write-off (compliant with Basel III qualification provisions and recognized by the supervisor of Banks as Tier II capital of the Bank).

As of December 31, 2020, the balance of contingent convertible (CoCo) subordinated notes in the Bank's Tier II capital amounted to NIS 4 billion, of which NIS 0.5 billion of contingent convertible (CoCo) subordinated notes at Union Bank.

In December 2020, Tefahot Issuance issued by public offering contingent convertible (CoCo) subordinated notes with par value of NIS 400 million, for consideration amounting to NIS 400 million, with loss-absorption provisions by principal write-off, which are part of the Bank's Tier II capital.

H. Streamlining plan

On December 27, 2016, the Bank's Board of Directors approved the streamlining program recommended by Bank management, whereby early retirement would be made possible for 300 employees in 2017-2021, at improved conditions.

The cost of update to the actuarial liability with respect to the streamlining program, recorded in the financial statements as of December 31, 2016, amounted to NIS 286 million; the cost net of tax, amounting to NIS 188 million, was charged to equity (under Other Comprehensive Income).

In conformity with the Supervisor of Banks' letter dated January 12, 2016, with regard to operating streamlining of the Israeli banking system, the Supervisor of Banks allowed capital relief with respect to this plan. The Bank applies this capital relief so that supervisory capital used to calculate capital adequacy would be adjusted (increased) and the capital effect of the streamlining would be applied on a straight line basis as from 2017, over a five-year period.

On June 13, 2017, the Board of Directors of Bank Yahav approved streamlining measures, including a voluntary retirement program and reduction of real estate areas. Bank Yahav was granted approval for this program by the Supervisor of Banks, as required in the streamlining directive. Pursuant to the retirement program, early retirement of Bank Yahav employees would be authorized subject to criteria stated in the program. The costs of actuarial liability with respect to the retirement program at Bank Yahav amounted to NIS 36 million before tax (NIS 23 million after tax). As directed by the Bank of Israel, supervisory capital used to calculate capital adequacy would be adjusted (increased) and the capital effect of the streamlining would be applied on a straight line basis over a five-year period.

On December 31, 2018, the Union Bank Board of Directors approved a streamlining program (hereinafter: "additional streamlining program"), and after receiving approval from the Supervisor of Banks, in conformity with the aforementioned letter from the Supervisor of Banks, this effect would be recognized in equal parts over 5 years, as from 2019, in supervisory capital. The total cost of the program amounted to NIS 80 million before tax effect. This amount was revised to NIS 71 million in 2019.

Note 25 – Capital adequacy, liquidity and leverage – Continued

The aforementioned voluntary retirement program is an additional one to the voluntary retirement program approved by the Union Bank Board of Directors on November 30, 2016, and nearly fully implemented in 2017-2018. In conformity with the aforementioned letter from the Supervisor of Banks, the effect of this program would be recognized in equal parts over 5 years in supervisory capital.

On June 13, 2017, the Supervisor of Banks issued another letter, encouraging banking institutions to review, in addition to streamlining of payroll expenses, the optional reduction of the cost of real estate and maintenance of headquarters units and management, including through re-evaluation of their geographic location.

On June 19, 2017, the Bank's Board of Directors approved a plan to relocate operations of Bank headquarters units to one central site in Lod and directed Bank management to take the required actions to this end. This is further to contracting the purchase of land in Lod Industrial Zone, adjacent to the existing building in Lod.

The plan, including planning, construction and relocation, should take several years.

On June 28, 2017, the Bank closed (through its subsidiary Netzivim Assets and Equipment Ltd.) the sale of its interest in the headquarters building in Ramat Gan and concurrently leased back the building for a period of 8 years (hereinafter: "the streamlining period"). The Bank may extend the lease for additional terms, so that the total lease term would not exceed 24 years.

As directed by the Supervisor of Banks, the capital gain would be recognized over the lease term, in conformity with existing US standards for sale and lease-back transactions (section 840-40-25-2 of topic 840-40 of the codification concerning "Sale and lease-back transactions"). On July 20, 2017, the Supervisor of Banks allowed the Bank to recognize the capital gain (of NIS 83 million) generated by sale of the headquarters building in Ramat Gan as regulatory capital. The capital relief is to be amortized over the term of the streamlining program.

The effect of relief with respect to the streamlining program on the Tier I capital ratio as of December 31, 2020 was 0.06%.

I. Leverage ratio

On April 28, 2015, the Supervisor of Banks issued a new Proper Conduct of Banking Business Directive 218 concerning "Leverage ratio". This directive adopts the Basel Committee recommendations with regard to leverage ratio, stipulated in January 2014.

The leverage ratio is reflected in percent, defined as the ratio of Tier I capital according to Basel rules to total exposure. Total exposure for the Bank is the sum of balance sheet exposures, exposures to derivatives, to financing transactions for securities and off-balance sheet items.

According to the directive, banking corporations must maintain a leverage ratio of 5% or higher on a consolidated basis.

On November 15, 2020, the Supervisor of Banks issued a circular regarding "Adjustments to Proper Conduct of Banking Business Directives for addressing the Corona Virus (Interim Directive)", updating Proper Conduct of Banking Business Directive 250, whereby the leverage ratio shall be at least 4.5% on consolidated basis, compared to 5% prior to this change. The Directive is effective from the issue date thereof through March 31, 2021. After expiration of the Directive, the relief shall remain in effect for a further 24 months, provided that the leverage ratio would be no less than the leverage ratio upon expiration of the Directive, or the minimum leverage ratio applicable to the banking corporation prior to the Interim Directive, whichever is lower.

J. For more information about the Bank's policy on distribution of dividends, see Note 24.B. –share capital and equity.

Note 26 – Contingent Liabilities and Special Commitments

Reported amounts (NIS in millions)

A. Off-balance sheet liability for activities based on extent of collection at year end[1]

1. Balance of loans from deposits based on extent of collection[2]

	As of December 31,	
	2020	**2019**
Israeli currency – linked to the CPI	3,306	3,335
Israeli currency – non-linked[5]	3,531	3,524
Foreign currency	62	67
Total	**6,899**	**6,926**

2. Cash flows with respect to collection commissions on activities based on extent of collection[2]

	As of December 31,							
							2020	2019
	Up to 1 year	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years to 10 years	Over 10 years to 20 years	Over 20 years	Total	Total
In the CPI-linked sector[3]								
Cash flows of futures contracts	20	30	21	28	12	3	114	138
Expected future cash flows net of management's estimate of early repayments	20	30	21	25	10	1	107	130
Discounted expected future flows net of management's estimate of early repayments[4]	20	29	20	23	9	1	102	123
In the non-linked NIS-denominated sector								
Cash flows of futures contracts	–	–	–	–	–	–	–	–
Expected future cash flows net of management's estimate of early repayments	–	–	–	–	–	–	–	–
Discounted expected future flows net of management's estimate of early repayments[4]	–	–	–	–	–	–	–	–

3. Information on loans extended by mortgage banks during the year

	2020	2019
Loans out of deposits according to extent of collection	339	357
Standing loans and grants	125	90

(1) Loans and deposits from deposits the repayment of which to the depositor is contingent upon collection of the loans (or deposits), with margin or with collection commission (instead of margin).

(2) Standing loans and Government deposits given with respect to them totaling NIS 1,054 million (2019 – NIS 1,149 million) are not included in this table. With respect to Union Bank – NIS 8 million for 2020.

(3) Includes foreign currency sector.

(4) In the CPI- and foreign currency-linked segments, capitalized at a rate of 1.16%; in the non-linked segment, capitalized at a rate of 2.56% (2019: at 1.12% and 2.50%, respectively).

(5) Includes credit balance from deposits by extent of collection at Union Bank, amounting to NIS 91 million as of December 31, 2020.

Note 26 – Contingent Liabilities and Special Commitments – continued

Reported amounts (NIS in millions)

B. Other liabilities and special commitments

		2020	2019
1.	Computerization and software service contracts	243	366
2.	Acquisition and renovation of buildings	18	17

4. Credit sales operations

	2020		2019	2018
	Including Union Bank	**Excluding Union Bank**		
Carrying amount of credit sold	233	40	571	2,326
Consideration received in cash	116	40	577	2,350
Total consideration	116	40	577	2,350
Total net gain (loss) with respect to credit sold	[(1)] -	–	–	–

(1) For more information about sale of Union Bank's diamond operations, see Note 35 to the financial statements.

Note 26 – Contingent Liabilities and Special Commitments – continued

C. Contingent liabilities and other commitments

1) In accordance with a resolution of the Board of Directors of the Tel Aviv Stock Exchange ("TASE"), a risk fund was established, which totaled NIS 1,615 million as of December 31, 2020. The share of Bank and subsidiaries in the fund as of December 31, 2020 is estimated at NIS 136 million (as of December 31, 2019 – NIS 77 million). The size of the risk fund is updated semi-annually based on the average daily total clearing volume – but no less than NIS 150 million. Each member's share in the risk fund will be determined by a ratio between the member's clearing volume and the total clearing volume of all members (except for the Bank of Israel) during that period, but no less than NIS 500 thousand.

   In accordance with a decision by the stock exchange clearinghouse Board of Directors, starting on December 15, 2008 each member of the clearing house deposits in cash at least 25% of their share in the risk fund.

   On October 31, 2016, the Board of Directors of the Stock Exchange resolved to approve opening of an account with the Bank of Israel, actually opened on June 19, 2017, for deposit of collateral provided by members of the stock exchange clearing house (as stated above), which have been deposited with other commercial banks through the account opening date.

   See Note 27.A regarding liens that the Bank has undertaken to furnish for this liability. to the financial statements.

2) The Bank has undertaken toward the MAOF Clearinghouse Ltd., a subsidiary of the TASE (hereinafter: "MAOF Clearinghouse"), to pay any monetary charge deriving from transactions in derivatives traded on the TASE, executed through it by its customers, and from such transactions executed by several members of the TASE that are not members of the MAOF Clearinghouse, for their customers.

   The amount of the liability for these customers, as of the balance sheet date, amounts to NIS 415 million (as of December 31, 2019 – NIS 274 million).

   Likewise, the Bank has undertaken to refund its share in the risk fund of the MAOF Clearinghouse, which totaled NIS 629 million as of December 31, 2020. The share of the Bank and subsidiaries in the fund as of December 31, 2020 is estimated at NIS 102 million (as of December 31, 2019: NIS 58 million).

   In accordance with a decision by the MAOF clearinghouse Board of Directors, starting on December 15, 2008 each member of the clearing house deposits in cash at least 25% of their share in the risk fund.

   On October 30, 2016, the Board of Directors of the MAOF clearing house resolved to approve opening of an account with the Bank of Israel, actually opened on June 19, 2017, for deposit of collateral provided by members of the MAOF clearing house (as stated above), which have been deposited with other commercial banks through the account opening date. See Note 27.A to the financial statements with regard to liens that the Bank has undertaken to furnish for this liability.

3) Union Bank has a material long-standing contract with Bank Leumi LeIsrael Ltd. (hereinafter: "Leumi") pursuant to an agreement signed on September 2, 2001 and extended from time to time, with regard to provision of IT and operating services for a large part of the core banking systems by outsourcing, which expired on December 31, 2016. As from said date, a three-year period started, classified as "contract termination period", which was extended on March 29, 2018 as suggested by Leumi, through June 30, 2021. Further to approval by the Union Bank Board of Directors dated May 12, 2020, Union Bank and Leumi signed an addendum to the agreement whereby, after fulfillment of suspensive conditions, the agreement term was extended through December 31, 2022. Union Bank may not terminate the contract prior to the expiration date stipulated in the addendum. The consideration paid by Union Bank for services rendered amounted to NIS 125 million for 2020 and NIS 135 million for 2021-2022.

4) The Bank has made undertakings to the Tel Aviv Stock Exchange (hereinafter: "TASE") for operations of a company which is a member of the stock exchange but not a member of the clearinghouse. The undertaking is to honor any monetary charge arising from transactions executed by that company.

5) In 1992, a General Meeting of the Bank's shareholders ratified a resolution to indemnify officers of the Bank with the following wording:
   - The Bank will indemnify in full each of the officers for financial liabilities and legal expenses incurred for actions, acts, and omissions performed within the framework stipulated in the Companies Ordinance and the Bank's by-laws, and subject to the above provisions.
   - These officers will be indemnified whether the claim is brought against them during their employment at the Bank, or whether subsequently and refers to an act performed in their capacity as officers.

Note 26 – Contingent Liabilities and Special Commitments – continued

There are differing legal opinions regarding a company's authority to approve such broad indemnification, and whether invoking it in a specific case requires additional approval, in a manner stipulated by law. Should the Bank be required to pay any amounts on the basis of the above decision, it will seek advice from its legal counsel regarding its obligation, taking into consideration the specific and special circumstances of each incident, if applicable.

In December 2001, a General Meeting of the Bank's shareholders ratified the granting an advance exemption from liability (as described below) as well as advance commitment by the Bank to indemnify Board members and other officers (hereinafter jointly: "the officers"). Pursuant to the resolution by the General Meeting of shareholders, the Bank exempts in advance any liability by officers of the Bank towards the Bank with respect to any damage incurred by the Bank due to breach of the officer's duty of care towards the Bank in the officer's conduct, arising from his position as officer of the Bank. Committed to indemnify officers of the Bank for any liability or expense incurred by the officer in conjunction with his action in the course of their office with the Bank all as stated in the letter of commitment to indemnify, including with regard to actions by officers who are not directors in conjunction with their action as directors on behalf of the Bank, or at the Bank's request, of another company whose shares are owned by the Bank (hereinafter: "the original letter of indemnification").

According to the original letter of indemnification, the amount if indemnification paid by the Bank to all officers on aggregate shall not exceed 25% of the Bank's shareholder equity on the Bank's 2000 financial statements, adjusted for the CPI as from December 2000 (hereinafter: ("total indemnification amount). This indemnification applies to action related, directly or indirectly, to one or more of the event types listed in the Addendum to the letter of commitment to indemnify.

On October 28, 2004, the General Meeting of the Bank resolved to add to the list of events for which the Bank granted a commitment to indemnify to its officers, pursuant to the original letter of indemnification, a merger event, as defined in the Companies Law, including any decision, action, agreement or reporting with regard to a merger. It was resolved that in all that relates to indemnification resulting from a merger event, the maximum amount of the indemnification will be the lesser of: 25% of the Bank's shareholders' equity according to its financial statements as of December 31, 2000, plus linkage differentials beginning from the CPI for December 2000, or 25% of the Bank's shareholders' equity according to the last financial statements published in proximity to the actual payment date with respect to the indemnification.

On May 14, 2006, the General Meeting of the Bank resolved to adapt the wording of the letter of indemnification to the provisions of the Companies Law (Amendment 3), 2005 and resolved to grant advance commitment to indemnify, of identical wording, to Bank employees serving as a director in a company in which the Bank owns any shares, and to those serving, from time to time at the Bank's request, as a director in a company controlled by the Bank.

On November 9, 2011, the General Assembly of the Bank resolved to add a commitment by the Bank to indemnify Bank employees who are not officers of the Bank, who serve from time to time, upon request by the Bank, as officers of companies controlled by the Bank (such a resolution was also passed by the Bank's Board of Directors on February 16, 2009 – resolving to provide a letter of indemnification identical to the one granted to Bank officers), and to those who are not employees or officers of the Bank, who serve from time to time as officers of a company, other than a banking corporation, wholly-owned by the Bank (jointly: "the parties eligible for indemnification").

The General Assembly of the Bank further decided to add a commitment by the Bank to indemnify the parties eligible for indemnification for any monetary liability arising from payment to any party injured by the breach and with respect to expenses related to any administrative proceeding, including reasonable litigation expenses – all as specified in the ISA Enforcement Proceeding Streamlining Act (Legislative Amendments), 2011.

The General Assembly also resolved that the maximum indemnification amount payable by the Bank, on aggregate to all those eligible for indemnification pursuant to the letter of commitment to indemnify, shall not exceed 25% of the Bank's shareholder equity, based on its most recent financial statements published soon prior to the actual payment date of the indemnification amount ("maximum indemnification amount"). Should the total indemnification amount exceed the maximum indemnification amount specified above, the maximum amount payable by the Bank on aggregate to all those eligible for indemnification shall not exceed the total indemnification amount, but the differences between these two amounts would only be used for indemnification with respect to action taken before November 9, 2011.

Note 26 – Contingent Liabilities and Special Commitments – continued

On September 20, 2012, the General Assembly of the Bank further decided to add a commitment by the Bank to indemnify the parties eligible for indemnification for any monetary liability arising from payment to any party injured by the breach and with respect to expenses related to any administrative proceeding, including reasonable litigation expenses, including attorneys fees – all as specified in the in the Financial Services Supervision Act (Insurance), 1981 and in the Financial Services Supervision Act (Provident Funds), 2005 and with respect to expenses related to any administrative proceeding, including reasonable litigation expenses – all as specified in the Restrictive Trade Practices Act, 1988.

The General Assembly of the Bank further decided to add a commitment by the Bank to indemnify the parties eligible for indemnification for any monetary liability arising from payment to any party injured by the breach or similar, pursuant to any other statute, including reasonable litigation expenses, including attorneys' fees, with regard to any administrative proceeding pursuant to any other statute, provided that such indemnification is not prohibited by law.

On December 23, 2015, the General Assembly resolved to reduce the liability exemption for officers, so that it would not apply to any breach of duty of care after the approval date by the General Assembly when making a decision or approving a transaction in which the controlling shareholder of the Bank or any officer of the Bank (including another officer, other than the officer to whom the exemption was granted) has a personal interest.

The General Assembly of the Bank also resolved to add clarifications, details and elaboration to the events listed in the addendum to the letter of commitment to indemnify, according to events which the Board of Directors considers to be likely in view of actual Bank operations. The General Assembly further resolved to amend the letter of commitment to indemnify with regard to obtaining indemnification from an insurer or from a third party, so that the indemnification cap equal to the difference between the liabilities imposed on the officer or on the employee and/or legal expenses incurred by or charged to them, would also apply if the officer or employee would be reimbursed by any third party or by any third party's insurer who provided indemnification to the officer or employee for the same matter. It was further resolved that if the liability or legal expenses would not be actually covered in a timely manner by the insurer or by the third party, the Bank would indemnify the officer or employee for such liability and/or legal expenses – provided that the officer or employee would assign to the Bank their rights vis-a-vis the insurer or third party, so that the Bank would replace them vis-a-vis the insurer or third party.

On August 30, 2018, the General Meeting approved once again the Bank's waiver and commitment to indemnification, with regard to applicability to controlling shareholders of the Bank and their relatives who may serve from time to time, including those who have served in the past or to be appointed in future.

On October 15, 2020, the General Meeting of Bank shareholders approved an amendment of the letter of waiver and commitment to indemnification by the Bank for Board members and other officers, including the Bank's President & CEO and controlling shareholders of the Bank and their relatives, as well as employees who serve from time to time, including those who have served in the past or would be appointed in future. The amendment stipulates that the commitment to indemnify shall also apply to expenses, including reasonable litigation expenses and legal fees, even with regard to a proceeding seeking to impose a monetary sanction, as stated in the aforementioned amendment to the Bylaws. The amendment further stipulates that the letter of commitment and anything related to it are subject exclusively to laws of the State of Israel and the Tel Aviv Yafo District Court shall have sole jurisdiction over any such matter. The list of events in the addendum to the letter of commitment was also revised. Pursuant to a resolution by the Audit Committee dated August 17, 2020, the resolution to approve the amended letter of commitment, with regard to its applicability to parties other than controlling shareholders and relatives thereof, would be brought for reapproval as required by law within 9 years after October 15, 2020.

6) In May 1998, General Assemblies of the shareholders of the Bank and of Bank Tefahot ratified an undertaking to indemnify officers, which had previously been approved by their Audit Committees and Boards of Directors as follows:

The Bank and Bank Tefahot will irrevocably indemnify any of their officers for any action taken in their capacity as officers, in connection with the causes of action listed below, and for any financial obligation to be imposed by a court judgment, including a compromise, or arbitrator's decision that is subsequently approved by a court, and also for any reasonable legal expenses for which they may be indemnified in accordance with provisions of the Companies Ordinance.

Note 26 – Contingent Liabilities and Special Commitments – continued

The indemnification will be made for all the officers on a cumulative basis, up to a sum not to exceed – for each bank separately – NIS 750 million (linked to the CPI of March 1998), for any financial liability that the officer incurs as a result of an action that he took that is directly or indirectly connected to the prospectus published in 1998, or to the draft prospectus that was filed in that year, in connection with the offer of sale of the Bank's securities by the State, including in connection with the reports submitted by the banks subsequent to the date of the prospectus regarding any matter that occurred before the date of the prospectus.

Furthermore, the total cumulative amount of indemnification to be paid for all officers for any action or matter related to the insurance of borrowers by mortgage banks mentioned in the above prospectus included in the letter of indemnification – by each bank separately – will not exceed NIS 750 million (linked to the CPI of March 1998).

The letters of undertaking for indemnification stipulated further that, notwithstanding the aforesaid, the total cumulative amount of indemnification to be paid for all the officers with regard to all the causes of action included in the letter of indemnification – by each bank separately – will be limited to NIS 1,000 million (linked to the CPI of March 1998).

Under terms and conditions of the merger of Bank Tefahot into the Bank, the Bank assumed this commitment.

7) In November 2001, approval was given by General Assemblies of the shareholders of Bank Tefahot and of a wholly-owned and controlled subsidiary of Bank Tefahot (hereinafter: "Tefahot Issuance"), in connection with the prospectus for issuance of debentures and subordinated notes of Bank Tefahot from November 2001, that Tefahot Issuance irrevocably undertakes to indemnify all of its officers, for any action taken in connection with matters detailed in the letter of indemnity, by virtue of his being an officer ("indemnification").

The indemnification will be given for any financial debt, if imposed by a judgment, including a judgment issued in a compromise or arbitration that was approved by a court, and with respect to any reasonable legal expenses (including fees to attorneys and other experts), which may be indemnified in accordance with the provisions of the Companies Law, all up to a limit of NIS 1 billion, linked to the CPI.

Bank Tefahot undertook vis-à-vis Tefahot Issuance that, should it be unable to fulfill its obligations to the indemnity recipients, or any one of them, Bank Tefahot would pay to Tefahot Issuance any amount that Tefahot Issuance will be found liable to indemnify, beyond the amounts paid by Tefahot Issuance.

Under terms and conditions of the merger of Bank Tefahot into the Bank, the Bank assumed this commitment.

8) In October 2002, the Board of directors of Bank Tefahot, following the approval of the Audit Committee, approved the bestowing of an advance undertaking for indemnification of directors and other officers of Bank Tefahot (together – "the officers"). Accordingly, Bank Tefahot undertakes, subject to the conditions detailed in the letter of undertaking and to the provisions of the Companies Law, to indemnify the officers for any liabilities or expenses imposed on the officer due to his capacity as an officer in Bank Tefahot, provided that these activities are related, directly or indirectly, to one or more of the events listed in the addendum to the letter of undertaking the indemnification.

The cumulative amount of the indemnification to be paid by Bank Tefahot to all the officers will not exceed 25% of the shareholders' equity of Bank Tefahot according to its annual financial statements for 2001, adjusted for the CPI, beginning from December 2001, or 25% of the shareholder equity of Bank Tefahot according to the latest financial statements published as of the actual payment date of the indemnification, whichever is lower.

In November 2002, a General Meeting of the shareholders of Bank Tefahot ratified this resolution.

Under terms and conditions of the merger of Bank Tefahot into the Bank, the Bank assumed this commitment.

9) On June 30, 1998, an extraordinary general meeting of Bank Adanim, following approval by its Board of Directors and approval of its Audit Committee, ratified an undertaking to indemnify ("indemnification letter") for officers in Bank Adanim. The indemnification letter will apply to officers, as defined in Section 96(24) of the Companies Ordinance, who, on the approval date of the indemnification by the General Meeting ("date of record"), are serving in Bank Adanim or whose tenure ended in a period not earlier than 4 years from the date of record.

Pursuant to the indemnification letter, Bank Adanim will indemnify any officers in Bank Adanim for any financial liabilities imposed on them by a ruling, including legal expenses, for an act or omission done directly or indirectly in the matters itemized in the letter of indemnification, namely the offer of sale to the public of securities of Mizrahi Tefahot by the State, pursuant to a prospectus published in May 1998.

Note 26 – Contingent Liabilities and Special Commitments – continued

Pursuant to the indemnification letter, the amount of the indemnification to be paid by Bank Adanim (in addition to the amounts to be received according to the officers' insurance policies as detailed below) to all officers, on a cumulative basis will not exceed NIS 70 million, with the amount linked to the last CPI published before the date of record until the CPI published before the date of payment.

Bank Adanim will take action, to the extent possible, so that during the 10-year period beginning on the date of record, an officers' insurance policies will be purchased by or for Bank Adanim, which will cover the matters covered by the indemnification, the amount of which, including restitution/reinstatement will not be lower than the aforementioned amounts.

On December 16, 2002, a General Meeting of Bank Adanim, following approval by the Audit Committee and ratification by its Board of Directors, ratified the letter of indemnification undertaking ("indemnification letter") for officers in Bank Adanim. The indemnification letter will apply to officers, as defined in Section 1 of the Companies Law, 1999, who, on the approval date of the indemnification letter by the general meeting ("date of record") serve in Bank Adanim. Pursuant to the indemnification letter, Bank Adanim will indemnify all of the officers in Bank Adanim for all the financial liabilities to be imposed on them by a ruling, including legal expenses, relating to an act or omission done directly or indirectly in matters listed in the indemnification letter, up to the indemnification amounts.

The indemnification amounts to be paid by Bank Adanim for each officer, on a cumulative basis, for one or more of the types of events provided in the addendum to the letter of undertaking, shall not exceed 25% of the shareholder equity of Bank Adanim according to its financial statements for the year 2001, adjusted from time to time, according to the rate of increase in the CPI compared with the CPI for December 2001 that was published in January 2002 ("total indemnification amount). In the event the officer will receive indemnification from the insurer of the officers' insurance policies for the matter covered by the indemnification, the indemnification will be provided by Bank Adanim in the amount of the difference between the amount of financial liabilities imposed on the officer and/or legal expenses incurred by or charged to the officer, and between the amount received from the insurer on this matter, provided that the amount of indemnification for which Bank Adanim will be charged will not exceed the total indemnification amount.

Beginning December 2002, Bank Adanim was one of the insured parties in the officers' insurance policies purchased by the Bank for itself and its subsidiaries and related companies, which is in effect until April 5, 2007.

Under terms and conditions of the merger of Bank Adanim into the Bank, the Bank assumed this commitment.

10) Various claims are pending against the Bank and its subsidiaries, namely, claims of customers, as well as motions for recognition of various class actions. In the opinion of the management of the Bank, based on the opinion of the managements of its subsidiaries and on the opinion of their legal counsel as to the possible outcome of the pending claims and motions for approval of claims as class actions, the financial statements include appropriate provisions, where necessary, to cover possible damages.

Below are details of significant claims, including motions for approval of class action status and claims in which the amount claimed (excluding interest and fees) exceeds 1% of Bank equity attributable to shareholders of the Bank:

A) In May 2011, the Bank received a claim and motion for approval of class action status. The claim concerns two alleged claims made against the Bank – firstly, late reporting to the Court Order Execution Service of payments made to reduce debt which is subject to proceedings at the Court Order Execution Service. Secondly, failure to indicate on the reporting forms the number of the principal to be reduced by the reported credit, and the number of the interest calculation rule applied to the reported payment amount. The lawsuit and motion allege that, by late reporting to the Court Order Execution Service and by failure to provide the indications on the reporting forms as required, the Bank misleads clients, causes clients not to be credited with interest in line with the date of their payment and in accordance with the correct interest rate, creates a situation in which the debt in Court Order Execution Service files is higher than the real debt, and collects excess payments. The lawsuit and motion further allege that the Enforcement and Collection Authority and the Court Order Execution Service admit that under crediting occurs in case of late reporting and failure to provide the required indications on the reporting form.

The plaintiff claims that he is unable to estimate the damage incurred by the entire class of plaintiffs, but believes (on a basis which is not clear to the Bank) that it amounts to hundreds of millions of NIS.

Note 26 – Contingent Liabilities and Special Commitments – continued

On January 9, 2012, the Bank filed its response to the motion, describing in detail the factual and legal defense claims possessed by the Bank. On May 20, 2012, the plaintiff filed their response to the Bank's response to the motion. In view of new claims made by the plaintiff in their response to the Bank's response, the Bank filed a further, more detailed response on August 15, 2012.

On October 17, 2012 and on October 29, 2012, the Court held preliminary hearings in this case.

The parties have agreed and launched a mediation process aimed to try and resolve their differences. The mediation process was held concurrently with regard to other motions filed against other banks for the same cause, as well as with regard to other motions for class action status filed against the Bank and against other banks for causes related to debt management in Court Order Execution Service files.

The parties negotiated directly from August 2014 and in January 2016, due to a specific disagreement, the negotiations between the parties were terminated. They were resumed soon thereafter, in an attempt to reach an agreed arrangement.

On August 29, 2016, a Court hearing took place and it was resolved that the parties to this lawsuit and to the lawsuit described in section B. below, should file a settlement agreement and motion for its approval, no later than October 30, 2016. The resolution dated November 7, 2016 allowed the parties an extension to file a settlement agreement and motion for its approval, no later than November 30, 2016. On January 16, 2017, a hearing concerning the settlement agreement took place. On March 28, 2017, a hearing took place with regard to the settlement agreement and in particular, concerning the issue of Court action and its scope On June 12, 2017, the parties filed the draft settlement agreement with the Court, asking for the Court's assistance in the matter of the aforementioned Court action. On June 15, 2017, another hearing on this disagreement took place.

In accordance with the Court ruling of July 4, 2017, on August 13, 2017, the parties submitted the final approved version of the settlement agreement.

On November 7, 2017, the parties submitted to the Court the signed settlement agreement and its appendices with the application for its approval. On March 8, 2018 and on April 10, 2018, further hearings took place, at which the Court raised questions regarding the settlement agreement in general and in particular, the issue of maintaining information confidentiality by the Enforcement and Collection Authority. On May 28, 2018, a further hearing took place, at which the Court asked, inter alia, for clarifications regarding the motion by the Bank dated May 22, 2018 with regard to the need for maintaining data confidentiality, as well as clarifications with regard to other sections of the settlement agreement. A clarification notice from the Bank with regard to sections of the settlement agreement was filed on July 5, 2018.

On October 10, 2018, the plaintiff filed a motion to bring forward the approval of this settlement; consequently, on November 6, a hearing took place at the end of which the Court ordered that a notice would be published with regard to the motion for approval and that such motion would be sent for comments to the Attorney General and to the Supervisor of Banks. Notice of the motion for approval has been issued, as noted. On May 26, 2019, representatives of the Enforcement Authority and the parties attended a meeting and agreed on the outline for carrying out the agreement. On June 16, 2019, a notice was filed with the Court, along with an agreed motion to approve the aforementioned outline. On July 2, 2019, a Court hearing took place to discuss the various motions in this case, after which a resolution was handed down to have the various motions referred for comments by the Attorney General; a hearing is scheduled for September 25, 2019. On September 25, 2019, a hearing took place, at which the notice by the Attorney General, whereby they would object to two issues in the agreement (confidentiality provision and professional fees) was discussed. In conformity with the Court ruling, on November 22, 2019, the parties filed a revised agreement and on December 8, the Attorney General filed their objection, as noted. On December 11, 2019, a hearing took place and in conformity with the Court ruling, on January 2, 2020 the parties filed with the Court the final version of the revised agreement. A resolution dated January 5, 2020 stipulated that the agreement would be made public and would then be approved. Accordingly, the revised agreement was published on the Bank website and in two newspapers. At the same time and pending formal approval by the Court, the Bank is acting to implement the settlement agreement.

Note 26 – Contingent Liabilities and Special Commitments – continued

B) In December 2012, an action and a motion for recognition as a class action were filed with the Tel Aviv District Court, with regard to setting rates of arrears interest charged by the Bank in Court Order Execution Service cases filed against debtors. According to the plaintiff, the Bank charges interest significantly higher than the maximum interest rate on checking accounts. The plaintiff is unable to estimate the amount claimed.

The parties agreed to add this motion to the reconciliation process conducted with regard to other motions which also concern collection processes conducted by the Bank against clients in debt, as stated in section A. above and in section C. below and on January 4, 2016, a resolution was issued to refer the above claim for hearing by the same party as the above claims.

As for the motion for approval of class action status, a compromise was reached in conjunction with the motion for approval of class action status listed in section A) above.

C) In August 2011, a claim and motion for class action status was filed with the Central District Court amounting to "hundreds of millions of NIS". No specific amount was specified in the statement of claim. The plaintiff seeks a verdict, pursuant to the Class Action Lawsuit Act, whereby the claim would be made on behalf of all Bank clients whose account was charged legal fees not approved by any legal jurisdiction, or whose account was charged unlawful interest with respect to approved legal fees.

In February 2012, the Bank filed its response to the motion and in August 2012, the plaintiff filed their response to the Bank's response to the motion.

In November 2012, the parties launched a mediation process designed to try and settle their disagreements. The mediation process was concurrent with regard to other motions filed against other banks for the same cause, as well as with regard to other motions for class action status filed against the Bank and against other banks for causes related to debt management in Court Order Execution Service files. The parties negotiated directly from August 2014 and in January 2016, due to a specific disagreement, the negotiations between the parties were terminated. They were resumed soon thereafter, in an attempt to reach an agreed arrangement. On January 6, 2016, the Bank filed a motion seeking a preliminary ruling on its claim with regard to the statute of limitations with regard to the cause of claim of alleged class members and/or of most of them. The plaintiff's response was filed on January 26, 2016 and the Bank's response was filed on February 1, 2016. On February 14, 2016, a resolution was handed down whereby, inter alia, the claim with regard to the statute of limitations would be adjudicated at the end of the process.

Following direct negotiations between the parties, the parties reached an agreed settlement brought for approval by the Court on November 14, 2016.

On January 16, 2017, a hearing took place at which the parties agreed for the Bank to respond to questions raised at the hearing with regard to the settlement agreement and motion for approval filed by the parties. On February 8, 2017, the Bank filed its comments as above with the Court. On March 7, 2017, the Court ordered that within 15 days, a revised announcement text is to be filed with the Court for approval, and a copy of the settlement agreement is to be sent to the Supervisor of Banks and to the Attorney General and the parties were instructed to file their claims with regard to the issue of the statute of limitations.

On April 2, the Court approved the revised announcement text and on April 12, 2017, the announcement was published in the newspapers with regard to filing a motion for approval of a settlement agreement.

Further to the Court resolutions dated March 7, 2017 and June 13, 2017, the Bank filed additional claims with regard to the statute of limitations allegation; a resolution is still pending.

The position of the Attorney General with regard to the settlement arrangement was submitted on July 30 and on September 17, 2017, the Bank filed its response to the Attorney General's position, and the plaintiff filed their response to the Attorney General's position.

Note 26 – Contingent Liabilities and Special Commitments – continued

On October 2, 2017, a hearing was held with regard to the Attorney General's position. On May 28, 2018, a further hearing took place, at which the Court asked for further clarifications with regard to the settlement agreement. At the end of this hearing it was agreed that the Court would issue its ruling in absence of the parties. On September 17, 2018, a partial verdict was issued, whereby the Court approved the settlement agreement reached by the parties, despite the objection by the Attorney General's representative. In this partial verdict, the Bank's claim of the statute of limitations was accepted. Moreover, dates were set for publishing the approval of the agreement and for filing claims with regard to legal fees and remuneration.

On October 25, 2018, the Bank filed a motion for approval of a notice to be published with regard to approval of the agreement. On October 31, 2018, the plaintiff announced that they did not intend to appeal the verdict and consent to publication of the notice in the format as provided by the Bank.

On December 5, 2018, the plaintiff filed their arguments with regard to compensation and legal fees. On January 8, 2019, the Bank filed its arguments. On May 26, 2019, the Attorney General notified the Court that they were leaving the decision with regard to legal fees to the Court's discretion. On July 4, 2019, a resolution was made with regard to legal fees. The Bank is acting to implement the settlement agreement.

D) In March 2015, a counter-claim was filed against the Bank with the Central District Court, along with a motion for class action status, with respect to alleged over-charging of commissions in an "individual" account and in a "small business" account, allegedly in breach of Banking Rules (Customer Service) (Commissions), -2008. The plaintiff alleges that the breach was due, inter alia, to the Bank charging holders of "individual" or "small business" account commissions for certain services at higher tariffs than those set for large corporations, in contravention of the aforementioned Banking Rules.

The plaintiff claimed they were unable to estimate the damage incurred by potential class members.

The Bank filed its response to the motion on June 30, 2015. The plaintiff also filed their response to the Bank's response.

According to a Court resolution dated September 10, 2015, the Bank of Israel filed its position on December 15, 2015. On December 16, 2015, another pre-trial hearing took place – at which the parties were urged to negotiate a potential settlement agreement. A pre-trial hearing took place on March 29, 2016 and an evidentiary hearing took place on July 12, 2016. On November 8, 2016, the plaintiff filed their summation and on January 22, 2017, the Bank filed their summation, the plaintiff filed their response summation.

On January 31, 2018, the Court issued its ruling, allowing class action proceedings with regard to one commission only (the commission charged for issue of a bank guarantees) and rejecting the motion for class action status with regard to the other commissions listed in the motion for approval. Dates were scheduled

for filing a statement of claim and a response statement. As ruled by the Court, the plaintiff filed a motion to confirm a substitute class representative. On January 6, 2019, the Court ruled to accept the substitute class representative. On January 20, 2019, the Court approved for publication the notice with regard to approval of class action status. On March 23, 2019, a Court hearing took place, and the parties agreed to launch a mediation process and Court proceedings have been suspended. The parties therefore conducted an arbitration proceeding and reached an agreed settlement. On March 1, 2021, the parties filed a motion with the Court, seeking approval of the settlement agreement.

E) In February 2016, a claim and application for class action status was filed with the Tel Aviv District Court against the Bank and against Bank HaPoalim Ltd., Bank Leumi Le-Israel Ltd., Bank Discount Le-Israel Ltd. and First International Bank of Israel Ltd. (hereinafter: "the defendants"). The plaintiff set the claim amount for all defendant Banks, jointly and severally, at NIS 219 million. The motion concerns alleged discrimination in providing service to student groups by age, allegedly in violation of the Prohibition of Discrimination in Products, Services and in Access to

Entertainment Venues and to Public Venues Act, 2000 (hereinafter: "the Non-Discrimination Act") and the Banking Act (Customer Service), 1981 (hereinafter: "the Banking Act").

According to the plaintiffs, this is a categorical policy of all of the defendants, which seeks to exclude the "non-young" population from the benefit plans.

Note 26 – Contingent Liabilities and Special Commitments – continued

The plaintiff asks, in conformity with the Class Actions Law, for the claim to be filed on behalf of all students discriminated against due to their age, by comparison to younger students, who were precluded from receiving student benefits from the defendants in the past seven years (for causes pursuant to the Banking Act (Customer Service), 1981 or as from July 15, 2014 (pursuant to the amendment to the Non-Discrimination Act). The Bank filed its response to the motion on September 13, 2016 and the plaintiff has filed their response to this response. On October 27, 2016, the plaintiff filed its response to the Bank's response to the motion. On January 25, 2017, a preliminary hearing was held on the motion for approval. An evidentiary hearing set for September 2017 was canceled after the parties concluded a written agreement. The plaintiff's summation was filed on October 26, 2017 and the Bank's summation was filed on December 21, 2017. The plaintiff filed their response summation, including a motion for removal of annexes enclosed with the banks' summations. The banks filed their response to this motion on January 9, 2018 and on September 26, 2019 a verdict was handed down, rejecting the motion for class action status and erasing the personal claim. On November 4, 2019, the plaintiff appealed the rejection of the motion to the Supreme Court. Dates have been scheduled for filing summations in this appeal. In accordance with a procedural arrangement agreed by the parties, the deadline for completing the verbal arguments was delayed to May 31, 2021.

F) In May 2016, a lawsuit was filed against the Bank with the Tel Aviv Yafo District Court, along with a motion for class action status, amounting to NIS 220 million. The lawsuit alleges unlawful over-charging of commissions to clients eligible to be classified as a small business, in breach of the Bank's duties in its relations with clients.

The plaintiff claims that the Bank has not disclosed to clients who manage a small business that they are eligible for the lower commission schedule of a "small business", in order to foil the commission reform and to charge small businesses commissions other than according to the small business tariff, allegedly resulting in unlawful gain at their expense.

The Bank filed its response to the motion on November 1, 2016 and the plaintiff filed their response to the Bank's response on November 30, 2016.

On April 23, 2017, a preliminary hearing took place and resolutions were handed down with regard to questions and document discovery; the parties are to comply with these by May 23, 2017. Given the plaintiff's notice of their intention to file a motion to consolidate the hearing of this motion with a hearing of 5 other motions for class action status in lawsuits filed on the same matter, on June 22, 2017 the Bank filed a motion with the Court seeking a stay of proceedings in this lawsuit, including preliminary discovery proceedings, pending a ruling by the Supreme Court on the motion for consolidation. On June 28, 2017, a motion was filed with the Supreme Court for consolidation of the hearing of this lawsuit with the five other motions; the Bank filed its response on July 10, 2017; on July 20, 2017 the Court rejected the motion to consolidate all of these lawsuits. As directed by the Supreme Court, a motion was filed to consolidate the hearing of the motions for approval to the District Court. On January 21, 2018 the motion for consolidation was heard. On April 17, 2018, a resolution was handed down combining the hearing of this motion with 5 other motions filed against 5 other banks. Consequently, a pre-trial hearing of all these motions was scheduled for December 19, 2018. At this hearing, the Court discussed a motion by the Bank to erase sections from the plaintiff's response, as well as a motion by the plaintiff to erase the Bank's response to the motion for approval, citing alleged breach of a prior resolution with regard to document discovery. On November 28, 2019, the Court handed down a ruling on the pre-trial motions, rejecting the motion by the plaintiff to erase the Bank's response. The plaintiff has filed a motion to appeal with the Supreme Court the ruling rejecting their discovery motion, and a resolution on this matter is still pending. As ruled by the Court, on May 17, 2020 the Bank filed its response to the plaintiff's response to the Bank's response to the motion for approval. The pre-trial hearing scheduled for January 19, 2021 was postponed by the Court and has yet to be rescheduled.

Note 26 – Contingent Liabilities and Special Commitments – continued

G) In November 2017, a claim and motion for class action status were filed with the District Court Center–Lod against the Bank, in the amount of NIS 437.3 million alleging charging of excess interest on residential mortgages, due to reduction of the loan component based on the prime lending rate which is allegedly misleading and lacking proper disclosure.

According to the plaintiffs, the Bank refrained from providing its customers with a housing loan, in which the loan component based on the prime lending rate is the maximum permitted by Bank of Israel directives (33.3%), in order to increase the amount which the Bank may provide in supplementary, costlier loans.

The plaintiffs note that they do not deny or challenge the fact that the Bank has discretion in granting residential mortgages and the approved composition of the loan, but rather the manner in which the Bank exercises its discretion and its

The Bank filed its response on March 29, 2018 and the plaintiffs have filed their response to the Bank's response. A pre-trial hearing took place on July 2, 2018, after which the Court suggested the parties seek mediation. The direct discussions by the parties failed. The case was returned to the Court. The parties have reached agreement on proceeding, whereby this case would be ruled based on the existing material in the case, without the necessity of interrogating witnesses. Consequently, on January 13 the plaintiffs filed their summation and on March 28, 2019, the Bank filed its summations. On August 30, 2020 the Court issued a verdict rejecting the motion for class action status.

H) In December 2017, a claim and motion for approval of class action status was filed with the Central District Court in Lod amounting to NIS 124 million. The claim involves setting of the interest rate on residential mortgages bearing adjustable interest - debentures. The plaintiffs allege that the Bank issues an approval in principle to the client, listing the debenture base as the only mechanism for interest calculation in the adjustable interest track - debentures for the term of the loan. However, the loan agreement includes another mechanism titled "Emergency Protection Mechanism" for setting the interest rate, in addition to the original mechanism, without providing proper disclosure. It is further alleged that the condition stipulated by the Bank in the agreement, with regard to triggering of the Emergency Protection Mechanism, is unfair and gives the Bank an unreasonable advantage over its clients.

the Bank filed its response on July 25, 2018. The plaintiff filed its response to the Bank's response on January 6, 2019.

On February 27, 2019, a pre-trial hearing took place, and the Court scheduled a further pre-trial hearing to allow the parties to conduct preliminary proceedings. The Court also proposed that the parties try to reach agreement. As proposed by the Court, the parties have started a mediation process. In conformity with the Court ruling, on February 18, 2020, the parties filed an update notice with regard to the mediation process and an agreed motion asking for a further 60 days' extension in order to consider the feasibility of concluding this proceeding by agreement. Due to the Corona Virus crisis, the mediation process was extended and has yet to be concluded. On September 30, 2020, a mediation meeting took place (after previous ones were scheduled and then canceled due to the Corona Virus crisis) and dates were agreed for providing the text of the settlement agreement and for parties to comment on it. On January 10, 2021, another mediation meeting took place; the settlement agreement has yet to be finalized.

I) In September 2018, a lawsuit and motion for class action status was filed with the Tel Aviv Yafo District Court. Claim and motion for approval of class action status amounting to NIS 180 million (estimated).

The motion alleges over-charging of commission upon early repayment of residential mortgages consisting of multiple tracks, some of which have generated positive capitalization differences and some of which have generated negative capitalization differences, where the Bank fails to offset the capitalization differences of the different tracks against each other,allegedly in contravention of provisions of the Banking Ordinance (Early repayment of Housing Loan), 2002.

The plaintiff seeks a ruling, pursuant to the Class Action Lawsuit Act, whereby the lawsuit would be filed on behalf of all Bank clients who have and/or would repay a mortgage by full or partial early repayment and one of their tracks generated a negative capitalization balance not offset against the early repayment fee, as stipulated by law. In March 2019, the plaintiff's attorney informed the Court of their intention to replace the expert opinion filed with the motion, with an opinion from another expert. Consequently, the deadline for filing the Bank's response to the motion was postponed by agreement to April 29, 2019. Due to disagreement on the text of the opinion, the filing of the response will be delayed pending a motion by the plaintiff to amend the motion for approval. On June 3, 2019, the parties reached a litigation agreement that was approved. According to this agreement, the Bank's response to the motion was filed on October 29, 2019 and the plaintiff's response to the Bank's response was filed on January 1, 2020. On January 5, 2020, a pre-trial hearing took place in this case, at which the Court ruled that it would await further claims to be formulated by the parties, including with regard to a combined hearing with similar motions filed on the same matter. On March 16, 2020, the plaintiff filed a motion for document discovery. On August 10, 2020, the Bank filed its response to the motion for discovery, and the plaintiff has filed their response to the Bank's response. On September 15, 2020, a preliminary hearing took place at which the parties were required to file their

Note 26 – Contingent Liabilities and Special Commitments – continued

position by October 25, 2020 as to whether the motion for approval may be ruled upon based on the material in the case and written summations; consequently, the Bank has filed its position insisting on conducting an evidentiary proceeding. On February 9, 2021, a pre-trial hearing took place after which a resolution was issued accepting the Bank's position and consequently, evidentiary hearings have been scheduled. The first evidentiary hearing is scheduled for May 30, 2021.

J) In December 2018, a claim and motion for class action status was filed with the Tel-Aviv District Court, in the total amount of NIS 280 million, against the Bank, Bank Leumi, Bank HaPoalim, Bank Discount and against insurance companies Harel, HaPhoenix and Menorah, alleging unlawful over-charging of insurance premium for superfluous insurance policies issued to the building owner, even though at the time of their issue, the same or another insurance company already had issued insurance policies covering the same building for the same period.

The plaintiffs set their individual and joint damage at NIS 280 million. They claim that the damage with respect to each bank, should the defendants seek proportionate liability, is based on their market shares – with at least half of the damage to be attributed to the banks and the remainder – to the insurers.

The Bank filed its response to the motion for approval on June 10, 2019 and the plaintiff filed their response to the Bank's response on March 5, 2020. On February 16, 2021, a preliminary hearing took place, at which the Court highlighted the challenges in the motion and in combining defendants of two types (insurance companies and banks), and instructed the plaintiffs to state, by May 2, 2021, how they intend to continue with the motion for approval and against which defendants.

K) In June 2019, a motion for class action status was filed with the Tel Aviv-Yafo District Court against the Bank and 5 other banks. This motion involves allegedly unlawful over-charging of currency conversion differences and transaction fees with respect to foreign currency conversion transactions and lack of proper disclosure, in breach of multiple laws.

With regard to charging of currency conversion differences, the motion alleges that when clients conduct a foreign currency conversion transaction, the defendants charge for currency conversion differences that are not listed in the price list, hence these are charged without lawful authorization. The motion further alleges that because this charge is not visible to clients, clients cannot know the cost of the currency conversion service.

With regard to the transaction fee, the motion alleges that the Bank (and 2 other defendants) calculate this fee after adding the currency conversion differences, thereby over-charging for the transaction fee. The motion further alleges that the defendants are party to a restrictive trade practice.

The motion defined the class as all persons or legal entities who used the defendants' services for currency conversion transactions, as well as the general public in Israel, which was directly and indirectly impacted by the aforementioned breach.

The damage incurred by the class, according to the motion, amounted to NIS 8 billion; the share attributable to the Bank amounted to NIS 1.745 billion. The Bank filed a motion to dismiss the motion out of hand. As resolved by the Court on October 26, 2019, the parties were granted an extension to file the defendants' response to the motion for approval, pending any other ruling. On October 27, 2019, the plaintiffs filed a motion to reject the motion to dismiss filed by the Bank. After the banks filed their response and the response to the response, on November 3, 2019 a resolution was issued rejecting the plaintiffs' motion to reject the motion to dismiss out of hand. On March 9, 2020, a hearing took place to discuss the motion to dismiss filed by the Bank. After this discussion, the Court gave the plaintiff 15 days to inform the Court whether they insisted on their claim Consequently, on March 16, 2020 the plaintiffs informed the Court that they insisted on their motion for approval. On June 21, 2020, the Court handed down its ruling rejecting the motion out of hand with expenses charged to the plaintiffs. On July 7, 2020, the Bank's attorney received an appeal of this verdict, filed by the plaintiffs.

Concurrently with filing of the appeal, the plaintiffs also filed a motion to delay execution of the verdict and a motion seeking exemption from a bond deposit in the appeal. On August 10, a ruling was given rejecting the motion, and the bond was deposited accordingly. An order for summations was given and deadlines for the parties to file their summations were set; the case is scheduled for hearing of additional verbal arguments on July 28, 2021.

Note 26 – Contingent Liabilities and Special Commitments – continued

L) In May 2020, the Bank received a motion for approval of class action status, with no estimated amount, filed at the Central District Court in Lod, with regard to credit extended by the Bank using the Tefahot Card in conjunction with "General-purpose loan". The motion alleges that the Bank splits the credit facility backed by a lien on the apartment, between the Tefahot Card as a general-purpose loan, and residential mortgages, rather than providing all of the credit as a "housing loan", at terms and conditions as set forth in the Supervisor of Bank's directives, allegedly in violation of the statute and while bypassing the Supervisor of Bank's directives with regard to residential mortgages, and with the client being un-aware of this splitting action and its implications, and while hiding material facts, such as absence of life insurance in the loan component of the Tefahot credit card, charging of a different interest rate and monthly charge for holding the card.

The plaintiff claims they are unable to quantify the damage to the class, setting their own personal claim at NIS 112,373. The Bank is due to file its response to the motion by November 26, 2020. The Bank filed its response on November 26, 2020 and the plaintiff filed their response to the Bank's response on December 17, 2020. On January 18, 2021, the plaintiff filed a motion with the Court seeking the position of the Attorney General and/or of the Bank of Israel with regard to this claim. On January 31, 2021, the Bank filed its response to the motion. A resolution is still pending. On February 24, 2021, a pre-trial hearing took place, after which the Court suggested that the plaintiff mai consider withdrawing the motion for approval. In conformity with the ruling, the plaintiff should provide their position with regard to continued proceedings in this case, no later than March 12, 2021.

For all claims against the Bank Group in individual amounts over NIS 2 million, excluding claims listed in section 10) above, there is

additional, non-remote exposure for which no provision was made, amounting in total to NIS 64 million.

11) Motions for class action status are pending against the Bank and its subsidiaries, where the amount claimed is material, as well as appeals to the High Court of Justice, as itemized below, which, in the opinion of the Bank's management, based on the opinion of the managements of its subsidiaries, and on the opinion of their legal counsel, the prospects for which cannot be estimated on the date of the financial statements, hence no provision was made for these.

A) In May 2020, the Bank received a motion for class action status filed with the Central District Court, against 15 banks including the Bank and Bank Yahav and against the National Insurance Institute, the Enforcement and Collection Authority, the Postal Authority ("the Motion"), citing two causes: one, alleging unlawful delay of provident fund amounts that may not be foreclosed, in contravention of the Court Order Enforcement Act and a list of other laws; and the other, with respect to failure to issue debit cards to those who do not have a credit card or ATM card, in alleged breach of the directive by the Supervisor of Banks dated March 22, 2020.
The class was defined in the Motion as any person whose funds were unlawfully delayed by any of the defendant banks under circumstances as stated in the Motion. The plaintiff set the claim amount for all respondents at NIS 300 million.
Concurrently with filing the motion for approval, the plaintiff also filed a motion for fee exemption. On July 28, a ruling was issued rejecting the motion for fee exemption; this ruling was appealed and the appeal was denied on September 6. On October 13, 2020, the Court handed down its ruling, instruction the proceeding for non-payment of the fee to be erased. On October 22, 2020, the Bank's attorney received a motion filed by the plaintiff on October 18 with the Supreme Court, seeking exemption from mandatory bond deposit for filing their motion for right to appeal. As ruled by the Court, the Bank filed its response to the motion seeking exemption from mandatory bond deposit on December 2, 2020.

B) In May 2020, a motion for approval of class action status was filed with the Tel Aviv District Court, alleging breach of duty of confidentiality, by the Bank providing various identifiable information to international information corporations, and in particular to Facebook, allowing them to gather private information about Bank clients, allegedly in breach of provisions of the Privacy Protection Act, 1981 and other statutes, without providing required disclosure to Bank clients and without obtaining their consent.
The plaintiff alleges that the Bank uses third-party tools, such as those of Facebook and Google, to monitor its clients when transacting on Bank web sites and apps, in order to conduct advertising campaigns, while these corporations process the information provided about the clients for their own needs, with no disclosure provided with regard to the purposes for which such information is being gathered and what information exactly is being gathered, other than a "legal disclaimer" on the Bank website which, the plaintiff alleges, is deficient and may not be regarded as consent. The plaintiff further alleges that all conditions listed in Bank documents, allowing the Bank to provide information about its clients to third parties, including the "legal disclaimer", constitute unfair conditions in a uniform contract.
The plaintiff claims they are unable to quantify the damage incurred by the class. The Bank filed its response on March 1, 2021.

Note 26 – Contingent Liabilities and Special Commitments – continued

12) Motions for class action status and a motion for approval of a derivative claim are pending against the Bank and subsidiaries thereof, as follows.

A) In October 2020, a motion was filed with the Tel Aviv District Court, seeking a document discovery order pursuant to provisions of Section 198a of the Corporate Act, 1999 prior to filing a motion for approval of a derivative lawsuit against the Bank and against Union Bank Le-Israel Ltd. (by way of "double derivative proceeding") (hereinafter: "the defendants"), seeking that the defendants be instructed to provide to them various documents related to "suspect" fund transfer transactions between 1999-2017, as made public on the BuzzFeed media website with regard to the defendants (transfers in amounts in excess of USD 9 million from Union Bank and transfers in amounts in excess of USD 340 thousand to the Bank), as well as allowing them to view documents and meeting minutes of the defendants' Board of Directors and/or bank management with regard to this case. The plaintiff claims that all the documents sought are needed for hearing their claims of failures in corporate governance by the defendants, and of action by various officers of the defendants, in order for them to file a motion for approval of a derivative lawsuit against officers and Independent Auditors with regard to damage incurred by Bank Mizrahi and/or Union Bank due to deeds and omissions by various officers of the defendants. The Bank filed its response to the motion for document discovery on January 20, 2021 and the plaintiff filed their response to the Bank's response on February 21, 2021. The Attorney General's position may be filed by March 23, 2021.

B) In September 2020, a motion for approval of a derivative lawsuit was filed with the Tel Aviv District Court by a shareholder on behalf of the Company for Economic and Cultural Enterprises for State Employees Ltd. ("Economic Enterprises Company") and on behalf of Bank Yahav for Government Employees Ltd. ("Bank Yahav") against Bank Yahav, the Bank, Board members of the Economic Enterprises Company and of Bank Yahav, including officers of the Bank.
The plaintiff alleges that Bank Yahav and the Economic Enterprises Company incurred damage due to credit extended by Bank Yahav to the Bank, by way of deposits with the Bank, allegedly in violation of the Law and in breach of fiduciary and care duties of the defendants towards Bank Yahav and towards the Economic Enterprises Company.
The alleged damage incurred by Bank Yahav is in excess of NIS 1 billion. On February 21, 2021, the Court allowed the consensus motion for extension, allowing the Bank to file its response to the motion for approval by April 8, 2021.

C) 1. In March 2015, a motion for approval of a derivative claim was filed with the District Court in Tel Aviv ("the motion") on behalf of the Bank and its subsidiary, UMB (Switzerland) Ltd. ("Mizrahi Switzerland") against past and incumbent officers of the Bank and of Mizrahi Switzerland, at a minimum amount of NIS 95 million, for damage allegedly sustained by Mizrahi Group due to the defendants' deeds and omissions with regard to providing assistance to US clients in avoiding taxes in the USA. The plaintiff claims that defendants should be liable to reimburse the Bank for the extent of the damage they have caused to Mizrahi Group in general and to the Bank in particular.
On March 24, 2015, a Bank shareholder filed a motion in conjunction with the aforementioned proceeding, seeking to join as a party to that proceeding and to delay the hearing or, alternatively, to dismiss it out of hand, given the motion for document discovery filed by that shareholder in December 2014 with the Tel Aviv District Court against the Bank and its officers pursuant to provisions of Section 198a of the Companies Law 1999 ("the motion for discovery"). In conjunction with the motion for discovery, the plaintiff asked the Court to instruct the Bank and the other defendants to reveal to the plaintiff various documents with regard to on-going proceedings in the USA, so as to allow the plaintiff to "evaluate" potential filing of a motion for derivative defense (on behalf of the Bank vis-a-vis US authorities) or filing of a motion for approval of a derivative claim (against executives and employees of the Bank). The plaintiff claims in the motion for discovery that the process of the motion for discovery is a pending process which has priority over the motion for approval – which is why hearing of the motion for approval should be delayed and even dismissed out of hand.
On May 10, 2015, the Court approved, in conjunction with the motion for approval, a hearing arrangement agreed by the parties in this case, with regard to dates for filing statements of claim whereby, inter alia, at this stage the deadlines for filing the defendants' responses to the motion for approval would be suspended and soon after a decision is given, inter alia, with regard to the aforementioned motion to join and subject to it, the schedule for filing these responses would be set considering, inter alia, the progress made in proceedings with the Department of Justice in the USA.

Note 26 – Contingent Liabilities and Special Commitments – continued

It should be noted, with regard to the motion for discovery, that on May 3, 2015, a preliminary hearing of this motion took place wherein the Court approved the agreement reached by the parties, that the hearing of the actual motion for discovery would currently be suspended, pending completion of document discovery for filing with authorities in the USA. In December 2015, the Court resolved that the motion for approval would be dismissed, but the dismissal would be delayed that should the motion for discovery be allowed and should the plaintiff of the motion for discovery file a motion for approval 90 days after receiving the documents in a timely manner as instructed by the Court in its resolution, the motion for approval would be dismissed. Should the discovery motion be dismissed, or should a motion for approval not be filed by 90 days after receiving the documents – the motion for approval would be considered a preliminary motion to any other motion, if filed.
On April 18, 2016, the Court resolved to postpone the hearing of the motion pending conclusion of the investigation and reporting of its outcome.
On April 12, 2017, the Court directed the Attorney General to inform the Court in 45 days' time of their intention to join the proceeding.
On August 3, 2017, the Attorney General submitted a notice on its behalf, regarding his appearance in the discovery process, to which he attached his position. On September 10, 2017, the Bank and the other defendants filed their responses to the Attorney General's position.
On September 19, 2017 Court approved a procedural arrangement reached by the parties in the case, whereby the hearing of this case will be suspended at this stage, subject to the defendants reporting to the Court and to the plaintiff as from December 31, 2017, once every 90 days, of the investigation by the US DOJ. Updates with regard to the investigation process were given on March 29, 2018 and on June 27, 2018.
On October 2, 2018, the Bank provided an update to the Court with regard to the investigation process, enclosing the report made public in the Bank's financial statements as of June 30, 2018 whereby, inter alia, the Bank started negotiations with the US DOJ, the outcome of which cannot yet be estimated. Consequently, the Court scheduled the case for follow-up in 90 days.
On December 31, the Bank filed another update with the Court with regard to the investigation; the next update is due on March 31, 2019.
On March 14, 2019, the Bank filed an update notice with the Court, whereby on March 12, 2019, the Bank and the US Department of Justice signed a Deferred Prosecution Agreement to conclude the investigation.

In conformity with the District Court ruling dated October 10, 2019, the parties filed a notice of litigation agreement with regard to further litigation of this motion. On December 18, 2019, the Court handed down a ruling whereby, inter alia, a pre-trial hearing was scheduled for April 22, 2020 and requiring the parties to state their consent to referring their dispute to mediation. In view of the notice by the Bank dated January 1, 2020, stating that the Bank assummes this is not the appropriate timing for mediation proceedings, however, as ruled by the Court, in case of circumstances or developments which would warrant this in the Bank's opinion, the Bank would reconsider such option. A pre-trial hearing is scheduled for June 24, 2020.
On March 27, 2020, the Independent Committee appointed by the Bank’s Board of Directors, inter alia, as an independent claims committee, submitted its conclusions and recommendations with regard to the aforementioned proceedings. On March 31, 2020, the Bank Board of Directors resolved to adopt in full the conclusions and recommendations made by the Committee (not to take legal proceedings against Board members and other officers with respect to breach of fiduciary duty or breach of their duty of care, and not to require them to reimburse remuneration they had received, in conjunction with their office at the Bank in the relevant period, and not to take any legal action in this regard) and instructed Bank management to act to apply the recommendations, including with regard to a settlement agreement amounting to USD 23 million with insurers providing Board member and officer liability insurance. Accordingly, on September 8, 2020, a motion was filed with the Court seeking approval of a settlement agreement signed by the plaintiff, the Bank Group, the defendants and the insurers, based on the recommendation by the Independent Committee, along with a motion seeking an order for the Independent Committee's report to be classified as privileged. On September 8, 2020, the Court ruled to temporarily classify the report as privileged; the Bank then filed a motion for a litigation agreement with regard to the motion seeking privilege; on September 17, the Court validated this litigation agreement. On September 9, 2020, the Court ordered that a notification of the settlement agreement be advertised. As ruled by the Court, the Attorney General should file their position with regard to the settlement agreement by October 15, 2020. On October 18, 2020, the Attorney General filed a motion seeking a 30-day extension to file their position and the Court accepted this motion.

Note 26 – Contingent Liabilities and Special Commitments – continued

The position of the Attorney General was filed on November 11, 2020 and a ruling was handed down on November 12, 2020, whereby the parties should file their response to the position of the Attorney General by December 3, 2020 and should act with insurers to obtain clarification, backed by an affidavit or by an opinion, with regard to the Attorney General's comment about the potential negative effect on the insurance market in general, and in particular for officer liability insurance. In conformity with the ruling, on December 3, 2020, the Bank filed its response, as well as clarification by the insurers providing the Bank's Board member and officer liability insurance policy. On December 20, 2020 the Attorney General filed their position in response to the parties' response, after which the Court instructed the Attorney General to inform the Court no later than February 3, 2021 why there was no opinion or affidavit on behalf of the Attorney General enclosed as basis for the assumptions expressed in their position. In conformity with the ruling, on February 3, 2021, the Attorney General filed a notice whereby the matters cited in their position require no factual support. On the same day, the Court ruled that should neither party file notice requesting a hearing of the motion for approval of the settlement agreement by February 7, 2021, the motion would be submitted for a ruling. Consequently, on February 7, 2021, the Bank (and the other defendants) filed a notice with the Court whereby, should the Court consider that the Attorney General's position may have implications for approval of the settlement agreement in this case, then the Bank Group would ask for a hearing of the motion. On February 9, 2021, the Court ruled that in the Court's opinion, there is cause to hold a hearing of the Attorney General's position. Such hearing has yet to be scheduled. On February 10, 2021, a motion was filed to allow publication and to be allowed the right to review by The Marker newspaper of HaAretz Newspaper Group Ltd. ("The Marker") and others, whereby the plaintiffs seek to read the independent committee's full report and to review information contained there. The Bank filed its response to The Marker's motion on February 14, and on said date the Court ruled, allowing it to be provided to the plaintiff (The Marker), with redaction of information due to concerns about impact to normal operation of the Bank, to privacy of third parties, trade secrets and banking confidentiality.

2. On March 17, 2019, a Bank shareholder filed a motion with the Tel Aviv District Court, against the Bank, UMB (Switzerland) Ltd. ("Mizrahi Switzerland") and Mizrahi Tefahot Trust Company Ltd., seeking a document discovery order pursuant to Section 198a of the Companies Law, 1999 ("Motion for Late Disclosure"), to instruct the Bank and the other defendants to disclose to the plaintiff various documents with regard to the investigation proceedings that took place in the USA and with regard to the Deferred Prosecution Agreement signed with the US Department of Justice to conclude the investigation. The plaintiff alleges that the findings of this investigation constitute prima faciae evidence, justifying the issue of the document discovery order, and that all requested documents are (or may be) relevant for filing a motion for approval of a derivative claim against officers and the independent auditors, with regard to damage incurred by the Bank due to the investigation and the penalty consequently imposed on the Bank.
   On March 24, the plaintiff filed a motion to combine the hearing of the two aforementioned motions, to which the Bank objected. On April 8, the Bank (and Mizrahi Tefahot Trust Company Ltd.) filed a motion to dismiss one of these motions. On April 15, 2019, the Court granted the motion by the parties and postponed the date for filing the Bank's response to the late discovery motion, to be submitted within 60 days after final resolution of the question as to which o the discovery motions with regard to the US investigation would proceed. On April 18, 2019, the Court handed down a resolution on the motions and the various responses filed by the parties, setting dates for filing the plaintiffs' responses to the motion to dismiss filed by the Bank. On June 24, 2019, a further Court hearing took place of the motion to dismiss filed by the Bank. On August 14, 2019, the Court issued its resolution, whereby the later motion for discovery should be erased. On September 10, 2019, the plaintiff appealed to the Supreme Court the resolution to dismiss. The parties filed their summations and a hearing of this appeal is scheduled for March 25, 2020.
   On October 10, 2019, the District Court ruled that the late discovery motion would be separated from the aforementioned lawsuit in section 1 above, and would be closed.
   The parties have filed their summations and a hearing of the appeal, scheduled for March 25, 2020, was postponed due to the Corona Virus crisis. On April 26, the appellant filed a motion to schedule a hearing as soon as possible; such hearing was scheduled for June 8, 2020. On June 18, 2020, a verdict was handed down, denying the appeal after the appellant accepted the Supreme Court's recommendation to withdraw their appeal.

See also section 13) below, with regard to recommendation by an Independent Committee appointed further to an agreement signed with the US Department of Justice in 2019, to conclude the investigation with regard to Bank Group business with its US clients.

Note 26 – Contingent Liabilities and Special Commitments – continued

D) On December 12, 2016, a motion was filed with the Tel Aviv District Court, seeking a document discovery order pursuant to provisions of Section 198a of the Corporate Act, 1999 (hereinafter: "Motion for discovery"), asking for Union Bank ("Union Bank") to be instructed to disclose documents with regard to credit extended by the bank to Mr. Eliezer Fishman ("Fishman") and to others whose debt is personally guaranteed by Fishman ("the credit"). The motion alleges that members of the Board of Directors and of the Credit Committee of Union Bank have allowed Fishman to accumulate enormous debt, amounting to NIS 270 million, allegedly without doing their duty to collect such debt when due. After various proceedings, on August 6, 2017 the Court approved a litigation agreement whereby proceedings in this case would be delayed, so as to allow the independent claim committee, which the Union Bank Board of Directors resolved to establish, to discuss this matter and for the Board of Directors to discuss the committee's recommendations. The independent committee concluded its work and the Union Bank Board of Directors discussed its recommendations. In conformity with the litigation agreement between the parties, the content of the Board of Directors' resolution passed in said discussion was provided to the plaintiff's attorney. The parties have entered into a mediation proceeding which proved unsuccessful. Therefore, on September 25, 2019, a motion was filed for approval of a derivative lawsuit ("the motion") against 20 individual defendants who, allegedly, serve or have served as Board members of Union Bank. The motion concerns, allegedly, loans extended to Fishman in 2004-2008, with no collateral or with collateral that only partially covers his debt, with negligent discretion exercised and apparent indifference to the outcome from such matters. It further alleged that Union Bank and officers took no action to recover Union Bank's money. The plaintiff seeks to charge the defendants for the damage they have allegedly caused by their negligence, amounting to NIS 125 million, taking into account the receipts to be collected in Fishman's insolvency proceedings. Concurrently, the plaintiff also filed a motion to reject the motion for document discovery and review. On October 28, 2019, the Court ordered this motion to be rejected.
By consensus request by the parties, on December 12, 2019 the Court ordered Union Bank to be added as co-defendant to the motion for approval of class action status. On May 24, 2020, Union Bank filed their response to the motion for approval of a derivative lawsuit. On May 25, 2020, the Court accepted the motion by Union Bank and issued a temporary confidentiality injunction, pending a different ruling, with regard to confidentiality of Union Bank's response to the motion towards third parties.

On July 29, 2020, a motion was filed on behalf of Globes newspaper and others, to remove the temporary confidentiality injunction, thereby allowing unlimited review and disclosure of documents enclosed with the Bank's response to the motion for approval of a derivative lawsuit. On August 10, 2020, a pre-trial hearing took place, after which the Court ruled, denying the motion for confidentiality, both for Court proceedings and for Court documents, allowing Globes to review these documents. On September 21, Union Bank filed a motion for right to appeal this ruling. On January 19, 2021, the Supreme Court rejected the motion for right to appeal filed by Union Bank and adopted the agreement whereby Union Bank would be given time to inform the Court that certain information constitutes trade secrets – with reference both to information regarding Mr. Eliezer Fishman's privacy and the independent committee's report, in conformity with the Court ruling dated February 1, 2021. The Bank must file such notice by February 16, 2021.
The Court approved the parties' consent to postpone the hearing scheduled for January 13, 2021, in order to conduct negotiations in conformity with the Union Bank Board of Directors' resolution dated December 31, 2020.
On February 18, the District Court accepted the motion filed by the Marker newspaper of HaAretz Newspaper Group Ltd. ("The Marker") and others filed a motion for injunction to review documents in the Court case and to join the proceeding with regard to the motion for confidentiality, allowing them to make claims with regard to "document redaction".

13) In addition to section 12)C) of this Note above, on May 18, 2020, the Board of Directors discussed an additional report provided by the independent committee to the Board of Directors, concerning evaluation of managerial processes and controls, including with regard to aspects of corporate governance, related to the events covered by the Agreement. This report stipulated that in most areas and processes reviewed by the Committee with regard to the Relevant Period, the Bank has made significant improvements and the Committee made no comments with regard to said improvements. For some of these, the Committee saw fit to recommend that the Bank apply additional processes, beyond the existing ones, and the Board of Directors has adopted most of these recommendations with slight changes.

Note 26 – Contingent Liabilities and Special Commitments – continued

14) Further to an investigation by the US DOJ with regard to international activity of the Bank Group with its US clients, including an investigation with regard to activities of Bank Mizrahi Switzerland with their US clients, which was reported to Bank Mizrahi Switzerland back in August 2013, an agreement was signed on March 12, 2019 by the Bank, Mizrahi Switzerland Ltd. and Mizrahi-Tefahot Trust Company Ltd. ("the Bank Group Companies") and the US Department of Justice, namely a Deferred Prosecution Agreement (DPA) ("the Agreement"), validated by the US Court on March 19, 2019.

In conformity with the agreement, the Bank Group agreed to accept responsibility according to U.S. law (Respondeat Superior doctrine), for the acts and omissions of certain former employees of the Bank Group – private bankers, relationship managers and other employees with similar levels of responsibility – who had acted in breach of its policy and procedures during the years 2002-2012; Acts and omissions (as described in an agreed Statement of Facts, which is attached as an exhibit to the DPA) as a result of which US clients were able to avoid their US tax obligations.

Pursuant to the Agreement, the Bank Group paid to the US Government a total of USD 195 million and agreed to take certain actions (all of which are already implemented) relating to the implementation of FATCA mechanisms and to adequate compliance programs, including with regard to relevant affiliated companies, and to continue the full cooperation with the US authorities to the extent required by such authorities, with regard to the subject matter of the investigation.

Pursuant to the DPA, a deferred indictment ("Information") against the Bank Group has been submitted to a US court, with respect to the above conducts of the Bank Group employees. The indictment is deferred for a period of two years, such that if the Bank Group complies with the provisions of the agreement, the indictment shall be dismissed at the end of such deferral period, without any conviction.

On March 27, 2019, the Bank received a letter from the Supervisor of Banks, requiring the Bank, as the investigation is concluded and in view of the agreement reached, to conduct a structured, in-depth review and lesson learning process, including appointment of an independent commission, headed by a retired judge, to review the management and control processes and to formulate any general and personal conclusions and recommendations, as needed. On March 27, 2019, the Bank's Board of Directors resolved to create such a commission.
On March 31, 2020, the Bank Board of Directors adopted the Committee's recommendations with regard to not bringing legal proceedings against officers and others at the Bank, and with regard to not drawing personal conclusions with regard to events subject of the Agreement, and to sign a settlement agreement, amounting to USD 23 million, with insurers that have issued a Board member and officer liability insurance policy, subject to approval by the Tel Aviv-Yafo District Court. This amount was recognized as revenues in the first quarter of 2020.
On May 18, 2020, the Board of Directors discussed an additional report provided by the Committee to the Board of Directors, concerning evaluation of managerial processes and controls, including with regard to aspects of corporate governance, related to the events covered by the Agreement. This report stipulated that in most areas and processes reviewed by the Committee with regard to the Relevant Period, the Bank has made significant improvements and the Committee made no comments with regard to said improvements. For some of these, the Committee saw fit to recommend that the Bank apply additional processes, beyond the existing ones, and the Board of Directors has adopted most of these recommendations with slight changes.

15) In February 2019, the Bank entered into an agreement with Israel Credit Cards Ltd. (hereinafter: "CAL") and with Diners Club Israel Ltd., a company controlled by CAL (hereinafter: "Diners") – (hereinafter jointly: "CAL Group") to extend the agreement on joint issuing of charge cards to Bank clients. The extension of this agreement revised the commercial terms agreed by the parties in previous agreements.

In February 2019, the Bank signed with Isracard Ltd. and with Europay (Eurocard) Israel Ltd. an extension to the agreement on joint issuing of charge cards to Bank clients. The extension of this agreement revised the commercial terms agreed by the parties in previous agreements. The Bank also has an agreement with Poalim Express Ltd. of Isracard Group on joint issuing of charge cards to Bank clients.
In March 2015, the Bank signed with Leumi Card Ltd. an agreement on joint issuing of charge cards to Bank clients.
The agreements with the credit card companies are subject to all regulatory requirements required by statute, if any.

16) A trust company that is a subsidiary of the Bank executes trust transactions that include primarily trusteeships for trust funds, for debenture holders, for owners of restricted shares and for the maintenance of bank accounts.

17) The Bank has undertaken vis-à-vis the trustee for debentures and subordinated notes issued by Mizrahi Tefahot Issue Company Ltd., to fulfill the payment terms, as stated in the debentures and subordinated notes.

Note 26 – Contingent Liabilities and Special Commitments – continued

18) The Bank contracts loan syndication transactions with multiple institutional investors. Some of these transactions are organized, managed and operated by the Bank.

For more information about syndication transactions, see Note 30D.

D. Guarantees by maturity

The Bank provides a wide range of guarantees and indemnification to its clients, to allow them to conduct a wide range of transactions. The maximum amount of potential future payments is determined based on the amount stated in the guarantee, without accounting for any potential refunds or collateral helped or pledged. Most guarantees at the Bank are rated by credit performance rating.

The following are guarantees issued by the Bank, by maturity:

	As of December 31, 2020				
	Expiring in 12 months or sooner	Expiring in 1 to 3 years	Expiring in 3 to 5 years	Expiring in over 5 years	Total
	Including Union Bank				
Loan guarantees	1,828	490	52	510	2,880
Guarantees to home buyers	7,793	2,691	174	1,245	11,903
Guarantees and other commitments	4,563	872	167	3,658	9,260
Commitments to issue guarantees	4,946	5,712	742	–	11,400
Total guarantees	**19,130**	**9,765**	**1,135**	**5,413**	**35,443**

	As of December 31, 2020				
	Excluding Union Bank				
Loan guarantees	1,640	420	44	467	2,571
Guarantees to home buyers	7,786	2,691	174	–	10,651
Guarantees and other commitments	4,167	742	146	3,420	8,475
Commitments to issue guarantees	3,687	5,712	742	–	10,141
Total guarantees	**17,280**	**9,565**	**1,106**	**3,887**	**31,838**

	As of December 31, 2019				
Loan guarantees	2,202	460	36	200	2,898
Guarantees to home buyers	8,533	2,050	56	33	10,672
Guarantees and other commitments	3,588	575	138	4,312	8,613
Commitments to issue guarantees	3,058	5,287	1,317	331	9,993
Total guarantees	**17,381**	**8,372**	**1,547**	**4,876**	**32,176**

Note 27 – Liens

A. Stock exchange members are required to deposit a system of collateral to secure the fulfillment of all the obligations of their customers and the obligations of the other stock exchange members that are not members of the clearinghouse and their customers, to the stock exchange clearinghouse, with respect to transactions executed through the stock exchange clearinghouse, and to secure their share in the risks fund for this activity as discussed below in Note 26.C.1).

In the framework of system of collateral, the Bank deposits liquid collateral, as provided below:

1) In the account opened by the stock exchange clearinghouse in its name ("collateral account in clearinghouse") government debentures of the Bank were deposited as collateral in favor of the stock exchange clearinghouse, at the full value of the customers' obligations plus the Bank's share in the risk fund. As of December 31, 2020: NIS 102 million were deposited. (As of December 31, 2019: NIS 58 million).

2) Additionally, as from June 19, 2017, in the account opened by the stock exchange clearinghouse in the Bank of Israel in its name on behalf of the Bank, cash is deposited that the Bank furnishes as collateral, as well as the cash to be paid as income on securities that were deposited in the account, the clearinghouse's collateral or cash originating in any other financial right deriving from those securities, including cash proceeds from their sale. As of December 31, 2020, deposits to this account amounted to NIS 36 million (as of December 31, 2019: NIS 19 million).

3) Through June 19, 2017, funds provided as collateral by stock exchange clearing house members, currently deposited with the Bank of Israel (as stated in section 2) above), were deposited on behalf of the Bank with another bank.

4) The accounts discussed in Par. 1 and 3 above have been pledged under a first-level fixed lien in favor of the stock exchange clearinghouse. The aforementioned account in section 2 above was pledged by a first-ranked lien and by assignment by way of pledge of unlimited amount in favor of the stock exchange clearing house.

Furthermore, stock exchange members are required to deposit a system of collateral that secures the fulfillment of their obligations relating to MAOF transactions that are executed by them or their customers or by stock exchange members that are not members of the MAOF Clearinghouse, and to secure their share in the risks fund covering this activity, as provided below in Note 26.C.2).

Accordingly, the Bank was required to deposit only liquid collateral, for the full exposure of activity in derivatives and for its share in the risks fund, as provided below:

1) In the account opened in the TASE Clearinghouse in the name of the MAOF Clearinghouse ("main MAOF collateral account"), government debentures of the Bank were deposited as security in favor of the MAOF Clearinghouse, at the full value of the requirements for customers' collateral plus the Bank's share in the risks fund. The value of debentures deposited as of December 31, 2020 is NIS 415 million (as of December 31, 2019 – NIS 274 million).

2) Additionally, as from June 19, 2017, in the account opened by the MAOF clearinghouse in its own name on behalf of the Bank with the Bank of Israel, cash is deposited that the Bank furnishes as collateral, as well as the cash to be paid as income on securities that will be deposited in a major clearinghouse collateral account or cash originating in any other financial right deriving from said securities, including cash proceeds from their sale. As of December 31, 2020, deposits to this account amounted to NIS 22 million (as of December 31, 2019: NIS 14 million).

3) Through June 19, 2017, funds provided as collateral by MAOF clearing house members, currently deposited with the Bank of Israel (as state in section 2) above), were deposited on behalf of the Bank with another bank.

4) The aforementioned accounts in sections 1 and 3 above are pledged under a floating and fixed lien to benefit the MAOF clearinghouse. The aforementioned account in section 2 above was pledged by a first-ranked lien and by assignment by way of pledge of unlimited amount in favor of the MAOF clearing house.

The value of collateral deposited by Union Bank in favor of the clearing house as of December 31, 2020 amounted to NIS 316 million.

B. The Bank of Israel operates the Real Time Gross Settlement system (RTGS) – a system which allows customers to transfer in real time NIS-denominated amounts between bank accounts in the same bank or between banks.

The Bank of Israel provides daily and intra-day credit for participants in the RTGS system against specific liens on Bank debentures in the Bank of Israel account with the stock exchange clearinghouse. As of December 31, 2020 and as of December 31, 2019, no debentures were deposited in this account.

C. The Bank conducts securities operations through the EuroClear clearinghouse, which is a settlement system for securities traded on international markets. For these operations, the Bank pledged securities valued, as of December 31, 2020, at USD 16 million (as of December 31, 2019: USD 15 million).

Note 27 – Liens – continued

To secure Bank client activity involving options overseas, the Bank provides as collateral debentures of foreign governments. For these operations, the Bank pledged securities valued, as of December 31, 2020, at USD 47 million (as of December 31, 2019: USD 10 million).

D. The Bank and subsidiaries contract Credit Support Annex (CSA) agreements with counter parties, intended to minimize the mutual credit risks created between parties when trading in derivatives. According to these agreements, the fair value of the parties' rights and obligations are measured periodically, and if either party's exposure exceeds the threshold specified in advance, then that party would make a transfer to the other party so as to limit the exposure until the next measurement date.

   As of December 31, 2020, the Bank Group has provided to counter parties deposits amounting to NIS 836 million (December 31, 2019: NIS 246 million).

E. In accordance with the requirement of the regulatory agencies in the USA, the Bank's branch pledged securities worth USD 34 million as of the balance sheet date (as of December 31, 2019: USD 34 million), used to secure deposits of the public or to comply with other government regulations, or to fulfill other government directives. Most of the amount pledged, which as of December 31, 2020 amounted to USD 25 million (as of December 31, 2019 – USD 22 million), relates to a demand by U.S. regulatory agencies to secure 7.5% of the branch's liabilities, as defined by the authorities there.

F. To secure credit facilities provided to the Bank by the Bank of Israel, the Bank has pledged an account containing foreign securities. As of December 31, 2020 and December 31, 2019, the Bank pledged no foreign securities.

G. The Bank has pledged a mortgage portfolio valued at NIS 5.1 billion (of which: Actual amount pledged: NIS 2.0 billion) as well as monetary deposits amounting to NIS 200 million, to secure long-term monetary loans received and to be received from the Bank of Israel to finance loans to micro and small businesses. The Bank would serve as Trustee on behalf of the Bank of Israel with regard to loan operations and maintaining the loan portfolio sufficiently pledged. Should a particular loan no longer match the criteria prescribed by the Bank of Israel, this loan can no longer serve as collateral for monetary loans extended to the Bank, and therefore should the value of the pledged portfolio drop below the minimum threshold required, the Bank would be required to pledge additional loan portfolios or to provide other collateral.

H.

	December 31,		
	2020		2019
	Including Union Bank	Excluding Union Bank	
Sources of securities which have been received and which the Bank may sell or pledge, at fair value excluding set-offs:			
Securities received in transactions for borrowing securities against cash	200	194	120

Note 28 – Derivative instruments and hedging activities

Reported amounts (NIS in millions)

A) Description of derivatives and the risks inherent in such activity

1) Overview

The Bank's activities in derivative instruments, such as futures contracts and forward trades, options and financial swaps, are executed both as broker for its customers and as part of the management of its assets and liabilities and in order to minimize as much as possible the Bank's exposure to market risks.

The Bank designates certain derivative instruments as fair value hedges or as cash flow hedges. For more information, see Note 1.D.16. to the financial statements.

2) Types and description of activity in financial derivative instruments

The activities in financial derivative instruments include currency contracts, interest rate contracts and other contracts, and contracts for customers in the MAOF market, on different indices and assets, as outlined below:

- Forward transactions and futures contracts:

  A contract between two parties to buy or sell a specified quantity of commodities, currencies, interest or other financial instruments (hereinafter: "underlying asset"), to be executed on a future date and at a price specified in advance.
- Swaps:

  Contracts to exchange a specified quantity of underlying assets on the transaction date, with a reciprocal obligation to re-exchange the items that had been exchanged on a future date.
- Options:

  Contracts that confer, in return for the payment of a premium, the right to purchase (call) or sell (put) the underlying assets at a pre-determined fixed price, quantity and time.
- Spot trades (transactions for immediate delivery):

  Exchanges of two currencies, based on an exchange rate agreed in advance, to be executed within two business days.
- Credit derivatives:

  Contracts that confer, in return for the payment of a one-time or periodic premium, the right to receive payment in the event of a change in credit rating, the inability to honor obligations or any other credit event, relating to the State or the company, as stipulated in the contract.
- Fair value hedges:

  The Bank designates certain derivatives as fair value hedges. Change in fair value of derivatives hedging exposure to change in fair value of an asset, liability or firm commitment, is regularly recognized on the statement of profit and loss, as is the change in fair value of the hedged item, which may be attributed to the hedged risk.
- Cash flows hedges:

The Bank designates certain derivatives as cash flows hedges. The accounting treatment of changes to fair value of derivatives hedging exposure to change in cash flows from an asset, liability or anticipated transaction depends on the effectiveness of hedging relationship.

- The effective portion of the change in fair value of derivatives used to hedge cash flows is initially recognized under equity (off the statement of profit and loss), as a component of Other Comprehensive Income and then, when the anticipated transaction impacts the statement of profit and loss, it is reclassified to the statement of profit and loss.
- The non-effective portion of the change in fair value of derivatives thus designated is immediately recognized on the statement of profit and loss.

Note 28 – Derivative instruments and hedging activities – continued

Reported amounts (NIS in millions)

b) Activity on consolidated basis

	December 31, 2020				December 31, 2019		
	Derivatives not held for trading	Derivatives held for trading	Total	Total	Derivatives not held for trading	Derivatives held for trading	Total
			Including Union Bank	Excluding Union Bank			
1. Stated amounts of derivative instruments							
Interest contracts							
Forward contracts	1,439	–	1,439	904	1,562	–	1,562
Options written	–	33	33	33	–	79	79
Options purchased	–	74	74	74	174	148	322
Swaps(1)	20,988	35,492	56,480	26,426	8,263	30,577	38,840
Total(2)	**22,427**	**35,599**	**58,026**	**27,437**	**9,999**	**30,804**	**40,803**
Of which: Hedging derivatives(3)	**3,962**	**–**	**3,962**	**3,288**	**4,263**	**–**	**4,263**
Currency contracts							
Forward contracts(4)(6)	52,008	80,362	132,370	125,015	54,757	71,397	126,154
Options written	4,665	15,628	20,293	13,739	–	19,936	19,936
Options purchased	4,685	15,038	19,723	12,896	–	16,947	16,947
Swaps	1,694	1,456	3,150	2,459	3,325	2,736	6,061
Total	**63,052**	**112,484**	**175,536**	**154,109**	**58,082**	**111,016**	**169,098**
Of which: Hedging derivatives(3)	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Contracts for shares							
Options written	282	15,244	15,526	11,038	88	15,564	15,652
Options purchased(5)	8	15,198	15,206	10,787	–	15,596	15,596
Swaps	–	2,657	2,657	2,657	–	1,794	1,794
Total	**290**	**33,099**	**33,389**	**24,482**	**88**	**32,954**	**33,042**
Commodities and other contracts							
Forward contracts	82	14	96	14	6	12	18
Options written	–	12,847	12,847	12,469	–	10,789	10,789
Options purchased	–	12,831	12,831	12,469	–	10,789	10,789
Total	**82**	**25,692**	**25,774**	**24,952**	**6**	**21,590**	**21,596**
Credit contracts							
Bank is guarantor	257	–	257	257	276	–	276
Bank is beneficiary	118	–	118	118	462	–	462
Total	**375**	**–**	**375**	**375**	**738**	**–**	**738**
Total stated amount	**86,226**	**206,874**	**293,100**	**231,355**	**68,913**	**196,364**	**265,277**

(1) Of which: Swaps for which the banking corporation pays a fixed interest rate amounting to NIS 34,819 million (as of December 31, 2019: NIS 27,626 million).
(2) Of which: NIS/CPI swaps amounting to NIS 7,708 million (as of December 31, 2019: NIS 8,484 million).
(3) The Bank conducts fair value hedging and cash flow hedging through interest rate swap contracts and NIS/CPI swap contracts, respectively.
(4) Of which: Foreign currency spot swaps amounting to NIS 4,854 million (as of December 31, 2019: NIS 4,083 million).
(5) Of which: Traded on the Stock Exchange, amounting to NIS 15,168 million (as of December 31, 2019: NIS 15,564 million).
(6) Including diversion between the trading portfolio and the banking portfolio, primarily due to proactive internal transactions as part of asset and liability management.

Note 28 – Derivative instruments and hedging activities – continued

Reported amounts (NIS in millions)

b) Activity on consolidated basis – continued

	December 31, 2020							
	Assets with respect to derivatives, gross				Liabilities with respect to derivatives, gross			
	Derivatives not held for trading	Derivatives held for trading	Total	Total	Derivatives not held for trading	Derivatives held for trading	Total	Total
			Including Union Bank	Excluding Union Bank			Including Union Bank	Excluding Union Bank
2. Fair value of derivative instruments, gross								
Interest contracts	537	575	1,112	563	799	666	1,465	743
Of which: Hedging derivatives	60	–	60	49	170	–	170	86
Currency contracts[(1)]	404	2,487	2,891	2,699	458	3,115	3,573	3,222
Of which: Hedging derivatives	–	–	–	–	–	–	–	–
Contracts for shares	–	541	541	428	6	458	464	351
Commodities and other contracts	–	2	2	1	–	2	2	1
Credit contracts	6	–	6	6	8	–	8	8
Total assets / liabilities with respect to derivatives, gross[(2)]	**947**	**3,605**	**4,552**	**3,697**	**1,271**	**4,241**	**5,512**	**4,325**
Fair value amounts offset in the balance sheet	–	–	–	–	–	–	–	–
Carrying amount of assets / liabilities with respect to derivative instruments	**947**	**3,605**	**4,552**	**3,697**	**1,271**	**4,241**	**5,512**	**4,325**
Of which: Carrying amount with respect to derivative instruments not subject to a master netting agreement or to similar agreements	122	686	808	736	154	808	962	899

	As of December 31, 2019 (audited)					
	Assets with respect to derivatives, gross			Liabilities with respect to derivatives, gross		
	Derivatives not held for trading	Derivatives held for trading	Total	Derivatives not held for trading	Derivatives held for trading	Total
2. Fair value of derivative instruments, gross						
Interest contracts	206	469	675	273	543	816
Of which: Hedging derivatives	31	–	31	71	–	71
Currency contracts[(1)]	431	1,138	1,569	398	1,134	1,532
Of which: Hedging derivatives	–	–	–	–	–	–
Contracts for shares	2	333	335	–	332	332
Commodities and other contracts	–	1	1	–	1	1
Credit contracts	6	–	6	5	–	5
Total assets / liabilities with respect to derivatives, gross[(2)]	**645**	**1,941**	**2,586**	**676**	**2,010**	**2,686**
Fair value amounts offset in the balance sheet	–	–	–	–	–	–
Carrying amount of assets / liabilities with respect to derivative instruments	**645**	**1,941**	**2,586**	**676**	**2,010**	**2,686**
Of which: Carrying amount with respect to derivative instruments not subject to a master netting agreement or to similar agreements	164	146	310	271	333	604

(1) Including diversion between the trading portfolio and the banking portfolio, primarily due to proactive internal transactions as part of asset and liability management.

(2) Of which: Gross fair value of assets with respect to embedded derivatives amounting to NIS 9 million (as of December 31, 2019: NIS 8 million); Gross fair value of liabilities with respect to embedded derivatives as of December 31, 2020 amounting to NIS 6 million

Note 28 – Derivative instruments and hedging activities – continued

Reported amounts (NIS in millions)

c) Accounting hedges

1. Fair value hedge[(1)]

	For the year ended December 31, 2020
	Interest revenues (expenses)[(3)]
Interest contracts	
Hedged items	(11)
Hedging derivatives	10

	Balance as of December 31, 2020			
	Book value		Cumulative fair value adjustments that increased the book value	
	Including Union Bank	Excluding Union Bank	Including Union Bank	Excluding Union Bank
Securities available for sale	1,636	790	35	4

2. Cash flows hedges[(2)]

For the year ended December 31, 2020	
Amounts recognized in Other Comprehensive Income (loss) from derivatives	Interest revenues (expenses)[(3)]
3	49

(1) Reflects amounts included in assessment of hedge effectiveness.

(2) Reflects amounts excluded from assessment of hedge effectiveness, for which the difference between the change in fair value and the periodic write-down is recognized on Other Comprehensive Income (Loss).

(3) As from September 30, 2020 the Bank consolidates the financial statements of Union Bank. The consolidated profit and loss results for 2020 include the financial results of Union Bank for the fourth quarter only.

Note 28 – Derivative instruments and hedging activities – continued

Reported amounts (NIS in millions)

d) Credit risk on financial derivatives according to counter-party to the contract – Consolidated – continued

	December 31, 2020						
	Stock exchanges	Banks	Dealers/ Brokers	Governments and central banks	Others	Total including Union Bank	Total excluding Union Bank
Carrying amount of assets with respect to derivative instruments	**119**	**2,384**	**61**	**31**	**1,957**	**4,552**	**3,697**
Gross amounts not offset in the balance sheet:							
Mitigation of credit risk with respect to financial instruments	–	(1,725)	–	–	(814)	[(1)](2,539)	[(1)](1,903)
Mitigation of credit risk with respect to cash collateral received	–	(635)	–	(29)	(420)	(1,084)	(686)
Net amount of assets with respect to derivative instruments	**119**	**24**	**61**	**2**	**723**	**929**	**1,109**
Off-balance sheet credit risk on derivative instruments[(2)]	217	1,085	176	–	1,087	2,565	2,081
Mitigation of off-balance sheet credit risk	–	(679)	–	–	(397)	(1,076)	(861)
Net off-balance sheet credit risk with respect to derivative instruments	**217**	**406**	**176**	**–**	**690**	**1,489**	**1,220**
Total credit risk on derivative instruments	**336**	**430**	**237**	**2**	**1,413**	**2,418**	**2,328**
Carrying amount of liabilities with respect to derivative instruments	**87**	**2,436**	**87**	**–**	**2,902**	**5,512**	**4,325**
Gross amounts not offset in the balance sheet:							
Financial instruments	–	(1,725)	–	–	(814)	(2,539)	(1,903)
Pledged cash collateral	–	(340)	–	–	(323)	(663)	(377)
Net amount of liabilities with respect to derivative instruments	**87**	**371**	**87**	**–**	**1,765**	**2,310**	**2,045**

Note 28 – Derivative instruments and hedging activities – continued

Reported amounts (NIS in millions)

d) Credit risk on financial derivatives according to counter-party to the contract – Consolidated – continued

	December 31, 2019					
	Stock exchanges	Banks	Dealers/ Brokers	Governments and central banks	Others	Total
Carrying amount of assets with respect to derivative instruments	**57**	**1,349**	**73**	**1**	**1,106**	**2,586**
Gross amounts not offset in the balance sheet:						
Mitigation of credit risk with respect to financial instruments	–	(1,006)	–	–	(181)	(1)(1,187)
Mitigation of credit risk with respect to cash collateral received	–	(290)	–	–	(241)	(531)
Net amount of assets with respect to derivative instruments	**57**	**53**	**73**	**1**	**684**	**868**
Off-balance sheet credit risk on derivative instruments(2)	179	1,034	157	–	617	1,987
Mitigation of off-balance sheet credit risk	–	(428)	–	–	(300)	(728)
Net off-balance sheet credit risk with respect to derivative instruments	**179**	**606**	**157**	**–**	**317**	**1,259**
Total credit risk on derivative instruments	236	659	230	1	1,001	2,127
Carrying amount of liabilities with respect to derivative instruments	**54**	**1,290**	**73**	**–**	**1,269**	**2,686**
Gross amounts not offset in the balance sheet:						
Financial instruments	–	(1,006)	–	–	(181)	(1,187)
Pledged cash collateral	–	(246)	–	–	–	(246)
Net amount of liabilities with respect to derivative instruments	**54**	**38**	**73**	**–**	**1,088**	**1,253**

(1) This balance consists entirely of derivative instruments subject to offset agreements.

(2) The difference, if positive, between the total amounts with respect to derivative instruments (including with respect to derivative instruments with negative fair value) included under borrower indebtedness, as calculated for restrictions on indebtedness of a borrower, before mitigation of credit risk, and the carrying amount of assets with respect to derivative instruments of the borrower.

In 2020, the Bank recognized expenses with respect to increase in credit losses with respect to derivative instruments, amounting to NIS 6 million (in 2019, the Bank recognized revenues with respect to a decrease in credit losses amounting to NIS 6 million; in 2018 the Bank recognized revenues due to a decrease in credit losses amounting to NIS 3 million).

Note 28 – Derivative instruments and hedging activities – continued

Reported amounts (NIS in millions)

e) Maturity dates – stated amounts: year-end balances – Consolidated

	December 31, 2020					
	Up to three months	3 months to 1 year	1-5 years	Over 5 years	Total including Union Bank	Total excluding Union Bank
Interest contracts:						
NIS – CPI	1,186	1,913	4,070	539	7,708	7,173
Other	2,949	5,584	28,002	13,783	50,318	20,264
Currency contracts	108,995	62,022	4,291	228	175,536	154,109
Contracts for shares	30,303	2,659	425	2	33,389	24,482
Commodities and other contracts	25,674	100	375	–	26,149	25,327
Total	**169,107**	**72,278**	**37,163**	**14,552**	**293,100**	**231,355**
	December 31, 2019					
Total	**160,575**	**76,526**	**20,655**	**7,521**	**265,277**	

Note 29 – Operating Segments and Geographic Regions

A. Information regarding supervisory operating segments

On November 3, 2014, the Supervisor of Banks issued an update to the Public Reporting Directives concerning supervisory operating segments. According to the directive, the Bank is required to provide, on its financial statements, disclosure with regard to supervisory operating segments in conformity with a uniform, comparable layout specified by the Supervisor of Banks; attribution to supervisory operating segments is typically determined by the turnover volume for clients.

Financial information in the Report by the Board of Directors and Management is included in conformity with definitions of supervisory operating segments.

In addition, the financial statements include, in this Note, disclosure with regard to "Operating segments in conformity with the management approach".

An operating segment in conformity with the management approach is a Bank component with operations which may derive revenues and incur expenses which meet the following criteria:

- Its operating results are regularly reviewed for the purpose of decision making about resource allocation and for performance evaluation.
- Separate financial information is available with regard to it.

In fact, there is a strong correlation between supervisory operating segments and "operating segments in conformity with the management approach" but nevertheless, there are some differences in client attribution to segments and in decision making. Therefore, at this stage, the financial statements also include reporting of operating results in conformity with "the management approach", as noted above.

Supervisory operating segments

Supervisory operating segments include operating segments for individuals and operating segments for other than individuals (including business operating segments, institutional investors and financial management of the Bank).

Individuals are defined as persons with no indebtedness to the Bank or whose indebtedness is classified as indebtedness of "individuals – residential mortgages and others", in conformity with definitions of credit risk classification by economic sector.

Definitions of supervisory operating segments are as follows:

Households – individuals, other than private banking clients, as noted below.

Private banking – individuals who manage a financial asset portfolio in excess of NIS 3 million.

Small and micro businesses – businesses with turnover amounting up to NIS 50 million.

Medium businesses – businesses with turnover higher than NIS 50 million and lower than NIS 250 million.

Large businesses – businesses with turnover higher than NIS 250 million

Institutional investors – Businesses which own pension funds, study funds, mutual funds, ETFs, insurance companies, stock exchange members, portfolio managers.

Financial management – includes trading operations, asset and liability management and non-banking investments.

Trade operations – Investment in securities held for trading, market making operations for securities, operations involving derivatives not designated as hedges and which are not part of asset and liability management for the Bank, borrowing of securities for trading, short selling of securities, underwriting services for securities.

Asset and liability management – including investment in debentures available for sale and in debentures held to maturity, hedging using derivative instruments, ALM hedging, deposits with banks and deposits from banks in Israel and overseas, currency hedging of investments overseas, deposits with and from Governments.

Real investments – Investment in shares available for sale and in associated companies of businesses.

Other financial management operations – management, operation, trust and custody services for banks, sale and management of loan portfolios.

The aforementioned operating segments are divided into operations in Israel and operations overseas; operations overseas are presented separately and are divided into operations of individuals and business operations only.

As from September 30, 2020 the Bank consolidates the financial statements of Union Bank. The consolidated statement of profit and loss for 2020 includes the financial results of Union Bank for the fourth quarter only.

Note 29 – Operating Segments and Geographic Regions – Continued

For the year ended December 31, 2020

Reported amounts (NIS in millions)

	Households – other	Households – residential mortgages	Of which: Business housing	Private banking	Small and micro businesses	Medium businesses
Interest revenues from externals	990	3,913	466	2	1,202	330
Interest expenses from externals	501	–	–	161	106	53
Interest revenues, net from externals	489	3,913	466	(159)	1,096	277
Interest revenues, net – inter-segment	840	(1,984)	(237)	238	92	32
Total interest revenues, net	**1,329**	**1,929**	**229**	**79**	**1,188**	**309**
Total non-interest financing revenues	8	(6)	–	–	–	1
Total commissions and other revenues	574	146	19	99	440	96
Total non-interest revenues	582	140	19	99	440	97
Total revenues	**1,911**	**2,069**	**248**	**178**	**1,628**	**406**
Expenses with respect to credit losses	130	279	82	6	321	136
Operating and other expenses to externals	1,864	678	83	64	880	74
Operating and other expenses – inter-segment	(140)	–	–	8	(77)	62
Total operating and other expenses	**1,724**	**678**	**83**	**72**	**803**	**136**
Pre-tax profit (loss)	57	1,112	83	100	504	134
Provision for taxes on profit	20	386	29	35	175	46
After-tax profit (loss)	**37**	**726**	**54**	**65**	**329**	**88**
Share of banking corporation in earnings of associated companies	–	–	–	–	–	–
Net profit (loss) before attribution to non-controlling interests	37	726	54	65	329	88
Net profit attributed to non-controlling interests	(47)	–	–	–	(5)	–
Net profit (loss) attributable to shareholders of the banking corporation	**(10)**	**726**	**54**	**65**	**324**	**88**
Average balance of assets	21,398	142,921	18,706	178	23,880	8,108
Of which: Investments in associated companies	–	–	–	–	–	–
Average balance of loans to the public	21,398	142,921	18,706	178	23,880	8,108
Balance of loans to the public at end of reported period	25,643	156,364	18,878	370	29,514	9,660
Balance of impaired debts	96	97	–	–	810	239
Balance of debt in arrears 90 days or longer	24	1,176	376	–	27	–
Average balance of liabilities	103,115	–	–	17,072	34,255	10,570
Of which: Average balance of deposits from the public	99,635	–	–	17,072	34,255	10,570
Balance of deposits from the public at end of reported period	114,987	–	–	20,178	44,382	14,406
Average balance of risk assets(1)	20,182	82,671	15,635	70	22,792	9,192
Balance of risk assets at end of reported period(1)	22,432	90,918	16,825	240	27,800	11,882
Average balance of assets under management(2)	41,321	9,294	712	3,825	29,986	3,744
Breakdown of interest revenues, net:						
Margin from credit granting operations	861	1,831	227	1	1,026	260
Margin from activities of receiving deposits	458	–	–	76	122	36
Other	10	98	2	2	40	13
Total interest revenues, net	**1,329**	**1,929**	**229**	**79**	**1,188**	**309**

(1) Risk assets – as calculated for capital adequacy purposes (Proper Conduct of Banking Business Directive 201).
(2) Assets under management – includes clients' provident funds, study funds, mutual funds and securities.

Large businesses	Institutional investors	Financial Management Segment	Total – operations in Israel	Private individuals	Business operations	Total – operations overseas	Total
575	32	235	7,279	19	230	249	7,528
186	240	424	1,671	–	37	37	1,708
389	(208)	(189)	5,608	19	193	212	5,820
172	306	322	18	–	(18)	(18)	–
561	**98**	**133**	**5,626**	**19**	**175**	**194**	**5,820**
(1)	1	208	211	–	10	10	221
134	56	316	1,861	21	10	31	1,892
133	57	524	2,072	21	20	41	2,113
694	**155**	**657**	**7,698**	**40**	**195**	**235**	**7,933**
138	23	1	1,034	–	16	16	1,050
151	63	416	4,190	31	58	89	4,279
88	54	5	–	–	–	–	–
239	**117**	**421**	**4,190**	**31**	**58**	**89**	**4,279**
317	15	235	2,474	9	121	130	2,604
110	5	81	858	3	42	45	903
207	**10**	**154**	**1,616**	**6**	**79**	**85**	**1,701**
–	–	1	1	–	–	–	1
207	10	155	1,617	6	79	85	1,702
–	–	(40)	(92)	–	–	–	(92)
207	**10**	**115**	**1,525**	**6**	**79**	**85**	**1,610**
19,125	1,108	69,431	286,149	849	14,782	15,631	301,780
–	–	31	31	–	–	–	31
19,125	1,108	–	216,718	458	2,842	3,300	220,018
20,169	2,434	–	244,154	323	3,481	3,804	247,958
340	118	–	1,700	–	–	–	1,700
1	–	–	1,228	–	–	–	1,228
31,004	41,903	31,298	269,217	847	13,937	14,784	284,001
31,004	41,903	–	234,439	684	4,058	4,742	239,181
38,094	47,566	–	279,613	719	3,892	4,611	284,224
25,729	2,455	8,010	171,101	403	4,141	4,544	175,645
28,781	2,367	11,291	195,711	409	4,364	4,773	200,484
19,054	357,700	2,663	467,587	–	–	–	467,587
475	26	–	4,480	10	97	107	4,587
59	66	–	817	2	8	10	827
27	6	133	329	7	70	77	406
561	**98**	**133**	**5,626**	**19**	**175**	**194**	**5,820**

Note 29 – Operating Segments and Geographic Regions – Continued

For the year ended December 31, 2019

Reported amounts (NIS in millions)

	Households – other	Households – residential mortgages	Private banking	Small and micro businesses	Medium businesses
Interest revenues from externals	961	4,014	2	1,157	297
Interest expenses from externals	576	–	176	118	65
Interest revenues (expenses), net from externals	385	4,014	(174)	1,039	232
Interest revenues (expenses), net – inter-segment	964	(2,319)	260	111	63
Total interest revenues (expenses), net	1,349	1,695	86	1,150	295
Total non-interest financing revenues	–	–	–	–	–
Total commissions and other revenues	526	160	11	387	90
Total non-interest revenues	526	160	11	387	90
Total revenues	**1,875**	**1,855**	**97**	**1,537**	**385**
Expenses (reduction of expenses) with respect to credit losses	99	44	2	166	42
Operating and other expenses to externals	1,762	651	85	809	62
Operating and other expenses – inter-segment	(134)	–	7	(75)	60
Total operating and other expenses	1,628	651	92	734	122
Pre-tax profit	148	1,160	3	637	221
Provision for taxes on profit	52	404	1	222	77
After-tax profit	96	756	2	415	144
Share of banking corporation in earnings of associated companies	–	–	–	–	–
Net profit before attribution to non-controlling interests	96	756	2	415	144
Net profit attributed to non-controlling interests	(44)	–	–	(5)	–
Net profit attributable to shareholders of the banking corporation	**52**	**756**	**2**	**410**	**144**
Average balance of assets	20,708	130,749	112	20,412	7,104
Of which: Investments in associated companies	–	–	–	–	–
Average balance of loans to the public	20,708	130,749	112	20,412	7,104
Balance of loans to the public at end of reported period	21,893	135,311	227	21,241	7,196
Balance of impaired debts	86	56	–	622	145
Balance of debt in arrears 90 days or longer	24	1,476	–	37	–
Average balance of liabilities	87,897	–	13,938	25,283	8,388
Of which: Average balance of deposits from the public	84,672	–	13,938	25,283	8,388
Balance of deposits from the public at end of reported period	86,076	–	14,839	26,725	8,935
Average balance of risk assets(1)	19,016	74,823	26	19,517	8,157
Balance of risk assets at end of reported period(1)	19,749	78,190	25	20,250	8,389
Average balance of assets under management(2)	42,576	9,945	2,687	29,648	6,123
Breakdown of interest revenues, net:					
Margin from credit granting operations	831	1,622	–	984	240
Margin from activities of receiving deposits	516	–	86	142	46
Other	2	73	–	24	9
Total interest revenues, net	1,349	1,695	86	1,150	295

(1) Risk assets – as calculated for capital adequacy purposes (Proper Conduct of Banking Business Directive 201).
(2) Assets under management – includes clients' provident funds, study funds, mutual funds and securities.

Large businesses	Institutional investors	Financial management segment	Total activity in Israel	Private individuals	Business operations	Total – operations overseas	Total
576	30	266	7,303	24	384	408	7,711
274	446	615	2,270	1	100	101	2,371
302	(416)	(349)	5,033	23	284	307	5,340
224	534	256	93	–	(93)	(93)	–
526	**118**	**(93)**	**5,126**	**23**	**191**	**214**	**5,340**
–	–	349	349	–	8	8	357
143	39	223	1,579	24	6	30	1,609
143	39	572	1,928	24	14	38	1,966
669	**157**	**479**	**7,054**	**47**	**205**	**252**	**7,306**
24	(6)	(3)	368	–	(4)	(4)	364
105	69	366	3,909	28	51	79	3,988
85	52	5	–	–	–	–	–
190	**121**	**371**	**3,909**	**28**	**51**	**79**	**3,988**
455	42	111	2,777	19	158	177	2,954
158	15	38	967	7	55	62	1,029
297	**27**	**73**	**1,810**	**12**	**103**	**115**	**1,925**
–	–	–	–	–	–	–	–
297	27	73	1,810	12	103	115	1,925
–	–	(34)	(83)	–	–	–	(83)
297	**27**	**39**	**1,727**	**12**	**103**	**115**	**1,842**
16,881	1,051	53,589	250,606	910	9,169	10,079	260,685
–	–	32	32	–	–	–	32
16,881	1,051	–	197,017	591	2,637	3,228	200,245
15,357	1,569	–	202,794	376	3,231	3,607	206,401
241	124	–	1,274	–	–	–	1,274
–	–	–	1,537	–	–	–	1,537
25,985	39,992	32,083	233,566	699	10,127	10,826	244,392
25,985	39,992	–	198,258	625	4,648	5,273	203,531
25,155	45,330	–	207,060	605	3,319	3,924	210,984
23,107	2,029	6,694	153,369	436	3,743	4,179	157,548
23,833	1,810	6,385	158,631	424	3,803	4,227	162,858
27,695	329,318	10,324	458,316	–	–	–	458,316
434	19	–	4,130	12	96	108	4,238
70	93	–	953	2	9	11	964
22	6	(93)	43	9	86	95	138
526	**118**	**(93)**	**5,126**	**23**	**191**	**214**	**5,340**

Note 29 – Operating Segments and Geographic Regions – Continued
For the year ended December 31, 2018
Reported amounts (NIS in millions)

	Households – other	Households – residential mortgages	Private banking	Small and micro businesses	Medium businesses
Interest revenues from externals	930	4,056	1	1,011	269
Interest expenses from externals	576	–	160	91	53
Interest revenues (expenses), net from externals	354	4,056	(159)	920	216
Interest revenues (expenses), net – inter-segment	880	(2,539)	235	88	28
Total interest revenues (expenses), net	**1,234**	**1,517**	**76**	**1,008**	**244**
Total non-interest financing revenues	–	–	–	–	–
Total commissions and other revenues	520	156	10	367	78
Total non-interest revenues	520	156	10	367	78
Total revenues	**1,754**	**1,673**	**86**	**1,375**	**322**
Expenses (reduction of expenses) with respect to credit losses	108	36	1	137	11
Operating and other expenses to externals	1,670	611	539	775	57
Operating and other expenses – inter-segment	(140)	–	8	(79)	62
Total operating and other expenses	**1,530**	**611**	**547**	**696**	**119**
Pre-tax profit (loss)	116	1,026	(462)	542	192
Provision (reduced provision) for taxes on profit	41	360	(37)	190	67
After-tax profit (loss)	**75**	**666**	**(425)**	**352**	**125**
Share of banking corporation in earnings of associated companies	–	–	–	–	–
Net profit (loss) before attribution to non-controlling interests	75	666	(425)	352	125
Net profit attributed to non-controlling interests	(37)	–	–	(3)	–
Net profit (loss) attributable to shareholders of the banking corporation	**38**	**666**	**(425)**	**349**	**125**
Average balance of assets	19,607	123,590	93	18,267	6,205
Of which: Investments in associated companies	–	–	–	–	–
Average balance of loans to the public	19,607	123,590	93	18,267	6,205
Balance of loans to the public at end of reported period	21,184	126,749	99	19,324	6,669
Balance of impaired debts	77	60	–	526	70
Balance of debt in arrears 90 days or longer	23	1,250	–	42	–
Average balance of liabilities	81,090	–	12,511	20,458	7,680
Of which: Average balance of deposits from the public	77,970	–	12,511	20,458	7,680
Balance of deposits from the public at end of reported period	82,119	–	13,777	22,664	8,332
Average balance of risk assets[(1)]	17,987	68,903	30	17,381	7,150
Balance of risk assets at end of reported period[(1)]	18,803	71,811	28	18,080	7,641
Average balance of assets under management[(2)]	42,263	9,240	2,431	23,611	3,348
Breakdown of interest revenues, net:					
Margin from credit granting operations	808	1,449	1	874	198
Margin from activities of receiving deposits	423	–	75	108	40
Other	3	68	–	26	6
Total interest revenues, net	**1,234**	**1,517**	**76**	**1,008**	**244**

(1) Risk assets – as calculated for capital adequacy purposes (Proper Conduct of Banking Business Directive 201).
(2) Assets under management – includes clients' provident funds, study funds, mutual funds and securities.

Large businesses	Institutional investors	Financial management segment	Total – operations in Israel	Private individuals	Business operations	Total – operations overseas	Total
550	37	173	7,027	22	310	332	7,359
224	417	827	2,348	3	86	89	2,437
326	(380)	(654)	4,679	19	224	243	4,922
208	498	642	40	–	(40)	(40)	–
534	118	(12)	4,719	19	184	203	4,922
–	–	435	435	–	10	10	445
113	42	208	1,494	19	9	28	1,522
113	42	643	1,929	19	19	38	1,967
647	**160**	**631**	**6,648**	**38**	**203**	**241**	**6,889**
8	2	3	306	(2)	6	4	310
88	68	395	4,203	129	52	181	4,384
89	55	5	–	–	–	–	–
177	123	400	4,203	129	52	181	4,384
462	35	228	2,139	(89)	145	56	2,195
162	12	80	875	(4)	51	47	922
300	23	148	1,264	(85)	94	9	1,273
–	–	1	1	–	–	–	1
300	23	149	1,265	(85)	94	9	1,274
–	–	(28)	(68)	–	–	–	(68)
300	**23**	**121**	**1,197**	**(85)**	**94**	**9**	**1,206**
16,528	1,434	49,563	235,287	1,052	8,986	10,038	245,325
–	–	32	32	–	–	–	32
16,528	1,434	–	185,724	567	2,824	3,391	189,115
16,440	1,341	–	191,806	552	3,598	4,150	195,956
212	156	–	1,101	–	–	–	1,101
–	–	–	1,315	1	–	1	1,316
26,172	39,260	33,601	220,772	841	8,664	9,505	230,277
26,172	39,260	–	184,051	808	4,624	5,432	189,483
29,460	37,712	–	194,064	657	4,771	5,428	199,492
21,239	2,624	6,323	141,637	437	3,516	3,953	145,590
22,016	3,055	5,941	147,375	444	3,808	4,252	151,627
26,459	159,405	12,837	279,594	–	–	–	279,594
448	30	–	3,808	11	101	112	3,920
70	85	–	801	2	12	14	815
16	3	(12)	110	6	71	77	187
534	118	(12)	4,719	19	184	203	4,922

Note 29 – Operating segments and Geographic Regions – Continued
Individuals – households and private banking – operations in Israel

For the year ended December 31, 2020

Reported amounts (NIS in millions)

	Household Segment				Private Banking Segment			
	Residential mortgages	**Credit cards**	**Other**	**Total – Households**	**Credit cards**	**Other**	**Total – private banking**	**Total**
Interest revenues from externals	3,913	37	953	4,903	–	2	2	4,905
Interest expenses from externals	–	–	501	501	–	161	161	662
Interest revenues (expenses), net from externals	3,913	37	452	4,402	–	(159)	(159)	4,243
Interest revenues (expenses), net – inter-segment	(1,984)	(6)	846	(1,144)	–	238	238	(906)
Total interest revenues, net	**1,929**	**31**	**1,298**	**3,258**	**–**	**79**	**79**	**3,337**
Total non-interest financing revenues	(6)	–	8	2	–	–	–	2
Total commissions and other revenues	146	144	430	720	1	98	99	819
Total non-interest revenues	140	144	438	722	1	98	99	821
Total revenues	**2,069**	**175**	**1,736**	**3,980**	**1**	**177**	**178**	**4,158**
Expenses with respect to credit losses	279	–	130	409	–	6	6	415
Operating and other expenses to externals	678	65	1,799	2,542	2	62	64	2,606
Operating and other expenses – inter-segment	–	(13)	(127)	(140)	–	8	8	(132)
Total operating and other expenses	**678**	**52**	**1,672**	**2,402**	**2**	**70**	**72**	**2,474**
Pre-tax profit (loss)	1,112	123	(66)	1,169	(1)	101	100	1,269
Provision for taxes on profit	386	43	(23)	406	–	35	35	441
After-tax profit (loss)	**726**	**80**	**(43)**	**763**	**(1)**	**66**	**65**	**828**
Share of banking corporation in earnings of associated companies	–	–	–	–	–	–	–	–
Net profit (loss) before attribution to non-controlling interests	726	80	(43)	763	(1)	66	65	828
Net profit attributed to non-controlling interests	–	(3)	(44)	(47)	–	–	–	(47)
Net profit (loss) attributable to shareholders of the banking corporation	**726**	**77**	**(87)**	**716**	**(1)**	**66**	**65**	**781**
Average balance of assets	142,921	3,480	17,918	164,319	12	166	178	164,497
Of which: Investments in associated companies	–	–	–	–	–	–	–	–
Average balance of loans to the public	142,921	3,480	17,918	164,319	12	166	178	164,497
Balance of loans to the public at end of reported period	156,364	4,244	21,399	182,007	18	352	370	182,377
Balance of impaired debts	97	–	96	193	–	–	–	193
Balance of debt in arrears 90 days or longer	1,176	–	24	1,200	–	–	–	1,200
Average balance of liabilities	–	3,480	99,635	103,115	–	17,072	17,072	120,187
Of which: Average balance of deposits from the public	–	–	99,635	99,635	–	17,072	17,072	116,707
Balance of deposits from the public at end of reported period	–	–	114,987	114,987	–	20,178	20,178	135,165
Average balance of risk assets	82,671	3,408	16,774	102,853	7	63	70	102,923
Balance of risk assets at end of reported period	90,918	3,920	18,512	113,350	7	233	240	113,590
Average balance of assets under management	9,294	–	41,321	50,615	–	3,825	3,825	54,440
Breakdown of interest revenues, net:								
Margin from credit granting operations	1,831	30	831	2,692	–	1	1	2,693
Margin from activities of receiving deposits	–	–	458	458	–	76	76	534
Other	98	1	9	108	–	2	2	110
Total interest revenues, net	**1,929**	**31**	**1,298**	**3,258**	**–**	**79**	**79**	**3,337**

Note 29 – Operating segments and Geographic Regions – Continued
Individuals – households and private banking – operations in Israel
For the year ended December 31, 2019
Reported amounts (NIS in millions)

	Household Segment				Private Banking Segment			
	Residential mortgage	**Credit cards**	**Other**	**Total – Households**	**Credit cards**	**Other**	**Total – private banking**	**Total**
Interest revenues from externals	4,014	36	925	4,975	–	2	2	4,977
Interest expenses from externals	–	–	576	576	–	176	176	752
Interest revenues (expenses), net from externals	4,014	36	349	4,399	–	(174)	(174)	4,225
Interest revenues (expenses), net – inter-segment	(2,319)	(6)	970	(1,355)	–	260	260	(1,095)
Total interest revenues, net	**1,695**	**30**	**1,319**	**3,044**	**–**	**86**	**86**	**3,130**
Total non-interest financing revenues	–	–	–	–	–	–	–	–
Total commissions and other revenues	160	149	377	686	1	10	11	697
Total non-interest revenues	160	149	377	686	1	10	11	697
Total revenues	**1,855**	**179**	**1,696**	**3,730**	**1**	**96**	**97**	**3,827**
Expenses with respect to credit losses	44	–	99	143	–	2	2	145
Operating and other expenses to externals	651	62	1,700	2,413	1	84	85	2,498
Operating and other expenses – inter-segment	–	(12)	(122)	(134)	–	7	7	(127)
Total operating and other expenses	**651**	**50**	**1,578**	**2,279**	**1**	**91**	**92**	**2,371**
Pre-tax profit	1,160	129	19	1,308	–	3	3	1,311
Provision for taxes on profit	404	45	7	456	–	1	1	457
After-tax profit	**756**	**84**	**12**	**852**	**–**	**2**	**2**	**854**
Share of banking corporation in earnings of associated companies	–	–	–	–	–	–	–	–
Net profit before attribution to non-controlling interests	756	84	12	852	–	2	2	854
Net profit attributed to non-controlling interests	**–**	**(5)**	**(39)**	**(44)**	**–**	**–**	**–**	**(44)**
Net profit (loss) attributable to shareholders of the banking corporation	**756**	**79**	**(27)**	**808**	**–**	**2**	**2**	**810**
Average balance of assets	130,749	3,225	17,483	151,457	12	100	112	151,569
Of which: Investments in associated companies	–	–	–	–	–	–	–	–
Average balance of loans to the public	130,749	3,225	17,483	151,457	12	100	112	151,569
Balance of loans to the public at end of reported period	135,311	3,961	17,932	157,204	12	215	227	157,431
Balance of impaired debts	56	–	86	142	–	–	–	142
Balance of debt in arrears 90 days or longer	1,476	–	24	1,500	–	–	–	1,500
Average balance of liabilities	–	3,225	84,672	87,897	–	13,938	13,938	101,835
Of which: Average balance of deposits from the public	–	–	84,672	84,672	–	13,938	13,938	98,610
Balance of deposits from the public at end of reported period	–	–	86,076	86,076	–	14,839	14,839	100,915
Average balance of risk assets	74,823	3,347	15,669	93,839	7	19	26	93,865
Balance of risk assets at end of reported period	78,190	3,465	16,284	97,939	7	18	25	97,964
Average balance of assets under management	9,945	–	42,576	52,521	–	2,687	2,687	55,208
Breakdown of interest revenues, net:								
Margin from credit granting operations	1,622	30	801	2,453	–	–	–	2,453
Margin from activities of receiving deposits	–	–	516	516	–	86	86	602
Other	73	–	2	75	–	–	–	75
Total interest revenues, net	**1,695**	**30**	**1,319**	**3,044**	**–**	**86**	**86**	**3,130**

Note 29 – Operating segments and Geographic Regions – Continued
Individuals – households and private banking – operations in Israel
For the year ended December 31, 2018
Reported amounts (NIS in millions)

	Household Segment				Private Banking Segment			
	Residential mortgage	**Credit cards**	**Other**	**Total – Households**	**Credit cards**	**Other**	**Total – private banking**	**Total**
Interest revenues from externals	4,056	34	896	4,986	–	1	1	4,987
Interest expenses from externals	–	–	576	576	–	160	160	736
Interest revenues (expenses), net from externals	4,056	34	320	4,410	–	(159)	(159)	4,251
Interest revenues (expenses), net – inter-segment	(2,539)	(5)	885	(1,659)	–	235	235	(1,424)
Total interest revenues, net	**1,517**	**29**	**1,205**	**2,751**	**–**	**76**	**76**	**2,827**
Total non-interest financing revenues	–	–	–	–	–	–	–	–
Total commissions and other revenues	156	154	366	676	1	9	10	686
Total non-interest revenues	156	154	366	676	1	9	10	686
Total revenues	**1,673**	**183**	**1,571**	**3,427**	**1**	**85**	**86**	**3,513**
Expenses with respect to credit losses	36	–	108	144	–	1	1	145
Operating and other expenses to externals	611	60	1,610	2,281	1	538	539	2,820
Operating and other expenses – inter-segment	–	(13)	(127)	(140)	–	8	8	(132)
Total operating and other expenses	**611**	**47**	**1,483**	**2,141**	**1**	**546**	**547**	**2,688**
Pre-tax profit (loss)	1,026	136	(20)	1,142	–	(462)	(462)	680
Provision for taxes on profit	360	46	(5)	401	–	(37)	(37)	364
After-tax profit (loss)	**666**	**90**	**(15)**	**741**	**–**	**(425)**	**(425)**	**316**
Share of banking corporation in earnings of associated companies	–	–	–	–	–	–	–	–
Net profit (loss) before attribution to non-controlling interests	666	90	(15)	741	–	(425)	(425)	316
Net profit attributed to non-controlling interests	–	(2)	(35)	(37)	–	–	–	(37)
Net profit (loss) attributable to shareholders of the banking corporation	**666**	**88**	**(50)**	**704**	**–**	**(425)**	**(425)**	**279**
Average balance of assets	123,590	3,120	16,487	143,197	12	81	93	143,290
Of which: Investments in associated companies	–	–	–	–	–	–	–	–
Average balance of loans to the public	123,590	3,120	16,487	143,197	12	81	93	143,290
Balance of loans to the public at end of reported period	126,749	3,756	17,428	147,933	12	87	99	148,032
Balance of impaired debts	60	–	77	137	–	–	–	137
Balance of debt in arrears 90 days or longer	1,250	–	23	1,273	–	–	–	1,273
Average balance of liabilities	–	3,120	77,970	81,090	–	12,511	12,511	93,601
Of which: Average balance of deposits from the public	–	–	77,970	77,970	–	12,511	12,511	90,481
Balance of deposits from the public at end of reported period	–	–	82,119	82,119	–	13,777	13,777	95,896
Average balance of risk assets	68,903	3,349	14,638	86,890	7	23	30	86,920
Balance of risk assets at end of reported period	71,811	3,426	15,377	90,614	7	21	28	90,642
Average balance of assets under management	9,240	–	42,263	51,503	–	2,431	2,431	53,934
Breakdown of interest revenues, net:								
Margin from credit granting operations	1,449	29	779	2,257	–	1	1	2,258
Margin from activities of receiving deposits	–	–	423	423	–	75	75	498
Other	68	–	3	71	–	–	–	71
Total interest revenues, net	**1,517**	**29**	**1,205**	**2,751**	**–**	**76**	**76**	**2,827**

Note 29 – Operating segments and Geographic Regions – Continued
Small and micro, medium and large business – operations in Israel

For the year ended December 31, 2020

Reported amounts (NIS in millions)

	Small and micro business segment			Medium business segment			Large business segment		
	Construction and real estate	Other	Total	Construction and real estate	Other	Total	Construction and real estate	Other	Total
Interest revenues from externals	354	848	1,202	101	229	330	336	239	575
Interest expenses from externals	17	89	106	7	46	53	13	173	186
Interest revenues, net from externals	337	759	1,096	94	183	277	323	66	389
Interest revenues (expenses), net – inter-segment	(17)	109	92	(6)	38	32	(33)	205	172
Total interest revenues, net	**320**	**868**	**1,188**	**88**	**221**	**309**	**290**	**271**	**561**
Non-interest financing revenues (expenses)	–	–	–	–	1	1	–	(1)	(1)
Total commissions and other revenues	60	380	440	29	67	96	76	58	134
Total non-interest revenues	60	380	440	29	68	97	76	57	133
Total revenues	**380**	**1,248**	**1,628**	**117**	**289**	**406**	**366**	**328**	**694**
Expenses (reduction of expenses) with respect to credit losses	46	275	321	6	130	136	(3)	141	138
Operating and other expenses to externals	72	808	880	11	63	74	44	107	151
Operating and other expenses – inter-segment	(6)	(71)	(77)	5	57	62	16	72	88
Total operating and other expenses	**66**	**737**	**803**	**16**	**120**	**136**	**60**	**179**	**239**
Pre-tax profit	268	236	504	95	39	134	309	8	317
Provision for taxes on profit	93	82	175	33	13	46	107	3	110
After-tax profit	**175**	**154**	**329**	**62**	**26**	**88**	**202**	**5**	**207**
Share of banking corporation in earnings of associated companies	–	–	–	–	–	–	–	–	–
Net profit before attribution to non-controlling interests	175	154	329	62	26	88	202	5	207
Net profit attributed to non-controlling interests	–	(5)	(5)	–	–	–	–	–	–
Net profit attributable to shareholders of the banking corporation	**175**	**149**	**324**	**62**	**26**	**88**	**202**	**5**	**207**
Average balance of assets	6,758	17,122	23,880	2,748	5,360	8,108	8,244	10,881	19,125
Of which: Investments in associated companies	–	–	–	–	–	–	–	–	–
Average balance of loans to the public	6,758	17,122	23,880	2,748	5,360	8,108	8,244	10,881	19,125
Balance of loans to the public at end of reported period	8,792	20,722	29,514	3,363	6,297	9,660	8,233	11,936	20,169
Balance of impaired debts	188	622	810	36	203	239	8	332	340
Balance of debt in arrears 90 days or longer	4	23	27	–	–	–	–	1	1
Average balance of liabilities	6,139	28,116	34,255	2,630	7,940	10,570	5,837	25,167	31,004
Of which: Average balance of deposits from the public	6,139	28,116	34,255	2,630	7,940	10,570	5,837	25,167	31,004
Balance of deposits from the public at end of reported period	7,874	36,508	44,382	3,287	11,119	14,406	7,269	30,825	38,094
Average balance of risk assets	8,051	14,741	22,792	3,440	5,752	9,192	15,386	10,343	25,729
Balance of risk assets at end of reported period	9,222	18,578	27,800	4,344	7,538	11,882	15,729	13,052	28,781
Average balance of assets under management	3,725	26,261	29,986	871	2,873	3,744	4,656	14,398	19,054
Breakdown of interest revenues, net:									
Margin from credit granting operations	289	737	1,026	76	184	260	267	208	475
Margin from activities of receiving deposits	20	102	122	8	28	36	9	50	59
Other	11	29	40	4	9	13	14	13	27
Total interest revenues, net	**320**	**868**	**1,188**	**88**	**221**	**309**	**290**	**271**	**561**

Note 29 – Operating segments and Geographic Regions – Continued
Small and micro, medium and large business – operations in Israel
For the year ended December 31, 2019
Reported amounts (NIS in millions)

	Small and micro business segment			Medium business segment			Large business segment		
	Construction and real estate	**Other**	**Total**	**Construction and real estate**	**Other**	**Total**	**Construction and real estate**	**Other**	**Total**
Interest revenues from externals	326	831	1,157	93	204	297	331	245	576
Interest expenses from externals	18	100	118	8	57	65	12	262	274
Interest revenues (expenses), net from externals	308	731	1,039	85	147	232	319	(17)	302
Interest revenues (expenses), net – inter-segment	(15)	126	111	–	63	63	(42)	266	224
Total interest revenues, net	**293**	**857**	**1,150**	**85**	**210**	**295**	**277**	**249**	**526**
Total non-interest financing revenues	–	–	–	–	–	–	–	–	–
Total commissions and other revenues	51	336	387	45	45	90	83	60	143
Total non-interest revenues	51	336	387	45	45	90	83	60	143
Total revenues	**344**	**1,193**	**1,537**	**130**	**255**	**385**	**360**	**309**	**669**
Expenses (reduction of expenses) with respect to credit losses	–	166	166	(5)	47	42	(9)	33	24
Operating and other expenses to externals	42	767	809	10	52	62	33	72	105
Operating and other expenses – inter-segment	(5)	(70)	(75)	5	55	60	15	70	85
Total operating and other expenses	**37**	**697**	**734**	**15**	**107**	**122**	**48**	**142**	**190**
Pre-tax profit	307	330	637	120	101	221	321	134	455
Provision for taxes on profit	107	115	222	42	35	77	111	47	158
After-tax profit	**200**	**215**	**415**	**78**	**66**	**144**	**210**	**87**	**297**
Share of banking corporation in earnings of associated companies	–	–	–	–	–	–	–	–	–
Net profit before attribution to non-controlling interests	200	215	415	78	66	144	210	87	297
Net profit attributed to non-controlling interests	–	(5)	(5)	–	–	–	–	–	–
Net profit attributable to shareholders of the banking corporation	**200**	**210**	**410**	**78**	**66**	**144**	**210**	**87**	**297**
Average balance of assets	5,502	14,910	20,412	2,406	4,698	7,104	7,956	8,925	16,881
Of which: Investments in associated companies	–	–	–	–	–	–	–	–	–
Average balance of loans to the public	5,502	14,910	20,412	2,406	4,698	7,104	7,956	8,925	16,881
Balance of loans to the public at end of reported period	5,795	15,446	21,241	2,347	4,849	7,196	8,071	7,286	15,357
Balance of impaired debts	146	476	622	27	118	145	6	235	241
Balance of debt in arrears 90 days or longer	9	28	37	–	–	–	–	–	–
Average balance of liabilities	4,450	20,833	25,283	2,176	6,212	8,388	4,298	21,687	25,985
Of which: Average balance of deposits from the public	4,450	20,833	25,283	2,176	6,212	8,388	4,298	21,687	25,985
Balance of deposits from the public at end of reported period	4,737	21,988	26,725	2,367	6,568	8,935	4,729	20,426	25,155
Average balance of risk assets	6,621	12,896	19,517	3,113	5,044	8,157	13,876	9,231	23,107
Balance of risk assets at end of reported period	7,123	13,127	20,250	3,212	5,177	8,389	15,103	8,730	23,833
Average balance of assets under management	3,868	25,780	29,648	711	5,412	6,123	5,179	22,516	27,695
Breakdown of interest revenues, net:									
Margin from credit granting operations	265	719	984	71	169	240	257	177	434
Margin from activities of receiving deposits	21	121	142	9	37	46	9	61	70
Other	7	17	24	5	4	9	11	11	22
Total interest revenues, net	**293**	**857**	**1,150**	**85**	**210**	**295**	**277**	**249**	**526**

Note 29 – Operating segments and Geographic Regions – Continued
Small and micro, medium and large business – operations in Israel
For the year ended December 31, 2018
Reported amounts (NIS in millions)

	Small and micro business segment			Medium business segment			Large business segment		
	Construction and real estate	Other	Total	Construction and real estate	Other	Total	Construction and real estate	Other	Total
Interest revenues from externals	256	755	1,011	81	188	269	296	254	550
Interest expenses from externals	14	77	91	4	49	53	8	216	224
Interest revenues, net from externals	242	678	920	77	139	216	288	38	326
Interest revenues (expenses), net – inter-segment	(7)	95	88	(5)	33	28	(40)	248	208
Total interest revenues, net	**235**	**773**	**1,008**	**72**	**172**	**244**	**248**	**286**	**534**
Total non-interest financing revenues	–	–	–	–	–	–	–	–	–
Total commissions and other revenues	51	316	367	33	45	78	64	49	113
Total non-interest revenues	51	316	367	33	45	78	64	49	113
Total revenues	**286**	**1,089**	**1,375**	**105**	**217**	**322**	**312**	**335**	**647**
Expenses (reduction of expenses) with respect to credit losses	17	120	137	–	11	11	(19)	27	8
Operating and other expenses to externals	42	733	775	9	48	57	28	60	88
Operating and other expenses – inter-segment	(6)	(73)	(79)	5	57	62	16	73	89
Total operating and other expenses	**36**	**660**	**696**	**14**	**105**	**119**	**44**	**133**	**177**
Pre-tax profit	233	309	542	91	101	192	287	175	462
Provision for taxes on profit	82	108	190	32	35	67	101	61	162
After-tax profit	**151**	**201**	**352**	**59**	**66**	**125**	**186**	**114**	**300**
Share of banking corporation in earnings of associated companies	–	–	–	–	–	–	–	–	–
Net profit before attribution to non-controlling interests	151	201	352	59	66	125	186	114	300
Net profit attributed to non-controlling interests	–	(3)	(3)	–	–	–	–	–	–
Net profit attributable to shareholders of the banking corporation	**151**	**198**	**349**	**59**	**66**	**125**	**186**	**114**	**300**
Average balance of assets	4,841	13,426	18,267	1,719	4,486	6,205	7,813	8,715	16,528
Of which: Investments in associated companies	–	–	–	–	–	–	–	–	–
Average balance of loans to the public	4,841	13,426	18,267	1,719	4,486	6,205	7,813	8,715	16,528
Balance of loans to the public at end of reported period	5,115	14,209	19,324	2,234	4,435	6,669	8,027	8,413	16,440
Balance of impaired debts	110	416	526	24	46	70	45	167	212
Balance of debt in arrears 90 days or longer	12	30	42	–	–	–	–	–	–
Average balance of liabilities	3,548	16,910	20,458	1,917	5,763	7,680	4,493	21,679	26,172
Of which: Average balance of deposits from the public	3,548	16,910	20,458	1,917	5,763	7,680	4,493	21,679	26,172
Balance of deposits from the public at end of reported period	3,913	18,751	22,664	2,024	6,308	8,332	4,433	25,027	29,460
Average balance of risk assets	5,751	11,630	17,381	2,559	4,591	7,150	13,759	7,480	21,239
Balance of risk assets at end of reported period	5,953	12,127	18,080	2,914	4,727	7,641	13,555	8,461	22,016
Average balance of assets under management	2,874	20,737	23,611	666	2,682	3,348	5,367	21,092	26,459
Breakdown of interest revenues, net:									
Margin from credit granting operations	214	660	874	64	134	198	232	216	448
Margin from activities of receiving deposits	15	93	108	6	34	40	7	63	70
Other	6	20	26	2	4	6	9	7	16
Total interest revenues, net	**235**	**773**	**1,008**	**72**	**172**	**244**	**248**	**286**	**534**

Note 29 – Operating Segments and Geographic Regions – Continued
Financial Management Segment – Operations in Israel, Consolidated

For the year ended December 31, 2020

Reported amounts (NIS in millions)

	Financial Management Segment				
	Trading activity	Asset and liability management activity	Real investment activity	Other	Total
Interest revenues from externals	10	225	–	–	235
Interest expenses from externals	–	424	–	–	424
Interest revenues (expenses), net from externals	10	(199)	–	–	(189)
Interest revenues (expenses), net – inter-segment	(2)	324	–	–	322
Interest revenues, net	**8**	**125**	**–**	**–**	**133**
Non-interest revenues from externals – financing	121	62	25	–	208
Non-interest revenues from externals – operating	113	–	–	203	316
Non-interest revenues – inter-segment	–	–	–	–	–
Total non-interest revenues	234	62	25	203	524
Total revenues	**242**	**187**	**25**	**203**	**657**
Expenses with respect to credit losses	–	–	–	1	1
Operating and other expenses from externals	134	72	–	210	416
Operating and other expenses – inter-segment	–	–	–	5	5
Total operating and other expenses	**134**	**72**	**–**	**215**	**421**
Pre-tax profit (loss)	108	115	25	(13)	235
Provision (reduced provision) for taxes on profit	37	40	9	(5)	81
After-tax profit (loss)	**71**	**75**	**16**	**(8)**	**154**
Share of banking corporation in earnings of associated companies	–	–	–	1	1
Net profit (loss) before attribution to non-controlling interests	71	75	16	(7)	155
Net profit attributed to non-controlling interests	–	–	–	(40)	(40)
Net profit (loss) attributable to share holders of the banking corporation	**71**	**75**	**16**	**(47)**	**115**
Average balance of assets	76	69,200	155	–	69,431
Includes: Investments in associated companies	–	–	31	–	31
Average balance of liabilities	–	31,298	–	–	31,298
Includes: Average balance of deposits from the public	–	–	–	–	–
Balance of deposits from the public at end of reported period	–	–	–	–	–
Average balance of risk assets	1,973	962	285	4,790	8,010
Balance of risk assets at end of reported period	2,389	1,883	576	6,443	11,291
Average balance of assets under management	–	–	–	2,663	2,663
Components of net interest revenues and non-interest financing revenues:					
Exchange rate differentials, net	9	(29)	–	–	–
CPI differentials, net	5	(110)	–	–	–
Interest exposure, net	58	70	–	–	–
Equity exposure, net	1	–	–	–	–
Interest spreads attributable to financial management	–	57	–	–	–
Total net interest revenues and non-interest revenues, by accrual basis	73	(12)	–	–	–
Gain or loss from sale or other then temporary impairment of debentures	–	124	–	–	–
Change in difference between fair value and accrual basis of derivative instruments recognized in profit and loss	–	49	–	–	–
Other non-interest revenues	169	26	–	–	–
Total net interest revenues and non-interest revenues	**242**	**187**	**–**	**–**	**–**

Note 29 – Operating Segments and Geographic Regions – Continued
Financial Management Segment – Operations in Israel, Consolidated

For the year ended December 31, 2019

Reported amounts (NIS in millions)

	Financial Management Segment				
	Trading activity	Asset and liability management activity	Real investment activity	Other	Total
Interest revenues from externals	1	265	–	–	266
Interest expenses from externals	–	615	–	–	615
Interest revenues (expenses), net from externals	1	(350)	–	–	(349)
Interest revenues (expenses), net – inter-segment	(48)	304	–	–	256
Interest expenses, net	**(47)**	**(46)**	**–**	**–**	**(93)**
Non-interest revenues from externals – financing	141	150	58	–	349
Non-interest revenues from externals – operating	81	–	–	142	223
Non-interest revenues – inter-segment	–	–	–	–	–
Total non-interest revenues	222	150	58	142	572
Total revenues	**175**	**104**	**58**	**142**	**479**
Reduced expenses with respect to credit losses	–	–	–	(3)	(3)
Operating and other expenses from externals	129	70	–	167	366
Operating and other expenses – inter-segment	–	–	–	5	5
Total operating and other expenses	**129**	**70**	**–**	**172**	**371**
Pre-tax profit (loss)	46	34	58	(27)	111
Provision (reduced provision) for taxes on profit	16	12	20	(10)	38
After-tax profit (loss)	**30**	**22**	**38**	**(17)**	**73**
Share of banking corporation in earnings of associated companies	–	–	–	–	–
Net profit (loss) before attribution to non-controlling interests	30	22	38	(17)	73
Net profit attributed to non-controlling interests	–	–	–	(34)	(34)
Net profit (loss) attributable to share holders of the banking corporation	**30**	**22**	**38**	**(51)**	**39**
Average balance of assets	74	53,377	138	–	53,589
Includes: Investments in associated companies	–	–	32	–	32
Average balance of liabilities	–	32,083	–	–	32,083
Includes: Average balance of deposits from the public	–	–	–	–	–
Balance of deposits from the public at end of reported period	–	–	–	–	–
Average balance of risk assets	1,922	684	193	3,895	6,694
Balance of risk assets at end of reported period	1,917	531	224	3,713	6,385
Average balance of assets under management	–	–	–	10,324	10,324
Components of net interest revenues and non-interest financing revenues:					
Exchange rate differentials, net	29	(1)	–	–	–
CPI differentials, net	–	64	–	–	–
Interest exposure, net	26	43	–	–	–
Equity exposure, net	(3)	–	–	–	–
Interest spreads attributable to financial management	–	51	–	–	–
Total net interest revenues and non-interest revenues, by accrual basis	52	157	–	–	–
Gain or loss from sale or other then temporary impairment of debentures	–	35	–	–	–
Change in difference between fair value and accrual basis of derivative instruments recognized in profit and loss	–	(88)	–	–	–
Other non-interest revenues	123	–	–	–	–
Total net interest revenues and non-interest revenues	175	104	–	–	–

Note 29 – Operating Segments and Geographic Regions – Continued
Financial Management Segment – Operations in Israel, Consolidated
For the year ended December 31, 2018
Reported amounts (NIS in millions)

	Financial Management Segment				
	Trading activity	Asset and liability management activity	Real investment activity	Other	Total
Interest revenues from externals	3	170	–	–	173
Interest expenses from externals	–	827	–	–	827
Interest revenues (expenses), net from externals	3	(657)	–	–	(654)
Interest revenues (expenses), net – inter-segment	(49)	691	–	–	642
Interest revenues (expenses), net	**(46)**	**34**	**–**	**–**	**(12)**
Non-interest revenues from externals – financing	131	287	17	–	435
Non-interest revenues from externals – operating	88	–	–	120	208
Non-interest revenues – inter-segment	–	–	–	–	–
Total non-interest revenues	219	287	17	120	643
Total revenues	**173**	**321**	**17**	**120**	**631**
Expenses with respect to credit losses	–	–	–	3	3
Operating and other expenses from externals	132	71	–	192	395
Operating and other expenses – inter-segment	–	–	–	5	5
Total operating and other expenses	**132**	**71**	**–**	**197**	**400**
Pre-tax profit (loss)	41	250	17	(80)	228
Provision for taxes on profit	14	88	6	(28)	80
After-tax profit (loss)	**27**	**162**	**11**	**(52)**	**148**
Share of banking corporation in earnings of associated companies	–	–	–	1	1
Net profit (loss) before attribution to non-controlling interests	27	162	11	(51)	149
Net profit attributed to non-controlling interests	–	–	–	(28)	(28)
Net profit (loss) attributable to share holders of the banking corporation	**27**	**162**	**11**	**(79)**	**121**
Average balance of assets	96	49,345	122	–	49,563
Includes: Investments in associated companies	–	–	32	–	32
Average balance of liabilities	–	33,601	–	–	33,601
Includes: Average balance of deposits from the public	–	–	–	–	–
Balance of deposits from the public at end of reported period	–	–	–	–	–
Average balance of risk assets	1,682	1,170	175	3,296	6,323
Balance of risk assets at end of reported period	1,635	782	173	3,351	5,941
Average balance of assets under management	–	–	–	12,837	12,837
Components of net interest revenues and non-interest financing revenues:					
Exchange rate differentials, net	12	20	–	–	–
CPI differentials, net	–	182	–	–	–
Interest exposure, net	40	13	–	–	–
Equity exposure, net	5	–	–	–	–
Interest spreads attributable to financial management	–	36	–	–	–
Total net interest revenues and non-interest revenues, by accrual basis	57	251	–	–	–
Gain or loss from sale or other then temporary impairment of debentures	–	–	–	–	–
Change in difference between fair value and accrual basis of derivative instruments recognized in profit and loss	–	70	–	–	–
Other non-interest revenues	116	–	–	–	–
Total net interest revenues and non-interest revenues	173	321	–	–	–

Note 29 – Operating Segments and Geographic Regions – Continued

Reported amounts (NIS in millions)

B. Information about operations by geographic region

	Revenues[(1)]			Net profit attributable to shareholders of the banking corporation			Total assets	
	For the year ended December 31,							
	2020	2019	2018	2020	2019	2018	2020	2019
Israel	7,680	6,961	6,608	1,525	1,727	1,197	344,158	260,795
Switzerland	24	30	24	–	6	(85)	785	745
Other – outside of Israel	229	315	257	85	109	94	15,197	11,704
Total outside Israel	253	345	281	85	115	9	15,982	12,449
Total consolidated	**7,933**	**7,306**	**6,889**	**1,610**	**1,842**	**1,206**	**360,140**	**273,244**

(1) Revenues – net interest revenues and non-interest revenues.

C. Operating segments in conformity with the management approach

The Bank manages its operations in six major operating segments, which are distinguished by client characteristics and type of banking services required, as well as by the organizational unit responsible for servicing each segment. Operating segment definition is based on the Bank's organizational structure, as described below. The operations in the six operating segments include all areas of banking operations including classic banking activity (loans and deposits), securities activity for clients and activity in derivative instruments, as well as custom banking services designed for needs in specific fields. Operations of the various segments are conducted via Bank branches, trading room, Business Centers, Bank HQ departments and subsidiaries in Israel and overseas.

For more information about measurement of Bank operations in conformity with the supervisory segments approach, as specified by the Supervisor of Banks, see chapter "Supervisory operating segments".

Below are the Bank's operating segments in conformity with the management approach:

Household segment – under responsibility of the Retail Division, This segment includes small household clients and mortgage operations. The division provides appropriate banking services and financial products to segment clients, including in the field of mortgages.

Small business segment – under responsibility of the Retail Division, which also serves micro business clients (businesses with annual turnover below NIS 10 million) and small businesses (with annual turnover from NIS 10 million to under NIS 50 million). It may happen, due to business growth of a client served by the Retail Division, that the client may exceed the aforementioned criteria. Banking services and financial products, including commercial banking services as required, are provided to segment clients.

Private banking – private banking is under responsibility of the Private Banking and International Operations sector of the Financial Division[(1)]. Private banking sector clients are individual clients with liquid assets (primarily short-term deposits and investments in securities) over NIS 1 million. Clients of this segment have high financial wealth, to whom the Bank offers access to unique products and services in capital market activity, advisory service and investment management.

Commercial banking – clients of this segment are private and public companies of medium size (middle market) and medium level of indebtedness, and are served by the Business Banking Division, primarily by the Business sector, which operates via three business centers located throughout Israel. As from 2019, new business clients with annual turnover from NIS 50 million to under NIS 250 million are assigned to the Business sector. Segment clients operating in the real estate sector are served by the Construction and Real Estate sector of the Corporate Division, which specializes in provision of dedicated services to this sector.

Note 29 – Operating Segments and Geographic Regions – Continued
Operating segments in conformity with the management approach
For the year ended December 31, 2020
Reported amounts (NIS in millions)

Business banking – the Major Corporations sector in the Corporate Division is responsible for the Business Banking segment, which is the focal point for handling the largest business clients. As from 2019, businesses with annual turnover above NIS 250 million are assigned to the Corporate Sector. This segment provides a range of banking and financial services to the largest companies in the economy, in an array of industries, at relatively high levels of indebtedness. Segment clients operating in the real estate sector are served by the Construction and Real Estate sector of the Corporate Division, which specializes in provision of dedicated services to this sector.

Financial management – operations in this segment include, inter alia, management of assets and liabilities, management of exposure to market risk, management of the nostro portfolio and liquidity management as well as trading room operations in the financial and capital markets. The segment is under responsibility of the Finance Division, except for investments in non-banking corporations, which are under the responsibility of the corporate division.

The major products and guidelines for attribution of balances, revenues and expenses to clients in the system to operating segments in conformity with the management approach, are similar to products and guidelines according to the supervisory operating segment approach.

As from September 30, 2020 the Bank consolidates the financial statements of Union Bank. The consolidated statement of profit and loss for 2020 includes the financial results of Union Bank for the fourth quarter only.

(1) In early 2021, after the balance sheet date, a re-organization was made and this activity was transferred to the Retail Division.

	Households – other	Households – mortgages	Private banking	Small businesses	Commercial banking	Business banking	Financial management	Total consolidated
Interest revenues (expenses), net								
From externals	661	3,582	(25)	806	227	879	(310)	5,820
Inter-segment	990	(1,916)	96	149	31	130	520	–
Total interest revenues, net	**1,651**	**1,666**	**71**	**955**	**258**	**1,009**	**210**	**5,820**
Non-interest financing revenues	7	–	2	2	1	54	155	221
Commissions and other revenues	577	156	135	353	65	284	322	1,892
Total revenues	**2,235**	**1,822**	**208**	**1,310**	**324**	**1,347**	**687**	**7,933**
Expenses with respect to credit losses	144	264	5	260	75	299	3	1,050
Operating and other expenses	1,792	647	100	685	177	469	409	4,279
Pre-tax profit	299	911	103	365	72	579	275	2,604
Provision for taxes on profit	104	316	36	127	25	201	94	903
After-tax profit	**195**	**595**	**67**	**238**	**47**	**378**	**181**	**1,701**
Share in net profit of associated companies, after tax	–	–	–	–	–	–	1	1
Net profit:								
Before attribution to non-controlling interests	195	595	67	238	47	378	182	1,702
Attributable to non-controlling interests	(47)	–	–	(5)	–	–	(40)	(92)
Net profit attributable to shareholders of the Bank	**148**	**595**	**67**	**233**	**47**	**378**	**142**	**1,610**
Return on equity (percentage of net profit attributed to shareholders of the banking corporation out of average equity)(1)	7.5%	7.5%	–	15.8%	6.6%	9.1%	19.9%	9.5%
Average balance of loans to the public, net	27,237	136,308	1,000	16,922	6,493	30,123	–	218,083
Average balance of deposits from the public	110,221	–	11,467	30,259	10,358	63,129	13,747	239,181
Average balance of assets	27,886	136,978	1,469	17,164	6,595	41,287	70,401	301,780
Average balance of risk assets(2)	24,034	79,074	596	14,932	7,086	41,399	8,524	175,645

(1) Calculated in conformity with capital attributed to this segment based on risk components attributed to it in conformity with provisions of Basel III.

(2) Risk weighted assets – as calculated for capital adequacy (Proper Conduct of Banking Business Directive 201).

Note 29 – Operating Segments and Geographic Regions – Continued
Operating segments in conformity with the management approach

For the year ended December 31, 2019

Reported amounts (NIS in millions)

	Households – other	Households – mortgages	Private banking	Small businesses	Commercial banking	Business banking	Financial management	Total consolidated
Interest revenues (expenses), net								
From externals	574	3,693	(36)	746	199	674	(510)	5,340
Inter-segment	1,058	(2,231)	131	167	39	304	532	–
Total interest revenues, net	**1,632**	**1,462**	**95**	**913**	**238**	**978**	**22**	**5,340**
Non-interest financing revenues	5	–	2	1	1	26	322	357
Commissions and other revenues	546	159	60	334	59	235	216	1,609
Total revenues	**2,183**	**1,621**	**157**	**1,248**	**298**	**1,239**	**560**	**7,306**
Expenses (reduction of expenses) with respect to credit losses	96	42	(1)	148	39	44	(4)	364
Operating and other expenses	1,692	619	128	620	152	387	390	3,988
Pre-tax profit	395	960	30	480	107	808	174	2,954
Provision for taxes on profit	138	334	10	167	37	281	62	1,029
After-tax profit	**257**	**626**	**20**	**313**	**70**	**527**	**112**	**1,925**
Share in net profit of associated companies, after tax	–	–	–	–	–	–	–	–
Net profit:								
Before attribution to non-controlling interests	257	626	20	313	70	527	112	1,925
Attributable to non-controlling interests	(44)	–	–	(5)	–	–	(34)	(83)
Net profit attributable to shareholders of the Bank	**213**	**626**	**20**	**308**	**70**	**527**	**78**	**1,842**
Return on equity (percentage of net profit attributed to shareholders of the banking corporation out of average equity)[(1)]	11.5%	8.6%	36.9%	25.1%	10.3%	14.2%	11.9%	11.9%
Average balance of loans to the public, net	26,163	124,979	1,036	13,931	6,005	26,538	–	198,652
Average balance of deposits from the public	93,578	–	8,663	23,584	7,898	54,435	15,373	203,531
Average balance of assets	26,599	125,498	1,558	14,059	6,067	32,624	54,280	260,685
Average balance of risk assets[(2)]	22,566	71,771	534	12,332	6,698	36,689	6,958	157,548

(1) Calculated in conformity with capital attributed to this segment based on risk components attributed to it in conformity with provisions of Basel III.

(2) Risk weighted assets – as calculated for capital adequacy (Proper Conduct of Banking Business Directive 201).

Note 29 – Operating Segments and Geographic Regions – Continued
Operating segments in conformity with the management approach
For the year ended December 31, 2018
Reported amounts (NIS in millions)

	House-holds – other	House-holds – mortgages	Private banking	Small busi-nesses	Commer-cial banking	Busi-ness banking	Financial mana-gement	Total conso-lidated
Interest revenues (expenses), net								
From externals	531	3,769	(21)	652	185	530	(724)	4,922
Inter-segment	954	(2,455)	108	156	29	391	817	–
Total interest revenues, net	**1,485**	**1,314**	**87**	**808**	**214**	**921**	**93**	**4,922**
Non-interest financing revenues	5	–	1	2	1	30	406	445
Commissions and other revenues	528	156	55	308	55	214	206	1,522
Total revenues	**2,018**	**1,470**	**143**	**1,118**	**270**	**1,165**	**705**	**6,889**
Expenses with respect to credit losses	97	35	1	134	6	34	3	310
Operating and other expenses	1,596	579	682	595	147	362	423	4,384
Pre-tax profit (loss)	325	856	(540)	389	117	769	279	2,195
Provision (reduced provision) for taxes on profit	137	360	(227)	163	49	323	117	922
After-tax profit (loss)	**188**	**496**	**(313)**	**226**	**68**	**446**	**162**	**1,273**
Share in net profit of associated companies, after tax	–	–	–	–	–	–	1	1
Net profit (loss):								
Before attribution to non-controlling interests	188	496	(313)	226	68	446	163	1,274
Attributable to non-controlling interests	(37)	–	–	(3)	–	–	(28)	(68)
Net profit (loss) attributable to shareholders of the Bank	**151**	**496**	**(313)**	**223**	**68**	**446**	**135**	**1,206**
Return on equity (percentage of net profit attributed to shareholders of the banking corporation out of average equity)(1)	10.2%	8.4%	–	23.7%	12.2%	14.1%	25.3%	8.5%
Average balance of loans to the public, net	24,795	118,121	1,028	12,602	5,563	25,499	–	187,608
Average balance of deposits from the public	85,679	–	8,065	19,659	7,035	59,854	9,191	189,483
Average balance of assets	25,260	118,554	1,638	12,728	5,628	30,635	50,882	245,325
Average balance of risk assets(2)	21,188	66,181	570	11,110	6,250	33,559	6,732	145,590

(1) Calculated in conformity with capital attributed to this segment based on risk components attributed to it in conformity with provisions of Basel III.

(2) Risk weighted assets – as calculated for capital adequacy (Proper Conduct of Banking Business Directive 201).

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses

Reported amounts (NIS in millions)

A. Off balance sheet debt[1] and credit instruments

1. Movement in balance of provision for credit losses

	For the year ended December 31, 2020					
	Provision for credit losses					
	Loans to the public					
	Commercial	Housing	Individual – other	Total	Banks and governments	Total
Balance of provision for credit losses at start of period	865	674	273	1,812	1	1,813
Expenses with respect to credit losses	634	279	136	1,049	1	1,050
Accounting write-offs[2]	(304)	(12)	(153)	(469)	–	(469)
Collection of debts written off for accounting purposes in previous years[2]	119	1	76	196	–	196
Net accounting write-offs	(185)	(11)	(77)	(273)	–	(273)
Acquisition of Union Bank	69	–	8	77	–	77
Balance of provision for credit losses at end of period	**1,383**	**942**	**340**	**2,665**	**2**	**2,667**
Of which: With respect to off balance sheet credit instruments	**208**	**–**	**24**	**232**	**–**	**232**
	For the year ended December 31, 2019					
Balance of provision for credit losses at start of period	766	644	263	1,673	4	1,677
Expenses with respect to credit losses	222	44	101	367	(3)	364
Accounting write-offs[2]	(237)	(15)	(155)	(407)	–	(407)
Collection of debts written off for accounting purposes in previous years[2]	114	1	64	179	–	179
Net accounting write-offs	(123)	(14)	(91)	(228)	–	(228)
Balance of provision for credit losses at end of period	**865**	**674**	**273**	**1,812**	**1**	**1,813**
Of which: With respect to off balance sheet credit instruments	**110**	**–**	**9**	**119**	**–**	**119**
	For the year ended December 31, 2018					
Balance of provision for credit losses at start of period	699	630	245	1,574	1	1,575
Expenses with respect to credit losses	164	36	107	307	3	310
Accounting write-offs[2]	(199)	(24)	(153)	(376)	–	(376)
Collection of debts written off for accounting purposes in previous years[2]	102	2	64	168	–	168
Net accounting write-offs	(97)	(22)	(89)	(208)	–	(208)
Balance of provision for credit losses at end of period	**766**	**644**	**263**	**1,673**	**4**	**1,677**
Of which: With respect to off balance sheet credit instruments	**88**	**–**	**10**	**98**	**–**	**98**

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.

(2) Accounting write-offs presented in the Note primarily consist of write-offs of a technical nature, due to passage of time of clients being in arrears, in conformity with US standards applicable to the Bank in this regard. Thus, for example, the balance of the provision for large impaired debts will typically be written off after two years. Debt measured on a group basis will be written off after 150 days in arrears. This means that the Bank's collection efforts may sometimes take longer when compared to the timing for write-off according to accounting rules. Consequently, relatively high balances of "accounting write-offs" and relatively high balances of "Recovery of debts written off in previous years" are presented.

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

A. Off balance sheet debt[(1)] and credit instruments

2. Additional information about calculation of the provision for credit losses with respect to debts, and debts for which the provision has been calculated

						December 31, 2020
	Loans to the public					
	Commercial	Housing	Individual – other	Total	Banks and governments	Total
Recorded debt balance of debts [(1)]						
reviewed on individual basis	56,478	97	948	57,523	12,880	70,403
reviewed on group basis	10,731	156,484	23,220	190,435	–	190,435
Of which: the relevant provision is calculated by extent of arrears	1,951	156,484	–	158,435	–	158,435
Total debts	**67,209**	**[(2)]156,581**	**24,168**	**247,958**	**12,880**	**260,838**
Provision for credit losses with respect to debts [(1)]						
reviewed on individual basis	1,001	1	37	1,039	2	1,041
reviewed on group basis	174	941	279	1,394	–	1,394
Of which: For which a provision for credit losses is calculated by extent of arrears[(3)]	10	941	–	951	–	951
Total provision for credit losses	**1,175**	**942**	**316**	**2,433**	**2**	**2,435**

						December 31, 2019
Recorded debt balance of debts [(1)]						
reviewed on individual basis	41,317	56	729	42,102	7,916	50,018
reviewed on group basis	8,915	135,520	19,864	164,299	–	164,299
Of which: the relevant provision is calculated by extent of arrears	1,638	135,520	–	137,158	–	137,158
Total debts	**50,232**	**[(2)]135,576**	**20,593**	**206,401**	**7,916**	**214,317**
Provision for credit losses with respect to debts [(1)]						
reviewed on individual basis	640	2	31	673	1	674
reviewed on group basis	115	672	233	1,020	–	1,020
Of which: For which a provision for credit losses is calculated by extent of arrears[(3)]	6	672	–	678	–	678
Total provision for credit losses	**755**	**674**	**264**	**1,693**	**1**	**1,694**

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.

(2) Includes general-purpose loans secured by a lien on a residential apartment, amounting to NIS 9,690 million (as of December 31, 2019 – NIS 7,696 million).

(3) Includes balance of provision in excess of that required by extent of arrears, assessed on individual basis, amounting to NIS 10 million (as of December 31, 2019 – NIS 11 million), and provision calculated on group basis, amounting to NIS 732 million (as of December 31, 2019 – NIS 475 million). For details see Note 1.F.6.

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Debts[1]

1.A. Credit quality and arrears

Including Union Bank

					As of December 31, 2020	
					Non impaired debts – additional information	
		Problematic[2]				
	Non problematic	Non impaired	Impaired[3]	Total	In arrears 90 days or longer[4]	In arrears 30 to 89 days[5]
Borrower activity in Israel						
Public – commercial						
Construction and real estate – construction[8]	16,223	81	147	16,451	4	8
Construction and real estate – real estate operations	5,641	11	85	5,737	–	7
Financial services	7,628	34	150	7,812	–	3
Commercial – other	32,712	607	1,065	34,384	24	66
Total commercial	**62,204**	**733**	**1,447**	**64,384**	**28**	**84**
Private individuals – residential mortgages	155,039	[7]1,188	97	156,324	[7]1,176	[6]434
Private individuals – other	23,832	105	96	24,033	24	61
Total public – activity in Israel	**241,075**	**2,026**	**1,640**	**244,741**	**1,228**	**579**
Banks in Israel	512	–	–	512	–	–
Government of Israel	60	–	–	60	–	–
Total activity in Israel	**241,647**	**2,026**	**1,640**	**245,313**	**1,228**	**579**
Borrower activity overseas						
Public – commercial						
Construction and real estate	1,906	–	–	1,906	–	–
Commercial – other	859	–	60	919	–	–
Total commercial	**2,765**	**–**	**60**	**2,825**	**–**	**–**
Private individuals	392	–	–	392	–	–
Total public – activity overseas	**3,157**	**–**	**60**	**3,217**	**–**	**–**
Overseas banks	11,755	–	–	11,755	–	–
Overseas governments	553	–	–	553	–	–
Total activity overseas	**15,465**	**–**	**60**	**15,525**	**–**	**–**
Total public	244,232	2,026	1,700	247,958	1,228	579
Total banks	12,267	–	–	12,267	–	–
Total governments	613	–	–	613	–	–
Total	**257,112**	**2,026**	**1,700**	**260,838**	**1,228**	**579**

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.
(2) Credit risk which is impaired, inferior or under special supervision, including with respect to residential mortgages for which a provision was made by extent of arrears, and residential mortgages for which no provision was made by extent of arrears and which are in arrears of 90 days or longer.
(3) Generally, impaired debts do not accrue interest revenues. For information about certain impaired debt restructured using problematic debt restructuring, see Note 30.B.2.c. to the financial statements.
(4) Classified as problematic non-impaired debts. Accruing interest revenues.
(5) Accruing interest revenues. Debts in arrears 30 to 89 days amounting to NIS 49 million were classified as problematic non-impaired debts.
(6) In conformity with Public Reporting Directives, excludes the balance of residential mortgages in arrears up to 2 months.
(7) Includes balance of residential mortgages amounting to NIS 73 million provided for by extent of arrears of borrower, for which an agreement has been signed for repayment of arrears by the borrower, where a change was made to the repayment schedule for the outstanding loan balance not yet due.
(8) Includes debts amounting to NIS 2,068 million, extended to certain purchase groups which are in the process of construction.

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Debts[1]

1.A. Credit quality and arrears – continued

Excluding Union Bank

	As of December 31, 2020					
		Problematic[2]			Non impaired debts – additional information	
	Non problematic	Non impaired	Impaired[3]	Total	In arrears 90 days or longer[4]	In arrears 30 to 89 days[5]
Borrower activity in Israel						
Public – commercial						
Construction and real estate – construction[8]	14,080	76	132	14,288	4	6
Construction and real estate – real estate operations	4,585	8	73	4,666	–	6
Financial services	6,001	34	126	6,161	–	3
Commercial – other	28,299	510	824	29,633	20	53
Total commercial	**52,965**	**628**	**1,155**	**54,748**	**24**	**68**
Private individuals – residential mortgages	144,696	[7]1,152	97	145,945	[7]1,140	[6]409
Private individuals – other	19,158	94	88	19,340	16	56
Total public – activity in Israel	**216,819**	**1,874**	**1,340**	**220,033**	**1,180**	**533**
Banks in Israel	273	–	–	273	–	–
Government of Israel	60	–	–	60	–	–
Total activity in Israel	**217,152**	**1,874**	**1,340**	**220,366**	**1,180**	**533**
Borrower activity overseas						
Public – commercial						
Construction and real estate	1,906	–	–	1,906	–	–
Commercial – other	859	–	60	919	–	–
Total commercial	**2,765**	**–**	**60**	**2,825**	**–**	**–**
Private individuals	392	–	–	392	–	–
Total public – activity overseas	**3,157**	**–**	**60**	**3,217**	**–**	**–**
Overseas banks	11,271	–	–	11,271	–	–
Overseas governments	553	–	–	553	–	–
Total activity overseas	**14,981**	**–**	**60**	**15,041**	**–**	**–**
Total public	219,976	1,874	1,400	223,250	1,180	533
Total banks	11,544	–	–	11,544	–	–
Total governments	613	–	–	613	–	–
Total	**232,133**	**1,874**	**1,400**	**235,407**	**1,180**	**533**

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.
(2) Credit risk which is impaired, inferior or under special supervision, including with respect to residential mortgages for which a provision was made by extent of arrears, and residential mortgages for which no provision was made by extent of arrears and which are in arrears of 90 days or longer.
(3) Generally, impaired debts do not accrue interest revenues. For information about certain impaired debt restructured using problematic debt restructuring, see Note 30.B.2.c. to the financial statements.
(4) Classified as problematic non-impaired debts. Accruing interest revenues.
(5) Accruing interest revenues. Debts in arrears 30 to 89 days amounting to NIS 37 million were classified as problematic non-impaired debts.
(6) In conformity with Public Reporting Directives, excludes the balance of residential mortgages in arrears up to 2 months.
(7) Includes balance of residential mortgages amounting to NIS 71 million provided for by extent of arrears of borrower, for which an agreement has been signed for repayment of arrears by the borrower, where a change was made to the repayment schedule for the outstanding loan balance not yet due.
(8) Includes debts amounting to NIS 2,061 million, extended to certain purchase groups which are in the process of construction.

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses – continued
Reported amounts (NIS in millions)

B. Debts[1]

1.A. Credit quality and arrears – continued

	As of December 31, 2019					
		Problematic[2]			Non impaired debts – additional information	
	Non problematic	Non impaired	Impaired[3]	Total	In arrears 90 days or longer[4]	In arrears 30 to 89 days[5]
Borrower activity in Israel						
Public – commercial						
Construction and real estate – construction[8]	13,259	42	116	13,417	8	11
Construction and real estate – real estate operations[9]	3,914	363	62	4,339	1	6
Financial services	3,889	9	135	4,033	–	1
Commercial – other[9]	24,612	342	782	25,736	28	100
Total commercial	**45,674**	**756**	**1,095**	**47,525**	**37**	**118**
Private individuals – residential mortgages[9]	133,746	[7]1,476	56	135,278	[7]1,476	[6]637
Private individuals – other	20,245	145	86	20,476	24	108
Total public – activity in Israel	**199,665**	**2,377**	**1,237**	**203,279**	**1,537**	**863**
Banks in Israel	110	–	–	110	–	–
Government of Israel	–	–	–	–	–	–
Total activity in Israel	**199,775**	**2,377**	**1,237**	**203,389**	**1,537**	**863**
Borrower activity overseas						
Public – commercial						
Construction and real estate[9]	1,790	–	1	1,791	–	–
Commercial – other[9]	855	25	36	916	–	–
Total commercial	**2,645**	**25**	**37**	**2,707**	**–**	**–**
Individuals[9]	415	–	–	415	–	–
Total public – activity overseas	**3,060**	**25**	**37**	**3,122**	**–**	**–**
Overseas banks	7,150	–	–	7,150	–	–
Overseas governments	656	–	–	656	–	–
Total activity overseas	**10,866**	**25**	**37**	**10,928**	**–**	**–**
Total public	202,725	2,402	1,274	206,401	1,537	863
Total banks	7,260	–	–	7,260	–	–
Total governments	656	–	–	656	–	–
Total	**210,641**	**2,402**	**1,274**	**214,317**	**1,537**	**863**

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.
(2) Credit risk which is impaired, inferior or under special supervision, including with respect to residential mortgages for which a provision was made by extent of arrears, and residential mortgages for which no provision was made by extent of arrears and which are in arrears of 90 days or longer.
(3) Generally, impaired debts do not accrue interest revenues. For information about certain impaired debts restructured using problematic debt restructuring, see Note 30.B.2.c. to the financial statements.
(4) Classified as problematic non-impaired debts. Accruing interest revenues.
(5) Accruing interest revenues. Debts in arrears 30 to 89 days amounting to NIS 64 residential mortgages million were classified as problematic non-impaired debts.
(6) In conformity with Public Reporting Directives, excludes the balance of residential mortgages in arrears up to 2 months.
(7) Includes balance of residential mortgages amounting to NIS 73 million provided for by extent of arrears of borrower, for which an agreement has been signed for repayment of arrears by the borrower, where a change was made to the repayment schedule for the outstanding loan balance not yet due.
(8) Includes debts amounting to NIS 1,759 million, extended to certain purchase groups which are in the process of construction.
(9) Reclassified.

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

1.B. Credit quality

The state of debts arrears is monitored daily and automatically, providing one of the key indications of credit quality. The state of arrears, and consequently classification of the debt, are based, *inter alia*, on the actual number of days in arrears for each debt.

Non-performing debts

Debt measured on individual basis is classified as non-performing (not accruing interest revenues) after 90 days in arrears. Debt previously restructured as problematic debt and which is again in arrears with regard to the new terms thereof – is also classified as non-performing. Debt measured on a group basis is classified as non-performing (inferior) after 150 days in arrears. At that time, accounting write-off of the debt is also carried out.

Inferior debts

Debt in the individual track is classified as inferior debt accruing revenues after 60 days in arrears. Debt in the group track is classified as inferior after 90 days in arrears.

Residential mortgages

The state of arrears for residential mortgages is monitored by the extent of arrears for the loan, except for loans with no monthly or quarterly payment.

Credit risk attributes, including specific risk for residential mortgages, are included on the Report of the Board of Directors and Management under "Risks Overview".

Below is the recorded debt balance by credit quality and by credit segment of the Bank:

						December 31, 2020
						Credit segment
Debt quality	Commercial	Housing	Individuals	Governments	Banks	Total
Debts in good standing at performing credit rating	61,272	154,564	23,675	613	12,267	252,391
Debts in good standing other than at performing credit rating[(1)]	3,697	732	292	–	–	4,721
Problematic non-impaired debts[(2)]	733	1,188	105	–	–	2,026
Impaired debts	1,507	97	96	–	–	1,700
Total	67,209	156,581	24,168	613	12,267	260,838
						December 31, 2019
Debts in good standing at performing credit rating	47,587	133,145	19,963	656	7,260	208,611
Debts in good standing other than at performing credit rating[(1)]	732	899	399	–	–	2,030
Problematic non-impaired debts[(2)]	781	1,476	145	–	–	2,402
Impaired debts	1,132	56	86	–	–	1,274
Total	**50,232**	**135,576**	**20,593**	**656**	**7,260**	**214,317**

(1) On-balance sheet credit risk whose credit rating as of the report date matches the credit rating for new credit performance, in conformity with Bank policies.

(2) Balance sheet credit risk which is inferior or under special supervision, including with respect to residential mortgages for which a provision was made by extent of arrears, and residential mortgages for which no provision was made by extent of arrears and which are in arrears of 90 days or longer.

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Debts[1]

2. Additional information about impaired debts

A. Impaired debts and individual provision

	December 31, 2020					
	Balance of impaired debts for which an individual provision has been made[2][3]	**Balance of individual provision**	**Balance of impaired debts for which no individual provision has been made[2]**	**Total balance of impaired debts[2]**	**Of which: With respect to acquisition of Union Bank**	**Contractual principal balance of impaired debts**
Borrower activity in Israel						
Public – commercial						
Construction and real estate – construction	122	18	25	147	15	225
Construction and real estate – real estate operations	57	4	28	85	12	94
Financial services	120	27	30	150	24	170
Commercial – other	786	224	279	1,065	241	1,273
Total commercial	**1,085**	**273**	**362**	**1,447**	**292**	**1,762**
Private individuals – residential mortgages	2	1	95	97	–	98
Private individuals – other	37	22	59	96	8	114
Total public – activity in Israel	**1,124**	**296**	**516**	**1,640**	**300**	**1,974**
Banks in Israel	–	–	–	–	–	–
Government of Israel	–	–	–	–	–	–
Total activity in Israel	**1,124**	**296**	**516**	**1,640**	**300**	**1,974**
Borrower activity overseas						
Public – commercial						
Construction and real estate	–	–	–	–	–	–
Commercial – other	60	43	–	60	–	62
Total commercial	**60**	**43**	**–**	**60**	**–**	**62**
Private individuals	–	–	–	–	–	2
Total public – activity overseas	**60**	**43**	**–**	**60**	**–**	**64**
Overseas banks	–	–	–	–	–	–
Overseas governments	–	–	–	–	–	–
Total activity overseas	**60**	**43**	**–**	**60**	**–**	**64**
Total public	1,184	339	516	1,700	300	2,038
Total banks	–	–	–	–	–	–
Total governments	–	–	–	–	–	–
Total	**1,184**	**339**	**516**	**1,700**	**300**	**2,038**
Of which:						
Measured at present value of cash flows	1,099	336	470	1,569	266	
Debts under problematic debts restructuring	392	66	197	589	131	

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.

(2) Recorded debt balance.

(3) Debt balance net of accounting write-off, if made.

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Debts[1]

2. Additional information about impaired debts

A. Impaired debts and individual provision – continued

	December 31, 2019				
	Balance of impaired debts for which an individual provision has been made[2][3]	Balance of individual provision	Balance of impaired debts for which no individual provision has been made[2]	Total balance of impaired debts[2]	Contractual principal balance of impaired debts
Borrower activity in Israel					
Public – commercial					
Construction and real estate – construction	103	23	13	116	191
Construction and real estate – real estate operations	52	2	10	62	71
Financial services	130	8	5	135	144
Commercial – other	729	181	53	782	944
Total commercial	**1,014**	**214**	**81**	**1,095**	**1,350**
Private individuals – residential mortgages	4	2	52	56	56
Private individuals – other	37	22	49	86	103
Total public – activity in Israel	**1,055**	**238**	**182**	**1,237**	**1,509**
Banks in Israel	–	–	–	–	–
Government of Israel	–	–	–	–	–
Total activity in Israel	**1,055**	**238**	**182**	**1,237**	**1,509**
Borrower activity overseas					
Public – commercial					
Construction and real estate	1	–	–	1	1
Commercial – other	36	16	–	36	36
Total commercial	**37**	**16**	**–**	**37**	**37**
Private individuals	–	–	–	–	–
Total public – activity overseas	**37**	**16**	**–**	**37**	**37**
Overseas banks	–	–	–	–	–
Overseas governments	–	–	–	–	–
Total activity overseas	**37**	**16**	**–**	**37**	**37**
Total public	1,092	254	182	1,274	1,546
Total banks	–	–	–	–	–
Total governments	–	–	–	–	–
Total	**1,092**	**254**	**182**	**1,274**	**1,546**
Of which:					
Measured at present value of cash flows	1,043	252	167	1,210	
Debts under problematic debts restructuring	268	33	63	331	

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.

(2) Recorded debt balance.

(3) Debt balance net of accounting write-off, if made.

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Debts[1]

2. Additional information about impaired debts

B. Average balance and interest revenues[4]

	December 31, 2020			December 31, 2019			December 31, 2018		
	Average balance of impaired debts[2]	Interest revenues recorded[3]	Of which: Recorded on cash basis	Average balance of impaired debts[2]	Interest revenues recorded[3]	Of which: Recorded on cash basis	Average balance of impaired debts[2]	Interest revenues recorded[3]	Of which: Recorded on cash basis
Borrower activity in Israel									
Public – commercial									
Construction and real estate – construction	123	2	2	145	6	6	152	3	3
Construction and real estate – real estate operations	67	2	2	33	1	1	19	–	–
Financial services	140	1	1	155	3	3	45	1	1
Commercial – other	918	12	11	668	13	12	556	8	8
Total commercial	**1,248**	**17**	**16**	**1,001**	**23**	**22**	**772**	**12**	**12**
Private individuals – residential mortgages	76	–	–	54	–	–	45	–	–
Private individuals – other	91	8	7	83	8	7	73	5	5
Total public – activity in Israel	**1,415**	**25**	**23**	**1,138**	**31**	**29**	**890**	**17**	**17**
Banks in Israel	–	–	–	–	–	–	–	–	–
Government of Israel	–	–	–	–	–	–	–	–	–
Total activity in Israel	**1,415**	**25**	**23**	**1,138**	**31**	**29**	**890**	**17**	**17**
Borrower activity overseas									
Public – commercial									
Construction and real estate	–	–	–	6	–	–	1	–	–
Commercial – other	54	–	–	8	–	–	3	–	–
Total commercial	**54**	**–**	**–**	**14**	**–**	**–**	**4**	**–**	**–**
Private individuals	–	–	–	–	–	–	–	–	–
Total public – activity overseas	**54**	**–**	**–**	**14**	**–**	**–**	**4**	**–**	**–**
Overseas banks	–	–	–	–	–	–	–	–	–
Overseas governments	–	–	–	–	–	–	–	–	–
Total activity overseas	**54**	**–**	**–**	**14**	**–**	**–**	**4**	**–**	**–**
Total public	1,469	25	23	1,152	31	29	894	17	17
Total banks	–	–	–	–	–	–	–	–	–
Total governments	–	–	–	–	–	–	–	–	–
Total(4)	**1,469**	**25**	**23**	**1,152**	**31**	**29**	**894**	**17**	**17**

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.

(2) Average recorded debt balance of impaired debts during reported period.

(3) Interest revenues recorded in the reported period with respect to average balance of debts in arrears, in the period in which the debts were classified as impaired.

(4) Had the impaired debt accrued interest at the original terms, the Bank would have recognized interest revenues amounting to NIS 98 million (As of December 31, 2019 – NIS 64 million; as of December 31, 2018 – NIS 69 million).

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Debt[1]

2. Additional information about impaired debts

C. Problematic debts under restructuring

Including Union Bank

	December 31, 2020				
	Recorded debt balance				
	Not accruing interest revenues	Accruing interest revenues[2] in arrears 90 days or longer	Accruing interest revenues[2], in arrears 30-89 days	Accruing interest revenues[2] not in arrears	Total[3]
Borrower activity in Israel					
Public – commercial					
Construction and real estate – construction	25	–	–	6	31
Construction and real estate – real estate operations	21	–	–	5	26
Financial services	122	–	–	21	143
Commercial – other	250	–	–	64	314
Total commercial	**418**	**–**	**–**	**96**	**514**
Private individuals – residential mortgages	–	–	–	–	–
Private individuals – other	40	–	1	34	75
Total public – activity in Israel	**458**	**–**	**1**	**130**	**589**
Banks in Israel	–	–	–	–	–
Government of Israel	–	–	–	–	–
Total activity in Israel	**458**	**–**	**1**	**130**	**589**
Borrower activity overseas					
Public – commercial					
Construction and real estate	–	–	–	–	–
Commercial – other	–	–	–	–	–
Total commercial	**–**	**–**	**–**	**–**	**–**
Private individuals	–	–	–	–	–
Total public – activity overseas	**–**	**–**	**–**	**–**	**–**
Overseas banks	–	–	–	–	–
Overseas governments	–	–	–	–	–
Total activity overseas	**–**	**–**	**–**	**–**	**–**
Total public	458	–	1	130	589
Total banks	–	–	–	–	–
Total governments	–	–	–	–	–
Total	**458**	**–**	**1**	**130**	**589**

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.

(2) Accruing interest revenues.

(3) Included under impaired debts.

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Debt[1]

2. Additional information about impaired debts

C. Problematic debts under restructuring – continued

Excluding Union Bank

	December 31, 2020				
	Recorded debt balance				
	Not accruing interest revenues	Accruing interest revenues[2] in arrears 90 days or longer	Accruing interest revenues[2], in arrears 30-89 days	Accruing interest revenues[2] not in arrears	Total[3]
Borrower activity in Israel					
Public – commercial					
Construction and real estate – construction	18	–	–	–	18
Construction and real estate – real estate operations	14	–	–	–	14
Financial services	122	–	–	–	122
Commercial – other	226	–	–	11	237
Total commercial	**380**	**–**	**–**	**11**	**391**
Private individuals – residential mortgages	–	–	–	–	–
Private individuals – other	35	–	1	31	67
Total public – activity in Israel	**415**	**–**	**1**	**42**	**458**
Banks in Israel	–	–	–	–	–
Government of Israel	–	–	–	–	–
Total activity in Israel	**415**	**–**	**1**	**42**	**458**
Borrower activity overseas					
Public – commercial					
Construction and real estate	–	–	–	–	–
Commercial – other	–	–	–	–	–
Total commercial	**–**	**–**	**–**	**–**	**–**
Private individuals	–	–	–	–	–
Total public – activity overseas	**–**	**–**	**–**	**–**	**–**
Overseas banks	–	–	–	–	–
Overseas governments	–	–	–	–	–
Total activity overseas	**–**	**–**	**–**	**–**	**–**
Total public	415	–	1	42	458
Total banks	–	–	–	–	–
Total governments	–	–	–	–	–
Total	**415**	**–**	**1**	**42**	**458**

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.

(2) Accruing interest revenues.

(3) Included under impaired debts.

As of December 31, 2020, the Bank had commitments to provide additional credit amounting to NIS 1 million to debtors subject to problematic debt restructuring, for which credit terms have been revised.

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Debts[1]

2. Additional information about impaired debts

C. Problematic debts under restructuring – continued

	December 31, 2019				
	Recorded debt balance				
	Not accruing interest revenues	Accruing interest revenues[2] in arrears 90 days or longer	Accruing interest revenues[2], in arrears 30-89 days	Accruing interest revenues [2] not in arrears	Total[3]
Borrower activity in Israel					
Public – commercial					
Construction and real estate – construction	14	–	–	–	14
Construction and real estate – real estate operations	3	–	–	–	3
Financial services	129	–	–	–	129
Commercial – other	108	–	–	12	120
Total commercial	**254**	**–**	**–**	**12**	**266**
Private individuals – residential mortgages	–	–	–	–	–
Private individuals – other	33	–	1	31	65
Total public – activity in Israel	**287**	**–**	**1**	**43**	**331**
Banks in Israel	–	–	–	–	–
Government of Israel	–	–	–	–	–
Total activity in Israel	**287**	**–**	**1**	**43**	**331**
Borrower activity overseas					
Public – commercial					
Construction and real estate	–	–	–	–	–
Commercial – other	–	–	–	–	–
Total commercial	**–**	**–**	**–**	**–**	**–**
Private individuals	–	–	–	–	–
Total public – activity overseas	**–**	**–**	**–**	**–**	**–**
Overseas banks	–	–	–	–	–
Overseas governments	–	–	–	–	–
Total activity overseas	**–**	**–**	**–**	**–**	**–**
Total public	287	–	1	43	331
Total banks	–	–	–	–	–
Total governments	–	–	–	–	–
Total	**287**	**–**	**1**	**43**	**331**

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.

(2) Accruing interest revenues.

(3) Included under impaired debts.

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Debt[1]

2. Additional information about impaired debts

C. Problematic debts under restructuring – continued

	December 31, 2020			December 31, 2019			December 31, 2018 Restructurings made[2]		
	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	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	15	15	45	5	5	39	30	29
Construction and real estate – real estate operations	17	10	10	–	–	–	8	1	1
Financial services	9	2	2	5	3	3	9	158	158
Commercial – other	493	186	172	361	70	69	330	62	61
Total commercial	**582**	**213**	**199**	**411**	**78**	**77**	**386**	**251**	**249**
Private individuals – residential mortgages	–	–	–	–	–	–	–	–	–
Private individuals – other	1,027	39	38	947	45	45	980	40	39
Total public – activity in Israel	**1,609**	**252**	**237**	**1,358**	**123**	**122**	**1,366**	**291**	**288**
Banks in Israel	–	–	–	–	–	–	–	–	–
Government of Israel	–	–	–	–	–	–	–	–	–
Total activity in Israel	**1,609**	**252**	**237**	**1,358**	**123**	**122**	**1,366**	**291**	**288**
Borrower activity overseas									
Public – commercial									
Construction and real estate	–	–	–	–	–	–	–	–	–
Commercial – other	–	–	–	–	–	–	–	–	–
Total commercial	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Private individuals	–	–	–	–	–	–	–	–	–
Total public – activity overseas	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Overseas banks	–	–	–	–	–	–	–	–	–
Overseas governments	–	–	–	–	–	–	–	–	–
Total activity overseas	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total public	1,609	252	237	1,358	123	122	1,366	291	288
Total banks	–	–	–	–	–	–	–	–	–
Total governments	–	–	–	–	–	–	–	–	–
Total	**1,609**	**252**	**237**	**1,358**	**123**	**122**	**1,366**	**291**	**288**

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.

(2) Included under impaired debts.

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Debt[1]

2. Additional information about impaired debts

C. Problematic debts under restructuring – continued

	December 31, 2020		December 31, 2019		December 31, 2018	
	Restructurings made which are in default[2]					
	Recorded debt balance					
	Number of contracts	Recorded debt balance	Number of contracts	Recorded debt balance	Number of contracts	Recorded debt balance
Borrower activity in Israel						
Public – commercial						
Construction and real estate – construction	4	–	6	–	5	1
Construction and real estate – real estate operations	–	–	2	–	3	–
Financial services	–	–	11	–	1	–
Commercial – other	70	5	49	9	51	7
Total commercial	**74**	**5**	**68**	**9**	**60**	**8**
Private individuals – residential mortgages	–	–	–	–	–	–
Private individuals – other	203	4	104	2	88	2
Total public – activity in Israel	**277**	**9**	**172**	**11**	**148**	**10**
Banks in Israel	–	–	–	–	–	–
Government of Israel	–	–	–	–	–	–
Total activity in Israel	**277**	**9**	**172**	**11**	**148**	**10**
Borrower activity overseas						
Public – commercial						
Construction and real estate	–	–	–	–	–	–
Commercial – other	–	–	–	–	–	–
Total commercial	**–**	**–**	**–**	**–**	**–**	**–**
Private individuals	–	–	–	–	–	–
Total public – activity overseas	**–**	**–**	**–**	**–**	**–**	**–**
Overseas banks	–	–	–	–	–	–
Overseas governments	–	–	–	–	–	–
Total activity overseas	**–**	**–**	**–**	**–**	**–**	**–**
Total public	277	9	172	11	148	10
Total banks	–	–	–	–	–	–
Total governments	–	–	–	–	–	–
Total	**277**	**9**	**172**	**11**	**148**	**10**

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.

(2) Debts which became, in the reported period, debts in arrears of 30 days or longer, which were restructured under problematic debt restructuring in the 12 months prior to the date on which they became debts in arrears

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Debts

3. Additional information about residential mortgages

Below is the composition of balances by loan-to-value ratio (LTV)[(1)], repayment type and interest type:

		Including Union Bank			
		December 31, 2020			
		Housing loan balance			Off-balance sheet credit risk
		Total	Of which: Bullet / balloon	Of which: Variable interest	Total
Senior lien: LTV ratio	Up to 60%	104,667	3,175	66,449	3,507
	Over 60%	51,630	699	32,650	3,472
Junior lien or no lien		284	2	208	9,573
Total		**156,581**	**3,876**	**99,307**	**16,552**

		Excluding Union Bank			
		December 31, 2020			
		Housing loan balance			Off-balance sheet credit risk
		Total	Of which: Bullet / balloon	Of which: Variable interest	Total
Senior lien: LTV ratio	Up to 60%	96,190	2,987	61,701	2,909
	Over 60%	49,728	664	31,498	3,184
Junior lien or no lien		284	2	208	9,573
Total		**146,202**	**3,653**	**93,407**	**15,666**

		December 31, 2019			
		Total	Of which: Bullet / balloon	Of which: Variable interest	Total
Senior lien: LTV ratio	Up to 60%	91,321	2,850	58,824	2,955
	Over 60%	43,979	569	28,083	2,665
Junior lien or no lien		276	2	203	7,728
Total		**135,576**	**3,421**	**87,110**	**13,348**

(1) Ratio of approved facility upon extending the facility to the property value, as approved by the Bank upon extending the facility

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

C. Balances of loans to the public and off-balance sheet credit risk according to extent of borrower credit risk:

Including Union Bank

Loan ceiling and credit risk (NIS in thousands)		Number of Borrowers[1]	Credit[2]	Off balance sheet credit risk[3]
				December 31, 2020
	Up to 10	282,738	413	498
Above 10	Up to 20	126,835	793	1,028
Above 20	Up to 40	173,737	2,454	2,458
Above 40	Up to 80	188,442	6,354	4,024
Above 80	Up to 150	136,018	11,235	3,442
Above 150	Up to 300	112,916	21,079	3,170
Above 300	Up to 600	102,199	40,564	4,255
Above 600	Up to 1,200	97,171	70,906	10,698
Above 1,200	Up to 2,000	23,238	28,210	6,146
Above 2,000	Up to 4,000	6,959	14,953	3,501
Above 4,000	Up to 8,000	1,770	7,211	2,286
Above 8,000	Up to 20,000	966	8,453	3,531
Above 20,000	Up to 40,000	327	5,671	3,302
Above 40,000	Up to 200,000	396	18,691	14,326
Above 200,000	Up to 400,000	56	5,641	7,008
Above 400,000	Up to 800,000	24	3,779	5,861
Above 800,000	Up to 1,200,000	6	1,332	4,593
Above 1200.000	Up to 1,318,000	1	219	1,099
Total		**1,253,799**	**247,958**	**81,226**

Excluding Union Bank

		December 31, 2020		
	Up to 10	238,178	321	408
Above 10	Up to 20	103,457	631	839
Above 20	Up to 40	143,592	1,933	2,082
Above 40	Up to 80	158,219	5,104	3,533
Above 80	Up to 150	116,865	9,406	3,149
Above 150	Up to 300	104,789	19,545	2,955
Above 300	Up to 600	95,481	37,756	3,975
Above 600	Up to 1,200	90,823	65,971	10,157
Above 1,200	Up to 2,000	21,664	26,157	5,807
Above 2,000	Up to 4,000	6,380	13,648	3,219
Above 4,000	Up to 8,000	1,547	6,309	1,953
Above 8,000	Up to 20,000	804	7,107	2,713
Above 20,000	Up to 40,000	260	4,564	2,505
Above 40,000	Up to 200,000	307	14,466	11,802
Above 200,000	Up to 400,000	42	5,220	6,727
Above 400,000	Up to 800,000	19	3,561	5,657
Above 800,000	Up to 1,200,000	6	1,332	4,593
Above 1200.000	Up to 1,318,000	1	219	1,099
Total		**1,082,434**	**223,250**	**73,173**

(1) Number of borrowers is based on total loans and off-balance sheet credit risk.
(2) Off-balance sheet credit and credit risk is stated before impact of provision for credit losses, and before impact of deductible collateral with respect to indebtedness of borrower and of borrower group.
(3) Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower indebtedness limitation. Data is in conformity with the definition of indebtedness in Proper Conduct of Banking Business Directive 313.

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

C. Balances of loans to the public and off-balance sheet credit risk according to extent of borrower credit risk:

				December 31, 2019
Loan ceiling and credit risk (NIS in thousands)		**Number of Borrowers[(1)]**	**Credit[(2)]**	**Off balance sheet credit risk[(3)]**
	Up to 10	238,699	312	357
Above 10	Up to 20	94,778	599	764
Above 20	Up to 40	126,563	1,721	1,922
Above 40	Up to 80	135,429	4,511	3,236
Above 80	Up to 150	102,726	8,434	2,880
Above 150	Up to 300	90,139	16,552	2,661
Above 300	Up to 600	78,904	30,777	3,678
Above 600	Up to 1,200	90,160	65,783	9,500
Above 1,200	Up to 2,000	21,273	26,452	4,694
Above 2,000	Up to 4,000	6,137	13,475	2,540
Above 4,000	Up to 8,000	1,512	6,407	1,663
Above 8,000	Up to 20,000	788	6,911	2,676
Above 20,000	Up to 40,000	266	4,944	2,361
Above 40,000	Up to 200,000	277	11,678	10,938
Above 200,000	Up to 400,000	53	5,998	7,842
Above 400,000	Up to 800,000	13	1,599	5,127
Above 800,000	Up to 1,018,000	1	248	637
Total		**987,718**	**206,401**	**63,476**

(1) Number of borrowers is based on total loans and off-balance sheet credit risk.

(2) Off-balance sheet credit and credit risk is stated before impact of provision for credit losses, and before impact of deductible collateral with respect to indebtedness of borrower and of borrower group.

(3) Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower indebtedness limitation. Data is in conformity with the definition of indebtedness in Proper Conduct of Banking Business Directive 313.

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

D. Sale, purchase and syndication of loans to the public during the year

1. Sale and purchase of loans to the public

	December 31, 2020							
	Sold risk with respect to loans to the public					Purchased risk with respect to loans to the public[(1)(2)]		
	Loans to the public sold during the year	Off-balance sheet credit risk sold during the year	Of which: Problematic credit	Total gain (loss) with respect to credit sold	Balance at end of year of credit sold, which is serviced by the Bank	Loans to the public purchased during the year[(3)]	Off-balance sheet credit risk purchased during the year	Of which: Problematic credit
								Including Union Bank
Commercial	233	451	16	–	–	157	–	–
Private individuals – residential mortgages	–	–	–	–	5,131	–	–	–
Private individuals – other	–	–	–	–	–	576	–	–
Total credit risk to public	**233**	**451**	**16**	**–**	**5,131**	**733**	**–**	**–**

	December 31, 2020							
								Excluding Union Bank
Commercial	40	–	–	–	–	–	–	–
Private individuals – residential mortgages	–	–	–	–	5,131	–	–	–
Private individuals – other	–	–	–	–	–	576	–	–
Total credit risk to public	**40**	**–**	**–**	**–**	**5,131**	**576**	**–**	**–**

	December 31, 2019							
Commercial	–	–	–	–	–	–	–	–
Private individuals – residential mortgages	571	–	–	–	5,718	–	–	–
Private individuals – other	–	–	–	–	–	782	–	–
Total credit risk to public	**571**	**–**	**–**	**–**	**5,718**	**782**	**–**	**–**

(1) Excluding short-term factoring transactions.
(2) Excludes purchase of credit risk to foreign governments, amounting to NIS 38 million in 2019.
(3) Includes: Loans backed (credit risk) by the seller – NIS 58 million in 2020 (in 2019: NIS 91 million).

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

D. Sale, purchase and syndication of loans to the public during the year – Continued

2. Loan syndication and participation in syndication

	December 31, 2020					
	Syndication transactions initiated by the Bank				Syndication transactions initiated by others	
	Bank's share		Others' share		Bank's share	
	Loans to the public	Off-balance sheet credit risk	Loans to the public	Off-balance sheet credit risk	Loans to the public[1]	Off balance sheet credit risk[2]
Balance at end of the year	**Including Union Bank**					
Construction and real estate	7	–	142	–	344	–
Commercial – other	2,060	232	4,791	192	1,354	285
Total credit risk to public	**2,067**	**232**	**4,933**	**192**	**1,698**	**285**
						December 31, 2020
						Excluding Union Bank
Construction and real estate	7	–	142	–	344	–
Commercial – other	2,060	215	4,791	98	1,157	285
Total credit risk to public	**2,067**	**215**	**4,933**	**98**	**1,501**	**285**
						December 31, 2019
Construction and real estate	364	–	340	132	[3]355	[3]64
Commercial – other	1,478	29	2,296	27	1,533	303
Private individuals – residential mortgages	–	–	–	–	–	–
Private individuals – other	–	–	–	–	–	–
Total credit risk to public	**1,842**	**29**	**2,636**	**159**	**1,888**	**367**

(1) Excludes syndication transactions initiated by others to extend credit to foreign governments, amounting to NIS 464 million in 2020 (in 2019: NIS 505 million).

(2) Excludes off-balance sheet credit risk in syndication transactions with foreign governments, amounting to NIS 10 million in 2019.

(3) Reclassified.

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

E. Off-balance sheet financial instruments

Contractual balances or their denominated amounts at the end of the year

	As of December 31,					
	2020		2019	2020		2019
	Balance(1)		Balance(1)	Provision for credit losses		Provision for credit losses
	Including Union Bank	Excluding Union Bank		Including Union Bank	Excluding Union Bank	
Transactions in which the balance represents a credit risk:						
Un-utilized debitory account and other credit facilities in accounts available on demand	20,964	20,148	14,734	47	45	20
Guarantees to home buyers	11,903	10,651	10,672	8	4	4
Irrevocable commitments for loans approved but not yet granted	31,334	26,602	22,466	54	40	19
Un-utilized revolving credit card facilities	10,191	8,985	8,160	13	11	5
Commitments to issue guarantees	11,400	10,141	9,993	5	4	3
Guarantees and other liabilities(2)	9,260	8,475	8,613	60	42	36
Loan guarantees	2,880	2,622	2,898	43	36	31
Documentary credit	311	260	206	2	2	1

(1) Contractual balances or their stated amounts at the end of the period, before effect of provision for credit losses.

(2) Includes the Bank's liabilities for its share in the risks fund of the MAOF Clearinghouse of NIS 71 million. (As of December 31, 2019: NIS 57 million). For more information see Note 26.C.2. and Note 27.A. to the financial statements.

Note 31 – Assets and Liabilities by Linkage Basis

As of December 31, 2020

Reported amounts (NIS in millions)

Including Union Bank

	Israeli currency		In foreign currency[1]				
	Non-linked	CPI-linked	USD	EUR	Other currencies	Non-monetary items[2]	Total
Assets							
Cash and deposits with banks	73,975	1	11,753	576	265	–	86,570
Securities	10,937	1,674	3,685	548	–	446	17,290
Securities borrowed or bought in conjunction with resale agreements	181	19	–	–	–	–	200
Loans to the public, net[3]	168,787	64,524	6,370	3,987	1,759	98	245,525
Loans to Governments	60	–	372	181	–	–	613
Investments in associated companies	36	–	–	–	–	(5)	31
Buildings and equipment	–	–	–	–	–	1,743	1,743
Intangible assets and goodwill	–	–	–	–	–	239	239
Assets with respect to derivative instruments	3,331	127	518	327	127	113	4,543
Other assets	1,954	554	172	6	23	677	3,386
Total assets	**259,261**	**66,899**	**22,870**	**5,625**	**2,174**	**3,311**	**360,140**
Liabilities							
Deposits from the public	218,008	16,457	41,259	5,729	2,673	98	284,224
Deposits from banks	2,646	–	1,055	60	18	–	3,779
Deposits from the Government	22	2	46	–	–	–	70
Debentures and subordinated notes	7,149	26,297	–	–	–	–	33,446
Liabilities with respect to derivative instruments	3,928	22	803	528	112	113	5,506
Other liabilities	8,874	2,718	115	7	52	1,680	13,446
Total liabilities	**240,627**	**45,496**	**43,278**	**6,324**	**2,855**	**1,891**	**340,471**
Difference	**18,634**	**21,403**	**(20,408)**	**(699)**	**(681)**	**1,420**	**19,669**
Impact of hedging derivative instruments:							
Derivative instruments (other than options)	2,441	(2,441)	–	–	–	–	–
Non-hedging derivative instruments:							
Derivative instruments (other than options)	(21,938)	(397)	21,385	508	442	–	–
Net in-the-money options (in terms of underlying asset)	396	–	(639)	267	(24)	–	–
Net out-of-the-money options (in terms of underlying asset)	(203)	–	277	(72)	(2)	–	–
Grand total	**(670)**	**18,565**	**615**	**4**	**(265)**	**1,420**	**19,669**
Net in-the-money options (capitalized par value)	(962)	–	472	455	35	–	–
Net out-of-the-money options (capitalized par value)	816	–	144	(1,055)	95	–	–

(1) Includes linked to foreign currency.
(2) Includes derivative instruments whose base relates to a non-monetary item.
(3) Where the provision for credit losses may not be attributed to any specific linkage basis, such provision was deducted *pro-rata* from the different linkage bases.

Note 31 – Assets and Liabilities by Linkage Basis – Continued

As of December 31, 2020

Reported amounts (NIS in millions)

Excluding Union Bank

	Israeli currency		In foreign currency[1]			Non-monetary items[2]	
	Non-linked	CPI-linked	USD	EUR	Other currencies		Total
Assets							
Cash and deposits with banks	62,597	–	11,201	145	218	–	74,161
Securities	5,153	659	2,226	250	–	160	8,448
Securities borrowed or bought in conjunction with resale agreements	175	19	–	–	–	–	194
Loans to the public, net[3]	149,517	59,723	5,915	3,944	1,729	–	220,828
Loans to Governments	60	–	372	181	–	–	613
Investments in associated companies	36	–	–	–	–	(5)	31
Buildings and equipment	–	–	–	–	–	1,444	1,444
Intangible assets and goodwill	–	–	–	–	–	87	87
Assets with respect to derivative instruments	3,081	127	130	242	108	–	3,688
Other assets	1,454	492	170	–	19	623	2,758
Total assets	**222,073**	**61,020**	**20,014**	**4,762**	**2,074**	**2,309**	**312,252**
Liabilities							
Deposits from the public	188,057	15,747	36,069	4,519	2,361	–	246,753
Deposits from banks	2,546	–	1,037	48	16	–	3,647
Deposits from the Government	22	2	46	–	–	–	70
Debentures and subordinated notes	6,287	23,360	–	–	–	–	29,647
Liabilities with respect to derivative instruments	3,460	22	297	447	93	–	4,319
Other liabilities	7,636	1,889	105	6	48	272	9,956
Total liabilities	**208,008**	**41,020**	**37,554**	**5,020**	**2,518**	**272**	**294,392**
Difference	**14,065**	**20,000**	**(17,540)**	**(258)**	**(444)**	**2,037**	**17,860**
Impact of hedging derivative instruments:							
Derivative instruments (other than options)	2,441	(2,441)	–	–	–	–	–
Non-hedging derivative instruments:							
Derivative instruments (other than options)	(18,351)	(562)	18,642	70	201	–	–
Net in-the-money options (in terms of underlying asset)	593	–	(753)	184	(24)	–	–
Net out-of-the-money options (in terms of underlying asset)	(175)	–	132	45	(2)	–	–
Grand total	**(1,427)**	**16,997**	**481**	**41**	**(269)**	**2,037**	**17,860**
Net in-the-money options (capitalized par value)	(750)	–	421	296	33	–	–
Net out-of-the-money options (capitalized par value)	1,337	–	(1,010)	(405)	78	–	–

(1) Includes linked to foreign currency.
(2) Includes derivative instruments whose base relates to a non-monetary item.
(3) Where the provision for credit losses may not be attributed to any specific linkage basis, such provision was deducted *pro-rata* from the different linkage bases.

Note 31 – Assets and Liabilities by Linkage Basis – Continued

As of December 31, 2019

Reported amounts (NIS in millions)

	Israeli currency		In foreign currency[1]				
	Non-linked	CPI-linked	USD	EUR	Other currencies	Non-monetary items[2]	Total
Assets							
Cash and deposits with banks	44,161	–	6,986	277	248	–	51,672
Securities	5,038	607	3,883	436	–	149	10,113
Securities borrowed or bought in conjunction with resale agreements	104	16	–	–	–	–	120
Loans to the public, net[3]	137,223	57,272	5,612	3,008	1,593	–	204,708
Loans to Governments	–	–	453	203	–	–	656
Investments in associated companies	36	–	–	–	–	(4)	32
Buildings and equipment	–	–	–	–	–	1,457	1,457
Intangible assets and goodwill	–	–	–	–	–	87	87
Assets with respect to derivative instruments	1,766	345	234	96	137	–	2,578
Other assets	1,123	531	88	–	26	53	1,821
Total assets	**189,451**	**58,771**	**17,256**	**4,020**	**2,004**	**1,742**	**273,244**
Liabilities							
Deposits from the public	158,980	14,345	31,352	4,123	2,184	–	210,984
Deposits from banks	178	–	395	117	24	–	714
Deposits from the Government	8	2	19	–	–	–	29
Debentures and subordinated notes	8,294	25,166	–	–	–	–	33,460
Liabilities with respect to derivative instruments	1,986	76	358	142	124	–	2,686
Other liabilities	6,858	1,287	102	7	46	266	8,566
Total liabilities	**176,304**	**40,876**	**32,226**	**4,389**	**2,378**	**266**	**256,439**
Difference	**13,147**	**17,895**	**(14,970)**	**(369)**	**(374)**	**1,476**	**16,805**
Impact of hedging derivative instruments:							
Derivative instruments (other than options)	3,458	(3,458)	–	–	–	–	–
Non-hedging derivative instruments:							
Derivative instruments (other than options)	(15,982)	(1,024)	16,203	602	201	–	–
Net in-the-money options (in terms of underlying asset)	1,367	–	(1,133)	(212)	(22)	–	–
Net out-of-the-money options (in terms of underlying asset)	(249)	–	325	(71)	(5)	–	–
Grand total	**1,741**	**13,413**	**425**	**(50)**	**(200)**	**1,476**	**16,805**
Net in-the-money options (capitalized par value)	(1,880)	–	921	981	(22)	–	–
Net out-of-the-money options (capitalized par value)	4,423	–	(2,495)	(2,042)	114	–	–

(1) Includes linked to foreign currency.
(2) Includes derivative instruments whose base relates to a non-monetary item.
(3) Where the provision for credit losses may not be attributed to any specific linkage basis, such provision was deducted *pro-rata* from the different linkage bases.

Note 32 – Assets and liabilities by currency and by term to maturity[1]
Reported amounts (NIS in millions)

	Expected contractual future cash flows					
	On-call to 1 month	1 to 3 months	3 months to 1 year	1 to 2 years	2 to 3 years	3 to 4 years
As of December 31, 2020						Including Union Bank
Israeli currency (including linked to foreign currency)						
Assets	[3]90,983	11,384	36,928	26,514	24,521	17,404
Liabilities	160,251	39,386	33,324	20,470	6,673	5,609
Difference	**(69,268)**	**(28,002)**	**3,604**	**6,044**	**17,848**	**11,795**
Futures transactions	(9,312)	(5,099)	(5,133)	559	(40)	376
Options	(239)	111	340	23	17	16
Difference after effect of derivative instruments	**(78,819)**	**(32,990)**	**(1,189)**	**6,626**	**17,825**	**12,187**
Foreign currency						
Assets	20,417	1,416	2,494	2,139	964	779
Liabilities	33,950	5,919	10,949	1,275	250	119
Difference	**(13,533)**	**(4,503)**	**(8,455)**	**864**	**714**	**660**
Of which: Difference in USD	(7,330)	(3,071)	(8,375)	(632)	(101)	90
Of which: Difference with respect to foreign operations	12,164	(872)	461	488	275	188
Futures transactions	6,934	5,506	7,459	748	200	(207)
Options	239	(111)	(340)	(23)	(17)	(16)
Difference after effect of derivative instruments	**(6,360)**	**892**	**(1,336)**	**1,589**	**897**	**437**
Total						
Assets	111,400	12,800	39,422	28,653	25,485	18,183
Liabilities	194,201	45,305	44,273	21,745	6,923	5,728
Difference	**(82,801)**	**(32,505)**	**(4,851)**	**6,908**	**18,562**	**12,455**
Of which: Loans to the public	17,251	11,241	32,446	26,788	22,443	17,788
Of which: Deposits from the public	182,259	43,386	36,214	10,992	3,214	1,117
As of December 31, 2019						
Assets	[3]69,378	10,345	29,708	23,485	18,545	15,886
Liabilities	123,836	47,388	38,700	8,160	16,799	4,737
Difference	**(54,458)**	**(37,043)**	**(8,992)**	**15,325**	**1,746**	**11,149**

(1) Presented in this note are expected contractual future cash flows with respect to assets and liabilities, according to linkage basis, according to the remaining contractual period to maturity of each flow. The data is stated net of provisions for doubtful debts.

(2) Includes assets amounting to NIS 988 million and NIS 533 million as of December 31, 2020 and 2019, respectively, which are past due.

(3) Includes loans at debitory account terms amounting to NIS 3,401 million and NIS 5,012 million as of December 31, 2020 and 2019, respectively and amounts exceeding limits in debitory account facilities amounting to NIS 91 million and NIS 100 million as of December 31, 2020 and 2019, respectively.

(4) Contractual rate of return is the interest rate which discounts the expected contractual future cash flows, as presented in this Note, for the monetary item to its balance sheet balance.

4-5 years	5-10 years	10-20 years	Over 20 years	Total cash flows	Balance sheet balance: Without maturity	Balance sheet balance: Total	Contractual rate of return[4]
15,387	63,730	72,168	25,598	384,617	[2]2,775	330,388	2.75%
6,242	16,146	4,691	619	293,411	76	287,443	0.90%
9,145	**47,584**	**67,477**	**24,979**	**91,206**	**2,699**	**42,945**	
161	385	1,798	(6)	(16,311)	24	(17,908)	
17	9	–	–	294	–	192	
9,323	**47,978**	**69,275**	**24,973**	**75,189**	**2,723**	**25,229**	
1,152	3,513	2,373	22	35,269	[2]56	26,441	1.60%
70	201	50	28	52,811	3	51,137	0.44%
1,082	**3,312**	**2,323**	**(6)**	**(17,542)**	**53**	**(24,696)**	
65	172	981	(13)	(18,214)	419	(22,690)	
511	729	236	–	14,180	–	10,377	
15	(26)	38	–	20,667	–	21,311	
(17)	(9)	–	–	(294)	–	(193)	
1,080	**3,277**	**2,361**	**(6)**	**2,831**	**53**	**(3,578)**	
16,539	67,243	74,541	25,620	419,886	2,831	356,829	2.65%
6,312	16,347	4,741	647	346,222	79	338,580	0.86%
10,227	**50,896**	**69,800**	**24,973**	**73,664**	**2,752**	**18,249**	
15,260	57,510	72,352	25,381	298,460	1,999	245,427	2.95%
3,059	4,814	2,822	151	288,028	–	284,126	0.19%
12,656	51,428	61,537	21,418	314,386	[2]3,244	271,502	3.00%
4,086	12,686	4,944	490	261,826	35	256,173	1.23%
8,570	**38,742**	**56,593**	**20,928**	**52,560**	**3,209**	**15,329**	

Note 32 – Assets and liabilities by currency and by term to maturity[(1)] – continued

Reported amounts (NIS in millions)

	Expected contractual future cash flows					
	On-call to 1 month	**1 to 3 months**	**3 months to 1 year**	**1 to 2 years**	**2 to 3 years**	**3 to 4 years**
As of December 31, 2020					**Excluding Union Bank**	
Israeli currency (including linked to foreign currency)						
Assets	[(3)]76,586	9,095	31,082	23,146	21,225	14,781
Liabilities	136,909	36,151	28,947	18,487	5,898	3,963
Difference	**(60,323)**	**(27,056)**	**2,135**	**4,659**	**15,327**	**10,818**
Futures transactions	(6,249)	(5,338)	(6,128)	(153)	(200)	207
Options	(116)	111	340	23	17	16
Difference after effect of derivative instruments	**(66,688)**	**(32,283)**	**(3,653)**	**4,529**	**15,144**	**11,041**
Foreign currency						
Assets	19,274	1,349	2,289	1,931	722	540
Liabilities	28,088	5,478	10,312	1,184	168	49
Difference	**(8,814)**	**(4,129)**	**(8,023)**	**747**	**554**	**491**
Of which: Difference in USD	(7,938)	(3,114)	(8,376)	(632)	(107)	55
Of which: Difference with respect to foreign operations	12,164	(872)	461	488	275	188
Futures transactions	6,249	5,338	6,128	153	200	(207)
Options	116	(111)	(340)	(23)	(17)	(16)
Difference after effect of derivative instruments	**(2,449)**	**1,098**	**(2,235)**	**877**	**737**	**268**
Total						
Assets	95,860	10,444	33,371	25,077	21,947	15,321
Liabilities	164,997	41,629	39,259	19,671	6,066	4,012
Difference	**(69,137)**	**(31,185)**	**(5,888)**	**5,406**	**15,881**	**11,309**
Of which: Loans to the public	14,343	9,007	28,810	23,789	19,993	15,904
Of which: Deposits from the public	153,956	40,440	31,921	10,024	2,689	942

(1) Presented in this note are expected contractual future cash flows with respect to assets and liabilities, according to linkage basis, according to the remaining contractual period to maturity of each flow. The data is stated net of provisions for doubtful debts.

(2) Includes assets amounting to NIS 411 million and NIS 533 million as of December 31, 2020 and 2019, respectively, which are past due.

(3) Includes loans at debitory account terms amounting to NIS 3,401 million and NIS 5,012 million as of December 31, 2020 and 2019, respectively and amounts exceeding limits in debitory account facilities amounting to NIS 91 million and NIS 100 million as of December 31, 2020 and 2019, respectively.

(4) Contractual rate of return is the interest rate which discounts the expected contractual future cash flows, as presented in this Note, for the monetary item to its balance sheet balance.

	4-5 years	5-10 years	10-20 years	Over 20 years	Total cash flows	Balance sheet balance		Contractual rate of return[4]
						Without maturity	Total	
	13,759	57,122	67,375	23,944	338,115	[2]1,835	287,183	2.82%
	5,967	14,956	4,439	465	256,182	64	250,364	0.88%
	7,792	**42,166**	**62,936**	**23,479**	**81,933**	**1,771**	**36,819**	**–**
	(15)	26	(38)	–	(17,888)	–	(17,887)	–
	17	9	–	–	417	–	417	–
	7,794	**42,201**	**62,898**	**23,479**	**64,462**	**1,771**	**19,349**	**–**
	921	3,034	487	–	30,547	[2]32	22,760	1.42%
	15	81	–	–	45,375	3	43,756	0.44%
	906	**2,953**	**487**	**–**	**(14,828)**	**29**	**(20,996)**	**–**
	17	78	(9)	–	(20,026)	–	(19,703)	–
	511	729	236	–	14,180	–	10,377	–
	15	(26)	38	–	17,888	–	17,888	–
	(17)	(9)	–	–	(417)	–	(418)	–
	904	**2,918**	**525**	**–**	**2,643**	**29**	**(3,526)**	**–**
	14,680	60,156	67,862	23,944	368,662	1,867	309,943	2.73%
	5,982	15,037	4,439	465	301,557	67	294,120	0.85%
	8,698	**45,119**	**63,423**	**23,479**	**67,105**	**1,800**	**15,823**	**–**
	13,881	53,084	67,751	23,944	270,506	1,426	220,828	2.94%
	2,998	4,766	2,822	151	250,709	–	246,753	0.15%

Note 33 – Balances and estimates of fair value of financial instruments

1) Fair value of financial instruments

For most of the Bank's financial instruments, a "market price" cannot be quoted, because there is no active market in which they are traded. Therefore, the fair value is estimated using acceptable pricing models, such as present value of future cash flows, discounted at an interest rate that reflects the level of risk inherent in the instrument. The estimate of fair value using future cash flows and determination of a discount rate is subjective. Therefore, for most financial instruments, the estimation of fair value is not necessarily an indication of the realization value of the financial instrument on the balance sheet date. The fair value valuation uses interest rates prevailing at the balance sheet date, and does not take into account fluctuations in interest rates. The assumption of different interest rates will result in fair values that could be substantially different. Essentially, this relates to financial instruments that bear fixed interest or are interest-free, or to CPI-linked financial instruments with shorter maturities than those in which similar transactions are actually effected. In addition, in determining the fair value, the commissions to be received or paid as a result of the business activity are not taken into account, nor does it include the tax effect. Moreover, the difference between the carrying value and the fair value balances may not be realized, because, in most cases, the Bank will hold the financial instrument to maturity. Consequently, it should be emphasized that the data included in this note do not indicate the value of the Bank as a going concern. In addition, because of the broad range of valuation techniques and the possible estimates to be applied during the valuation of the fair value, one must be cautious when comparing the fair values between different banks.

2) The principal methods and assumptions for estimating fair value of financial instruments:

A. Fair value was calculated taking into account the possibility of early repayment based on empirical analysis.

The early repayment assumptions in mortgages are based on empirical testing and on a borrower behavior model with regard to early repayment rate out of all mortgages. These assumptions are verified from time to time against actual early repayment, in each linkage segment and interest type, separately short and long original loan terms.

Early repayment assumptions for deposits and savings plans with early withdrawal options (bearing fixed or variable interest, CPI-linked or non-linked), where interest terms are known in advance, are based on empirical analysis and are reviewed and revised from time to time.

The early repayment assumptions resulted in a NIS 1,027 million decrease in total fair value of assets, and in a NIS 620 million decrease in total fair value of liabilities.

B. Deposits from the public, deposits with banks and loans to Governments, as well as debentures and non-negotiable subordinated notes – the discounted future cash flow method, using interest rates at which, according to the Bank, similar transactions could have been executed on the balance sheet date. For transactions which bear variable interest, the difference between the spread over the variable interest base for the transaction, and the spread for similar transactions upon the balance sheet date is separated. In calculating fair value, this difference is treated as a fixed interest component. For debentures and subordinated notes traded as an asset on an active market, fair value is based on quoted market prices or on trader quotes for identical liabilities traded on an active market.

C. Negotiable securities, see Note 1. F.16 to the financial statements.

D. Investments in corporations for which a market value cannot be quoted are not included in this Note at their fair value but rather at cost, (net of impairment) adjusted for observed price changes in standard transactions in similar or identical investments for the same issuer. The cost, in the estimation of management, is not lower than the fair value of the investment.

E. Loans to the public – The fair value of loans to the public is estimated by the present value of future cash flows method, using an appropriate discount rate. For loans which bear variable interest, the difference between the spread over the variable interest base for the transaction, and the spread for similar loans upon the reporting date is separated. In calculating fair value, this difference is treated as a fixed interest component. The balance of the loans was broken down according to the risk level of the individual borrower at the balance sheet date, for which the flows of future receipts (principal and interest) were calculated.

These receipts were discounted at the interest rates at which the Bank estimates it will be possible to execute similar transactions on the balance sheet date, and which reflects the risk level inherent in the loans for a similar client (for residential mortgages – a rate which reflects the risk associated with the category).

Note 33 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

F. Impaired debt – fair value is calculated using discount rates that reflects the high credit risk inherent therein. In no case were these discount rates lower than the highest interest rate used by the members of the Bank Group in providing loans on the balance sheet date. The future cash flows of problematic debts were calculated after deducting the provisions for credit losses and after deducting accounting write-offs.

a decrease by 1% in the discount rate affects the fair value of the problematic debts of the Group by NIS 4 million.

G. Off-balance sheet financial instruments in which the balance represents credit risk and contingent liabilities and special commitments – the balance in the financial statements as of the balance sheet date approximates the fair value.

H. Derivative instruments – see Note 1. F.16. to the financial statements.

I. Financial instruments with original maturity of three months or shorter (other than derivative instruments and negotiable financial instruments) – the balance on the balance on the financial statements as of the balance sheet date approximates the fair value, subject to changes in credit risk and in Bank margin.

3) Information on the fair value of financial instruments is presented below:

A. Fair value balances

	December 31, 2020					
		Fair value				
	Book balance	Level 1[(1)]	Level 2[(1)]	Level 3[(1)]	Total	Excluding Union Bank
Financial assets						
Cash and deposits with banks	86,570	21,288	53,736	11,546	86,570	74,161
Securities[(3)]	17,290	13,234	3,865	260	17,359	8,521
Securities loaned or acquired in resale agreements	200	200	–	–	200	194
Loans to the public, net	245,525	2,572	8,076	[(5)]235,639	246,287	221,579
Loans to Governments	613	–	–	613	613	613
Investments in associated companies	31	–	–	31	31	31
Assets with respect to derivative instruments	4,543	371	2,417	[(2)]1,755	4,543	3,655
Other financial assets	1,377	13	–	1,364	1,377	1,302
Total financial assets	**[(4)]356,149**	**37,678**	**68,094**	**251,208**	**356,980**	**310,056**
Financial liabilities						
Deposits from the public	284,224	2,454	86,305	197,746	286,505	249,052
Deposits from banks	3,779	–	214	3,565	3,779	3,647
Deposits from the Government	70	–	–	74	74	74
Debentures and subordinated notes	33,446	32,678	6	1,752	34,436	30,468
Liabilities with respect to derivative instruments	5,506	375	3,479	[(2)]1,652	5,506	4,408
Other financial liabilities	10,162	1,583	4,842	3,749	10,174	9,076
Total financial liabilities	**[(4)]337,187**	**37,090**	**94,846**	**208,538**	**340,474**	**296,725**

(1) Level 1 – Fair value measurement using quoted prices on an active market. Level 2 – Fair value measurements using other significant observed data. Level 3 – Fair value measurements using significant non-observed data.
(2) Fair value measurement is primarily based on use of observed data (market interest rate curves), except for credit quality of counter party.
(3) For more information about the carrying amount and fair value of securities, see Note 12 to the financial statements.
(4) Includes assets and liabilities amounting to NIS 108,334 million and NIS 122,620 million, respectively, whose carrying amount equals their fair value (instruments presented at fair value on the balance sheet). For more information on instruments measured at fair value on recurring basis and on non-recurring basis, see B.-D. below.
(5) Of which embedded derivatives in loans to the public, net amounting to NIS 9 million.

Note 33 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

A. Fair value balances – continued

	December 31, 2019				
		Fair value			
	Book balance	Level 1(1)	Level 2(1)	Level 3(1)	Total
Financial assets					
Cash and deposits with banks	51,672	11,846	38,978	848	51,672
Securities(3)	10,113	7,571	2,537	66	10,174
Securities loaned or acquired in resale agreements	120	120	–	–	120
Loans to the public, net	204,708	781	10,887	(5)194,709	206,377
Loans to Governments	656	–	–	657	657
Investments in associated companies	32	–	–	32	32
Assets with respect to derivative instruments	2,578	215	1,662	(2)701	2,578
Other financial assets	627	6	–	621	627
Total financial assets	**(4)270,506**	**20,539**	**54,064**	**197,634**	**272,237**
Financial liabilities					
Deposits from the public	210,984	781	64,919	147,289	212,989
Deposits from banks	714	–	315	399	714
Deposits from the Government	29	–	–	31	31
Debentures and subordinated notes	33,460	32,750	–	1,990	34,740
Liabilities with respect to derivative instruments	2,686	213	1,509	(2)964	2,686
Other financial liabilities	6,616	490	4,874	1,251	6,615
Total financial liabilities	**(4)254,489**	**34,234**	**71,617**	**151,924**	**257,775**

(1) Level 1 – Fair value measurement using quoted prices on an active market. Level 2 – Fair value measurements using other significant observed data. Level 3 – Fair value measurements using significant non-observed data.

(2) Fair value measurement is primarily based on use of observed data (market interest rate curves), except for credit quality of counter party.

(3) For more information about the carrying amount and fair value of securities, see Note 12 to the financial statements.

(4) Includes assets and liabilities amounting to NIS 72,028 million and NIS 67,968 million, respectively, whose carrying amount equals their fair value (instruments presented at fair value on the balance sheet). For more information on instruments measured at fair value on recurring basis and on non-recurring basis, see B.-D. below.

(5) Of which embedded derivatives in loans to the public, net amounting to NIS 8 million.

Note 33 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

B. Items measured at fair value:

1. On recurring basis

				December 31, 2020
	Prices quoted on active market (level 1)	Other significant observed data (level 2)	Non-observed significant data (level 3)	Total fair value
Assets[(2)]				
Debentures available for sale				
Debentures:				
Of government of israel	6,506	3,292	–	9,798
Of foreign governments	451	–	–	451
Of banks and financial institutions in israel	174	78	–	252
Of banks and financial institutions overseas	9	213	5	227
Asset-backed (abs)	4	29	–	33
Of others in israel	438	226	19	683
Of others overseas	267	27	–	294
Shares not held for trading	194	–	16	210
Securities held for trading:				–
Debentures of the government of israel	1,342	–	–	1,342
Debentures of financial institutions in israel	2	–	–	2
Debentures of others in israel	17	–	3	20
Debentures of foreign others	27	–	–	27
Shares held for trading	20	–	–	20
Securities loaned or acquired in resale agreements	200	–	–	200
Credit with respect to loans to clients	2,572	–	–	2,572
Assets with respect to derivative instruments[(1)]				–
Interest contracts:				–
Nis / cpi	–	89	59	148
Other	–	802	162	964
Currency contracts	71	1,483	1,337	2,891
Contracts for shares	300	43	189	532
Commodities and other contracts	–	–	8	8
Other financial assets	13	–	–	13
Other	–	–	9	9
Total assets	**12,607**	**6,282**	**1,807**	**20,696**
Liabilities[(2)]				
Deposits with respect to borrowing from clients	2,454	–	–	2,454
Liabilities with respect to derivative instruments[(1)]				
Interest contracts:				
Nis / cpi	–	60	48	108
Other	–	1,142	215	1,357
Currency contracts	74	2,212	1,287	3,573
Contracts for shares	301	64	93	458
Commodities and other contracts	–	1	9	10
Other financial liabilities	1,583	–	–	1,583
Other	–	–	6	6
Total liabilities	**4,412**	**3,479**	**1,658**	**9,549**

(1) Fair value measurement of derivative instruments classified under Level 3 is primarily based on use of observed data (market interest rate curves), except for credit quality of counter party.

(2) Includes balance of fair value of assets and liabilities with respect to acquisition of Union Bank, amounting to NIS 10,160 million and NIS 2,047 million, respectively. Includes balance of fair value of assets and balance of fair value of Level 3 liabilities, amounting to NIS 85 million and NIS 9 million, respectively. For more information about the acquisition, see Note 35 to the financial statements.

Note 33 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

B. Items measured at fair value – continued:

1. On recurring basis

	December 31, 2019			
	Prices quoted on active market (level 1)	Other significant observed data (level 2)	Non-observed significant data (level 3)	Total fair value
Assets				
Debentures available for sale				
Debentures:				
Of government of israel	1,187	2,175	–	3,362
Of foreign governments	1,440	–	–	1,440
Of banks and financial institutions overseas	–	362	–	362
Shares not held for trading	83	–	17	100
Securities held for trading:				
Debentures of the government of israel	427	–	–	427
Debentures of foreign governments	341	–	–	341
Securities loaned or purchased under resale agreements	120	–	–	120
Credit with respect to loans to clients	781	–	–	781
Assets with respect to derivative instruments(1)				
Interest contracts:				
Nis / cpi	–	70	126	196
Other	–	455	24	479
Currency contracts	47	1,037	485	1,569
Contracts for shares	167	97	63	327
Commodities and other contracts	1	3	3	7
Other financial assets	6	–	–	6
Other	–	–	8	8
Total assets	**4,600**	**4,199**	**726**	**9,525**
Liabilities				
Deposits with respect to borrowing from clients	781	–	–	781
Liabilities with respect to derivative instruments(1)				
Interest contracts:				
Nis / cpi	–	67	14	81
Other	–	695	40	735
Currency contracts	44	717	771	1,532
Contracts for shares	168	29	135	332
Commodities and other contracts	1	1	4	6
Other financial liabilities	490	–	–	490
Total liabilities	**1,484**	**1,509**	**964**	**3,957**

(1) Fair value measurement of derivative instruments classified under Level 3 is primarily based on use of observed data (market interest rate curves), except for credit quality of counter party.

Note 33 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

B. Items measured at fair value – continued:

2. On non-recurring basis

	As of December 31, 2020 (audited)					For the year ended December 31, 2020
	Fair value					Gains (losses)
	Level 1[(1)]	Level 2[(1)]	Level 3[(1)]	Total	Excluding Union Bank	Including Union Bank
Impaired credit whose collection is contingent on collateral	–	6	122	128	94	(6)
Investments in shares for which no fair value is available	–	–	216	216	59	28

	As of December 31, 2019 (audited)				For the year ended December 31, 2019
	Fair value				
	Level 1[(1)]	Level 2[(1)]	Level 3[(1)]	Total	Gains (losses)
Impaired credit whose collection is contingent on collateral	–	16	46	62	24
Investments in shares for which no fair value is available	–	–	49	49	(6)

(1) Level 1 – Fair value measurement using quoted prices on an active market. Level 2 – Fair value measurements using other significant observed data. Level 3 – Fair value measurements using significant non-observed data.

Note 33 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

C. Change in items measured at fair value on recurrent basis, included in level 3:

For the year ended December 31, 2020 (audited)

	Fair value as of December 31, 2019	Realized / unrealized gains (losses) included, net[1]: In statement of profit and loss	Realized / unrealized gains (losses) included, net[1]: In statement of Other Comprehensive Income under Equity	Purchases[4]	Sales	Dispositions	Transfers to Level 3[3]	Transfers from Level 3[3]	Fair value as of December 31, 2020	Unrealized gains (losses) with respect to instruments held as of December 31, 2020
Assets										
Securities available for sale										
Debentures:										
Of foreign financial institutions	–	(1)	1	5	–	–	–	–	5	–
Of others in israel	–	3	–	11	(5)	–	13	(3)	19	1
Securities held for trading										
Of others in israel	–	–	–	–	–	–	3	–	3	–
Shares not held for trading	17	(1)	–	–	–	–	–	–	16	(1)
Assets with respect to derivative instruments[2]										
Interest contracts:										
Nis / cpi	126	(22)	–	13	–	(145)	87	–	59	5
Other	24	167	–	29	–	(58)	–	–	162	165
Currency contracts	485	476	–	2,329	–	(1,953)	–	–	1,337	769
Contracts for shares	63	48	–	279	–	(201)	–	–	189	–
Commodities and other contracts	3	(12)	–	18	–	(1)	–	–	8	(11)
Other	8	1	–	–	–	–	–	–	9	–
Total assets	**726**	**659**	**1**	**2,684**	**(5)**	**(2,358)**	**103**	**(3)**	1,807	928
Liabilities										
Liabilities with respect to derivative instruments[2]										
Interest contracts:										
Nis / cpi	14	(22)	–	9	–	(15)	62	–	48	(55)
Other	40	187	–	77	–	(89)	–	–	215	186
Currency contracts	771	77	–	2,102	–	(1,663)	–	–	1,287	737
Contracts for shares	135	(50)	–	248	–	(240)	–	–	93	–
Commodities and other contracts	4	4	–	2	–	(1)	–	–	9	1
Other	–	6	–	–	–	–	–	–	6	–
Total liabilities	**964**	**202**	**–**	**2,438**	**–**	**(2,008)**	**62**	**–**	**1,658**	869

(1) Realized gains (losses) included in the statement of profit and loss under "Non-interest financing revenues". Unrealized gains and losses included in equity under Adjustments for Presentation of Available-for-Sale Securities at Fair Value under Other Comprehensive Income.

(2) Fair value measurement is primarily based on use of observed data (market interest rate curves), except for credit quality of counter party.

(3) Transfers to Level 3 include transactions for which market data, in the reported periods, are not observed. Transfers from Level 3 result from the opposite situation.

(4) Includes balance of fair value of assets and liabilities with respect to acquisition of Union Bank amounting to NIS 85 million and NIS 9 million, respectively. For more information about the acquisition, see Note 35 to the financial statements.

Note 33 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

C. Change in items measured at fair value on recurrent basis, included in level 3:

	For the year ended December 31, 2019 (audited)								
		Realized / unrealized gains (losses) included, net[1]							
	Fair value as of December 31, 2019	In statement of profit and loss	In statement of Other Comprehensive Income under Equity	Acquisitions	Sales	Dispositions	Transfers to Level 3[3]	Fair value as of December 31, 2019	Unrealized gains (losses) with respect to instruments held as of December 31, 2019
Assets									
Shares not held for trading	–	–	–	–	–	–	17	17	–
Assets with respect to derivative instruments[2]									
Interest contracts:									
NIS / CPI	75	7	–	24	–	(52)	72	126	114
Other	9	(18)	–	33	–	–	–	24	133
Currency contracts	1,092	(137)	–	1,020	–	(1,490)	–	485	362
Contracts for shares	156	(65)	–	68	–	(96)	–	63	–
Commodities and other contracts	3	3	–	1	–	(4)	–	3	–
Other	4	4	–	–	–	–	–	8	–
Total assets	**1,339**	**(206)**	**–**	**1,146**	**–**	**(1,642)**	**89**	**726**	**609**
Liabilities									
Liabilities with respect to derivative instruments[2]									
Interest contracts:									
NIS / CPI	25	(10)	–	3	–	(20)	16	14	(36)
Other	27	(10)	–	23	–	–	–	40	244
Currency contracts	584	113	–	1,159	–	(1,085)	–	771	731
Contracts for shares	206	(164)	–	179	–	(86)	–	135	–
Commodities and other contracts	3	2	–	–	–	(1)	–	4	–
Other	8	(8)	–	–	–	–	–	–	–
Total liabilities	**853**	**(77)**	**–**	**1,364**	**–**	**(1,192)**	**16**	**964**	**939**

(1) Realized gains (losses) included in the statement of profit and loss under "Non-interest financing revenues". Unrealized gains and losses included in equity under Adjustments for Presentation of Available-for-Sale Securities at Fair Value under Other Comprehensive Income.

(2) Fair value measurement is primarily based on use of observed data (market interest rate curves), except for credit quality of counter party.

(3) Transfers to Level 3 include transactions for which market data, in the reported periods, are not observed.

Note 33 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

D. Additional information about non-observed significant data and valuation techniques used in fair value measurement of items classified at Level 3:

	Fair value as of December 31, 2020(1)	Valuation technique	Non-observed data	Range	Weighted average
Shares not held for trading	16	Quote from counter-party to the transaction			
Securities available for sale					
Debentures of others in Israel	14	Cash flows discounting	Price	5.60-101.08	59.42
	5	NAV (Net Asset Value) model	Price	33.87	33.87
Debentures of foreign others	3	Cash flows discounting	Price	39.37-101.08	88.36
Assets with respect to derivative instruments:					
NIS / CPI	53	Cash flows discounting	Inflationary expectations	0.30% – 0.12%	0.28%
Foreign currency	55	Cash flows discounting	Counter-party credit quality	16.87% – 0.13%	0.35%
Contracts for shares	383	Options pricing model	Standard deviation per share	47.13% – 29.94%	37.41%
Commodities and other contracts	1	Cash flows discounting	Counter-party credit quality	0.17% – 0.13%	0.16%
Other	1,330	Cash flows discounting	Counter-party credit quality	3.30% – 0.30%	1.74%
Liabilities with respect to derivative instruments:					
Interest contracts – NIS CPI	39	Cash flows discounting	Inflationary expectations	0.55% – 0.20%	0.28%
Other	1,628	Cash flows discounting	Counter-party credit quality	2.85% – 0.30%	1.80%

	Fair value as of December 31, 2019	Valuation technique	Non-observed data	Range	Weighted average
Shares not held for trading	17	Quote from counter-party to the transaction			
Assets with respect to derivative instruments:					
Interest contracts – NIS CPI	123	Cash flows discounting	Inflationary expectations	0.93%- 0.82%	0.84%
Contracts for shares	300	Options pricing model	Standard deviation per share	41.49% – 40.86%	41.26%
Other	286	Cash flows discounting	Counter-party credit quality	2.90% – 0.30%	1.66%
Liabilities with respect to derivative instruments:					
Interest contracts – NIS CPI	14	Cash flows discounting	Inflationary expectations	0.93%- 0.82%	0.89%
Other	950	Cash flows discounting	Counter-party credit quality	3.10% – 0.30%	1.76%

(1) Includes balance of fair value of assets and liabilities with respect to acquisition of Union Bank, amounting to NIS 80 million and NIS 9 million, respectively. Assets include non-negotiable debentures of Union Bank amounting to NIS 5 million, valued by an external quote provider, and Union Bank does not have the significant non-observed data used in pricing of this fair value. For more information about the acquisition, see Note 35 to the financial statements.

Note 33 – Balances and estimates of fair value of financial instruments – continued
Reported amounts (NIS in millions)

E. Transfers between Levels 1 and 2 of the fair value hierarchy

There were no transfers from Level 2 and Level 3 to Level 1 during the reported period.

F. Election of fair value option

Should the Bank elect the fair value option, changes to fair value of investments in certain debentures would be recorded to profit and loss, with debentures classified under the portfolio held for trading, although they had not been purchased for this purpose.

Election of the fair value option was made under the following circumstances:

1. Reduce volatility in profit and loss resulting from changes between the original measurement basis of financial instruments designated at the fair value option, and the measurement basis of derivative financial instruments used to manage risks with respect to such investments.
2. Complexity of implementing hedge accounting.
3. More accurate economic presentation of assets managed on fair value basis.

As of December 31, 2020, the Bank did not elect the fair value option.

As of December 31, 2019, the Bank elected the fair value option with regard to securities classified as securities held for trading, even though they had not been acquired for trading purposes. For more information see Notes 2D, 3A.2, 3B And 12(4).

	Fair value as of December 31, 2019	Losses with respect to changes in fair value for the year ended December 31, 2019
Securities available for sale	341	(2)

Note 34 – Interested and Related Parties
Reported amounts (NIS in millions)

A. Balances

	As of December 31, 2020									
	Interested parties								Related parties owned by the banking corporation	
	Controlling shareholders		Officers[4]		Others[5]		Interested parties upon the transaction date		Jointly-controlled associated companies or investee companies	
	Balance as of balance sheet date	Highest balance during the year[1]	Balance as of balance sheet date	Highest balance during the year[1]	Balance as of balance sheet date	–	Balance as of balance sheet date	Highest balance during the year[1]	Balance as of balance sheet date	Highest balance during the year[1]
Assets										
investments in securities	–	–	–	–	66	77	–	–	–	–
Loans to the public	67	153	19	20	448	453	–	–	–	1
Provision for credit losses	1	1	–	–	4	4	–	–	–	–
Loans to the public, net	66	152	19	20	444	449	–	–	–	1
Investments in associated companies	–	–	–	–	–	–	–	–	31	31
Liabilities						–				
Deposits from the public	53	81	82	95	1,942	2,860	–	–	41	56
Shares (included in shareholders' equity)[2]	7,883	7,883	–	–	–	–	–	–	–	–
Credit risk in off-balance sheet financial instruments[3]	2	3	8	9	139	154	–	–	5	5

(1) Based on balances at the end of each month.
(2) The share of interested and related parties in the Bank's shareholders' equity.
(3) Credit risk in off-balance sheet financial instruments, as calculated for the purposes of per-borrower limitations.
(4) Officers of the Bank (including the President & CEO) and including Board members along with their close family members.
(5) Any corporation in which a person or corporation included in one of these interested party groups has a controlling interest or owns 25% or more of their issued share capital or voting rights, or may appoint 25% or more of their Board members.

									As of December 31, 2019
Interested parties						Related parties owned by the banking corporation			
Controlling shareholders		Officers[4]		Others[5]		Interested parties upon the transaction date		Jointly-controlled associated companies or investee companies	
Balance as of balance sheet date	Highest balance during the year[1]	Balance as of balance sheet date	Highest balance during the year[1]	Balance as of balance sheet date	Highest balance during the year[1]	Balance as of balance sheet date	Highest balance during the year[1]	Balance as of balance sheet date	Highest balance during the year[1]
10	15	16	16	23	42	–	–	1	1
–	–	–	–	1	4	–	–	–	–
10	15	16	16	22	38	–	–	1	1
–	–	–	–	–	–	–	–	32	32
41	66	73	93	588	668	–	–	10	10
7,027	7,027	–	–	–	–	–	–	–	–
3	3	4	5	92	99	–	–	1	1

Note 34 – Interested and Related Parties – Continued
Reported amounts (NIS in millions)

B. Summary of business results with interested and related parties

	For the year ended December 31,			
	2020			
	Interested parties			Related parties owned by the banking corporation
	Controlling shareholders	Officers[1]	Others[2]	Jointly-controlled associated companies or investee companies
Net interest revenues from loans to the public	–	–	6	–
Interest expenses for deposits from the public	–	–	(8)	–
Total interest revenues (expenses), net	**–**	**–**	**(2)**	**–**
Net non-interest financing revenues	–	–	16	–
Operating and other expenses	–	(43)	–	–
Total	**–**	**(43)**	**14**	**–**

C. Remuneration and other benefits to interested parties (by the banking corporation and its investees)

	For the year ended December 31,			
	2020			
	Officers[1]		Others[2]	
	Total benefits	Total number of benefi-ciaries	Total benefits	Total number of benefi-ciaries
Interested party employed by or on behalf of the corporation	37	16	–	–
Board member not employed by or on behalf of the corporation	6	10	–	–
Other interested party not employed by or on behalf of the corporation	–	–	–	–

(1) Officers of the Bank (including the President & CEO) and including Board members along with their close family members.

(2) Any corporation in which a person or corporation included in one of these interested party groups has a controlling interest or owns 25% or more of their issued share capital or voting rights, or may appoint 25% or more of their Board members.

–	2019				2018			
–	Interested parties			Related parties owned by the banking corporation	Interested parties			Related parties owned by the banking corporation
–	Controlling shareholders	Officers[1]	Others[2]	Jointly-controlled associated companies or investee companies	Controlling shareholders	Officers[1]	Others[2]	Jointly-controlled associated companies or investee companies
–	2	–	2	–	2	1	4	–
–	(1)	(1)	–	–	–	(1)	(1)	–
–	**1**	**(1)**	**2**	**–**	**2**	**–**	**3**	**–**
–	–	–	4	–	–	–	–	–
–	–	(44)	(2)	–	–	(37)	(4)	–
–	**1**	**(45)**	**4**	**–**	**2**	**(37)**	**(1)**	**–**

–								
–	2019				2018			
–	Officers[1]		Others[2]		Officers[1]		Others[2]	
–	Total benefits	Total number of benefi-ciaries	Total benefits	Total number of benefi-ciaries	Total benefits	Total number of benefi-ciaries	Total benefits	Total number of benefi-ciaries
–	38	14	–	–	31	14	–	–
–	6	16	–	–	6	13	–	–
–	–	–	2	1	–	–	4	3

Note 35 – Significant events during the reported period

A. Effect of the Corona Virus outbreak

The Corona Virus crisis currently affecting Israel and the entire world has real economic and financial implications, with a sharp decline in economic activity in certain periods, significant increase in the unemployment rate and sharp volatility in financial markets. These events resulted in higher credit risk in the Israeli economy and world-wide. The higher risk level primarily applies to the business segment, especially small and medium businesses, due to reduced economic activity.

For more information about supervisory highlights with regard to accounting treatment of debt, and public reporting in view of the Corona Virus crisis, see Note 1.C above.

For more information about Proper Conduct of Banking Business Directive 250 "Adjustments to Proper Conduct of Banking Business Directives for addressing the Corona Virus Crisis (Interim Directive)", see Note 25.

The provision for credit losses recognized on these financial statements includes an estimate with respect to the effect of the Corona Virus crisis, primarily reflected in the increase in group-based provision. In conformity with directives of the Supervisor of Banks, the Bank applies a methodology for measuring the group provision, which takes into account both past loss rates, since 2011, and adjustments with respect to relevant environmental factors. These factors include the following: Trends in credit volume for each sector as well as sector conditions, macro-economic data, general assessment of credit quality for each economic sector, changes in volume and in trend of balances in arrears, changes to Bank policy on extending credit and so forth.

On April 21, 2020, the Supervisor of Banks issued a circular listing highlights for the financial statements. This circular emphasizes, inter alia, that banking corporations should ensure that their public reports reflect the major effects of the Corona Virus crisis, and that provisions for credit losses were made in conservative and cautious fashion. According to the circular, the Supervisor of Banks is aware that under the current circumstances, there is a high degree of uncertainty, which requires banking corporations to exercise significant judgment, and stipulates that qualitative adjustments in calculating the provision should be revised, and amounts of the provision for credit losses should be increased. Over time, as the Bank has more available information, the estimated effects would be revised accordingly. In order to calculate provisions for credit losses, the Bank is required to utilize reliable external sources and the most current macro-economic forecasts as anchor points.

The new parameters were accounted for in determination of the provision, in conformity with provisions of Appendix J to the Public Reporting Regulations, which require the Bank "to take into account all known relevant factors, both internal and external, which may impact the likelihood of debt collection" and whereby the method for calculation of the provision for credit losses should be "consistently applied but, when appropriate, should be revised with respect to new factors that affect the likelihood of collection". The qualitative provision is based on judgment exercised and estimate prepared under uncertainty, and shall be regularly reviewed in view of developments of various indicators. The provision rate, based on the model, would continue to be regularly revised in conformity with the various indicators and would also be adapted to future developments.

Expenses with respect to credit losses for 2020 and for the fourth quarter of 2020 amounted to NIS 1,050 million and NIS 118 million, respectively. Excluding the effect of Union Bank, expenses with respect to credit losses amounted to NIS 1,058 million and NIS 126 million, respectively compared to NIS 364 million and NIS 119 million in the corresponding periods last year – a year-over-year increase by NIS 694 million. The increase is primarily due to the reasons listed above. For more information about the provision for credit losses included on these financial statements, see Notes 13 and 30 to the financial statements.

B. Acquisition of Union Bank

In conformity with the resolution by the Bank's Board of Directors dated November 27, 2017, the Bank signed an agreement with the controlling shareholders of Bank Igud Le-Israel Ltd. (hereinafter: "Union Bank"), who jointly hold 47.63% of Union Bank's issued and paid-up share capital, to acquire the shares of Union Bank and to merge it with the Bank by way of exchange of shares (hereinafter: "the **agreement**"). Moreover, prior to signing this agreement, notice was received from another Union Bank shareholder who holds (through Trustees) 27.12% of Union Bank's issued and paid-in share capital ("the Other Shareholder") accepting the purchase offer. Later on, Union Bank, the Other Shareholder and the Bank signed multiple addendums to the merger agreement.

On May 30, 2018, the Acting Director General of the Antitrust Authority decided to object to the merger (hereinafter: "the Supervisor" and "the decision", respectively); an appeal was filed in September 2018. On November 28, 2019, the verdict in this appeal was received, such that the decision by the Acting Supervisor to object to the merger was canceled, and the matter was referred back to the Supervisor for a complete decision on setting potential conditions to eliminate concern of impacting competition. On January 8, 2020, the Supervisor issued their decision with regard to the aforementioned conditions ("the original decision on merger conditions").

Note 35 – Significant events during the reported period – Continued

Further to original decision on merger conditions, on July 14, 2020 the Bank and Peninsula Group Ltd. signed an agreement (hereinafter: "Peninsula" and "the Peninsula agreement" or "the Peninsula transaction") whereby, subject to closing of the transaction subject of the merger agreement and approval by the Supervisor ("the suspensive conditions of Peninsula transaction") and after control over Union Bank would be transferred to the Bank, Igud and Peninsula would sign an agreement regarding sale of the diamond financing portfolio.

On July 27, 2020, the revised decision by the Supervisor (hereinafter: "the revised decision by the Supervisor") was received, including certain revisions to the original decision on merger conditions, which were discussed by the parties to the merger agreement and the Supervisor, in order for the Peninsula Transaction to comply with conditions stated in the Supervisor's decision. The revised decision by the Supervisor would allow, inter alia, for closing of the transaction for sale of the diamond financing portfolio concurrently with closing of the merger. Furthermore, on said date, the Supervisor's approval was received for the identity of the buyer of the credit portfolio and the content of the sold operations of credit to the diamond sector.

On August 30, 2020, the Bank issued an exchange tender offer for Union Bank shares; the acceptance date for this offer was postponed on September 10, 2020 and on September 16, 2020; its terms and conditions were revised on September 17, 2020; the acceptance date for the tender offer was September 23, 2020 and it was concluded on September 30, 2020. In conjunction with the tender offer, the Bank acquired 100% of the issued and paid-in share capital of Union Bank and of voting rights in Union Bank, in exchange for the following: (1) Share issuance, where for each Union Bank ordinary shares of NIS 0.01 par value acquired by the Bank, the Bank issued 0.2699694 Bank ordinary shares of NIS 0.1 par value, for total issuance of NIS 19,865,165 par value Bank shares; (2) Cash payment by the Bank amounting to NIS 16 million ("the cash consideration"); (3) Furthermore, a receipt amounting to NIS 37.24 million made by the Other Shareholder was paid in cash; as the Bank was informed, this is payment which the Other Shareholder committed to pay to the controlling shareholder of Union Bank pursuant to agreements between them and as allocated among them, which the controlling shareholder of Union Bank announced their intention to share with public shareholders of Union Bank (other than the Other Shareholder) pro rata to their holding stakes in Union Bank shares ("the additional receipt"). Note that in conformity with the foregoing, each Union Bank share of NIS 0.01 par value entitled Union Bank shareholders to NIS 1.8513449 with respect to the cash consideration and the additional receipts, except for shares of the controlling shareholders and shares of the Other Shareholder.

As from September 30, 2020, the Bank holds all of the share capital of Union Bank and therefore the Bank has control over Union Bank. Therefore, the Bank's consolidated balance sheet includes Union Bank's balance sheet.

In accordance with conditions stipulated by the Supervisor to alleviate concern about impact to competition, and in conformity with the agreement signed on July 14, 2020 by the Bank and Peninsula Group Ltd. (hereinafter: "Peninsula" and "the Peninsula Agreement" or "the Peninsula Transaction"), upon closing of the acquisition transaction, Union Bank and Peninsula signed an agreement for sale of Union Bank's diamond operations. According to the agreement, the consideration payable by Peninsula to Union Bank was calculated based on the actual utilized credit in the credit portfolio upon closing of the credit transaction (except for credit to clients classified by Union Bank as impaired debt, which would be sold to the credit buyer for no consideration). As a result of this sale on September 30, 2020, Union Bank recognized a loss amounting to NIS 117 million (NIS 77 million after tax) with respect to sale of the diamond operations.

C. Valuation of assets and liabilities

Pursuant to provisions of ASC 805, the Bank is required upon acquisition to conduct a Purchase Price Allocation (PPA) for assets and liabilities of Union Bank, within 12 months after the acquisition date. Due to the short time elapsed from the acquisition date to the issue date of the financial statements as of September 30, 2020, carrying amounts on Union Bank books were used as a conservative initial estimate for provisional purchase price allocation (PPA Provisional) upon initial consolidation.

At the end of 2020, the valuation prepared for purchase price allocation (PPA) was completed;As from these financial statements as of December 31, 2020, the consolidated balance sheet includes assets and liabilities of Union Bank, adjusted to their market value as of September 30, 2020, as well as intangible assets and liabilities, based on the PPA. The net amount recognized upon the acquisition date with respect to fair value of identifiable assets acquired and liabilities assumed in the business combination, after effect of sale of Union Bank's diamond operations, exceeds the consideration provided. The difference of NIS 1.5 billion was recognized on the Bank's consolidated financial statements as "Deferred credit balance from acquisition of Union Bank", under Other Liabilities. The deferred credit balance was calculated after deduction of net loss amounting to NIS 77 million, recognized upon sale of Union Bank's diamond operations. This amount would also be decreased by the net expense to be recognized by Union Bank with respect to retirement expenses for some Union Bank employees. The deferred credit balance, net would be recognized as revenues on the statement of profit and loss over 5 years as from the acquisition date.

Note 35 – Significant events during the reported period – Continued

Below is the consideration paid and the value of identified assets, net as of September 30, 2020, the acquisition date:

	NIS in millions
Union Bank capital as of September 30, 2020	2,484
Adjustment of assets and liabilities, net to market value as of September 30, 2020 (for details see below)	97
Value of net identified assets at Union Bank	2,581
Less:	
Consideration paid in cash	(16)
Issue of 19,865,165 Bank ordinary shares of NIS 1 par value(1)	(1,207)
Acquisition cost	(1,223)
Plus: Allocation to intangible assets, net(2) (for more details see below)	105
Total deferred credit balance as of September 30, 2020	**1,463**

Below are details of adjustments to fair value of tangible assets as of September 30, 2020, NIS in millions:

	Balance as of September 30, 2020, as presented on Union Bank financial statements	Adjustment to market value (PPA)	Market value in September 30, 2020 values, as included on the financial statements as from December 31, 2020
Assets			
Cash and deposits with banks	10,297	–	10,297
Securities	9,155	–	9,155
Securities loaned or purchased in resale agreements	56	–	56
Loans to the public, net	24,988	141	25,129
Buildings and equipment	213	92	305
Assets with respect to derivative instruments	915	–	915
Other assets	718	42	760
Total assets	**46,342**	**275**	**46,617**
Liabilities			
Deposits from the public	36,753	115	36,868
Deposits from banks	119	–	119
Debentures and subordinated notes	3,908	13	3,921
Liabilities with respect to derivatives	1,143	–	1,143
Other liabilities	1,935	–	1,935
Tax reserve with respect to adjustments to tangible assets	–	50	50
Total liabilities	**43,858**	**178**	**44,036**
Total value of tangible assets		**97**	

Below are details of allocation to intangible assets as of September 30, 2020, NIS in millions:

	Market value in September 30, 2020 values, as included on the financial statements as from December 31, 2020
Core deposits	94
Client relations from trading in securities	65
Tax reserve with respect to core deposits and client relations from trading in securities	(54)
Total allocation to intangible assets	**105**

(1) The fair value of ordinary shares issued as part of the cost of the business combination was determined based on the closing price per Bank share on the Tel Aviv Stock Exchange on September 30, 2020.

(2) Amortized in conformity with estimated economic useful life, ranging between 4-7 years.

Note 35 – Significant events during the reported period – Continued

Below are details of identified assets and liabilities acquired, as included on the financial statements as of December 31, 2020 and as would have been included on the financial statements as of September 30, 2020, had they been presented at market value based on the valuation (PPA), NIS in millions:

	As of December 31,			As of September 30, pro-forma		
	2020			2020		
	Including Union Bank	Union Bank[(1)]	Excluding Union Bank	Including Union Bank	Union Bank[(1)]	Excluding Union Bank
Assets						
Cash and deposits with banks	86,570	12,409	74,161	77,738	10,297	67,441
Securities	17,290	8,842	8,448	18,258	9,025	9,233
Securities loaned or purchased in resale agreements	200	6	194	172	56	116
Loans to the public	247,958	24,708	223,250	244,233	25,129	219,104
Provision for credit losses	(2,433)	(11)	(2,422)	(2,327)	–	(2,327)
Loans to the public, net	245,525	24,697	220,828	241,906	25,129	216,777
Loans to Governments	613	–	613	616	–	616
Investments in associated companies	31	–	31	30	–	30
Buildings and equipment	1,743	299	1,444	1,738	305	1,433
Intangible assets and goodwill	239	152	87	246	159	87
Assets with respect to derivatives	4,543	855	3,688	3,238	902	2,336
Other assets	3,386	628	2,758	3,542	744	2,798
Total assets	**360,140**	**47,888**	**312,252**	**347,484**	**46,617**	**300,867**
Liabilities and Equity						
Deposits from the public	284,224	37,471	246,753	276,271	36,868	239,403
Deposits from banks	3,779	132	3,647	2,786	119	2,667
Deposits from the Government	70	–	70	41	–	41
Debentures and subordinated notes	33,446	3,799	29,647	33,008	3,791	29,217
Liabilities with respect to derivatives	5,506	1,187	4,319	3,545	1,130	2,415
Other liabilities	13,446	3,490	9,956	12,722	3,502	9,220
Total liabilities	**340,471**	**46,079**	**294,392**	**328,373**	**45,410**	**282,963**
Shareholders' equity attributable to shareholders of the Bank	18,804	[(2)(3)]1809	16,995	18,272	[(4)]1207	17,065
Non-controlling interests	865	–	865	839	–	839
Total equity	**19,669**	**1,809**	**17,860**	**19,111**	**1,207**	**17,904**
Total liabilities and equity	**360,140**	**47,888**	**312,252**	**347,484**	**46,617**	**300,867**

(1) After amortization of deferred credit balance and of identified assets, as noted above, and offset of mutual balances.
(2) Includes NIS 500 million provided by the Bank to Union Bank against share issuance.
(3) Shareholder equity as included on Union Bank's financial statements as of December 31, 2020: NIS 3,038 million.
(4) Shareholder equity as included on Union Bank's financial statements as of September 30, 2020: NIS 2,484 million.

Note 35 – Significant events during the reported period – Continued

Below are results of the consolidated financial statements had the Bank acquired Union Bank on January 1, 2018:

	For the year ended December 31,		
	2020	2019	2018
Excluding Union Bank:			
Reported revenues[1]	5,807	5,697	5,367
Reported net profit	1,544	1,842	1,206
Union Bank:			
Reported revenues[1]	729	872	860
Reported net profit (loss)	(60)	162	70
Pro-forma revenues[1]	6,855	6,770	6,311
Pro-forma net profit	1,772	2,213	1,410
Pro-forma earnings per share:			
Basic	6.95	8.71	5.57
Diluted	6.94	8.68	5.55

(1) Revenues including net interest revenues and non-interest revenues.

Below are the underlying assumptions for compiling pro-forma data:
- The acquisition transaction was made on January 1, 2018.
- Upon the acquisition date, a deferred credit balance was generated, similar to that generated by the actual acquisition on September 30, 2020. The deferred credit balance was recognized on the statement of profit and loss over 5 years as from January 1, 2018.
- Amortization of adjustments to fair value of intangible assets and liabilities with respect to acquisition cost was recognized on the statement of profit and loss as from January 1, 2018.
- Union Bank's diamonds operations were sold upon the transaction date, on January 1, 2018, and the impact on Union Bank profit was identical to that recognized by Union Bank on its books in the third quarter of 2020.
- Sale of the diamonds operations reduced revenues of Union Bank proportionally for the percentage of operations sold, and reduced expenses of Union Bank in similar proportion.

Note 36 – Events after the balance sheet date

On January 11, 2021, United Mizrahi Overseas Holding Co. B.V.(Netherlands) (hereinafter: "("Mizrahi Overseas Holding"), a wholly-owned subsidiary of the Bank, and Hyposwiss Private Bank Genève SA (hereinafter: "the Buyer") signed an agreement for sale of all shares of United Mizrahi Bank (Switzerland) Ltd. (hereinafter: ("the Bank in Switzerland") owned by Mizrahi Overseas Holding. Mizrahi Overseas Holding assumed liability for 18 months as from the closing date of the agreement, with regard to current business conduct of the Bank in Switzerland over the past four (4) years, except for certain representations, for which Mizrahi Overseas Holding would be liable for 5 years as from the closing date, and in any case, such liability would only apply upon fulfillment of certain cumulative quantitative conditions set forth in the agreement. Moreover, with respect to other past matters (including the US DOJ investigation), Mizrahi Overseas Holding would be liable for indemnification of unlimited amount to the Buyer for any single claim exceeding CHF 100 thousand. The sale agreement is contingent, inter alia, on approval by the regulatory authority in Switzerland.

In conjunction with the sale agreement, the Bank would act so that Mizrahi Overseas Holding may fulfill its obligations pursuant to the agreement. In conformity with the sale agreement, the expected consideration in this transaction amounts to CHF 44 million (the consideration depends on actual client assets upon the relevant calculation date).

Revenues with respect to this sale would be recognized on the statement of profit and loss after approval of this transaction by the regulatory authorities.

Note 37 – Condensed financial statements of the Bank[(1)]

Reported amounts (NIS in millions)

A. Statement of profit and loss

	2020	2019	2018
Interest revenues	6,803	7,196	6,905
Interest expenses	1,936	2,633	2,689
Interest revenues, net	4,867	4,563	4,216
Expenses with respect to credit losses	1,038	338	280
Interest revenues, net after expenses with respect to credit losses	**3,829**	**4,225**	**3,936**
Non-interest revenues			
Non-interest financing revenues	169	370	417
Commissions	1,334	1,258	1,203
Other revenues	208	59	31
Total non-interest revenues	**1,711**	**1,687**	**1,651**
Operating and other expenses			
Payroll and associated expenses	2,203	2,242	2,110
Maintenance and depreciation of buildings and equipment	704	642	619
Other expenses	432	451	898
Total operating and other expenses	**3,339**	**3,335**	**3,627**
Pre-tax profit	2,201	2,577	1,960
Provision for taxes on profit	775	910	835
After-tax profit	**1,426**	**1,667**	**1,125**
Share in profits of investee companies, after tax	184	175	81
Net profit	**1,610**	**1,842**	**1,206**

(1) Complete data for the Bank solo is available on the Bank website: www.mizrahi-tefahot.co.il about the bank > investor relations > financial statements.

Note 37 – Condensed financial statements of the Bank – Continued

Reported amounts (NIS in millions)

B. Balance sheet

	2020	2019
Assets		
Cash and deposits with banks	69,174	49,327
Securities[(1)]	5,068	7,101
Securities loaned or purchased under resale agreements	194	120
Loans to the public	212,421	195,255
Provision for credit losses	(2,337)	(1,613)
Loans to the public, net	210,084	193,642
Loans to Governments	613	656
Investments in investees	5,952	2,542
Buildings and equipment	1,218	1,205
Assets with respect to derivative instruments	3,688	2,577
Other assets	2,401	1,531
Total assets	**298,392**	**258,701**
Liabilities and Equity		
Deposits from the public	243,134	217,198
Deposits from banks	19,235	12,782
Deposits from the Government	67	23
Debentures and subordinated notes	3,355	3,350
Liabilities with respect to derivative instruments	4,319	2,685
Other liabilities [(2)]	9,478	6,630
Total liabilities	**279,588**	**242,668**
Capital	**18,804**	**16,033**
Total liabilities and equity	**298,392**	**258,701**

(1) Of which: NIS 4,626 million recognized on the financial statements at fair value (on December 31, 2019: NIS 5,984 million).

(2) Of which: Provision for credit losses with respect to off balance sheet credit instruments amounting to NIS 183 million (on December 31, 2019: NIS 119 million).

Note 37 – Condensed financial statements of the Bank – Continued

Reported amounts (NIS in millions)

C. Statement of cash flows

	2020	2019	2018
Cash flows provided by current operations			
Net profit	1,610	1,842	1,206
Adjustments			
Share of the Bank in undistributed earnings of associated companies	(362)	(175)	(81)
Depreciation of buildings and equipment (including impairment)	206	185	181
Expenses with respect to credit losses	1,038	338	280
Gain from sale of securities available for sale	(94)	(35)	(18)
Realized and unrealized loss (gain) from adjustment to fair value of securities held for trading	(34)	(11)	1
Realized and unrealized loss (gain) from adjustments to fair value of shares not held for trading	–	(2)	–
Gain from sale of buildings and equipment	(41)	(26)	–
Impairment of shares not held for trading	–	6	–
Expenses arising from share-based payment transactions	23	57	–
Deferred taxes, net	(182)	189	(90)
Change in employees' provisions and liabilities	(12)	12	64
Adjustments with respect to exchange rate differentials	296	234	(126)
Gain from sale of loan portfolios	–	–	–
Accrual differences included with investment and financing operations	7	577	(210)
Net change in current assets			
Assets with respect to derivative instruments	(1,108)	669	180
Securities held for trading	456	(469)	(80)
Other assets, net	(692)	(135)	(39)
Net change in current liabilities			
Liabilities with respect to derivative instruments	1,634	(976)	579
Other liabilities	1,636	243	419
Net cash provided by current operations	**4,381**	**2,523**	**2,266**

Note 37 – Condensed financial statements of the Bank – Continued

Reported amounts (NIS in millions)

C. Statement of cash flows – continued

	2020	2019	2018
Cash flows provided by investment activities			
Net change in deposits with banks	12	46	(16)
Net change in loans to the public	(16,944)	(9,854)	(14,853)
Net change in loans to Governments	43	12	(56)
Net change in securities loaned or acquired in resale agreements	(74)	(94)	50
Acquisition of debentures held to maturity	–	(158)	–
Proceeds from redemption of securities held to maturity	649	1,422	723
Acquisition of securities available for sale	(3,406)	(5,491)	(2,454)
Proceeds from sale of securities available for sale	3,495	3,509	838
Proceeds from redemption of securities available for sale	944	3,265	1,026
Proceeds from sale of loan portfolios	40	577	2,350
Purchase of loan portfolios – public	(576)	(782)	(377)
Purchase of loan portfolios – Government	–	(38)	(118)
Acquisition of buildings and equipment	(251)	(266)	(203)
Proceeds from sale of buildings and equipment	73	58	–
Proceeds from redemption of securities – associated companies	(516)	–	603
Proceeds from realized investment in associated companies	31	33	–
Net cash used in investment activities	**(16,480)**	**(7,761)**	**(12,487)**
Cash flows provided by financing operations			
Net change in deposits from the public	25,936	12,060	15,192
Net change in deposits from banks	6,453	644	742
Net change in deposits from Government	44	(2)	–
Issuance of debentures and subordinated notes	–	–	–
Redemption of debentures and subordinated notes	–	(4)	(4)
Dividends paid to shareholders	(176)	(561)	(247)
Net cash provided by financing operations	**32,254**	**12,137**	**15,683**
Increase (decrease) in cash	20,155	6,899	5,462
Cash balance at beginning of the period	49,309	42,644	37,056
Effect of changes in exchange rate on cash balances	(296)	(234)	126
Cash balance at end of the period	**69,168**	**49,309**	**42,644**
Interest and taxes paid / received			
Interest received	6,810	5,997	6,284
Interest paid	2,145	2,162	1,925
Dividends received	3	17	7
Income taxes received	52	177	91
Income taxes paid	994	1,007	1,034
Appendix A – Non-cash Investment and Financing Transactions			
Acquisition of buildings and equipment	–	–	–
Sales of buildings and equipment	–	–	–
Shares issued in conjunction with acquisition of Union Bank	(1,207)	–	–

Mizrahi Tefahot Bank

Corporate governance, audit, other information about the Bank and its management

Table of Contents

Corporate governance and audit

Board of Directors and management

Board of Directors

During 2020, the Bank's Board of Directors held 37 plenary meetings. During this period there were also 75 meetings of Board committees and 8 Board member workshops.

The permanent Board committees are: Audit, Credit, Risks Management, IT and Technology Innovation, Remuneration and Union Bank Integration Committees.

Presented below are changes during 2020 and through publication of these financial statements:

On December 24, 2019, the Bank's Board of Directors approved the following appointments and changes in committee membership, effective as from January 1, 2020:

- Appointment of Mr. Joav Asher Nachshon as member of the Bank's Board of Directors and member of the Credit Committee and of the IT and Technology Innovation Committee.
- Appointment of Ms. Hannah Feuer as Chair of the Remuneration Committee.
- Appointment of Mr. Joseph Fellus as Chair of the Audit Committee.
- Appointment of Mr. Yoni Kaplan as member of the Credit Committee and termination of their membership of the IT and Technology Innovation Committee.
- Appointment of Mr. Eli Alroy as member of the IT and Technology Innovation Committee.
- Termination of Mr. Ron Gazit's membership of the Credit Committee.

On February 24, 2020, Mr. Moshe Vidman concluded their term in office as Chairman, IT and Technology Innovation Committee but continues to be a member of this Committee.

On February 24, 2020, Mr. Gilad Rabinobich started their term in office as Chairman, IT and Technology Innovation Committee.

Upon closing of the purchase offer to acquire shares of Union Bank Le-Israel Ltd. (hereinafter: "Union Bank") and turning Union Bank into a wholly-owned subsidiary of the Bank, the Bank Board of Directors resolved on November 5, 2020 to establish an ad-hoc committee for integration of Union Bank operations and monitoring the implementation thereof. It was further resolved that the committee shall be chaired by Mr. Avraham Zeldman.

On December 24, 2020, the General Meeting approved the appointment of Ms. Estheri Gilaz-Ran as External Board member of the Bank, pursuant to the Corporate Act (also compliant with qualifications for External Board member pursuant to Directive 301) for a term of three (3) years as from February 27, 2021.

On December 24, 2020, the General Meeting approved re-appointment of Mr. Joav-Asher Nachshon as Board member of the Bank. However, since at that time the Bank had yet to receive approval from the Supervisor of Banks of their consent to appointment of Mr. Nachshon to a term in office as Board member of the Bank, on said date the Bank reported that Mr. Joav-Asher Nachshon ceased to serve as Board member of the Bank. On December 27 the aforementioned consent was received from the Supervisor of Banks, and on said date Mr. Joav Asher Nachshon started their term in office as Board member of the Bank.

On February 27, 2021, the following appointments became effective:

- Appointment of Ms. Estheri Giloz-Ran member of the Audit Committee, Remuneration Committee and IT and Technology Innovation Committee.
- Appointment of Mr. Joseph Fellus member of the Credit Committee.
- Appointment of Mr. Gilad Rabinobich member of the Risks Management Committee.

On February 27, 2021, Ms. Sabina Biran concluded her term in office as a member of the Bank's Board of Directors.

Members of the Bank's Board of Directors and their membership of Board committees, as of the publication date of these financial statements:

Moshe Vidman, Chairman of the Board of Directors	Credit Committee – Chairman; Risks Management Committee Chairman; IT and Technology Innovation Committee, Union Bank Integration Committee
Eli Alroy	IT and Technology Innovation Committee; Union Bank Integration Committee
Joav Asher Nachshon	Credit Committee, IT and Technology Innovation Committee
Ron Gazit	IT and Technology Innovation Committee
Estheri Giloz-Ran	Audit Committee, IT and Technology Innovation Committee, Remuneration Committee
Avraham Zeldman	Union Bank Integration Committee – Chair, Audit Committee, Risks Management Committee
Hannah Feuer	Remuneration Committee – Chair, Audit Committee, Credit Committee
Joseph Fellus	Audit Committee – Chair, Credit Committee, Risks Manageme Committee; Remuneration Committee; Union Bank Integration Committee
Jonathan Kaplan	Credit Committee, Risks Management Committee, Union Bank Integration Committee
Ilan Kremer	Risks Management Committee
Gilad Rabinobich	IT and Technology Innovation Committee – Chair, Audit Committee, Risks Management Committee, Remuneration Committee, Union Bank Integration Committee

Board members with accounting and financial expertise – The Bank's Board of Directors prescribed that at least 3 directors should have accounting and finance qualifications. In the Board's opinion, this number enables it to meet all of the obligations imposed on it, especially with respect to its responsibility to examine the financial position of the corporation and to prepare and approve financial statements. The Board has also determined that the Audit Committee would have as members at least 2 Board members having accounting and financial qualifications. The Audit Committee includes 5 Board members having accounting and financial qualifications.

Based on their skills, education, experience and knowledge, the Bank's Board of Directors includes, as of the publication date of these financial statements, 9 Board members having accounting and financial qualifications: Messrs. Moshe Vidman, Joav Asher-Nachshon, Estheri Giloz-Ran, Avraham Zeldman, Hannah Feuer, Joseph Fellus, Jonathan Kaplan, Ilan Kremer and Gilad Rabinobich.

For more information about members of the Bank's Board of Directors, including: qualifications, education and experience and other information about their office, as well as other information about Board members with accounting and financial expertise and professional qualifications, as required pursuant to the Public Reporting Directives and the Securities Regulations, see Regulation 26 on the Bank's 2020 Annual Report on the ISA MAGNA website.

The Bank's Board of Directors thanks the Bank President & CEO, management and employees for their efforts to promote the Bank, to expand its business and client base.

Executive Management

On February 19, 2020, the Bank President & CEO, Mr. Eldad Fresher, announced his intention to conclude his term in office (reference no. 2020-01-017268). On February 24, 2020, the Bank Board of Directors appointed a Board committee tasked with identifying candidates for the position of Bank President & CEO; the committee is headed by Mr. Moshe Vidman (reference no. 2020-01-018846).

On June 8, 2020, the Bank's Board of Directors resolved to adopt the recommendation of the search committee, and to appoint Mr. Moshe Lari to be the Bank's next President & CEO, as from September 16, 2020 (reference no. 2020-01-058554).

On July 2, 2020, the Bank received notice from the Supervisor of Banks that the Supervisor had no objection to appointment of Mr. Moshe Lari as President & CEO of the Bank (reference no. 2020-01-062650).

On July 20, 2020, Mr. Adi Shachaf was appointed Manager, Financial Division – CFO, replacing Mr. Moshe Lari effective as from September 16, 2020 (reference no. 2020-01-070051).

On December 31, 2019, Ms. Rita Rubinstein retired from the position of Manager, Human Resources and Administration Division. Replacing her, Mr. Nissan Levy was appointed Manager, Human Capital, Resources and Operations Division (reference no. 2019-01-108735).

On February 29, 2020, Ms. Maya Feller retired from the position of Bank Secretary. Replacing her, Mr. Ofer Horvitz was appointed Bank Secretary and Manager, Bank Headquarters (reference no. 2019-01-108735).

The following are Executive Management Forum members as of December 31, 2020 with their title and position:

Moshe Lari	President & CEO
Menahem Aviv	Vice President, Manager, Financial Information & Reporting Division and Chief Accountant
Israel Engel	Vice President and Manager, Retail Division
Ayala Hakim	Manager, Mizrahi Tefahot Technology Division Ltd. and CIO
Nissan Levy	Vice President and Manager, Human Capital, Resources and Operations Division
Ofir Morad	Vice President and Manager, Business Banking Division
Dinah Zuaretz Navot	Vice President and Manager, Marketing, Promotion and Business Development Division
Rachel Friedman	Vice President, Manager, Legal Division, Chief Legal Counsel
Doron Klausner	Vice President, Manager, Risks Control Division and Chief Risk Officer (CRO)
Adi Shachaf	Vice President, Manager, Finance Division and Chief Financial Officer (CFO)

Ofer Horvitz	Bank Secretary and Manager, Bank Headquarters
Galit Weizer	Chief Internal Auditor; Manager, Internal Audit Division
Benny Shoukroun	Bank Spokesman

For more information about senior officers of the Bank, including: education and experience and other information about their office, as required pursuant to the Public Reporting Directives and the Securities Regulations, see Regulation 26A on the Bank's 2020 Annual Report on the ISA MAGNA website.

Internal Auditor

The following is information about the Chief Internal Auditor of the Bank Group, who started in office on July 7, 2011:

Name:	Galit Weizer
Start of term in office:	July 2011
Education:	CPA; undergraduate degree in Accounting and Economics (Hebrew University); graduate degree in Business Administration (Hebrew University).
Experience:	Deputy Chief Internal Auditor at Bank Mizrahi Tefahot; previously, Chief Internal Auditor of Bank Tefahot.

Pursuant to provisions of Section 146(B) of the Companies Law, 1999 – the Internal Auditor is not an interested party of the corporation, an officer or relative of it.

Pursuant to provisions of Section 8 of the Internal Audit Act, 1992, the Internal Auditor holds no other position in addition to her position as Chief Internal Auditor, other than as Ombudsman, Internal Auditor of Israeli subsidiaries of Bank Mizrahi Tefahot, including Bank Yahav (other than Union Bank). The Bank's Internal Auditor holds no position outside of the Bank which creates or may create conflict of interest with her position as Internal Auditor. Other than the foregoing, the Internal Auditor has no material business relationships or other material relationships with the Bank or with any related entity thereof.

In conformity with Proper Conduct of Banking Business Directive 307, audit staff are only appointed subject to consent of the Internal Auditor. Audit staff act on behalf of the Internal Auditor for the purpose of internal audit, and are only instructed on audit-related matters by the Internal Auditor. Internal Audit staff do not hold other positions with the banking corporation in addition to internal audit, other than as Ombudsman. Internal Audit staff may only sign on behalf of the banking corporation documents related to audit work or to inquiries from the public. Internal Audit employees are terminated with due process and consent of the Internal Auditor.

As of December 31, 2020, the Internal Auditor is entitled to 17,979 options to purchase Mizrahi Tefahot ordinary shares of NIS 0.1 par value, in conformity with the 2017 allotment, and 36,595 options to purchase such shares, in conformity with the 2019 Allotment Program approved by the Mizrahi Tefahot Board of Directors. The Internal Auditor is also entitled to up to 43,000 options to purchase such ordinary shares, in conformity with the 2020 Allotment Program approved by the Mizrahi Tefahot Board of Directors. For further details about this allotment, see Note 23 to the financial statements.

The Board of Directors believes that the extent of Bank securities owned by the Internal Auditor does not impact the quality of her work.

The Internal Auditor is a full-time employee of the Bank.

Appointment process – Roles and responsibilities

In June 2011, appointment of the Internal Auditor was confirmed by the Audit Committee and the Board of Directors, based on the Auditor's experience and educational qualifications.

The roles and responsibilities of Internal Audit are listed in the Appointment Letter, which has been discussed and approved by the Bank's Board of Directors, including:

- The authority and ability to initiate audits of all units and existing operations of the Bank, in Israel or overseas, and to demand and receive any document and any information required for discharging their office.
- Employees of the Internal Audit function shall have direct access – for discharging their office – to all records, to any regular or computer-based repository, to any database and work files and to any program of automated data processing, including managerial information and meeting minutes of decision making entities, related to the audit subject.
- Employees of the Audit function may enter any property owned or used by the Bank and to examine it.
- With regard to confidential information by law, the Internal Auditor, their staff and anyone acting on behalf thereof shall be subject to statutory limitations. The Internal Auditor, their staff and anyone acting on behalf thereof must not disclose any document or information obtained in the course of discharging their office – unless such disclosure is required for lawfully discharging their office or if such disclosure is required by any law.

Identity of the Internal Auditor's Supervisor

The Internal Auditor reports to the Chairman of the Board of Directors.

Internal Audit work plan

In 2020, Internal Audit work was based on a multi-annual audit plan focused on risk for a 4-year period from which an annual work plan was derived. Note that checking of material operations and transactions, including checking of transactions with related parties, are incorporated into the multi-annual work plan of Internal Audit. As from 2021, the methodology for setting the audit frequency was revised, so that the audit cycle would not exceed 3 years.

Due to the Corona Virus pandemic, Internal Audit adapted its operations in 2020, in order to reduce the physical attendance of employees, to be replaced by remote work, while preserving the capacity to review major risks by the third line of control. The work plan was revised during the year with respect to the Corona Virus crisis, as approved by the Audit Committee.

Considerations in determining the multi-annual audit plan

Mapping of activities carried out by different Bank departments according to organizational structure, assignment of potential risk to each activity and setting audit frequency accordingly.

- Risks surveys conducted at the Bank.
- Regulatory requirements arising from directives of the Supervisor of Banks.
- Basel directives and the ICAAP process.
- Current audit reports of the Bank of Israel.
- Findings in audit reports of the Audit Division.
- Decisions of the Audit Committee and the Chairman of the Board of Directors, as well as requests from the Bank President & CEO.

The multi-annual work plan is prepared by the Internal Auditor, brought up for discussion by the Board of Directors' Audit Committee and sent to the Bank President. After discussion and recommendation by the Audit Committee, the plan is submitted for approval by the Board of Directors.

Accordingly, on January 20, 2020, the Board of Directors approved the multi-annual Internal Audit work plan for 2020-2023.

Considerations in determining the annual audit plan

In addition to the aforementioned considerations, used as a basis for determining the multi-annual audit plan from which the annual audit plan is derived, the annual work plan includes additional special tests required of Internal Audit by request of the Supervisor of Banks, the Chairman of the Board of Directors and the Audit Committee. The Audit also refers to issues as requested by Bank management. The annual work plan also included reference to the Union Bank merger.

Any material changes are brought for approval by the Audit Committee. In case of non-material changes, the Audit Committee is informed after the fact.

Similar to the multi-annual audit plan, the annual audit plan is also prepared by the Internal Auditor and brought for discussion by the Board's Audit Committee. The plan is also submitted to the President. After the Board's Audit Committee recommends approval of the plan, the plan is submitted for approval by the Board of Directors.

Accordingly, on January 20, 2020, the Board of Directors approved the annual Internal Audit work plan for 2020.

As noted, in 2020, due to the Corona Virus crisis, additional considerations were added, resulting from evolution of risks and changes to work processes, and the annual work plan was revised accordingly.

Overseas audits or audits of held corporations

The Bank's Internal Auditor includes in the annual and multi-annual audit program the active corporations held by the Bank, during her tenure as their internal auditor, except for Bank Mizrahi Switzerland and Union Bank, which had their own Internal Auditor during the reported period, and for Bank Yahav, for which a separate audit plan is submitted to their Boards of Directors. With regard to these companies and in conformity with Proper Conduct of Banking Business Directive 307, the Internal Auditor ensures that proper Internal Audit is maintained.

In conformity with Proper Conduct of Banking Business Directives 306 and 307, in 2020 local Internal Auditor firms were appointed at Bank branches in London and Los Angeles. In conformity with Proper Conduct of Banking Business Directive 307, the Internal Auditor ensures that proper Internal Audit is conducted at these branches. The work plans of local Internal Auditors are included in the work plan of the Internal Audit Division, discussed by the Audit Committee and approved by the Bank Board of directors.

Scope of employment of the Internal Auditor and their staff

The Internal Auditor is a full-time employee of the Bank.
The average number of positions reporting to the Internal Auditor is derived from Internal Audit needs, which arise from the multi-annual work plan and from the annual work plan of Internal Audit. The average number of positions in 2020, including internal auditors of subsidiaries and overseas branches is as follows:

	In Israel	Outside of Israel
Employees engaged in internal audit	Employees engaged in role of Ombudsman	Employees engaged in internal audit
(1)50	6	(2)2

(1) Includes 8 full-time positions for audit at Bank Yahav, including outsourcing at Bank Yahav. In addition, Internal Audit at Bank Mizrahi-Tefahot used outsourced services equivalent to 2 full time positions, which are also included.
(2) Includes use of external service providers overseas.

Conducting audits

The Internal Auditor performs the audit based on the generally accepted professional standards.

- Various legal requirements, including provisions of the Internal Audit Act, 1992, Banking Regulations (Internal Audit), 1992 and regulatory authorities' instructions relevant to the audited area, including guidelines and directives of the Supervisor of Banks, including Proper Conduct of Banking Business Directive 307 concerning "Internal Audit function".
- Standards for Professional Engagement in Internal Audit of the Global Institute of Internal Auditors.

The Board of Directors and the Audit Committee believe that audit is conducted in accordance with the aforementioned professional standards so as to achieve the objectives of the internal audit. This is done, inter alia, based on annual reporting, semi-annual reporting and work plans of Internal Audit, which include reference to these issues. Furthermore, as needed, an independent external survey is conducted, once every 5 years, of the quality of work of Internal Audit, which is reported to the Audit Committee.

Access to information

The Internal Auditor regularly has complete access to all the information he needed, in conformity with Proper Conduct of Banking Business Directive 307, as stated in Section 9 of the Internal Audit Law, 1992, including constant and direct access to the Bank's IT systems, including financial data. Note that in conducting audits at investees and operations outside of Israel, too, Internal Audit has full access, as noted above, through visits to operation hubs outside of Israel or through receiving material on demand.

Submitting report of Audit findings

The Auditor regularly sends every audit report to the Chairman of the Board of Directors, the chairman of the Audit Committee, the Bank President & CEO and head of the internal audit unit. A copy of each report is also sent to the CRO, Compliance Officer and AML Supervisor, Manager, Risk Control Division and to the Chief Accountant. Audit reports are submitted in writing. Summaries of all audit reports issued in the previous period are submitted to Audit Committee members once every quarter and to the Board of Directors plenum – once every six months. All of the reports are discussed in a forum including the division manager and/or official in-charge of the audited unit or activity. The material reports are discussed by a forum headed by the Bank President & CEO. The Chairman of the Audit Committee, in consultation with the Internal Auditor, determines the material audit reports to be discussed by the Audit Committee.
In July 2020, a report about the performance of the Internal Audit work plan for the first half of 2020 was distributed and was discussed by the Audit Committee on July 27, 2020. The summary report of Internal Audit in 2020 was distributed on February 11, 2021 and discussed at the Audit Committee meeting held on February 15, 2021. Other major reports were discussed during the year at regular meetings of the Audit Committee.

Assessment of Internal Auditor's activities

The Board of Directors and the Audit Committee believe that the scope, nature, continuity of the activity and the work plan of the Internal Auditor are reasonable under the circumstances and would realize the objectives of internal audit.

Remuneration of the Internal Auditor

Below is information about the salary, benefits, employer contributions and provisions paid or provided for to the Chief Internal Auditor in 2020: Salary amounting to NIS 1,181 thousand, bonuses amounting to NIS 508 thousand (including retention bonus amounting to NIS 176 thousand), social benefits amounting to NIS 324 thousand and other benefits valued at NIS 99 thousand. Total remuneration paid or provided for, to the Internal Auditor in 2020 amounted to NIS 2,481 thousand. The outstanding balance of loans at standard terms, as of the end of 2020, amounted to NIS 34 thousand. For more information on officer remuneration policy, see Note 22.A.3. to the financial statements.

The Board of Directors believes that the size of remuneration provided to the Internal Auditor should not influence her judgment with respect to his work.

Independent Auditors' Fees for the Group(1)(2)(3)(4)

(NIS in thousands)

	Consolidated		The Bank	
	(5)2020	2019	2020	2019
For audit activities(6):				
Independent auditors(7)	8,953	7,290	6,955	6,649
Other independent auditors	1,344	1,248	426	404
Total	**10,297**	**8,538**	**7,381**	**7,053**
For audit-related services:				
Independent auditors	608	199	580	199
Other independent auditors	–	–	–	–
For tax services(8):				
Independent auditors	–	–	–	–
Other independent auditors	232	188	152	188
For other services(7)(9):				
Independent auditors	2,168	1,808	1,799	1,438
Other independent auditors	268	640	–	–
Total	**3,276**	**2,835**	**2,531**	**1,825**
Total fees to independent auditors	**13,573**	**11,373**	**9,912**	**8,878**

(1) Board of Directors' report to the annual general meeting on auditors' fees for audit activities and for other services in addition to the audit, in accordance with Sections 165 and 167 of the Companies Law, 1999.

(2) Independent auditors' fees include payments to partnerships and corporations under their control, as well as payments under the VAT Law.

(3) Includes fees paid and accrued.

(4) The Independent Auditors, from 1995 to date, have been Brightman Almagor Zohar & Co.

(5) Includes Independent Auditor's fees for audit work and for other services for the fourth quarter at Union Bank.

(6) Audit of annual financial statements, review of interim financial statements and audit of report adjusted for income tax purposes.

(7) Includes other independent auditors in overseas branches.

(8) Includes payments for preparation of reports adjusted for income tax purposes and reports to tax authorities.

(9) Includes mainly payments for consulting and various services.

Details of senior officer remuneration

(NIS in thousands)

Details of remunerated party[(1)]		2020								
		Remuneration for services rendered[(2)]						Loans granted at beneficial terms[(3)]		
Name	Role	Salary	Bonuses	Social benefit contributions[(4)]	Share-based payment[(5)]	Value of additional benefits[(6)]	Total [(7)]	Balance as of December 31, 2020	Average term to repayment (in years)	Loans granted at standard terms
Moshe Vidman[(8)]	Chairman of the Board of Directors	2,871	–	586	–	146	**3,603**	157	1.3	9
Eldad Fresher[(9)]	Former President & CEO	2,960	–	855	–	141	**3,956**	–	–	46
Moshe Lari[(10)]	President & CEO	1,665	380	461	348	95	**2,949**	847	10.5	17
Ofir Morad[(11)]	Vice President and Manager, Business Banking Division	1,173	467	337	491	107	**2,575**	2,146	7.5	421
Israel Engel[(11)]	Vice President and Manager, Retail Division	1,181	467	319	491	101	**2,559**	–	–	50

Details of remunerated party[(1)]		2019								
		Remuneration for services rendered[(2)]						Loans granted at beneficial terms[(3)]		
Name	Role	Salary	Bonuses	Social benefit contributions[(4)]	Share-based payment[(5)]	Value of additional benefits[(6)]	Total[(7)]	Balance as of December 31, 2019	Average term to repayment (in years)	Loans granted at standard terms
Moshe Vidman[(8)]	Chairman of the Board of Directors	2,866	–	594	–	149	**3,609**	215	1.8	42
Eldad Fresher[(9)]	President & CEO	2,635	235	585	235	141	**3,831**	–	–	89
Shaul Gelbard	President, Bank Yahav for Government Employees Ltd.	1,409	739	882	–	–	**3,030**	–	–	–
Ofir Morad[(11)]	Deputy President and Manager, Business Division	1,174	597	239	600	107	**2,717**	1,473	4.4	380
Israel Engel[(11)]	Deputy President and Manager, Retail Division	1,168	611	233	600	97	**2,709**	–	–	42
Moshe Lari[(10)]	Vice President and Manager, Finance Division, CFO	1,167	611	237	600	94	**2,709**	934	11.0	15

Remarks:

(1) Remuneration recipients are employed in a full-time position and do not hold Bank equity.

(2) The amounts are included under "salaries and related expenses" in the statement of profit and loss.

(3) The benefit is under the same terms and conditions granted to all Bank employees.

(4) Includes severance pay, study fund, acclimation bonus, paid leave and social security.

(5) For details of share-based payment to the President and to officers, see Note 23 to the financial statements.

(6) Interest relates to loans granted at beneficial terms compared to market terms. There is no interest benefit with respect to deposits. In other banking transactions, the benefits apply to all Bank employees and the amount there of is immaterial.

(7) Excluding payroll tax. Including payment of pension and severance pay by law, in 2020 (2019) to Mr. Moshe Vidman amounting to NIS 402 (402) thousand, to Mr. Eldad Fresher amounting to NIS 424 (375) thousand, to Mr. Moshe Lari amounting to NIS 230 (156) thousand, to Mr. Ofir Morad and to Mr. Israel Engel amounting to NIS 156 (156) thousand, each.

(8) Mr. Moshe Vidman – Mr. Vidman's employment start date was December 1, 2012 for three years, ended November 30, 2015 and extended from December 1, 2015 through December 31, 2017 and would automatically renew annually for one additional year, subject to provisions of the employment agreement. For more information about Mr. Vidman's employment terms, see Appendix II to report dated January 9, 2017 (reference: 2017-01-003457) as well as Note 22.A.1 to the financial statements.

(9) Mr. Eldad Fresher – On June 17, 2013, the Bank's Board of Directors approved the appointment of Mr. Eldad Fresher as Bank President & CEO, whose term in office was concluded on September 15, 2020. Mr. Fresher started in his office as full-time Bank President on August 16, 2013. For more information about Mr. Fresher's employment terms, see Appendix III to report dated January 9, 2017 (reference: 2017-01-003457) as well as Note 22.A.2 to the financial statements.

(10) Mr. Moshe Lari – On June 8, 2020, the Bank's Board of Directors approved the appointment of Mr. Moshe Lari as Bank President & CEO. Mr. Lary started their term in office as full-time Bank President & CEO on September 16, 2020. For more information about Mr. Lary's employment terms, see Appendix D to report dated August 27, 2020 (reference: 2020-01-085165) as well as Note 22.A.2 to the financial statements.

(11) Officers employed pursuant to an individual employment agreement for an unspecified term:

Mr. Ofir Morad – as from January 1, 2014

Mr. Israel Engel – as from June 15, 1999

For more information about employment terms, see Note 22.A.3 to the financial statements.

Transactions with controlling shareholders and related parties

Pursuant to Securities Regulations (Periodic and Immediate Reports), 1970 (hereinafter: "the Amendment"), the Audit Committee of the Board of Directors has previously approved criteria for unusual and immaterial transactions, which the Committee ratified on January 11, 2021, as follows:

Transaction other than a banking transaction

Definition of "immaterial transaction":

A transaction other than a banking transaction, conducted in the normal course of business at market terms and conditions, and which meets one or more of the following criteria, is an immaterial transaction:

In this section, "transaction" means a transaction with a controlling shareholder, or a transaction in which a controlling shareholder has a personal interest.

A. Transaction for purchase of retail products in the normal course of Bank business and at market conditions, amounting up to NIS 1.5 million per transaction, or a continuous transaction as stated above (multiple, essentially identical transactions with the same company), whose aggregate amount over one calendar year is up to 0.1% of supervisory capital, after adjustments and deductions, as defined in Proper Conduct of Banking Business Directive 202 (hereinafter: "Supervisory capital"). This amount will not apply to individual transactions whose amount is under NIS 25 thousand each.

B. Transaction for provision of services, including in the field of TV advertising, in the normal course of Bank business and at market conditions, amounting up to 0.1% of supervisory capital, or a continuous transaction as stated above (multiple, essentially identical transactions with the same company), whose aggregate amount over one calendar year is up to .75% of total annual operating and other expenses by the Bank's most recent annual financial statements. This amount will not apply to individual transactions whose amount is under NIS 25 thousand each.

C. Transactions involving leasing of space, in the normal course of Bank business and at market conditions, approved in a single calendar year and amounting up to 0.1% of supervisory capital.

D. Any other transaction in the normal course of Bank business and at market conditions, where the total amount for such a transaction type in a single calendar year is up to 0.1% of supervisory capital. This amount will not apply to individual transactions whose amount is under NIS 25 thousand each.

Banking transaction

Definition of "unusual transaction" – a transaction other than at market conditions or not in the normal course of business or a material transaction.

A banking transaction which meets one of the following criteria shall be deemed to be, for this matter, a "material transaction":

A. **Indebtedness transaction** - an indebtedness transaction (after deductions, as specified in Proper Conduct of Banking Business Directive 312), which results in total indebtedness of any group of controlling shareholders exceeding 5% of supervisory capital, or a transaction which results in the increase in indebtedness of an individual borrower from among the controlling shareholders exceeding 2% of supervisory capital. If multiple indebtedness transactions are approved for the same borrower in a single calendar year, these indebtedness transactions shall be measured in aggregate. Any specific provision for doubtful debts, or write-off of any amount with regard to indebtedness of a controlling shareholder or a corporation affiliated with it, shall be deemed to be a material transaction. Measurement of total indebtedness, for this matter, shall be separate for the Wertheim Group and for the Ofer Group.

"**Group of controlling shareholders**" – a controlling shareholder, as defined in the Securities Law, together with corporations affiliated there with, as the term "affiliated person" is defined in Proper Business Conduct of Banking Directive 312, and together with relatives of controlling shareholders included in the group.

B. **Deposits** – receipt of deposit from a controlling shareholder shall be deemed to be a material transaction if, consequently, total deposits from the same group of controlling shareholders would exceed 2% of total deposits at the Bank. Receipt of deposit from a company which is an "related person" of the controlling shareholder, and which is not a company controlled by it, shall be deemed to be a material transaction if, consequently, total deposits from that company, on a consolidated basis, would exceed 2% of total deposits at the Bank. Total deposits at the Bank will be calculated based on the most recent annual financial statements published by the Bank prior to the transaction date.

C. **Transaction in securities or in foreign currency (other than an indebtedness transaction or deposit transaction, as stated above)** – a transaction in securities or in foreign currency where the annual commission charged with respect to it does not exceed 2% of total annual operating revenues of the Bank (less revenues from investment in shares), based on the most recent annual financial statement published by the Bank prior to the transaction date.

D. **Other transactions** – any other transaction for provision of financial and banking services, the revenues from which to the Bank exceed 0.1% of the Bank's total supervisory capital.

   Any temporary, immaterial deviation for a period of up to 30 days would not change classification of the transaction as an immaterial transaction, and disclosure of such deviation would be provided in the annual report.

"Market terms" – terms which are not preferable to those at which similar transactions are made by the Bank with individuals or corporations which are not controlling shareholders of the Bank, or in transactions in which the controlling shareholder has no personal interest . Market terms with regard to banking transactions are compared to terms of similar transactions of similar volume at the Bank, as used for review of transactions with affiliated persons in accordance with Proper Conduct of Banking Business Directive 312, with Bank clients who are not affiliated persons, or are not entities where the controlling shareholder has a personal interest in transactions with it; market conditions with regard to transactions other than banking transactions are compared to conditions of similar transactions made by the Bank with suppliers and/or with regard to offers from other suppliers reviewed prior to deciding to make the commitment. In cases where the Bank has no similar transactions, market conditions are to be compared with regard to similar transactions made in the market, provided that such transactions are made in the normal course of business and that such transactions have a market in which similar transactions are made.

Indebtedness transactions to which Proper Conduct of Banking Business Directive 312 does not apply – as for Indebtedness transactions to which Proper Conduct of Banking Business Directive 312 does not apply, should the Bank become aware of any such transaction, the Bank commits to bring any such transaction for approval pursuant to Proper Conduct of Banking Business Directive 312 and to provide disclosure of it in the Bank's annual financial statements. The definition of "immaterial transaction" and "unusual transaction" with regard to these transactions would be similar to the aforementioned definitions by the Bank.

Below is summary data with regard to banking transactions with controlling shareholders (NIS in millions):

A. Indebtedness transactions

						December 31, 2020
Group of controlling shareholders[2]	Loan balance on balance sheet	Unutilized facility	Risk assets due to derivatives activity	Guarantees provided by the Bank to secure credit of controlling shareholder or its affiliated party	investments in securities	Total indebtedness[1]
Wertheim Group and private companies it controls	66	2	-	-	-	68
Relatives of Wertheim Group and private companies they control	-	-	-	-	-	-
Total – Wertheim Group	**66**	**2**	**-**	**-**	**2**	**66**
Ofer Group and private companies it controls	13	-	-	-	-	13
Relatives of Ofer Group and private companies it controls	6	11	-	-	3	20
Reporting entities controlled by relatives of Ofer Group						
OPC- Energy Ltd.	-	-	-	50	-	50
Oil Refineries Ltd.	425	71	-	-	3	499
Israel Chemicals Ltd.	-	4	1	-	57	62
Israel Corporation Ltd.	-	-	-	-	3	3
Total – Ofer Group	**444**	**86**	**1**	**50**	**66**	**647**

					December 31, 2019
Group of controlling shareholders	Loan balance on balance sheet	Unutilized facility	Risk assets due to derivatives activity	Guarantees provided by the Bank to secure credit of controlling shareholder or its affiliated party	Total indebtedness[1]
Wertheim Group and private companies it controls	10	3	-	-	13
Relatives of Wertheim Group and private companies they control	-	-	-	-	-
Total – Wertheim Group	**10**	**3**	**-**	**-**	**13**
Ofer Group and private companies it controls	13	-	-	-	13
Relatives of Ofer Group and private companies it controls	9	21	-	-	30
Reporting entities controlled by relatives of Ofer Group					
Oil Refineries Ltd.	-	69	-	-	69
Israel Chemicals Ltd.	-	-	1	-	1
Total – Ofer Group	**22**	**90**	**1**	**-**	**113**

(1) Indebtedness as defined in Proper Conduct of Banking Business Directive 312, after set off of allowed deductions.

(2) Information about controlling shareholders is current as of the control structure of the Bank as of December 31, 2020.

B. Deposits

Group of controlling shareholders	Balance as of December 31, 2020	Highest balance in 2020
Wertheim Group and private companies it controls	52	79
Relatives of Wertheim Group and private companies it controls	-	-
Total – Wertheim Group	52	79
Ofer Group and private companies it controls	4	2
Relatives of Ofer Group and private companies it controls	115	153
Reporting entities controlled by relatives of Ofer Group	1,134	1,138
OPC- Energy Ltd.	403	844
Oil Refineries Ltd.	185	616
Israel Corporation Ltd.	104	104
Israel Chemicals Ltd.	-	2
Total – Ofer Group	**1,943**	**2,861**

Group of controlling shareholders	Balance as of December 31, 2019	Highest balance in 2019
Wertheim Group and private companies it controls	39	69
Relatives of Wertheim Group and private companies it controls	-	-
Reporting entities controlled by relatives of Wertheim Group		
Amot Investments Ltd.	1	2
Total – Wertheim Group	40	71
Ofer Group and private companies it controls	1	1
Relatives of Ofer Group and private companies it controls	32	55
Reporting entities controlled by relatives of Ofer Group		
Oil Refineries Ltd.	54	111
Israel Corporation Ltd.	419	419
Israel Chemicals Ltd.	78	78
Gadiv Petrochemical Industries Ltd.	5	5
Total – Ofer Group	**589**	**669**

To the best of the Bank's knowledge, transactions with affiliated persons were executed in the ordinary course of business, at market terms and under terms similar to those of transactions effected with unrelated entities.

On February 19, 2020, the Bank Board of Directors approved, after approval by the Remuneration Committee, for the Bank to contract a Board member and officer liability insurance policy (including controlling shareholders of the Bank and their relatives who may serve from time to time, including those to be appointed in future), or those who have served as Bank Board members, including officers where the controlling shareholder of the Bank has a personal interest in their liability insurance, for a term of twelve months starting on April 1, 2020, other than pursuant to the officer remuneration policy. Obtaining such insurance policy is subject to approval by the General Meeting of Bank shareholders. For more information see Immediate Reports dated February 19, 2020 (reference: 2020-01-017415 and 2020-01-017409).

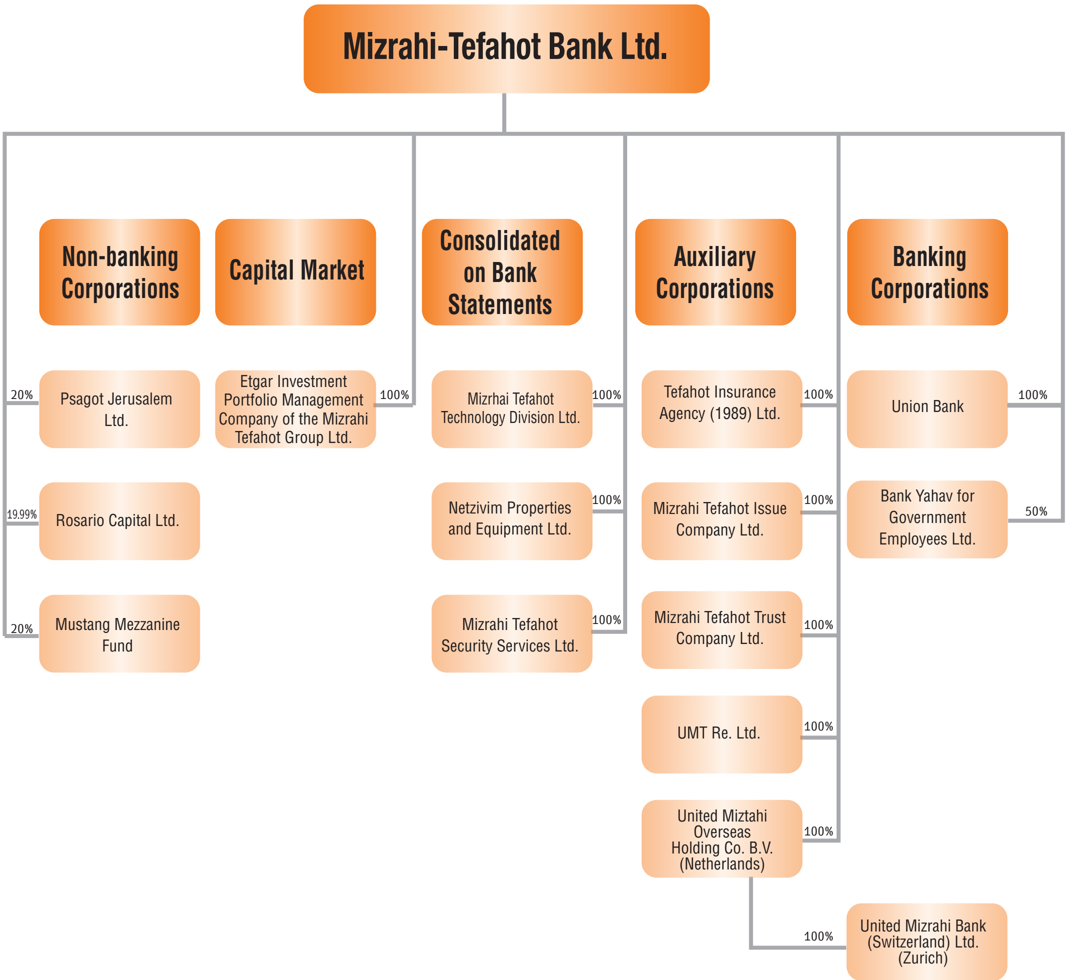
On March 25, 2020, the General Meeting of Bank shareholders approved, after approval by the Remuneration Committee and by the Board of Directors, for the Bank to contract a Board member and officer liability insurance policy (including controlling shareholders of the Bank and their relatives who may serve from time to time, including those to be appointed in future), or those who have served as Bank Board members, including officers where the controlling shareholder of the Bank has a personal interest in their liability insurance, for a term of twelve months starting on April 1, 2020, other than pursuant to the officer remuneration policy.

On September 24, 2020, the Board of Directors, after receiving approval from the Remuneration Committee, approved inclusion of Union Bank Le-Israel Ltd. and subsidiaries thereof (hereinafter jointly: "Union Bank") to the current Board member and officer liability insurance policy of the Bank and subsidiaries of the Bank, including the President & CEO of the bank as well as controlling shareholders of the bank and relatives thereof. Later on, after further negotiations with re-insurers on the London insurance market, whereby it turned out that the requested premium is higher than the approved amount, the Remuneration Committee and the Bank Board of Directors approved for the maximum additional premium for inclusion of Union Bank as noted above, not to exceed USD 800 thousand per year, i.e. not to exceed USD 400 thousand for the remaining insurance period.

For more information see Immediate Reports dated February 19, 2020 (reference no. 2020-01-017409 and reference no. 2020-01-017415), report dated March 25, 2020 (reference no. 2020-01-029814) report dated September 24, 2020 (reference no. 2020-01-096061), and report dated October 01, 2020 (reference no. 2020-01-097933).

Other information about the Bank and its management

Major holding structure[1] of Mizrahi Tefahot Group



(1) The Bank has holdings in other companies which are not material for Bank business.

See Note 15 to the financial statements for details.

Controlling shareholders

The Controlling Shareholders of the Bank as of December 31, 2020 are Wertheim Group and Ofer Group.

Holdings of Wertheim Group are through M. W. Z. (Holdings) Ltd. And F&W (Registered Partnership) holding, as of December 31, 2020, 7.54% and 13.02%, respectively of capital and voting rights.

Holdings of Ofer Group are through L.I.N (Holdings) Ltd., which holds, directly and through L.A.B.M. (Holdings) Ltd. (a wholly-owned subsidiary thereof) as of December 31, 2020 21.36% of capital and voting rights in the Bank.

Wertheim Group

On February 06, 2020, M. W. Z. (Holdings) Ltd. transferred 150,000 shares it owned to F&W (Registered partnership) in a transaction off the Stock Exchange for no consideration. For more information see Immediate Report dated February 06, 2020 (reference: 2020-01-013887).

On September 6, 2020, M. W. Z. (Holdings) Ltd. Increased its holding stake in the Bank to 8.81%, by purchasing 585,759 shares in a transaction off the Stock Exchange. For more information see Immediate Report dated September 06, 2020 (reference: 2020-01-089152).

On September 6, 2020, M. W. Z. (Holdings) Ltd. purchased 1,098,924 shares in a transaction off the Stock Exchange, which shares became dormant upon being purchased. For more information see Immediate Report dated September 06, 2020 (reference: 2020-01-089155).

On September 30, 2020, the 1,098,924 dormant shares owned by M. W. Z. (Holdings) Ltd. ceased to be dormant shares. For more information see Immediate Reports dated September 30, 2020, references (2020-01-097087; 2020-01-097156).

On September 30, 2020, M. W. Z. (Holdings) Ltd. transferred 2,500,000 shares it owned to F&W (Registered partnership) in a transaction off the Stock Exchange for no consideration. For more information see Immediate Report dated October 01, 2020 (reference: 2020-01-098002).

Ofer Group

On July 1, 2020, L.I.N. (Holdings) Ltd. increased its holding stake in the Bank to 22.54% by purchasing 790,000 ordinary shares of the Bank during trading on the Stock Exchange. For more information see Immediate Report dated July 01, 2020 (reference: 2020-01-062383).

As from July 23, 2020, L.I.N. Trust owns 100% of the issued share capital of L.I.N. (Holdings) Ltd., after shares of Maraval Inc., which owns 5% of L.I.N. (Holdings) Ltd. Were transferred to L.I.N. For more information see Immediate Report dated August 09, 2020 (reference: 2020-01-076270).

On August 18, 2020, L.I.N. (Holdings) Ltd. increased its holding stake in the Bank to 23.17% by purchasing 1,490,000 ordinary shares of the Bank during trading on the Stock Exchange. For more information see Immediate Report dated August 18, 2020 (reference: 2020-01-080740).

On September 29, 2020, L.I.N. (Holdings) Ltd. transferred 2,700,000 ordinary shares of the Bank to L.A.B.M. (Holdings) Ltd., a wholly-owned subsidiary thereof. For more information see Immediate Report dated September 29, 2020 (reference: 2020-01-096811).

Shareholder agreements

L.A.B.M. (Holdings) Ltd. Of Ofer Group and Feinberg-Wertheim (Registered Partnership) of Wertheim Group are party to a cooperation agreement for exercising rights associated with Bank shares, dated October 6, 1994 (hereinafter: ("voting agreement"). The aforementioned voting agreement sets forth, inter alia, rules for joint voting of controlling shareholders at General Meetings, for each party's right of refusal upon sale of controlling shares by the other parties, for rights to appoint Board members and rights to appoint the Chairman of the Board of Directors.

Fixed assets and installations

The amortized cost of buildings and real estate for the Bank Group (including installations and leasehold improvements), net of provision for impairment, as of December 31, 2020 amounts to NIS 875 million. Amortized cost excluding Union Bank as of December 31, 2020 amounted to NIS 644 million, compared to NIS 669 million at end of 2019.

In conformity with the resolution by the Bank's Board of Directors to relocate all units of Bank management to a single central site in Lod, in 2019 a project was approved for construction of this site, at a total cost of NIS 322 million (including acquisition of the land, approved and carried out in 2017). This project would last for several years. In 2020, the planning of this building continued and excavation work started. Later in the year, due to impact of the Corona Virus outbreak on the office market in Israel, the scope of this project was under review. This review should be completed in the first quarter of 2021 and the project plans may change, depending on decisions to be made.

Other than the foregoing, in 2021, no unusual investments are expected in fixed assets and in plant (buildings, land, equipment, furniture and automobiles). In order to start integration of Union Bank branches, if approved by all relevant entities, adjustments will be made in 2021 to receiving Mizrahi Tefahot branches of non-exceptional scope.

For more information about fixed assets for the Group, see Note 16 "Buildings and equipment" on the financial statements.

This information constitutes forward-looking information, based inter alia on various assumptions and forecasts with regard to the state of the economy, legislation, directives of supervisory entities, technological developments, developments in the real estate and construction market and human resource issues. This information may not materialize, or materialize in part, to the extent and on dates to be determined by Bank management or due to changes that could occur in various influencing factors that are not under sole control of the Bank.

For more information about investments and expenses with respect to IT, see chapter "Analysis of composition of assets, liabilities, capital and capital adequacy below.

Intangible assets

The Bank Group has data base entries of clients and employees. The Bank also owns the rights to the trademarks "Mizrahi-Tefahot", including with the infinity symbol and the words "Team", "Live", "Tefahot", "Tefahot – No. 1 in Mortgages", "Retirement portfolio Based on a Nobel Prize Winning Model", "Mizrahi Bank" with the image of the sun and variations of these marks. The Bank owns the rights to trademarks associated with the Bank's name in the USA, Canada, Switzerland and in the European Union as well.

The Bank has acted extensively to develop its technological capabilities, in response to evolution of its business and in order to achieve the strategic plan.

The balance of discounted software development cost is included on the financial statements under "Buildings and equipment".

For more information about treatment of software development costs on the financial statements, including their useful life, see Note 1.F. 8. to the financial statements.

For more information about investments and expenses with respect to IT, see chapter "Explanation and analysis of results and business standing" of the Report of the Board of Directors and Management.

For more information about acquisition of Union Bank, see Note 35 to the financial statements.

Human Resources

Bank organizational structure

The Bank organizational structure is intended to support achievement of Bank objectives and realization of its business plan. The organizational structure is based on divisions and other departments, reporting to the Bank President & CEO (except for the Internal Audit Division, which reports to the Chairman of the Board of Directors). On December 12, 2019, the Bank's Board of Directors approved the recommendation by the Bank President & CEO for a re-organization at the Bank, as from start of 2020. The roles and responsibilities of the Human Resources and Administration Division have been expanded to cover all resources and operations at the Bank, and this division was renamed the Human Capital, Resources and Operations Division. The Planning, Operations and Customer Asset Division was eliminated, such that the various units thereof responsible for resources or for operations are now part of the Human Capital, Resources and Operations Division and the units responsible for client assets are now part of the Retail Division (financial advisory service and Etgar Investment Portfolio Management Company of the Mizrahi Tefahot Group Ltd.) or of the Finance Division (provident fund operations and Mizrahi-Tefahot Trust Company Ltd.), respectively. The Planning & Economics Department is now part of the Accounting Division, renamed the Financial Information and Reporting Division, in charge of information, information analysis and financial reporting. Furthermore, a new unit has been established, reporting to the Bank President & CEO, in charge of the Bank Secretary and headquarters management operations. This change would help the Bank in maintaining optimal operational efficiency, while grouping all capital market operations under the Finance Division, with all branch operations transferred to the Retail Division. Early in 2021, responsibility for international operations and overseas affiliates was re-assigned from the Finance Division to the Business Division. Furthermore, responsibility for private banking operations was re-assigned to the Retail Division.

The current organizational structure of the Bank is as follows:

Retail Division – This division consolidates most of the banking activity of private customers and small business customers. Division operations include: The retail sector, primarily responsible for operations of the Household segment and of the Small Business segment; and the mortgage sector, responsible for mortgage operations. Bank branches and business centers operate under this division in six geographic regions and the LIVE sector, which is operates by personal bankers via a range of communication channels (Internet, telephone, SMS, fax and video chat). The division also includes the departments which provide financial and retirement advisory services offered to clients. The Division is also responsible for the subsidiary, Etgar Investment Portfolio Management Company of the Mizrahi Tefahot Group Ltd. Since early 2021, the Division is also responsible for private banking operations through, inter alia, the private banking units in Israel.

Business Banking Division – this division consolidates most of the banking activity of the large corporations and of business customers. This division includes the corporate sector, in charge of operations of the business banking segment, and the business sector, in charge of operations of the commercial banking segment, operating three geographically-distributed business centers. The division also includes other units providing specialized services for clients in specific sectors: Construction and real estate sector, foreign trade sector and international operations, which as from early 2021 includes responsibility for international operations of the Group, as well as responsibility for overseas affiliates and the diamonds business center. The division also operates the special client sector, in charge of arrangement and collection of troubled debt.

Finance Division – The division includes the financial management sector – which is responsible for management of the Bank's financial assets and liabilities – and the trading sector, which operates an integrated trading room active in all financial markets, in trading currencies, interest rates and Israeli and overseas securities, and the Information & Client Service Sector which supports all financial market operations, providing Back Office services and provident fund operations. This division is also in charge of the capital market subsidiary, Mizrahi Tefahot Trust Company Ltd.

Technology Division – in charge of information technology, including pursuant to requirements of Proper Conduct of Banking Business Directive 357, through the Mizrahi-Tefahot Technology Division Ltd., a wholly-owned subsidiary of the Bank.

Risks Control Division – this division includes the various risks control departments at the Bank (including: market, interest, liquidity, credit and derivatives risk), which also manages the operational risk at the Bank. This division is in charge of information security issues. The Division includes the Bank's Chief Compliance Officer as well as the Analysis Department, tasked with formulating independent recommendations with regard to extending credit as well as opinions with regard to associated risk.

Human Capital, Resources and Operations Division – this division includes management of human resources, training, logistics (including properties, construction and procurement) as well as security (including the cash and courier center), community outreach and corporate social responsibility. This division includes an engineering and operations branch, including the Process Engineering Department, in charge of back-office banking operations, bank insurance (including: banking insurance as well as officer and director insurance), insurance incidental to mortgages and the clearinghouse.

Marketing, Advertising and Business Development Division – This division consolidates activities relating to advertising, marketing, and development of financial products that the Bank markets to customers.

Financial Information and Reporting Division – in charge of preparing the Bank's public financial statements, reporting to statutory authorities and to management, taxation, main ledger, accounting, treasury and payroll department. The Division is also responsible for credit classification and for determining the provision for credit losses, as well as for challenging the discovery and reporting processes of problematic debt. This division includes the Information, Analysis and Planning Department, which is responsible, inter alia, for supervision and control over subsidiaries.

Legal Division – this division is responsible for providing legal services for all of the Bank's units, for creating the legal infrastructure for the Bank's activities, for management of exposure to legal risk and to handle claims against the Bank.

Internal Audit Division – the division is responsible for conducting internal audits of Bank business and operating units. The division is also responsible for handling the public inquiries and complaints against the Bank.

Human Resource Division Policy

Bank management regards all Bank employees and managers as a key component for achieving its business strategy and business growth targets. This commitment is reflected by implementation of three key principles in Bank operations:

- Creating a respectful work environment – The Bank regards its employees and managers as partners in the Bank's success and therefore strives to promote them and to create a supportive work environment.
- Caring for employees' rights – The Bank ensures the rights of all employees, as well as their right to join a labor union. The Bank offers its employees better working conditions than required by labor laws.

- Caring for employees' welfare – Employees' welfare is managed as follows: Creating welfare support for Bank employees and their families, an extensive health care plan for employees, an organizational culture which supports recognition and allows for optional leisure activities – based on the understanding that such balance generates value for both the employee and the Bank.

The Bank regularly promotes equal opportunity in the work place. This is based on recognizing the ultimate importance of the value of equality. The Bank does not discriminate against any employee by religion, ethnicity, race, gender nor any other attributes.

Significant developments

As part of the Bank's strategy of expansion in certain demographic segments, focused on the Arab segment and on the Jewish Orthodox segment, the Bank continued to recruit employees from these demographics.

Staff – general information

Provided below is information on the number of employees whose pay was reported under "Payroll and associated expenses", in terms of full-time positions (including impact of overtime) in the Bank and in subsidiaries. The number of Bank employees provided below also includes employees who are not employed by the Bank but by companies related to the Bank, including employees of Mizrahi-Tefahot Technology Division Ltd. and Mizrahi-Tefahot Security Services Ltd. – service companies wholly-owned and controlled by the Bank, that provide computerization, security and protection services to the Bank:

						2020
	At the Bank	Overseas branches	Total for the Bank	Subsidiaries in Israel	Overseas subsidiaries	Total for the Group
Number of full-time equivalent positions as of December 31, 2020	5,393	73	5,466	(1)2,032	14	(1)7,512
Number of full-time employees based on monthly average	5,367	72	5,439	(2)1,231	14	(2)6,684

						2019
	At the Bank	Overseas branches	Total for the Bank	Subsidiaries in Israel	Overseas subsidiaries	Total for the Group
Number of full-time equivalent positions as of December 31, 2019	5,364	68	5,432	987	14	6,433
Number of full-time employees based on monthly average	5,326	68	5,394	961	18	6,373

(1) Of which, with respect to Union Bank – 1,071.
(2) Of which, with respect to Union Bank – 274

Below is the distribution of number of positions in the Group by operating segment(1)(2):

			As of December 31,
Operating segment	**2020**		**2019**
	Including Union Bank	**Excluding Union Bank**	
Households	4,488	3,881	3,891
Private banking	117	117	117
Small businesses	1,551	1,148	1,150
Commercial banking	302	302	297
Business banking	642	642	628
Financial management	412	351	350
Total	**7,512**	**6,441**	**6,433**

(1) Composition is by operating segments based on management approach. For more information see Note 29 to the financial statements.
(2) Including Head Office employees that are allocated pro-rata to the various segments.

Cost and salary per employee position in 2020

	Excluding variable remuneration components	Including variable remuneration components
Salary per employee position	249	268
Cost of salary per employee position	370	393

Human resource management

Bank management regards all Bank employees and managers as a significant component for achieving its business strategy and growth objectives for operations and profitability. Human resources at the Bank are managed on two levels:

- Caring for the individual includes: recruitment, on-boarding and during the employee's service life time, through retirement.
- Human resources are developed during regular work, through individual and group training and development processes.

The Bank invests in development of Bank staff and management, by training for skills related to banking, regulatory affairs, new behavioral and managerial skills, as well as by preservation of existing knowledge and skills. This is done through training activities throughout the employee's time with the organization, from starting in their new role, through training, mentoring and promotion tracks, completing and expanding academic education and enrichment through external seminars.

In 2020, the Training Center took part in strategic enterprise-wide campaigns inter alia through reinforcement and deployment of business skills among bankers and continued deployment of the Bank's human service concept. The new realities of work and learning due to the Corona Virus crisis resulted in increased use of digital tools and in an expanded mix of training methods – in-person or online training, in-person studying in groups, interactive aids, professional and managerial mentoring, movies, games and so forth. The Training Center continues to deploy the "Learning organization" concept – whereby managers and employees regard learning as an on-going task carried out at their workstation as well. Unit managers, jointly with and assisted by the Training Center, lead organizational change and are responsible for employees' professional skills through mentoring and training.

The Training Center acts to develop Bank managers through managerial training, offered to them throughout their term in office, as well as management cadre tracks in preparation for their next managerial roles. In 2020, managerial training took place remotely as well, with expansion of training methods – remote training and simulation, online presentations and podcasts. The Organizational Development and Training Division is applying diverse measures to develop intra-organizational communication channels. During the Corona Virus crisis, specific platforms were created for transfer and sharing of messages for employees working remotely or in isolation, as well as conducting evaluation and feedback processes, with each employee given personal feedback for their performance over the past year, as well as development targets for the coming year.

The Training Center is preparing for onboarding Union Bank employees to be hired by the Bank following the merger, by creating a detailed training program for each incoming employee, and by preparing for change management and deployment of a uniform organizational culture across the merged Bank.

Training expenses in 2020 amounted to NIS 7 million excluding Union Bank, compared to NIS 15 million in the previous year.

In 2020, all Bank employees excluding Union Bank attended training (in person and online) for a total of 31,094 training days, compared to 38,303 training days in 2019 (in 2020, Union Bank employees attended 8,500 training days). The decrease in training days in 2020 compared to the previous year is due to the fact that the Corona Virus pandemic, with restrictions on gathering and lock-downs announced did not allow for in-person training to be conducted at the Training Center. The Bank made adjustments for this situation, including review of an appropriate online platform and conversion of in-person courses to self-learning and online learning, as well as making adjustments to the training program. As from the end of May, training activity at the Bank gradually resumed in full, so as to provide an optimal response for current training needs.

For more information about human resource management, see also the 2019 Corporate Governance Report on the Bank website.

www.mizrahi-tefahot.co.il >> about the bank >> investor relations

Collective labor relations

The labor relations in the Bank are collective (except for a limited group of senior employees), which are expressed in two employee organizations:

A. The Association of Bank Mizrahi-Tefahot Employees Ltd. is a long-standing organization, which was authorized, by virtue of an inter-organization agreement signed by the Association and the HaPoel HaMizrahi Union, by that Union to act as the representative organization of Bank employees for the purpose of signing collective bargaining agreements and of representing Bank employees (hereinafter: ("Employees' Association").

B. The Association of Managers and Authorized Signatories at Bank Mizrahi-Tefahot Ltd. was founded by branch- and department managers in 2005 (hereinafter: ("Manager Council"). This organization has been recognized by the Bank and by the Employees' Association as a "bargaining unit" for negotiation and signing agreements.

C. Bank Mizrahi Tefahot Ltd. Technology Division Employees' Committee – the organization authorized to sign, together with the MAOF trade union, on behalf of Bank Mizrahi Tefahot Ltd. Technology Division employees (a subsidiary wholly owned and controlled by the Bank), any collective bargaining agreements applicable to company employees (except for Technology Division employees employed under individual employment contracts).

D. Bank Yahav – Bank Yahav employee representatives empowered to sign on behalf of Bank Yahav employees any collective bargaining agreements applicable to Bank Yahav employees.

E. Union Bank

- Employee Union of Union Bank Le-Israel Ltd. – empowered to sign on behalf of Union Bank employees (clerks) collective bargaining agreements applicable to Union Bank employees (clerks).
- Manager and Authorized Signatory Association of Union Bank Le-Israel Ltd. – empowered to sign on behalf of managers and authorized signatories at Union Bank collective bargaining agreements applicable to managers and authorized signatories at Union Bank.
- Employee Union of Union Bank Systems Ltd. – empowered to sign on behalf of employees of Union Bank Systems Ltd. collective bargaining agreements applicable to employees of Union Bank Systems Ltd.

Employment terms of employees represented by the Bank's Employees' Union

Overview

The employment terms are anchored in a series of collective agreements, together called "labor constitution". The labor constitution presents the general framework of the undertaking between the employees and the Bank, and arranges the basic employment terms. In addition, wage agreements are signed from time to time, within the framework of the constitution.

Collective bargaining agreement

On December 3, 2017, a new collective bargaining agreement was signed by management and by the Employee Union. For details see Note 22 to the financial statements.

Salary update method

Salaries of most Bank employees (except for a small number of employees employed under individual contracts signed by them and by the Bank – see chapter Individual Employment Contracts below) are updated based on three key components:

- Components which are updated regularly at rates and in the manner prescribed from time to time, in negotiations of labor agreements The major component is the basic salary. In addition, other increments derived from the basic salary are updated, primarily the seniority increment, which is updated at the start of each year by an increasing percentage, as employee seniority increases. The seniority increment reaches 4% per year (of the basic salary), for an employee with over 26 years' service with the Bank. The seniority pay increase for employees hired by the Bank as from August 17, 2017 would be revised at the start of each year, to a pay increase of up to 3% per year (of their base pay) for employees with over 22 years of service with the Bank.
- Components updated in accordance with changes in the Consumer Price Index.
- Components linked to changes in external tariffs.

All of the above components apply uniformly to all the employees, the employment terms of whom are subject to the labor constitution and to the labor agreements signed between the Bank and the Employees' Union. Updates to part of the salary based on criteria not linked to the CPI, as well as payment of automatic Seniority Bonus as stated above, result in a situation where the real rate of salary increase at the Bank is higher the lower the inflation rate.

Special payments

In addition to the regular salary elements, the Bank pays to its employees, as stipulated in the labor constitution, a one-time grant upon reaching seniority of thirteen years and eighteen years. The Bank's financial statements include a provision for these obligations, according to an actuarial calculation that is based on past experience and the probability that on the date of record, the employee will still be employed by the Bank.

During the term of the payroll agreement for 2016-2021 and subject to achievement of return on equity targets, the Bank would pay to employees a return bonus.

The Bank also provides individual compensation tools, through which the personal compensation of each and every employee is carried out. These compensation tools are selective and are based on specific assessments of the direct managers of the Bank's employees in the different segments regarding the performance of every employee. Personal promotion is achieved primarily via promotion in rank and in the bonus component, about which Bank management decides each year and these decisions are approved by the Board of Directors. Decisions relating to the extent of personal promotion and bonus or grant are not derived from provisions of labor agreements, but are influenced by the assessment of the employee performance, the Bank's situation and profitability in the relevant period.

Employment terms for employees represented by the Council of Managers and Authorized Signatories

Overview – Wage Agreements

On December 20, 2018, a collective bargaining agreement was concluded with the Managers' Council, with respect to wages and work conditions for 2018-2022. This agreement includes a new pay structure, consisting of base pay, additional seniority pay, additional management pay, global over-time and expense reimbursement for car expenses, education and studies. This agreement also includes a voluntary retirement program, increase in the number of individual employment contracts, as well as calm labor relations throughout the term of the agreement.

Individual employment contracts

The labor agreements signed by the Bank in the years 1995, 1998, 2003, 2006 and 2018, stipulated that the Bank will be permitted to enter into individual employment contracts with senior employees, as defined in the agreements, as well as several individual employment contracts with certain officers. Some of the senior employees employed under individual employment contracts are eligible, in the event of termination by the Bank, to severance bonuses based on their period of service with the Bank, in addition to other amounts and benefits accrued to their credit in various funds. The financial statements include a provision for the severance bonuses accrued through the balance sheet date. See Note 22 to the financial statements for additional information.

Employment terms of employees of Mizrahi-Tefahot Technology Division Ltd.

Employment terms of employees of Mizrahi Tefahot Technology Division Ltd. (hereinafter: "the Technology Division" or "the Company") are arranged in the labor constitution that was signed in 1989 and in a series of agreements signed by the Technology Division Employees' Council, the Labor Union and the Technology Division over the years.

Employees of the Technology Division have their pay linked to the pay for Bank employees.

On February 4, 2020, a special collective bargaining agreement was signed by the Mizrahi-Tefahot Technology Division Ltd., the New General Labor Union and the Division Employee Council of Mizrahi-Tefahot Technology Division Ltd., whereby the parties agreed to apply the managers' agreement signed by the Bank on December 20, 2018 and the arbitration verdict received by the Bank on January 28, 2019, as stipulated by the company's collective bargaining agreements. This resolved all claims made by the Labor Union and by the Division Employee Council of Mizrahi-Tefahot Technology Division Ltd. on these matters. The signed agreement has no material impact on the Bank's financial statements.

Labor and payroll agreements at Bank Yahav

On January 17, 2019, Bank Yahav signed a new collective bargaining agreement with employee representation which governs labor and remuneration at Bank Yahav for 2018-2022.

Labor and payroll agreements at Union Bank

On August 9, 2017, Union Bank signed a new collective bargaining agreement with the clerks employee union at Union Bank, which governs labor and remuneration at Union Bank in 2014-2018.

On January 13, 2020, Union Bank signed a new collective bargaining agreement with the Manager and Authorized Signatory Association of Union Bank, which governs labor and remuneration at Union Bank in 2019-2022.

On October 1, 2017, Union Bank signed a new collective bargaining agreement with Employee Union of Union Bank Systems Ltd. which governs labor and remuneration at Union Bank, for 2.5 years from the signing date and pending any different notice, is renewed annually for a further 12 months.

For more information about a labor dispute at Union Bank, see Note 22 to the financial statements.

Significant Agreements

A. Employment agreements signed with the Employees' Council, the Manager and Authorized Signatory Association and the Technology Division Employees' Committee. For more information see chapter "Human Resources" above.
B. Indemnification letters. For more information see Note 26.C. (4-9) to the financial statements.
C. Agreements for co-issuing debit cards with the following: ICC Ltd., Diners Club Israel Ltd. (hereinafter: "ICC Group"), Isracard Ltd. and/or Europay (Eurocard) Israel Ltd., Poalim Express Ltd. of Isracard Group and Leumi Card Ltd. For more information see Note 26.C.13 to the financial statements.
D. Agreement between the Government of Israel and the Bank, for provision of loans from bank sources to eligible Ministry of Construction and Housing recipients and framework agreement between the Government of Israel and the Bank with regard to provision of loans to eligible recipients from State funds. For more information see chapter "Household segment" above.
E. Agreement with Union Bank shareholders – For more information see chapter "Significant developments in management of business operations" in the Report of the Board of Directors and Management.
F. Agreement for merger of Union Bank with and into the Bank, such that as from the date when the Registrar of Companies shall provide to the Bank a certificate evidencing the merger, and subject to fulfillment of all suspensive conditions for the merger, as set forth in the merger agreement ("the Closing Date"), the Bank shall receive all assets, rights and liabilities of Union Bank as-is, retroactively as from December 31, 2020. For more information see chapter "Significant developments in management of business operations" in the Report of the Board of Directors and Management.

Legislation and Supervisory Regulation of Bank Group Operations

Laws and regulations

Economic Plan Act (Legislation Amendments to Implement Economic Policy for 2019 Budget Year), 2018

On March 22, 2018, the Act was made public, including multiple legislative amendments. These include amendment of the Banking Act (Customer Service), 1981. The amendment to the Act involves client transition from one bank to another.

On June 30, 2020, the Knesset Economics Committee approved the request by the Minister of Finance, to delay by six months the start date of Chapter II of the Act, which should become effective on September 22, 2021, unless further delayed (two allowed delays by up to six months each).

According to the amendment to the Act, should a client (individual or corporation of the type specified in regulations by the Governor of the Bank of Israel) wish to transfer to another bank, the client's original bank and the receiving bank shall take all required actions to allow the client to transfer their financial activity to the receiving bank through an online, convenient, reliable, secure process at no cost to the client for such transfer of their financial activity, within seven business days or by another date specified by the Governor of the Bank of Israel with consent of the Minister of Finance.

As for the period prior to the effective start date of the Act, it was stipulated that should a client ask to close their account with their bank, the bank shall not rescind, merely due to the closing request, any benefits and discounts to which the client was eligible in managing their account, sooner than prescribed in an agreement between the bank and the client and, unless otherwise stipulated, for at least three months.

On December 17, 2019, the Governor of the Bank of Israel issued Banking Rules (Customer Service) (Transfer of Client Financial Activity between Banks), 2019, which stipulate the types of accounts and financial activities subject to the Act.

Application of the amendment to the Act is not expected to have any material impact on the Bank's financial statements.

Payment Services Act, 2019

On January 9, 2019, the Payment Services Act, 2019 was published (hereinafter: "the Payment Services Act"), which mostly became effective on October 14, 2020; a small part of this Act Section 77(b) and (c)) would become effective on April 14, 2022.

Provisions of the Act are primarily based on corresponding regulation in Europe (the PSD2 Directive and implementation of provisions of the Directive in key European countries) and on arrangement pursuant to the Charge Card Act, 1986, which is superseded by the Payment Services Act.

The key purpose of the Payment Services Act is to provide consumer protection to clients (payers or recipients) who would receive in future "payment services" from "payment service providers" (including banks, credit card companies, payment apps etc.), to increase public trust in diverse "means of payment" and to create the initial infrastructure to increase competition in the payment services market in Israel.

The Act defines two types of payment services:

A. "Payment services to beneficiary", including management of payment account on behalf of a recipient and settlement of payment transactions for recipients (merchants); and
B. "Payment services to payer", including management of payment account on behalf of the payer and issuing of "means of payment" to the payer.

Definition of "means of payment" in the new Act is distinct from the physical aspect of means of payment as a required component. Thus, whereas the Charge Card Act only applies to physical charge cards, the Payment Services Act applies to all "means of payment" – current or future, physical or non-physical. That is to say, the consumer protection specified in the Payment Services Act would apply not only to making transactions and payments using charge cards, but also to making transfers, deposits and withdrawals from a bank current account, to standing orders to charge an account, to transactions using advanced means of payment, such as eWallets and payment apps, and to foreign payment service providers operating, or who would be operating in future, in Israel.

Whereas the Charge Card Act only refers to the legal relationship between the charge card issuer and the card holder, the Payment Services Act also covers the obligations of the payment service provider towards the recipient (e.g. the settlement provider) towards the recipient (e.g. the merchant).

The Bank is preparing to implement provisions of the Act. Application of the Act is not expected to have any material impact on the Bank's financial statements.

European regulation – PRIIPS (Packaged Retail and Insurance based Investment Products)

European regulation regarding transparency and protection of investors. This regulation requires disclosure and provision of KIDS (Key Information Documents) – documents that help the client understand the product and its associated risk. KIDS documents should be provided to European retail clients (clients other than qualified clients, in conformity with regulation) who conduct transactions in products that are subject to the regulation (structured products, derivatives and products where return for the client depends on volatility of the underlying asset). The Bank is reviewing applicability of this regulation to the Bank, its potential implications to Bank operations and consequently, implementation of the required implications. Application of this regulation is not expected to have any material impact on the Bank's financial statements.

Initial Margin

Due to foreign regulatory requirements included the European Market Infrastructure Regulation (EMIR), in activity with European counter-parties involving derivatives that are not settled, the Bank would be required to deposit collateral with a third party custodian, as from September 2021. The objective of this legislation is to reduce exposure to counter parties in transactions involving financial instruments that are not negotiable over the counter (OTC), and to concentrate the collateral with a custodian, who would act as directed by the parties and by legislation, including in case of insolvency or default by either party. This legislation would become effective gradually, based on volume calculation of OTC transactions that are not settled, and deposit of required collateral when activity with any specific counter party exceeds thresholds specified in the legislation. The Bank is studying this legislation, is acting to contract with a custodian and is setting up the legal and operational infrastructure for transfer of collateral when this would be required. Application of this legislation is not expected to have any material impact on the Bank's financial statements.

Credit Data Regulations (Amendment no. 1), 2021

On January 6, 2021, the Knesset Economics Committee approved various amendments to Credit Data Regulations, 2017, in particular the following: Shorter period of one year (in lieu of 3 years) during which a warning due to 5 checks bounced due to "insufficient funds" shall count as third information item for credit indication; the letter of consent as it appears in the Regulations shall be removed and shall be clearly worded by the Supervisor, in a language convenient to the client; a report was added to the credit data system with regard to 'Injunction issued for start of restriction' (pursuant to Section 10a of the Checks Without Cover Act); clients may allow the paid holder of power-of-attorney advising them to retain their data for an extended period, so as to allow them to obtain high-quality and prolonged advisory services.

Some of these amendments shall become effective within six months after official publication of these regulations, in order to allow time for preparations.

Application of the amendment to the regulations is not expected to have any material impact on the Bank's financial statements.

Supervisor of Banks

Circulars and Public Reporting Directives

Preparations for discontinued use of LIBOR

As announced by the Financial Conduct Authority (FCA) in the UK and by the US Securities and Exchange Commission (SEC) in July 2017, a decision has been made to gradually discontinue use of LIBOR, by the end of 2021. Further to this decision, diverse teams have been set up around the world, in order to determine interest rate benchmarks.

Discontinuation of the use of LIBOR and transition to alternative interest rate benchmarks should have wide-ranging implications for the Bank, including economic, operating and accounting implications.

The Bank has started reviewing the expected impact of discontinued publication of LIBOR information, including review of potential alternatives for each of the aforementioned currencies, potential financial implications due to the transition to using the aforementioned alternative interest rate benchmarks and the required preparations in both business and risk management aspects.

The Bank is reviewing interest rate alternatives that may replace LIBOR. However, at this stage and due to absence of directives with regard to implementation of the transition, the impact on the Bank due to discontinued use of LIBOR cannot be assessed.

The following table lists Bank contracts impacted by LIBOR interest rates with regard to contracts scheduled to continue beyond 2021:

	As of December 31, 2020
	Transaction volume (NIS in millions)
Loans to the public (including mortgages)	6,812
Deposits from the public	277
Net derivatives (par value)	1,907

Major risks and Bank preparations there for

Discontinued use of LIBOR and transition to alternative interest rate benchmarks pose various risks for the Bank; the Bank has identified such risks through, inter alia, mapping of all relevant contracts and exposures.

In 2019, the Bank started preparing to manage and mitigate the risks identified with regard to discontinued use of LIBOR. As part of such preparations, the Bank has set up a steering committee and a custom team tasked, inter alia, with development of work processes to identify the risks, to review the impact of each risk and to monitor these risks and associated impact. Updates were provided to management and to the Bank's Board of Directors. Note that the Bank has already informed its clients of the potential discontinuation of LIBOR at end of 2021.

Expected accounting implications

Discontinued use of LIBOR and transition to alternative interest rate benchmarks are expected to have diverse accounting implications in multiple areas, including the following:

- Hedge accounting – a review would be required of terms and effectiveness of accounting hedges, and documentation would need to be revised due to transfer to an alternative interest benchmark. Key expected impact is with regard to hedging of interest rate risk.
- Debt modifications – debt modifications that do not make reference to a fall back may require amendment and review as to whether such modifications would be accounted for as de-recognition of the existing contracts and initial recognition of the new contracts, with potential effect on the statement of profit and loss, or alternatively as continuation of the existing contracts, by updating the effective interest rate.
- Discount rates – transition to alternative interest rate benchmarks may result in changes to discount rates used as input in various models for valuation of diverse assets and liabilities, such as: financial instruments, leases, derivatives, impairment of non-financial assets.
- Fair value ranking – some of the alternative interest rate benchmarks, such as SOFR (Secured Overnight Financing Rate) and €STR (Euro Short-Term Rate) have been recently published and therefore have no active market using them. Therefore, it is anticipated that contracts making reference to these alternative interest rate benchmarks would be classified at Level 2 or 3 of the fair value ranking.

Note, in this regard, that in October 2018, the US Financial Accounting Standards Board ("FASB") issued standards update ASU 2018-16, with regard to adding SOFR to the list of interest rate benchmarks in the USA valid for use in accounting hedging. Moreover, in March 2020, FASB issued a proposed amendment with regard to relief due to the impact of interest rate benchmark reform on financial reporting, including inter alia relief with regard to changes in contracts, in hedge accounting and in debentures held to maturity. The Bank is reviewing the effect of the relief measures on its financial statements.

Note that as from the end of July 2020, the London Clearing House (LCH) started using the €STR curve (anchor curve in EUR) and as from October, it also started to use anchor interest rates in USD based on the SOFR curve.

Debit cards

On January 9, 2020, the Bank of Israel issued an update circular to Proper Conduct of Banking Business Directive 470 "Debit cards" and to Proper Conduct of Banking Business Directive 472 "Settlement providers and settlement of debit card transactions". According to this circular, and to promote adoption and use of the EMV standard (a technology for reading the chip embedded in the credit card) and to improve the user experience, a transition period was specified, to allow for gradual introduction of contact-less cards. It was further stipulated that due to the increase in ATM fraud, due to the fact that such devices do not support the smart standard and allow fund withdrawal using counterfeit cards, banking corporations were prohibited from connecting to their systems any device that does not support the EMV standard. Provisions of this circular are effective as from the issue date thereof, other than some exceptions that would become effective gradually.

The Bank applies the sections in effect and is preparing to apply the other provisions of this circular. Application of this circular has no material impact on the Bank's financial statements.

Implementation of open banking standard in Israel

On February 24, 2020, the Bank of Israel issued a circular concerning Proper Conduct of Banking Business Directive 368 "Implementation of open banking standard". This circular describes the evolution of open banking world-wide and the standards created, elaborating the legislation being enacted in Israel, which resulted in the Supervisor of Banks promoting the open banking project and issuing a directive with regard to this matter. The directive includes instructions with regard to implementation of the open banking standard, rules for service level and client consent, as well as instructions with regard to architecture and information security. This directive applies to banks and to credit card companies in their operations in Israel, with respect to accounts held by individuals. The directive also stipulates instructions with regard to corporate governance, including details of the roles and responsibilities of the Board of Directors and senior management in setting policy, allocating appropriate resources and supervising the implementation of the open banking management framework. The effective start date of this directive is December 31, 2020, except for information about debit cards which is effective as from July 1, 2021 and information about credit, deposits and securities which is effective as from December 31, 2021.

On April 7, 2020, the Bank of Israel issued a circular regarding evolution of the Corona Virus pandemic, containing revised effective start dates for Directive 368. The effective start date of this directive was revised to March 31, 2021; the effective start date for information about debit cards was revised to October 10, 2021 and the effective start date for information about credit, deposits and securities was revised to March 31, 2022.

Adjustments to Proper Conduct of Banking Business Directives for addressing the Corona Virus (Interim Directive)

On March 19, 2020, the Bank of Israel issued a circular regarding Proper Conduct of Banking Business Directive 250 "Adjustments to Proper Conduct of Banking Business Directives for addressing the Corona Virus". The circular lists a range of relief measures incorporated in the interim directive due to development of the Corona Virus pandemic and its economic implications globally and in Israel. The adjustments to the directive are intended to provide banks with the business flexibility required at this time. Further adjustments to the directive were issued in circulars dated March 31, 2020, April 1, 2020, April 7, 2020, April 27, 2020, May 5, 2020, May 20, 2020, June 1, 2020, June 23, 2020, September 16, 2020, September 22, 2020, November 15, 2020, December 3, 2020, December 17, 2020 and January 7, 2021. The Bank has applied some of the relief measures set forth in the directive, as well as further relief measures pursuant to business decisions made by the Bank, including the following:

- Suspension of limitation of accounts and account holders due to checks denied due to insufficient funds as from March 4, 2020 (this suspension has been discontinued due to a directive to discontinue the effect of this suspension).
- Issuance of immediate debit cards to clients who do not hold a debit card and who withdraw their pensions at branches (this issuance was conducted as a non-recurring action).
- Implementation of instructions with regard to reduced branch opening hours and to reduced operations and movement in the public space (these instructions were gradually rescinded later on, in view of relief made public by the Government).
- Relief for limitations on extending residential mortgages and for issue dates for letters of intent and settlement confirmations.
- Relief for online banking, providing instructions by telephone and giving precedence in queues to senior citizens (On December 30, 2020, an amendment to Directive 426 with regard to "Providing professional call center service" amended the age of clients to be given precedence in queues, from 75 to 70, under routine conditions as well).

- Delay in payments for commercial loans and residential mortgages (due to the extended Corona Virus outbreak and extension of the outline for delayed loan repayments, on September 30, 2020 the Bank of Israel issued a circular adding Reporting Regulation C889 "Reporting of Delayed Payments Under Special Circumstances (Monthly)").
- On October 11, 2020 and on December 3, 2020, the Supervisor of Banks issued supervisory highlights regarding additional changes to loan terms and regarding the additional outline for postponed payments as part of the Corona Virus outbreak, with regard to risks management, public reporting, classification and internal control.

Application of this circular has no material impact on the Bank's financial statements.

Transfer of activity and closing of client account

On June 23, 2020, the Bank of Israel issued an update circular to Proper Conduct of Banking Business Directive 432. According to this circular and in order to improve the application process for transfer of a securities portfolio, it was stipulated that the client may submit the application through online channels, unless there is reasonable ground for refusal. The effective start date of this amendment is 6 months after the publication date thereof.

The Bank applies the provisions of the circular. Application of this circular has no material impact on the Bank's financial statements.

Banking Ordinance (Customer Service) (Supervision of Service – Immediate Debit Card Fee, Warning Letter from Attorney and Transaction by Call Center Teller) (Interim Provision), 2020

On September 14, 2020, the Bank of Israel issued an ordinance, effective for 6 months after the issue date, classifying three banking services as services subject to supervision: Immediate Debit Card Fee, Warning Letter from Attorney and Transaction by Call Center Teller.

The Bank is preparing to implement provisions of the Ordinance. Application of the directive is not expected to have any material impact on the Bank's financial statements.

Dormant deposits and deceased persons' accounts

On November 10, 2020, the Bank of Israel issued Proper Conduct of Banking Business Directive 443 with regard to "Dormant Deposits", pursuant to the Banking Ordinance, 1941. The objective of this directive is to specify identification and reporting duties applicable to banking corporations, as well as specify directives with regard to safe deposit boxes where contact with the lessees thereof has been lost and accounts of deceased persons.

The effective start date of this directive is one year after its issue date. The Bank is preparing to implement this directive. Application of the directive is not expected to have any material impact on the Bank's financial statements.

Reporting of technology failure events and cyber events

On December 29, 2020, the Bank of Israel issued Proper Conduct of Banking Business Directive 366 with regard to "Reporting of Technology Failure Events and Cyber Events". This directive supersedes the mandatory reporting currently applicable to banks with regard to technology failure events and cyber events in the following directives: 357 "Information Technology Management"; 367 "Online Banking"; and 361 "Cyber Defense Management".

The effective start date of the directive and amendments to directives being superseded is one month after the publication date thereof. The Bank is preparing to implement this directive.

On December 30, 2020, the Bank of Israel issued Reporting Directive 880 with regard to "Reporting of Technology Failure Events and Cyber Events", which supersedes and adds to Directive 848 "Reporting of Cyber Events". This reporting directive is effective as from January 1, 2021.

Application of these directives has no material impact on the Bank's financial statements.

Restrictions on extending residential mortgages

On December 27, 2020, the Bank of Israel issued an update to Proper Conduct of Banking Business Directive 329 concerning "Restrictions on extending residential mortgages". The update includes elimination of the restriction on lending at the prime lending rate, so that the restriction of at least one third of the mortgage that must bear fixed interest remains, and up to two thirds may be extended bearing variable interest.

The amendments to the directive pursuant to the circular are effective as from January 17, 2021. For residential mortgages intended to finance early repayment of a loan extended by the Bank or by another bank, the amendment shall apply as from February 28, 2021.

The Bank believes that the updated directive may impact the number of clients who seek to re-finance loans, so as to increase the portion of the loan at the prime lending rate The Bank is preparing, including in operational aspects, to provide a response to large-scale inquiries. However, it is not currently possible to assess the impact of this update on the financial statements.

Bank's credit rating

On July 21, 2020, S&P Global Ratings Ma'alot Ltd. (hereinafter: "Ma'alot") confirmed the Bank's issuer rating of ilAAA with a Stable rating outlook. According to the rating agency: "The Stable rating outlook for Mizrahi reflects our view that over the next 24 months, the Bank's capital cushion would allow the Bank to absorb the impact to profitability due to implications of the Corona Virus outbreak."

The Bank's subordinated capital notes (Upper Tier II capital) and the contingent subordinated notes with contractual loss-absorption provisions (CoCo), which qualify as Tier II equity in conformity with provisions of Basel III, are rated ilAA-.

On September 9, 2020, Midroog Ltd. (created in partnership with Moody's International, which owns a 51% equity stake) (hereinafter: "Midroog") left the Bank's ratings un-changed. Long-term deposits and senior debt of the Bank are rated Aaa.il / Stable outlook. The subordinated capital notes (Upper Tier II capital) are rated Aa2. Ill Stable outlook.

contingent subordinated notes with contractual loss-absorption provisions (CoCo), which qualify as Tier II equity in conformity with provisions of Basel III, are rated Aa3.il / Stable outlook.

On September 30, 2020, Moody's rating agency confirmed the Bank's long-term deposit rating at A2 with Stable outlook.

Operating segments – Additional information

On November 3, 2014, the Supervisor of Banks issued an update to the Public Reporting Directives concerning supervisory operating segments. According to the directive, the Bank is required to provide, on its financial statements, disclosure with regard to supervisory operating segments in conformity with a uniform, comparable layout specified by the Supervisor of Banks; attribution to supervisory operating segments is typically determined by the client's turnover (annual sales or annual revenues).

The disclosure outline for supervisory operating segments includes the following segments: Individuals, micro and small businesses, medium businesses, large businesses, institutional entities and financial management. The Bank's overseas operations should be presented separately.

Supervisory operating segments

Supervisory operating segments include operating segments for individuals and operating segments for business clients other than individuals (including institutional investors and financial management of the Bank).

Individuals are defined as persons with no indebtedness to the Bank or whose indebtedness is classified as indebtedness of "individuals – residential mortgages and others", in conformity with definitions of credit risk classification by economic sector.

Below is brief description of supervisory operating segments:

Households – individuals, other than private banking clients, as noted below.

Private banking – individuals who manage a financial asset portfolio in excess of NIS 3 million.

Small and micro businesses – businesses with turnover amounting up to NIS 50 million.

Medium businesses – businesses with turnover higher than NIS 50 million and lower than NIS 250 million.

Large businesses – businesses with turnover higher than NIS 250 million

Institutional investors – the segment primarily includes provident funds, pension funds, study funds, mutual funds, ETFs, insurance companies and stock exchange members who manage client portfolios, as defined by the Supervisor of Banks.

Financial management – includes trading operations, asset and liability management and non-banking investments.

Overseas operations – the aforementioned operating segments are divided into operations in Israel and operations overseas; operations overseas are presented separately and are divided into operations of individuals and business operations only.

Financial information in the Report by the Board of Directors and Management is included in conformity with definitions of supervisory operating segments.

In addition, the financial statements include – in Note 29 to the financial statements – disclosure with regard to "Operating segments in conformity with the management approach".

An operating segment in conformity with the management approach is a Bank component with operations which may derive revenues and incur expenses which meet the following criteria:

- Its operating results are regularly reviewed for the purpose of decision making about resource allocation and for performance evaluation.
- Separate financial information is available with regard to it.

In fact, the supervisory operating segments and "Operating segments in conformity with the management approach" are correlated. However, there are some differences in client attribution to segments and in how decisions are made. Therefore, at this stage, the financial statements also include reporting of operating results in conformity with "the management approach", as noted above.

A summary of these differences are as follows:

- The Bank's operating segments by the "management approach" are based on client attribution to the organizational structure responsible in the past period. However, client attribution to supervisory operating segments is based on uniform definitions specified by the Supervisor of Banks, as noted above.
- There is a strong correlation between attributes specified by management for client attribution to the responsible division and the supervisory definitions.
- However, according to "the management approach", in some cases the final client attribution may be based on other parameters, such as: specialization of a certain unit in activity types of clients or past experience working with the client, which result in business and service-related advantages to client attribution to the specific division or being part of the same borrower group.
- Other differences are reflected in the Bank's definition of Private Banking, how institutional investors are handled, business operations attributed to the Financial Management Division and other differences arising from the aforementioned definitions.
- The difference in definitions is reflected in particular in these segments:
  - Individual clients with a financial asset portfolio at the Bank of less than NIS 3 million, classified to the private banking segment in the disclosure about operating segments in conformity with the management approach, were classified to the household segment in the disclosure about supervisory operating segments.
  - Micro and small businesses, classified to the private banking segment in the disclosure about operating segments in conformity with the management approach, based on their attribution to the organizational unit in charge, were classified to the business segment in the disclosure about supervisory operating segments, in conformity with the aforementioned definitions.
  - Business clients, classified to the business segment or to the commercial segment in the disclosure about operating segments in conformity with the management approach, based on their attribution to the organizational unit in charge, were classified to the micro and small businesses segment in the disclosure about supervisory operating segments, in conformity with the aforementioned definitions.
  - Institutional investors classified to the business segment or to the financial management segment in the disclosure about operating segments in conformity with the management approach, were classified to the institutional investor segment in the disclosure about supervisory operating segments.
  - Business and individual clients at overseas branches classified into the various operating segments in conformity with the management approach, are classified into the overseas operations segment in the disclosure of supervisory operating segments.

Exceptions for classification of business clients by turnover

According to the Bank of Israel Q&A File, the Bank classified business clients to operating segments other than by turnover, in the following cases:

- When the Bank has no information about the revenues of a business client, the client is classified to the appropriate supervisory operating segment based on the client's total financial assets with the Bank. Such classification would be in accordance with the aforementioned categories for revenues, with total financial assets multiplied by 10 for the purpose of such classification.
- When the Bank is of the opinion that the volume of revenues of a business client are not indicative of their total operations and the client's total assets on the balance sheet exceed NIS 100 million, the Bank classifies such client to the Large Businesses segment. Such classification is used, for example, in the real estate sector. When total assets on the balance sheet amount to less than NIS 100 million and the revenues are not indicative, as noted above, the client is typically classified as follows:

  Small and micro businesses – total assets on client balance sheet amount up to NIS 50 million.

  Medium businesses – businesses where total assets on the client balance sheet amount to between NIS 50 million and NIS 215 million.

  Large business es– businesses where total assets on the client balance sheet exceeds NIS 215 million.

The principles used in assigning balances, revenues and expenses to clients in the system are as follows:

- Credit interest revenues and deposit interest expenses are directly attributed to the client. For credit, expense set at original cost of capital raised (transfer cost) is attributed to clients, against an inter-segment credit to the Financial Management segment. Each segment is also charged any excess premium inherent in the cost of raising qualified capital instruments for capital adequacy. This is based on the capital attributed for segment operations. For deposits, revenue set at the original cost of capital raised is attributed to clients, against an inter-segment debit to the Financial Management segment. Transfer prices for loans and deposits are similar. Each of the segments is credited for capital attributed to its operations against a debit to the Financial Management segment. Capital consumption is measured by the average risk-free assets managed by the segment.
- When calculating risk assets attributed to each segment, any off-balance sheet credit exposures are "converted" to credit equivalent using coefficients specified in directives on measurement of capital adequacy.
- For derivative instrument operations, profits are attributed to the client at the spread incorporated in the price of the derivative instrument quoted to the client. Gains arising from changes to fair value of derivatives is attributed to Financial Management.
- Gains and losses from Bank investment in securities and from strategic positions are attributed to Financial Management.
- Expenses with respect to credit losses are directly attributed to clients for whom these expenses were recorded.
- Commissions and other revenues are specifically attributed to clients.
- Payroll expenses, building maintenance and other expenses specifically attributed to Bank branches are attributed to branch clients using loading factors which reflect the client operations and the number of transactions in their account. Later on, an additional (inter-segment) settlement takes place, which attributes some of the direct expenses of the branch to clients in non-retail operating segments.

  Intersegment settlement reflects the fact that branches also serve non-retail clients. This settlement is presented under inter-segment expenses / revenues in the Note.
- Payroll expenses of headquarters staff, maintenance and other expenses not specifically related to branches, are loaded on clients based on appropriate load bases which take into account the ratio of the expense for the segment.
- Certain headquarters expenses may sometimes be attributed to a specific operating segment and may sometimes be attributed based on the current estimate of resources allocated to each operating segment.
- When headquarters expenses may not be attributed, they are assigned by weighted business and IT transactions, as noted above In this regard, IT expenses directly associated with specific operating segments are attributed to these segments and other IT expenses are assigned to operating segments based on headcount.
- Provision for tax on operating profit is attributed to clients, is pro-rated in accordance with the effective tax rate and accounting for tax impact referring to specific segments and not to all Bank operations.
- Return on equity is calculated as the ratio of net profit to attributed equity. Equity is attributed based on the average risk assets of the customers.
- Balance sheet and assets-under-management balances are specifically attributed to clients.
- Fixed assets are attributed based on appropriate ratios.

Household segment

For more information about the supervisory definition, concise description of segment attributes (under the management approach) and differences between the management approach and the supervisory definition, see chapter "Supervisory operating segments" of the Report of the Board of Directors and Management.

Products and services

Below is a description of the notable products in the household segment and the primary services offered within the scope of these products.

Banking and finance

Most of the services are provided within this framework:

- **Credit and debitory accounts:** The credit limits for debitory account activity are determined according to the client’s needs, his income level and Bank judgment, based on factors including economic models. In accordance with Proper Conduct of Banking Business Directive 325, clients are not allowed to exceed their determined credit limit.
- **Investments:** Providing investment-related services to customers, such as: Various deposits for different terms.
- **Loans:** General-purpose loans which include, inter alia, loans not intended for home purchase secured by pledging a lien on a residential property, and other loans for various terms and under different conditions.
- **Financing automobile purchasing:** Operations providing loans for purchasing new automobiles from importers, where the Bank cooperates with multiple auto importers.

Mortgages

Major services related to mortgages:

Loans out of Bank funds – Loans out of Bank funds and at its risk, are extended for purchase / construction / expansion / renovation of real estate, as well as general-purpose loans secured by a lien on a residential apartment. The loans are issued for long terms of up to 30 years, considering the loan type and borrower repayment capacity.

The Bank extends credit in different linkage segments and offers a "combined mortgage" – a loan composition that combines various linkage segments and interest types. The combined mortgage enables the Bank to manage risk while maintaining profitability and allowing clients to diversify risk.

In view of the downward trend in Bank of Israel interest and the low interest rate, the share of loans bearing fixed interest in the CPI-linked and non-linked track increased.

Services in conjunction with the Ministry of Construction and Housing Assistance Program – Beyond the banking activity of granting credit, the Bank acts as an extension of the State in servicing eligible Ministry of Construction and Housing recipients. These services include loans within the Ministry of Construction and Housing's assistance program, including location-based loans and contingent grants. In this area, the Bank is involved, in addition to the ordinary banking services, in the array of administrative aspects required for services to Ministry of Construction and Housing eligible participants, such as issuance of eligibility certificates. The decision as to which bank to apply for their eligibility is up to clients who take out a mortgage. Interest on loans extended as part of assistance programs is set by the Housing Loan Act.

In addition to ordinary loans in conjunction with the Assistance Program, there is an arrangement for providing loans, the objective of which is to encourage the purchase of new homes in certain communities that the State has an interest in populating ("location-based loans") as well as special assistance provided to those buying an apartment under the "Buyer price" program.
Contracting by the Bank and the State for extending loans as part of assistance programs, including the consideration payable to the Bank, is governed by two agreements dated 2004 and 2008. These agreements are extended annually.
Bank revenues from all loans to eligible borrowers under State responsibility in 2020 amounted to NIS 23 million, compared to NIS 28 million in 2019 and to NIS 33 million in 2018.

Insurance marketing (insurance incidental to mortgages)

The vast majority of borrowers are insured by life insurance policies related to the loan, and the properties serving as collateral are insured by property insurance.

In accordance with directives of the Supervisor of Insurance and of the Supervisor of Banks, life insurance and home insurance incidental to residential mortgages are marketed by an insurance agency wholly-owned by the Bank (Tefahot Insurance Agency (1989) Ltd.), whose operations are separate from those of the Bank, and is restricted to exclusively engage in home insurance, including water damage, and in life insurance incidental to loans granted by the Bank.

Some borrowers choose to obtain insurance coverage through the Bank's insurance agency while others make other insurance arrangements.

In order to maintain the required separation between mortgage and insurance operations, clients are required, in order to purchase insurance from the Bank's insurance agency, to directly contact the insurance agency, also by using special phones connected directly to the insurance agency, which have been placed in Bank branches.

Bank revenues from insurance incidental to mortgages (in NIS millions):

	2020	2019	2018
Life insurance	100	107	103
Property insurance	15	17	16
Total revenues from sale of insurance	**115**	**124**	**119**

Capital market

This product includes client activities in the capital market, including buying, selling and custody of various securities and services provided for such securities held by clients (receiving interest, dividends, bonuses etc.) The Bank also provides mutual fund distribution services and provident fund operating services. The Bank also has a subsidiary, Etgar Investment Portfolio Management Company of Mizrahi Tefahot Group Ltd., engaged in management of securities investment portfolios and providing investment advice to Bank clients and to clients of other banks.

Credit cards

Credit cards are one of the key means of payment in the economy. As part of the activities with clients in the household segment, the clients a range of credit cards are offered. The Bank offers its clients a range of credit cards, acting in this area with credit card companies Isracard, CAL and MAX. The Bank offers its clients credit cards that are issued by these companies, according to the client's request. The Bank also allows clients to make payments using terminals that support EMV technology using various payment apps. The Bank also has several products in the credit card sector:

"**The Card**": A Mizrahi-Tefahot credit card which also serves as the Bank's own client loyalty club. The Card provides unique promotions and activity focused on consumer and banking benefits.

For more information about the agreement with CAL group, inter alia, with regard to issuance of the branded credit card, see Note 26.C.13 to the financial statements.

"**Tefahot Credit Card**": The product is aimed at assisting mortgage sales as well as opening of current accounts. The product enables the allocation of a credit facility, based on the client’s repayment ability and the asset already pledged to the Bank, through which the client can finance additional expenses involved in purchasing a home (furniture, renovations, etc.), or for any other reason.

Unique services provided by the Bank to segment clients

The key unique service offered by the Bank is Hybrid Banking, which allows clients a multi-channel environment, spearheaded by easy, direct access to a personal banker using a range of readily available technologies. As part of the Hybrid Banking campaign, the call center became a banking center, composed of 11 clusters and a team handling business clients. Later on, branch teams have been formed – each of which is assigned to 8-9 branches in various regions. These teams are an integral part of the branches to which they are assigned. Accordingly, Bank clients can reach their banker at the branch, or one of the branch team members, by using various communication channels during 12 hours of business, from 8am to 8pm. Thereafter, service is available by phone, 24 hours a day. Moreover, under the household segment, the Bank offers its clients services which express the advantages of the combination of products offered by the Bank to its clients as described above. The Bank offers various benefits in current accounts and credit of clients who take out mortgages, in order to encourage the mortgage clients to maintain their current account in the Bank. The Bank also offers mortgage-related benefits to clients with current accounts in the Bank, in order to encourage these clients to take out mortgages through the Bank. The applicable benefits have also been applied to Bank Yahav clients, based on their activity and attributes.

The unique services that the Bank offers its clients in the household segment include retail banking products and mortgage products, as provided below:

"Priority Account": Personalized banking assistance.

"Executive Account": The unique "Executive Account" brand offers premium service to individuals on account management, banking value propositions, financial benefits and non-banking services. Clients may use professional advisors for financial, pension and mortgage advisory services.

"Interest-free Overdraft": Set-off of debit and credit balances of a customer during the month; this service is provided to select clients.

Benefits to mortgage holders: Unique benefits offered to specific groups of clients who have a mortgage account with the Bank. The benefits included an interest-free facility in the current account, as well as interest on the credit balance up to the level of the monthly mortgage payment. The benefit is given every month, subject to the client's meeting other prescribed conditions during that month.

Retirement advisory service: The Bank offers a retirement advisory service to Bank clients and to clients of other banks, both salaried and self-employed, based on an advisory model supported by a computer system developed by the Bank. This advisory service is provided by qualified pension advisors, providing an objective advisory service.

Major markets and distribution channels

Generally, marketing and distribution of the products and services of this segment are carried out through the network of Bank branches and through direct and digital channels.

The Bank has mortgage marketers operating across Israel, based on geography. The role of these marketers is to identify target audiences in their geographic territory, to increase the exposure of such audiences to Bank products and services and to maximize the marketing potential of such audiences. Marketers give the Bank an edge in the market while making the client the focal point, in line with the Bank's strategy in recent years.

Marketers operate in four major areas:

- Direct activity with real estate players – to obtain potential clients.
- Activity with end clients – proactive contract with potential mortgage and checking account clients.
- Synergetic activity with individual clients – to realize the potential synergy of mortgage clients.
- Synergetic activity with business clients and MM clients – businesses, plants, Employee Unions etc.

Bank branches – the Group operates 232 business centers and branches across the country, including 52 Yahav branches (of which 6 branches offer partial service) and 35 Union bank branches . In conformity with Bank strategy, the expansion of the branch network is being reviewed, primarily with regard to improvement of locations in major cities with emphasis placed on business-rich environments and in towns of two distinct demographics where the Bank seeks growth – the Arab segment and the Jewish Orthodox segment.

Direct channels: In conformity with the Bank's unique Hybrid Banking concept, which links direct channels and the client's personal banker, the Bank operates these main direct channels:

- Banking center: The branch team at the banking center provides backup to branch bankers, assisting with transactions and providing information to Bank clients, as part of the integrated Hybrid service offered to clients. This service is provided during extended hours, from 8am to 8pm.
  The banking center provides sale of instant loan services and credit cards as well as client preservation for non-bank credit cards.
- Mortgage center: This center is at the core of the mortgage segment, providing clients with a range of activities related to mortgages, including filing applications and providing advice on residential mortgages, receiving payments for existing loans and making arrangements and payments for loans in arrears.
  The Hybrid Banking service for mortgages is provided at all Bank branches.
- Sales center: Intended to support the selling capabilities of Bank branches, as part of marketing campaigns to recruit clients, who are referred directly to the sales center, or by means of outgoing sales calls to potential clients. The sales center also handles sales of Mizrahi Tefahot credit cards, general-purpose loans, refinancing of mortgages from other banks for Bank clients, reinforcing client loyalty and client preservation.
- Investment center: This center provides rapid, professional response to capital market clients for investment transactions and advice, from 7am to midnight, along with training of investment advisors to be assigned to branches. The center also recruits new clients for savings, expanding savings activity for existing clients, while focusing on maximizing performance of investment campaigns. The center operates an affiliate of the trading room, providing Bank clients with service concerning foreign currency and foreign and Israeli securities.
- On line service – allows clients to receive banking information and execute transactions in your account for a range of banking products available to Bank clients at a reduced cost. This service is available 24 hours a day.
  Bank clients can write directly to their banker through digital channels, including convenient transfer of documents between client and banker at the branch.
- Account management app – this year, the Bank launched an advanced app featuring login using fingerprint or facial recognition, allowing the client to view information and to conduct various transactions, at any time and from anywhere. The new app features new, advanced transactions and a new, user-friendly interface.
- "Tefahot to Home" app: The Bank offers an advanced app for clients interested in obtaining a mortgage. This app provides: assistance in creating a financing plan to buy your home, comprehensive, current information about different neighborhoods, including recent transactions, data about apartment prices, rental yields, social benchmarks, education quality etc., an option for clients to photograph and document apartments, a user-friendly mortgage calculator and a service offering correspondence with a mortgage banker.
- Chat service: The Bank allows current and potential clients with regard to investments to chat online with bankers at the Bank.
- Notification Box service: Receiving Bank notifications of account activity in a personal notification box via the Bank's website.
- Cell phone service: Disseminating banking and financial information through cell phones.
- IVR service: This service, available 24 hours a day, is provided to clients who authenticate using their personal password to obtain computer-based information in response to frequently-asked queries.
- Automated machines – the Bank provides various direct services to clients through service stations and ATMs. These services primarily include cash withdrawal and deposit, check book ordering and check deposit, loan origination and obtaining information.

Business Strategy

Service strategy at the Bank is based on the understanding that personal, human contact with a banker offering a high level of professional service is at the core of client needs. The Bank's branch network is a key component in creating that personal contact with the banker – and must be supported by a current, efficient digital technology environment.

The Bank sees the importance of further development of the household segment and intends to maintain and establish its leadership position in the retail sector. The key goals in the household segment and the resultant business strategy are presented below:

- Increasing household market share by broadening the client base, mainly among mortgage clients, as a platform for achieving growth in market share and revenues.
- Retaining a market leadership position in the mortgage market, while focusing on areas with high profitability, by providing valuable proposals to clients, based on the synergy between the mortgage, commercial and financial activities.
- Expanding activity in the branch network and converting all the branches into sales units in the household segment, for traditional banking activity and mortgage activity, and for cross-selling to clients.
- Continued development of products aimed at focused population groups, in order to increase volumes of activity.
- Leveraging the ties between the business banking segment in the construction and real estate industry and between the mortgages segment. In this area, emphasis is placed on maximizing the marketing of mortgages to the buyers of homes in projects built by the real estate segment's clients.
- Increasing the Bank's market share in the Arab segment, the Jewish Orthodox segment and among retirees.

Competition in the segment and changes to it

Banking and Finance, credit cards and the capital market

The number of competitors in the household segment is the number of banks operating in the economy, with the focus on the five commercial bank groups. In recent years, the retail banking market sees strong competition among banks. Generally, one can state that the retail banking products offered by the different banks are similar, and therefore, competition focuses on the quality of service, the rates of the margins and commissions paid by the clients.

In 2020, branch closures and elimination of teller positions at branches of some banks continued, although more moderately than in previous years, with clients referred to digital solutions.

In addition to the inter-bank competition, intensified efforts are discerned by non-banking entities (mainly insurance companies, credit card companies) that also approach this population segment with offers to provide credit. The credit card companies, together with retail chains and other entities, are also taking measures to issue credit cards directly to clients, not through a bank – This trend accelerated in recent years, due to several significant agreements signed by credit card companies and major retail chains.

In the capital market sector, the competitors also include private investment houses, in addition to insurance companies.

Along with the Increased Competition and Reduced Concentration in Israeli Banking Act, enacted in January 2017, there are several legislative and regulatory efforts under way, which should result in increased competition in this segment, including operation of the credit information database, launched in April 2019, the project for arranging account relocation between banks, expected to go live in September 2021, and a project for arranging a system for sharing banking information by definition of a standard Open Banking API, expected to go live in stages starting in 2021.

Mortgages

Most of the mortgage activity in Israel is conducted through ten banks operating in this competitive environment.

Mortgage operations are subject to Bank of Israel directives, primarily Proper Conduct of Banking Business Directive 451 "Procedures for extending residential mortgages", with the following highlights:

- Definition of "housing loan" consisting of two major groups:
  - Loans designated for purchase / lease / construction / expansion / refurbishment of a residential apartment, or purchase of land for construction of a residential apartment / interest in a residential apartment (DMEY MAFTEACH).
  - Loans for other purposes, secured by a mortgage on a residential apartment.
- Guidelines for providing approval in principle and locking of interest rate.
- Rules for property appraisal by an appraiser.
- Rules for obtaining property insurance and life insurance.
- Provision of information for review of feasibility of early repayment / confirmation with respect to early repayment.
- Adjusting the interest rate in loans subject to adjustable interest rate.
- Loan execution date for determination of the repayment schedule.
- Determination of the base index in a loan.

Extending residential mortgages is also subject to Proper Conduct of Banking Business Directive 329 "Restrictions on extending residential mortgages", with the following highlights:

- LTV cap – up to 75% for a single apartment, up to 70% for an alternate apartment and up to 50% for an investment property.
- Cap on loan payments as percentage of income – up to 50% (above 40%, the weighting of risk assets allocated by the Bank increases to 100%).
- Interest type restriction – up to 2/3 of the loan may be subject to adjustable interest.
- Term restriction – loan term may not exceed 30 years.

For dozens of years, the Bank has been the leader in the mortgage sector, in terms of the volume of loans issued and the balance of the residential mortgages portfolio, subject to appropriate risk management.

The Bank has adopted different means to deal with the competitive environment in which the mortgages sector operates, including extensive advertising, use of marketers in the field, development and institution of new products, maintaining a presence in the new-homes market, by financing residential construction projects, etc. Another facet of the Bank's dealing with the competition in the mortgage sector is investing resources in constant improvement of its professional standard and the service it provides to clients, emphasizing a personal connection and multiple channels.

This information constitutes forward-looking information, as defined in the Securities Law, 1968, based on assumptions, facts and data (hereinafter jointly: "assumptions") brought before the Bank’s Board of Directors. These assumptions may not materialize due to factors which are under the Bank's control.

Private Banking Segment

For more information about the supervisory definition, concise description of segment attributes (under the management approach) and differences between the management approach and the supervisory definition, see chapter "Supervisory operating segments" of the Report of the Board of Directors and Management.

Products and services

The private banking center offers its clients full banking services to their clients, primarily private banking. The products and services offered to clients of this segment are as follows:

- **Banking and finance** – A wide range of banking and finance products are offered to this segment's clients, in addition to ordinary banking services, while formulating an investment strategy suitable for each client, tailored to his character and special needs, as well as an array of advanced investment products.
- **Capital market** - this product includes client operations in the capital market, including buying, selling and custodial services of various securities, and provision of services with respect to securities (receipt of interest, dividends, bonus etc.) This also includes mutual fund distribution services.
- **Credit cards** – the Bank offers to segment clients a range of exclusive credit cards issued by Israeli credit card companies, including special loyalty clubs for businesses.

Major markets and distribution channels

The markets addressed by this segment are clients with high financial wealth (both Israelis and foreign residents).

Competition in the segment and changes to it

The concept of the unique services defined by the Bank as "private banking" prevails throughout the global and international banking system, and also in Israel. However, it should be noted that the criteria that determine whether one belongs to this segment, the service approach and its specific nature change, and do not rest on identical principles in all the banks. Also, accordingly, the volume of the Bank's activities in this segment relative to its competitors is not known, and public information is not available about the proportionate share in the private banking system of the different banks.

In addition to local banks, there is competition in this segment from foreign banks and non-banking entities, such as investment houses, types of funds (from Israel and overseas) and insurance companies.

In order to deal with current competition in this segment, the Bank invests substantial resources in the professional training of its employees, in providing high quality service and in maintaining strong ties with the client, in the organization of professional conferences for the segment's select clients, in introduction of specialized and unique products to the segment's clients, and in efforts to identify and attract new clients on a regular basis.

Micro and Small Business Segment

For more information about the supervisory definition, concise description of segment attributes (under the management approach) and differences between the management approach and the supervisory definition, see chapter "Supervisory operating segments" of the Report of the Board of Directors and Management.

Products and services

Below is a description of the notable products in the small business segment and the primary services offered within the scope of these products.

Banking and finance

Within the scope of this product, the Bank provides the following services:

Management of checking account facilities: The facilities are determined according to the client's needs, turnover and judgment of the Bank.

Loans for various purposes: Business loans, loans against the discounting of checking, credit vouchers etc.

Import / export activities: Foreign currency operations, adaptation of credit facilities to the nature of the client's activities using technological means, such as: EDI (Electronic Data Inter-charge) online.

Investments: Diverse operations related to investments, such as deposits of various types and for various terms.

Capital market

This product includes client activities in the capital market, including buying, selling and custody of various securities and services provided for such securities (receiving interest, dividends, bonuses etc.) This also includes mutual fund distribution services and provident fund operating services.

Credit cards

The Bank offers to segment clients a range of credit cards issued by Israeli credit card companies.

Loans for small businesses, guaranteed by the State

In May 2016, Bank Mizrahi Tefahot launched its financial partnership with HaPhoenix and with Altshuler Shacham, selected as one of the winning bidders in a tender to provide loans to small and medium businesses, guaranteed by the State, by providing loans in a range of tracks under this heading. The Bank may also provide loans guaranteed by the State in conjunction with a custom fund for improved energy efficiency.

In April 2020, due to the Corona Virus crisis, the Bank joined a fund established by the Ministry of Finance to extend State-guaranteed loans to small and medium businesses, to help address the Corona Virus crisis. As part of this fund, the Bank provides loans in two tracks – the general track and the enhanced track.

Major markets and distribution channels

The main marketing and distribution factors in the segment are the Bank's branches and direct channels. There is no dependence on outside marketing channels. For details of these marketing and distribution factors, see description of the household segment.

Business Strategy

Increasing focus and expanding operations in business segments, including the micro and small business segment is at the heart of the Bank's business strategy. This is done while constantly assessing risk and controls at the client, segment and economy levels.

Below are the key goals in the small business segment and the business strategy deriving from these goals:

- Increasing marketing activity vis-à-vis clients, while segmenting the clients by occupation, size of operation and individual needs.
- Maximize potential profitability for each client by adopting a comprehensive view of client activity, creating a comprehensive relationship based on credit products and marketing of other products – depending on client attributes.
- Expand operations in State-guaranteed foundations.
- Expand geographic deployment of services provided to segment clients.

Competition in the segment and changes to it

Competition in the small business segment is primarily within the banking system. However, over the past years, public action was taken to reinforce the market share of non-bank credit providers (such as institutional investors, non-bank credit cards and other financing companies) in this area. The Bank's principal methods for dealing with the competition are active marketing, personal ties with the client, providing personal service and comprehensive professional solutions for the full range of client financial needs.

Medium business segment

For more information about the supervisory definition and differences between the management approach and the supervisory definition, see chapter "Supervisory operating segments" of the Report of the Board of Directors and Management.

Brief description of segment attributes (using the "management approach")

The medium business segment primarily includes medium-sized private and public companies (Middle Market), with turnover between NIS 30 and 120 million.

This segment operates across all economic sectors, primarily industry, commerce and services, construction and real estate.

In general, as from 2019, new clients are classified in conformity with the supervisory approach – those with annual turnover over NIS 50 million and under NIS 250 million.

Clients in this segment are primarily served by the Bank's Business Division, primarily by the Business Sector, operating three business centers nation-wide, with additional service provided by the Bank's business centers, business branches and extensive branch network.

Each center has the professional resources required to address all client needs. These centers operate in coordination with the Bank's branch network, which handles operating aspects of client activity. Thus, clients enjoy personal, professional service which provides a response to all their banking needs, as well as benefit from the extensive branch network.

Segment clients primarily operating in the real estate sector are served by the Construction and Real Estate sector of the Business Division, which specializes in provision of dedicated services to this sector. These clients enjoy service at specialized real estate branches, with regard to operating aspects as well as the specialized, professional service of the construction and real estate sector.

Clients in this segment use a range of banking services, associated with a relatively high ratio of required collateral compared to Business Banking segment clients.

Clients are mostly active on the local market. However, clients also conduct foreign trade transactions (import / export) of significant volume.

Products and services

Segment clients are offered customized products and services, in the banking and finance sector. Within this framework, the Bank issues different kinds of credit, both loans and current credit for working capital purposes: foreign trade services – importing, exporting, documentary credit; bank guarantees, etc.; transactions in foreign currency, including trading in derivative instruments, factoring services and investment in deposits and in securities.

Major markets and distribution channels

The segment primarily engages in marketing and distribution using three business hubs operating under the Business Division, as well as business centers and Bank branches throughout Israel. Client relations management is conducted by special professionals at the business centers, who are in charge of this and are in constant contact with clients. New client recruitment is carried out in close co-operation with Bank branches operating in the Retail Division.

Operations in this segment include development of marketing and business operations based on understanding client needs and customizing comprehensive banking solutions to these needs; providing professional, rapid and efficient service; offering a range of products and solutions customized for client needs with controlled management of risk arising from segment operations, including by specifying financial covenants to monitor clients' financial robustness.

Clients may also use the direct banking channels and customary banking channels.

Business Strategy

The Bank's business strategy emphasizes the significant expansion of the client base and growth in the activities of the medium business segment.

The Bank intends to continue significantly expanding operations in this segment, primarily by recruiting new clients and expanding banking services to current clients and to clients for which the Bank is a secondary bank.

Competition in the segment and changes to it

Segment clients conduct their financial activity primarily within the banking system, so that competition for this client segment is significant, since all banks and non-bank financing companies compete for this target audience.

There is also non-material competition in factoring and by credit card companies.

The Bank considers expansion of this segment's business to be an important major objective and therefore invests resources in handling these companies by providing comprehensive, professional solutions for client needs, maintaining a personal relationship and providing fast, efficient service.

Large business segment

For more information about the supervisory definition and differences between the management approach and the supervisory definition, see chapter "Supervisory operating segments" of the Report of the Board of Directors and Management.

Brief description of segment attributes (using the "management approach")

The segment specializes in providing complete banking and financing services to the largest companies, in a range of sectors, with turnover exceeding NIS 120 million.

In general, as from 2019, new clients are classified in conformity with the supervisory approach – those with annual turnover over NIS 250 million.

The major sectors served are: industry, commerce, construction and real estate.

This segment includes market-leading clients with large-scale operations, some of which are multi-nationals or companies with local operations which address overseas markets.

Segment clients are served under responsibility of the Bank's Business Division, primarily by the Large Corporation Sector.

Segment clients operating in the real estate sector are served by the Construction and Real Estate sector of the Business Division, which specializes in provision of dedicated services to this sector.

All clients receive additional (operating) service from the Bank's extensive branch network in Israel and overseas.

In its activities in this segment, the Bank emphasizes expansion of the current client base and improved profitability through expansion of activity in financing areas with very high profitability relative to capital, such as trading room transactions, including transactions in derivatives and other products provided to clients by the trading room.

Products and services

Segment clients are offered a range of banking and finance products, including: Different types of credit – on call, short-term, intermediate-term and long-term loans, different types of guarantees; financing through organizing or participating in syndications, financing of infrastructure projects, mergers and acquisitions; trading in derivative instruments; foreign trade activity (financing for credit insurance, importing, exporting and documentary credit) and factoring. These services are supported by a specialized sector at the Bank, which can customize for each client the relevant product for their business and operating attributes.

Below is a description of the notable products in the business banking segment and the primary services offered within the scope of these products.

Credit to large corporations in Israel and overseas

The Bank provides banking services to multi-national clients based in Israel.

In this context, the Bank provides foreign currency, foreign trade and factoring services as well as service at the Bank's overseas branches.

Products related to real estate

In this sector, the Bank offers loans to finance the purchase and construction of real estate, mainly residential construction products in areas of high demand, while insisting on the applications of tests prescribed in order to maintain the quality of the loan portfolio, and these include ties with customers having financial strength and stability, transactions characterized by favorable safety cushions for the Bank, and management using methods that reduce the risk.

The main services provided to clients of the real estate sector are:

- **Credit for construction** – in this sector, the Bank provides credit, in particular short- and medium-term loans, used to finance land acquisition and investment in construction, as well as various types of bank guarantees.
- **Financing for construction projects** - construction project financing is a unique service, provided by the Bank exclusively to clients in this sector. Within this framework, the client is offered a package of financial and banking services, suited to the specific needs of each project and based on its characteristics. This includes allotment of credit facilities for land acquisition, construction loans, financial guarantees, performance guarantees and guarantees to home buyers in projects. The Bank issues construction financing mainly by the closed financial support method, in which the Bank channels the financing sources, including the buyers' monies deposited with it, in a manner that advances completion of the project.
- **Purchase groups** – a purchase group is a collection of individuals, gathered for the purpose of jointly acquiring land and buying construction services on said land. Alternatively, existing land owners join forces to jointly construct, by ordering construction services.

The Bank provides dedicated financing for projects of this type, and assists them from preliminary stages of forming the group, through completion of construction.

Arranging and leading syndications – The Bank sees an objective in expansion of its business in initiating, leading, organizing and managing syndication transactions – as part of the Bank being a major player in the business credit market. To this end, the Bank has established a department specialized in leading and participating in syndication transactions. By leading and organizing syndication transactions, the Bank provides a solution for businesses requiring significant credit while maintaining risk within the Bank's risk appetite.

Major markets and distribution channels

The main marketing and distribution parties in this segment are the managers and client managers in the Business Banking Division, supported by the Bank's branches and business centers in Israel and overseas.

In order to provide an optimal response to segment client needs, the servicing of major business banking clients in this segment was placed under the Corporate Sector of the Bank's Business Division, divided into departments and teams having specific industry specialization. The teams work in cooperation with professional Bank departments involved in syndication, factoring, foreign trade, capital market, trading room operations etc. – in order to provide a comprehensive solution for client needs.

Operations in this segment include providing fast and effective professional services that offers a comprehensive solution adapted for all of the client's banking needs. This is done while by a variety of innovative financial products and solutions.

These operations are backed by a strong capacity for analysis of client needs and their financial standing, as well as identifying risk associated with client relationships due, *inter alia*, to anticipated changes in the economy and in the client sector.

Business Strategy

The Bank's business strategy for the large business segment is designed to increase the number of clients and to expand business with existing clients. This is to be done while maximizing the economic potential of the capital by focusing on activities having high profitability relative to the capital needed for them, through, inter alia, the following activities:

- Implement an approach based on total outlook on the business client, leveraging credit products and offering other products to establish a comprehensive client relationship.

- Segmentation of business clients, economic sector and other attributes that require specialization, such as legal complexity, inter alia, in combination projects and in urban renewal projects (eviction-construction schemes and National Zoning Plan 38), as well as unique operating attributes in the high-tech sector. This is designed to optimally specify their business needs and to provide them with an appropriate professional solution.
- Emphasis on profitability and return on uses.

The risk in realizing the strategy stated above is mainly a reduction in the volume of activity with certain clients, from which the Bank's profit does not reflect the required return, or a relatively high risk associated with doing business with these clients..

Note that macro-economic change poses significant challenges to credit management, at the Bank in general and in the Business Banking segment in particular, with some segment clients exposed, directly or indirectly, to extensive financial and economic operations in Israel and overseas, as well as to capital raising capacity on financial markets. Therefore, the Bank allocates significant resources to enhancing means for testing and control of exposure, aimed at tightening supervision of the credit portfolio.

Competition in the segment and changes to it

Competition in the business banking segment is with large and mid-sized banks in Israel, and occasionally with overseas banks, and for some services – the entire capital market. In recent years, institutional investors and insurance companies have expanded their business with such clients, by focusing on providing significant long-term credit.

Alternatives for the products and services offered by the Bank to clients of the Business Banking segment include raising capital and debt through public and private offerings. The Bank's key asset for dealing with the competition is the existing human infrastructure and the experience gained in providing professional service and adapting banking solutions to the client's needs, occasionally in co-operation within consortia with other institutions.

The Bank's main methods for dealing with the competition are to provide professional service that is fast and effective, while offering optimal solutions for the customer's needs in a diverse array of its financial activities. As well as customizing complex financial solutions in response to client needs.

As part of its operations in this segment, the Bank places emphasis on the best possible personal service to the business client and adapting it to the client's needs according to his unique characteristics, while focusing on industry expertise and providing specific professional advice in specialty areas.

Similar to competition for corporate financing, the competition for providing banking services to construction and real estate clients has seen non-banking entities enter into this area, as well. These entities have started providing assistance to projects on their own, without cooperation with any banks.

The Bank’s primary methods for dealing with the competition in the area of construction and real estate services are based on providing comprehensive professional solutions for the clients’ needs, readily available and fast service, and maintaining close and personal ties with clients. This is achieved mainly via dedicated business departments specializing in the construction and real estate sector.

Institutional investor segment

For more information about the supervisory definition, concise description of segment attributes (under the management approach) and differences between the management approach and the supervisory definition, see chapter "Supervisory operating segments" of the Report of the Board of Directors and Management.

Products and services

The Bank has agreements in place to provide operating services to provident fund management companies, some of which are associated with the sale of provident funds previously owned by the Bank. As for mutual funds, the Bank has agreements in place to provide services to mutual fund management companies.

The segment also provides comprehensive service to management companies of provident funds and mutual funds.

Banking services also include credit of various types and transactions involving derivative instruments.

Major markets and distribution channels

The key marketing and distribution agents for this segment are managers and account managers at the Business Banking Division, the Finance Division and the Planning and Operations Division, in order to provide an optimal response to segment client needs, the servicing of major business banking clients in this segment was placed under the Corporation Sector of the Bank's Business Division, the Commercial Sector of the Finance Division and the Provident Fund Operations Sector of the Planning and Operations Division, teams work in cooperation with professional Bank departments involved in capital market, trading room operations etc. – in order to provide a comprehensive solution for client needs.

Business Strategy

The Bank's business strategy for this segment is designed to increase the number of clients and to expand business with existing clients. This is to be done while maximizing the economic potential of the capital by focusing on activities having high profitability relative to the capital needed for them,

The risk in realizing the strategy stated above is mainly a reduction in the volume of activity with certain clients, from which the Bank's profit does not reflect the required return, or a relatively high risk associated with doing business with these clients.. In contrast, the overall profitability of the Bank could rise, as it focuses on profitable clients and expansion of activity with them, while utilizing the Bank's capital resources.

Competition in the segment and changes to it

With regard to providing execution services on the Tel Aviv Stock Exchange to institutional investors, there is significant competition between local banks and stock exchange members.

As for transactions involving derivatives, there is also competition with foreign banks with which some institutional investors have opened direct accounts.

Financial Management Segment

For more information about the supervisory definition, concise description of segment attributes (under the management approach) and differences between the management approach and the supervisory definition, see chapter "Supervisory operating segments" of the Report of the Board of Directors and Management.

Products and services

The trading room provides trading services to Bank clients in OTC (mostly: foreign currency, interest, options) and in brokerage of foreign and local securities, with local and overseas entities as counter-parties.

OTC trading – the transactions which may be conducted through the trading room: buy / sell foreign currency, options and interest derivatives. The Bank is licensed for market making in USD/NIS and in Israeli Government debentures.

Securities trading – trading securities to provide a solution for Bank clients' activity on the local market and on various world markets. The Trading Department consists of two parts – trading of Israeli securities and trading of foreign securities; both provide execution services for equities, debentures, options and negotiable futures and mutual funds.

Major markets and distribution channels

The trading room provides services for global currencies and securities, primarily in developed nations. The trading room includes a Client Marketing Unit, which provides distribution services for trading room products.

Business Strategy

Asset and liability management operations have the key objective of active management of exposure to market risk and of the debenture portfolio, aimed at optimal management of financing profitability, while maintaining appropriate, controlled exposure to market- and liquidity risk, which reflects the Bank's risk appetite, subject to limits specified by decisions of the Board of Directors and management.

At the Bank, the main activity in the debenture portfolio is efficient management of excess Bank liquidity in NIS and in foreign currency, compared to an alternative, risk-free investment. The policy on excess liquidity management is based on requirements for liquidity risk management, in conformity with Proper Conduct of Banking Business Directive 342 and Proper Conduct of Banking Business Directive 221 – liquidity coverage ratio. (For more information about the liquidity model and restrictions imposed by management and by the Board of Directors, see chapter "Risks overview" of the Report of the Board of Directors and Management and the Detailed Risks Management Report on the Bank website). Threshold criteria were also prescribed for nostro debenture activity, based on the credit risk inherent in the portfolio's activity, to diversify investments and to increase their liquidity . Debenture operations are subject to compliance with credit limits specified by the Bank for countries, banks and companies – with the bulk of these operations involving risk exposure to the State of Israel.

As for management of market risk exposure, the Bank actively manages the trading portfolio in order to generate gain at the specified risk level. The bank portfolio is regularly managed and monitored in order to improve interest revenues, subject to the risk appetite. The volume of activity and risk must meet the market risk exposure limits prescribed by the Board of Directors and management. For more information about risk limitations and management of market risk exposure, see the Detailed Risks Management Report on the Bank website.

The segment also acts to raise financial sources as needed for Bank operations, while complying with liquidity ratio targets and capital ratio targets, as per decisions of the Board of Directors. This would be achieved by raising deposits with different linkage bases and for different terms, and by issuing subordinated notes and contingent subordinated notes (Tier II capital). For more information see chapter "Developments in financing sources" and chapter "Developments in capital structure" of the Report of the Board of Directors and Management.

One of the tools used by the segment in managing liquidity and exposure to market risk is the issuance of subordinated notes, inter alia, through the subsidiary, Mizrahi-Tefahot Issuance Company Ltd., as provided below in the chapter "Developments in capital structure" of the Report of the Board of Directors and Management.

The segment includes the Bank's trading room operations in financial and capital markets. These operations include market making in all standard derivative instruments trading over-the-counter in Israel and back-to-back trading in complex derivatives. The trading room also serves major local and foreign clients trading in securities in stock exchanges in Israel and overseas. The Bank strives to position itself as a leader in the OTC market in Israel, while maintaining the risk level specified in Bank policy and adapting operations to local and global regulation. Furthermore, the Bank constantly strives to expand its operations by expanding the client base and intensifying business activity and client relationships, inter alia, by improving cooperation between Bank departments operating within the trading room, development of new transaction types and investing in acquiring professional knowledge.

A critical success factor in this operating segment is the Bank's ability to understand the macro and micro factors affecting the market trends and conditions, for correctly identifying the market conditions and the ability to act quickly in opening and closing positions. In addition, professionalism of staff in this area and technology systems in support of the various activities, identification of needs of other units as well as co-operation on between different Bank units.

Management of the financial segment and its various components requires highly professional skills, supported by appropriate IT systems and by advanced models for management of transactions and risk. These are all guided by the policies which includes clear restrictions and rules, and are controlled using advanced means of control. In particular, with regard to Bank exposure to other financial institutions in Israel and overseas, in exposure to different financial products and in exposure to clients whose financial robustness may be particularly sensitive. For more details of Bank exposure to foreign financial institutions, see chapter "Risks Overview" of the Report of the Board of Directors and Management and the chapter "Credit risk" in the detailed Risks Report on the Bank website.

Competition in the segment and changes to it

The financial management segment includes operations of the trading room. This area faces a high level of competition with the primary competitors: Israel's top four bank groups, as well as foreign banks.

Operating results of overseas operations

For more information about the supervisory definition, concise description of segment attributes (under the management approach) and differences between the management approach and the supervisory definition, see chapter "Supervisory operating segments" of the Report of the Board of Directors and Management.

Products and services

Details of the affiliates and their business are as follows:

Swiss subsidiary – UMB (Switzerland) Ltd. – specializes in private banking services and in extending loans for purchase of real estate in Israel. The subsidiary operates through one branch and is owned by the wholly-owned Bank holding company incorporated in Holland – UMOHC B.V. (hereinafter: ("the holding company"). The Swiss subsidiary is subject to the regulatory laws in Switzerland.

As part of an overall re-organization of the Bank's international structure, on January 11, 2021 an agreement was signed to sell the subsidiary, United Mizrahi Bank (Switzerland) Limited to the Swiss bank Hyposwiss Private Bank Geneve SA. The sale agreement is contingent, inter alia, on approval by the regulatory authority in Switzerland. See Note 36 to the financial statements for additional information.

Bank's overseas branches – Overseas branches offer their customers banking services, in accordance with the local laws and regulations. The branches are subject to the local and Israeli regulation.

- Los Angeles Branch – The branch is primarily engaged in commercial banking, participating in syndicated loans and receiving deposits. Deposits with this branch are insured by the Federal Deposit Insurance Corporation(FDIC). The branch's clients are local, Israeli and international clients.
- London Branch – The branch is engaged mainly in business banking, including participation in loan syndicates, financing of foreign trade, credit, receiving deposits, foreign currency trade and providing personal banking services, excluding advisory service on securities. The branch's clients are local, Israeli and international clients.

International private banking branches in Israel – The Bank operates four special branches, located in Jerusalem, Tel Aviv, Netanya and Ashdod, serving foreign resident and new immigrant clients. These branches provide full banking services to their clients, primarily private banking. The branches are under supervision by supervisory entities and relevant authorities in Israel and report to the Private Banking and International Operations sector.

Major markets and distribution channels

The major markets are local clients, mostly from the Jewish community, located in countries where the Bank's overseas affiliates do business, as well as clients resident in Israel whose financial and business needs include banking services provided overseas.

Major distribution channels include participation in professional conferences in countries where the affiliates are located, and advertising in the local Jewish community.

Business Strategy

The Bank's overseas affiliates operate in a competitive environment of local and international banks operating in the same country, but are focused on providing banking services on a more limited scale, compared to local and international banks. Competition is focused on service quality, response time and maximizing the client-Bank relationship. Each international operations affiliate has a unique target audience. Critical success factors are based on providing fast, personal service at an international level. Service provided to clients is based on understanding their personal needs and providing individual solutions based on intensive knowledge of local markets in order to find the appropriate range of products.
In order to compete with current competition in this segment, extensive resources are dedicated to recruiting high-quality staff with extensive experience, in professional training of staff, and in offering a high-quality range of products compared to global competition. The Bank is also focused on providing high-quality service and maintaining strong client relationships, organizing professional events for select clients and efforts to locate and recruit new clients on a day-to-day basis.
The Bank strives to develop business by existing affiliates and to create strategic alliances with leading financial institutions in international banking and jointly work with them. The Bank also reviews options for offering services appropriate for each affiliate, which respond to varying needs in each market along with technology, business and regulatory changes.

International operations involve several unique risks factors:
- Operation under specific statutory and regulatory regimes of each country.
- Risk associated with challenges to controlling remote affiliates from the head office.
- Business risks (credit and market risks) are impacted by local factors, which may differ from the environment and factors in Israel.

Each overseas affiliate operates subject to local laws and regulations, and is regularly assisted by local legal counsel who specialize in banking operations applicable for each affiliate. The Bank has also established and maintains a supervisory and control process over operations of its affiliates, through relevant Risk Owners at the Bank in Israel, as well as using external professional consultants on behalf of the Bank in Israel.

As part of a re-organization of the Bank's international structure and the intention to focus on the UK and the USA, through branches in London and in Los Angeles, in the business segment, the agreement for sale of the bank in Switzerland was signed.

Competition in the segment and changes to it

In recent years, competition with affiliates of Israeli banks overseas has diminished. Furthermore, global regulatory changes have resulted in a change in business focus and changes to client preferences.

Mizrahi Tefahot Bank

Appendixes to annual financial statements

2020

Table of Contents

Addendum I – Revenue and Expense Rates – of the Bank and its Subsidiaries[1]

For the year ended December 31,

Reported amounts (NIS in millions)

A. Average balances and interest rates – assets

	2020			2019			2018		
	Average balance[2]	Interest revenues	Revenue rate	Average balance[2]	Interest revenues	Revenue rate	Average balance[2]	Interest revenues	Revenue rate
			In %			In %			In %
Interest-bearing assets									
Loans to the public[3]									
In Israel	212,769	[7]7113	3.34	193,048	[7]7063	3.66	182,098	[7]6839	3.76
Outside of Israel	3,300	186	5.64	3,228	230	7.13	3,358	210	6.25
Total	**216,069**	**7,299**	**3.38**	**196,276**	**7,293**	**3.72**	**185,456**	**7,049**	**3.80**
Loans to the Government									
In Israel	212	1	0.47	142	2	1.41	181	3	1.66
Outside of Israel	426	21	4.93	399	31	7.77	304	22	7.24
Total	**638**	**22**	**3.45**	**541**	**33**	**6.10**	**485**	**25**	**5.15**
Deposits with banks									
In Israel	1,271	9	0.71	899	12	1.33	1,188	5	0.42
Outside of Israel	182	2	1.10	231	4	1.73	228	4	1.75
Total	**1,453**	**11**	**0.76**	**1,130**	**16**	**1.42**	**1,416**	**9**	**0.64**
Deposits with central banks									
In Israel	52,831	61	0.12	38,137	79	0.21	35,985	28	0.08
Outside of Israel	10,289	29	0.28	4,892	124	2.53	3,837	74	1.93
Total	**63,120**	**90**	**0.14**	**43,029**	**203**	**0.47**	**39,822**	**102**	**0.26**
Securities loaned or purchased in resale agreements									
In Israel	85	–	–	74	–	–	96	–	–
Outside of Israel	–	–	–	–	–	–	–	–	–
Total	**85**	**–**	**–**	**74**	**–**	**–**	**96**	**–**	**–**
Debentures held to maturity and available for sale[4]									
In Israel	9,908	90	0.91	8,779	148	1.69	8,761	149	1.70
Outside of Israel	651	10	1.54	576	17	2.95	876	22	2.51
Total	**10,559**	**100**	**0.95**	**9,355**	**165**	**1.76**	**9,637**	**171**	**1.77**
Debentures held for trading[5]									
In Israel	376	6	1.60	277	1	0.36	104	3	2.88
Outside of Israel	–	–	–	–	–	–	–	–	–
Total	**376**	**6**	**1.60**	**277**	**1**	**0.36**	**104**	**3**	**2.88**
Total interest-bearing assets	**292,300**	**7,528**	**2.58**	**250,682**	**7,711**	**3.08**	**237,016**	**7,359**	**3.10**
Receivables for credit card operations	3,708			3,765			3,462		
Other non-interest bearing assets[6]	5,531			6,034			4,650		
Total assets	**301,539**			**260,481**			**245,128**		
Total interest-bearing assets attributable to operations outside of Israel	**14,848**	**248**	**1.67**	**9,326**	**406**	**4.35**	**8,603**	**332**	**3.86**

See remarks below.

MIZRAHI TEFAHOT

Appendix 1 – Revenue and Expense Rates – of the Bank and its Subsidiaries[1] – continued

For the year ended December 31,

Reported amounts (NIS in millions)

B. Average balances and interest rates – liabilities and equity

	2019			2018			2017		
	Average balance[2]	Interest expenses	Revenue rate	Average balance[2]	Interest expenses	Revenue rate	Average balance[2]	Interest expenses	Revenue rate
			In %			In %			In %
Interest-bearing liabilities									
Deposits from the public									
In Israel									
On-call	32,679	13	0.04	25,910	42	0.16	22,069	39	0.18
Term deposits	133,409	1,267	0.95	121,309	1,653	1.36	116,221	1,506	1.30
Outside of Israel									
On-call	723	–	–	520	–	–	582	–	–
Term deposits	4,019	36	0.90	4,753	92	1.94	4,679	83	1.77
Total	**170,830**	**1,316**	**0.77**	**152,492**	**1,787**	**1.17**	**143,551**	**1,628**	**1.13**
Deposits from the Government									
In Israel	52	4	7.69	37	1	2.70	48	2	4.17
Outside of Israel	–	–	–	–	–	–	–	–	–
Total	**52**	**4**	**7.69**	**37**	**1**	**2.70**	**48**	**2**	**4.17**
Deposits from banks									
In Israel	1,728	7	0.41	987	8	0.81	1,167	11	0.94
Outside of Israel	2	–	–	2	–	–	1	–	–
Total	**1,730**	**7**	**0.40**	**989**	**8**	**0.81**	**1,168**	**11**	**0.94**
Securities loaned or sold in conjunction with repurchase agreements									
In Israel	–	–	–	–	–	–	–	–	–
Outside of Israel	–	–	–	–	–	–	–	–	–
Total	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Debentures and subordinated notes									
In Israel	31,062	380	1.22	30,114	573	1.90	30,080	793	2.64
Outside of Israel	–	–	–	–	–	–	–	–	–
Total	**31,062**	**380**	**1.22**	**30,114**	**573**	**1.90**	**30,080**	**793**	**2.64**
Other liabilities									
In Israel	485	1	0.21	256	2	0.78	127	3	2.36
Outside of Israel	–	–	–	–	–	–	–	–	–
Total	**485**	**1**	**0.21**	**256**	**2**	**0.78**	**127**	**3**	**2.36**
Total interest-bearing liabilities	**204,159**	**1,708**	**0.84**	**183,888**	**2,371**	**1.29**	**174,974**	**2,437**	**1.39**
Non-interest bearing deposits from the public	68,110			50,835			45,735		
Payables for credit card transactions	3,709			3,765			3,462		
Other non-interest bearing liabilities[8]	7,782			5,700			5,909		
Total liabilities	**283,760**			**244,188**			**230,080**		
Total equity resources	**17,779**			**16,293**			**15,048**		
Total liabilities and equity resources	**301,539**			**260,481**			**245,128**		
Interest margin			**1.74**			**1.79**			**1.71**
Net return[9] on interest-bearing assets									
In Israel	277,452	5,608	2.02	241,356	5,026	2.08	228,413	4,673	2.05
Outside of Israel	14,848	212	1.43	9,326	314	3.37	8,603	249	2.89
Total	**292,300**	**5,820**	**1.99**	**250,682**	**5,340**	**2.13**	**237,016**	**4,922**	**2.08**
Total interest-bearing liabilities attributable to operations outside of Israel	**4,744**	**36**	**0.76**	**5,275**	**92**	**1.74**	**5,262**	**83**	**1.58**

See remarks below.

Appendix 1 – Revenue and Expense Rates – of the Bank and its Subsidiaries[1] – continued

For the year ended December 31,

Reported amounts (NIS in millions)

C. Average balances and interest rates – additional information about interest-bearing assets and liabilities attributed to operations in Israel

	2020			2019			2018		
	Average balance[2]	Revenues (expenses)	Revenue (expense) rate	Average balance[2]	Revenues (expenses)	Revenue (expense) rate	Average balance[2]	Revenues (expenses)	(Revenue) rate
				In %		In %			In %
Israeli currency – non-linked									
Total interest-bearing assets	204,346	5,423	2.65	171,451	5,036	2.94	161,959	4,476	2.76
Total interest-bearing liabilities	140,760	(963)	(0.68)	121,477	(1,054)	(0.87)	116,841	(1,002)	(0.86)
Interest margin			**1.97**			**2.07**			**1.90**
Israeli currency – linked to the CPI									
Total interest-bearing assets	61,359	1,532	2.50	56,522	1,822	3.22	52,560	2,094	3.98
Total interest-bearing liabilities	39,480	(400)	(1.01)	37,324	(715)	(1.92)	35,920	(985)	(2.74)
Interest margin			**1.49**			**1.30**			**1.24**
Foreign currency (including Israeli currency linked to foreign currency)									
Total interest-bearing assets	11,747	325	2.77	13,383	447	3.34	13,894	457	3.29
Total interest-bearing liabilities	19,175	(309)	(1.61)	19,812	(510)	(2.57)	16,951	(367)	(2.17)
Interest margin			**1.16**			**0.77**			**1.12**
Total – operations in Israel									
Total interest-bearing assets	277,452	7,280	2.62	241,356	7,305	3.03	228,413	7,027	3.08
Total interest-bearing liabilities	199,415	(1,672)	(0.84)	178,613	(2,279)	(1.28)	169,712	(2,354)	(1.39)
Interest margin			**1.78**			**1.75**			**1.69**

See remarks below.

Appendix 1 – Revenue and expense rates of the Bank and of its subsidiaries[1]

For the year ended December 31,

Reported amounts (NIS in millions)

D. Analysis of changes in interest revenues and expenses

	2020 compared to 2019			2019 compared to 2018		
	Increase (decrease) due to change[10]			Increase (decrease) due to change[10]		
	Quantity	Price	Net change	Quantity	Price	Net change
Interest-bearing assets						
Loans to the public						
In Israel	659	(609)	50	401	(177)	224
Outside of Israel	4	(48)	(44)	(9)	29	20
Total	**663**	**(657)**	**6**	**392**	**(148)**	**244**
Other interest-bearing assets						
In Israel	42	(117)	(75)	10	44	54
Outside of Israel	29	(143)	(114)	25	29	54
Total	**71**	**(260)**	**(189)**	**35**	**73**	**108**
Total interest revenues	**734**	**(917)**	**(183)**	**427**	**(75)**	**352**
Interest-bearing liabilities						
Deposits from the public						
In Israel	145	(560)	(415)	103	47	150
Outside of Israel	(4)	(52)	(56)	–	9	9
Total	**141**	**(612)**	**(471)**	**103**	**56**	**159**
Other interest-bearing liabilities						
In Israel	23	(215)	(192)	(1)	(224)	(225)
Outside of Israel	–	–	–	–	–	–
Total	**23**	**(215)**	**(192)**	**(1)**	**(224)**	**(225)**
Total interest expenses	**164**	**(827)**	**(663)**	**102**	**(168)**	**(66)**

(1) Information in these tables is after effect of hedging I derivative instruments.
(2) Based on balances at start of the months (in Israeli currency, non-linked segment – based on daily balances).
(3) Before deduction of average balance sheet balance of provisions for credit losses. Includes impaired debt not accruing interest revenues.
(4) From the average balance of debentures available for sale, for the one-year periods ended Thursday, December 31, 2020, 2019 and 2018, we deducted (added) the average balance of unrealized gains (losses) from adjustment to fair value of debentures available for sale, included in equity under Other Comprehensive Income, under "Adjustments with respect to presentation of securities available for sale at fair value", amounting to NIS 20 million, NIS 8 million and NIS (82) million, respectively.
(5) From the average balance of debentures held for trading, for the one-year periods ended Thursday, December 31, 2020, 2019 and 2018, we added (deducted) the average balance of unrealized gain (loss) from adjustment to fair value of debentures held for trading, amounting to NIS 9 million, NIS 6 million and NIS (2) million, respectively.
(6) Includes derivative instruments, other non-interest bearing assets, net of provision for credit losses.
(7) Commissions amounting to NIS 452, 339 and 270 million were included in interest revenues for the one year periods ended December 31, 2020, 2019 and -2018, respectively.
(8) Includes derivative instruments.
(9) Net return – net interest revenues divided by total interest-bearing assets.
(10) 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.
(11) As from September 30, 2020 the Bank consolidates the financial statements of Union Bank. The consolidated statement of profit and loss for 2020 includes the financial results of Union Bank for the fourth quarter only.

Addendum 2 – Multi-period information

Consolidated Statement of Profit and Loss – Multi-period information

For the years ended December 31, 2016-2020

Reported amounts (NIS in millions)

	2020[1]	2019	2018	2017	2016
Interest revenues	7,528	7,711	7,359	6,222	5,311
Interest expenses	1,708	2,371	2,437	1,875	1,533
Interest revenues, net	5,820	5,340	4,922	4,347	3,778
Expenses with respect to credit losses	1,050	364	310	192	200
Interest revenues, net after expenses with respect to credit losses	**4,770**	**4,976**	**4,612**	**4,155**	**3,578**
Non-interest revenues					
Non-interest financing revenues	221	357	445	136	295
Commissions	1,671	1,535	1,475	1,423	1,433
Other revenues	221	74	47	94	134
Total non-interest revenues	**2,113**	**1,966**	**1,967**	**1,653**	**1,862**
Operating and other expenses					
Payroll and associated expenses	2,644	2,562	2,407	2,271	2,035
Maintenance and depreciation of buildings and equipment	871	770	747	742	693
Other expenses	764	656	1,230	598	571
Total operating and other expenses	**4,279**	**3,988**	**4,384**	**3,611**	**3,299**
Pre-tax profit	2,604	2,954	2,195	2,197	2,141
Provision for taxes on profit	903	1,029	922	806	833
After-tax profit	**1,701**	**1,925**	**1,273**	**1,391**	**1,308**
Share in profit (loss) of associate companies, after tax	1	–	1	–	–
Net profit:					
Before attribution to non-controlling interests	1,702	1,925	1,274	1,391	1,308
Attributable to non-controlling interests	(92)	(83)	(68)	(44)	(42)
Attributable to shareholders of the Bank	**1,610**	**1,842**	**1,206**	**1,347**	**1,266**
Diluted earnings per share[2] (in NIS)					
Basic earnings per share:					
Total net profit attributable to shareholders of the Bank	**6.70**	**7.86**	**5.17**	**5.80**	**5.46**
Diluted earnings per share:					
Total net profit attributable to shareholders of the Bank	**6.69**	**7.83**	**5.15**	**5.76**	**5.45**

(1) As from September 30, 2020 the Bank consolidates the financial statements of Union Bank. The consolidated statement of profit and loss for 2020 includes the financial results of Union Bank for the fourth quarter only.

(2) Share of NIS 0.1 par value.

Addendum 2 – Multi-period information – Continued

Consolidated Balance Sheet – Multi-period information

As of December 31, 2016-2020

Reported amounts (NIS in millions)

	2020		2019	2018	2017	2016
	Including Union Bank	**Excluding Union Bank**				
Assets						
Cash and deposits with banks	86,570	74,161	51,672	45,162	41,130	41,725
Securities	17,290	8,448	10,113	11,081	10,133	10,262
Securities loaned or purchased under resale agreements	200	194	120	26	76	9
Loans to the public	247,958	223,250	206,401	195,956	182,602	172,779
Provision for credit losses	(2,433)	(2,422)	(1,693)	(1,575)	(1,484)	(1,438)
Loans to the public, net	245,525	220,828	204,708	194,381	181,118	171,341
Loans to Governments	613	613	656	630	456	330
Investments in associated companies	31	31	32	32	32	34
Buildings and equipment	1,743	1,444	1,457	1,424	1,403	1,585
Intangible assets and goodwill	239	87	87	87	87	87
Assets with respect to derivative instruments	4,543	3,688	2,578	3,240	3,421	3,584
Other assets	3,386	2,758	1,821	1,810	1,716	1,498
Total assets	**360,140**	**312,252**	**273,244**	**257,873**	**239,572**	**230,455**
Liabilities and Equity						
Deposits from the public	284,224	246,753	210,984	199,492	183,573	178,252
Deposits from banks	3,779	3,647	714	625	1,125	1,537
Deposits from the Government	70	70	29	42	51	50
Debentures and subordinated notes	33,446	29,647	33,460	30,616	29,923	27,034
Liabilities with respect to derivative instruments	5,506	4,319	2,686	3,661	3,082	3,566
Other liabilities	13,446	9,956	8,566	8,047	7,491	6,692
Total liabilities	**340,471**	**294,392**	**256,439**	**242,483**	**225,245**	**217,131**
Shareholders' equity attributable to shareholders of the Bank	18,804	16,995	16,033	14,681	13,685	12,714
Non-controlling interests	865	865	772	709	642	610
Total equity	**19,669**	**17,860**	**16,805**	**15,390**	**14,327**	**13,324**
Total liabilities and equity	**360,140**	**312,252**	**273,244**	**257,873**	**239,572**	**230,455**

Addendum 3 – Multi-quarter information

Consolidated Statement of Profit and Loss by Quarter – for 2020

Reported amounts (NIS in millions)

	Fourth quarter(1)	Third Quarter	Second quarter of	First Quarter
Interest revenues	2,150	1,952	1,740	1,686
Interest expenses	464	488	417	339
Interest revenues, net	1,686	1,464	1,323	1,347
Expenses with respect to credit losses	118	317	270	345
Interest revenues, net after expenses with respect to credit losses	**1,568**	**1,147**	**1,053**	**1,002**
Non-interest revenues				
Non-interest financing revenues	27	54	76	64
Commissions	472	399	376	424
Other revenues	85	8	23	105
Total non-interest revenues	**584**	**461**	**475**	**593**
Operating and other expenses				
Payroll and associated expenses	785	619	596	644
Maintenance and depreciation of buildings and equipment	250	208	208	205
Other expenses	300	150	146	168
Total operating and other expenses	**1,335**	**977**	**950**	**1,017**
Pre-tax profit	817	631	578	578
Provision for taxes on profit	285	222	196	200
After-tax profit	**532**	**409**	**382**	**378**
Share in net profits of associated companies, after tax	1	–	–	–
Net profit:				
Before attribution to non-controlling interests	533	409	382	378
Attributable to non-controlling interests	(27)	(22)	(22)	(21)
Attributable to shareholders of the Bank	**506**	**387**	**360**	**357**
Diluted earnings per share(2) (in NIS)				
Basic earnings per share				
Total net profit attributable to shareholders of the Bank	**2.13**	**1.65**	**1.53**	**1.52**
Diluted earnings per share				
Total net profit attributable to shareholders of the Bank	**2.13**	**1.65**	**1.53**	**1.51**

(1) As from September 30, 2020 the Bank consolidates the financial statements of Union Bank. The consolidated statement of profit and loss for 2020 includes the financial results of Union Bank for the fourth quarter only.

(2) Share of NIS 0.1 par value.

Addendum 3 – Multi-quarter information – Continued
Consolidated Statement of Profit and Loss by Quarter – for 2019
Reported amounts (NIS in millions)

	Fourth Quarter	Third Quarter	Second quarter of	First Quarter
Interest revenues	1,846	1,532	2,647	1,686
Interest expenses	494	318	1,104	455
Interest revenues, net	1,352	1,214	1,543	1,231
Expenses with respect to credit losses	119	70	99	76
Interest revenues, net after expenses with respect to credit losses	**1,233**	**1,144**	**1,444**	**1,155**
Non-interest revenues				
Non-interest financing revenues	64	147	89	57
Commissions	392	387	373	383
Other revenues	13	13	22	26
Total non-interest revenues	**469**	**547**	**484**	**466**
Operating and other expenses				
Payroll and associated expenses	628	650	648	636
Maintenance and depreciation of buildings and equipment	192	193	194	191
Other expenses	173	155	169	159
Total operating and other expenses	**993**	**998**	**1,011**	**986**
Pre-tax profit	709	693	917	635
Provision for taxes on profit	247	251	318	213
After-tax profit	**462**	**442**	**599**	**422**
Share in net profit (loss) of associated companies, after tax	–	–	–	–
Net profit:				
Before attribution to non-controlling interests	462	442	599	422
Attributable to non-controlling interests	(22)	(20)	(23)	(18)
Attributable to shareholders of the Bank	**440**	**422**	**576**	**404**
Diluted earnings per share[(1)] (in NIS)				
Basic earnings per share				
Total net profit attributable to shareholders of the Bank	**1.88**	**1.80**	**2.46**	**1.73**
Diluted earnings per share				
Total net profit attributable to shareholders of the Bank	**1.87**	**1.79**	**2.45**	**1.72**

(1) Share of NIS 0.1 par value.

Addendum 3 – Multi-quarter information – Continued

Consolidated balance sheet as of the end of each quarter in 2020

Reported amounts (NIS in millions)

	Fourth Quarter		Third Quarter		Second quarter of	First Quarter
	Including Union Bank	**Excluding Union Bank**	**Including Union Bank**	**Excluding Union Bank**		
Assets						
Cash and deposits with banks	86,570	74,161	77,738	67,457	61,532	56,385
Securities	17,290	8,448	18,258	9,233	8,440	8,709
Securities loaned or purchased under resale agreements	200	194	172	116	51	36
Loans to the public	247,958	223,250	244,092	219,104	216,538	212,163
Provision for credit losses	(2,433)	(2,422)	(2,327)	(2,327)	(2,088)	(1,933)
Loans to the public, net	245,525	220,828	241,765	216,777	214,450	210,230
Loans to the Government	613	613	616	616	629	831
Investments in associated companies	31	31	30	30	30	30
Buildings and equipment	1,743	1,444	1,646	1,433	1,433	1,437
Intangible assets and goodwill	239	87	87	87	87	87
Assets with respect to derivative instruments	4,543	3,688	3,238	2,336	2,200	4,369
Other assets	3,386	2,758	3,500	2,799	2,708	2,617
Total assets	**360,140**	**312,252**	**347,050**	**300,884**	**291,560**	**284,731**
Liabilities and Equity						
Deposits from the public	284,224	246,753	276,156	239,403	231,784	223,189
Deposits from banks	3,779	3,647	2,786	2,667	946	924
Deposits from the Government	70	70	41	41	34	69
Debentures and subordinated notes	33,446	29,647	32,995	29,217	29,689	30,237
Liabilities with respect to derivative instruments	5,506	4,319	3,545	2,415	2,898	4,181
Other liabilities	13,446	9,956	12,416	9,237	8,739	8,957
Total liabilities	**340,471**	**294,392**	**327,939**	**282,980**	**274,090**	**267,557**
Equity attributable to equity holders of the Bank	18,804	16,995	18,272	17,065	16,653	16,371
Non-controlling interests	865	865	839	839	817	803
Total equity	**19,669**	**17,860**	**19,111**	**17,904**	**17,470**	**17,174**
Total liabilities and equity	**360,140**	**312,252**	**347,050**	**300,884**	**291,560**	**284,731**

Addendum 3 – Multi-quarter information – Continued
Consolidated balance sheet as of the end of each quarter in 2019

Reported amounts (NIS in millions)

	Fourth Quarter	Third Quarter	Second quarter of	First Quarter
Assets				
Cash and deposits with banks	51,672	47,125	48,700	48,396
Securities	10,113	10,566	8,816	9,130
Securities loaned or purchased under resale agreements	120	64	59	42
Loans to the public	206,401	204,225	202,342	197,857
Provision for credit losses	(1,693)	(1,647)	(1,614)	(1,586)
Loans to the public, net	204,708	202,578	200,728	196,271
Loans to the Government	656	589	620	640
Investments in associated companies	32	32	32	32
Buildings and equipment	1,457	1,384	1,375	1,387
Intangible assets and goodwill	87	87	87	87
Assets with respect to derivative instruments	2,578	2,717	2,117	2,341
Other assets	1,821	1,859	1,689	1,685
Total assets	**273,244**	**267,001**	**264,223**	**260,011**
Liabilities and Equity				
Deposits from the public	210,984	207,832	205,188	204,777
Deposits from banks	714	673	554	619
Deposits from the Government	29	34	36	43
Debentures and subordinated notes	33,460	30,442	31,596	27,721
Liabilities with respect to derivative instruments	2,686	2,920	2,276	2,527
Other liabilities	8,566	8,586	8,091	8,479
Total liabilities	**256,439**	**250,487**	**247,741**	**244,166**
Equity attributable to equity holders of the Bank	16,033	15,755	15,740	15,121
Non-controlling interests	772	759	742	724
Total equity	**16,805**	**16,514**	**16,482**	**15,845**
Total liabilities and equity	**273,244**	**267,001**	**264,223**	**260,011**

Appendix 4 – Additional information

Subsidiaries in which the Bank holds less than 50% of means of control

Had the Bank not consolidated the financial statements of Bank Yahav, the consolidated financial statements (excluding Bank Yahav) would have been similar to the Bank's (solo) financial statements as presented in Note 36 to the financial statements, except for the following material changes:

Balance sheet highlights (as of December 31, 2020)
- The balance of investment in associated companies would have been lower by NIS 5.1 billion.
- The balance of deposits from the public would have been higher by NIS 11.8 billion.
- The balance of debentures and subordinated notes would have been higher by NIS 29.6 billion.

Profit and loss highlights (for 2020)
- Total non-interest revenues would have been higher by NIS 253 million.
- The share of net profit of associated companies, after tax effect, would have been lower by NIS 91 million.

Balance sheet highlights (as of December 31, 2019)
- The balance of investment in associated companies would have been lower by NIS 1.7 billion.
- The balance of deposits from the public would have been lower by NIS 29.6 billion.
- The balance of debentures and subordinated notes would have been higher by NIS 29.6 billion.

Profit and loss highlights (for 2019)

Total non-interest **revenues** would have been higher by NIS 141 million.

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Glossary and index of terms included on the annual financial statements

Below is a summary of terms included on the financial statements and and index for these terms

Terms with regard to risks management at the Bank and to capital adequacy

B	**Basel – Basel II / Basel III** – Framework for assessment of capital adequacy and risks management, issued by the Basel Committee on Bank Supervision.
C	**CVA - Credit Valuation Adjustment** – CVA is the component of the fair value of a derivative, which accounts for the credit risk of the counter-party to the transaction. CVA risk is the risk of loss due to mark-to-market with respect to expected counter-party risk for OTC derivatives. This means – loss due to impairment of fair value of derivatives, due to an increase in counter-party credit risk (such as: lower rating).
	Counter-party credit risk – The risk that the other party to a transaction would be in default before final settlement of cash flows in the transaction.
E	**EVE – Economic Value of Equity** – The economic value approach to analysis and estimation of the effect of changes in interest rates on the fair value of assets, liabilities and off-balance sheet positions of the Bank.
I	**ICAAP** – **Internal Capital Adequacy Assessment Process** by the Bank. This process includes, *inter alia*, setting capital targets, capital planning processes and review of capital status under various stress scenarios. This process is part of Pillar 2 of the Basel II directive.
L	**Loan To Value Ratio (LTV)** – The ratio between the approved facility when extended and the asset value.
M	**Minimum capital ratio** – This ratio reflects the minimum supervisory capital requirements which the Bank is required to maintain in conformity with Proper Conduct of Banking Business Directive 201.
P	**Pillar 2** – The second pillar of the Basel II project, refers to the Supervisory Review Process. This part consists of the following basic principles: The Bank shall conduct the ICAAP process, as defined above. The Supervisor shall conduct a process to assess the ICAAP process conducted by the Bank, to review the Bank's capacity to monitor and achieve supervisory capital ratios. The Bank is expected to operate above the specified minimum capital ratios.
	Pillar 3 – The third pillar of the Basel II project, designed to promote market discipline by developing a set of disclosure requirements, which would allow market participants to assess the capital, risk exposure and risk assessment processes – and use these to assess the Bank's capital adequacy.
R	**Risks document –** A document which concisely presents the Bank's risk profile, in order to allow the Board of Directors to monitor action taken by management and to ensure that such action is in line with the risk appetite and with the risks management framework approved by the Board of Directors. The Risks Document is compiled and presented to the Board of Directors quarterly.
	Risk assets – These consist of credit risk, operational risk and market risk, calculated using the standard approach as stated in Proper Conduct of Banking Business Directives 201-211.
S	**Standard approach –** An approach used to calculate the required capital with respect to credit risk, market risk or operational risk. Calculation of capital allocation is based on a formula, which is based on supervisory assessment components which have been specified by the Supervisor of Banks.
	Supervisory capital (total capital) – Supervisory capital consists of two tiers: Tier I capital, which includes Tier I shareholders' equity and additional Tier I capital. Tier II equity: As defined in Proper Conduct of Banking Business Directive 202 "Measurement and capital adequacy – supervisory capital".
	Subordinated notes – Notes whose rights are subordinated to claims by other Bank creditors, except for other obligations of the same type.
	Stress tests – A title for various methods used to assess the financial standing of a banking corporation under a n extreme scenario.
V	**VaR** – A model used to estimate overall exposure to diverse market risk factors. The VaR (Value at Risk) obtained by the model is a statistical estimate of the maximum expected loss for the Bank due to materialization of market risks factors in a given time period at a pre-determined statistical confidence level.

Glossary and index of terms included on the annual financial statements

As of December 31, 2020

Terms with regard to banking and finance

A	**Average effective duration** – The average term to maturity of debentures. Measured in years, by weighting principal and interest payments for the debenture over its term to final maturity. The average effective duration of a debenture reflects the financial instrument's sensitivity to changes in interest rates. Average effective duration is calculated as the ratio between the weighted average debenture payouts to its price.
	Active market – A market where transactions involving an asset or liability take place regularly and in sufficient volume, so as to regularly provide information about pricing of assets and liabilities.
D	**Debentures** – Securities which are obligations by the issuer to pay to the debenture holder the principal issued plus interest, on specified dates or upon realization of a specified condition.
	Debt whose collection is contingent on collateral – Impaired debt whose repayment is expected through realization of collateral provided to secure such debt.
	Debt under restructuring – Problematic debt under restructuring is defined as debt for which, for economic or legal reasons related to financial difficulties of the debtor, the Bank has made a concession by way of modification to terms and conditions of the debt, designed to make it easier for the debtor to make cash payments in the near term (reduction or postponement of cash payments due from the debtor), or by way of receiving other assets as debt repayment (in whole or in part).
	Debt under special supervision – Debt under special supervision is debt with potential weaknesses, which require special attention by Bank management. Should these weaknesses not be addressed, the likelihood of debt repayment may deteriorate.
	Derivatives – A financial instrument or contract whose value changes in response to changes in the price of the underlying asset (a financial instrument, physical asset, index, credit rating or other underlying asset), requires a small or minimal initial investment, compared to other contract types, and is expected to be settled on a future date.
F	**Financial instrument** – A contract that creates a financial asset for one entity and a financial liability or capital instrument for another entity.
I	**Indebtedness** – On- and off-balance sheet credit, as defined in Proper Conduct of Banking Business Directive 313.
	Inferior debt – Inferior debt is debt insufficiently secured by collateral or by debtor repayment capacity, and for which the Bank may incur a loss if faults are not corrected, including debt over NIS 700 thousand which is 60-89 days in arrears.
	Impaired debt – Debt is classified as impaired when its principal or interest is in arrears over 90 days, unless the debt is well secured and is in collection proceedings. Further, any debt whose terms and conditions have been changed in conjunction with restructuring of problematic debt would be classified as impaired debt, unless prior to and following such restructuring, a provision for credit losses by extent of arrears was made with respect to the debt pursuant to the appendix to Proper Conduct of Banking Business Directive 314 on problematic debt in residential mortgages.
O	**OTC – Over the Counter** – Transaction involving financial instruments which is conducted over the counter and not on a stock exchange.
	Off-balance sheet credit – Contracting for providing credit and guarantees (excluding derivative instruments).
P	**Problematic debt** – Debt classified under one of the following negative classifications: special supervision, inferior or impaired.
R	**Recorded debt balance** – The debt balance, including recognized accrued interest, premium or discount yet to be amortized, net deferred commissions or net deferred costs charged to the debt balance and yet to amortized, net of the debt amount subject to accounting write-off.
S	**Syndication** – A loan extended jointly by a group of lenders.

Terms with regard to regulatory directives

E	**EMIR - European Market Infrastructure Regulation** – EU regulations adopted in order to increase stability, transparency and efficiency of derivative markets.
F	**FATCA - Foreign Accounts Tax Compliance Act** – The US Foreign Accounts Tax Compliance Act stipulates mandatory reporting to the US tax authority (IRS) of accounts held by US persons with foreign financial institutions (outside the USA).
L	**LCR – Liquidity Coverage Ratio** – Defined as the ratio of High Quality Liquid Assets and net cash outflow for the next 30 days, under a stress scenario. This ratio is a benchmark for the Bank's capacity to fulfill its liquidity needs for the coming month.

Index

P

R

S

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