CONDENSED CONSOLIDATED FINANCIAL REPORTS
AS OF 31.03.2021

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מזרחי טפחות
MIZRAHI TEFAHOT

Advanced banking for people, by people.

The Israel Securities Authority's MAGNA website also includes the following reports: 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 condensed financial statements of interim periods, including XBRL format, 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.

Mizrahi Tefahot Bank

Quarterly Condensed Financial Statements
As of March 31, 2021

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Mizrahi Tefahot Bank

Report of the Board of Directors and Management

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Condensed Report of the Board of Directors and Management to Financial Statements as of March 31, 2021

Introduction

The Board of Directors of Mizrahi Tefahot Bank Ltd., at its meeting held on May 19, 2021, resolved to approve and publish the Report of the Board of Directors and Management, the Risks Report and Other Supervisory Disclosures and the condensed consolidated financial statements of Mizrahi Tefahot Bank Ltd. and its subsidiaries as of March 31, 2021.

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 of the Supervisor of Banks.

The condensed 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 as of December 31, 2020 and Note 1 to these condensed financial statements).

In conformity with the reporting structure stipulated by the Supervisor of Banks, additional information to these financial statements is provided on the Bank website:

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

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).
- Details of equity instruments issued by the Bank
- Financial statements in XBRL file.

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 major developments in the Bank Group, its operating segments for the first quarter of 2021, performance, risk to which the Bank is exposed as well as targets and strategy. This chapter should be read, as needed, in conjunction with the chapter "Overview, targets and strategy" in the 2020 audited annual financial statements.

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, and 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 consolidated statement of profit and loss for 2021 and for the fourth quarter of 2020 and the Bank's consolidated balance sheet include the financial statements of Union Bank.

The net credit balance created upon the acquisition date with respect to the excess of fair value of Union Bank assets and liabilities transferred over the consideration provided, net of expected expenses for employee retirement, amounted to NIS 1.2 billion, recognized as revenues on the statement of profit and loss over 5 years from the acquisition date.

For more information see Note 35 to the financial statements as of December 31, 2020.

Condensed financial information and key performance indicators for the Bank Group

	2021	2020				2020
	First quarter	Fourth quarter	Third quarter	Second quarter	First quarter	Annual
					NIS in millions	
Statement of profit and loss – highlights						
Interest revenues, net	1,691	1,686	1,464	1,323	1,347	5,820
Non-interest financing revenues	189	27	54	76	64	221
Commissions and other revenues	543	557	407	399	529	1,892
Total revenues	**2,423**	**2,270**	**1,925**	**1,798**	**1,940**	**7,933**
Expenses with respect to credit losses	13	118	317	270	345	1,050
Operating and other expenses	1,341	1,335	977	950	1,017	4,279
Of which: Payroll and associated expenses	870	785	619	596	644	2,644
Pre-tax profit	1,069	817	631	578	578	2,604
Provision for taxes on profit	358	285	222	196	200	903
Net profit(1)	**676**	**506**	**387**	**360**	**357**	**1,610**

Group net profit in the first quarter of 2021 amounted to NIS 676 million, compared to NIS 357 million in the corresponding period last year – an increase by 89.4%. This reflects 14.9% annualized return on equity, compared to 9.1% in the corresponding period last year and 9.5% for all of 2020.

The following major factors affected Group operating income in the first quarter of 2021 compared to the corresponding period last year:

- Group profit in the first quarter of 2021 includes NIS 72 million with respect to profit of Union Bank, consolidated as from the fourth quarter of 2020, and NIS 54 million with respect to net deferred credit balance recognized with respect to acquisition of Union Bank on the statement of profit and loss over 5 years as from the fourth quarter of 2020.
- Interest revenues, net excluding the effect of Union Bank increased by 12.7%, primarily due to increase in operations and to effect of the Consumer Price Index.

  For more information see under "Analysis of Development in financing revenues from current operations" below.
- Expenses with respect to credit losses for the Group in the first quarter of 2021 amounted to NIS 13 million, compared to NIS 345 million in the corresponding period last year. In the first quarter of 2020, provisions for credit losses include expense with respect to provisions for credit losses on group basis, due to the Corona Virus outbreak. In the first quarter of 2021, due to the gradual emergence from the Corona Virus crisis, there was improvement in the economic environment; therefore, the provisions made were gradually attributed to specific areas and borrowers, concurrently with more moderate total provisions.
- Operating and other expenses in the first quarter of 2021, excluding the effect of Union Bank, increased by NIS 91 million compared to the corresponding period last year, primarily due to adjustment of payroll expenses with respect to variable remuneration components to Bank return and profit.

  See below for explanation of changes in each operating expense component.

(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.

	As of				
	March 31, 2021	December 31, 2020	September 30, 2020	June 30, 2020	March 31, 2020
					NIS in millions
Balance sheet – key items					
Balance sheet total	370,410	360,140	347,050	291,560	284,731
Loans to the public, net	249,539	245,525	241,765	214,450	210,230
Cash and deposits with banks	91,392	86,570	77,738	61,532	56,385
Securities	19,529	17,290	18,258	8,440	8,709
Buildings and equipment	1,702	1,743	1,646	1,433	1,437
Deposits from the public	293,766	284,224	276,156	231,784	223,189
Debentures and subordinated notes	33,335	33,446	32,995	29,689	30,237
Deposits from banks	4,293	3,779	2,786	946	924
Shareholders' equity(1)	19,422	18,804	18,272	16,653	16,371

Development of balance sheet items shows consistent growth in Bank business:

- Total assets as of March 31, 2021 amounted to NIS 370.4 billion – an increase by NIS 10.3 billion or 2.9% compared to December 31, 2020.
- Loans to the public, net as of March 31, 2021 amounted to NIS 249.5 billion – an increase by NIS 4.0 billion or 1.6% compared to December 31, 2020.
- Deposits from the public as of March 31, 2021 amounted to NIS 293.8 billion – an increase by NIS 9.5 billion or 3.4% compared to December 31, 2020.
- Shareholder equity as of March 31, 2021 amounted to NIS 19.4 billion – an increase by NIS 0.6 billion or 3.3% compared to December 31, 2020. See also chapter "Capital adequacy" below.

(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.

Key financial ratios (in percent)

	2021	2020				2020
	First quarter	Fourth quarter	Third quarter	Second quarter	First quarter	Annual
Key performance benchmarks						
Net profit return on equity[(1)(2)]	14.9	11.4	9.5	9.0	9.1	9.5
Net profit return on risk assets[(1)(2)(3)]	1.34	1.02	0.89	0.85	0.86	0.89
Return on average assets[(2)]	0.74	0.57	0.52	0.50	0.51	0.53
Deposits from the public to loans to the public, net	117.7	115.8	114.2	108.1	106.2	115.8
Ratio of Tier I capital to risk components	10.15	10.04	9.98	9.96	9.89	10.04
Leverage ratio[(4)]	5.16	5.19	5.23	5.36	5.40	5.19
(Quarterly) liquidity coverage ratio[(5)]	133	133	128	122	117	133
Ratio of revenues to average assets[(2)]	2.68	2.59	2.62	2.52	2.81	2.63
Operating expenses to total revenues[(6)] (Cost-Income Ratio)	55.3	58.8	50.8	52.8	52.4	53.9
Basic earnings per share (in NIS)	2.65	2.13	1.65	1.53	1.52	6.70
Key credit quality benchmarks						
Ratio of balance of provision for credit losses to total loans to the public	0.96	0.98	0.95	0.96	0.91	0.98
Balance of provision for credit losses, including estimated credit losses in balance of loans to the public at Union Bank, as percentage of loans to the public	1.07	1.11	1.09	–	–	–
Ratio of impaired debts or debts in arrears 90 days or longer to loans to the public	1.23	1.18	1.20	1.34	1.41	1.18
Expenses with respect to credit losses to loans to the public, net for the period[(2)]	0.02	0.19	0.59	0.50	0.66	0.43
Ratio of net accounting write-offs to average loans to the public[(2)]	0.06	0.06	0.13	0.15	0.16	0.12
Additional information						
Share price (in NIS) at end of the quarter	87.14	74.25	60.74	64.62	66.23	74.25
Dividends per share (in Agorot)[(7)]	–	–	–	–	75	75
Ratio of net interest revenues to average assets[(2)]	1.86	1.92	1.99	1.85	1.95	1.93
Ratio of commissions to average assets[(2)]	0.52	0.54	0.54	0.52	0.61	0.55

Financial ratios indicate as follows:

- Net profit return on equity in the first quarter of this year was 14.9%, due to higher revenues, primarily due to increase in operations and decrease in expenses with respect to credit losses due to improvement in the economic environment; therefore, the provisions made were gradually attributed to specific areas and borrowers, concurrently with more moderate total provisions.
- The ratio of deposits from the public to loans to the public, net reached 117.7%, due to continued increase in deposits from the public.
- The ratio of Tier I capital to risk components increased to 10.15%. The minimum ratio required of the Bank is 8.66% (the minimum ratio without relief granted due to the Corona Virus crisis is 9.66%).
- The cost-income ratio for the first quarter of 2021 was 55.3%.
- 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.

(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) Calculated on annualized basis.
(3) Net profit to average risk assets.
(4) 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
(5) 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 reported quarter.
(6) Total operating and other expenses to total operating and financing revenues and expenses with respect to credit losses.
(7) The rate of dividends is calculated based on the actual amount of dividends actually distributed in the reported period.

Major risks

The Bank's risks mapping process produced a listing of the following major risks: Credit risk (and credit concentration), market risk, interest risk (and, in particular, interest risk in the bank portfolio), liquidity risk, operational risk, including information security and cyber risk, IT risk and legal risk, compliance and regulatory risk, cross-border and AML risk, reputational risk and strategic-business risk. The Bank regularly reviews the risk mapping, so as to ensure that it covers all of its business operations, market conditions and regulatory requirements.
For further details see chapter "Major risks" of the 2020 Report of the Board of Directors and Management.
For more information about developments in risks, including the effect of the Corona Virus crisis, see chapter "Risks overview" below and the Risks Management Report on the Bank website.
See below for estimated potential effect of the various risk factors on the Bank Group in chapter "Risks overview".

Business goals and strategy

Strategic plan

Further to the Bank's 2020 annual report and in view of the Bank's achievements, changes in the banking industry and in the business environment, on April 26, 2021 the Bank Board of Directors approved a new five-year strategic plan for 2021-2025, based on the following:

- Position the Bank as a key player in business banking, based on supporting action including: set up operations for investments in non-banking corporations, lead large and complex transactions and expand the Bank's international operations at its branches in London and in the USA in areas focused on business banking;
- Establish the Bank Group's leadership position among households: Maintain the leadership position in the mortgage market while introducing innovations in products and processes, and increasing synergies with commercial operations, expand operations among target populations and set up a desk for unique consumer credit products;
- Provide personal, human banking services supported by advanced digital technology, including optimal combination of human and digital channels, with human service by expert bankers, including in digital, in accordance with client choice and needs, as well as offering personalized value propositions across all channels, which are customized for client needs.
- Align the operating model with future challenges and improve operating efficiency through, inter alia, locating the Bank headquarters in the central Lod campus, align branch structure with future challenges and optimize use of real estate, automate banking operations and streamline the work environment.
- Leverage the Union Bank merger to create operating and business synergies and to realize economies of scale.
- Grow revenues at an annual average rate of 8% (although non-linear), while controlling the average annual expenses at a 5% growth rate (also non-linear) over the term of the new strategic plan;

The new strategic plan is designed to achieve the following targets:

- Achieve in 2025, net profit return on equity attributable to equity holders of 14% on average equity, as well as double-digit, growing and stable 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 margin;
- Grow banking operations so as to increase the Bank's market share in the Israeli banking system;
- Maintain high operating efficiency and leverage economies of scale due to the Union Bank merger, to achieve a cost-income ratio lower than 50% in 2025.

Under the new strategic plan, the Board of Directors shall monitor execution of the plan, in order to consider potential increase of the dividend rate, from 40% of net profit attributable to Bank shareholders, up to 50% of net profit attributable to equity holders of the Bank, upon conclusion of the Union Bank merger process; This would be subject to Bank compliance with the ratio of Tier I capital to risk components, as required by the Supervisor of Banks, maintaining appropriate margins and subject to approval by the Supervisor of Banks.

See also chapter "Dividend distribution policy".

For more information see Immediate Report dated April 27, 2021 (reference: 2021-01-071448).

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.

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.

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, capital adequacy and leverage – subject to statutory limitations applicable to banking corporations and in accordance with the state of the capital market 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 March 31, 2021 amounted to NIS 293.8 billion, compared to NIS 284.2 billion at end of 2020: an increase by 3.4%. Deposits from the public in the NIS-denominated, non-CPI linked segment increased in the first quarter of 2021 by 1.9%; deposits in the CPI-linked segment increased by 11.0%; and deposits denominated in or linked to foreign currency increased by 7.2%. For more information see chapter "Analysis of development of assets, liabilities, capital and capital adequacy" below.

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 there from at 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 set forth in the merger agreement.

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 the first quarter of 2021, there were no further issuances by the Bank nor by Tefahot Issuance pursuant to these prospectuses.

As of the date of these financial statements, total debentures and subordinated notes amounted to NIS 33.3 billion, compared to NIS 33.4 billion as of December 31, 2020.

Complex capital instruments

Contingent convertible (CoCo) subordinated notes

On April 7, 2021, the Bank issued to institutional investors by international private placement, underwritten by international financial institutions, subordinated notes with loss-absorption provisions through forced write-off ("the Subordinated Notes") amounting to USD 600 million. The Subordinated Notes qualify as Tier II equity in conformity with provisions of Proper Conduct of Banking Business Directive 202. For more information about terms and conditions of the Subordinated Notes, see immediate report dated March 18, 2021 (reference: 2021-01-038139, Immediate Report dated March 25, 2021 reference: 2021-01-044703, Immediate Report dated April 07, 2021 reference: 2021-01-058083).
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 March 31, 2021, amounted to NIS 4.5 billion, similar to December 31, 2020.

Other complex capital instruments

Capital note issued by the Bank which does not qualify as supervisory capital pursuant to Basel III directives and is gradually written down, as of March 31, 2021, amounted to NIS 2.1 billion, compared to NIS 2.0 billion as of December 31, 2020.

Other notes

Subordinated notes, which are not considered complex capital instruments (included in Tier II capital for the purpose of maintaining minimum capital ratio and gradually reduced subject to transition provisions), as of March 31, 2021, amounted to NIS 3.8 billion, compared to NIS 4.2 billion as of December 31, 2020.
For more information about the credit rating of the Bank, its notes, see chapter "Corporate Governance, Audit, Other Information about the Bank and Management thereof".

Significant developments in management of business operations

Corona Virus pandemic

For more information about Bank operations under Corona Virus routine, see chapter "Trends, phenomenons and material changes" below.

Union Bank merger

On September 30, 2020, the Bank completed the proposed exchange tender for Union Bank shares and acquired 100% of the issued and paid-in share capital of Union Bank and of voting rights in Union Bank.
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 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, such 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 Board of Directors resolved to approve the merger after discussion and review 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 31, 2020, the Bank announced a resolution to merge Union Bank Issuance Ltd. Into Mizrahi Tefahot Issuance Ltd., subject to fulfillment of suspensive conditions set forth in the merger agreement between these two entities, hence completion of this agreement is uncertain. Furthermore, on November 8, 2020, Mizrahi Tefahot Trust Company Ltd. Announced it has signed a merger agreement with Union Bank Trust Company Ltd. On May 2, the merger closed.
Underlying the merger of the sixth largest bank in Israel with and into the Bank, the joining of Union Bank allows the Bank 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.

According to the merger plan, concurrently with transition of clients and business activity, closure of most Union Bank branches is planned. At Union Bank branches that would not be closed, but rather would eventually transition into Mizrahi Tefahot branches, mortgage representatives of Mizrahi Tefahot were opened in May 2021.

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.
For more information about retirement program for Union Bank employees, see chapter "Significant developments in human resources and administration" below.
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 approval received from the Tax Authority on May 10, 2021 for the merger of Union Bank with and into the Bank as from December 31, 2020, see Note 16 to the financial statements.

For more information about acquisition of Union Bank, see Note 35 to the financial statements as of December 31, 2020.

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 share capital 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.

Significant developments in human resources and administration

Developments in labor relations

Special collective bargaining agreement 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. 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"). 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.

On March 25, 2021, a special collective bargaining agreement was signed by Union Bank and two subsidiaries thereof, by the New General Labor Union / the MAOF trade union / Bank and Credit Company Staff Division and by the Employee Union of Union Bank and the Manager and Authorized Signatory Association of Union Bank (hereinafter in this paragraph: "the Agreement"). The Agreement stipulates the retirement terms and conditions for regular employees of Union Bank, certain temporary employees who meet the criteria set forth in the Agreement and certain other employees of the subsidiaries ("the Retiring Employees"), following the merger of Union Bank with and into the Bank ("the Retirement Program"). Pursuant to the Agreement, Union Bank offered the relevant employees who would be terminated due to the merger, a retirement program whose terms and conditions are as set forth in the Agreement (hereinafter: "the Retirement Program"). The Retirement Program is to govern retirement of 340 of the relevant employees, as defined above. In conformity with the Retirement Program, the Retiring Employees may retire from Union Bank within a specified time period. The benefits offered, depending on employees' age and seniority, include a bridging pension or increased severance pay, retirement bonuses and other benefits applicable to certain employee groups. The retirement of these employees pursuant to the program shall be gradual through 2022, in conformity with the rules, periods and dates set forth in the agreement. Upon the Agreement date, Union Bank assessed the cost of the Retirement Program, beyond actuarial provisions for retirement at beneficial terms, at NIS 400 million (in net profit terms: NIS 263 million). In case of increase in the number of retiring employees by consent from the Bank, the cost of their retirement would increase accordingly. Note that this estimated cost of the Retirement Program was included in calculation of the Bank's capital adequacy ratio as of September 30, 2020, and as approved by the Supervisor of Banks, is directly attributed to the deferred credit balance recognized by the Bank following the acquisition of Union Bank, and is not recognized as an expense.

Developments in international geographic deployment

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. For more information see chapter "Significant developments in management of Bank business" above.

Other matters

permit for holding means of control for Mr. Shlomo Eliyahu and Ms. Chaya Eliyahu

For more information about permit for holding control and means of control over the Bank granted to Mr. Shlomo Eliyahu and Ms. Chaya Eliyahu, see Immediate Report dated April 13, 2021 (reference number: 2021-01-063606). On May 2, 2021, the Bank reported that Shlomo Eliyahu Holdings Ltd., Eliyahu 1959 Ltd. And Migdal Holdings Insurance and Finance Ltd. ceased to be interested parties in the Bank (for more information see reports dated May 2, 2021, reference numbers: 2021-01-075348, 2021-01-075405, and 2021-01-075426).

Legal Proceedings

For material changes in legal proceedings to which the Bank is party, see Note 10.B.(2-4) 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 standing, including analysis of revenues, expenses and profit. It also describes the results of the Bank's supervisory operating segments and operating results for holdings in major investees.

Trends, phenomena and material changes

Significant Events in the Bank Group's Business

Closing of acquisition of Union Bank

For more information about signing of a merger agreement by Mizrahi Tefahot Issuance Company Ltd. and Union Bank Issuance Company Ltd. And merger of Union Bank Trust Company Ltd. with and into Mizrahi Tefahot Trust Company Ltd., see "Significant developments in management of Bank business" above.

Effect of the Corona Virus outbreak

in the first quarter of 2021, the Bank continued to operate under Corona Virus routine, including the following: Compliance with work guidelines and maintaining hygiene and social distancing, working in split units, continuation of working remotely by means of a fast, structured process and so forth. Concurrently, the Bank continued to monitor cases of morbidity or infection at branches and at headquarters units and the date of return to work, including at Group level.

Business units continue to keep in close regular contact with clients, in order to help the business sector face the challenges resulting from this crisis.

In 2020, the Bank applied measures in response to client needs arising from the situation. 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. The Bank also extended State-guaranteed loans from State-guaranteed foundations, as part of the economic assistance program announced by the State.

As of March 31, 2021, out of all housing loans subject to delay, some NIS 44.1 billion resumed payment (of which NIS 7.4 billion chose the partial payment track in conformity with the Bank of Israel outline). NIS 1.7 billion is still subject to full delay, ending through June 2021. Of the loans where payments were resumed in the first quarter of 2021, only NIS 0.6 billion are in arrears.

As of March 31, 2021, out of all other (non-housing) loans subject to delay, NIS 4.6 billion resumed repayment and NIS 1 billion are still subject to delay, mostly expected to end in 2021. Of the loans where payments were resumed by end of the first quarter of 2021, only NIS 0.1 billion are in arrears.

As of March 31, 2021, the Bank extended loans amounting to NIS 5.3 billion from State-guaranteed funds. 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 March 31, 2021 amounted to NIS 2 billion, for 3 years bearing fixed interest at 0.1%, whose balance as of March 31, 2021 amounted to NIS 2.2 billion.

For more information about group-based provision for credit losses recognized, inter alia, considering identified risk in certain sectors and loans subject to repayment delay due to the Corona Virus crisis, in conformity with the risk attributes, 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 chapter "Credit risk" below.

Conclusion of DPA and termination of deferred indictment in the USA

On March 22, 2021, the Court in Los Angeles, USA ordered termination of the deferred indictment filed against Bank Group companies, in conformity with the DPA signed on March 12, 2019 by the Bank and by the US Department of Justice (DoJ), to conclude the DoJ investigation with regard to Bank Group business with its US clients. This order was handed down upon request from the DoJ noting, inter alia, in a motion filed with the Honorable Court upon expiration of the (two year) agreement period set forth in the DPA, that the Bank Group companies were in compliance with their obligations pursuant to this agreement.

See Note 10 to the financial statements for additional information.

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

Major developments in the banking industry in Israel and overseas

For more information about trends in recent years in the banking sector in Israel and overseas, see chapter "Explanation and analysis of results and business standing" of the Report of the Board of Directors and Management for 2020.

Developments in the Israeli and global economy in the first quarter of 2021

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 furlough rising sharply.

The crisis primarily affected 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 2.6%, 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 December 2020, the campaign to vaccinate the population in Israel against the Corona Virus started, and as of the end of April 2021, 60% of the population in Israel was vaccinated. Due to the rapid progress made on the vaccination campaign in Israel and the decrease in morbidity, as from February 2021 a gradual process started of lifting restrictions on economic activity.

The Bank of Israel Composite Index increased in the first quarter of 2021 at an annualized rate of 2.5%, following a decrease of 0.1% in 2020 and and an increase of 3.2% in 2019. 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 – was at 11.6% in the second half of March 2021, compared to 12.9% in December 2020.

According to forecast by the Bank of Israel Research Division dated April 2021, GDP in Israel is expected to grow by 6.3% in 2021, and the broad unemployment rate at the end of the year should be at 7.5%.

Inflation and exchange rates

In the first quarter of 2021, the Consumer Price Index increased by 0.8%, compared to a decrease by 0.1% in the corresponding period last year. The increase in CPI was primarily due to lifting of restrictions on activity with release of the pent-up demand and due to higher commodity prices globally. The CPI was mostly affected by higher prices of transportation and communications, housing, education, culture and entertainment, as well as food, which contributed 0.9% to the overall CPI. Conversely, prices of clothing and footwear were lower, which moderated the overall CPI by 0.1%.

Since the start of the Corona Virus crisis, the NIS was revaluated against the USD, more intensively so towards the end of 2020. Consequently, the Bank of Israel announced in January 2021 a plan to purchase USD in 2021, up to a total of USD 30 billion. Since the plan was announced, the upward trend in the NIS was cut short.

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

	March 31, 2021	December 31, 2020	Change in %
Exchange rate of:			
USD (in NIS)	3.334	3.215	3.7
EUR (in NIS)	3.913	3.944	(0.8)

On May 11, 2021, the USD/NIS exchange rate was 3.284 – a 1.5% revaluation compared to March 31, 2021. The EUR/NIS exchange rate on this date was 3.996 – a devaluation of 2.1% since March 31, 2021.

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, 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.

For more information about Bank participation and obtaining a designated monetary loan, see chapter "Significant events in the Bank Group's business".

In 2021 to date, the Bank of Israel interest rate remained unchanged at 0.10%. Monetary policy year to date was primarily influenced by the need to support economic recovery following the crisis, with emphasis on business survivability and promoting employment.

Fiscal policy

In the first quarter of 2021, the government budget recorded a NIS 22.4 billion cumulative deficit, compared to NIS 13.3 billion in the corresponding period last year. The deficit rate as percentage of GDP for the 12 months ended in March 2021 was 12.1%, compared to 11.7% for 2020 and 3.7% for 2019. In the first quarter of 2021, expenditure by Government ministries increased by 30.7% compared to the corresponding period last year; Excluding expenses for addressing the Corona Virus crisis, Government expenditure increased by 4.4%. Tax collection increased by a nominal 13.9% compared to the corresponding period last year. At the outset of the Corona Virus crisis, 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 202 billion, 67% was actually executed.

Residential construction and the mortgage market

According to data from the Central Bureau of Statistics, in the first two months of 2021 demand for new apartments (apartments sold and apartments constructed not for sale, net of seasonal effect) was 9.3 apartments, a decrease by 4.4% over the corresponding period last year and an increase by 15.9% over the corresponding period in 2019. In the first quarter of 2021, housing loans given to the public amounted to NIS 22.5 billion, compared to NIS 21.1 billion in the corresponding period last year and NIS 15.6 billion in the corresponding period in 2019 – an increase by 6% and 44%, respectively.

According to data from the Central Bureau of Statistics, owned housing prices, in terms of twelve months ended February 2021, increased by 4.0%, compared to an increase by 4.0% in 2020 and an increase by 3.4% in 2019.

Capital market

Trading on global equity markets in the first quarter of 2021 was highly positive, led by stock exchanges in the USA and by major equity benchmarks in the Israeli market.

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

	2021	**2020**			
CPI	**First Quarter**	**Fourth Quarter**	**Third Quarter**	**Second quarter of**	**First Quarter**
Tel-Aviv 35	7.0	14.6	(2.6)	1.0	(21.0)
Tel-Aviv 125	6.1	16.6	1.5	3.8	(21.0)
Tel-Aviv 90	6.1	24.1	11.8	8.6	(21.6)

Average daily trading volume in equities and convertible securities in the first quarter of this year was NIS 1.9 billion, compared to NIS 2.2 billion in the corresponding period last year, and average daily trading volume of NIS 1.9 billion in 2020.

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

	2021	**2020**			
CPI	**First Quarter**	**Fourth Quarter**	**Third Quarter**	**Second quarter of**	**First Quarter**
General debentures	0.3	1.4	1.1	2.9	(4.5)
CPI-indexed Government debentures	0.4	1.7	(1.4)	4.0	(3.0)
Non-linked Government debentures	(1.5)	(0.2)	(0.4)	3.0	(1.1)
Tel Bond 20	1.8	3.7	3.0	0.5	(7.1)
Tel Bond 40	1.7	2.6	2.0	2.3	(6.5)

Global economy

The US economy grew in the first quarter of 2021 at an annualized 6.4%, compared to 4.3% growth in the previous quarter and compared to 3.5% decline for all of 2020. This was due to progress made on vaccination of the population against the Corona Virus and the gradual lifting of restrictions on business activities. While the Purchasing Manager Index in industrial sectors is at a historical high, the Industrial Output Index has yet to return to its pre-crisis level. The Retail Trade Index recovered quickly, with sharp acceleration in March 2021, in view of lifting of restrictions on activity. The unemployment rate in March 2021 was at 6.0%, compared to 6.7% in December 2020. On January 20, 2021, Joe Biden was inaugurated as

President of the United States. Since the Biden inauguration, another fiscal aid program was approved, valued at USD 1.9 trillion, and a multi-annual program was announced with investment in infrastructure, transportation, green energy, research and development, valued at USD 2.3 trillion. Moreover, President Biden announced his intentions to raise corporate tax and capital gains tax rates.

GDP in the Euro Zone in the first quarter of 2021 declined at an annualized 2.5%, further to 2.7% annualized decrease in the previous quarter and compared to 6.6% decrease for all of 2020. The Industrial Output Index and the Retail Trade Index decreased in the first two months of 2021, due to restrictions imposed on economic activity due to the higher morbidity and slow progress made on vaccination in EU countries. The Purchasing Manager Index in industrial sectors increased in the first four months of the year, indicating a fast-paced expansion. Conversely, the Index in service sectors is still low, indicating stagnant activity.

China's economy grew in the first quarter of 2021 at a 0.6% quarterly rate, compared to 2.6% growth in the previous quarter and compared to 2.3% for all of 2020. The Industrial Output Index and the Retail Trade Index continued to increase in the first quarter of 2021. During the quarter, Purchasing Manager Indexes continued to indicate expansion in activity, although demand for exports was weak.

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

	2021	2020			
CPI	**First Quarter**	**Fourth Quarter**	**Third Quarter**	**Second quarter of**	**First Quarter**
Dow Jones	7.8	10.2	7.6	23.3	(23.2)
S&P 500	5.8	11.7	8.5	25.5	(20.0)
NASDAQ 100	1.6	12.9	12.4	35.7	(10.5)
DAX	9.4	7.5	3.7	29.0	(25.0)
FTSE 100	3.9	10.1	(4.9)	13.9	(24.8)
CAC	9.3	15.6	(2.7)	17.3	(26.5)
Nikkei	6.3	4.0	4.0	22.8	(20.0)

Key and emerging risks

In its operations, the Bank is exposed to a succession of risks which may potentially impact its financial results and its image. As part of the risks mapping process, the Bank reviews the top risks, existing (or new) risks which may materialize over the coming 12 months which potentially may materially impact the Bank's financial results and stability, such as: credit, interest and liquidity risks. The Bank also identifies emerging risks, which may materialize over the longer term and subject to uncertainty with regard to their nature and impact on the Bank. Of these risks, one may note the following: environmental risk and climate risk, information security and cyber risk, IT risk and reputation risk. As noted, the risks mapping is regularly reviewed to ensure that it encompasses all business operations at the Bank, market conditions and regulatory requirements. 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, see chapter "Risks Overview" as well as the Risks Report for the first quarter of 2021 and for 2020, available on the Bank website:
www.mizrahi-tefahot.co.il >> about the bank >> investor relations >> financial statements.

Independent Auditors' review report

The Independent Auditor has drawn attention in their review report to Note 10.B.3. with regard to lawsuits filed against the Bank and its subsidiary, including requests to recognize them as class actions

Events after the balance sheet date

For more information about international private placement of subordinated notes with contractual loss-absorption provisions, after the balance sheet date, see chapter "Developments in financing sources" above.

Changes to critical accounting policies and to critical accounting estimates

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 various economic sectors, divided into problematic and non-problematic debt, for the 11 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.

Material developments in revenues, expenses and other comprehensive income

Group net profit in the first quarter of 2021 amounted to NIS 676 million, compared to NIS 357 million in the corresponding period last year – an increase by 89.4%. This reflects 14.9% annualized return on equity, compared to 9.1% in the corresponding period last year and 9.5% for all of 2020.

Analysis of developments in revenues, expenses and other comprehensive income

Net interest revenues and non-interest financing revenues[(1)] in the first quarter of 2021, as described on these financial statements, amounted to NIS 1,880 million. Net interest revenues and non-interest financing revenues, excluding Union Bank, amounted to NIS 1,880 million, compared to NIS 1,618 million in the corresponding period last year, an increase by 14.7%.

Net interest revenues and non-interest financing revenues[(1)] from current operations in the first quarter of 2021, excluding the effect of Union Bank, amounted to NIS 1,440 million, as described below, compared to NIS 1,416 million in the corresponding period last year, an increase by 1.7%, achieved against the backdrop of negative impact of the lower interest rates announced by the Fed and by the Bank of Israel.

Excluding Union Bank, revenues current operations excluding increased by an annualized 8.2% compared to the fourth quarter of 2020, primarily due to increase in loan and deposit operations.

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

	2021				2020	Change in %
	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	First quarter of 2021 to first quarter of 2020
Interest revenues, net	1,691	1,686	1,464	1,323	1,347	
Non-interest financing revenues[(1)]	189	27	54	76	64	
Total financing revenues	**1,880**	**1,713**	**1,518**	**1,399**	**1,411**	
Financing revenues of Union Bank	262	235	–	–	–	
Total financing revenues excluding Union Bank	**1,618**	**1,478**	**1,518**	**1,399**	**1,411**	**14.7**
Less:						
Effect of CPI	16	–	18	(40)	(83)	
Revenues from collection of interest on problematic debts	10	12	11	9	7	
Gains from realized debentures and available-for-sale securities and gains from debentures held for trading, net	12	1	14	54	28	
Effect of accounting treatment of derivatives at fair value and others[(2)]	140	53	100	8	43	
Total effects from other than current operations	**178**	**66**	**143**	**31**	**(5)**	
Total financing revenues from current operations	**1,440**	**1,412**	**1,375**	**1,368**	**1,416**	**1.7**

(1) Non-interest financing revenues include effect of fair value and others and revenues 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, early repayment commissions, 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.

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

	First Quarter			
Operating segment	**2021**	**2020**	**Change amount**	**Change rate (In %)**
Individuals:				
Households – housing loans	535	459	76	16.6
Households – other	361	337	24	7.1
Private banking	23	22	1	4.5
Total – individuals	**919**	**818**	**101**	**12.3**
Business operations:				
Small and micro businesses	346	298	48	16.1
Medium businesses	85	76	9	11.8
Large businesses	142	134	8	6.0
Institutional investors	26	29	(3)	(10.3)
Total – business operations	**599**	**537**	**62**	**11.5**
Financial management	313	11	302	-
Total activity in Israel	**1,831**	**1,366**	**465**	**34.0**
Overseas operations	49	45	4	8.9
Total	**1,880**	**1,411**	**469**	**33.2**

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.

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

	First Quarter		Change rate
Linkage segment	**2021**	**2020**	**(In %)**
Israeli currency – non-linked	250,774	182,727	37.2
Israeli currency – linked to the CPI	67,784	59,426	14.1
Foreign currency (including Israeli currency linked to foreign currency)	13,949	11,670	19.5
Total	**332,507**	**253,823**	**31.0**

Change in average balances of interest-bearing assets in the NIS-denominated segment is primarily due to growth in loans to the public, which also increased due to consolidation of Union Bank's financial statements.

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:

8	First Quarter	
Linkage segments	**2021**	**2020**
Israeli currency – non-linked	1.80	2.20
Israeli currency – linked to the CPI	1.52	1.51
Foreign currency	1.47	0.96
Total	**1.70**	**1.86**

(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 exclusion of the effect of derivatives and by lower 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 was essentially unchanged from 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 amounted to NIS 13 million in the first quarter of 2021, or an annualized rate of 0.02% of total loans to the public, net, compared with NIS 345 million in the corresponding period last year – an annualized rate of 0.66% of total loans to the public, net.
In the first quarter of 2020, provisions for credit losses include provisions for credit losses on group basis, due to the Corona Virus outbreak.
For more information about the provision for credit losses included on these financial statements, see Notes 6 and 13 to the financial statements.

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

	First Quarter	
	2021	**2020**
Provision for credit losses on individual basis (including accounting write-offs)		
Increased expenses	114	143
Reduced expenses	(66)	(38)
Total individual provision	**48**	**105**
Provision for credit losses on Group basis:		
By extent of arrears	3	8
Other	(38)	232
Total expenses with respect to credit losses	**13**	**345**
Rate of the expenses with respect to credit losses as percentage of total loans to the public, net (annualized)	**0.02%**	**0.66%**
Of which: With respect to commercial loans other than housing loans	**0.16%**	**1.55%**
Of which: With respect to housing loans	**(0.06%)**	**0.19%**

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

	First Quarter			
	Expenses with respect to credit losses		Rate of expenses with respect to credit losses(1)	
Operating segment	**2021**	**2020**	**2021**	**2020**
Individuals:				
Households – housing loans	(23)	65	(0.06)	0.19
Households – other	(7)	40	(0.11)	0.75
Private banking	(3)	(1)	-	-
Total – individuals	**(33)**	**104**	**(0.07)**	**0.26**
Business operations:				
Small and micro businesses	16	72	0.22	1.37
Medium businesses	16	72	0.66	4.05
Large businesses	35	87	0.68	2.01
Institutional investors	(19)	2	-	0.45
Total – business operations	**48**	**233**	**0.31**	**1.97**
Financial management	-	2	-	-
Total activity in Israel	**15**	**339**	**0.02**	**0.66**
Overseas operations	(2)	6	(0.21)	0.65
Total	**13**	**345**	**0.02**	**0.66**

(1) Rate of expenses with respect to credit losses, as percentage of total loans to the public, net (annualized).

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.

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 Risks Report on the Bank website.

Non-interest revenues amounted to NIS 732 million in the first quarter of 2021, compared with NIS 593 million in the corresponding period last the third – an increase by NIS 139 million. See explanation below.

Non-interest financing revenues in the first quarter of 2021 amounted to NIS 189 million, compared to NIS 64 million in the corresponding period last year. Non-interest financing revenues in the first quarter of 2021 include revenues amounting to NIS 89 million due to consolidation of Union Bank's financial statements.

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 assets, 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 the first quarter of 2021 amounted to NIS 477 million, compared to NIS 424 million in the corresponding period last year – an increase by 12.5%. Excluding the effect of Union Bank, commission revenues in the first quarter of 2021 amounted to NIS 417 million. In the corresponding period last year, the Bank recognized high revenues from commissions on securities and from foreign currency conversions, due to higher market volatility, primarily in March 2020 at the outset of the Corona Virus crisis.

Below is information about commissions by major commission type (NIS in millions):

	2021	2020				2020
	First Quarter	Fourth Quarter	Third Quarter	Second quarter of	First Quarter	Annual
Account management	95	96	90	77	93	356
Activities involving securities	89	83	64	70	65	282
Conversion differences	75	69	58	53	75	255
Commissions from financing transactions	66	75	55	54	53	237
Credit cards	54	52	46	42	50	190
Credit processing(1)	31	33	32	25	27	117
Other commissions	67	64	54	55	61	234
Total commissions	**477**	**472**	**399**	**376**	**424**	**1,671**

(1) Includes the following commissions: Handling credit, foreign trade and net revenues from servicing credit portfolios.

Other revenues in the first quarter of 2021 amounted to NIS 66 million, compared to NIS 105 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 which is recognized on profit and loss over 5 years as from the fourth quarter of 2020.

Other revenues in the first quarter of 2020 included revenues amounting to NIS 82 million with respect to agreement with insurers to conclude derivative proceedings and capital gain amounting to NIS 13 million from realized assets in conjunction with asset reorganization and improvements to the Bank's branch network.

Operating and other expenses in the first quarter of 2021 amounted to NIS 1,341 million. Excluding the effect of Union Bank, operating and other expenses in the first quarter of 2021 amounted to NIS 1,108 million, compared to NIS 1,017 million in the corresponding period last year. See details by operating expense component below.

Payroll and associated expenses in the first quarter of 2021 amounted to NIS 870 million. Excluding the effect of Union Bank, payroll and associated expenses in the first quarter of 2021 amounted to NIS 744 million, compared to NIS 644 million in the corresponding period last year. Payroll expenses in the first quarter of 2021 include, inter alia, adjustment of variable remuneration components to Bank return and profit.

Maintenance and depreciation expenses for buildings and equipment in the first quarter of 2021 amounted to NIS 240 million. Excluding the effect of Union Bank, maintenance and depreciation expenses for buildings and equipment amounted to NIS 212 million in the first quarter of 2021, compared with NIS 205 million in the corresponding period last year – an increase by 3.4%.

Other expenses in the first quarter of 2021 amounted to NIS 231 million. Excluding the effect of Union Bank, other expenses amounted to NIS 152 million in the first quarter of 2021, compared with NIS 168 million in the corresponding period last year – a decrease by NIS 16 million, primarily due to decrease in legal expenses and actuarial components charged, in accordance with GAAP, to Other Expenses due to changes to interest rate curves.

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

	2021	2020				2020
	First Quarter	Fourth Quarter	Third Quarter	Second quarter of	First Quarter	Annual
Cost-income ratio	55.3	(3)58.8	50.8	52.8	(2)52.4	53.9

(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 period last year, primarily due to asset amortization and insurance cost, due to acquisition of a controlling interest in the bank and the planned merger. Excluding this unusual increase, the cost-income ratio is 56.1%.

Pre-tax profit for the Group in the first quarter of 2021 amounted to NIS 1,069 million, compared to NIS 578 million in the corresponding period last year – an increase by NIS 491 million. See detailed explanation above.

The provision rate for taxes on profit in the first quarter of 2021 was 33.5% – compared to 34.6% in the corresponding period last year.

The provision rate for taxes on profit in the first quarter of 2021 was affected, inter alia, by net revenues from deferred credit balance recognized with respect to acquisition of Union Bank, which is tax-exempt. The provision rate for taxes on profit, excluding influence revenues from the deferred credit balance, is 35.4%.

The Bank's share of after-tax profit of associates in the first quarter of 2021 amounted to loss with respect to associates of NIS 12 million, in the corresponding period last year no profit or loss with respect to associates.

The share of the non-controlling interests in net results of subsidiaries attributable to Bank Yahav in the first quarter of 2021 amounted to NIS 23 million, compared to NIS 21 million in the corresponding period last year.

Net profit attributable to shareholders of the Bank in the first quarter of 2021 amounted to NIS 676 million, compared to NIS 357 million in the corresponding period last year.

Other comprehensive income (loss) attributable to Bank shareholders – The Bank's shareholder equity includes adjustments, primarily with respect to employee benefits and presentation of debentures available for sale at fair value. The change to total adjustments amounted to NIS (58) million in the first quarter of this year, compared to NIS 106 million in the corresponding period last year. For more information see Note 4 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(4) at the end of the quarter (in %):

	2021	2020				2020
	First Quarter	Fourth Quarter	Third Quarter	Second quarter of	First Quarter	Annual
Net return on equity	14.9	11.4	9.5	9.0	(5)9.1	9.5
Ratio of Tier I capital to risk components at end of quarter	10.15	10.04	9.98	9.96	9.89	10.04
(Quarterly) liquidity coverage ratio	133	133	128	122	117	133
Leverage ratio at end of quarter	5.16	5.19	5.23	5.36	5.40	5.19

(1) Annualized return.
(2) Return on average shareholders' equity, including "total capital resources", as presented in reporting of revenue and expense rates, less average balance of minority interests and less/plus the average balance of unrealized gains/losses from adjustment to fair 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 Proper 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 Conduct of Banking Business Directive 218
(5) Net profit return on equity, excluding revenues from agreement with insurers: 7.7%.

Earnings and dividends(1) per share (ordinary NIS 0.1 par value share) are as follows (in NIS):

	2021	2020				2020
	First Quarter	Fourth Quarter	Third Quarter	Second quarter of	First Quarter	Annual
Basic earnings per share	2.65	2.13	1.65	1.53	1.52	6.70
Diluted earnings per share	2.64	2.13	1.65	1.53	1.51	6.69
Dividends per share	–	–	–	–	75	75

For more information about the resolution by the Bank 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 developments in assets, liabilities, equity and capital adequacy

Assets and liabilities

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

				Change in % over	
		March 31	December 31	March 31	December 31
	2021	2020	2020	2020	2020
Balance sheet total	370,410	284,731	360,140	30.1	2.9
Cash and deposits with banks	91,392	56,385	86,570	62.1	5.6
Loans to the public, net	249,539	210,230	245,525	18.7	1.6
Securities	19,529	8,709	17,290	124.2	12.9
Buildings and equipment	1,702	1,437	1,743	18.4	(2.4)
Deposits from the public	293,766	223,189	284,224	31.6	3.4
Deposits from banks	4,293	924	3,779	364.6	13.6
Debentures and subordinated notes	33,335	30,237	33,446	10.2	(0.3)
Shareholders' equity	19,422	16,371	18,804	18.6	3.3

Cash and deposits with banks – the balance of cash and deposits with banks increased in the first quarter of 2021 by NIS 4.8 billion, due to increase in deposits from the public and as 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 March 31, 2021 accounted for 67% of total assets, compared to 68% at the end of 2020. Loans to the public, net for the Group increased in the first quarter of 2021 by NIS 4.0 billion, an increase by 1.6%.

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

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

				Change in % over	
		March 31	December 31	March 31	December 31
	2021	2020	2020	2020	2020
Israeli currency					
Non-linked	172,415	141,386	168,787	21.9	2.1
CPI-linked	65,391	57,981	64,524	12.8	1.3
Foreign currency and foreign currency linked	11,619	10,863	12,116	7.0	(4.1)
Non-monetary items	114	–	98	–	16.3
Total	**249,539**	**210,230**	**245,525**	**18.7**	**1.6**

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

				Change in % over	
		March 31	December 31	March 31	December 31
	2021	2020	2020	2020	2020
Individuals:					
Households – housing loans	158,816	137,227	155,422	15.7	2.2
Households – other	25,320	21,480	25,335	17.9	(0.1)
Private banking	208	162	362	28.4	(42.5)
Total – individuals	**184,344**	**158,869**	**181,119**	**16.0**	**1.8**
Business operations:					
Small and micro businesses	28,668	21,175	28,948	35.4	(1.0)
Medium businesses	9,688	7,225	9,427	34.1	2.8
Large businesses	20,743	17,450	19,859	18.9	4.4
Institutional investors	2,219	1,786	2,404	24.2	(7.7)
Total – business operations	**61,318**	**47,636**	**60,638**	**28.7**	**1.1**
Overseas operations	3,877	3,725	3,768	4.1	2.9
Total	**249,539**	**210,230**	**245,525**	**18.7**	**1.6**

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.

Below are details of 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:

Reported amounts (NIS in millions)	As of March 31, 2021				As of March 31, 2020				As of December 31, 2020			
	Credit risk(1)				Credit risk(1)				Credit risk(1)			
	Com-mercial	Housing	Indi-vidual	Total	Com-mercial	Housing	Indi-vidual	Total	Com-mercial	Housing	Indi-vidual	Total
1. Credit risk at performing credit rating(2)												
Balance sheet credit risk	64,813	157,778	23,514	246,105	52,840	135,620	19,521	207,981	64,478	154,564	23,716	242,758
Off balance sheet credit risk(3)	48,700	16,668	13,467	78,835	39,518	10,538	11,743	61,799	49,377	16,552	13,530	79,459
Total credit risk at performing credit rating	**113,513**	**174,446**	**36,981**	**324,940**	**92,358**	**146,158**	**31,264**	**269,780**	**113,855**	**171,116**	**37,246**	**322,217**
2. Credit risk other than at performing credit rating												
A. Non-problematic	4,393	732	275	5,400	1,498	960	403	2,861	3,697	732	292	4,721
B. Total problematic	2,254	1,433	185	3,872	2,252	1,616	240	4,108	2,289	1,285	201	3,775
Special supervision(4)	470	1,375	71	1,916	796	1,546	108	2,450	474	1,188	73	1,735
Inferior	216	-	25	241	227	-	45	272	259	-	32	291
Impaired	1,568	58	89	1,715	1,229	70	87	1,386	1,556	97	96	1,749
Total on-balance sheet credit risk other than at performing credit rating	**6,647**	**2,165**	**460**	**9,272**	**3,750**	**2,576**	**643**	**6,969**	**5,986**	**2,017**	**493**	**8,496**
Off-balance sheet credit risk(3) other than at performing credit rating	2,237	-	22	2,259	1,332	-	39	1,371	1,744	-	23	1,767
Total credit risk other than at performing credit rating	**8,884**	**2,165**	**482**	**11,531**	**5,082**	**2,576**	**682**	**8,340**	**7,730**	**2,017**	**516**	**10,263**
Of which: Non-impaired debts in arrears 90 days or longer(4)	28	1,363	22	1,413	36	1,546	27	1,609	28	1,176	24	1,228
Total credit risk, including risk to the public(5)	**122,397**	**176,611**	**37,463**	**336,471**	**97,440**	**148,734**	**31,946**	**278,120**	**121,585**	**173,133**	**37,762**	**332,480**
Non-performing assets(6)	**1,449**	**58**	**53**	**1,560**	**1,219**	**70**	**55**	**1,344**	**1,408**	**100**	**61**	**1,569**

(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 housing loans for which a provision was made by extent of arrears, and with respect to housing loans 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 derivatives. Includes: Debts, debentures, securities loaned or purchased in resale agreements.
(6) Assets not accruing interest.

For more information about credit risk with respect to individuals (excluding housing loans), credit risk in the construction and real estate economic sector in Israel and housing loan risk, see chapter "Credit risk"..

See Notes 6 and 13 to the financial statements for further information.

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, derivatives 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 credit risk to the public for the Bank Group as of March 31, 2021 amounted to NIS 336 billion, compared to NIS 332 billion as of December 31, 2020 – an increase by 2%.

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

				Change in % over	
		March 31	December 31	March 31	December 31
	2021	2020	2020	2020	2020
Off balance sheet financial instruments other than derivatives[1]:					
Un-utilized debitory account and other credit facilities in accounts available on demand	20,083	17,214	20,964	16.7	(4.2)
Guarantees to home buyers	11,946	11,173	11,903	6.9	0.4
Irrevocable commitments for loans approved but not yet granted	31,680	19,679	31,334	61.0	1.1
Un-utilized revolving credit card facilities	10,102	8,758	10,191	15.3	(0.9)
Commitments to issue guarantees	11,775	9,295	11,400	26.7	3.3
Guarantees and other commitments	9,030	8,168	9,260	10.6	(2.5)
Loan guarantees	3,138	2,843	2,880	10.4	9.0
Documentary credit	336	234	311	43.6	8.0
Financial derivatives[2]:					
Total par value of derivative financial instruments	319,122	262,216	293,100	21.7	8.9
(On-balance sheet) assets with respect to derivatives	3,643	4,369	4,543	(16.6)	(19.8)
(On-balance sheet) liabilities with respect to derivatives	3,172	4,181	5,506	(24.1)	(42.4)

(1) Contractual balances or their stated amounts at the end of the period, before effect of provision for credit losses. See Note 13 to the financial statements for additional information.

(2) Includes forward transactions, swaps, options and credit derivatives.

For more information about on-balance sheet and off-balance sheet credit risk, see chapter "Risks" below and the Risks Report on the Bank website.

Securities – investment in securities increased in the first quarter of 2021 by NIS 2.2 billion. The increase in the balance of investment in securities is in the framework of 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]
					March 31, 2021
Debentures held to maturity	3,504	3,504	63	(5)	3,562
Debentures available for sale	14,043	13,987	[2]143	[2](87)	14,043
Investment in shares not held for trading	528	412	[3]120	[3](4)	528
Securities held for trading	1,454	1,462	[3]6	[3](14)	1,454
Total securities	**19,529**	**19,365**	**332**	**(110)**	**19,587**
					March 31, 2020
Debentures held to maturity	3,623	3,623	36	(5)	3,654
Debentures available for sale	4,160	4,196	[2]23	[2](59)	4,160
Investment in shares not held for trading	137	105	[3]32	–	137
Securities held for trading	789	794	–	[3](5)	789
Total securities	**8,709**	**8,718**	**91**	**(69)**	**8,740**
					December 31, 2020
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**

(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:

				Change in % over	
		March 31	December 31	March 31	December 31
	2021	2020	2020	2020	2020
Israeli currency					
Non-linked	10,013	4,568	10,937	119.2	(8.4)
CPI-linked	1,872	1,060	1,674	76.6	11.8
Foreign currency and foreign currency linked	7,099	2,944	4,233	141.1	67.7
Non-monetary items	545	137	446	297.8	22.2
Total	**19,529**	**8,709**	**17,290**	**124.2**	**12.9**

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

	Carrying amount as of		
	March 31, 2021	March 31, 2020	December 31, 2020
Government debentures:			
Government of Israel	14,172	7,618	14,455
Government of USA	2,941	678	451
Total government debentures	**17,113**	**8,296**	**14,906**
Debentures of financial institutions in Israel			
Total debentures of financial institutions in Israel	**560**	**138**	**622**
Debentures of banks in developed nations:			
South Korea	105	112	102
USA	53	–	59
Other	63	–	66
Total debentures of banks in developed nations	**221**	**112**	**227**
Corporate debentures (composition by sector):			
Rental real estate	467	–	439
Supply of electricity, gas, steam and AC	138	25	159
Mining and excavation	78	–	74
Construction	61	–	61
Industry – chemical industry	61	–	59
Other	252	1	264
Total corporate debentures	**1,057**	**26**	**1,056**
Asset-backed corporate debentures (ABS)			
Mining and excavation	29	–	28
Others	4	–	5
Total asset-backed corporate debentures (ABS)	**33**	**–**	**33**
Shares and other securities			
Investment in shares not held for trading	528	137	426
Of which: Shares for which no fair value is available(1)	256	50	216
Shares and other securities held for trading	17	–	20
Total shares and other securities	**545**	**137**	**446**
Total securities	**19,529**	**8,709**	**17,290**

(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.

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 5 to the financial statements.

Buildings and equipment – The balance of buildings and equipment increased in the first quarter of 2021 by NIS 41 million. The decrease in buildings and equipment is due to current change with respect to depreciation and to new investments, primarily in technology.

Deposits from the public – these account for 79% of total consolidated balance sheet as of March 31, 2021, similar to their weight as of December 31, 2020. In the first quarter of 2021, deposits from the public with the Bank Group increased by NIS 9.5 billion, or 3.4%.

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

		March 31	December 31	Change in % over March 31	Change in % over December 31
	2021	2020	2020	2020	2020
Israeli currency					
Non-linked	222,172	168,001	218,008	32.2	1.9
CPI-linked	18,260	14,343	16,457	27.3	11.0
Foreign currency and foreign currency linked	53,220	40,845	49,661	30.3	7.2
Non-monetary items	114	–	98	–	16.3
Total	**293,766**	**223,189**	**284,224**	**31.6**	**3.4**

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

		March 31	December 31	Change in % over March 31	Change in % over December 31
	2021	2020	2020	2020	2020
Individuals:					
Households – other	117,174	94,443	114,987	24.1	1.9
Private banking	20,900	16,015	20,178	30.5	3.6
Total – individuals	**138,074**	**110,458**	**135,165**	**25.0**	**2.2**
Business operations:					
Small and micro businesses	47,104	29,644	44,382	-	6.1
Medium businesses	15,946	9,705	14,406	-	10.7
Large businesses	35,734	27,982	38,094	27.7	(6.2)
Institutional investors	52,643	41,216	47,566	27.7	10.7
Total – business operations	**151,427**	**108,547**	**144,448**	**39.5**	**4.8**
Overseas operations	4,265	4,184	4,611	1.9	(7.5)
Total	**293,766**	**223,189**	**284,224**	**31.6**	**3.4**

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.

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

		March 31	December 31
	2021	2020	2020
Maximum deposit			
Up to 1	97,454	76,545	94,031
Over 1 to 10	75,182	57,166	73,376
Over 10 to 100	43,046	31,803	41,781
Over 100 to 500	38,081	23,662	35,060
Above 500	40,003	34,013	39,976
Total	**293,766**	**223,189**	**284,224**

For more information about composition of deposits from the public, see Note 7 to the financial statements.

Deposits from banks – The balance of deposits from banks as of March 31, 2021 amounted to NIS 4.3 billion, compared to NIS 3.8 billion as of December 31, 2020.

Debentures and subordinated notes – The balance of debentures and subordinated notes as of March 31, 2021 amounted to NIS 33.3 billion, a decrease by NIS 0.1 billion compared to the balance as of December 31, 2020. See also chapter "Developments in financing sources" above.

Capital, capital adequacy and leverage

Shareholder equity attributable to shareholders of the Bank – Shareholder equity attributable to equity holders of the Bank as of March 31, 2021 amounted to NIS 19.4 billion, compared to NIS 18.8 billion and NIS 16.4 billion as of December 31, 2020 and as of March 31, 2020. The increase in shareholder equity compared to the corresponding period last year 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):

		March 31	December 31
	2021	**2020**	**2020**
Share capital and premium[(1)]	3,447	2,235	3,445
Capital reserve from benefit from share-based payment transactions	85	67	87
Total cumulative other loss[(2)(3)]	(334)	(226)	(276)
Retained earnings [(4)]	16,224	14,295	15,548
Total	**19,422**	**16,371**	**18,804**

(1) For more information about share issuance, see condensed statement of changes to shareholders' equity.
(2) For more information about other comprehensive income (loss), see Note 4 to the financial statements.
(3) Includes actuarial liability with respect to employees' retirement program, see Notes 22 and 25 to the 2020 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 shareholder equity to total assets for the Group as of March 31, 2021 was 5.24% compared to 5.22% as of December 31, 2020 and 5.75% as of March 31, 2020.

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 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 March 31, 2021, 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).

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 2021.

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 Risks Report 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 housing loans would not apply to housing loans to be provided during this crisis period.

On September 16, 2020 and on March 22, 2021, further updates to the directive were issued, whereby validity of relief provided for in the Interim Directive was extended through September 30, 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. However, the circular stipulates that reduction of capital ratios by up to 0.3 percentage points within six months after expiration of the directive shall not be deemed a deviation from the foregoing.

Consequently, the Bank's minimum ratio of Tier I capital to risk assets, including the additional capital requirement of 1% of the balance of housing loans, as of March 31, 2021, would be at least 8.66%, and the total capital ratio would be at least 12.16% (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 the Board of Directors resolutions with regard to capital to risk components ratio and to dividend distribution policy, see Note 25 to the 2020 financial statements and the chapter "Analysis of composition of assets, liabilities, capital and capital adequacy" (Dividend distribution policy) below.

Below is information about supervisory capital and risk assets on the consolidated report (NIS in millions):

		As of March 31,	As of December 31,
	2021	2020	2020
Capital for purpose of calculating the capital ratio			
Tier I shareholders' equity	20,708	16,718	20,137
Tier I capital	20,708	16,718	20,137
Tier II capital	6,665	5,803	7,176
Total capital	**27,373**	**22,521**	**27,313**
Weighted risk asset balances			
Credit risk	188,340	156,641	185,392
Market risks	2,484	1,843	2,228
Operational risk	13,112	10,517	12,864
Total weighted risk asset balances	**203,936**	**169,001**	**200,484**

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

	March 31, 2021	March 31, 2020	December 31, 2020
Ratio of Tier I capital to risk components	10.15	9.89	10.04
Ratio of total capital to risk components	13.42	13.33	13.62
Minimum Tier I capital ratio required by Supervisor of Banks	8.66	8.82	8.68
Total minimum capital ratio required by the directives of the Supervisor of Banks	12.16	12.32	12.18

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

	As of March 31, 2021		As of March 31, 2020		As of December 31, 2020	
Exposure group	**Weighted risk asset balances**	**Capital requirement(1)**	**Weighted risk asset balances**	**Capital requirement(2)**	**Weighted risk asset balances**	**Capital requirement(3)**
Sovereign debts	153	19	97	12	135	16
Public sector entity debts	399	49	247	30	368	45
Banking corporation debts	1,481	180	809	100	1,416	172
Corporate debts	56,775	6,906	47,241	5,820	56,194	6,844
Debts secured by commercial real estate	6,766	823	4,205	518	6,758	823
Retail exposure to individuals	18,355	2,233	15,096	1,860	18,325	2,232
Loans to small businesses	10,388	1,264	8,525	1,050	10,342	1,260
Residential mortgages	85,221	10,366	74,032	9,121	83,351	10,152
Other assets	8,291	1,008	5,716	704	8,016	976
Total	**187,829**	**22,848**	**155,968**	**19,215**	**184,905**	**22,520**

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

	As of March 31, 2021		As of March 31, 2020		As of December 31, 2020	
	Weighted risk asset balances	**Capital requirement(1)**	**Weighted risk asset balances**	**Capital requirement(2)**	**Weighted risk asset balances**	**Capital requirement(3)**
Market risk	2,484	302	1,843	227	2,228	271
CVA risk with respect to derivatives(4)	511	62	673	83	487	59
Operational Risk(5)	13,112	1,595	10,517	1,296	12,864	1,567
Total	**16,107**	**1,959**	**13,033**	**1,606**	**15,579**	**1,897**
Total risk assets	**203,936**	**24,807**	**169,001**	**20,821**	**200,484**	**24,417**

(1) The capital requirement was calculated at 12.16% 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 9 to the financial statements.

(2) The capital requirement was calculated at 12.32% of risk asset balances.

(3) The capital requirement was calculated at 12.18% of risk asset balances.

(4) Credit Value Adjustments – mark to market with respect to credit risk of counter-party, in conformity with Basel III provisions.

(5) 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.

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, from November 15, 2020, in conformity with the circular dated March 22, 2021, the effective was delayed to start date of this directive from the issue date thereof through September 30, 2021. For more information see Note 9 to the financial statements.

Below is the Bank's leverage ratio:

		As of March 31,	As of December 31,
	2021	**2020**	**2020**
1. Consolidated data			
Tier I capital	20,708	16,718	20,137
Total exposure	401,308	309,863	388,370
			In %
Leverage ratio	5.16	5.40	5.19
Minimum leverage ratio required by the Supervisor of Banks	4.50	5.00	4.50
1. Significant subsidiaries			
Bank Yahav for Government Employees Ltd. and its subsidiaries			
Leverage ratio	5.09	5.16	5.07
Minimum leverage ratio required by the Supervisor of Banks	4.50	4.70	4.50
Union Bank Le-Israel Ltd. and its subsidiaries			
Leverage ratio	6.31	–	6.12
Minimum leverage ratio required by the Supervisor of Banks	4.50	–	4.50

Dividends

Dividend distribution policies

In conformity with resolution by the Bank Board of Directors dated February 26, 2018, it is the Bank's dividend policy to distribute dividends with respect to quarterly earnings, at up to 40% of net profit attributable to Bank shareholders, subject to Bank compliance with a ratio of Tier I capital to risk components as required by the Supervisor of Banks, and to maintaining appropriate safety margins.

Note that in conformity with the aforementioned dividend policy, the Bank may buy-back Bank shares, subject to the foregoing. Note that buy-back of Bank shares, as noted above, shall be considered a "distribution", as defined in the Corporate Act, 1999 and would therefore reduce any dividend amount to be distributed by the Bank pursuant to the dividend policy. "Distribution" pursuant to the dividend policy (both dividend distribution and share buy-back), as noted above, in conformity with Board resolutions in this regard, as passed from time to time and subject to statutory provisions, including restrictions stipulated by the Supervisor of Banks.

Following the Corona Virus crisis and further to Proper Conduct of Banking Business Directive 250 regarding "Adjustments to Proper Conduct of Banking Business Directives for addressing the Corona Virus Crisis (Interim Directive)" (hereinafter: "the Interim Directive"), on April 13, 2020 the Bank Board of Directors resolved that the Bank would avoid any dividend distribution (including buy-back of Bank shares) for as long as the Interim Directive in in effect. Note, in this regard, that the Interim Directive, as amended, stipulates that the Interim Directive is valid through September 30, 2021. Consequently, after expiration of the Interim Directive, the Bank intends to continue acting in conformity with the aforementioned dividend policy, subject to statutory provisions and to restrictions specified by the Supervisor of Banks.

Under the new five-year strategic plan for 2021-2025, approved by the Board of Directors on April 26, 2021, the Board of Directors shall monitor execution of the new strategic plan, in order to consider potential increase of the dividend rate up to 50% of net profit attributable to equity holders of the Bank, upon conclusion of the Union Bank merger process; This would be subject to Bank compliance with the ratio of Tier I capital to risk components, as required by the Supervisor of Banks, maintaining appropriate margins and subject to approval by the Supervisor of Banks.

Note that the aforementioned dividends policy does not constitute any resolution nor commitment to make any dividend distribution, and that any "distribution" would be subject to approvals as required by law, including approval of the distribution by the Board of Directors, all at the discretion of the Board of Directors and subject to all statutory provisions.

Dividends distribution

Below are details of dividends distributed by the Bank since 2019 (in reported amounts):

Declaration date	Payment date	Dividends per share	Dividends as percent of profit	Total dividends paid
		(Agorot)		(NIS in millions)
August 12, 2019	August 27, 2019	167.21	[(1)]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
Total dividends distributed in 2020				**176.0**

(1) Dividend rate as percentage of net profit in the first half of 2019.

(2) Total dividends distributed with respect to 2019 earnings – NIS 736.8 million.

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):

				Change in % over	
		March 31	December 31	March 31	December 31
	2021	2020	2020	2020	2020
Securities[(1)]	477,333	395,060	465,591	20.8	2.5
Assets of provident funds for which the Group provides operating services	103,051	87,864	97,895	17.3	5.3
Assets held in trust by the Bank Group	69,296	55,297	70,254	25.3	(1.4)
Assets of mutual funds for which the Bank provides operating services	10,730	10,838	11,585	(1.0)	(7.4)
Other assets under management[(2)]	15,202	15,326	14,597	(0.8)	4.1

(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 housing loans managed and operated by the Bank on behalf of others.

Financial Information by 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 – housing loans" and "other", 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 12 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

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")

For more information about principles for attribution of balances, revenues and expenses to clients, see Note 12 to the financial statements.

For more information and detailed description of the segments, see chapter "Other Information about the Bank and Management thereof" on the 2020 financial statements.

As from September 30, 2020 the Bank consolidates the financial statements of Union Bank. Therefore, the consolidated statement of profit and loss for 2021 and for the fourth quarter of 2020 and the Bank's consolidated balance sheet include the financial statements of Union Bank.

Financial Information by Supervisory Operating Segments:

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

	Net profit		**Share of total net profit (in %)**	
	In the first quarter		**In the first quarter**	
	2021	**2020**	**2021**	**2020**
Individuals:				
Households – housing loans	255	174	37.4	46.3
Households – other	(6)	8	-	2.1
Private banking	21	(1)56	3.1	14.9
Total – individuals	**270**	**238**	**40.5**	**63.3**
Business operations:				
Small and micro businesses	130	93	19.1	24.7
Medium businesses	27	(3)	4.0	-
Large businesses	33	21	4.8	5.6
Institutional investors	15	8	2.2	2.1
Total – business operations	**205**	**119**	**30.1**	**32.4**
Financial management	178	(16)	26.1	-
Total activity in Israel	**653**	**341**	**96.7**	**95.7**
Overseas operations	23	16	3.3	4.3
Total	**676**	**357**	**100.0**	**100.0**

(1) Includes revenues of NIS 82 million (NIS 54 million after tax) with respect to indemnification from insurers.

For more information about operating results in conformity with the management approach, see Note 12 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 – housing loans" and "other", in conformity with definitions of credit risk classification by economic sector.

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.

Operating results in the household segment

	For the three months ended March 31,					
	2021			2020		
	NIS in millions					
	Other	Housing loans	Total	Other	Housing loans	Total
Profit and profitability						
Total interest revenues, net	361	535	896	337	459	796
Non-interest financing revenues	-	-	-	-	-	-
Commissions and other revenues	174	36	210	147	38	185
Total revenues	**535**	**571**	**1,106**	**484**	**497**	**981**
Expenses with respect to credit losses	(7)	(23)	(30)	40	65	105
Operating and other expenses	527	211	738	414	166	580
Profit before provision for taxes	15	383	398	30	266	296
Provision for taxes	5	128	133	10	92	102
After-tax profit	10	255	265	20	174	194
Net profit:						
Attributable to non-controlling interests	(16)	-	(16)	(12)	-	(12)
Attributable to shareholders of the banking corporation	**(6)**	**255**	**249**	**8**	**174**	**182**
Balance sheet – key items:						
Loans to the public (end balance)	25,609	159,734	185,343	21,758	137,958	159,716
Loans to the public, net (end balance)	25,320	158,816	184,136	21,480	137,227	158,707
Deposits from the public (end balance)	117,174	-	117,174	94,443	-	94,443
Average balance of loans to the public	24,414	158,195	182,609	21,135	136,450	157,585
Average balance of deposits from the public	115,960	-	115,960	87,998	-	87,998
Average balance of risk assets	22,421	91,908	114,329	19,784	78,893	98,677
Credit margins and deposit margins:						
Margin from credit granting operations	238	511	749	214	434	648
Margin from activities of receiving deposits	115	-	115	123	-	123
Other	8	24	32	-	25	25
Total interest revenues, net	**361**	**535**	**896**	**337**	**459**	**796**

The segment contribution in the first quarter of 2021 includes Union Bank.

Contribution of the household segment (in conformity with the supervisory definitions) to Group profit in the first quarter of 2021 amounted to NIS 249 million, of which a loss of NIS 1 million with respect to Union Bank, compared to NIS 182 million in the corresponding period last year.

Below are key factors affecting the change in segment contribution:

The increase in segment profit is primarily due to housing loans (including general-purpose loans secured by a lien on a residential apartment) with contribution to net profit the first quarter of 2021 NIS 255 million, compared to NIS 174 million in the corresponding period last year. This increase is due to continued growth in operations: Increase by NIS 76 million in financing revenues, against increase by NIS 45 million in expenses attributed to the segment, with an increase by 13% in average loan balances in this segment. Net profit was also impacted by decrease in expenses with respect to credit losses, from expenses of NIS 65 million in the first quarter of 2020 to revenues of NIS 23 million in the first quarter of 2021, primarily due to resumption of regular payment for mortgages where delayed repayment was granted to to impact of the Corona Virus crisis.

Contribution of other household operations (other than housing loans) in the first quarter of 2021 amounted to a loss of NIS 6 million, compared to a profit of NIS 8 million in the corresponding period last year. Other than consolidation of Union Bank financial statements, the decrease in profitability is primarily due to decrease in interest revenues, net due to lower 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 and to increase in operating expenses attributable to this segment, primarily payroll expenses, due to adjustment of variable remuneration components to Bank return and profit in this quarter.

Net profit was also impacted by decrease in expenses with respect to credit losses, which amounted to revenues of NIS 7 million in the first quarter of 2021 (of which NIS 4 million in revenues with respect to Union Bank), compared to expense of NIS 40 million in the corresponding period last year. The change is primarily due to improvement in growth and unemployment benchmarks, which affect risk and the provision for credit losses in this segment.

For more details and extensive information about results of this segment and operating results in conformity with management's approach – see Note 12 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.

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.

Operating results of private banking segment

	For the three months ended March 31,	
	2021	2020
	NIS in millions	
Profit and profitability		
Total interest revenues, net	23	22
Non-interest financing revenues	-	-
Commissions and other revenues	16	86
Total revenues	**39**	**108**
Expenses with respect to credit losses	(3)	(1)
Operating and other expenses	11	24
Profit (loss) before provision for taxes	31	85
Reduction of provision for taxes	10	29
Net profit (loss)	**21**	**56**
Balance sheet – key items:		
Loans to the public (end balance)	212	164
Loans to the public, net (end balance)	208	162
Deposits from the public (end balance)	20,900	16,015
Average balance of loans to the public	307	213
Average balance of deposits from the public	20,495	14,999
Average balance of risk assets	145	26
Credit margins and deposit margins:		
Margin from credit granting operations	1	-
Margin from activities of receiving deposits	19	22
Other	3	-
Total interest revenues, net	**23**	**22**

The segment contribution in the first quarter of 2021 includes Union Bank.

Operating results of the private banking segment (in conformity with the supervisory definitions) in the first quarter of 2021 amounted to profit of NIS 20 million, of which NIS 4 million with respect to Union Bank, compared to NIS 56 million in the corresponding period last year.

The change is primarily due to revenues amounting to NIS 82 million (NIS 54 million after tax) with respect to an agreement with insurers to conclude derivative proceedings, recognized in the first quarter of 2020 under "Commissions and other revenues", against decrease in operating and other expenses, which was primarily due to decrease in legal expenses.

For more details and extensive information about results of this segment and operating results in conformity with management's approach – see Note 12 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.

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.

Operating results of micro and small business segment

	For the three months ended March 31,	
	2021	**2020**
	NIS in millions	
Profit and profitability		
Total interest revenues, net	344	298
Non-interest financing revenues	2	-
Commissions and other revenues	121	104
Total revenues	**467**	**402**
Expenses with respect to credit losses	16	72
Operating and other expenses	254	187
Profit before provision for taxes	197	143
Provision for taxes	66	49
After-tax profit	**131**	**94**
Net profit attributed to non-controlling interests	(1)	(1)
Net profit attributable to shareholders of the banking corporation	**130**	**93**
Balance sheet – key items:		
Loans to the public (end balance)	29,241	21,608
Loans to the public, net (end balance)	28,668	21,175
Deposits from the public (end balance)	47,104	29,644
Average balance of loans to the public	29,635	21,441
Average balance of deposits from the public	45,690	27,929
Average balance of risk assets	27,714	20,659
Credit margins and deposit margins:		
Margin from credit granting operations	286	256
Margin from activities of receiving deposits	30	35
Other	28	7
Total interest revenues, net	**344**	**298**

The segment contribution in the first quarter of 2021 includes Union Bank.

Contribution of the micro and small business segment (in conformity with the supervisory definitions) to Group profit in the first quarter of 2021 amounted to NIS 130 million, of which NIS 30 million with respect to Union Bank, compared to NIS 93 million in the corresponding period last year.

Other than consolidation of Union Bank financial statements, the change in segment contribution was primarily due to decrease in expenses with respect to credit losses, which in the first quarter of 2021 amounted to NIS 16 million (of which revenues of NIS 2 million with respect to Union Bank), NIS 72 million in the corresponding period last year. The decrease is primarily due to improvement in growth and unemployment benchmarks, which affect risk and the provision for credit losses in this segment.

Increase in interest revenues, net, in commissions and other revenues and in operating expenses is due to growth in current operations, and to consolidation of Union Bank's financial statements.

For more details and extensive information about results of this segment and operating results in conformity with management's approach – see Note 12 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.

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.

Operating results of medium business segment

	For the three months ended March 31,	
	2021	**2020**
	NIS in millions	
Profit and profitability		
Total interest revenues, net	85	76
Non-interest financing revenues	-	-
Commissions and other revenues	26	22
Total revenues	**111**	**98**
Expenses (reduction of expenses) with respect to credit losses	16	72
Operating and other expenses	54	31
Profit before provision for taxes	41	(5)
Provision for taxes	14	(2)
Net profit	**27**	**(3)**
Balance sheet – key items:		
Loans to the public (end balance)	9,934	7,431
Loans to the public, net (end balance)	9,688	7,225
Deposits from the public (end balance)	15,946	9,705
Average balance of loans to the public	9,369	7,411
Average balance of deposits from the public	15,281	8,958
Average balance of risk assets	11,541	8,462
Credit margins and deposit margins:		
Margin from credit granting operations	71	63
Margin from activities of receiving deposits	11	10
Other	3	3
Total interest revenues, net	**85**	**76**

The segment contribution in the first quarter of 2021 includes Union Bank.

Operating results of the medium business segment (in conformity with the supervisory definitions) in the first quarter of 2021 amounted to profit of NIS 33 million, of which NIS 3 million with respect to Union Bank, compared to loss of NIS 3 million in the corresponding period last year.

Other than consolidation of Union Bank financial statements, the change in segment contribution was primarily due to decrease in expenses with respect to credit losses, which in the first quarter of 2021 amounted to NIS 16 million (of which revenues of NIS 2 million with respect to Union Bank), compared to NIS 72 million in the corresponding period last year.

Expenses with respect to credit losses in the corresponding period last year were primarily impacted by group-based provision for credit losses with respect to effect of the Corona Virus crisis. In the first quarter of 2021, the economic environment improved; therefore, the provisions made were gradually attributed to specific areas and borrowers, concurrently with more moderate total provisions. Increase in interest revenues, net, in commissions and other revenues and in operating expenses is due to growth in current operations, and to consolidation of Union Bank's financial statements.

For more details and extensive information about results of this segment and operating results in conformity with management's approach – see Note 12 to the financial statements.

Large business segment

The supervisory definition

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

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.

Operating results of large business segment

	For the three months ended March 31,	
	2021	**2020**
	NIS in millions	
Profit and profitability		
Total interest revenues, net	139	134
Non-interest financing revenues	3	-
Commissions and other revenues	38	34
Total revenues	**180**	**168**
Expenses (reduction of expenses) with respect to credit losses	35	87
Operating and other expenses	95	49
Profit before provision for taxes	50	32
Provision for taxes	17	11
Net profit	**33**	**21**
Balance sheet – key items:		
Loans to the public (end balance)	21,082	17,692
Loans to the public, net (end balance)	20,742	17,450
Deposits from the public (end balance)	35,734	27,982
Average balance of loans to the public	20,640	16,596
Average balance of deposits from the public	37,059	25,058
Average balance of risk assets	29,259	24,359
Credit margins and deposit margins:		
Margin from credit granting operations	124	110
Margin from activities of receiving deposits	12	18
Other	3	6
Total interest revenues, net	**139**	**134**

The segment contribution in the first quarter of 2021 includes Union Bank.

Contribution of the large business segment (in conformity with the supervisory definitions) in the first quarter of 2021 amounted to profit of NIS 33 million, including a loss of NIS 2 million with respect to Union Bank, compared to NIS 35 million in the corresponding period last year.
The key factor affecting the change in segment contribution

is the decrease in expenses with respect to credit losses, which in the first quarter of 2021 amounted to NIS 21 million (of which revenues of NIS 9 million with respect to Union Bank), compared to NIS 87 million in the corresponding period last year.

Expenses with respect to credit losses in the corresponding period last year were primarily impacted by group-based provision for credit losses with respect to effect of the Corona Virus crisis. In the first quarter of 2021, the economic environment improved; therefore, the provisions made were gradually attributed to specific areas and borrowers, concurrently with more moderate total provisions.

Increase in interest revenues, net, in commissions and other revenues and in operating expenses is due to growth in current operations, and to consolidation of Union Bank's financial statements.

For more details and extensive information about results of this segment and operating results in conformity with management's approach – see Note 12 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.

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.

Operating results of institutional investor segment

	For the three months ended March 31,	
	2021	2020
	NIS in millions	
Profit and profitability		
Total interest revenues, net	24	29
Non-interest financing revenues	2	-
Commissions and other revenues	14	16
Total revenues	**40**	**45**
Reduced expenses with respect to credit losses	(19)	2
Operating and other expenses	36	31
Profit before provision for taxes	23	12
Provision for taxes	8	4
Net profit	**15**	**8**
Balance sheet – key items:		
Loans to the public (end balance)	2,231	1,792
Loans to the public, net (end balance)	2,219	1,786
Deposits from the public (end balance)	52,643	41,216
Average balance of loans to the public	1,548	1,222
Average balance of deposits from the public	47,181	45,409
Average balance of risk assets	2,516	2,455
Credit margins and deposit margins:		
Margin from credit granting operations	5	6
Margin from activities of receiving deposits	14	22
Other	5	1
Total interest revenues, net	**24**	**29**

The segment contribution in the first quarter of 2021 includes Union Bank.

Contribution of the institutional investor segment (in conformity with the supervisory definitions) in the first quarter of 2021 amounted to profit of NIS 15 million, including NIS 3 million with respect to Union Bank, compared to NIS 8 million in the corresponding period last year.

Growth in profit is primarily due to decrease in expenses with respect to credit losses of NIS 19 million, compared to expenses of NIS 2 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 12 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 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 derivatives, 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.

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.

Operating results of the financial management segment

	For the three months ended March 31,	
	2021	**2020**
		NIS in millions
Profit and profitability		
Total interest revenues (expenses), net	131	(53)
Non-interest financing revenues	182	64
Commissions and other revenues	112	77
Total revenues	**425**	**88**
Expenses (reduction of expenses) with respect to credit losses	-	2
Operating and other expenses	130	95
Profit (loss) before provision for taxes	295	(9)
Provision (reduced provision) for taxes	99	(1)
After-tax profit (loss)	196	(8)
Share of banking corporation in earnings of associated companies	(12)	-
Net profit (loss) before attribution to non-controlling interests	184	(8)
Net profit attributed to non-controlling interests	(6)	(8)
Net profit (loss) attributable to shareholders of the banking corporation	**178**	**(16)**
Balance sheet – key items:		
Average balance of risk assets	11,896	6,904
Credit margins and deposit margins:		
Margin from credit granting operations	-	-
Margin from activities of receiving deposits	-	-
Other	131	(53)
Total interest revenues, net	**131**	**(53)**

The segment contribution in the first quarter of 2021 includes Union Bank.

Operating results of the financial management segment (in conformity with the supervisory definitions) in the first quarter of 2021 amounted to profit of NIS 179 million, of which NIS 66 million with respect to Union Bank, compared to loss of NIS 16 million in the corresponding period last year.

Key factors affecting the change in segment results are as follows:

Increase in interest revenues, net due to continued growth in current operations, despite lower interest rates of the Bank of Israel and of the US Federal Reserve, and impact of the change in the Consumer Price Index.

Increase in non-interest financing revenues, primarily due to effect of the accounting treatment of derivatives at fair value.

See also analysis of evolution of financing revenues in chapter "Material developments in revenues, expenses and other comprehensive income".

Increase in commissions and other revenues, primarily due to decrease in deferred credit balance with respect to acquisition of Union Bank.

The increase in operating expenses is primarily due to consolidation of Union Bank's financial statements.

For more details and extensive information about results of this segment and operating results in conformity with management's approach – see Note 12 to the financial statements.

Overseas operations

The supervisory definition

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

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.

Operating results of overseas operations

	For the three months ended March 31,	
	2021	2020
	NIS in millions	
Profit and profitability		
Total interest revenues, net	49	45
Non-interest financing revenues	-	-
Commissions and other revenues	6	5
Total revenues	**55**	**50**
Expenses (reduction of expenses) with respect to credit losses	(2)	6
Operating and other expenses	23	20
Profit before provision for taxes	34	24
Provision for taxes	11	8
Net profit	**23**	**16**
Balance sheet – key items:		
Loans to the public (end balance)	3,914	3,760
Loans to the public, net (end balance)	3,877	3,725
Deposits from the public (end balance)	4,265	4,184
Average balance of loans to the public	3,421	3,133
Average balance of deposits from the public	4,407	4,545
Average balance of risk assets	4,810	4,388
Credit margins and deposit margins:		
Margin from credit granting operations	27	25
Margin from activities of receiving deposits	3	3
Other	19	17
Total interest revenues, net	**49**	**45**

Contribution of overseas operations to Group profit in the first quarter of 2021 amounted to NIS 23 million, compared to NIS 16 million in the corresponding period last year.

Growth in profit is primarily due to decrease in expenses with respect to credit losses of NIS 2 million, compared to expenses of NIS 6 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 12 to the financial statements.

Major Investee companies

Contribution of investees to net operating profit in the first quarter of 2021 amounted to NIS 114 million. The contribution of investees to net operating profit, excluding the effect of Union Bank, in the first quarter of 2021 amounted to NIS 47 million, compared with NIS 51 million in the corresponding period last year. 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 114 million. Excluding the effect of Union Bank, contribution of investees amounted to NIS 47 million, compared to NIS 44 million in the corresponding period last year – see explanation under Investees below.

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. As from this date, the Bank holds all of the share capital of Union Bank and therefore the Bank has control over Union Bank. For more information see Note 16 to the financial statements and Note 35 to the 2020 financial statements.

Contribution of Union Bank to Group profit in the first quarter of 2021 amounted to NIS 72 million, as well as NIS 54 million with respect to acquisition of Union Bank which is recognized on profit and loss over 5 years as from the fourth quarter of 2020.

Bank Yahav's reported total assets as of March 31, 2021 amounted to NIS 48,066 million, compared to NIS 47,663 million as of December 31, 2020 – an increase by NIS 403 million, or 1%. Net loans to the public reported as of March 31, 2021 amounted to NIS 23,611 million, compared to NIS 24,571 million as of December 31, 2020 – a decrease by NIS 960 million, or 4%.

Net deposits from the public reported as of March 31, 2021 amounted to NIS 38,136 million, compared to NIS 37,361 million as of December 31, 2020 – an increase by NIS 775 million, or 2%.

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.

The Group's share of Bank Yahav's net profit in the first quarter of 2021 amounted to NIS 23 million, compared to NIS 21 million in the corresponding period last year. Bank Yahav's net profit return on equity in the first quarter of 2021 was 11.1% on annualized basis, similar to the corresponding period last year.

Bank Yahav's balance sheet total as of March 31, 2021 amounted to NIS 34,182 million, compared to NIS 33,463 million as of December 31, 2020 – an increase by NIS 719 million, or 2%. Net loans to the public as of March 31, 2021 amounted to NIS 10,554 million, compared to NIS 10,575 million as of December 31, 2020 – a decrease by NIS 21 million, or 0.2%. Net deposits from the public as of March 31, 2021 amounted to NIS 29,891 million, compared to NIS 29,328 million as of December 31, 2020 – an increase by NIS 563 million, or 2%.

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. Tefahot Insurance's contribution net profit in the first quarter of 2021 (excluding net financing revenues from excess cash) amounted to NIS 17 million, compared to NIS 18 million in the corresponding period last year.

Net profit return on equity from current operations in the first quarter of 2021 was 5.2%, compared to 6.6% in the corresponding period last year.

Other investee companies operating in Israel

Other investees operating in Israel, wholly controlled by the Bank and supported by Bank infrastructure, contributed to the Bank's net profit in the first quarter of 2021 NIS 8 million, net – compared to NIS 4 million in the corresponding period last year. Of this, NIS 6 million (compared to NIS 2 million in the corresponding period last year) from trustee operations of the subsidiary, 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, United Mizrahi Overseas Holding Co. B.V. ("United Mizrahi Overseas Holding Company"), incorporated in Holland.

Net loss of Mizrahi Bank Switzerland in the first quarter of 2021 amounted to CHF 0.1 million, compared to net profit of CHF 0.1 million in the corresponding period last year. Mizrahi Bank Switzerland's balance sheet total as of March 31, 2021 amounted to CHF 125 million, compared to CHF 130 million as of December 31, 2020.

Interest revenues and net interest revenues in the first quarter of 2021 amounted to CHF 0.3 million, compared to CHF 0.4 million in the corresponding period last year. Pre-tax revenues in the first quarter of 2021 amounted to NIS CHF 0.1 million, compared to CHF 0.2 million in the corresponding period last year. Pre-tax loss net of exchange rate effects in the first quarter of 2021 amounted to NIS 0.9 million, compared to NIS 0.6 million in the corresponding period last year.

The balance of loans to the public as of March 31, 2021 amounted to CHF 45 million, compared to CHF 46 million as of December 31, 2020. Deposits with banks as of March 31, 2021 amounted to CHF 76 million, compared to CHF 80 million as of December 31, 2020. Deposits from the public as of March 31, 2021 amounted to CHF 88 million, compared to CHF 92 million as of December 31, 2020.

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 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 Bank business" above.

Investments in shares

The Bank manages nostro investments in shares. Shares in which the Bank invested are presented as shares not held for trading and as shares and other securities in the Bank's securities portfolio and under investment in associated companies, where the Bank has a material investment in such entity.

Most 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 investments in shares as of March 31, 2021 amounted to NIS 563 million, compared to NIS 167 million and NIS 477 million as of March 31, 2020 and as of December 31, 2020, respectively. Bank net gain from investment in shares in the first quarter of 2021 amounted to NIS 45 million, compared to Bank net loss from investment in shares amounting to NIS 12 million in the corresponding period last year.

For details of investments in shares not held for trading and shares held for trading in the Bank's portfolio, see Note 5 to the financial statements.

Risks overview

This chapter includes a concise overview and analysis of developments of major risks to which the Bank is exposed. If needed, this chapter should be read in conjunction with the chapter "Risks overview" in the 2020 audited annual financial statements. A detailed Risks Management Report which includes disclosure requirements of Basel Pillar 3 and additional information about risks, provided based on recommendations by the Financial Stability Board (FSB) is provided on the Bank website.

Developments in risks and risks management

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 risk, interest risk in the banking portfolio, liquidity risk, credit risk and non-financial risk, such as. operational risk (including information and cyber security risk and technology risk) as well as compliance and regulatory risk. The risks management and control policies, in various aspects, are designated to support achievement of the Group’s business goals while limiting exposure to such risks.

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, expanded in March and continued to develop and affect the Israeli and global economy throughout the year. The impact of this crisis on the quality of the Bank's loan portfolio may not be fully assessed as yet. 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.

Assessment of the impact of risk factors in the first quarter of 2021 remained unchanged from the previous two quarters, despite the improvement in the economy, due to the remaining uncertainty with regard to implications of this crisis.

Risks description

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.

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 housing loans, which are typically associated with relatively low risk. The Bank monitors and manages risk in the loan portfolio using various tools, including by development and deployment of internal models for assessment of client credit ratings. 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 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 management at the Group is conducted from a comprehensive viewpoint of Bank operations in Israel and at overseas affiliates and in conformity with directives of the Supervisor of Banks with regard to risk management and control, as set forth in Proper Conduct of Banking Business Directives and in particular, in Directive 310 "Risk management" by the Bank of Israel, and in conformity with the framework set forth in Basel Pillar II, including the required changes as Basel III became effective.

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 Bank has a structured process in place for mapping and identification of risks associated with Bank operations, based on a materiality threshold, expressed in terms of percentage of Bank capital. Guidelines for handling of material risks, as identified and mapped, including risk appetite, measurement, management and mitigation of each risk, are included in special policies documents.

Description of 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 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. ICAAP is a process for assessment of internal capital (Pillar 2), designed to ensure that overall capital at the Bank is in line with its risk profile, specified capital targets and business targets, in conformity with the work plan and with current capital planning. This is done both in the normal course of business and under stress scenarios. Moreover, this pillar includes qualitative assessment processes for the level of various risks, their management, creation of the risk map and identification of risk hubs.

The ICAAP document is extensively discussed and approved by Bank management, Board committees (Risks Management Committee and Audit Committee) and by the Board of Directors plenum. The document was submitted to the Bank of Israel in late 2020 and includes qualitative and quantitative references to all risk aspects at the Bank. The annual internal assessment process at the Bank to review capital adequacy indicates that the Bank has sufficient capital to face the various risks associated with Bank operations, both in the normal course of business and under stress scenarios. Over the entire planning period, the Bank has available total capital higher than the total capital required by ICAAP, even after applying stress and threat scenarios. Moreover, the Tier I capital ratio under the threat scenario, for each year of the scenario period, does not drop below 6.5%.

In 2020, the Bank also submitted to the Bank of Israel the outcome of the system-wide scenario, a uniform stress scenario applied by the Supervisor of Banks to the banking system. The Uniform Scenario was required twice in 2020 – in June and in October. 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 resilience, 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 resilience of the banking system using these scenarios. Results of this stress scenario, the last of which was 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.

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, Business 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 risk(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 Business 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 to which the Bank is exposed, set forth in the table above have been determined based on management assessment, as provided from time to time and includes risk 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. The risk is in line with the risk appetite guidelines specified by the Bank.

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, expanded in March and continued to develop and affect the Israeli and global economy throughout the year. The impact of this crisis on the quality of the Bank's loan portfolio may not be fully assessed as yet. 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.

Assessment of the impact of risk factors in the first quarter of 2021 remained unchanged from the previous two quarters, despite the improvement in the economy, due to the remaining uncertainty with regard to implications of this crisis.

The overall impact of credit risk and risk associated with quality of borrowers and collateral was Medium, a risk level reflecting the risk of effect of the Corona Virus crisis on the private segment, and to a larger extent on the business segment, primarily small and medium businesses. Material risk factors are the 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 impacted, and volatility in financial markets affecting the collateral value. These factors may result in more clients facing difficulties over time. The risk level remains unchanged, despite the improvement in the economy and resumed operations in most segments. The level of uncertainty remains high, and there is still concern that the impact of the Corona Virus crisis has yet to be fully reflected due, inter alia, to the various measures applied, some of which have yet to be concluded, including outstanding delayed payments and State-guaranteed loans that have yet to reach maturity. 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.

The risk level in the housing loan portfolio remains Low-Medium, due to uncertainty with regard to borrower risk, with the full repayment schedule yet to be resumed, as well as borrower behavior upon expiration of the delays granted. 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. The Bank closely monitors this activity and risk aspects with regard to the following: The delayed amount and the partial repayment rates, delay period, borrower profile, LTV ratio and so forth. The Bank also monitors development of borrower behavior after expiration of the repayment delay. 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.

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 is managed in a focused manner, with all efforts marshaled to provide the service required for the Bank, focused on changing needs in line with the Bank's business strategy and 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 the first quarter of 2021, the Bank maintained its Elevated state of 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. Due to the significant decrease in morbidity in Israel and return to normal operations, with significant lifting of restrictions, the Bank resolved at the end of April 2021 to lower the state of alert and to return to business as usual.

Reputational risk remained Low, with the Bank constantly monitoring various benchmarks and indicators with regard to the Bank's reputation, including impact of the Union Bank merger, and the client conversion process which started in the first quarter of the year. There was no material impact on the Bank's reputational risk.

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.

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 Risks Report for the first quarter of 2021 and the 2020 Risks Report, available on the Bank's website.

Credit risk

Risk description and development

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 risks due to over-exposure to a borrower / borrower group and to economic sectors, geographic concentration risk, risk due to exogenous changes, overseas credit risks and operational risks which, should they materialize, would have implications for credit risks. This risk is also correlated with other risks, such as: Market and interest risk, liquidity risk, compliance risk and other risks.

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, and remained so in early 2021.

Effect of the Corona Virus outbreak

Business units continue to keep in close regular contact with clients, in order to help the business sector face the challenges resulting from this crisis.

In 2020, the Bank applied measures in response to client needs arising from the situation. 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. The Bank also extended State-guaranteed loans from State-guaranteed foundations, as part of the economic assistance program announced by the State.

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.

The Bank of Israel issued a range of relief measures in directives and adjustments to Proper Conduct of Banking Business Directive in order to address the Corona Virus crisis, assist the economy in getting through this crisis and increasing lending in the economy. These directives include relief measures for measurement and capital adequacy, sector indebtedness, management of credit facilities in checking accounts, restrictions on extending housing loans and so forth.

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.

Moreover, 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 continues to strictly manage and monitor credit risk, and the business units continue to be 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.

Note that in view of the Corona Virus crisis and resulting directives of the Supervisor of Banks, in 2020 the Bank reviewed and revised its credit policy and risk appetite, and the overall credit risk level increased from Low-Medium to Medium. However, the impact of this crisis on the quality of the Bank's loan portfolio may not be fully assessed as yet.

Analysis of developments in 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 March 31, 2021, the Bank had no borrower group which meets the aforementioned criteria.

For more information about significant exposures to borrower groups, see chapter "Credit Risk" in the 2020 Report of the Board of Directors and Management.

Major borrowers

Below is the sector composition of the top 6 borrowers for the Group as of March 31, 2021 (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	636	900	1,536
2.	Financial services	3	1,308	1,311
3.	Financial services	818	472	1,290
4.	Construction and real estate	1	984	985
5.	Construction and real estate	297	587	884
6.	Power	627	197	824

(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.

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 interests 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 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:

- Buyout – purchase or buyback, 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 material 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 reviewed by a forum which includes representatives from the Business Division, the Risks Control Division and the Accounting and Financial Reporting Division, which reviews 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):

	March 31, 2021				March 31, 2020				December 31, 2020			
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**	**Balance sheet credit risk**	**Off-balance sheet credit risk**	**Total credit risk**	**Individual provision for credit losses**
Construction and real estate	575	-	575	-	-	-	-	-	-	-	-	-
Commerce	-	-	-	-	154	-	154	-	139	-	139	-
Total	**575**	**-**	**575**	**-**	**154**	**-**	**154**	**-**	**139**	**-**	**139**	**-**

Credit to leveraged companies (NIS in millions):

	March 31, 2021				March 31, 2020				December 31, 2020			
Economic sector of borrower	**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**	**Balance sheet credit risk**	**Off-balance sheet credit risk**	**Total credit risk**	**Individual provision for credit losses**
Mining and excavation	-	-	-	-	127	44	171	10	91	-	91	-
Construction and real estate	20	-	20	-	359	-	359	-	28	-	28	-
Power	100	-	100	-	-	-	-	-	100	-	100	-
Commerce	328	33	361	36	287	95	382	-	453	19	472	34
Transport and storage	125	15	140	39	49	20	69	-	213	20	233	11
Financial services	117	-	117	3	123	-	123	3	145	-	145	21
Public and community services	130	8	138	-	138	8	146	-	133	8	141	-
Total	**820**	**56**	**876**	**78**	**1,083**	**167**	**1,079**	**3**	**1,163**	**47**	**1,210**	**66**

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		
	March 31, 2021	**March 31, 2020**	**December 31, 2020**
Problematic credit risk:			
Impaired credit risk	1,785	1,426	1,808
Inferior credit risk	327	311	439
Credit risk under special supervision – housing	1,375	1,546	1,188
Credit risk under special supervision – other	577	937	583
Total problematic credit risk	**4,064**	**4,220**	**4,018**

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

	March 31, 2021	**March 31, 2020**	**December 31, 2020**
Ratio of impaired loans to the public to total loans to the public	0.7	0.7	0.7
Ratio of impaired loans to the public to total non-housing loans	1.8	1.8	1.8
Ratio of problematic loans to the public to total non-housing loans	2.6	3.4	2.7
Ratio of housing loans in arrears 90 days or longer to total loans to the public (1)(2)	0.6	0.8	0.5
Ratio of problematic credit risk to total credit risk with respect to the public	1.2	1.5	1.2

(1) This non-housing rate is negligible.

(2) Balance of credit in arrears before provision by extent of arrears.

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 (NIS in millions):

	As of March 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	33	8	24	–	–	–	33	33
Medium businesses	36	8	4	2	6	–	28	34
Small businesses	793	1,962	233	21	89	12	671	772
Private individuals	179	3,785	30	6	10	1	162	173
Housing loans	9,051	(2) 11,603	808	301	160	86	8,504	8,750
Total as of March 31, 2021	**10,092**	**17,366**	**1,099**	**(3)330**	**265**	**99**	**9,398**	**9,762**
Of which, with respect to complete delay	**2,656**	**7,990**	**345**	**76**	**165**	**24**	**2,390**	**2,579**
Of which, with respect to partial delay in conformity with the Bank of Israel outline	**7,436**	**9,376**	**754**	**254**	**100**	**75**	**7,008**	**7,183**
Total as of December 31, 2020	**24,744**	**43,451**	**1,289**	**411**	**486**	**32**	**23,815**	**24,333**
Total as of September 30, 2020	**25,505**	**44,963**	**1,325**	**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 March 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			Of which: In	
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**	**arrears 30 days or longer**	**Recorded debt balance**
Large businesses	9	23	847	3	984
Medium businesses	6	28	256	2	658
Small businesses	132	556	2,572	102	3,695
Private individuals	90	36	948	23	-
Housing loans	1,460	7,190	35,358	555	-
Total as of March 31, 2021	**1,697**	**7,833**	**39,981**	**685**	**5,337**
Of which, with respect to complete delay	**248**	**492**	**39,828**	**679**	**-**
Of which, with respect to partial delay in conformity with the Bank of Israel outline	**1,449**	**7,341**	**153**	**6**	**-**
Total as of December 31, 2020	**7,810**	**14,442**	**26,277**	**352**	**5,074**
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 a general program amounted to NIS 353 million (as of December 31, 2020: NIS 1,124 million).
(2) Number of Borrowers.
(3) Of which: Impaired debts not accruing interest revenues amounting to NIS 4 million (as of December 31, 2020: NIS 11 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.

Analysis of change 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	For the three months ended March 31, 2021			For the three months ended March 31, 2020			For the year ended December 31, 2020		
	Com-mercial	Indi-vidual	Total	Com-mercial	Indi-vidual	Total	Com-mercial	Indi-vidual	Total
Balance of impaired debts at start of the period	1,507	193	1,700	1,132	142	1,274	1,132	142	1,274
Debts classified as impaired during the period	150	8	158	252	30	282	696	78	774
Debts re-classified as non-impaired during the period	(10)	–	(10)	(13)	(2)	(15)	(70)	(3)	(73)
Impaired debts written off	(34)	(11)	(45)	(58)	(5)	(63)	(183)	(23)	(206)
Impaired debts repaid	(101)	(49)	(150)	(95)	(9)	(104)	(384)	(26)	(410)
Other changes	24	6	30	11	1	12	95	16	111
Initial consolidation of Union Bank	–	–	–	–	–	–	221	9	230
Balance of impaired debts at end of the period	**1,536**	**147**	**1,683**	**1,229**	**157**	**1,386**	**1,507**	**193**	**1,700**

Of which: Movement in problematic debts under restructuring	For the three months ended March 31, 2021			For the three months ended March 31, 2020			For the year ended December 31, 2020		
	Com-mercial	Indi-vidual	Total	Com-mercial	Indi-vidual	Total	Com-mercial	Indi-vidual	Total
Balance of problematic debts under restructuring at start of period	514	75	589	266	65	331	266	65	331
Re-structuring made during the period	12	7	19	68	8	76	209	38	247
Debt reclassified as non-impaired due to subsequent restructuring	(3)	(2)	(5)	(1)	(1)	(2)	(10)	(4)	(14)
Debts under restructuring written off	(6)	(7)	(13)	(13)	(5)	(18)	(52)	(17)	(69)
Debts under restructuring repaid	(38)	(8)	(46)	(9)	(4)	(13)	(65)	(23)	(88)
Other changes	7	4	11	1	2	3	39	8	47
Initial consolidation of Union Bank	–	–	–	–	–	–	127	8	135
Balance of problematic debts under restructuring at end of period	**486**	**69**	**555**	**312**	**65**	**377**	**514**	**75**	**589**

Analysis of provision for credit losses

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

	For the three months ended March 31, 2021					
	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	1,383	942	340	2,665	2	2,667
Expenses with respect to credit losses	45	(23)	(10)	12	1	13
Net accounting write-offs	(18)	(1)	(18)	(37)	–	(37)
Acquisition of Union Bank	3	–	4	7	–	7
Balance of provision for credit losses at end of period	**1,413**	**918**	**316**	**2,647**	**3**	**2,650**
	For the three months ended March 31, 2020					
Balance of provision for credit losses at start of period	865	674	273	1,812	1	1,813
Expenses with respect to credit losses	239	65	39	343	2	345
Net accounting write-offs	(63)	(8)	(19)	(90)	–	(90)
Balance of provision for credit losses at end of period	**1,041**	**731**	**293**	**2,065**	**3**	**2,068**

For more information about provision for credit losses see Notes 6 and 13 to the financial statements.

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

	March 31, 2021	March 31, 2020	December 31, 2020
Ratio of provision for credit losses to total loans to the public	1.1	1.0	1.1
Ratio of provision for credit losses to total credit risk with respect to the public	0.8	0.7	0.8
	Three months(1)		
	2021	**2020**	**2020**
Ratio of expenses with respect to credit losses to average balance of loans to the public, gross	–	0.7	0.5
Ratio of net write-offs to average balance of loans to the public, gross	0.1	0.2	0.1
Ratio of expenses with respect to credit losses to average balance of loans to the public, net	–	0.7	0.5
Of which: With respect to commercial loans other than housing loans(2)	0.2	1.6	1.0
Ratio of net write-offs to average balance of loans to the public, net	0.1	0.2	0.1

(1) Calculated on annualized basis.
(2) The rate with respect to housing loans is negligible.

Credit risk to individuals (excluding housing loans)[(1)]

The household segment is a key growth engine and a significant component of the Bank's strategic plan for 2021-2025.

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. The Bank applies special monitoring 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
(NIS in millions):

	As of March 31,		As of December 31,
	2021	**2020**	**2020**
Debts			
Checking balances	1,699	2,023	1,771
Utilized credit card balances	4,511	3,553	4,262
Auto loans – adjustable interest	2,038	610	1,985
Auto loans – fixed interest	2,592	1,077	2,564
Other loans and credit – variable interest	12,654	12,492	13,063
Other loans and credit – fixed interest	345	248	388
Total debt (on-balance sheet credit)	**23,839**	**20,003**	**24,033**
Un-utilized facilities, guarantees and other commitments			
Checking accounts – un-utilized facilities	5,202	4,347	5,145
Credit cards – un-utilized facilities	7,929	7,092	8,077
Guarantees	229	167	218
Other liabilities	50	56	42
Total un-utilized facilities, guarantees and other commitments (off-balance sheet credit)	**13,410**	**11,662**	**13,482**
Total credit risk to individuals	**37,249**	**31,665**	**37,515**
Of which:			
Bullet / balloon loans[(3)]	363	452	376
Financial asset portfolio and other collateral against credit risk[(4)]			
Financial assets portfolio:			
Deposits	3,896	3,567	3,905
Securities	247	162	244
Other monetary assets	279	316	286
Other collateral[(5)]	3,664	1,044	3,964
Total financial assets portfolio and other collateral against credit risk	**8,086**	**5,089**	**8,399**

(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 increase from March 31, 2020 is primarily due to liens on vehicles.

Below is composition by size of borrower indebtedness[1]:

Loan ceiling and credit risk (NIS in thousands)		As of March 31, 2021 Number of Borrowers	As of March 31, 2021 Total credit risk	As of March 31, 2020 Number of Borrowers	As of March 31, 2020 Total credit risk	As of December 31, 2020 Number of Borrowers	As of December 31, 2020 Total credit risk
	Up to 10	393,645	2,063	194,864	640	331,016	2,106
Above 10	Up to 20	114,516	1,704	89,123	1,289	110,237	1,692
Above 20	Up to 40	144,781	4,212	118,618	3,438	142,499	4,157
Above 40	Up to 80	149,809	8,577	126,364	7,188	149,065	8,513
Above 80	Up to 150	94,359	10,161	83,316	8,935	95,072	10,272
Above 150	Up to 300	42,874	8,609	41,255	8,358	43,006	8,675
Above 300		4,192	1,923	4,046	1,817	4,205	2,100
Total		**944,176**	**37,249**	**749,663**	**31,665**	**875,100**	**37,515**

(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:

Income	As of March 31, 2021 NIS in millions	As of March 31, 2021 In %	As of March 31, 2020 NIS in millions	As of March 31, 2020 In %	As of December 31, 2020 NIS in millions	As of December 31, 2020 In %
Accounts with no fixed income for the account	5,527	23.2	1,719	8.6	5,484	22.8
Less than NIS 10 thousand.	4,804	20.2	5,052	25.3	4,893	20.4
Between NIS 10 thousand and NIS 20 thousand	7,517	31.5	7,654	38.3	7,543	31.4
Over NIS 20 thousand	5,991	25.1	5,578	27.8	6,113	25.4
Total	**23,839**	**100**	**20,003**	**100**	**24,033**	**100**

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

Below is composition of on-balance sheet credit by remaining term to maturity[1]:

Term to maturity	As of March 31, 2021 NIS in millions	As of March 31, 2021 In %	As of March 31, 2020 NIS in millions	As of March 31, 2020 In %	As of December 31, 2020 NIS in millions	As of December 31, 2020 In %
Up to 1 year	3,578	20.3	3,594	24.9	3,676	20.4
Over 1 year to 3 years	5,588	31.7	4,836	33.5	5,608	31.2
Over 3 years to 5 years	4,383	24.9	2,699	18.7	4,515	25.1
Over 5 years to 7 years	2,046	11.6	1,515	10.5	2,082	11.6
Over 7 years[2]	2,034	11.5	1,783	12.4	2,119	11.7
Total	**17,629**	**100**	**14,427**	**100**	**18,000**	**100**

(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.

Below is information about problematic credit risk before provision for credit losses (NIS in millions):

	As of March 31, 2021			As of March 31, 2020			As of December 31, 2020		
	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	185	3	188	240	2	242	201	4	205
Problematic credit risk rate[2]	0.78%	0.02%	0.50%	1.20%	0.02%	0.76%	0.84%	0.03%	0.55%

(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 three months ended March 31,		2020
	2021	2020	
Expenses with respect to credit losses as percentage of total loans to the public to individuals	(0.17%)	0.78%	0.56%

Data for credit risk to individuals show that:

- Total debts by individuals (on-balance sheet credit) increased by 19.2% compared to March 31, 2020 decrease of 0.8% compared to December 31, 2020.
- Composition of debts as of March 31, 2021:

  Checking accounts – 7.1%

  Credit cards – 18.9%

  Auto loans – 19.4%

  Other loans and credit – 54.5%
- Of all debts (on-balance sheet credit) as of March 31, 2021, 33.9% is secured by financial assets and other collateral in the client's account (compared to 25.4% as of March 31, 2020 and 34.9% as of December 31, 2020).

In view of risk attributes of this segment, the the rate of group-based qualitative provision for individuals in the first quarter of 2021 was affected by the economic environment based on which previous provisions are attributed.

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 Business 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 Sales Act guarantees and some performance guarantees in assisted projects with overseas reinsurers.

Despite the Corona Virus crisis which started in March 2020, the total number of new residential units sold in Israel in 2020 was 15% higher than in 2019. However, construction planning processes and residential housing starts slowed down. Rental real estate properties saw a decrease in demand. However, as the economy resumes full operation, this area too is gradually recovering.

Below is information about credit risk in the construction and real estate economic sector in Israel, by real estate collateral type (NIS in millions)

	March 31, 2021						
	Credit risk to the public[1]						
			Credit risk		**Total problematic credit risk**	**Balance of provision for credit losses**	
	On balance sheet[2]	**Off balance sheet[3]**	**Including**	**Impaired**	**Other proble-matic[4]**	**Balance sheet credit risk**	**Off-balance sheet credit risk**
Secured by real estate in Israel:							
Housing	12,119	18,419	30,538	77	33	93	54
Commercial and industrial	6,402	1,736	8,138	98	20	56	5
Total secured by real estate in Israel	**18,521**	**20,155**	**38,676**	**175**	**53**	**149**	**59**
Not secured by real estate in Israel	4,740	3,853	8,593	151	85	47	34
Total for construction and real estate economic sector in Israel	**23,261**	**24,008**	**47,269**	**326**	**138**	**196**	**93**
Of which: Designated for project assistance	10,038	16,556	26,594	50	28	86	56
	March 31, 2020						
Secured by real estate in Israel:							
Housing	10,214	15,859	26,073	11	13	80	36
Commercial and industrial	6,268	1,429	7,697	60	370	56	3
Total secured by real estate in Israel	**16,482**	**17,288**	**33,770**	**71**	**383**	**136**	**39**
Not secured by real estate in Israel	2,298	2,965	5,263	116	68	41	18
Total for construction and real estate economic sector in Israel	**18,780**	**20,253**	**39,033**	**187**	**451**	**177**	**57**
Of which: Designated for project assistance	9,057	14,091	23,148	5	7	84	42
	December 31, 2020						
Secured by real estate in Israel:							
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

(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):

	March 31, 2021			March 31, 2020			December 31, 2020		
	Credit risk[1]			Credit risk[1]			Credit risk[1]		
	On balance sheet	Off balance sheet	Inclu-ding	On balance sheet	Off balance sheet	Inclu-ding	On balance sheet	Off balance sheet	Inclu-ding
Real estate collateral in Israel									
Real estate yet to be completely constructed:									
Raw land	5,354	776	6,130	3,976	727	4,703	5,500	916	6,416
Real estate under construction	7,210	17,375	24,585	7,416	15,265	22,681	7,299	16,909	24,208
Real estate completely constructed	5,957	2,004	7,961	5,090	1,296	6,386	6,000	1,191	7,191
Total credit secured by real estate in Israel	**18,521**	**20,155**	**38,676**	**16,482**	**17,288**	**33,770**	**18,799**	**19,016**	**37,815**
Not secured by real estate in Israel	4,740	3,853	8,593	2,298	2,965	5,263	3,654	4,511	8,165
Total credit risk for construction and real estate	**23,261**	**24,008**	**47,269**	**18,780**	**20,253**	**39,033**	**22,453**	**23,527**	**45,980**

(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 borrower indebtedness.

Credit risk data for the construction and real estate clients sector as of March 31, 2021 show that 43.2% of the on-balance sheet credit risk and 69.0% 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 March 31, 2021, as presented below (Credit Risk by Economic Sector) is 14.1%. 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 10.1% (excluding liabilities, including contingent liabilities to extend credit or to provide guarantees and amounts of Sales Act guarantees for which the Bank has obtained an insurance policy).

Credit risk by economic sector – Consolidated

As of March 31, 2021

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]	Credit in good standing other than at perfor-ming credit rating[5]	Proble-matic[6]	Total	Debts[2]	Proble-matic[6]	Impaired	Expen-ses with respect to credit losses	Net accoun-ting write-offs	Balance of provision for credit losses
Borrower activity in Israel											
Public – commercial											
Agriculture, forestry and fishing	1,174	1,129	38	7	1,173	919	7	6	1	-	10
Mining and excavation	926	887	-	39	820	315	39	-	2	(1)	11
Industry and production	12,812	11,815	481	516	12,599	7,525	516	367	10	9	207
Of which: Diamonds	1,570	1,377	47	146	1,566	1,064	146	105	1	(1)	25
Construction and real estate – construction[7]	39,927	36,821	2,755	351	39,862	16,855	351	229	(1)	3	247
Construction and real estate – real estate operations	7,342	6,650	579	113	7,104	6,114	113	97	(5)	-	42
Electricity and water delivery	6,247	6,197	38	12	5,828	3,232	12	1	3	-	21
Commerce	14,787	13,284	1,029	474	14,622	10,793	474	368	13	1	258
Hotels, dining and food services	2,045	1,707	187	151	2,045	1,608	151	54	4	2	105
Transport and storage	2,848	2,470	142	236	2,823	1,519	236	147	17	2	104
Information and communications	1,958	1,722	161	75	1,872	1,179	75	10	2	1	36
Financial services	17,723	17,535	20	168	14,580	8,496	168	144	(12)	(1)	138
Other business services	6,122	5,590	353	179	6,115	4,072	179	115	16	2	125
Public and community services	3,357	3,059	266	32	3,352	2,654	32	18	-	-	29
Total commercial	**117,268**	**108,866**	**6,049**	**2,353**	**112,795**	**65,281**	**2,353**	**1,556**	**50**	**18**	**1,333**
Private individuals – housing loans	176,362	174,197	732	1,433	176,362	159,694	1,433	58	(23)	1	917
Private individuals – other	37,353	36,871	294	188	37,249	23,839	188	89	(10)	18	316
Total public – activity in Israel	**330,983**	**319,934**	**7,075**	**3,974**	**326,406**	**248,814**	**3,974**	**1,703**	**17**	**37**	**2,566**
Banks in Israel	2,491	2,491	-	-	1,438	1,191	-	-	-	-	-
Government of Israel	14,246	14,246	-	-	8	8	-	-	-	-	-
Total activity in Israel	**347,720**	**336,671**	**7,075**	**3,974**	**327,852**	**250,013**	**3,974**	**1,703**	**17**	**37**	**2,566**
Borrower activity overseas											
Total public – activity overseas	5,488	5,006	392	90	4,842	3,143	90	82	(5)	-	81
Overseas banks	9,352	9,352	-	-	7,849	7,790	-	-	-	-	2
Overseas governments	3,484	3,483	-	1	543	543	1	1	1	-	1
Total activity overseas	**18,324**	**17,841**	**392**	**91**	**13,234**	**11,476**	**91**	**83**	**(4)**		**84**
Total	**366,044**	**354,512**	**7,467**	**4,065**	**341,086**	**261,489**	**4,065**	**1,786**	**13**	**37**	**2,650**

(1) On- and off-balance sheet credit risk, including with respect to derivatives (NIS in millions): Debts[2] – 261,489; debentures – 19,001; securities borrowed or acquired in conjunction with resale agreements – 139; Assets with respect to derivatives – 3,643; and Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower indebtedness limits – 81,772.

(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 housing loans for which a provision was made by extent of arrears, and housing loans 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 2,221 million and off-balance sheet credit risk amounting to NIS 2,346 million, provided to certain purchase groups in the process of construction and includes off-balance sheet credit risk amounting to NIS 5,384 million for which insurance has been acquired to cover the Sales Act guarantee portfolio from international re-insurers.

Credit Risk by Economic Sector – Consolidated – continued

As of March 31, 2020

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]	Credit in good standing other than at perfor-ming credit rating[5]	Proble-matic[6]	Total	Debts[2]	Proble-matic[6]	Impaired	Expen-ses with respect to credit losses	Net accoun-ting write-offs	Balance of provision for credit losses
Borrower activity in Israel											
Public – commercial											
Agriculture, forestry and fishing	912	884	15	13	912	680	13	7	1	1	8
Mining and excavation	778	613	38	127	722	337	127	97	12	1	15
Industry and production	10,094	9,356	266	472	9,929	5,851	472	297	33	5	183
Of which: Diamonds	1,726	1,523	93	110	1,726	1,146	110	95	2	–	23
Construction and real estate – construction[7]	34,036	32,647	1,171	218	34,025	14,394	218	135	17	2	198
Construction and real estate – real estate operations	4,997	4,445	132	420	4,981	4,369	420	52	6	–	36
Electricity and water delivery	2,812	2,746	51	15	2,527	1,723	15	1	2	1	9
Commerce	11,620	10,874	309	437	11,468	8,925	437	343	53	31	226
Hotels, dining and food services	1,428	1,240	117	71	1,428	1,076	71	27	12	2	39
Transport and storage	1,693	1,558	49	86	1,638	1,206	86	20	17	3	32
Information and communications	1,439	1,366	54	19	1,413	798	19	14	10	8	12
Financial services	13,707	13,555	9	143	10,360	4,717	143	133	15	–	97
Other business services	5,110	4,778	161	171	5,100	3,477	171	68	31	9	92
Public and community services	2,847	2,602	217	28	2,814	2,315	28	20	1	–	16
Total commercial	**91,473**	**86,664**	**2,589**	**2,220**	**87,317**	**49,868**	**2,220**	**1,214**	**210**	**63**	**963**
Private individuals – housing loans	148,441	145,865	960	1,616	148,441	137,903	1,616	70	65	8	730
Private individuals – other	31,825	31,143	440	242	31,665	20,003	242	87	39	19	293
Total public – activity in Israel	**271,739**	**263,672**	**3,989**	**4,078**	**267,423**	**207,774**	**4,078**	**1,371**	**314**	**90**	**1,986**
Banks in Israel	1,345	1,345	–	–	189	134	–	–	–	–	–
Government of Israel	7,827	7,827	–	–	173	173	–	–	–	–	–
Total activity in Israel	**280,911**	**272,844**	**3,989**	**4,078**	**267,785**	**208,081**	**4,078**	**1,371**	**314**	**90**	**1,986**
Borrower activity overseas											
Total public – activity overseas	6,381	6,108	131	142	6,232	4,389	142	55	29	–	79
Overseas banks	13,147	13,147	–	–	11,987	11,980	–	–	2	–	3
Overseas governments	1,336	1,336	–	–	658	658	–	–	–	–	–
Total activity overseas	**20,864**	**20,591**	**131**	**142**	**18,877**	**17,027**	**142**	**55**	**31**		**82**
Total	**301,775**	**293,435**	**4,120**	**4,220**	**286,662**	**225,108**	**4,220**	**1,426**	**345**	**90**	**2,068**

(1) On- and off-balance sheet credit risk, including with respect to derivatives (NIS in millions): Debts[2] – 225,108; debentures – 8,572; securities borrowed or acquired in conjunction with resale agreements – 36; Assets with respect to derivatives – 4,369; and Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower indebtedness limits – 63,690.

(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 housing loans for which a provision was made by extent of arrears, and housing loans 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 2,062 million and off-balance sheet credit risk amounting to NIS 2,393 million, provided to certain purchase groups in the process of construction and includes off-balance sheet credit risk amounting to NIS 5,553 million for which insurance has been acquired to cover the Sales Act guarantee portfolio from international re-insurers.

Credit Risk by Economic Sector – Consolidated – continued

As of December 31, 2020

Reported amounts (NIS in millions)

	Total credit risk[1]				Off balance sheet debts[2] and credit risk (other than derivatives)[3]				Credit losses[4]		
		Of which:									
	Total	Credit perfor-mance rating[4]	Credit in good standing other than at perfor-ming credit rating[5]	Proble-matic[6]	Total	Debts[2]	Proble-matic[6]	Impaired	Expen-ses with respect to credit losses	Net accoun-ting write-offs	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 – housing loans	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 derivatives (NIS in millions): Debts[2] – 260,838; debentures – 16,864; securities borrowed or acquired in conjunction with resale agreements – 200; Assets with respect to derivatives – 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 housing loans for which a provision was made by extent of arrears, and housing loans 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 Sale Law guarantees and performance guarantees pursuant to the Sale Law from international re-insurers.

Exposure to foreign countries – Consolidated[1]

Reported amounts (NIS in millions)

Country	March 31, 2021			March 31, 2020			December 31, 2020		
	Exposure								
	On balance sheet[2]	Off-balance sheet[2](3)(4)	Total	On balance sheet[2]	Off-balance sheet[2](3)(4)	Total	On balance sheet[2]	Off-balance sheet[2](3)(4)	Total
USA	12,168	691	12,859	12,972	622	13,594	12,844	581	13,425
France	1,573	2,216	3,789	1,417	2,234	3,651	1,586	2,255	3,841
UK	2,384	1,051	3,435	1,834	1,021	2,855	2,465	764	3,229
Germany	145	2,740	2,885	90	2,809	2,899	161	2,844	3,005
Other	2,975	1,945	4,920	2,661	1,125	3,786	3,317	1,845	5,162
Total exposure to foreign countries	**19,245**	**8,643**	**27,888**	**18,974**	**7,811**	**26,785**	**20,373**	**8,289**	**28,662**
Of which: Total exposure to Greece, Portugal, Spain, Italy	40	9	49	46	33	79	44	39	83
Of which: Total exposure to LDC countries	498	121	619	456	75	531	516	142	658
Of which: Total exposure to foreign countries facing liquidity issues[5]	-	-	-	-	-	-	-	-	-

(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 5,538 million, primarily with respect to acquiring insurance from international reinsurers for the portfolio of Sales Act guarantees for borrowers in the real estate sector in Israel. (as of March 31, 2020: NIS 5,756 million; as of December 31, 2020: NIS 5,653 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 9 to the financial statements.

(5) As of March 31, 2021, March 31, 2020 and December 31, 2020, the Bank had no exposure to foreign countries facing liquidity issues where the balance sheet exposure with respect to such countries exceeds the reporting threshold specified in Addendum 7, Chapter 651 of Public Reporting Regulations.

Credit exposure to foreign financial institutions

Below is information on the Bank's exposure to foreign financial institutions[1][2] (NIS in millions):

	On-balance sheet credit risk[3]		Off balance sheet credit risk[4]	Current credit exposure	
External credit rating	Before offset of deposits with respect to master netting agreements[5]	After offset of deposits with respect to master netting agreements[6]		Before offset of deposits with respect to master netting agreements	After offset of deposits with respect to master netting agreements[5]
					March 31, 2021
AAA to AA-	1,064	1,022	5,435	6,499	6,457
A+ to A-	1,060	1,033	183	1,243	1,216
BBB+ to BBB-	81	81	21	102	102
BB+ to B-	73	73	24	97	97
Lower than B-	–	–	–	–	–
Unrated	24	24	–	24	24
Total credit exposure to foreign financial institutions	**2,302**	**2,234**	**5,663**	**7,965**	**7,896**
					March 31, 2020
AAA to AA-	807	780	5,553	6,360	6,334
A+ to A-	38	23	232	270	255
BBB+ to BBB-	11	3	117	128	120
BB+ to B-	–	–	26	26	26
Lower than B-	–	–	–	–	–
Unrated	–	–	–	–	–
Total credit exposure to foreign financial institutions	**856**	**806**	**5,928**	**6,784**	**6,735**
					December 31, 2020
AAA to AA-	1,092	1,041	5,489	6,581	6,530
A+ to A-	1,229	1,168	260	1,489	1,428
BBB+ to BBB-	83	83	20	103	103
BB+ to B-	85	85	24	109	109
Lower than B-	–	–	–	–	–
Unrated	23	23	–	23	23
Total credit exposure to foreign financial institutions	**2,512**	**2,400**	**5,793**	**8,305**	**8,193**

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. As from 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 March 31, 2021, March 31, 2020 and December 31, 2020 there was no problematic credit risk net.

Problematic credit risk – credit risk for impaired, inferior credit or credit under special supervision.

(1) Foreign financial institutions include: banks, investment banks, brokers/dealers, insurance companies, institutional entities and entities controlled by the former. 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 derivatives.
(4) The balance of off-balance sheet exposure to financial institutions includes NIS 5,538 million as of March 31, 2021 (as of March 31, 2020: NIS 5,756 million; as of December 31, 2020: NIS 5,653 million) with respect to acquiring insurance from international reinsurers for the portfolio of Sales Act guarantees 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 derivatives 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 derivatives.

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 derivatives vis-à-vis banks and dealers/brokers (domestic and foreign), see Note 11.B. 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 derivatives. 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 one of the leading international rating agencies are used – based on financial information for the institution under review. 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 derivatives and investments in securities are for longer terms.

Housing credit risk and development

In conjunction with credit risks management, the Bank takes various actions to manage, control and mitigate risks associated with provision of housing loans. The Bank estimates the risk profile associated with provision of housing loans as low, relative to the inherent risk in the Bank's overall loan portfolio, due to the high level of client diversification, geographic diversification of borrowers, relatively low leverage, which recently has decreased even further 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 housing loans, 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 housing loans, 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 reviewed 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 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, 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 obligo 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 March 2021) was 53.0% (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.

Corona Virus pandemic

The Bank continues to closely monitor 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.

In 2020, 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, ended at the end of the first quarter of 2021. 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)		
	Up to three months		Rate of change
	2021	2020	In %
Mortgages issued (for housing and any purpose)			
From the Bank's funds	8,105	7,266	11.5
From funds of the Finance Ministry			
Directed loans	65	107	(39.3)
Standing loans and grants	23	40	(42.5)
Total new loans	**8,193**	**7,413**	**10.5**
Refinanced loans	1,023	1,131	(9.5)
Total loans originated	**9,216**	**8,544**	**7.9**
Number of borrowers (includes refinanced loans)	13,370	12,094	10.6

Below are details of various risk attributes of the housing loan portfolio[1] as of March 31, 2021 (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%	3,576	9,550	14,403	30,223	24,163	9,282	91,197
	50%-35%	426	1,147	1,168	3,691	5,472	2,472	14,376
	80%-50%	–	–	3	6	772	696	1,477
	Over 80%	–	–	–	1	63	93	157
75%-60%	Up to 35%	2,805	6,895	8,378	13,705	11,581	2,507	45,871
	50%-35%	302	705	571	1,393	1,889	823	5,683
	80%-50%	–	–	–	1	185	179	365
	Over 80%	–	–	–	–	1	22	23
Over 75%	Up to 35%	28	145	141	262	473	970	2,019
	50%-35%	4	8	6	20	97	288	423
	80%-50%	–	–	–	2	5	87	94
	Over 80%	–	–	–	–	–	15	15
Total		**7,141**	**18,450**	**24,670**	**49,304**	**44,701**	**17,434**	**161,700**
Of which:								
Loans granted with original amount over NIS 2 million		654	1,805	1,775	3,225	2,199	644	10,302
Percentage of total housing loans		9.2%	9.8%	7.2%	6.5%	4.9%	3.7%	6.4%
Loans bearing variable interest:								
Non-linked, at prime lending rate		2,347	5,654	7,566	14,042	13,254	7,431	50,294
CPI-linked[3]		203	219	337	452	918	3,277	5,406
In foreign currency[3]		71	389	583	1,344	1,007	671	4,065
Total		**2,621**	**6,262**	**8,486**	**15,838**	**15,179**	**11,379**	**59,765**
Non-linked loans at prime lending rate, as percentage of total housing loans		32.9%	30.6%	30.7%	28.5%	29.7%	42.6%	31.1%
CPI-linked loans bearing variable interest as percentage of total housing loans		2.8%	1.2%	1.4%	0.9%	2.1%	18.8%	3.3%
Loans with LTV over 75% as percentage of total housing loans		0.4%	0.8%	0.6%	0.6%	1.3%	7.8%	1.6%

(1) Balance of housing loans 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 loan risk factors, as detailed below (all data below as of March 31, 2021).

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 March 31, 2021 was 53.0%, compared to 52.8% on March 31, 2020 and to 52.7% on December 31, 2020. Out of the total loan portfolio of the Bank, amounting to NIS 161.7 million, some 98.4% 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 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 March 31, 2021, 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 4.1%. For loans originated one to 5 years ago – by 5.3%; for loans originated over 5 years ago – by 18.8%; for all loans in total – by 10.3%.

The percentage of loans granted with a high LTV ratio (over 75%) out of total housing loan portfolio of the Bank to 0.6% for loans granted 1-2 years ago, 0.8% for loans granted 3-12 months ago and 0.5% for loans granted in the first quarter of 2021.

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 25.5%. Some 86.4% of the Bank's mortgage portfolio were granted to borrowers with a repayment ratio under 35% (the average repayment ratio for these borrowers is 22.9%). Some 12.2% 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%). Some 1.3% 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% was granted to borrowers with a repayment ratio over 80% (the average repayment ratio for these borrowers is 91.8%).

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 housing loans which in part bear adjustable interest and in part are linked (to CPI, foreign currency) or non-linked (NIS-denominated loans).

On December 27, 2020, the Bank of Israel issued an update to Proper Conduct of Banking Business Directive 329 concerning "Restrictions on extending housing loans". 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 housing loans 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 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 15.6 billion, or only 9.6% of the housing loan portfolio.

Note that before approving a loan linked to the prime lending rate, similar to loan approvals for other variable interest tracks, the Bank evaluates 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 10.3 billion on March 31, 2021, or only 6.4% of the Bank's housing loan portfolio.

Provision by extent of arrears

Below are details of the provision for credit losses with respect to housing loans 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 March 31, 2021 (NIS in millions):

	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	8	27	17	22	200	266	34	308
Of which: Balance of provision for interest[(3)]	–	–	–	1	110	111	7	118
Recorded debt balance	490	857	180	121	141	1,299	68	1,857
Balance of provision for credit losses [(4)]	–	–	25	60	102	187	34	221
Debt balance, net	**490**	**857**	**155**	**61**	**39**	**1,112**	**34**	**1,636**

(1) In conformity with Public Reporting Directives, excludes the balance of housing loans 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.

For more information about housing credit risk, see also the 2020 Risks Report available on the Bank website.

Operational risk

Risk description and development

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.
As part of Bank preparations for the Corona Virus crisis and the impact of changes to operational conduct resulting from the relief measures applied, the likelihood of realization of certain potential operating risk increased, primarily due to the load on branch and call center operations, which may result in increase in the number of operating errors in conducting transactions and in a higher number of fraud attempts. In fact, there were no unusual operational events.

Business continuity

The Bank applies Proper Conduct of Banking Business Directive 355 concerning "Management of business continuity".
in the first quarter of 2021, the Bank continued to handle the Corona Virus crisis, including the following: Compliance with work guidelines and maintaining hygiene and social distancing, working in split units, continuation of working remotely by means of a fast, structured process and so forth. Concurrently, the Bank continued to monitor cases of morbidity or infection at branches and at headquarters units and the date of return to work, including at Group level. For more information see chapter "Significant Events in the Bank Group's Business" above.

In the first quarter of 2021, the Bank started implementation of the 2021 work plan and drill plan, including participation in the drill, led by the Bank of Israel Currency Unit. The objective of this drill was to test the Bank's capacity to transfer funds from the collection point to delivery to clients at the end point. The drill tested the cash supply under an earthquake scenario, with related implications, including the following: Use of manual operations at branches and at the cash center, transfer of cash under such conditions, impact to staffing, co-operation with national emergency authorities and so forth. The Business Continuity Department, in co-operation with business units at the Bank, expended the original drill outline and reviewed implications of this scenario on all emergency plans. The drill was successfully concluded and reported to management and to the Bank of Israel.

During the quarter a cyber security drill was conducted, with Bank management serving as the crisis management team, the Cyber and Information Security Department, the Business Continuity Department. The drill event included disruption of significant systems, as well as removal of sensitive information and a ransom demand in order to release the systems and avoid publication of the information. The drill covered multiple elements, including the following: Containing the event from the business aspect and ensuring business continuity at the Bank, providing a response from communication and information aspects, exercise of various dilemmas arising as part of negotiations and so forth.

As part of Bank preparations for Bank-wide emergencies, a drill is conducted in co-operation with the Technology Division and the Risk Control Division, simulating a severe IT malfunction, including review of the business and operating implications of such occurrence, in order to formulate guidelines for business operations in case of emergency, raising dilemmas, identifying and resolving gaps.

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 first quarter of 2021, 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. Thanks to defensive measures applied by the Bank, despite these fraud attempts, there were no unauthorized transactions in client accounts.

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 un-authorized 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 elevated 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

IT risk – risk arising from failure of the Bank's IT systems as a result of deficient availability and performance of these systems, incorrect performance and lack of support by the systems for the Bank's business needs.

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.

Given current developments in the financial market and the age of current Bank systems, 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.

Moreover, in 2019 the Bank launched a project to replace the CRM system, which would take place gradually over 3 years.

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 during this quarter 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.

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 first quarter of 2021, the level of legal risk remained in level low-medium.

For more information about operational risk, see also the Risks Report for the first quarter of 2021, available on the Bank website.

Market risk and interest risk

Risk description and development

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 rate 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.

The market risk in the negotiable 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.

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 first quarter of 2021 remained at Low-Medium, see explanation below.

The first quarter of 2021 saw a decline in short-term yield and increase in medium- and long-term yield on the NIS interest rate curve (zero coupon). In this quarter, inflationary expectations increased. 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 those at the end of the previous year, primarily due to current banking operations in the mortgage segment, and range at levels lower than the specified risk appetite.

Below is the VaR for the Bank Group (NIS in millions):

		First Quarter	All of
	2021	**2020**	**2020**
At end of period	806	1,023	770
Maximum value during period	(FEB) 810	(MAR) 1,023	(JUN) 1,055
Minimum value during period	(JAN) 791	(JAN) 443	(JAN) 443

The increase in VaR was due to current operations during the quarter .

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):

						March 31, 2021
						Change in fair value
	Israeli currency		**Foreign currency**			
	Non-linked	**Linked to CPI**	**Dollar**	**EUR**	**Other**	**Total**
2% increase	(369)	(1,564)	403	18	18	(1,494)
Decrease by 2%	(249)	1,134	(417)	20	(20)	468
						March 31, 2020
2% increase	(59)	(1,513)	411	61	8	(1,092)
Decrease by 2%	(137)	1,509	(430)	(34)	(14)	894
						December 31, 2020
2% increase	(369)	(1,558)	195	(10)	15	(1,727)
Decrease by 2%	(38)	1,254	(199)	52	(17)	1,052

(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.

Quantitative information about interest risk – Sensitivity analysis

Net adjusted fair value(1) of financial instruments of the Bank and its subsidiaries thereof:

	As of March 31, 2021			As of March 31, 2020			As of December 31, 2020		
	NIS	Foreign currency(2)	Total	NIS	Foreign currency(2)	Total	NIS	Foreign currency(2)	Total
Net adjusted fair value(1)	17,372	461	17,833	12,451	9	12,460	15,227	236	15,463
Of which: Banking portfolio	5,127	8,837	13,964	(4,838)	16,518	11,680	(4,109)	16,203	12,094

Impact of change scenarios in interest rates on net adjusted fair value(1) (1) of the Bank and its subsidiaries :

	As of March 31, 2021			As of March 31, 2020			As of December 31, 2020		
	NIS	Foreign currency(2)	Total	NIS	Foreign currency(2)	Total	NIS	Foreign currency(2)	Total
Concurrent changes									
Concurrent 1% increase	39	104	143	83	231	314	(35)	91	56
Of which: Banking portfolio	54	134	188	76	241	317	(48)	118	70
Concurrent 1% decrease	(429)	(110)	(539)	(110)	(232)	(342)	(35)	(99)	(134)
Of which: Banking portfolio	(392)	(142)	(534)	(103)	(248)	(351)	(10)	(68)	(78)
Non-concurrent changes									
Steeper(3)	(158)	(4)	(162)	(253)	(33)	(286)	(399)	(8)	(407)
Shallower(4)	213	46	259	557	90	647	624	46	670
Short-term interest increase	378	94	472	241	186	427	263	82	345
Short-term interest decrease	(35)	(102)	(137)	212	(190)	22	222	(87)	135

(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.

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 658 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.
This calculation allows for scenarios which may result in negative interest rates and does not cap interest rates at 0%.
See Note 15 to the financial statements for additional information.
For further details of assumptions used in calculation of the fair value of financial instruments, see Note 33 to the financial statements as of December 31, 2020.

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 March 31, 2021			As of March 31, 2020			As of December 31, 2020		
	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)									
Concurrent 1% increase	1,191	81	1,272	810	154	964	1,145	145	1,290
Of which: Banking portfolio	1,189	107	1,296	810	160	970	1,148	125	1,273
Concurrent 1% decrease	(955)	(82)	(1,037)	(663)	(157)	(820)	256	(160)	96
Of which: Banking portfolio	(953)	(111)	(1,064)	(663)	(163)	(826)	256	(141)	115

(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 underlying the above data, which are in line with how the Bank manages interest risk:

- 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.
- As from 2021, when calculating sensitivity of interest revenues, the risk-free interest rate is not capped at a minimum of 0%. In the same way, no cap is applied to the discount rate at 0% when calculating non-interest financing revenues.

For further details of assumptions used in calculation of the fair value of financial instruments, see Note 15 to the financial statements.

For further details of assumptions used in calculation of the fair value of financial instruments, see Note 33 to the financial statements as of December 31, 2020.

Analysis of CPI and exchange rate exposures

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 March 31, 2021, 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]	1,846.7	923.8	(943.5)	(1,887.0)	183.0	(159.9)
Dollar	82.0	38.6	(18.5)	(28.5)	15.9	(12.5)
Pound Sterling	0.4	0.2	(0.1)	–	0.2	(0.1)
Yen	0.2	–	–	(0.1)	0.2	(0.1)
EUR	(1.0)	(0.5)	5.4	11.6	1.0	1.3
Swiss Franc	0.1	0.1	(0.1)	(0.1)	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 554.6 million and NIS (566.1) million, respectively.

The Corona Virus crisis resulted in lower inflationary expectations due to the expected decline in demand. 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.

For more information about market risk and interest risk, see the Detailed Risks Report on the Bank website.

Share price risk

For more information about share price risk, see the 2020 Risks Report available on the Bank website.

For information about equity investments, see Note 5 to these financial statements and Notes 12 and 15.A to the 2020 financial statements.

Liquidity and financing risk

Risk description and development

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.

Liquidity risk is managed subject to the limitations of the Board of Directors and 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.

There were no deviations from the Board of Directors' limitations recorded in the first quarter of 2021.

Following the raised state of alert due to the Corona Virus outbreak, in the third and fourth quarters of 2020 and in the first quarter of 2021, the state of alert at the Bank was Elevated. 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 was appropriate across all these scenarios and the Bank was in compliance with all internal limitations. Due to the significant decrease in morbidity in Israel and return to normal operations, with significant lifting of restrictions, the Bank resolved at the end of April 2021 to lower the state of alert and to return to business as usual.

For more information about liquidity risk, see also the 2020 Risks Report available on the Bank website.

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.

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 interest over the long term with optional liquidity during the deposit term. In the first quarter of 2021, the Bank continued diversifying of its financing sources and reducing concentration risk. In this quarter, concentration risk for financing sources remained low.

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%. 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 in 2021 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 is in addition to liquidity risk management using internal models, as stipulated by Directive 342.

The average liquidity coverage ratio (consolidated, including data for Union Bank) for the first quarter of 2021 was 133%. As noted above, in this period there were no recorded deviations from these restrictions.

As of March 31, 2021, the balance of the three largest depositor groups at the Bank Group amounted to NIS 9.3 billion.

raising sources and Bank liquidity status – In the first quarter of 2021, there was an increase in the Bank's balance of deposits from the public. The balance of deposits from the public rose from NIS 284.2 billion on December 31, 2020 to NIS 293.8 billion on March 31, 2021, an increase by 3.4%.

In the non-linked segment, total deposits from the public amounted to NIS 222.2 billion, an increase by 1.9% compared to end of 2020. In the CPI-linked sector, deposits from the public amounted to NIS 18.3 billion, an increase by 11.0% compared to end of 2020, and in the foreign currency sector – to NIS 53.2 billion, an increase by 7.2% compared to end of 2020.

For more information about liquidity coverage ratio, see also the Risks Report available on the Bank website.

Other risks

Compliance and regulatory risk

Risk description and development

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.

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.

Compliance risk remained unchanged in the first quarter of 2021 and is defined as low-medium.

This risk assessment is due, inter alia, to addressing of risks classified as high and to further enhancement of controls and training delivery and improvement in efficiency of work processes in this area, while incorporating technology improvements. In the current quarter, the Bank took action to implement the applicable directives by the various regulators. The Bank also applied 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 and development

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.

The Bank has near-zero appetite for cross-border risk.

Cross-border risk remained unchanged in the first quarter of 2021 and is defined as low-medium. The Bank manages this risk by revising procedures, automating work processes, delivering training, concentrating activity of foreign residents in specialized branches and specification of work routines in processes required tor reporting under both FATCA and 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 and development

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.

The Bank has near-zero risk appetite with regard to AML risk.

AML risk remained unchanged in the third quarter of 2021 and is defined as low-medium. The risk assessment is based, inter alia, on continued risk-focused management, as reflected by revision of operating procedures and processes, including IT support and process streamlining, training and deployment activities along with risk-focused controls, improvement of documents and classifications, and taking effective action to prevent recurrence of unusual 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 first 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 risk and terrorism financing, see the 2020 Risks Management Report available on the Bank website.

Reputational risk

Risk description and development

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.

In the first quarter of 2021 reputation risk remained low; the Bank continues to regularly monitor the impact of the Corona Virus crisis and the impact of the Union Bank merger. To date there was no material impact on the Bank's reputational risk.

For more information about reputation risk, see also the 2020 Risks Report available on the Bank website.

Business-strategic risk

Risk description and development

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.

The Bank operates in conformity with a five-year strategic plan, most recently approved by the Bank’s Board of Directors in April 2021, 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. For more information about the strategic plan, see chapter "Business goals and strategy" above.

For more information about strategic – business risk, see also the Detailed Risks Report on the Bank website.

For more information about environmental risk, see chapter "Risks Overview" of the 2020 Report of the Board of Directors and Management.

Policies and critical accounting estimates, controls and procedures

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 2021 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.

For more information about accounting policies on critical matters, see chapter "Policies and critical accounting estimates" of the 2021 Report of the Board of Directors and Management.

For more information about changes to critical accounting policies and critical accounting estimates with regard to the group-based provision for credit losses and with respect to the Corona Virus crisis, see chapter "Changes to critical accounting policies and to critical accounting estimates" above.

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 Regulations 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.

Evaluation of controls and procedures with regard to disclosure

Further to adjustment of controls and procedures with regard to disclosure concerning the change in structure of the financial statements, made in 2020, in the first quarter of 2021 additional adjustments were made with regard to quarterly financial statements. Bank 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 as of March 31, 2021. Based on this evaluation, the Bank President & CEO and the Chief Accountant of the Bank concluded that at the end of the period ended March 31, 2021, the disclosure controls and procedures are effective for recording, processing, summarizing and reporting the information that the Bank is required to disclose in the quarterly report, in accordance with the Public Reporting Regulations of the Supervisor of Banks, on the date stipulated in these Regulations.

Changes to internal controls

In the first quarter of 2021, no change occurred in the Bank's internal controls over financial reporting that had a material effect, or can reasonably be expected to have a material effect on the Bank's internal controls over financial reporting.

Moshe Vidman	**Moshe Lari**
Chairman of the Board of Directors	President & CEO

Approval date:
Ramat Gan
May 19, 2021

Certification

I, MOSHE LARY, certify that:

1. I have reviewed the quarterly report of Bank Mizrahi Tefahot Ltd. ("the Bank") for the quarter ended March 31, 2021 ("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 quarterly 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 presented 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 this 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 and Balance Sheet Committees 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

May 19, 2021

(1) As defined in Public Reporting Directives with regard to "Report of the Board of Directors and Management".

Certification

I, MENAHEM AVIV, certify that:

1. I have reviewed the quarterly report of Bank Mizrahi Tefahot Ltd. ("the Bank") for the quarter ended March 31, 2021 ("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 quarterly 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 presented 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 this 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 and Balance Sheet Committees 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

May 19, 2021

(1) As defined in Public Reporting Directives with regard to "Report of the Board of Directors and Management".

Deloitte.

Independent Auditors' Review Report to Shareholders of Bank Mizrahi-Tefahot Limited

Introduction

We have reviewed the enclosed financial information of Bank Mizrahi Tefahot Ltd. and subsidiaries thereof ("the Bank"), consisting of the condensed consolidated balance sheet as of March 31, 2021, the condensed consolidated statements of profit and loss, comprehensive income, changes to shareholder equity and cash flows for the three-month period then ended. The Board of Directors and management are responsible for preparation and presentation of financial information for these interim periods, in accordance with generally accepted accounting principles in Israel (Israeli GAAP) for interim financial reporting and in accordance with directives and guidance of the Supervisor of Banks. We are responsible for expressing our conclusion as to the financial information for this interim period based on our review.

We did not review the condensed interim financial information of certain consolidated subsidiaries, whose assets included in consolidation constitute 4.98% of total consolidated assets as of March 31, 2021, and whose net interest revenues before expenses with respect to credit losses included in the consolidated statements of profit and loss constitute 6.59% of total consolidated net interest revenues before expenses with respect to credit losses for the three-month period then ended. The condensed financial information for the interim period of the aforementioned companies was reviewed by other independent auditors, we have been provided with their review reports and our conclusions, in as much as it relates to the financial information with respect to those companies, is based on the review reports by those other independent auditors.

Review scope

We have conducted our review in accordance with Review Standard (Israel) no. 2410 of the Institute of Certified Public Accountants in Israel "Review of Financial Information for Interim Periods Conducted by the Entity's Independent Auditor" and with the review standard whose application to review of banking corporations is stipulated in accordance with directives and guidance of the Supervisor of Banks. A review of financial information for interim periods consists of discussions, mostly with persons responsible for financial and accounting issues, and of application of analytical and other review procedures. A review is significantly limited in scope as compared to an audit conducted in accordance with generally accepted audit standards in Israel, and therefore it does not enable us to achieve assurance that we have knowledge of all material matters which might have been identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, and on the review reports of other auditors, nothing has come to our attention that would cause us to believe that the aforementioned financial information has not been prepared, in all material aspects, in accordance with Israeli GAAP for interim financial reporting and in accordance with directives and guidance of the Supervisor of Banks.

Without qualifying our conclusion, we draw your attention to Note 10.B.3 with regard to lawsuits filed against the Bank and its subsidiaries, including requests to recognize them as class actions

Brightman Almagor Zohar & Co.

Brightman Almagor Zohar & Co.
A Firm in the Deloitte Global Network
Certified Public Accountants

Tel Aviv, May 19, 2021

Tel Aviv - Main Office
1 Azrieli Center Tel Aviv, 6701101 P.O.B. 16593 Tel Aviv, 6116402 | Tel: +972 (3) 608 5555 | info@deloitte.co.il

Jerusalem
3 Kiryat Ha'Mada
Har Hotzvim Tower
Jerusalem, 914510
D. BOX 45396
Tel: +972 (2) 501 8888
Fax: +972 (2) 537 4173
info-jer@deloitte.co.il

Haifa
5 Ma'aleh Hashichrur
P.O.B. 5648
Haifa, 3105502
Tel: +972 (4) 860 7333
Fax: +972 (4) 867 2528
info-haifa@deloitte.co.il

Eilat
The City Center
P.O.B. 583
Eilat, 8810402
Tel: +972 (8) 637 5676
Fax: +972 (8) 637 1628
info-eilat@deloitte.co.il

Nazareth
9 Marj Ibn Amer St.
Nazareth, 16100
Tel: +972 (73) 399 4455
Fax: +972 (73) 399 4455
info-nazareth@deloitte.co.il

Mizrahi Tefahot Bank

Condensed Financial Statements as of March 31, 2021

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Condensed consolidated statements of profit and loss

Reported amounts (NIS in millions)

	Note	For the three months ended March 31,		For the year ended December 31,
		2021	2020	2020
		(unaudited)		(audited)
Interest revenues	2	2,208	1,686	7,528
Interest expenses	2	517	339	1,708
Interest revenues, net		1,691	1,347	5,820
Expenses with respect to credit losses	6.13	13	345	1,050
Interest revenues, net after expenses with respect to credit losses		**1,678**	**1,002**	**4,770**
Non-interest revenues				
Non-interest financing revenues	3	189	64	221
Commissions		477	424	1,671
Other revenues		66	105	221
Total non-interest revenues		**732**	**593**	**2,113**
Operating and other expenses				
Payroll and associated expenses		870	644	2,644
Maintenance and depreciation of buildings and equipment		240	205	871
Other expenses		231	168	764
Total operating and other expenses		**1,341**	**1,017**	**4,279**
Pre-tax profit		1,069	578	2,604
Provision for taxes on profit		358	200	903
After-tax profit		**711**	**378**	**1,701**
Share in profit (loss) of associates, after tax		(12)	–	1
Net profit:				
Before attribution to non-controlling interests		699	378	1,702
Attributable to non-controlling interests		(23)	(21)	(92)
Attributable to shareholders of the Bank		**676**	**357**	**1,610**

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

Moshe Vidman
Chairman of the Board of Directors

Moshe Lari
President & CEO

Menahem Aviv
Vice-president, Chief Accountant

Approval date:
Ramat Gan, May 19, 2021

Condensed consolidated statement of profit and loss – Continued

Reported amounts (NIS in millions)

	For the three months ended March 31,		For the year ended December 31,
	2021	2020	2020
		(unaudited)	(audited)
Earnings per share[1] (in NIS)			
Basic earnings			
Net profit attributable to shareholders of the Bank	2.65	1.52	6.70
Weighted average number of ordinary shares used to calculate basic earnings (thousands of shares)	255,077	234,996	240,462
Diluted earnings			
Net profit attributable to shareholders of the Bank	2.64	1.51	6.69
Weighted average number of ordinary shares used to calculate diluted earnings (thousands of shares)	255,738	236,079	240,797

(1) Share of NIS 0.1 par value.

Condensed consolidated statements of comprehensive income

Reported amounts (NIS in millions)

	Note	For the three months ended March 31, 2021	2020	For the year ended December 31, 2020
		(unaudited)		(audited)
Net profit:				
Before attribution to non-controlling interests		699	378	1,702
Attributable to non-controlling interests		(23)	(21)	(92)
Net profit attributable to shareholders of the Bank		**676**	**357**	**1,610**
Other comprehensive income (loss) before taxes	4			
Adjustments for presentation of available-for-sale securities at fair value, net		(65)	(90)	69
Adjustments from translation of financial statements of investments in associated companies[1]		(1)	–	–
Net gains (losses) with respect to cash flows hedging		(30)	32	3
Adjustments of liabilities with respect to employees' benefits[2]		11	234	14
Total other comprehensive income (loss), before tax		**(85)**	**176**	**86**
Related tax effect		28	(60)	(29)
Other comprehensive income (loss) after taxes[3]				
Other comprehensive income (loss), before attribution to non-controlling interests		(57)	116	57
Less other comprehensive income (loss) attributed to non-controlling interests		1	10	1
Other comprehensive income (loss) attributed to shareholders of the Bank, after taxes		**(58)**	**106**	**56**
Comprehensive income:				
Before attribution to non-controlling interests		642	494	1,759
Attributable to non-controlling interests		(24)	(31)	(93)
Comprehensive income attributable to shareholders of the Bank		**618**	**463**	**1,666**

(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 4 to the financial statements – Cumulative Other Comprehensive Income (Loss).

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

Condensed consolidated balance sheets

Reported amounts (NIS in millions)

		As of March 31,		As of December 31,
		2021	**2020**	**2020**
	Note		**(unaudited)**	**(audited)**
Assets				
Cash and deposits with banks		91,392	56,385	86,570
Securities[1][2]	5	19,529	8,709	17,290
Securities loaned or purchased under resale agreements		139	36	200
Loans to the public	6.13	251,957	212,163	247,958
Provision for credit losses	6.13	(2,418)	(1,933)	(2,433)
Loans to the public, net	6.13	249,539	210,230	245,525
Loans to Governments		582	831	613
Investments in associated companies		18	30	31
Buildings and equipment		1,702	1,437	1,743
Intangible assets and goodwill		231	87	239
Assets with respect to derivative instruments	11	3,643	4,369	4,543
Other assets		3,635	2,617	3,386
Total assets		**370,410**	**284,731**	**360,140**
Liabilities and Equity				
Deposits from the public	7	293,766	223,189	284,224
Deposits from banks		4,293	924	3,779
Deposits from the Government		44	69	70
Debentures and subordinated notes		33,335	30,237	33,446
Liabilities with respect to derivative instruments	11	3,172	4,181	5,506
Other liabilities [3]		15,489	8,957	13,446
Total liabilities		**350,099**	**267,557**	**340,471**
Shareholders' equity attributable to shareholders of the Bank		19,422	16,371	18,804
Non-controlling interests		889	803	865
Total equity		**20,311**	**17,174**	**19,669**
Total liabilities and equity		**370,410**	**284,731**	**360,140**

(1) Of which: NIS 15,769 million at fair value on consolidated basis (March 31, 2020 – NIS 5,036 million; December 31, 2020 – NIS 13,359 million).

(2) For more information with regard to securities pledged or provided as collateral to lenders, see Note 5 to the financial statements.

(3) Of which: Provision for credit losses with respect to off balance sheet credit instruments amounting to NIS 229 million (on March 31, 2020 – NIS 132 million, on December 31, 2020 – NIS 232 million).

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

Condensed Statements of Changes in Shareholders' Equity

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
	For the three months ended March 31, 2021 (unaudited)							
	3,445							
Balance as of December 31, 2020		87	3,532	(276)	15,548	18,804	865	19,669
Net profit for the period	–	–	–	–	676	676	23	699
Realization of share-based payment transactions(6)	2	(2)	–	–	–	–	–	–
Other comprehensive income (loss), net, after tax	–	–	–	(58)	–	(58)	1	(57)
Balance as of March 31, 2021	**3,447**	**85**	**3,532**	**(334)**	**16,224**	**19,422**	**889**	**20,311**
	For the three months ended March 31, 2020 (unaudited)							
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(4)	–	–	–	–	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	–	–	–	–	357	357	21	378
Dividends paid(5)	–	–	–	–	(176)	(176)	–	(176)
Realization of share-based payment transactions(6)	3	(3)	–	–	–	–	–	–
Other comprehensive income (loss), net, after tax	–	–	–	106	–	106	10	116
Balance as of March 31, 2020	**2,235**	**67**	**2,302**	**(226)**	**14,295**	**16,371**	**803**	**17,174**
	For the year ended December 31, 2020 (audited)							
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(4)	–	–	–	–	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(5)	–	–	–	–	(176)	(176)	–	(176)
Benefit from share-based payment transactions	–	23	23	–	–	23	–	23
Realization of share-based payment transactions(6)	6	(6)	–	–	–	–	–	–
Shares issued(7)	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 details see Note 4 – Cumulative Other Comprehensive Income.

(3) For more information about various limitations on distributions of dividends, see Note 24 to the 2020 financial statements.

(4) 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.C.1.

(5) On March 11, 2020, the Bank paid dividends amounting to NIS 176 million, in conformity with a decision by the Bank Board of Directors.

(6) In the first quarter of 2021, 85,952 ordinary NIS 0.1 par value shares each were issued for exercise of options pursuant to the Employee Stock Option Plan. In the first quarter of 2020, 98,503 ordinary NIS 0.1 par value shares each were issued for exercise of options pursuant to the Employee Stock Option Plan. In 2020, the Bank issued 266,111 ordinary shares of NIS 0.1 par value each for exercise of options pursuant to the Employee Stock Option Plan, and issued to the Bank President & CEO 17,840 ordinary shares of NIS 0.1 par value each.

(7) Includes shares issued in conjunction with acquisition of Union Bank. For more information see Notes 25.F. and 35.B. to the 2020 financial statements.

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

Condensed statements of cash flows

Reported amounts (NIS in millions)

	For the three months ended March 31,		For the year ended December 31,
	2021	2020	2020
		(unaudited)	(audited)
Cash flows provided by current operations			
Net profit	699	378	1,702
Adjustments			
Share of the Bank in undistributed earnings of associated companies	12	-	(1)
Depreciation of buildings and equipment (including impairment)	90	67	283
Expenses with respect to credit losses	13	345	1,050
Gain from sale of securities available for sale and shares not held for trading	(30)	(38)	(101)
Realized and unrealized loss (gain) from adjustment to fair value of securities held for trading	8	(20)	(35)
Realized and unrealized loss (gain) from adjustments to fair value of shares not held for trading	(56)	14	3
Gain from sale of buildings and equipment	-	(13)	(41)
Impairment of shares not held for trading	4	-	-
Expenses arising from share-based payment transactions	-	-	23
Deferred taxes, net	(12)	(55)	(188)
Change in employees' provisions and liabilities	(1)	6	1
Adjustments with respect to exchange rate differentials	(129)	(108)	285
Accrual differences included with investment and financing operations	78	(58)	63
Net change in current assets			
Assets with respect to derivatives	870	(1,759)	(1,060)
Securities held for trading	(51)	(1)	596
Other assets, net	(220)	(779)	(630)
Net change in current liabilities			
Liabilities with respect to derivatives	(2,334)	1,495	1,690
Other liabilities	2,072	649	1,423
Net cash provided by current operations	**1,013**	**123**	**5,063**

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

Condensed statements of cash flows – Continued

Reported amounts (NIS in millions)

	For the three months ended March 31,		For the year ended December 31,
	2021	2020	2020
		(unaudited)	(audited)
Cash flows provided by investment activities			
Net change in deposits with banks	(2,939)	884	1,120
Net change in loans to the public	(3,634)	(5,566)	(16,038)
Net change in loans to Governments	31	(175)	43
Net change in securities loaned or acquired in resale agreements	61	84	(24)
Acquisition of debentures held to maturity	(223)	(517)	(954)
Proceeds from redemption of securities held to maturity	432	829	1,216
Acquisition of securities available for sale and shares not held for trading	(6,904)	(800)	(4,806)
Proceeds from sale of securities available for sale and shares not held for trading	4,123	1,873	4,751
Proceeds from redemption of securities available for sale	207	-	1,030
Proceeds from sale of loan portfolios	-	-	40
Acquisition of initially consolidated subsidiary – Union Bank	-	-	10,280
Purchase of loan portfolios – public	(396)	(301)	(733)
Acquisition of buildings and equipment	(48)	(59)	(288)
Proceeds from sale of buildings and equipment	-	22	73
Proceeds from realized investment in associated companies	1	2	2
Net cash provided by investment activities	**(9,289)**	**(3,724)**	**(4,288)**
Cash flows provided by financing activities			
Net change in deposits from the public	9,542	12,205	36,372
Net change in deposits from banks	514	210	2,946
Net change in deposits from Government	(26)	40	41
Issuance of debentures and subordinated notes	-	-	2,010
Redemption of debentures and subordinated notes	-	(3,189)	(5,666)
Dividends paid to shareholders	-	(176)	(176)
Net cash provided by financing activities	**10,030**	**9,090**	**35,527**
Increase in cash	1,754	5,489	36,302
Cash balance at beginning of the period	85,465	49,448	49,448
Effect of changes in exchange rate on cash balances	129	108	(285)
Cash balance at end of the period	**87,348**	**55,045**	**85,465**
Interest and taxes paid / received			
Interest received	2,620	2,214	7,679
Interest paid	458	521	2,258
Dividends received	4	2	15
Income taxes received	8	49	67
Income taxes paid	297	279	1,124
Appendix A – Non-cash Transactions			
Acquisition of buildings and equipment	1	1	8
Sales of buildings and equipment	-	(1)	-
Shares issued in conjunction with acquisition of Union Bank	-	-	(1,207)

Note 1 – Reporting Principles and Accounting Policies

A. Overview

On May 19, 2021, the Bank's Board of Directors authorized publication of these condensed financial statements as of March 31, 2021.

The condensed financial statements are prepared in accordance with Israeli GAAP for financial reporting for interim periods and in accordance with directives of the Supervisor of Banks, and do not include all information required in annual financial statements. These condensed financial statements should be read in conjunction with the audited financial statements as of December 31, 2020.

As noted in the annual report, for most topics, the Supervisor of Banks' directives are based on generally acceptable accounting practices of 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 of US banks.

In accordance with directives of the Supervisor of Banks, the condensed financial statements are issued on a consolidated basis only.

The Group accounting policies in these condensed consolidated quarterly financial statements are consistent with the policies applied in the annual financial statements, except as noted below.

B. Use of estimates

As stated in Note 1.F.6)D. In the 2020 financial statements, 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. In conformity with instructions of the Supervisor of Banks, the range of years continues to grow, pending new instructions. Consequently, the range of years was increased to 11 years in 2021.

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 February 2021, due to the rate of vaccination and decline in morbidity, some of the restrictions imposed have been lifted, including the distance restriction. As from mid-February, the Green Pass has been used in Israel, allowing those who have been vaccinated or who have recovered to visit shopping malls, take part in culture and sports events and stay at hotels. In March, some leisure venues were re-opened and employees gradually started to return to full work at their workplace.

The virus outbreak resulted in 2020 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 the three months ended March 31, 2021, following the lifting of restrictions and the process of return to business as usual, the trend changed and economic activity started to improve. Accordingly, expenses with respect to credit losses decreased in this quarter, and the Bank recognized expenses with respect to credit losses amounting to NIS 16 million. Furthermore, 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.

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:

1. 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.
2. 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.
3. 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).
4. 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.
5. As for housing loans 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 housing loans to be extended during the crisis would not be subject to the additional capital requirement of 1% of the outstanding balance of housing loans.

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 March 31, 2021.

D. Initial application of accounting standards, accounting standard updates and directives of the Supervisor of Banks

As from reporting periods starting on January 01, 2021 (unless otherwise noted), the Bank applies the following new accounting standards and directives:

1. Updated standard 2018-14 of the codification, with regard to changes to disclosure requirements of defined benefit plans;
2. Updated standard 2018-13 of the codification, with regard to changes to disclosure requirements of fair value measurement
3. Updated standard 2019-12 of the codification, with regard to simplified accounting treatment of taxes on income;
4. Updated standard 2020-01 of the codification, with regard to inter-relations between topics 321, 323 and 815 of the codification;

Below is a description of the substance of changes made to accounting policies and reporting regulations in the condensed consolidated financial statements and description of the effect of their initial application, if any.

1. Updated standard 2018-14 of the codification, with regard to changes to disclosure requirements of defined benefit plans

On August 28, 2018, the US Financial Accounting Standards Board ("FASB") issued ASU 14-2018 with regard to "Disclosure Framework—Changes to the Disclosure – Requirements for Defined Benefit Plans", which is an update to topic 20-715 of the codification with regard to "Compensation—Retirement Benefits—Defined Benefit Plans—General" (hereinafter: "the Update"). The Update is intended to improve effectiveness of disclosures in notes to financial statements, and to reduce the cost associated with preparation of the required notes.

In conformity with the Supervisor of Banks' circular regarding "Improved usefulness of public reports by banking corporations for 2019 and 2020", which was based on the updated standard 2018-14 of the codification, provisions of the updated standard apply to public financial statements as of January 1, 2021 and thereafter.

Application of these directives had no material impact on the financial statements.

2. Updated standard 2018-13 of the codification, with regard to changes to disclosure requirements of fair value measurement

On August 28, 2018, the US Financial Accounting Standards Board ("FASB") issued ASU 2018-13 with regard to "Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement", which is an update to topic 820 of the codification with regard to "Fair Value Measurement" (hereinafter: "the Update"). The Update is intended to improve effectiveness of disclosures in notes to financial statements, and to reduce the cost associated with preparation of the required notes.

Note 1 – Reporting Principles and Accounting Policies – continued

Highlights of the updates include the following: Removal of required presentation of amounts and reasons for transfer between Level 1 and Level 2 of the fair value ranking; Removal of required disclosure of information on bank policy on determining when such transfers are deemed to have occurred; Removal of required presentation of the assessment process of fair value measurement at Level 3; In the requirement to provide a verbal description of sensitivity to changes in unobserved data for recurring fair value measurements classified at Level 3 on the fair value ranking, the term "sensitivity" was revised to "uncertainty" in order to emphasize that the required information is with regard to uncertainties; Added requirement to present changes to Other Comprehensive Income unrealized in the period, for assets held at end of the period. In conformity with the Supervisor of Banks' circular regarding "Improved usefulness of public reports by banking corporations for 2019 and 2020", which was based on the updated standard 13-2018 of the codification, provisions of the updated standard apply to public financial statements as of January 1, 2021 and thereafter.

Application of these directives had no material impact on the financial statements.

3. Updated standard 2019-12 of the codification, with regard to simplified accounting treatment of taxes on income

On December 18, 2019, the US Financial Accounting Standards Board ("FASB") issued ASU 2018-12 with regard to "Simplified accounting treatment of taxes on income", which is an update to topic 740 of the codification with regard to "Taxes on income" (hereinafter: “the Update”). The Update is intended to reduce complexity of US GAAP, while maintaining the usefulness of information provided to users of financial statements.

Highlights of revised topics in the Update include the following: 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 in tax liabilities with respect to investment in foreign associate; calculation of tax revenues 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 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.

The provisions are prospectively applied as from January 1, 2021, except for recognition of deferred tax liability with respect to investment in foreign associate, which is to be applied retrospectively adjusted, charging the cumulative effect to the opening balance of retained earnings.

Application of the directives had no material impact on the Bank's financial statements.

4. Updated standard 2020-01 of the codification, with regard to inter-relations between topics 321, 323 and 815 of the codification

In January 2020, the US Financial Accounting Standards Board ("FASB") issued ASU 2020-01 with regard to inter-relations between topics 321, 323 and 815 of the codification, which constitutes an amendment to these topics of the codification (hereinafter: "the Amendment"), further to a tentative resolution with regard to EITF financial instruments, dated June 26, 2019.

The Amendment clarifies that investments in equity instruments are to be re-measured at fair value upon initial application or discontinued application of the equity method (due to achieving material influence or loss of material influence, respectively), and such fair value shall be based on the observed transaction that caused the change in measurement method (provided that the observed transaction is in compliance with conditions set forth un topic 321 of the codification).

The Amendment further clarifies that, if an entity holds forward contracts or purchased call options that are not derivatives, for purchase of equity instruments – such instruments shall be measured in conformity with fair value principles, as set forth in provisions of topic 321 of the codification prior to the settlement or exercise date, provided that they meet multiple conditions including, inter alia, a condition whereby the instruments to be purchased upon the settlement or exercise date would be treated as per provisions of topic 321 or 320 of the codification. When reviewing compliance with the aforementioned condition, the entity is not required to take into account whether the instruments to be purchased would be treated in conformity with the equity method upon the settlement or exercise date.

The directives are prospectively applied as from January 1, 2021.

Application of these directives had no material impact on the financial statements.

Note 1 – Reporting Principles and Accounting Policies – continued

E. 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 01, 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 housing loans), 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.	The Bank is reviewing the effect of the revisions on its financial statements.
Extension of transitional provision regarding implementation of provisions of Section 830 of the Codification "Foreign currency "	January 2019	January 01, 2022	Supervisor of Banks	The transitional provision instructs banking corporations not to include exchange rate differentials with respect to available-for-sale debentures as part of fair value adjustment of such debentures, but rather to continue treating these as stipulated in the Public Reporting Directives prior to adoption of Section 830 of the Codification "Foreign currency", through December 31, 2021.	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

Reported amounts (NIS in millions)

	For the three months ended March 31,		For the year ended December 31,
	2021	2020	2020
		(unaudited)	(audited)
A. Interest revenues[1]			
From loans to the public	2,140	1,601	7,299
From loans to Governments	3	7	22
From deposits with the Bank of Israel and from cash	21	44	90
From deposits with banks	1	1	11
From securities loaned or acquired in resale agreements[2]	-	-	-
From debentures	43	33	106
Total interest revenues	**2,208**	**1,686**	**7,528**
B. Interest expenses			
On deposits from the public	363	312	1,316
On deposits from governments	-	-	4
On deposits from banks	1	2	7
On debentures and subordinated notes	153	25	380
On other liabilities	-	-	1
Total interest expenses	**517**	**339**	**1,708**
Total interest revenues, net	**1,691**	**1,347**	**5,820**
C. Details of net effect of hedging financial derivatives on interest revenues[3]	4	21	17
D. Details of interest revenues on accrual basis from debentures			
Held to maturity	6	6	22
Available for sale	35	25	78
Held for trading	2	2	6
Total included under interest revenues	**43**	**33**	**106**

(1) Includes the effective element in the hedging ratios.
(2) Balance lower than NIS 0.5 million.
(3) Details of effect of hedging derivatives on interest revenues, net

Note 3 – Non-interest financing revenues

Reported amounts (NIS in millions)

	For the three months ended March 31,		For the year ended December 31,
	2021	2020	2020
	(unaudited)		(audited)
A. Non-interest financing revenues (expenses) with respect to non-trading purposes			
1. From activity in derivatives			
Net revenues (expenses) with respect to ALM derivatives[1]	806	916	(1,020)
Total from activity in derivatives	**806**	**916**	**(1,020)**
2. From investment in debentures			
Gains on sale of debentures available for sale	25	38	101
Total from investment in debentures	**25**	**38**	**101**
3. Exchange rate differences, net	**(757)**	**(798)**	**920**
4. Gains from investment in shares			
Gains from sale of shares not held for trading	5	-	13
Provision for impairment of shares not held for trading	(4)	-	-
Dividends from shares not held for trading	4	2	15
Unrealized gains (losses)[3]	52	(14)	23
Total from investment in shares	**57**	**(12)**	**51**
5. Net gains with respect to loans sold	**-**	**-**	**-**
Total non-interest financing revenues with respect to non-trading purposes	**131**	**144**	**52**
B. Non-interest financing revenues (expenses) with respect to trading operations[2]			
Net revenues (expenses) with respect to other derivatives	66	(100)	137
Realized gains (losses) from adjustment to fair value of debentures held for trading, net	(9)	24	31
Unrealized gains (losses) from adjustment to fair value of debentures held for trading, net	1	(4)	1
Total from trading operations[4]	**58**	**(80)**	**169**
Details of non-interest financing revenues (expenses) with respect to trading operations, by risk exposure			
Interest exposure	20	33	56
Foreign currency exposure	38	(113)	113
Exposure to shares	-	-	-
Exposure to commodities and others	-	-	-
Total	**58**	**(80)**	**169**

(1) Derivatives which constitute part of the Bank's asset and liability management system, which were not intended as hedges.
(2) Includes exchange rate differentials resulting from trading operations.
(3) 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.
(4) For interest revenues from investments in debentures held for trading, see Note 2.D.

Note 4 – 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	Adjust-ments with respect to employees' benefits[2]	Total	Other compre-hensive income attributed to non-controlling interests	Other compre-hensive income (loss) attributable to share-holders of the Bank
	For the three months ended March 31, 2021 (unaudited)						
Balance as of December 31, 2020	82	(1)	10	(399)	(308)	(32)	(276)
Net change in the period	(43)	(1)	(20)	7	(57)	1	(58)
Balance as of March 31, 2021	**39**	**(2)**	**(10)**	**(392)**	**(365)**	**(31)**	**(334)**
	For the three months ended March 31, 2020 (unaudited)						
Balance as of December 31, 2019	36	(1)	8	(408)	(365)	(33)	(332)
Net change in the period	(59)	–	21	154	116	10	106
Balance as of March 31, 2020	**(23)**	**(1)**	**29**	**(254)**	**(249)**	**(23)**	**(226)**
	For the year ended December 31, 2020 (audited)						
Balance as of December 31, 2019	36	(1)	8	(408)	(365)	(33)	(332)
Net change in the period	46	–	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 4 – 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 three months ended March 31,						For the year ended December 31,		
	2021			2020			2020		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
						(unaudited)			(audited)
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	(40)	13	(27)	(52)	18	(34)	170	(58)	112
Losses (gains) with respect to available-for-sale securities reclassified to the statement of profit and loss[(1)]	(25)	9	(16)	(38)	13	(25)	(101)	35	(66)
Net change in the period	**(65)**	**22**	**(43)**	**(90)**	**31**	**(59)**	**69**	**(23)**	**46**
Translation adjustments									
Adjustments from translation of financial statements[(2)]	(1)	–	(1)	–	–	–	–	–	–
Net change in the period	**(1)**	**–**	**(1)**	**–**	**–**	**–**	**–**	**–**	**–**
Cash flows hedges									
Net losses from cash flow hedges	(30)	10	(20)	32	(11)	21	3	(1)	2
Net (gains) losses with respect to cash flow hedges reclassified to the statement of profit and loss[(3)]	–	–	–	–	–	–	–	–	–
Net change in the period	**(30)**	**10**	**(20)**	**32**	**(11)**	**21**	**3**	**(1)**	**2**
Employees' benefits									
Net actuarial gain (loss) for the period	(5)	1	[(4)](4)	224	(77)	[(4)]147	(33)	11	[(4)](22)
Net losses reclassified to the statement of profit and loss	16	(5)	11	10	(3)	7	47	(16)	31
Net change in the period	**11**	**(4)**	**7**	**234**	**(80)**	**154**	**14**	**(5)**	**9**
Total net change in the period	**(85)**	**28**	**(57)**	**176**	**(60)**	**116**	**86**	**(29)**	**57**
Total net change in the period attributable to non-controlling interests	**2**	**(1)**	**1**	**15**	**(5)**	**10**	**2**	**(1)**	**1**
Total net change in the period attributable to shareholders of the Bank	**(87)**	**29**	**(58)**	**161**	**(55)**	**106**	**84**	**(28)**	**56**

(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 "Interest revenues". For details, see Note 3.A.1.
(4) 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 5 – Securities

March 31, 2021 (unaudited)

Reported amounts (NIS in millions):

	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	3,129	3,129	58	(5)	3,182
Of financial institutions in Israel	358	358	5	–	363
Of others in Israel	17	17	–	–	17
Total debentures held to maturity	**3,504**	**3,504**	**63**	**(5)**	**3,562**

	Carrying amount	Amortized cost	Cumulative other comprehensive income[4]		Fair value[1]
			Gains	Losses	
(2) Debentures available for sale					
of Government of Israel	9,659	9,655	85	(81)	9,659
Of foreign governments[3]	2,941	2,942	1	(2)	2,941
Of financial institutions in Israel	201	199	2	–	201
Of foreign financial institutions	221	219	3	(1)	221
Asset-backed (ABS)	33	32	1	–	33
Of others in Israel	687	649	39	(1)	687
Of others overseas	301	291	12	(2)	301
Total debentures available for sale	**14,043**	**13,987**	**143**	**(87)**	**14,043**

	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	**528**	**412**	**120**	**(4)**	**528**
Of which: Shares for which no fair value is available[6]	256	256	–	–	256
Total securities not held for trading	**18,075**	**17,903**	**326**	**(96)**	**18,133**

Note 5 – Securities – Continued

March 31, 2021 (unaudited)

Reported amounts (NIS in millions):

	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	1,384	1,393	–	(9)	1,384
Of financial institutions in Israel	1	1	–	–	1
Of others in Israel	25	23	2	–	25
Of others overseas	27	25	2	–	27
Total debentures held for trading	**1,437**	**1,442**	**4**	**(9)**	**1,437**
Shares and other securities	17	20	2	(5)	17
Total securities held for trading	**1,454**	**1,462**	**6**	**(14)**	**1,454**
Total securities[2]	**19,529**	**19,365**	**332**	**(110)**	**19,587**

(5) Additional information about debentures

Recorded debt balance of	
Impaired debentures not accruing interest revenues	40
	40

(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 1,075 million and securities provided as collateral to lenders, amounting to NIS 164 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 to the financial statements. For more information about investments in shares – see Note 3.A.4 to the financial statements.
– The distinction between Israeli and foreign debentures was made in conformity with the country of residence of the authority which issued the security.

Note 5 – Securities – Continued

March 31, 2020 (unaudited)

Reported amounts (NIS in millions):

			Adjustments to fair value yet to be recognized		
	Carrying amount	**Amortized cost**	**Gains**	**Losses**	**Fair value[1]**
(1) Debentures held to maturity					
of Government of Israel	3459	3459	34	(5)	3488
Of financial institutions in Israel	138	138	2	–	140
Of others in Israel	26	26	–	–	26
Total debentures held to maturity	**3,623**	**3,623**	**36**	**(5)**	**3,654**
			Cumulative other comprehensive income[4]		
	Carrying amount	**Amortized cost**	**Gains**	**Losses**	**Fair value[1]**
(2) Debentures available for sale					
of Government of Israel	3,370	3,398	23	(51)	3,370
Of foreign governments[3]	678	684	–	(6)	678
Of foreign financial institutions	112	114	–	(2)	112
Total debentures available for sale	**4,160**	**4,196**	**23**	**(59)**	**4,160**
			Adjustments to fair value yet to be realized[5]		
	Carrying amount	**Cost**	**Gains**	**Losses**	**Fair value[1]**
(3) Investment in shares not held for trading	**137**	**105**	**32**	**–**	**137**
Of which: Shares for which no fair value is available[6]	50	50	–	–	50
Total securities not held for trading	**7,920**	**7,924**	**91**	**(64)**	**7,951**
			Adjustments to fair value yet to be realized[5]		
	Carrying amount	**Amortized cost**	**Gains**	**Losses**	**Fair value[1]**
(4) Debentures held for trading					
of Government of Israel	789	794	–	(5)	789
Total debentures held for trading	**789**	**794**	**–**	**(5)**	**789**
Total securities[2]	**8,709**	**8,718**	**91**	**(69)**	**8,740**

(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 673 million and securities provided as collateral to lenders, amounting to NIS 40 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 to the financial statements. For more information about investments in shares – see Note 3.A.4 to the financial statements.

– The distinction between Israeli and foreign debentures was made in conformity with the country of residence of the authority which issued the security.

Note 5 – Securities – Continued

As of December 31, 2020 (audited)

Reported amounts (NIS in millions):

	Carrying amount	Amortized cost	Adjustments to fair value yet to be recognized – Gains	Adjustments to fair value yet to be recognized – Losses	Fair value[(1)]
(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)] – Gains**	**Cumulative other comprehensive income[(4)] – Losses**	**Fair value[(1)]**
(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**
	Carrying amount	**Cost**	**Adjustments to fair value yet to be realized[(5)] – Gains**	**Adjustments to fair value yet to be realized[(5)] – 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**

Note 5 – Securities – Continued

As of December 31, 2020 (audited)

Reported amounts (NIS in millions):

	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 5 – 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 March 31, 2021 (unaudited)
Debentures held to maturity								
of Government of Israel	190	5	–	5	–	–	–	–
Total – debentures held to maturity	**190**	**5**	**–**	**5**	**–**	**–**	**–**	**–**
Debentures available for sale								
of Government of Israel	4,226	77	–	77	299	4	–	4
Of foreign governments(2)	2,827	2	–	2	–	–	–	–
Of foreign financial institutions	30	1	–	1	–	–	–	–
Of others in Israel	95	1	–	1	–	–	–	–
Of others overseas	77	2	–	2	–	–	–	–
Total debentures available for sale	**7,255**	**83**	**–**	**83**	**299**	**4**	**–**	**4**
								As of March 31, 2020 (unaudited)
Debentures held to maturity								
of Government of Israel	769	5	–	5	–	–	–	–
Total – debentures held to maturity	**769**	**5**	**–**	**5**	**–**	**–**	**–**	**–**
Debentures available for sale								
of Government of Israel	1,889	49	–	49	10	2	–	2
Of foreign governments(2)	–	–	–	–	360	6	–	6
Of foreign financial institutions	112	2	–	2	–	–	–	–
Total debentures available for sale	**2,001**	**51**	**–**	**51**	**370**	**8**	**–**	**8**
								As of December 31, 2020 (audited)
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**

(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 0.5 million.

Note 5 – Securities – Continued

Reported amounts (NIS in millions):

(7) Asset-backed and mortgage-backed securities

	Carrying amount	Amortized cost	Cumulative other comprehensive income		Fair value
			Gains	Losses	
					As of March 31, 2021 (unaudited)
Asset-backed debentures (ABS)	33	32	1	–	33
Total asset-backed debentures available for sale	**33**	**32**	**1**	**–**	**33**
					As of March 31, 2020 (unaudited)
Asset-backed debentures (ABS)	–	–	–	–	–
Total asset-backed debentures available for sale	**–**	**–**	**–**	**–**	**–**
					As of December 31, 2020 (audited)
Asset-backed debentures (ABS)	33	33	–	–	33
Total asset-backed debentures available for sale	**33**	**33**	**–**	**–**	**33**

As of March 31, 2021, March 31, 2020 and December 31, 2020, there was no balance of mortgage-backed securities.

Note 6 – 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

	March 31, 2021 (unaudited)					
	Loans to the public					
	Commercial	Housing	Individual – other	Total	Banks and governments	Total
Recorded debt balance of debts [1]						
reviewed on individual basis	58,482	58	678	59,218	9,532	68,750
reviewed on group basis	9,589	159,885	23,265	192,739	–	192,739
Of which: By extent of arrears	1,979	159,885	–	161,864	–	161,864
Total debts	**68,071**	**[2]159943**	**23,943**	**251,957**	**9,532**	**261,489**
Of which:						
Impaired debts under restructuring	486	–	69	555	–	555
Other impaired debts	1,050	58	20	1,128	1	1,129
Total impaired debts	**1,536**	**58**	**89**	**1,683**	**1**	**1,684**
Debts in arrears 90 days or longer	28	1,363	22	1,413	–	1,413
Other problematic debts	658	12	74	744	–	744
Total problematic debts	**2,222**	**1,433**	**185**	**3,840**	**1**	**3,841**
Provision for credit losses with respect to debts [1]						
reviewed on individual basis	1,061	1	29	1,091	3	1,094
reviewed on group basis	146	917	264	1,327	–	1,327
Of which: Provision by extent of arrears[3]	9	917	–	926	–	926
Total provision for credit losses	**1,207**	**918**	**293**	**2,418**	**3**	**2,421**
Of which: With respect to impaired debts	**335**	**1**	**19**	**355**	**1**	**356**

	March 31, 2020 (unaudited)					
Recorded debt balance of debts[1]						
reviewed on individual basis	44,834	70	652	45,556	12,945	58,501
reviewed on group basis	9,022	138,126	19,459	166,607	–	166,607
Of which: By extent of arrears	1,913	138,126	–	140,039	–	140,039
Total debts	**53,856**	**[2]138196**	**20,111**	**212,163**	**12,945**	**225,108**
Of which:						
Impaired debts under restructuring	312	–	65	377	–	377
Other impaired debts	917	70	22	1,009	–	1,009
Total impaired debts	**1,229**	**70**	**87**	**1,386**	**–**	**1,386**
Debts in arrears 90 days or longer	36	1,546	27	1,609	–	1,609
Other problematic debts	987	–	126	1,113	–	1,113
Total problematic debts	**2,252**	**1,616**	**240**	**4,108**	**–**	**4,108**
Provision for credit losses with respect to debts [1]						
reviewed on individual basis	804	2	26	832	3	835
reviewed on group basis	118	729	254	1,101	–	1,101
Of which: Provision by extent of arrears[3]	7	729	–	736	–	736
Total provision for credit losses	**922**	**731**	**280**	**1,933**	**3**	**1,936**
Of which: With respect to impaired debts	**261**	**2**	**21**	**284**	**–**	**284**

(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 9,625 million (as of March 31, 2020 – NIS 7,937 million).

(3) Includes balance of provision in excess of that required by extent of arrears, assessed on individual basis, amounting to NIS 9 million (as of March 31, 2020 – NIS 9 million), and assessed on group basis, amounting to NIS 705 million (as of March 31, 2020 – NIS 531 million).

Note 6 – 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

	As of December 31, 2020 (audited)					
	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]						
reviewed on individual basis	640	2	31	673	2	675
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**	**2**	**1,695**
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.

Note 6 – 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

	For the three months ended March 31, 2021 (unaudited)					
	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	1,383	942	340	2,665	2	2,667
Expenses with respect to credit losses	45	(23)	(10)	12	1	13
Accounting write-offs[1]	(41)	(1)	(42)	(84)	–	(84)
Collection of debts written off for accounting purposes in previous years[1]	23	–	24	47	–	47
Net accounting write-offs	(18)	(1)	(18)	(37)	–	(37)
Acquisition of Union Bank	3	–	4	7	–	7
Balance of provision for credit losses at end of period	**1,413**	**918**	**316**	**2,647**	**3**	**2,650**
Of which: With respect to off balance sheet credit instruments	**206**	**–**	**23**	**229**	**–**	**229**

	For the three months ended March 31, 2020 (unaudited)					
Balance of provision for credit losses at start of period	865	674	273	1,812	1	1,813
Expenses with respect to credit losses	239	65	39	343	2	345
Accounting write-offs[1]	(83)	(8)	(35)	(126)	–	(126)
Collection of debts written off for accounting purposes in previous years[1]	20	–	16	36	–	36
Net accounting write-offs	(63)	(8)	(19)	(90)	–	(90)
Balance of provision for credit losses at end of period	**1,041**	**731**	**293**	**2,065**	**3**	**2,068**
Of which: With respect to off balance sheet credit instruments	**119**	**–**	**13**	**132**	**–**	**132**

(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 7 – Deposits from the Public

Reported amounts (NIS in millions):

A. Deposit types by location and depositor type

	March 31		December 31
	2021	2020	2020
		(unaudited)	(audited)
In Israel			
On-call			
Non interest-bearing	96,425	59,737	91,615
Interest-bearing	46,029	31,096	40,893
Total on-call	**142,454**	**90,833**	**132,508**
Term deposits	147,047	128,172	147,105
Total deposits in Israel[(1)]	**289,501**	**219,005**	**279,613**
Outside of Israel			
On-call			
Non interest-bearing	653	623	961
Interest-bearing	3	3	3
Total on-call	**656**	**626**	**964**
Term deposits	3,609	3,558	3,647
Total deposits overseas	**4,265**	**4,184**	**4,611**
Total deposits from the public	**293,766**	**223,189**	**284,224**
(1) Includes:			
Deposits from individuals	**138,074**	**110,458**	**135,165**
Deposits from institutional investors	**52,643**	**41,216**	**47,566**
Deposits from corporations and others	**98,784**	**67,331**	**96,882**

B. Deposits from the public by size

	March 31		December 31
	2021	2020	2020
		(unaudited)	(audited)
Maximum deposit (NIS in millions)			
Up to 1	97,454	76,545	94,031
Over 1 to 10	75,182	57,166	73,376
Over 10 to 100	43,046	31,803	41,781
Over 100 to 500	38,081	23,662	35,060
Above 500	40,003	34,013	39,976
Total	**293,766**	**223,189**	**284,224**

Note 8 – Employees' Rights

Description of benefits

1. Employment terms of the vast majority of Group employees and managers are determined by provisions of collective bargaining agreements. Pension liabilities to these employees, except for Bank Yahav employees, are covered by regular deposits to pension, provident and severance-pay funds, which release the Bank from severance-pay liabilities for those employees by law. For more information about various benefits to Bank employees and managers, see Note 22 to the 2020 financial statements.

2. Remuneration policy for Bank officers

   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. For more information see Note 22.A.3. to the 2020 financial statements.

   On December 24, 2020, the General Meeting of shareholders approved, after approval by the Board of Directors and by the Remuneration Committee, revision of the revised officer remuneration policy with regard to officer liability insurance.

3. Remuneration policy for all Bank employees other than officers

   In February 2020, the Bank Board of Directors approved, after receiving the recommendation from the Remuneration Committee, a revised remuneration policy for 2020-2022 for all Bank employees, other than officers who are subject to the revised remuneration policy for Bank officers, as noted above. For more information see Note 22.A.5. to the 2020 financial statements.

4. Special collective bargaining agreement 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. 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"). 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.

   On March 25, 2021, a special collective bargaining agreement was signed by Union Bank and two subsidiaries thereof, by the New General Labor Union / the MAOF trade union / Bank and Credit Company Staff Division and by the Employee Union of Union Bank and the Manager and Authorized Signatory Association of Union Bank (hereinafter in this paragraph: "the Agreement"). The Agreement stipulates the retirement terms and conditions for regular employees of Union Bank, certain temporary employees who meet the criteria set forth in the Agreement and certain other employees of the subsidiaries ("the Retiring Employees"), following the merger of Union Bank with and into the Bank ("the Retirement Program"). Pursuant to the Agreement, Union Bank offered the relevant employees who would be terminated due to the merger, a retirement program whose terms and conditions are as set forth in the Agreement (hereinafter: "the Retirement Program"). The Retirement Program is to govern retirement of the relevant employees, as defined above. In conformity with the Retirement Program, the Retiring Employees may retire from Union Bank within a specified time period. The benefits offered, depending on employees' age and seniority, include a bridging pension or increased severance pay, retirement bonuses and other benefits applicable to certain employee groups. The retirement of these employees pursuant to the program shall be gradual through 2022, in conformity with the rules, periods and dates set forth in the agreement. Upon the Agreement date, Union Bank assessed the cost of the Retirement Program, beyond actuarial provisions for retirement at beneficial terms, at NIS 400 million (in net profit terms: NIS 263 million). In case of increase in the number of retiring employees by consent from the Bank, the cost of their retirement would increase accordingly. Note that this estimated cost of the Retirement Program was included in calculation of the Bank's capital adequacy ratio as of September 30, 2020, and as approved by the Supervisor of Banks, is directly attributed to the deferred credit balance recognized by the Bank following the acquisition of Union Bank, and is not recognized as an expense.

Note 8 – Employees' Rights – Continued

5. Net benefit cost components recognized in profit and loss with respect to defined-benefit and defined-contribution pension plans (NIS in millions):

	For the three months ended March 31,		For the year ended December 31,
	2021	**2020**	**2020**
		(unaudited)	**(audited)**
Under payroll and associated expenses			
Cost of service(1)	21	17	70
Under other expenses			
Cost of interest(2)	11	9	32
Expected return on plan assets(3)	(3)	(1)	(6)
Deduction of non-allowed amounts:			
Net actuarial loss(4)	14	10	47
Total under other expenses	22	18	73
Total benefit cost, net	**43**	**35**	**143**
Total expense with respect to defined-contribution pension	49	38	158
Total expenses recognized in profit and loss	**92**	**73**	**301**

	Forecast	Actual deposits		
	For(5)	**For the three months ended March 31,**		**For the year ended December 31,**
	2021	**2021**	**2020**	**2020**
			(unaudited)	**(audited)**
Deposits	8	3	2	7

(1) Cost of service is the current accrual of the future employee benefit in the period.
(2) Cost of interest is the amount recognized in the period, set based on the increase in obligation with respect to expected benefit due to passage of time.
(3) Expected return is the expected return on plan assets, determined based on expected long-term rates of return on plan assets and based on the established market value of plan assets.
(4) Deduction of net gain or loss previously recognized in Cumulative Other Comprehensive Income.
(5) Estimated deposits to be paid into defined-benefit pension plans through end of 2021.

Note 9 – 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 March 31,		As of December 31,
	2021	2020	2020
		(unaudited)	(audited)
1. Consolidated data			
A. Capital for purpose of calculating the capital ratio			
Tier I capital(1)	20,708	16,718	20,137
Tier I capital(1)	20,708	16,718	20,137
Tier II capital	6,665	5,803	7,176
Total capital(1)	**27,373**	**22,521**	**27,313**
B. Weighted risk asset balances			
Credit risk	188,340	156,641	185,392
Market risks	2,484	1,843	2,228
Operational risk	13,112	10,517	12,864
Total weighted risk asset balances(2)	**203,936**	**169,001**	**200,484**
C. Ratio of capital to risk components			
			In %
Ratio of Tier I capital to risk components	10.15	9.89	10.04
Ratio of Tier I capital to risk components	10.15	9.89	10.04
Ratio of total capital to risk components	13.42	13.33	13.62
Minimum Tier I capital ratio required by Supervisor of Banks(3)	8.66	8.82	8.68
Total minimum capital ratio required by the Supervisor of Banks(3)	12.16	12.32	12.18
2. Significant subsidiaries			
Bank Yahav for Government Employees Ltd. and its subsidiaries			
Ratio of Tier I capital to risk components	9.55	9.54	9.44
Ratio of Tier I capital to risk components	9.55	9.54	9.44
Ratio of total capital to risk components	12.81	13.15	12.76
Minimum Tier I capital ratio required by Supervisor of Banks	8.00	8.00	8.00
Total minimum capital ratio required by the Supervisor of Banks	11.50	11.50	11.50
Union Bank Le-Israel Ltd. and its subsidiaries			
Ratio of Tier I capital to risk components	14.06	–	12.91
Ratio of Tier I capital to risk components	14.06	–	12.91
Ratio of total capital to risk components	17.45	–	16.23
Minimum Tier I capital ratio required by Supervisor of Banks	8.39	–	8.44
Total minimum capital ratio required by the Supervisor of Banks	11.89	–	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 40 million was deducted due to adjustments with respect to the streamlining plan (March 31, 2020: NIS 65 million; December 31, 2020: NIS 54 million).

(3) 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 D. below.
An additional capital requirement was added to these ratios at 1% of the housing loan balance as of the report date, excluding housing loans extended during the Corona Virus crisis.

Note 9 – 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 March 31,		As of December 31,
	2021	**2020**	**2020**
		(unaudited)	**(audited)**
3. Capital components for calculating the capital ratio (on consolidated data)			
A. Tier I shareholders' equity			
Shareholders' equity	20,311	17,174	19,669
Differences between shareholders' equity and Tier I capital	(472)	(392)	(438)
Total Tier I capital before supervisory adjustments and deductions	**19,839**	**16,782**	**19,231**
Supervisory adjustments and deductions:			
Goodwill	(182)	(87)	(187)
Deferred tax assets	(118)	–	(127)
Supervisory adjustments and other deductions(1)	1,068	(42)	1,099
Total supervisory adjustments and deductions, before adjustments with respect to the streamlining plan – Tier I capital	**768**	**(129)**	**785**
Total adjustments with respect to the streamlining program(2)	101	65	121
Total Tier I capital after supervisory adjustments and deductions	**20,708**	**16,718**	**20,137**
B. Tier II capital			
Tier II capital: Instruments, before deductions	4,382	4,032	4,861
Tier II capital: Provisions, before deductions	2,283	1,771	2,315
Total Tier II capital, before deductions	**6,665**	**5,803**	**7,176**
Deductions:			
Total deductions – Tier II capital	–	–	–
Total Tier II capital	6,665	5,803	7,176
Total capital	**27,373**	**22,521**	**27,313**

4. Effect of adjustments to streamlining plan on Tier I capital ratio:

	As of March 31,		As of December 31,
	2021	**2020**	**2020**
			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	10.10	9.84	9.98
Effect of adjustments with respect to the streamlining plan	0.05	0.05	0.06
Ratio of Tier I capital to risk components	10.15	9.89	10.04

(1) Includes deferred credit balance from acquisition of Union Bank. For more information see Notes 25F to the 2020 financial statements..

(2) Of which, NIS 99 million with respect to streamlining program concerning employees and NIS 3 million with respect to streamlining program concerning real estate (on March 31, 2020: NIS 57 million with respect to streamlining program concerning employees and NIS 8 million with respect to streamlining program concerning real estate; on December 31, 2020: NIS 118 million with respect to streamlining program concerning employees and NIS 29 million with respect to streamlining program concerning real estate).

Note 9 – 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 March 31,		As of December 31,
	2021	2020	2020
		(unaudited)	(audited)
		In %	
1. Consolidated data			
Liquidity coverage ratio[1]	133	117	133
Minimum liquidity coverage ratio required by the Supervisor of Banks	100	100	100
2. Bank data			
Liquidity coverage ratio[1]	125	118	129
Minimum liquidity coverage ratio required by the Supervisor of Banks	100	100	100
3. Significant subsidiaries			
Bank Yahav for Government Employees Ltd. and its subsidiaries			
Liquidity coverage ratio[1]	242	206	249
Minimum liquidity coverage ratio required by the Supervisor of Banks	100	100	100
Union Bank Le-Israel Ltd. and its subsidiaries			
Liquidity coverage ratio[1]	178	–	–
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 March 31,		As of December 31,
	2021	2020	2020
		(unaudited)	(audited)
1. Consolidated data			
Tier I capital[1]	20,708	16,718	20,137
Total exposure	401,308	309,863	388,370
		In %	
Leverage ratio	5.16	5.40	5.19
Minimum leverage ratio required by the Supervisor of Banks[2]	4.50	5.00	4.50
2. Significant subsidiaries			
Bank Yahav for Government Employees Ltd. and its subsidiaries			
Leverage ratio	5.09	5.16	5.07
Minimum leverage ratio required by the Supervisor of Banks	4.50	4.70	4.50
Union Bank Le-Israel Ltd. and its subsidiaries			
Leverage ratio	6.34	–	6.12
Minimum leverage ratio required by the Supervisor of Banks	4.50	–	4.50

(1) For effect of adjustments with respect to the streamlining program, see sections A.3, A.4 above.
(2) 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 D. below.

Note 9 – Capital adequacy, liquidity and leverage – Continued

Reported amounts (NIS in millions)

D. 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 housing loans would not apply to housing loans to be provided during this crisis period.

On September 16, 2020 and on March 22, 2021, further updates to the directive were issued, whereby validity of relief provided for in the Interim Directive was extended through September 30, 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. However, the circular stipulates that reduction of capital ratios by up to 0.3 percentage points within six months after expiration of the directive shall not be deemed a deviation from the foregoing.

Consequently, the Bank's minimum ratio of Tier I capital to risk assets, including the additional capital requirement of 1% of the balance of housing loans, as of March 31, 2021, would be at least 8.66%, and the total capital ratio would be at least 12.16% (with additional safety margins as appropriate).

For more information about issue of contingent subordinated notes (Contingent Convertibles – CoCo), see not 17 below.

E. 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. In conformity with a circular dated March 22, 2021, the Directive is effective from the issue date thereof through September 30, 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.

For more information about the Supervisor of Banks' directives regarding capital adequacy, see Note 25 to the 2020 financial statements.

Note 10 – Contingent Liabilities and Special Commitments

Reported amounts (NIS in millions)

A. Other liabilities and special commitments

		March 31		December 31
		2021	2020	2020
			(unaudited)	(audited)
1.	Computerization and software service contracts	642	396	638
2.	Acquisition and renovation of buildings	17	27	18

3. Credit sales operations

The following table provides a summary of credit sales operations at the Bank:

	For the three months ended March 31,		For the year ended December 31,
	2021	2020	2020
		(unaudited)	(audited)
Carrying amount of credit sold	–	–	233
Consideration received in cash	–	–	116
Consideration received in securities	–	–	–
Total consideration	–	–	116
Total net gain with respect to credit sold	–	–	–

B. Contingent liabilities and other commitments

1. For details of other contingent liabilities and commitments by the Bank group, see Note 26 to the 2020 financial statements. Below is a description of material changes relative to the Note provided in the 2020 annual report.

2. 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 estimation of the management of the Bank, based on the estimation of the managements of its subsidiaries and on the opinion of their legal counsel as to the possible outcome of the pending claims (for claims brought against the Bank) 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 material claims, including motions for class action status and claims where the claim amount (excluding interest and expenses) exceeds 1% of the Bank's shareholder equity, in which developments and changes have occurred compared to the description included in the 2020 financial statements:

   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.

Note 10 – Contingent Liabilities and Special Commitments – continued

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.

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, 2018 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 only state their position after the parties will have filed a revised, final version of the settlement agreement, and noted that they would be expected to object to two issues in the agreement: the confidentiality provision and the amount of professional fees. Therefore, after discussion it was agreed that the parties would file all of the agreements between the parties, after which the Attorney General would file their response. 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.

On March 25, 2021, a verdict was received confirming the settlement agreement with regard to the motion for approval of class action status and the motion in section B) below, with the Attorney General not filing their objection. The Bank is acting to implement the settlement agreement.

Note 10 – 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-Yafo 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. On January 4, 2016, a resolution was given to refer this lawsuit for discussion by the same reconciliator handling the aforementioned lawsuits.

As for the motion for approval of class action status, a compromise was reached and confirmed in conjunction with the motion for approval of class action status listed in section A) above.

C) In March 2015, a counter-claim was filed against the Bank with the Central-Lod 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. In conformity with the Court resolution, on March 29, 2021, a notice was published in newspapers with regard to filing the motion for approval of the settlement agreement. The deadline for filing objections to the settlement agreement is May 20, 2021.

D) 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").

Note 10 – Contingent Liabilities and Special Commitments – continued

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. 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 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 June 03, 2021.

E) 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. A pre-trial hearing was held on April 6, 2021 and dates for evidentiary hearings were scheduled for March 2023.

Note 10 – Contingent Liabilities and Special Commitments – continued

F) 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 housing loans 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.

G) 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 housing loans 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 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 July 20, 2021.

Note 10 – Contingent Liabilities and Special Commitments – continued

H) 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. The plaintiffs informed the Court that they have started discussions with some of the plaintiffs in this case, and asked for a 30-day extension to provide an update.

I) 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 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 10 – Contingent Liabilities and Special Commitments – continued

J) 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 housing loans, 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 housing loans, 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 may consider withdrawing the motion for approval. In conformity with the resolution. On March 14, 2021, the plaintiff filed a motion to unilaterally withdraw, and on April 13, 2021 the Court handed down its ruling, confirming the plaintiff's motion to unilaterally withdraw, and the motion for approval was dismissed.

For all claims against the Bank Group in individual amounts over NIS 2 million, excluding claims listed in section 2 above, there is additional, non-remote exposure for which no provision was made, amounting to NIS 43 million.

3) 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.

Note 10 – Contingent Liabilities and Special Commitments – continued

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.

C) In April 2021, a motion for class action status was filed with the Tel Aviv District Court, against the Bank and 14 other defendants (other banks and financial institutions, hereinafter: "the defendants"), alleging transfer of private information to third parties while browsing the "Personal Zone" on websites and apps operated by the defendants, allegedly in violation of privacy and allegedly in breach of provisions of the Privacy Protection Act, Banking Rules and multiple other obligations imposed on the defendants.
The plaintiffs claim that the Personal Zone includes private, confidential information which is transferred to third parties without explicit consent of the clients, in particular to Google and its Google Ads service. This is done, inter alia, in conjunction with the Bank's use of Google's Google Analytics service.
The plaintiff did not state the class damage amount. However, they estimate that monetary and non-monetary damage incurred by each class member amounts to NIS 2,000.
The Bank has yet to file its response.

4) 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 excess of USD 9 million from Union Bank and transfers in excess of USD 340 thousand to the Bank), and to allow 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 on January 20, 2021 and the plaintiff filed their response to the Bank's response on February 21, 2021. On April 25, 2021, the parties filed a joint motion to dismiss the claim, and on April 26, 2021 the Court ruling was handed down, granting the motion and instructing the claim to be dismissed.

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.

Note 10 – Contingent Liabilities and Special Commitments – continued

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. Bank Yahav's response to the motion was filed on April 29, 2021 and the Bank's response was filed on May 3, 2021. A pre-trial hearing is scheduled for July 08, 2021.

C) 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.
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.

Note 10 – Contingent Liabilities and Special Commitments – continued

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 believes 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.

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 took place on March 11, 2021. 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"), 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. On April 6, 2021, the Calcalist newspaper of Yedioth Aharonoth Group Ltd. ("Calcalist") filed a motion with the Court, asking the

Note 10 – Contingent Liabilities and Special Commitments – continued

Court to instruct the Bank to provide to the plaintiff a copy of the report by the independent committee, as provided to The Market, and to join the motion proceeding to allow publication. The Bank has filed its response to the motion. On April 23, 2021, the Court handed down its resolution, stipulating that there was no foundation for the motion by Calcalist to join the proceeding, and that there was foundation for granting them the right to review in the same format and scope as granted to The Marker.

Further to the resolution dated March 11, 2021, and further to the Court resolutions with regard to extension, on April 28, 2021 the Attorney General filed a notice with regard to the Attorney General's position in derivative lawsuit proceedings and with regard to absence of a memorandum with regard to the issue of supervision of compliance with the law by the Corporation. On May 2, 2021, the Bank Group filed its response to the notice by the Attorney General whereby, considering that the notice by the Attorney General includes nothing new with regard to approval of the settlement agreement, to which the Attorney General does not object, the Court is petitioned to approve the settlement agreement as set forth in the motion filed on September 8, 2020.
On May 11, 2021, a Court verdict was issued confirming the settlement agreement signed by the parties to the discovery motion.

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.

Note 10 – Contingent Liabilities and Special Commitments – continued

The Court approved the parties' consent to postpone the hearing scheduled for January 13, 2021, in order to conduct negotiations between the Bank and other potential insurers and plaintiffs, in conformity with the Union Bank Board of Directors' resolution dated December 31, 2020.
On February 18, 2021 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".
On April 8, 2021, a hearing took place at which Union Bank provided an update to the Court with regard to negotiations between the Bank and other potential insurers and plaintiffs. At the end of this hearing, the Court ruled that by May 19, 2021, the defendants shall conclude the negotiations and inform the Court and the other party of the outcome thereof. The defendants should also consider including the plaintiff in the negotiations stage.

5) Further to signing the DPA on March 12, 2019 by the Bank and by the US Department of Justice (DoJ), to conclude the DoJ investigation with regard to Bank Group business with its US clients, as set forth in Note 26.C. 11)c)1. to the financial statements as of December 31, 2020, on March 22, 2021, the Court in Los Angeles, USA ordered termination of the deferred indictment filed against Bank Group companies, in conformity with the aforementioned DPA. This order was handed down upon request from the DoJ noting, inter alia, in a motion filed with the Honorable Court upon expiration of the (two year) agreement period set forth in the DPA, that the Bank Group companies were in compliance with their obligations pursuant to this agreement.

C. Guarantees by maturity date

The following are guarantees issued by the Bank, by maturity date:

					As of March 31, 2021
	Expiring in 12 months or sooner	Expiring in 1 to 3 years	Expiring in 3 to 5 years	Expiring in over 5 years	Total
Loan guarantees	2,374	458	88	218	3,138
Guarantees to home buyers	8,003	2,323	251	1,369	11,946
Guarantees and other commitments	4,007	1,349	87	3,587	9,030
Commitments to issue guarantees	4,962	4,601	2,131	81	11,775
Total guarantees	**19,346**	**8,731**	**2,557**	**5,255**	**35,889**

					As of March 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
Loan guarantees	2,358	325	46	114	2,843
Guarantees to home buyers	8,413	2,580	97	83	11,173
Guarantees and other commitments	3,106	984	1,095	2,983	8,168
Commitments to issue guarantees	2,475	5,414	952	454	9,295
Total guarantees	**16,352**	**9,303**	**2,190**	**3,634**	**31,479**

					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
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**

Note 11 – Derivative instruments and hedging activities

Reported amounts (NIS in millions)

A) Activity on consolidated basis

	March 31, 2021			March 31, 2020		
	Derivatives not held for trading	Derivatives held for trading	Total	Derivatives not held for trading	Derivatives held for trading	Total
	NIS in millions			NIS in millions		
1. Stated amounts of derivative instruments						
Interest contracts						
Forward contracts	1,424	–	1,424	1,491	–	1,491
Options written	–	35	35	–	82	82
Options purchased	–	76	76	4,734	82	4,816
Swaps[1]	23,122	35,778	58,900	7,267	31,761	39,028
Total[2]	**24,546**	**35,889**	**60,435**	**13,492**	**31,925**	**45,417**
Of which: Hedging derivatives[3]	**4,001**	**–**	**4,001**	**4,325**	**–**	**4,325**
Currency contracts						
Forward contracts[4][6]	64,226	95,771	159,997	63,908	75,556	139,464
Options written	3,523	17,729	21,252	–	22,154	22,154
Options purchased	3,886	18,484	22,370	–	20,233	20,233
Swaps	1,716	1,443	3,159	1,345	2,246	3,591
Total	**73,351**	**133,427**	**206,778**	**65,253**	**120,189**	**185,442**
Of which: Hedging derivatives[3]	**–**	**–**	**–**	**–**	**–**	**–**
Contracts for shares						
Options written	281	11,417	11,698	298	6,997	7,295
Options purchased[5]	9	11,328	11,337	–	7,026	7,026
Swaps	–	2,500	2,500	–	2,918	2,918
Total	**290**	**25,245**	**25,535**	**298**	**16,941**	**17,239**
Commodities and other contracts						
Forward contracts	–	15	15	–	7	7
Options written	–	12,993	12,993	–	6,834	6,834
Options purchased	–	12,991	12,991	–	6,834	6,834
Total	**–**	**25,999**	**25,999**	**–**	**13,675**	**13,675**
Credit contracts						
Bank is guarantor	267	–	267	285	–	285
Bank is beneficiary	108	–	108	158	–	158
Total	**375**	**–**	**375**	**443**	**–**	**443**
Total stated amount	**98,562**	**220,560**	**319,122**	**79,486**	**182,730**	**262,216**

(1) Of which: Swaps for which the banking corporation pays a fixed interest rate amounting to NIS 33,980 million (as of March 31, 2020: NIS 25,852 million).
(2) Of which: NIS/CPI swaps amounting to NIS 7,508 million (as of March 31, 2020: NIS 8,139 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 4,301 million (as of March 31, 2020: NIS 5,003 million).
(5) Of which: Traded on the Stock Exchange, amounting to NIS 11,417 million (as of March 31, 2020: NIS 6,997 million).
(6) Including diversion between the negotiable portfolio and the banking portfolio, primarily due to proactive internal transactions as part of asset and liability management.

Note 11 – Derivative instruments and hedging activities – continued

Reported amounts (NIS in millions)

A) Activity on consolidated basis – continued

	December 31, 2020		
	Derivatives not held for trading	Derivatives held for trading	Total
	NIS in millions		
1. Stated amounts of derivative instruments			
Interest contracts			
Forward contracts	1,439	–	1,439
Options written	–	33	33
Options purchased	–	74	74
Swaps(1)	20,988	35,492	56,480
Total(2)	**22,427**	**35,599**	**58,026**
Of which: Hedging derivatives(3)	**3,962**	**–**	**3,962**
Currency contracts			
Forward contracts(4)(6)	52,008	80,362	132,370
Options written	4,665	15,628	20,293
Options purchased	4,685	15,038	19,723
Swaps	1,694	1,456	3,150
Total	**63,052**	**112,484**	**175,536**
Of which: Hedging derivatives(3)	**–**	**–**	**–**
Contracts for shares			
Options written	282	15,244	15,526
Options purchased(5)	8	15,198	15,206
Swaps	–	2,657	2,657
Total	**290**	**33,099**	**33,389**
Commodities and other contracts			
Forward contracts	82	14	96
Options written	–	12,847	12,847
Options purchased	–	12,831	12,831
Total	**82**	**25,692**	**25,774**
Credit contracts			
Bank is guarantor	257	–	257
Bank is beneficiary	118	–	118
Total	**375**	**–**	**375**
Total stated amount	**86,226**	**206,874**	**293,100**

(1) Of which: Swaps for which the banking corporation pays a fixed interest rate amounting to NIS 34,819 million.
(2) Of which: NIS/CPI swaps amounting to NIS 7,708 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.
(5) Of which: Traded on the Stock Exchange, amounting to NIS 15,168 million.
(6) Including diversion between the negotiable portfolio and the banking portfolio, primarily due to proactive internal transactions as part of asset and liability management.

Note 11 – Derivative instruments and hedging activities – continued

Reported amounts (NIS in millions)

A) Activity on consolidated basis – continued

	March 31, 2021					
	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	439	437	876	580	495	1,075
Of which: Hedging derivatives	79	–	79	116	–	116
Currency contracts[(1)]	517	1,810	2,327	281	1,563	1,844
Of which: Hedging derivatives	–	–	–	–	–	–
Contracts for shares	–	442	442	5	245	250
Commodities and other contracts	–	1	1	–	1	1
Credit contracts	6	–	6	6	–	6
Total assets / liabilities with respect to derivatives, gross[(2)]	**962**	**2,690**	**3,652**	**872**	**2,304**	**3,176**
Fair value amounts offset in the balance sheet	–	–	–	–	–	–
Carrying amount of assets / liabilities with respect to derivative instruments	**962**	**2,690**	**3,652**	**872**	**2,304**	**3,176**
Of which: Carrying amount with respect to derivative instruments not subject to a master netting agreement or to similar agreements	80	571	651	85	438	523

	March 31, 2020					
	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	323	525	848	327	623	950
Of which: Hedging derivatives	87	–	87	100	–	100
Currency contracts[(1)]	510	2,375	2,885	290	2,283	2,573
Of which: Hedging derivatives	–	–	–	–	–	–
Contracts for shares	–	638	638	19	637	656
Commodities and other contracts	–	1	1	–	1	1
Credit contracts	5	–	5	20	–	20
Total assets / liabilities with respect to derivatives, gross[(2)]	**838**	**3,539**	**4,377**	**656**	**3,544**	**4,200**
Fair value amounts offset in the balance sheet	–	–	–	–	–	–
Carrying amount of assets / liabilities with respect to derivative instruments	**838**	**3,539**	**4,377**	**656**	**3,544**	**4,200**
Of which: Carrying amount with respect to derivative instruments not subject to a master netting agreement or to similar agreements	598	1,541	2,139	631	1,149	1,780

(1) Including diversion between the negotiable 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 March 31, 2020: NIS 8 million); Gross fair value of liabilities with respect to embedded derivatives amounting to NIS 4 million (as of March 31, 2020: NIS 19 million).

Note 11 – Derivative instruments and hedging activities – continued

Reported amounts (NIS in millions)

A) 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	Derivatives not held for trading	Derivatives held for trading	Total
2. Fair value of derivative instruments, gross						
Interest contracts	537	575	1,112	799	666	1,465
Of which: Hedging derivatives	60	–	60	170	–	170
Currency contracts[1]	404	2,487	2,891	458	3,115	3,573
Of which: Hedging derivatives	–	–	–	–	–	–
Contracts for shares	–	541	541	6	458	464
Commodities and other contracts	–	2	2	–	2	2
Credit contracts	6	–	6	8	–	8
Total assets / liabilities with respect to derivatives, gross[2]	**947**	**3,605**	**4,552**	**1,271**	**4,241**	**5,512**
Fair value amounts offset in the balance sheet	–	–	–	–	–	–
Carrying amount of assets / liabilities with respect to derivative instruments	**947**	**3,605**	**4,552**	**1,271**	**4,241**	**5,512**
Of which: Carrying amount with respect to derivative instruments not subject to a master netting agreement or to similar agreements	122	686	808	154	808	962

(1) Including diversion between the negotiable 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. Gross fair value of liabilities with respect to embedded derivatives amounting to NIS 6 million.

B) Accounting hedges

1. Fair value hedge[1]

	For the three months ended March 31, 2021
	Interest revenues (expenses)
Interest contracts	
Hedged items	(113)
Hedging derivatives	109

		Balance as of March 31, 2021	
		Book value	Cumulative fair value adjustments that increased the book value
Securities available for sale	1,	679	90

2. Cash flows hedges[2]

For the three months ended March 31, 2021	
Amounts recognized in Other Comprehensive Income (loss) from derivatives	Interest revenues (expenses)
(20)	2

(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).

Note 11 – Derivative instruments and hedging activities – continued

Reported amounts (NIS in millions)

C) Credit risk on financial derivatives according to counter-party to the contract – Consolidated

						March 31, 2021
	Stock exchanges	Banks	Dealers/ Brokers	Governments and central banks	Others	Total
Carrying amount of assets with respect to derivative instruments	**146**	**1,518**	**43**	**4**	**1,941**	**3,652**
Gross amounts not offset in the balance sheet:						
Mitigation of credit risk with respect to financial instruments	-	(1,342)	-	-	(439)	(1)(1,781)
Mitigation of credit risk with respect to cash collateral received	-	(144)	-	-	(70)	(214)
Net amount of assets with respect to derivative instruments	**146**	**32**	**43**	**4**	**1,432**	**1,657**
Off-balance sheet credit risk on derivative instruments[2]	267	1,251	219	-	1,271	3,008
Mitigation of off-balance sheet credit risk	-	(742)	-	-	(331)	(1,073)
Net off-balance sheet credit risk with respect to derivative instruments	**267**	**509**	**219**	**-**	**940**	**1,935**
Total credit risk on derivative instruments	**413**	**541**	**262**	**4**	**2,372**	**3,592**
Carrying amount of liabilities with respect to derivative instruments	**112**	**1,845**	**56**	**17**	**1,146**	**3,176**
Gross amounts not offset in the balance sheet:						
Financial instruments	-	(1,342)	-	-	(439)	(1,781)
Pledged cash collateral	-	(519)	-	(4)	(206)	(729)
Net amount of liabilities with respect to derivative instruments	**112**	**(16)**	**56**	**13**	**501**	**666**

						March 31, 2020
	Stock exchanges	Banks	Dealers/ Brokers	Governments and central banks	Others	Total
Carrying amount of assets with respect to derivative instruments	**151**	**1,609**	**45**	**–**	**2,572**	**4,377**
Gross amounts not offset in the balance sheet:						
Mitigation of credit risk with respect to financial instruments	–	(1,282)	–	–	(254)	(1)(1,536)
Mitigation of credit risk with respect to cash collateral received	–	(123)	–	–	(60)	(183)
Net amount of assets with respect to derivative instruments	**151**	**204**	**45**	**–**	**2,258**	**2,658**
Off-balance sheet credit risk on derivative instruments[2]	101	979	136	–	1,115	2,331
Mitigation of off-balance sheet credit risk	–	(555)	–	–	(108)	(663)
Net off-balance sheet credit risk with respect to derivative instruments	**101**	**424**	**136**	**–**	**1,007**	**1,668**
Total credit risk on derivative instruments	**252**	**628**	**181**	**–**	**3,265**	**4,326**
Carrying amount of liabilities with respect to derivative instruments	**243**	**2,240**	**45**	**78**	**1,594**	**4,200**
Gross amounts not offset in the balance sheet:						
Financial instruments	–	(1,282)	–	–	(254)	(1,536)
Pledged cash collateral	–	(925)	–	(78)	–	(1,003)
Net amount of liabilities with respect to derivative instruments	**243**	**33**	**45**	**–**	**1,340**	**1,661**

(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.

Note 11 – Derivative instruments and hedging activities – continued

Reported amounts (NIS in millions)

C) 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**
Carrying amount of assets with respect to derivative instruments	**119**	**2,384**	**61**	**31**	**1,957**	**4,552**
Gross amounts not offset in the balance sheet:						
Mitigation of credit risk with respect to financial instruments	–	(1,725)	–	–	(814)	[1](2,539)
Mitigation of credit risk with respect to cash collateral received	–	(635)	–	(29)	(420)	(1,084)
Net amount of assets with respect to derivative instruments	**119**	**24**	**61**	**2**	**723**	**929**
Off-balance sheet credit risk on derivative instruments[2]	217	1,085	176	–	1,087	2,565
Mitigation of off-balance sheet credit risk	–	(679)	–	–	(397)	(1,076)
Net off-balance sheet credit risk with respect to derivative instruments	**217**	**406**	**176**		**690**	**1,489**
Total credit risk on derivative instruments	**336**	**430**	**237**	**2**	**1,413**	**2,418**
Carrying amount of liabilities with respect to derivative instruments	**87**	**2,436**	**87**	**–**	**2,902**	**5,512**
Gross amounts not offset in the balance sheet:						
Financial instruments	–	(1,725)	–	–	(814)	(2,539)
Pledged cash collateral	–	(340)	–	–	(323)	(663)
Net amount of liabilities with respect to derivative instruments	**87**	**371**	**87**	**–**	**1,765**	**2,310**

(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 the first quarter of 2021, the Bank recognized revenues due to decrease in credit losses with respect to derivatives, amounting to NIS 3 million (in the first quarter of 2020 the Bank recognized expenses due to increase in credit losses amounting to NIS 15 million; in 2020 the Bank recognized expenses due to increase in credit losses amounting to NIS 6 million).

d) Maturity dates – stated amounts: Balances at end of period – Consolidated

					March 31, 2021
	Up to three months	**3 months to 1 year**	**1-5 years**	**Over 5 years**	**Total**
Interest contracts:					
NIS – CPI	1,264	1,926	3,799	519	7,508
Other	2,903	5,896	29,611	14,517	52,927
Currency contracts	126,025	76,305	4,241	207	206,778
Contracts for shares	22,475	2,966	91	3	25,535
Commodities and other contracts	25,995	4	375	–	26,374
Total	**178,662**	**87,097**	**38,117**	**15,246**	**319,122**
					March 31, 2020
Total	**145,204**	**84,731**	**19,778**	**12,503**	**262,216**
					December 31, 2020
Total	**169,107**	**72,278**	**37,163**	**14,552**	**293,100**

Note 12 – Operating Segments

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 Note 12 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, 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 – housing loans 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 derivatives, 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. Accordingly, the profit and loss statement for the first quarter of 2021 and for the fourth quarter of 2020 and the consolidated balance sheet of the Bank include the financial statements of Union Bank.

Note 12 – Operating Segments – continued
Supervisory operating segments
For the three months ended March 31, 2021 (unaudited)
Reported amounts (NIS in millions)

	Operations in Israel					
			Households		Private banking	Small and micro businesses
	Housing loans	Others	Of which: Credit cards	Total		
Interest revenues from externals	1,228	270	9	1,498	1	343
Interest expenses from externals	-	130	-	130	40	29
Interest revenues, net from externals	1,228	140	9	1,368	(39)	314
Interest revenues, net – inter-segment	(693)	221	(1)	(472)	62	30
Total interest revenues (expenses), net	**535**	**361**	**8**	**896**	**23**	**344**
Total non-interest financing revenues	-	-	-	-	-	2
Total commissions and other revenues	36	174	44	210	16	121
Total non-interest revenues	**36**	**174**	**44**	**210**	**16**	**123**
Total revenues	**571**	**535**	**52**	**1,106**	**39**	**467**
Expenses (reduction of expenses) with respect to credit losses	(23)	(7)	-	(30)	(3)	16
Operating and other expenses to externals	211	569	20	780	9	278
Operating and other expenses – inter-segment	-	(42)	(4)	(42)	2	(24)
Total operating and other expenses	**211**	**527**	**16**	**738**	**11**	**254**
Pre-tax profit (loss)	383	15	36	398	31	197
Provision for taxes on profit	128	5	12	133	10	66
After-tax profit (loss)	**255**	**10**	**24**	**265**	**21**	**131**
Share of banking corporation in earnings of associated companies	-	-	-	-	-	-
Net profit (loss) before attribution to non-controlling interests	255	10	24	265	21	131
Net profit attributed to non-controlling interests	-	(16)	(2)	(16)	-	(1)
Net profit (loss) attributable to shareholders of the banking corporation	**255**	**(6)**	**22**	**249**	**21**	**130**
Average balance of assets	158,195	24,414	4,519	182,609	307	29,635
Of which: Investments in associated companies	-	-	-	-	-	-
Average balance of loans to the public	158,195	24,414	3,101	182,609	307	29,635
Balance of loans to the public at end of reported period	[3]159,734	25,609	4,512	185,343	212	29,241
Balance of impaired debts	58	89	-	147	-	779
Balance of debt in arrears 90 days or longer	1,363	22	-	1,385	-	28
Average balance of liabilities	-	120,479	4,519	120,479	20,495	45,690
Of which: Average balance of deposits from the public	-	115,960	-	115,960	20,495	45,690
Balance of deposits from the public at end of reported period	-	117,174	-	117,174	20,900	47,104
Average balance of risk assets[1]	91,908	22,421	3,986	114,329	145	27,714
Balance of risk assets at end of reported period[1]	92,897	22,410	4,053	115,307	49	27,630
Average balance of assets under management[2]	9,387	46,297	-	55,684	4,199	35,398
Breakdown of interest revenues, net:						
Margin from credit granting operations	511	238	8	749	1	286
Margin from activities of receiving deposits	-	115	-	115	19	30
Other	24	8	-	32	3	28
Total interest revenues, net	**535**	**361**	**8**	**896**	**23**	**344**

(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.
(3) Of which: Balance of housing loans to clients classified under the micro and small business segment, amounting to 18,126 NIS million.

	Medium businesses	Large businesses	Institutional investors	Financial Management Segment	Total activity in Israel	Operations overseas Total – operations overseas	Total
	93	155	7	62	2,159	49	2,208
	15	37	58	207	516	1	517
	78	118	(51)	(145)	1,643	48	1,691
	7	21	75	276	(1)	1	-
	85	**139**	**24**	**131**	**1,642**	**49**	**1,691**
	-	3	2	182	189	-	189
	26	38	14	112	537	6	543
	26	**41**	**16**	**294**	**726**	**6**	**732**
	111	**180**	**40**	**425**	**2,368**	**55**	**2,423**
	16	35	(19)	-	15	(2)	13
	35	68	20	128	1,318	23	1,341
	19	27	16	2	-	-	-
	54	**95**	**36**	**130**	**1,318**	**23**	**1,341**
	41	50	23	295	1,035	34	1,069
	14	17	8	99	347	11	358
	27	**33**	**15**	**196**	**688**	**23**	**711**
	-	-	-	(12)	(12)	-	(12)
	27	33	15	184	676	23	699
	-	-	-	(6)	(23)	-	(23)
	27	**33**	**15**	**178**	**653**	**23**	**676**
	9,369	20,640	1,548	96,590	340,698	16,986	357,684
	-	-	-	25	25	-	25
	9,369	20,640	1,548	-	244,108	3,421	247,529
	9,934	21,082	2,231	-	248,043	3,914	251,957
	239	401	117	-	1,683	1	1,684
	-	-	-	-	1,413	-	1,413
	15,281	37,059	47,181	35,088	321,273	16,311	337,584
	15,281	37,059	47,181	-	281,666	4,407	286,073
	15,946	35,734	52,643	-	289,501	4,265	293,766
	11,541	29,259	2,516	11,896	197,400	4,810	202,210
	11,201	29,738	2,664	12,501	199,090	4,846	203,936
	4,338	19,128	350,225	3,179	472,151	-	472,151
-							
	71	124	5	-	1,236	27	1,263
	11	12	14	-	201	3	204
	3	3	5	131	205	19	224
	85	**139**	**24**	**131**	**1,642**	**49**	**1,691**

Note 12 – Operating Segments – continued
Supervisory operating segments

For the three months ended March 31, 2020 (unaudited)
Reported amounts (NIS in millions)

	Operations in Israel					
	Households				Private banking	Small and micro businesses
	Housing loans	Others	Of which: Credit cards	Total		
Interest revenues from externals	759	244	9	1,003	1	295
Interest expenses from externals	–	104	–	104	40	26
Interest revenues, net from externals	759	140	9	899	(39)	269
Interest revenues, net – inter-segment	(300)	197	(2)	(103)	61	29
Total interest revenues, net	**459**	**337**	**7**	**796**	**22**	**298**
Total non-interest financing revenues	–	–	–	–	–	–
Total commissions and other revenues	38	147	39	185	86	104
Total non-interest revenues	**38**	**147**	**39**	**185**	**86**	**104**
Total revenues	**497**	**484**	**46**	**981**	**108**	**402**
Expenses (reduction of expenses) with respect to credit losses	65	40	–	105	(1)	72
Operating and other expenses to externals	166	447	15	613	(3)22	205
Operating and other expenses – inter-segment	–	(33)	(3)	(33)	2	(18)
Total operating and other expenses	**166**	**414**	**12**	**580**	**24**	**187**
Pre-tax profit (loss)	266	30	34	296	85	143
Provision (reduced provision) for taxes on profit	92	10	12	102	29	49
After-tax profit (loss)	**174**	**20**	**22**	**194**	**56**	**94**
Share of banking corporation in earnings of associated companies	–	–	–	–	–	–
Net profit (loss) before attribution to non-controlling interests	174	20	22	194	56	94
Net profit attributed to non-controlling interests	–	(12)	(1)	(12)	–	(1)
Net profit (loss) attributable to shareholders of the banking corporation	**174**	**8**	**21**	**182**	**56**	**93**
Average balance of assets	136,450	21,135	3,140	157,585	213	21,441
Of which: Investments in associated companies	–	–	–	–	–	–
Average balance of loans to the public	136,450	21,135	3,140	157,585	213	21,441
Balance of loans to the public at end of reported period	137,958	21,758	3,541	159,716	164	21,608
Balance of impaired debts	70	87	–	157	–	633
Balance of debt in arrears 90 days or longer	1,546	27	–	1,573	–	36
Average balance of liabilities	–	91,138	3,140	91,138	14,999	27,929
Of which: Average balance of deposits from the public	–	87,998	–	87,998	14,999	27,929
Balance of deposits from the public at end of reported period	–	94,443	–	94,443	16,015	29,644
Average balance of risk assets(1)	78,893	19,784	3,352	98,677	26	20,659
Balance of risk assets at end of reported period(1)	79,597	19,821	3,279	99,418	27	21,069
Average balance of assets under management(2)	10,124	40,417	–	50,541	3,272	27,942
Breakdown of interest revenues, net:						
Margin from credit granting operations	434	214	7	648	–	256
Margin from activities of receiving deposits	–	123	–	123	22	35
Other	25	–	–	25	–	7
Total interest revenues, net	**459**	**337**	**7**	**796**	**22**	**298**

(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.

						Operations overseas	Total
	Medium businesses	Large businesses	Institutional investors	Financial Management Segment	Total activity in Israel	Total – operations overseas	
	75	144	8	80	1,606	80	1,686
	13	53	59	26	321	18	339
	62	91	(51)	54	1,285	62	1,347
	14	43	80	(107)	17	(17)	–
	76	**134**	**29**	**(53)**	**1,302**	**45**	**1,347**
	–	–	–	64	64	–	64
	22	34	16	77	524	5	529
	22	**34**	**16**	**141**	**588**	**5**	**593**
	98	**168**	**45**	**88**	**1,890**	**50**	**1,940**
	72	87	2	2	339	6	345
	17	28	18	94	997	20	1,017
	14	21	13	1	–	–	–
	31	**49**	**31**	**95**	**997**	**20**	**1,017**
	(5)	32	12	(9)	554	24	578
	(2)	11	4	(1)	192	8	200
	(3)	**21**	**8**	**(8)**	**362**	**16**	**378**
	–	–	–	–	–	–	–
	(3)	21	8	(8)	362	16	378
	–	–	–	(8)	(21)	–	(21)
	(3)	**21**	**8**	**(16)**	**341**	**16**	**357**
	7,411	16,596	1,222	57,940	262,408	12,452	274,860
	–	–	–	31	31	–	31
	7,411	16,596	1,222	–	204,468	3,133	207,601
	7,431	17,692	1,792	–	208,403	3,760	212,163
	141	332	123	–	1,386	–	1,386
	–	–	–	–	1,609	–	1,609
	8,958	25,058	45,409	32,327	245,818	11,957	257,775
	8,958	25,058	45,409	–	210,351	4,545	214,896
	9,705	27,982	41,216	–	219,005	4,184	223,189
	8,462	24,359	2,455	6,904	161,542	4,388	165,930
	8,537	24,882	3,100	7,422	164,455	4,546	169,001
	3,474	20,830	378,649	2,632	487,340	–	487,340
-							
	63	110	6	–	1,083	25	1,108
	10	18	22	–	230	3	233
	3	6	1	(53)	(11)	17	6
	76	**134**	**29**	**(53)**	**1,302**	**45**	**1,347**

Note 12 – Operating Segments – continued
Supervisory operating segments
For the year ended December 31, 2020 (audited)
Reported amounts (NIS in millions)

	Operations in Israel					
	Households				Private banking	Small and micro businesses
	Housing loans	Others	Of which: Credit cards	Total		
Interest revenues from externals	3,913	990	37	4,903	2	1,202
Interest expenses from externals	–	501	–	501	161	106
Interest revenues, net from externals	3,913	489	37	4,402	(159)	1,096
Interest revenues, net – inter-segment	(1,984)	840	(6)	(1,144)	238	92
Total interest revenues (expenses), net	**1,929**	**1,329**	**31**	**3,258**	**79**	**1,188**
Total non-interest financing revenues	(6)	8	–	2	–	–
Total commissions and other revenues	146	574	144	720	99	440
Total non-interest revenues	**140**	**582**	**144**	**722**	**99**	**440**
Total revenues	**2,069**	**1,911**	**175**	**3,980**	**178**	**1,628**
Expenses with respect to credit losses	279	130	–	409	6	321
Operating and other expenses to externals	678	1,864	65	2,542	64	880
Operating and other expenses – inter-segment	–	(140)	(13)	(140)	8	(77)
Total operating and other expenses	**678**	**1,724**	**52**	**2,402**	**72**	**803**
Pre-tax profit (loss)	1,112	57	123	1,169	100	504
Provision for taxes on profit	386	20	43	406	35	175
After-tax profit (loss)	**726**	**37**	**80**	**763**	**65**	**329**
Share of banking corporation in earnings of associated companies	–	–	–	–	–	–
Net profit (loss) before attribution to non-controlling interests	726	37	80	763	65	329
Net profit attributed to non-controlling interests	–	(47)	(3)	(47)	–	(5)
Net profit (loss) attributable to shareholders of the banking corporation	**726**	**(10)**	**77**	**716**	**65**	**324**
Average balance of assets	142,921	21,398	3,480	164,319	178	23,880
Of which: Investments in associated companies	–	–	–	–	–	–
Average balance of loans to the public	142,921	21,398	3,480	164,319	178	23,880
Balance of loans to the public at end of reported period	156,364	25,643	4,244	182,007	370	29,514
Balance of impaired debts	97	96	–	193	–	810
Balance of debt in arrears 90 days or longer	1,176	24	–	1,200	–	27
Average balance of liabilities	–	103,115	3,480	103,115	17,072	34,255
Of which: Average balance of deposits from the public	–	99,635	–	99,635	17,072	34,255
Balance of deposits from the public at end of reported period	–	114,987	–	114,987	20,178	44,382
Average balance of risk assets(1)	82,671	20,182	3,352	102,853	70	22,792
Balance of risk assets at end of reported period(1)	90,918	22,432	3,279	113,350	240	27,800
Average balance of assets under management(2)	9,294	41,321	–	50,615	3,825	29,986
Breakdown of interest revenues, net:						
Margin from credit granting operations	1,831	861	30	2,692	1	1,026
Margin from activities of receiving deposits	–	458	–	458	76	122
Other	98	10	1	108	2	40
Total interest revenues, net	**1,929**	**1,329**	**31**	**3,258**	**79**	**1,188**

(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.

					Operations overseas	Total
Medium businesses	Large businesses	Institutional investors	Financial Management Segment	Total activity in Israel	Total – operations overseas	
330	575	32	235	7,279	249	7,528
53	186	240	424	1,671	37	1,708
277	389	(208)	(189)	5,608	212	5,820
32	172	306	322	18	(18)	–
309	**561**	**98**	**133**	**5,626**	**194**	**5,820**
1	(1)	1	208	211	10	221
96	134	56	316	1,861	31	1,892
97	**133**	**57**	**524**	**2,072**	**41**	**2,113**
406	**694**	**155**	**657**	**7,698**	**235**	**7,933**
136	138	23	1	1,034	16	1,050
74	151	63	416	4,190	89	4,279
62	88	54	5	–	–	–
136	**239**	**117**	**421**	**4,190**	**89**	**4,279**
134	317	15	235	2,474	130	2,604
46	110	5	81	858	45	903
88	**207**	**10**	**154**	**1,616**	**85**	**1,701**
–	–	–	1	1	–	1
88	207	10	155	1,617	85	1,702
–	–	–	(40)	(92)	–	(92)
88	**207**	**10**	**115**	**1,525**	**85**	**1,610**
8,108	19,125	1,108	69,431	286,149	15,631	301,780
–	–	–	31	31	–	31
8,108	19,125	1,108	–	216,718	3,300	220,018
9,660	20,169	2,434	–	244,154	3,804	247,958
239	340	118	–	1,700	–	1,700
–	1	–	–	1,228	–	1,228
10,570	31,004	41,903	31,298	269,217	14,784	284,001
10,570	31,004	41,903	–	234,439	4,742	239,181
14,406	38,094	47,566	–	279,613	4,611	284,224
9,192	25,729	2,455	8,010	171,101	4,544	175,645
11,882	28,781	2,367	11,291	195,711	4,773	200,484
3,744	19,054	357,700	2,663	467,587	–	467,587
260	475	26	–	4,480	107	4,587
36	59	66	–	817	10	827
13	27	6	133	329	77	406
309	**561**	**98**	**133**	**5,626**	**194**	**5,820**

Note 12 – Operating Segments – continued

B. 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 derivatives, 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 information about supervisory operating segments above.

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 Finance Division. Private banking sector clients are individual clients with liquid assets (primarily short-term deposits and security investments) 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 Business Division, which specializes in provision of dedicated services to this sector.

Business banking – the Major Corporations sector in the Business 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 Business 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 business 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.

Note 12 – Operating Segments – continued
Operating segments in conformity with the management approach
For the three months ended March 31, 2021 (unaudited)
Reported amounts (NIS in millions)

	House-holds – other	House-holds – mort-gages	Private banking	Small busi-nesses	Com-mercial banking	Business banking	Financial mana-gement	Total conso-lidated
Interest revenues, net:								
From externals	198	1,123	(4)	243	70	260	(199)	1,691
Inter-segment	250	(661)	17	42	-	10	342	-
Total interest revenues, net	**448**	**462**	**13**	**285**	**70**	**270**	**143**	**1,691**
Non-interest financing revenues	16	-	-	-	-	1	172	189
Commissions and other revenues	181	38	18	88	20	78	120	543
Total revenues	**645**	**500**	**31**	**373**	**90**	**349**	**435**	**2,423**
Expenses (reduction of expenses) with respect to credit losses	(10)	(23)	(4)	21	4	25	-	13
Operating and other expenses	545	202	15	220	64	160	135	1,341
Pre-tax profit	110	321	20	132	22	164	300	1,069
Provision for taxes on profit	37	108	7	44	7	55	100	358
After-tax profit	**73**	**213**	**13**	**88**	**15**	**109**	**200**	**711**
Share in net profit of associated companies, after tax	-	-	-	-	-	-	(12)	(12)
Net profit (loss):								
Before attribution to non-controlling interests	73	213	13	88	15	109	188	699
Attributable to non-controlling interests	(15)	-	-	(1)	-	-	(7)	(23)
Net profit attributable to shareholders of the Bank	**58**	**213**	**13**	**87**	**15**	**109**	**181**	**676**
Return on equity (percentage of net profit attributed to shareholders of the banking corporation out of average equity)(1)	10.3%	10.0%	-	18.9%	7.1%	9.5%	-	14.9%
Average balance of loans to the public, net	31,275	150,670	454	22,421	7,415	32,498	-	244,733
Average balance of deposits from the public	132,823	-	8,152	41,204	13,096	74,119	16,679	286,073
Average balance of assets	32,234	151,518	919	22,637	7,507	46,270	96,599	357,684
Average balance of risk assets(2)	27,441	87,199	449	19,579	8,585	46,633	12,324	202,210

(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 12 – Operating Segments – continued
Operating segments in conformity with the management approach
For the three months ended March 31, 2020 (unaudited)
Reported amounts (NIS in millions)

	Households – other	Households – mortgages	Private banking	Small businesses	Commercial banking	Business banking	Financial management	Total consolidated
Interest revenues, net:								
From externals	174	684	(7)	206	52	213	25	1,347
Inter-segment	241	(283)	30	29	8	39	(64)	–
Total interest revenues, net	**415**	**401**	**23**	**235**	**60**	**252**	**(39)**	**1,347**
Non-interest financing revenues	2	–	1	1	–	6	54	64
Commissions and other revenues	144	38	95	86	16	64	86	529
Total revenues	**561**	**439**	**119**	**322**	**76**	**322**	**101**	**1,940**
Expenses (reduction of expenses) with respect to credit losses	40	64	–	59	25	152	5	345
Operating and other expenses	430	158	(3)33	158	39	99	100(3)	1,017
Pre-tax profit (loss)	91	217	86	105	12	71	(4)	578
Provision (reduced provision) for taxes on profit	31	75	30	36	4	25	(1)	200
After-tax profit (loss)	**60**	**142**	**56**	**69**	**8**	**46**	**(3)**	**378**
Share in net profit of associated companies, after tax	–	–	–	–	–	–	–	–
Net profit (loss):								
Before attribution to non-controlling interests	60	142	56	69	8	46	(3)	378
Attributable to non-controlling interests	(12)	–	–	(1)	–	–	(8)	(21)
Net profit (loss) attributable to shareholders of the Bank	**48**	**142**	**56**	**68**	**8**	**46**	**(11)**	**357**
Return on equity (percentage of net profit attributed to shareholders of the banking corporation out of average equity)(1)	10.4%	7.7%	–	22.6%	4.3%	4.8%	–	9.1%
Average balance of loans to the public, net	26,523	130,348	1,089	14,644	6,091	27,228	–	205,923
Average balance of deposits from the public	97,806	–	9,162	25,425	8,412	58,572	15,519	214,896
Average balance of assets	26,904	130,696	1,523	14,741	6,139	35,296	59,561	274,860
Average balance of risk assets(2)	23,105	75,883	525	13,003	6,764	39,345	7,305	165,930

(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 12 – Operating Segments – continued
Operating segments in conformity with the management approach
For the year ended December 31, 2020 (audited)
Reported amounts (NIS in millions)

	House-holds – other	House-holds – mort-gages	Private banking	Small busi-nesses	Com-mercial banking	Business banking	Financial mana-gement	Total conso-lidated
Interest revenues, 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 (loss)	299	911	103	365	72	579	275	2,604
Provision (reduced provision) for taxes on profit	104	316	36	127	25	201	94	903
After-tax profit (loss)	**195**	**595**	**67**	**238**	**47**	**378**	**181**	**1,701**
Share in net profit of associated companies, after tax	-	-	-	-	-	-	1	1
Net profit (loss):								
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 (loss) 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 13 – Additional information about credit risk, loans to the public and provision for credit losses

Reported amounts (NIS in millions)

A. Off balance sheet debts[1] and credit instruments

1. Movement in balance of provision for credit losses

	For the three months ended March 31, 2021 (unaudited)					
	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	1,383	942	340	2,665	2	2,667
Expenses with respect to credit losses	45	(23)	(10)	12	1	13
Accounting write-offs[2]	(41)	(1)	(42)	(84)	–	(84)
Collection of debts written off for accounting purposes in previous years[2]	23	–	24	47	–	47
Net accounting write-offs	(18)	(1)	(18)	(37)	–	(37)
Acquisition of Union Bank	3	–	4	7	–	7
Balance of provision for credit losses at end of period	**1,413**	**918**	**316**	**2,647**	**3**	**2,650**
Of which: With respect to off balance sheet credit instruments	**206**	**–**	**23**	**229**	**–**	**229**

	For the three months ended March 31, 2020 (unaudited)					
	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	239	65	39	343	2	345
Accounting write-offs[2]	(83)	(8)	(35)	(126)	–	(126)
Collection of debts written off for accounting purposes in previous years[2]	20	–	16	36	–	36
Net accounting write-offs	(63)	(8)	(19)	(90)	–	(90)
Balance of provision for credit losses at end of period	**1,041**	**731**	**293**	**2,065**	**3**	**2,068**
Of which: With respect to off balance sheet credit instruments	**119**	**–**	**13**	**132**	**–**	**132**

(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 consists 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 13 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

A. Off balance sheet debts[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:

						March 31, 2021 (unaudited)
	Loans to the public					
	Commercial	Housing	Individual – other	Total	Banks and governments	Total
Recorded debt balance of debts [1]						
reviewed on individual basis	58,482	58	678	59,218	9,532	68,750
reviewed on group basis	9,589	159,885	23,265	192,739	–	192,739
Of which: the relevant provision is calculated by extent of arrears	1,979	159,885	–	161,864	–	161,864
Total debts	**68,071**	**[2]159,943**	**23,943**	**251,957**	**9,532**	**261,489**
Provision for credit losses with respect to debts [1]						
reviewed on individual basis	1,061	1	29	1,091	3	1,094
reviewed on group basis	146	917	264	1,327	–	1,327
Of which: For which a provision for credit losses is calculated by extent of arrears[3]	9	917	–	926	–	926
Total provision for credit losses	**1,207**	**918**	**293**	**2,418**	**3**	**2,421**
						March 31, 2020 (unaudited)
Recorded debt balance of debts [1]						
reviewed on individual basis	44,834	70	652	41,443	12,945	49,023
reviewed on group basis	9,022	138,126	19,459	156,414	–	156,414
Of which: the relevant provision is calculated by extent of arrears	1,913	138,126	–	129,966	–	129,966
Total debts	**53,856**	**[2]138,196**	**20,111**	**212,163**	**12,945**	**225,108**
Provision for credit losses with respect to debts [1]						
reviewed on individual basis	804	2	28	596	3	598
reviewed on group basis	118	729	252	990	–	990
Of which: For which a provision for credit losses is calculated by extent of arrears[3]	7	729	–	655	–	655
Total provision for credit losses	**922**	**731**	**280**	**1,933**	**3**	**1,936**
						As of December 31, 2020 (audited)
Recorded debt balance of debts [1]						
reviewed on individual basis	56,478	97	948	42,102	12,880	50,018
reviewed on group basis	10,731	156,484	23,220	164,299	–	164,299
Of which: the relevant provision is calculated by extent of arrears	1,951	156,484	–	137,158	–	137,158
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**

(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 9,625 million (as of March 31, 2020: NIS 7,937 million and as of December 31, 2020: NIS 9,690 million).

(3) Includes balance of provision in excess of that required by extent of arrears, assessed on individual basis, amounting to NIS 8 million (as of March 31, 2020: NIS 9 million, as of December 31, 2020: NIS 10 million), and assessed on group basis, amounting to NIS 705 million (as of March 31, 2020: NIS 531 million, as of December 31, 2020: NIS 732 million).

Note 13 – 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

	As of March 31, 2021 (unaudited)					
		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]	16,615	76	164	16,855	7	33
Construction and real estate – real estate operations	6,002	16	96	6,114	1	13
Financial services	8,333	20	143	8,496	–	6
Commercial – other	32,170	574	1,072	33,816	20	73
Total commercial	**63,120**	**686**	**1,475**	**65,281**	**28**	**125**
Private individuals – housing loans	158,261	[7]1375	58	159,694	[7]1363	[6]490
Private individuals – other	23,654	96	89	23,839	22	74
Total public – activity in Israel	**245,035**	**2,157**	**1,622**	**248,814**	**1,413**	**689**
Banks in Israel	1,191	–	–	1,191	–	–
Government of Israel	8	–	–	8	–	–
Total activity in Israel	**246,234**	**2,157**	**1,622**	**250,013**	**1,413**	**689**
Borrower activity overseas						
Public – commercial						
Construction and real estate	1,891	–	–	1,891	–	–
Commercial – other	838	–	61	899	–	–
Total commercial	**2,729**		**61**	**2,790**	**–**	**–**
Private individuals	353	–	–	353	–	–
Total public – activity overseas	**3,082**		**61**	**3,143**	**–**	**–**
Overseas banks	7,790	–	–	7,790	–	–
Overseas governments	542	–	1	543	–	–
Total activity overseas	**11,414**		**62**	**11,476**	**–**	**–**
Total public	248,117	2,157	1,683	251,957	1,413	689
Total banks	8,981	–	–	8,981	–	–
Total governments	550	–	1	551	–	–
Total	**257,648**	**2,157**	**1,684**	**261,489**	**1,413**	**689**

(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 housing loans for which a provision was made by extent of arrears, and housing loans 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 13.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 52 million were classified as problematic non-impaired debts.
(6) In conformity with Public Reporting Directives, excludes the balance of housing loans in arrears up to 2 months.
(7) Includes balance of housing loans amounting to NIS 68 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 2,214 million, extended to certain purchase groups which are in the process of construction.

Note 13 – 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 March 31, 2020 (unaudited)					
		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]	14,224	68	102	14,394	5	38
Construction and real estate – real estate operations	3,950	368	51	4,369	1	13
Financial services	4,574	10	133	4,717	–	3
Commercial – other	24,970	530	888	26,388	30	160
Total commercial	**47,718**	**976**	**1,174**	**49,868**	**36**	**214**
Private individuals – housing loans	136,287	[7]1546	70	137,903	[7]1546	[6]637
Private individuals – other	19,763	153	87	20,003	27	79
Total public – activity in Israel	**203,768**	**2,675**	**1,331**	**207,774**	**1,609**	**930**
Banks in Israel	134	–	–	134	–	–
Government of Israel	173	–	–	173	–	–
Total activity in Israel	**204,075**	**2,675**	**1,331**	**208,081**	**1,609**	**930**
Borrower activity overseas						
Public – commercial						
Construction and real estate	2,000	–	–	2,000	–	–
Commercial – other	1,886	47	55	1,988	–	–
Total commercial	**3,886**	**47**	**55**	**3,988**	**–**	**–**
Private individuals	401	–	–	401	–	–
Total public – activity overseas	**4,287**	**47**	**55**	**4,389**	**–**	**–**
Overseas banks	11,980	–	–	11,980	–	–
Overseas governments	658	–	–	658	–	–
Total activity overseas	**16,925**	**47**	**55**	**17,027**	**–**	**–**
Total public	208,055	2,722	1,386	212,163	1,609	930
Total banks	12,114	–	–	12,114	–	–
Total governments	831	–	–	831	–	–
Total	**221,000**	**2,722**	**1,386**	**225,108**	**1,609**	**930**

(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 housing loans for which a provision was made by extent of arrears, and housing loans 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 13.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 83 million were classified as problematic non-impaired debts.
(6) In conformity with Public Reporting Directives, excludes the balance of housing loans in arrears up to 2 months.
(7) Includes balance of housing loans 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 2,062 million, extended to certain purchase groups which are in the process of construction.

Note 13 – 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, 2020 (audited)					
		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]	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 – housing loans	155,039	[7]1188	97	156,324	[7]1176	[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 housing loans for which a provision was made by extent of arrears, and housing loans 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 13.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 housing loans in arrears up to 2 months.
(7) Includes balance of housing loans 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 13 – 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.

Housing loans

The state of arrears for housing loans 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 housing loans, are included on the Report of the Board of Directors and Management under "Risks Overview".
For more information about directives of the Supervisor of Banks with regard to addressing the Corona Virus crisis, see Note 1.C.3. above.
Below is the recorded debt balance by credit quality and by credit segment of the Bank:

ΙΙ						**As of March 31, 2021 (unaudited)**
						Credit segment
Debt quality	**Commercial**	**Housing**	**Individuals**	**Governments**	**Banks**	**Total**
Debts in good standing	61,535	157,778	23,483	550	8,981	252,327
Debts in good standing other than at performing credit rating[1]	4,314	732	275	–	–	5,321
Troubled non-impaired debt.	686	1375	96	0	0	2157
Impaired debts	1,536	58	89	1	–	1,684
Total	**68,071**	**159,943**	**23,943**	**551**	**8,981**	**261,489**

						As of March 31, 2020 (unaudited)
						Credit segment
Debt quality	**Commercial**	**Housing**	**Individuals**	**Governments**	**Banks**	**Total**
Debt in good standing[2]	48,884	135,620	19,431	831	12,114	216,880
Debts in good standing other than at performing credit rating[1]	2,720	960	440	–	–	4,120
Troubled non-impaired debt.	1,023	1,546	153	–	–	2,722
Impaired debts	1,229	70	87	–	–	1,386
Total	**53,856**	**138,196**	**20,111**	**831**	**12,114**	**225,108**

						As of December 31, 2020 (audited)
						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
Troubled non-impaired debt.	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**

(1) Balance sheet credit risk which is inferior or under special supervision, including with respect to housing loans for which a provision was made by extent of arrears, and housing loans for which no provision was made by extent of arrears and which are in arrears of 90 days or longer.

(2) Reclassified.

Note 13 – 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

	As of March 31, 2021 (unaudited)				
	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	147	18	17	164	241
Construction and real estate – real estate operations	75	8	21	96	123
Financial services	120	8	23	143	160
Commercial – other	824	257	248	1,072	1,271
Total commercial	**1,166**	**291**	**309**	**1,475**	**1,795**
Private individuals – housing loans	4	1	54	58	59
Private individuals – other	41	19	48	89	111
Total public – activity in Israel	**1,211**	**311**	**411**	**1,622**	**1,965**
Banks in Israel	–	–	–	–	–
Government of Israel	–	–	–	–	–
Total activity in Israel	**1,211**	**311**	**411**	**1,622**	**1,965**
Borrower activity overseas					
Public – commercial					
Construction and real estate	–	–	–	–	–
Commercial – other	61	44	–	61	64
Total commercial	**61**	**44**	**–**	**61**	**64**
Private individuals	–	–	–	–	2
Total public – activity overseas	**61**	**44**	**–**	**61**	**66**
Overseas banks	–	–	–	–	–
Overseas governments	1	1	–	1	1
Total activity overseas	**62**	**45**	**–**	**62**	**67**
Total public	1,272	355	411	1,683	2,031
Total banks	–	–	–	–	–
Total governments	1	1	–	1	1
Total	**1,273**	**356**	**411**	**1,684**	**2,032**
Of which:					
Measured at present value of cash flows	1,141	353	366	1,507	
Debts under problematic debts restructuring	374	65	181	555	

(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 13 – 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

	As of March 31, 2020 (unaudited)				
	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	94	24	8	102	175
Construction and real estate – real estate operations	37	2	14	51	70
Financial services	128	8	5	133	144
Commercial – other	781	191	107	888	1,039
Total commercial	**1,040**	**225**	**134**	**1,174**	**1,428**
Private individuals – housing loans	4	2	66	70	76
Private individuals – other	35	21	52	87	109
Total public – activity in Israel	**1,079**	**248**	**252**	**1,331**	**1,613**
Banks in Israel	–	–	–	–	–
Government of Israel	–	–	–	–	–
Total activity in Israel	**1,079**	**248**	**252**	**1,331**	**1,613**
Borrower activity overseas					
Public – commercial					
Construction and real estate	–	–	–	–	–
Commercial – other	55	36	–	55	56
Total commercial	**55**	**36**	**–**	**55**	**56**
Private individuals	–	–	–	–	–
Total public – activity overseas	**55**	**36**	**–**	**55**	**56**
Overseas banks	–	–	–	–	–
Overseas governments	–	–	–	–	–
Total activity overseas	**55**	**36**	**–**	**55**	**56**
Total public	1,134	284	252	1,386	1,669
Total banks	–	–	–	–	–
Total governments	–	–	–	–	–
Total	**1,134**	**284**	**252**	**1,386**	**1,669**
Of which:					
Measured at present value of cash flows	1,087	282	238	1,325	
Debts under problematic debts restructuring	312	49	65	377	

(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 13 – 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

	As of December 31, 2020 (audited)				
	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	122	18	25	147	225
Construction and real estate – real estate operations	57	4	28	85	94
Financial services	120	27	30	150	170
Commercial – other	786	224	279	1,065	1,273
Total commercial	**1,085**	**273**	**362**	**1,447**	**1,762**
Private individuals – housing loans	2	1	95	97	98
Private individuals – other	37	22	59	96	114
Total public – activity in Israel	**1,124**	**296**	**516**	**1,640**	**1,974**
Banks in Israel	–	–	–	–	–
Government of Israel	–	–	–	–	–
Total activity in Israel	**1,124**	**296**	**516**	**1,640**	**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	2,038
Total banks	–	–	–	–	–
Total governments	–	–	–	–	–
Total	**1,184**	**339**	**516**	**1,700**	**2,038**
Of which:					
Measured at present value of cash flows	1,099	336	470	1,569	
Debts under problematic debts restructuring	392	66	197	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) Recorded debt balance.

(3) Debt balance net of accounting write-off, if made.

Note 13 – 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]

	For the three months ended					
	March 31, 2021 (unaudited)			March 31, 2020 (unaudited)		
	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	156	1	1	109	–	–
Construction and real estate – real estate operations	91	–	–	57	–	–
Financial services	147	–	–	134	–	–
Commercial – other	1,069	5	5	835	4	3
Total commercial	**1,463**	**6**	**6**	**1,135**	**4**	**3**
Private individuals – housing loans	78	–	–	63	–	–
Private individuals – other	93	1	1	87	1	1
Total public – activity in Israel	**1,634**	**7**	**7**	**1,285**	**5**	**4**
Banks in Israel	–	–	–	–	–	–
Government of Israel	–	–	–	–	–	–
Total activity in Israel	**1,634**	**7**	**7**	**1,285**	**5**	**4**
Borrower activity overseas						
Public – commercial						
Construction and real estate	–	–	–	1	–	–
Commercial – other	61	–	–	46	–	–
Total commercial	**61**	**–**	**–**	**47**	**–**	**–**
Private individuals	–	–	–	–	–	–
Total public – activity overseas	**61**	**–**	**–**	**47**	**–**	**–**
Overseas banks	–	–	–	–	–	–
Overseas governments	1	–	–	–	–	–
Total activity overseas	**62**	**–**	**–**	**47**	**–**	**–**
Total public	1,695	7	7	1,332	5	4
Total banks	–	–	–	–	–	–
Total governments	1	–	–	–	–	–
Total(4)	**1,696**	**7**	**7**	**1,332**	**5**	**4**

(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 debts accrued interest at the original terms, the Bank would have recognized interest revenues amounting to NIS 39 million (as of March 31, 2020 – NIS 25 million).

Note 13 – 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

	March 31, 2021 (unaudited)				
	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	24	–	–	7	31
Construction and real estate – real estate operations	26	–	–	–	26
Financial services	117	–	–	20	137
Commercial – other	232	–	–	60	292
Total commercial	**399**	**–**	**–**	**87**	**486**
Private individuals – housing loans	–	–	–	–	–
Private individuals – other	33	–	1	35	69
Total public – activity in Israel	**432**	**–**	**1**	**122**	**555**
Banks in Israel	–	–	–	–	–
Government of Israel	–	–	–	–	–
Total activity in Israel	**432**	**–**	**1**	**122**	**555**
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	432	–	1	122	555
Total banks	–	–	–	–	–
Total governments	–	–	–	–	–
Total	**432**	**–**	**1**	**122**	**555**

(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 March 31, 2020, the Bank had commitments to provide additional credit amounting to NIS 3 million to debtors subject to problematic debt restructuring, for which credit terms have been revised.

Note 13 – 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

	March 31, 2020 (unaudited)				
	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	126	–	–	–	126
Commercial – other	158	–	–	11	169
Total commercial	**301**	**–**	**–**	**11**	**312**
Private individuals – housing loans	–	–	–	–	–
Private individuals – other	34	–	1	30	65
Total public – activity in Israel	**335**	**–**	**1**	**41**	**377**
Banks in Israel	–	–	–	–	–
Government of Israel	–	–	–	–	–
Total activity in Israel	**335**	**–**	**1**	**41**	**377**
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	335	–	1	41	377
Total banks	–	–	–	–	–
Total governments	–	–	–	–	–
Total	**335**	**–**	**1**	**41**	**377**

(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 13 – 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

	As of December 31, 2020 (audited)				
	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 – housing loans	–	–	–	–	–
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 13 – 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

	Restructurings made[2]					
	For the three months ended					
	March 31, 2021 (unaudited)			March 31, 2020 (unaudited)		
	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	11	3	3	13	1	1
Construction and real estate – real estate operations	1	–	–	–	–	–
Financial services	2	–	–	2	–	–
Commercial – other	81	9	8	96	66	65
Total commercial	**95**	**12**	**11**	**111**	**67**	**66**
Private individuals – housing loans	–	–	–	–	–	–
Private individuals – other	257	7	7	196	8	8
Total public – activity in Israel	**352**	**19**	**18**	**307**	**75**	**74**
Banks in Israel	–	–	–	–	–	–
Government of Israel	–	–	–	–	–	–
Total activity in Israel	**352**	**19**	**18**	**307**	**75**	**74**
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	352	19	18	307	75	74
Total banks	–	–	–	–	–	–
Total governments	–	–	–	–	–	–
Total	**352**	**19**	**18**	**307**	**75**	**74**

(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 13 – 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

	Restructurings made which are in default[2]			
	For the three months ended			
	March 31, 2021 (unaudited)		March 31, 2020 (unaudited)	
	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	3	–	2	–
Construction and real estate – real estate operations	–	–	–	–
Financial services	1	–	–	–
Commercial – other	26	2	23	–
Total commercial	**30**	**2**	**25**	
Private individuals – housing loans	–	–	–	–
Private individuals – other	117	1	49	2
Total public – activity in Israel	**147**	**3**	**74**	**2**
Banks in Israel	–	–	–	–
Government of Israel	–	–	–	–
Total activity in Israel	**147**	**3**	**74**	**2**
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	147	3	74	2
Total banks	–	–	–	–
Total governments	–	–	–	–
Total	**147**	**3**	**74**	**2**

(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 13 – 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 housing loans

Below is the composition of balances by loan-to-value ratio (LTV)[1], repayment type and interest type:

		March 31, 2021 (unaudited)			
		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%	105,971	3,251	67,046	3,576
	Over 60%	53,680	724	33,792	3,641
Junior lien or no lien		292	2	213	9,716
Total		**159,943**	**3,977**	**101,051**	**16,933**

		March 31, 2020 (unaudited)			
		Total	Of which: Bullet / balloon	Of which: Variable interest	Total
Senior lien: LTV ratio	Up to 60%	92,699	2,468	59,567	2,840
	Over 60%	45,224	543	28,711	2,776
Junior lien or no lien		273	1	202	4,922
Total		**138,196**	**3,012**	**88,480**	**10,538**

		As of December 31, 2020 (audited)			
		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**

(1) Ratio of approved facility upon extending the facility to the property value, as approved by the Bank upon extending the facility

Note 13 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

C. Information about purchase and sale of debts

	For the three months ended March 31, 2021				For the three months ended March 31, 2020			
	Commercial	**Housing**	**Other**	**Total**	**Commercial**	**Housing**	**Other**	**Total**
Loans acquired	–	–	396	396	–	–	301	301
Loans sold	–	–	–	–	–	–	–	–

	For the year ended December 31, 2020			
	Commercial	**Housing**	Other	**Total**
Loans acquired	157	–	576	733
Loans sold	233	–	–	233

D. Off-balance sheet financial instruments

Contractual balances or their denominated amounts at end of quarter

		March 31	**December 31**		**March 31**	**December 31**
	2021	**2020**	**2020**	**2021**	**2020**	**2020**
			Balance(1)			**Provision for credit losses**
		(unaudited)	**(audited)**		**(unaudited)**	**(audited)**
Transactions in which the balance represents a credit risk:						
– Un-utilized debitory account and other credit facilities in accounts available on demand	20,083	17,214	20,964	46	28	47
– Guarantees to home buyers	11,946	11,173	11,903	7	4	8
– Irrevocable commitments for loans approved but not yet granted(3)	31,680	19,679	31,334	56	21	54
– Un-utilized revolving credit card facilities	10,102	8,758	10,191	13	7	13
– Commitments to issue guarantees	11,775	9,295	11,400	5	3	5
– Guarantees and other liabilities(2)	9,030	8,168	9,260	59	35	60
– Loan guarantees	3,138	2,843	2,880	41	32	43
– Documentary credit	336	234	311	2	2	2

(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 78 million. (as of March 31, 2020 and December 31, 2020 – NIS 75 million and NIS 71 million, respectively).
(3) Includes commitments to extend credit to clients in conjunction with "Approval in principle and interest rate locking" of Proper Conduct of Banking Business Directive 451 "Procedures for extending housing loans".

Note 14 – Assets and Liabilities by Linkage Basis

As of March 31, 2021 (unaudited)

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	82,607	–	7,808	714	263	–	91,392
Securities	10,013	1,872	6,579	520	–	545	19,529
Securities borrowed or bought in conjunction with resale agreements	128	11	–	–	–	–	139
Loans to the public, net[3]	172,415	65,391	5,981	3,837	1,801	114	249,539
Loans to Governments	35	–	375	172	–	–	582
Investments in associated companies	36	–	–	–	–	(18)	18
Buildings and equipment	–	–	–	–	–	1,702	1,702
Intangible assets and goodwill	–	–	–	–	–	231	231
Assets with respect to derivative instruments	1,569	147	1,654	132	62	79	3,643
Other assets	2,131	519	196	3	33	753	3,635
Total assets	**268,934**	**67,940**	**22,593**	**5,378**	**2,159**	**3,406**	**370,410**
Liabilities							
Deposits from the public	222,172	18,260	44,823	5,824	2,573	114	293,766
Deposits from banks	3,508	–	658	89	38	–	4,293
Deposits from the Government	25	2	17	–	–	–	44
Debentures and subordinated notes	7,066	26,269	–	–	–	–	33,335
Liabilities with respect to derivative instruments	1,336	50	1,505	159	44	78	3,172
Other liabilities	10,719	2,972	141	7	24	1,626	15,489
Total liabilities	**244,826**	**47,553**	**47,144**	**6,079**	**2,679**	**1,818**	**350,099**
Difference	**24,108**	**20,387**	**(24,551)**	**(701)**	**(520)**	**1,588**	**20,311**
Impact of hedging derivative instruments:							
Derivative instruments (other than options)	2,409	(2,409)	–	–	–	–	–
Non-hedging derivative instruments:							
Derivative instruments (other than options)	(25,062)	(786)	24,842	607	399	–	–
Net in-the-money options (in terms of underlying asset)	161	–	(338)	268	(91)	–	–
Net out-of-the-money options (in terms of underlying asset)	(410)	–	507	(100)	3	–	–
Grand total	**1,206**	**17,192**	**460**	**74**	**(209)**	**1,588**	**20,311**
Net in-the-money options (capitalized par value)	(898)	–	820	177	(99)	–	–
Net out-of-the-money options (capitalized par value)	420	–	302	(933)	211	–	–

(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 14 – Assets and Liabilities by Linkage Basis – Continued

As of March 31, 2020 (unaudited)

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	44,004	–	11,868	288	225	–	56,385
Securities	4,568	1,060	2,710	234	–	137	8,709
Securities borrowed or bought in conjunction with resale agreements	35	1	–	–	–	–	36
Loans to the public, net[3]	141,386	57,981	6,082	3,187	1,594	–	210,230
Loans to Governments	–	–	637	194	–	–	831
Investments in associated companies	36	–	–	–	–	(6)	30
Buildings and equipment	–	–	–	–	–	1,437	1,437
Intangible assets and goodwill	–	–	–	–	–	87	87
Assets with respect to derivative instruments	2,102	122	1,925	117	103	–	4,369
Other assets	1,421	406	118	–	40	632	2,617
Total assets	**193,552**	**59,570**	**23,340**	**4,020**	**1,962**	**2,287**	**284,731**
Liabilities							
Deposits from the public	168,001	14,343	34,888	3,927	2,030	–	223,189
Deposits from banks	91	–	661	141	31	–	924
Deposits from the Government	45	2	21	1	–	–	69
Debentures and subordinated notes	8,329	21,908	–	–	–	–	30,237
Liabilities with respect to derivative instruments	2,024	22	1,938	84	113	–	4,181
Other liabilities	6,883	1,659	110	6	22	277	8,957
Total liabilities	**185,373**	**37,934**	**37,618**	**4,159**	**2,196**	**277**	**267,557**
Difference	**8,179**	**21,636**	**(14,278)**	**(139)**	**(234)**	**2,010**	**17,174**
Impact of hedging derivative instruments:							
Derivative instruments (other than options)	3,580	(3,580)	–	–	–	–	–
Non-hedging derivative instruments:							
Derivative instruments (other than options)	(13,197)	(753)	13,743	136	71	–	–
Net in-the-money options (in terms of underlying asset)	(497)	–	569	(57)	(15)	–	–
Net out-of-the-money options (in terms of underlying asset)	(183)	–	162	52	(31)	–	–
Grand total	**(2,118)**	**17,303**	**196**	**(8)**	**(209)**	**2,010**	**17,174**
Net in-the-money options (capitalized par value)	(2,156)	–	1,730	425	1	–	–
Net out-of-the-money options (capitalized par value)	3,470	–	(2,778)	(841)	149	–	–

(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 14 – Assets and Liabilities by Linkage Basis – Continued

As of December 31, 2020 (audited)

Reported amounts (NIS in millions)

	Israeli currency		In foreign currency[1]			Non-monetary items[2]	Total
	Non linked	CPI-linked	USD	EUR	Other currencies		
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 15 – Balances and estimates of fair value of financial instruments

Reported amounts (NIS in millions)

1) Information on the fair value of financial instruments is presented below:

A. Fair value balances

	March 31, 2021 (unaudited)				
		Fair value			
	Book balance	Level 1[(1)]	Level 2[(1)]	Level 3[(1)]	Total
Financial assets					
Cash and deposits with banks	91,392	15,513	61,775	14,104	91,392
Securities[(3)]	19,529	15,053	4,202	332	19,587
Securities loaned or purchased under resale agreements	139	139	–	–	139
Loans to the public, net	249,539	2,261	9,100	[(5)]240,900	252,261
Loans to Governments	582	–	–	582	582
Investments in associated companies	18	–	–	18	18
Assets with respect to derivative instruments	3,643	287	1,766	[(2)]1590	3,643
Other financial assets	1,531	5	–	1,525	1,530
Total financial assets	**[(4)]366,373**	**33,258**	**76,843**	**259,051**	**369,152**
Financial liabilities					
Deposits from the public	293,766	2,155	94,995	198,536	295,686
Deposits from banks	4,293	–	107	4,186	4,293
Deposits from the Government	44	–	–	48	48
Debentures and subordinated notes	33,335	32,821	5	1,812	34,638
Liabilities with respect to derivative instruments	3,172	283	1,607	[(2)]1282	3,172
Other financial liabilities	12,035	1,995	5,234	4,809	12,038
Total financial liabilities	**[(4)]346,645**	**37,254**	**101,948**	**210,673**	**349,875**

(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 5 to the financial statements.

(4) Includes assets and liabilities amounting to NIS 117,675 million and NIS 131,384 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 15 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

A. Fair value balances – continued

	March 31, 2020 (unaudited)				
		Fair value			
	Book balance	Level 1[(1)]	Level 2[(1)]	Level 3[(1)]	Total
Financial assets					
Cash and deposits with banks	56,385	16,329	38,167	1,887	56,383
Securities[(3)]	8,709	6,407	2,265	68	8,740
Securities loaned or purchased under resale agreements	36	36	–	–	36
Loans to the public, net	210,230	954	10,410	[(5)]197,578	208,942
Loans to Governments	831	–	–	830	830
Investments in associated companies	30	–	–	30	30
Assets with respect to derivative instruments	4,369	310	2,069	[(2)]1,990	4,369
Other financial assets	836	5	–	831	836
Total financial assets	**[(4)]281,426**	**24,041**	**52,911**	**203,214**	**280,166**
Financial liabilities					
Deposits from the public	223,189	954	71,098	152,554	224,606
Deposits from banks	924	–	317	608	925
Deposits from the Government	69	–	–	72	72
Debentures and subordinated notes	30,237	28,344	–	1,735	30,079
Liabilities with respect to derivative instruments	4,181	401	1,951	[(2)]1829	4,181
Other financial liabilities	7,122	667	4,453	2,002	7,122
Total financial liabilities	**[(4)]265,722**	**30,366**	**77,819**	**158,800**	**266,985**

(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 5 to the financial statements.

(4) Includes assets and liabilities amounting to NIS 74,201 million and NIS 76,447 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 15 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

A. Fair value balances – continued

	As of December 31, 2020 (audited)				
		Fair value			
	Book balance	Level 1[(1)]	Level 2[(1)]	Level 3[(1)]	Total
Financial assets					
Cash and deposits with banks	86,570	21,288	53,736	11,546	86,570
Securities[(3)]	17,290	13,234	3,865	260	17,359
Securities loaned or purchased under resale agreements	200	200	–	–	200
Loans to the public, net	245,525	2,572	8,076	[(5)]235639	246,287
Loans to Governments	613	–	–	613	613
Investments in associated companies	31	–	–	31	31
Assets with respect to derivative instruments	4,543	371	2,417	[(2)]1755	4,543
Other financial assets	1,377	13	–	1,364	1,377
Total financial assets	**[(4)]356,149**	**37,678**	**68,094**	**251,208**	**356,980**
Financial liabilities					
Deposits from the public	284,224	2,454	86,305	197,746	286,505
Deposits from banks	3,779	–	214	3,565	3,779
Deposits from the Government	70	–	–	74	74
Debentures and subordinated notes	33,446	32,678	6	1,752	34,436
Liabilities with respect to derivative instruments	5,506	375	3,479	[(2)]1652	5,506
Other financial liabilities	10,162	1,583	4,842	3,749	10,174
Total financial liabilities	**[(4)] 337,187**	**37,090**	**94,846**	**208,538**	**340,474**

(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 5 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 15 – 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

	March 31, 2021 (unaudited)			
	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	5,984	3,675	–	9,659
Of foreign governments	2,941	–	–	2,941
Of banks and financial institutions in Israel	135	66	–	201
Of banks and financial institutions overseas	10	197	14	221
Asset-backed (ABS)	4	29	–	33
Of others in Israel	454	213	20	687
Of others overseas	257	22	22	301
Shares not held for trading	256	–	16	272
Securities held for trading:				–
Debentures of the Government of Israel	1,384	–	–	1,384
Debentures of financial institutions in Israel	1	–	–	1
Debentures of others in Israel	22	–	3	25
Debentures of foreign others	27	–	–	27
Shares held for trading	17	–	–	17
Securities loaned or acquired in resale agreements	139	–	–	139
Credit with respect to loans to clients	2,261	–	–	2,261
Assets with respect to derivative instruments(1)				–
Interest contracts:				–
NIS / CPI	–	28	51	79
Other	–	644	153	797
Currency contracts	114	1,094	1,119	2,327
Contracts for shares	173	–	260	433
Commodities and other contracts	–	–	7	7
Other financial assets	5	–	–	5
Other	–	–	9	9
Total assets	**14,184**	**5,968**	**1,674**	**21,826**
Liabilities				
Deposits with respect to borrowing from clients	2,155	–	–	2,155
Liabilities with respect to derivative instruments(1)				
Interest contracts:				
NIS / CPI	–	42	61	103
Other	–	766	206	972
Currency contracts	110	795	939	1,844
Contracts for shares	173	4	69	246
Commodities and other contracts	–	–	7	7
Other financial liabilities	1,995	–	–	1,995
Other	–	–	4	4
Total liabilities	**4,433**	**1,607**	**1,286**	**7,326**

(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 15 – 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

	March 31, 2020 (unaudited)			
	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	1,361	2,009	–	3,370
Of foreign governments	678	–	–	678
Of banks and financial institutions overseas	–	112	–	112
Investments in shares not held for trading	69	–	18	87
Securities held for trading:				
Debentures of the Government of Israel	645	144	–	789
Securities loaned or acquired in resale agreements	36	–	–	36
Credit with respect to loans to clients	954	–	–	954
Assets with respect to derivative instruments(1)				
Interest contracts:				
NIS / CPI	–	123	182	305
Other	–	334	209	543
Currency contracts	60	1,565	1,260	2,885
Contracts for shares	250	45	335	630
Commodities and other contracts	–	2	4	6
Other financial assets	5	–	–	5
Other	–	–	8	8
Total assets	**4,058**	**4,334**	**2,016**	**10,408**
Liabilities				
Deposits with respect to borrowing from clients	954	–	–	954
Liabilities with respect to derivative instruments(1)				
Interest contracts:				
NIS / CPI	–	96	11	107
Other	–	492	351	843
Currency contracts	151	1,158	1,264	2,573
Contracts for shares	250	185	202	637
Commodities and other contracts	–	20	1	21
Other financial liabilities	667	–	–	667
Other	–	–	19	19
Total liabilities	**2,022**	**1,951**	**1,848**	**5,821**

(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 15 – 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

	As of December 31, 2020 (audited)			
	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	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				
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.

Note 15 – 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

	March 31, 2021 (unaudited)				For the three months ended March 31, 2021
				Fair value	
	Level 1[(1)]	Level 2[(1)]	Level 3[(1)]	Total	Gains
Impaired credit whose collection is contingent on collateral	–	6	163	169	3
Investments in shares for which no fair value is available	–	–	256	256	5

	March 31, 2020 (unaudited)				For the three months ended March 31, 2020
				Fair value	
	Level 1[(1)]	Level 2[(1)]	Level 3[(1)]	Total	(Losses)
Impaired credit whose collection is contingent on collateral	–	9	50	59	(8)
Investments in shares for which no fair value is available	–	–	50	50	–

	As of December 31, 2020 (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	–	6	122	128	(6)
Investments in shares for which no fair value is available	–	–	216	216	28

(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 15 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

C. Change in iems measured at fair value on recurrent basis, included in level 3:

	For the three months ended March 31, 2021 (unaudited)									
		Realized / unrealized gains (losses) included, net(1)								
	Fair value as of December 31, 2020	In statement of profit and loss	In statement of Other Comprehensive Income under Equity	Acquisitions	Sales	Dispositions	Transfers to Level 3(3)	Transfers from Level 3(3)	Fair value as of March 31, 2021	Unrealized gains (losses) with respect to instruments held as of March 31, 2021
Assets										
Securities available for sale										
Debentures:										
Of foreign financial institutions	5	–	–	–	–	(2)	11	–	14	–
Of others in Israel	19	–	1	–	–	–	–	–	20	1
Of others overseas	–	–	–	–	–	–	22	–	22	–
Securities held for trading										
Of others in Israel	3	–	–	–	–	–	–	–	3	–
Shares not held for trading	16	–	–	–	–	–	–	–	16	–
Assets with respect to derivative instruments(2)										
Interest contracts:										
NIS / CPI	59	(15)	–	–	–	(33)	40	–	51	19
Other	162	(9)	–	–	–	–	–	–	153	157
Currency contracts	1,337	(247)	–	660	–	(631)	–	–	1,119	567
Contracts for shares	189	87	–	43	–	(59)	–	–	260	–
Commodities and other contracts	8	7	–	–	–	(8)	–	–	7	1
Other	9	–	–	–	–	–	–	–	9	–
Total assets	**1,807**	**(177)**	**1**	**703**	**–**	**(733)**	**73**	**–**	**1,674**	**745**
Liabilities										
Liabilities with respect to derivative instruments(2)										
Interest contracts:										
NIS / CPI	48	(4)	–	5	–	(12)	24	–	61	45
Other	215	(2)	–	–	–	(7)	–	–	206	(187)
Currency contracts	1,287	(90)	–	594	–	(852)	–	–	939	(478)
Contracts for shares	93	10	–	14	–	(48)	–	–	69	–
Commodities and other contracts	9	(2)	–	–	–	–	–	–	7	(1)
Other	6	(2)	–	–	–	–	–	–	4	–
Total liabilities	**1,658**	**(90)**	**–**	**613**	**–**	**(919)**	**24**	**–**	**1,286**	**(621)**

(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.

Note 15 – 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 three months ended March 31, 2020 (unaudited)								
		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 March 31, 2020	Unrealized gains (losses) with respect to instruments held as of March 31, 2020
Assets									
Shares not held for trading	17	1	–	–	–	–	–	18	1
Assets with respect to derivative instruments[(2)]									
Interest contracts:									
NIS / CPI	126	37	–	8	–	(14)	25	182	70
Other	24	157	–	28	–	–	–	209	237
Currency contracts	485	7	–	768	–	–	–	1,260	826
Contracts for shares	63	157	–	117	–	(2)	–	335	–
Commodities and other contracts	3	–	–	1	–	–	–	4	1
Other	8	–	–	–	–	–	–	8	–
Total assets	**726**	**359**	**–**	**922**	**–**	**(16)**	**25**	**2,016**	**1,135**
Liabilities									
Liabilities with respect to derivative instruments[(2)]									
Interest contracts:									
NIS / CPI	14	(1)	–	–	–	(13)	11	11	(51)
Other	40	234	–	77	–	–	–	351	374
Currency contracts	771	(256)	–	749	–	–	–	1,264	1,119
Contracts for shares	135	(8)	–	77	–	(2)	–	202	–
Commodities and other contracts	4	(4)	–	1	–	–	–	1	1
Other	–	19	–	–	–	–	–	19	–
Total liabilities	**964**	**(16)**	**–**	**904**	**–**	**(15)**	**11**	**1,848**	**1,443**

(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.

Note 15 – 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 – Continued:

	For the year ended December 31, 2020 (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]	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.

Note 15 – 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 March 31, 2021	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	59.37
	6	NAV (Net Asset Value) model	Price	36.79	36.79
Debentures of foreign others	11	Cash flows discounting	Price	18.56-88.01	56.71
Securities held for trading					
Debentures of others in Israel	3	Cash flows discounting	Price	35.93-101.08	88.31
Assets with respect to derivative instruments:					
NIS / CPI	31	Cash flows discounting	Inflationary expectations	1.38% – 0.00%	0.28%
Foreign currency	23	Cash flows discounting	Counter-party credit quality	16.87% – 0.13%	0.35%
Contracts for shares	377	Options pricing model	Standard deviation per share	49.42% – 30.26%	37.41%
Other	1,168	Cash flows discounting	Counter-party credit quality	3.30% – 0.30%	1.74%
Liabilities with respect to derivative instruments:					
Interest contracts – NIS CPI	34	Cash flows discounting	Inflationary expectations	3.42% – 1.15%	1.38%
Other	1,252	Cash flows discounting	Counter-party credit quality	2.85% – 0.30%	1.80%

	Fair value as of March 31, 2020	Valuation technique	Non-observed data	Range	Weighted average
Shares not held for trading	18	Quote from counter-party to the transaction			
Assets with respect to derivative instruments:					
Interest contracts – NIS CPI	173	Cash flows discounting	Inflationary expectations	(0.31%)-(0.27%)	(0.30%)
Contracts for shares	975	Options pricing model	Standard deviation per share	90.88% – 89.34%	89.83%
Other	850	Cash flows discounting	Counter-party credit quality	3.30% – 0.30%	1.69%
Liabilities with respect to derivative instruments:					
Interest contracts – NIS CPI	11	Cash flows discounting	Inflationary expectations	(0.31%)-(0.27%)	(0.30%)
Other	953	Cash flows discounting	Counter-party credit quality	3.30% – 0.30%	1.71%

	Fair value as of December 31, 2020	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	1,272	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	1,619	Cash flows discounting	Counter-party credit quality	2.85% – 0.30%	1.80%

Note 15 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

E. Information regarding uncertainty of fair value measurements to changes in unobserved data

The main valuation technique of significant unobserved data used in measurement of fair value of assets and liabilities at Level 3 is Discounted Cash Flow. The future cash flow for the instrument is derived from the agreement with the counter-party. The discount rate used to discount the cash flow reflects the Bank's assumptions.

The primary unobserved data used in measurement of fair value of debentures is the price of the debentures.

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 March 31, 2021 and March 31, 2020, the Bank did not elect the fair value option.

Note 16 – Significant events during the reported period and other material information

Acquisition of Union Bank

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. For more information about acquisition of Union Bank and valuation of assets and liabilities, see Note 35 to the 2020 financial statements.

Below are results of the consolidated financial statements had the Bank acquired Union Bank on January 1, 2018:

	For the three months ended March 31,		For the year ended December 31,
	2021	**2020**	**2020**
	(unaudited)		**(audited)**
Excluding Union Bank:			
Reported revenues for the Bank[(1)]	1,612	1,411	5,807
Reported net profit for the Bank	551	357	1,544
Union Bank:			
Reported revenues for Union Bank[(1)]	281	110	729
Reported net profit (loss) for Union Bank	99	(54)	(60)

	For the three months ended March 31,	For the year ended December 31,
	2020	**2020**
		(unaudited)
Pro-forma revenues[(1)]	1,576	6,855
Pro-forma net profit	358	1,772
Pro-forma earnings per share:		
Basic	1.52	6.95
Diluted	1.51	6.94

(1) Revenues including net interest revenues and non-interest financing 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 16 – Significant events during the reported period and other material information

Tax ruling with regard to Union Bank merger

Further to closing the acquisition of 100% of the issued and paid-up share capital and voting rights in Union Bank on September 30, 2020, and further to the Bank and Union Bank signing an agreement on November 29, 2020 regarding the merger of Union Bank with and into the Bank, on May 10, 2021 the Tax Authority issued approval, in conjunction with a tax ruling, that the merger of Union Bank with and into the Bank is tax exempt pursuant to provisions of Part E.2 of the Ordinance. The merger date for tax purposes is December 31, 2020, stipulating that all assets, rights and obligations of Union Bank shall be deemed to have been transferred to the Bank as from said date, and upon conclusion of the merger process, Union Bank shall cease to exist as an independent entity. Obtaining the aforementioned tax ruling is a suspensive condition for the merger.

The tax ruling stipulates several conditions and restrictions, including the following:

- The cost of investment by the Bank in Union Bank shall not be tax deductible.
- The cost for tax purposes of assets to be transferred to the Bank shall be the carrying cost thereof, as it was on Union Bank accounts.
- Any loss for tax purposes carried on Union Bank accounts shall be transferred to the Bank, and shall be recognized as loss for tax purposes over a 5-year period.
- All other conditions set forth in Section 103 of the Income Tax Ordinance with regard to the "required period" shall be fulfilled.
- Purchase tax shall be payable at 0.5% on any interest in real estate to be transferred from Union Bank to the Bank.

Moreover, other conditions were stipulated that are not material for the Bank.

Note 17 – Events after the balance sheet date

On April 7, 2021, after the balance sheet date, the Bank issued to institutional investors by international private placement, underwritten by international financial institutions, subordinated notes with loss-absorption provisions through forced write-off ("the Subordinated Notes") amounting to USD 600 million. The Subordinated Notes qualify as Tier II equity in conformity with provisions of Proper Conduct of Banking Business Directive 202.

Mizrahi Tefahot Bank

Corporate governance, audit, other information about the Bank and its management

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Corporate governance

Board of Directors and management

Board of Directors

During the first quarter of 2021, the Bank Board of Directors held 7 plenary meetings. During this period there were also 19 meetings of Board committees and 2 Board member workshops.

Presented below are changes during the first quarter of 2021 and through publication of these financial statements:

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 Bank management and senior officers

In the first quarter of 2021 there were no changes to members of Bank management and senior officers.

Internal Auditor

Details of internal audit within the Group, including the professional standards applied by internal audit, the annual and multi-annual work plan and considerations in its determination, extent of employment of the Internal Auditor and his team and the manner in which reports are submitted with regard to findings of the Internal Auditor have been included in chapter "Corporate Governance, Audit, Other Information about the Bank and Management thereof" of the 2020 annual report.

As noted in the 2020 report, during that year the audit work was adapted to the Corona Virus crisis, so as to provide a response to key risks. During the first quarter of this year, Corona Virus restrictions were eased and the audit work was revised accordingly.

Transactions with controlling shareholders and related parties

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 March 22, 2021, the Bank Board of Directors approved, after approval by the Remuneration Committee, contracting by the Bank of a Board member and officer liability insurance policy, for a term of 12 months as from April 1, 2021. The aforementioned insurance policy would insure, inter alia, the Bank President & CEO, controlling shareholders of the Bank and relatives thereof. For more information see Immediate Report dated March 22, 2021 (reference: 2021-01-041076).

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.

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, in conformity with thresholds stipulated by law. 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.

Bounced Check Act (Amendment no. 14), 2020

On August 18, 2020, the Act was made public, to become effective on August 18, 2021.

In conformity with the Act, a bank intending to bounce a check drawn on a client account due to insufficient funds, must inform the client of this in advance, so as to allow them to deposit funds to their account in a timely manner, so as to avoid having the check bounced.

The Bank is currently preparing for the Act becoming effective. Application of this legislation is not expected to have any 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 March 31, 2021
	Transaction volume (NIS in millions)
Loans to the public (including mortgages)	7,028
Deposits from the public	97
Net derivatives (par value)	1,763

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.

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.

On April 5, 2021, the Bank of Israel issued a circular which delays by a few months the planned implementation, in order to allow for proper reference to various issues raised during preparations for implementation, due to the wish to establish the open banking system. Stage 2 was delayed to January 31, 2022 (from October 10, 2021) and stage 3 was delayed to May 31, 2022 (from March 31, 2022). This delay should allow the banking system to stabilize the services in the system, so that system availability would be robust and its services would provide a response for market demand.

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, January 7, 2021 and March 22, 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 housing loans 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 housing loans (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.

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 housing loans

On December 27, 2020, the Bank of Israel issued an update to Proper Conduct of Banking Business Directive 329 concerning "Restrictions on extending housing loans". 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 housing loans intended for financing of early repayment of a loan extended by the Bank or by another bank, the amendment shall apply as from February 28, 2021.

In the first quarter of 2021, the number of clients seeking to re-finance loans increased as a result of the revision of this directive. The Bank has prepared accordingly, including in operating aspects, to provide a response to this large scale of requests. We are unable to assess the impact of this revision on the financial statements**.**

Management of consumer credit

On February 2, 2021, the Bank of Israel issued a circular adding Proper Conduct of Banking Business Directive 311A "Management of Consumer Credit". This directive summarizes the requirements by the Supervisor of Banks from the banking system when operating with consumer clients, and in particular in fair and appropriate credit marketing procedures – especially unsolicited credit procedures. The effective start date of this amendment is 9 months after the publication date thereof on the website, and items with regard to marketing of consumer credit – 3 months after the publication date thereof.

The Bank is preparing to apply the directive, which has yet to become effective. application of the circular does not and is not expected to have a material effect on the Bank’s financial statements.

Bank's credit rating

On July 21, 2020, S&P GLOBAL RATINGS MAALOT 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- by Maalot.

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.il / 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 Investors Services rating agency confirmed the Bank's long-term deposit rating at A2 with Stable outlook.

On March 18, 2021, rating agencies Fitch Ratings (hereinafter: "Fitch") and S&P Global Ratings (hereinafter: "S&P") initiated rating of the Bank. Fitch confirmed its initial long-term IDR rating for the Bank of A / Stable outlook, and its short-term rating at F1+.

On that date, S&P confirmed its initial long-term issuer credit rating for the Bank at A- / Stable outlook, and its short-term issuer credit rating for the Bank at A-2.

On March 18, 2021, S&P rated BBB- a series of contingent subordinated notes with loss-absorption provisions which qualify as Tier II equity, issued by the Bank on April 7, 2021 by international private placement to institutional investors, and Fitch rated this notes series BBB(exp).

On April 7, 2021, Fitch rated the aforementioned notes BBB.

On April 22, 2021, Fitch left the Bank's ratings un-changed.

Operating segments

For more information about supervisory operating segments, see chapter "Corporate Governance, Audit, Other Information about the Bank and Management thereof" of the 2020 financial statements.

Addendums to condensed quarterly financial statements

Addendum I – Interest Revenue and Expense Rates – of the Bank and its Subsidiaries[1]

Reported amounts (NIS in millions)

A. Average balances and interest rates – assets

	For the three months ended March 31, 2021			For the three months ended March 31, 2020		
	Average balance[2]	Interest revenues	Revenue rate	Average balance[2]	Interest revenues	Revenue rate
			In %			In %
Interest-bearing assets						
Loans to the public[3]						
In Israel	239,048	[7]2,096	3.55	200,439	[7]1,552	3.13
Outside of Israel	3,420	44	5.25	3,133	49	6.40
Total	**242,468**	**2,140**	**3.58**	**203,572**	**1,601**	**3.18**
Loans to the Government						
In Israel	245	-	-	191	-	-
Outside of Israel	372	3	3.27	456	7	6.28
Total	**617**	**3**	**1.96**	**647**	**7**	**4.40**
Deposits with banks						
In Israel	1,663	1	0.24	1,046	1	0.38
Outside of Israel	173	-	-	198	-	-
Total	**1,836**	**1**	**0.22**	**1,244**	**1**	**0.32**
Deposits with central banks						
In Israel	74,571	18	0.10	43,363	23	0.21
Outside of Israel	11,704	3	0.10	7,118	21	1.19
Total	**86,275**	**21**	**0.10**	**50,481**	**44**	**0.35**
Securities loaned or purchased in resale agreements						
In Israel	144	-	-	47	-	-
Outside of Israel	-	-	-	-	-	-
Total	**144**	**-**	**-**	**47**	**-**	**-**
Debentures held to maturity and available for sale[4]						
In Israel	16,309	39	0.96	7,926	27	1.37
Outside of Israel	672	2	1.20	656	4	2.46
Total	**16,981**	**41**	**0.97**	**8,582**	**31**	**1.45**
Debentures held for trading[5]						
In Israel	527	2	1.53	811	2	0.99
Outside of Israel	-	-	-	-	-	-
Total	**527**	**2**	**1.53**	**811**	**2**	**0.99**
Total interest-bearing assets	**348,848**	**2,208**	**2.56**	**265,384**	**1,686**	**2.57**
Receivables for credit card operations	4,354			3,800		
Other non-interest bearing assets[6]	4,232			5,447		
Total assets	**357,434**			**274,631**		
Total interest-bearing assets attributable to operations outside of Israel	**16,341**	**52**	**1.28**	**11,561**	**81**	**2.83**

See remarks below.

Interest Revenues and Expenses Rates - of the Bank and its Subsidiaries[1] – Continued

Reported amounts (NIS in millions)

A. Average balances and interest rates – liabilities and equity

	For the three months ended March 31, 2021			For the three months ended March 31, 2020		
	Average balance[2]	Interest expenses (revenues)	Expense (revenue) rate	Average balance[2]	Interest expenses (revenues)	Expense (revenue) rate
			In %			In %
Interest-bearing liabilities						
Deposits from the public						
In Israel						
On-call	43,461	24	0.22	29,495	6	0.08
Term deposits	143,151	338	0.95	123,717	289	0.94
Outside of Israel						
On-call	807	-	-	576	-	-
Term deposits	3,600	1	0.11	3,969	17	1.72
Total	**191,019**	**363**	**0.76**	**157,757**	**312**	**0.79**
Deposits from the Government						
In Israel	53	-	-	33	-	-
Outside of Israel	-	-	-	-	-	-
Total	**53**	**-**	**-**	**33**	**-**	**-**
Deposits from banks						
In Israel	4,281	1	0.09	1,140	2	0.70
Outside of Israel	-	-	-	3	-	-
Total	**4,281**	**1**	**0.09**	**1,143**	**2**	**0.70**
Securities loaned or sold in conjunction with repurchase agreements						
In Israel	-	-	-	-	-	-
Outside of Israel	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**
Debentures and subordinated notes						
In Israel	33,307	153	1.85	32,334	25	0.31
Outside of Israel	-	-	-	-	-	-
Total	**33,307**	**153**	**1.85**	**32,334**	**25**	**0.31**
Other liabilities						
In Israel	508	-	-	414	-	-
Outside of Israel	-	-	-	-	-	-
Total	**508**	**-**	**-**	**414**	**-**	**-**
Total interest-bearing liabilities	**229,168**	**517**	**0.91**	**191,681**	**339**	**0.71**
Non-interest bearing deposits from the public	94,827			56,910		
Payables for credit card transactions	4,421			3,866		
Other non-interest bearing liabilities[8]	8,931			5,089		
Total liabilities	**337,347**			**257,546**		
Total equity resources	**20,087**			**17,085**		
Total liabilities and equity resources	**357,434**			**274,631**		
Interest margin			**1.65**			**1.86**
Net return[9] on interest-bearing assets						
In Israel	332,507	1,640	1.99	253,823	1,283	2.04
Outside of Israel	16,341	51	1.25	11,561	64	2.23
Total	**348,848**	**1,691**	**1.95**	**265,384**	**1,347**	**2.05**
Total interest-bearing liabilities attributable to operations outside of Israel	**4,407**	**1**	**0.09**	**4,548**	**17**	**1.50**

Interest Revenues and Expenses Rates - of the Bank and its Subsidiaries[(1)] – Continued

Reported amounts (NIS in millions)

B. Average balances and interest rates – additional information about interest-bearing assets and liabilities attributed to operations in Israel

	For the three months ended March 31, 2021			For the three months ended March 31, 2020		
	Average balance[(2)]	Interest expenses (revenues)	Expense (revenue) rate	Average balance[(2)]	Interest expenses (revenues)	Expense (revenue) rate
			In %			In %
Israeli currency – non-linked						
Total interest-bearing assets	250,774	1,448	2.33	182,727	1,342	2.97
Total interest-bearing liabilities	156,962	(207)	(0.53)	131,189	(251)	(0.77)
Interest margin			**1.80**			**2.20**
Israeli currency – linked to the CPI						
Total interest-bearing assets	67,784	624	3.73	59,426	162	1.09
Total interest-bearing liabilities	47,365	(260)	(2.21)	38,380	40	0.42
Interest margin			**1.52**			**1.51**
Foreign currency (including Israeli currency linked to foreign currency)						
Total interest-bearing assets	13,949	84	2.43	11,670	101	3.51
Total interest-bearing liabilities	20,434	(49)	(0.96)	17,564	(111)	(2.55)
Interest margin			**1.47**			**0.96**
Total – operations in Israel						
Total interest-bearing assets	332,507	2,156	2.62	253,823	1,605	2.55
Total interest-bearing liabilities	224,761	(516)	(0.92)	187,133	(322)	(0.69)
Interest margin			**1.70**			**1.86**

Interest Revenues and Expenses Rates - of the Bank and its Subsidiaries[(1)] – Continued

Reported amounts (NIS in millions)

C. Analysis of changes in interest revenues and expenses

	For the three months ended March 31, 2021 compared to the three months ended March 31, 2020		
	Increase (decrease) due to change[(10)]		
	Quantity	Price	Net change
Interest-bearing assets			
Loans to the public			
In Israel	339	205	544
Outside of Israel	4	(9)	(5)
Total	**343**	**196**	**539**
Other interest-bearing assets			
In Israel	26	(19)	7
Outside of Israel	3	(27)	(24)
Total	**29**	**(46)**	**(17)**
Total interest revenues	**372**	**150**	**522**
Interest-bearing liabilities			
Deposits from the public			
In Israel	65	2	67
Outside of Israel	-	(16)	(16)
Total	**65**	**(14)**	**51**
Other interest-bearing liabilities			
In Israel	17	110	127
Outside of Israel	-	-	-
Total	**17**	**110**	**127**
Total interest expenses	**82**	**96**	**178**

(1) Information in these tables is after effect of hedging 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 three-month periods ended March 31, 2021 and March 31, 2020, we (added) deducted the average balance of unrealized (loss) gain 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 (13) million and NIS 10 million, respectively.
(5) From the average balance of debentures held for trading, for the three-month periods ended March 31, 2021 and March 31, 2020, we (added) deducted the average balance of unrealized (loss) gain from adjustment to fair value of debentures held for trading, amounting to NIS (2) million and NIS 16 million.
(6) Includes derivative instruments, other non-interest bearing assets, net of provision for credit losses.
(7) Commissions amounting to NIS 142 million and NIS 133 million included under interest revenues for the three-month periods ended March 31, 2021 and 2020, 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.

Glossary and index of terms included on the financial statements

Below is a summary of terms included on the financial statements:

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 risk 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.
	LGD (Loss Given Default) – Loss as percentage of credit should the client go into default.
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.
	PD (Probability Of Default) – Probability in percent of a borrower going into default within a specified time.
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 capital, additional Tier I capital and Tier II capital. 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.

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.
	Derivative – 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	**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 housing loans.
	Indebtedness – On- and off-balance sheet credit, as defined in Proper Conduct of Banking Business Directive 313.
O	**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

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.

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MIZRAHI TEFAHOT

www.mizrahi-tefahot.co.il

HEAD OFFICE

7 Jabotinsky Street,
P.O.Box 3450, Ramat Gan 5252007, Israel
Tel. 03-7559000, Fax. 03-7559210
BIC: MIZBILIT

International Activities & Private Banking Sector

7 Jabotinsky Street,
P.O.Box 3450, Ramat Gan 5252007, Israel
Tel. 03-7559200, Fax. 03-7559210

Trading in Financial Markets Sector

7 Jabotinsky Street,
P.O.Box 3450, Ramat Gan 5252007, Israel
Tel. 03-7559178, Fax. 03-7559029

Marketing & Business Development Division

7 Jabotinsky Street,
P.O.Box 3450, Ramat Gan 5252007, Israel
Tel. 03-7559260 Fax. 03-7559270

International Finance & Trade Sector

13 Abba Hillel Silver Street
Lod 7129463, Israel
Tel. 076-8043910, Fax. 08-9579484

Tel -Aviv Principal Business Center

105 Allenby Street,Tel Aviv 6513444
Tel. 076-8040610 Fax. 03-5600606
BIC: MIZBILITTLV

INTERNATIONAL PRIVATE BANKING CENTERS

Jerusalem:
9 Helene Hamalka Street
Jerusalem 9422105, Israel
Tel. 076-8041200, Fax. 02-6222146

Tel-Aviv:
25 Ben Yehuda Street
Tel-Aviv, 6380701, Israel
Tel. 076-8040780, Fax. 03-5332206

Ashdod:
12 Sderot Yerushalayim Street
Ashdod, 7752305, Israel
Tel. 076-8041020, Fax. 08-8654671

Netanya:
5 Mefi st, Netanya, 4250489
Tel. 076-8041410, Fax. 09-8358800

BRANCHES ABROAD

London Branch:
Mizrahi Tefahot Bank Ltd.

30 Old Broad Street
London EC2N 1HQ, England
Tel. +44 (0) 20-7448-0600
Fax. +44 (0) 20-7448-0610
BIC: MIZBGB2L
www.umtb.co.uk

Los Angeles Branch:
Mizrahi Tefahot Bank Ltd.

800 Wilshire Blvd.
Los Angeles, CA. 90017, U.S.A.
Tel. +1-213-362-2999, Fax. +1-213-362-2987
BIC: MIZBUS6L
info@umtbusa.com
www.umtbusa.com

SUBSIDIARIES ABROAD

United Mizrahi Bank
(Switzerland) Ltd.

Nuschelerstrasse 31 CH-8021
Zurich, Switzerland
Tel. +41 (0) 44-226-8686
Fax. +41 (0) 44-226-8687
BIC: UMBLCHZZ
info@umbzh.ch
www.umbzh.ch

United Mizrahi Overseas Holding Company B.V.

Van Heuven Goedhartlaan 935A
Ld Amsterdam 1181
The Netherlands

SUBSIDIARY COMPANIES IN ISRAEL

ETGAR Portfolio Management of Mizrahi Tefahot Bank Ltd.

13 Abba Hillel Silver Street
Lod 7129463, Israel
Tel. 03-5558855
Fax. 08-9747247

Technology Division of Mizrahi Tefahot Ltd.

15 Lincoln St.
Tel Aviv 6713407, Israel
Tel. 03-5634333
Fax. 03-5611342

Mizrahi Tefahot Trust Company Ltd.

13 Abba Hillel Silver Street
Lod 7129463, Israel
Tel. 03-5558877
Fax. 08-9747229

מזרחי טפחות
MIZRAHI TEFAHOT

MIZRAHI TEFAHOT LTD.
Head office: 7 Jabotinsky st.
Ramat-Gan, 5252007
www.mizrahi-tefahot.co.il