CONDENSED CONSOLIDATED FINANCIAL REPORTS

AS OF 30.06.2021

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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.

Bank Mizrahi Tefahot

Quarterly Condensed Financial Statements
As of June 30, 2021

This translation of the financial statement is for convenience purposes only. The only binding version of the financial statement is the Hebrew version.

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Bank Mizrahi Tefahot

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 June 30, 2021

Introduction

The Board of Directors of Mizrahi Tefahot Bank Ltd., at its meeting held on August 16, 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 June 30, 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 half 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 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 the first half of 2021 and for the fourth quarter of 2020 and the Bank's consolidated balance sheet as from September 30, 2020 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			
	Second quarter	**First quarter**	**Fourth quarter**	**Third quarter**	**Second quarter**	**First quarter**
				NIS in millions		
Statement of profit and loss – highlights						
Interest revenues, net	2,035	1,691	1,686	1,464	1,323	1,347
Non-interest financing revenues	66	189	27	54	76	64
Commissions and other revenues	544	543	557	407	399	529
Total revenues	**2,645**	**2,423**	**2,270**	**1,925**	**1,798**	**1,940**
Expenses (income) with respect to credit losses	(240)	13	118	317	270	345
Operating and other expenses	1,333	1,341	1,335	977	950	1,017
Of which: Payroll and associated expenses	843	870	785	619	596	644
Pre-tax profit	1,552	1,069	817	631	578	578
Provision for taxes on profit	540	358	285	222	196	200
Net profit[(1)]	**988**	**676**	**506**	**387**	**360**	**357**

	First half of		All of
	2021	**2020**	**2020**
			NIS in millions
Statement of profit and loss – highlights			
Interest revenues, net	3,726	2,670	5,820
Non-interest financing revenues	255	140	221
Commissions and other revenues	1,087	928	1,892
Total revenues	**5,068**	**3,738**	**7,933**
Expenses (income) with respect to credit losses	(227)	615	1,050
Operating and other expenses	2,674	1,967	4,279
Of which: Payroll and associated expenses	1,713	1,240	2,644
Pre-tax profit	2,621	1,156	2,604
Provision for taxes on profit	898	396	903
Net profit[(1)]	**1,664**	**717**	**1,610**

(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.

Group net profit in the first half of 2021 amounted to NIS 1,664 million, compared to NIS 717 million in the corresponding period last year – an increase by 132.1%.

This reflects a 17.7% annualized return on equity, compared to 9.0% in the corresponding period last year and 9.5% for all of 2020.

Group net profit in the second quarter of 2021 amounted to NIS 988 million, compared to NIS 360 million in the corresponding period last year – an increase by 174.4%.

This reflects annualized return on equity of 21.3%, compared to 9.0% in the corresponding period last year.

The following major factors affected Group operating profit in the first half of 2021 over the corresponding period last year:

- Group profit in the first half of 2021 includes NIS 135 million with respect to profit of Union Bank, and NIS 108 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 in the first half of 2021, excluding the effect of Union Bank, increased by 25.9% compared to the corresponding period last year, 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.

- In the first half of 2021, the Bank recognized revenues with respect to decrease in provision for credit losses amounting to NIS 227 million, due to decrease in the group-based provision, against the background of improved macro-economic data and decrease in loan amount subject to repayment deferral.

This compares to the corresponding period last year, when expenses amounted to NIS 615 million, including expense with respect to provision for credit losses on group basis, due to the Corona Virus outbreak.

- Operating and other expenses in the first half of 2021, excluding the effect of Union Bank, increased by NIS 243 million compared to the corresponding period last year, primarily due to adjustment of payroll expenses with respect to variable remuneration components.

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

	As of June 30, 2021	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	374,370	370,410	360,140	347,050	291,560	284,731
Loans to the public, net	254,236	249,539	245,525	241,765	214,450	210,230
Cash and deposits with banks	94,337	91,392	86,570	77,738	61,532	56,385
Securities	17,539	19,529	17,290	18,258	8,440	8,709
Buildings and equipment	1,678	1,702	1,743	1,646	1,433	1,437
Deposits from the public	294,391	293,766	284,224	276,156	231,784	223,189
Debentures and subordinated notes	35,594	33,335	33,446	32,995	29,689	30,237
Deposits from banks	5,945	4,293	3,779	2,786	946	924
Shareholders' equity(1)	20,444	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 June 30, 2021 amounted to NIS 374.4 billion, an increase by NIS 14.2 billion compared to December 31, 2020, annualized increase by 8.1%.
- Loans to the public, net as of June 30, 2021 amounted to NIS 254.2 billion, an increase by NIS 8.7 billion compared to December 31, 2020, annualized increase by 7.2%.
- Deposits from the public as of June 30, 2021 amounted to NIS 294.4 billion, an increase by NIS 10.2 billion compared to December 31, 2020, annualized increase by 7.3%.
- Shareholder equity as of June 30, 2021 amounted to NIS 20.4 billion, an increase by NIS 1.6 billion compared to December 31, 2020, an annualized increase by 18.2%. 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			
	Second quarter	**First quarter**	**Fourth quarter**	**Third quarter**	**Second quarter**	**First quarter**
Key performance benchmarks						
Net profit return on equity(1)(2)	21.3	14.9	11.4	9.5	9.0	9.1
Net profit return on risk assets(1)(2)(3)	1.94	1.34	1.02	0.89	0.85	0.86
Return on average assets(2)	1.07	0.74	0.57	0.52	0.50	0.51
Deposits from the public to loans to the public, net	115.8	117.7	115.8	114.2	108.1	106.2
Ratio of Tier I capital to risk components	10.53	10.15	10.04	9.98	9.96	9.89
Leverage ratio(4)	5.36	5.16	5.19	5.23	5.36	5.40
(Quarterly) liquidity coverage ratio(5)	132	133	133	128	122	117
Ratio of revenues to average assets(2)	2.87	2.68	2.59	2.62	2.52	2.81
Operating expenses to total revenues(6) (Cost-Income Ratio)	50.4	55.3	58.8	50.8	52.8	52.4
Basic earnings per share (in NIS)	3.87	2.65	2.13	1.65	1.53	1.52
Key credit quality benchmarks						
Ratio of balance of provision for credit losses to total loans to the public	0.86	0.96	0.98	0.95	0.96	0.91
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	0.95	1.07	1.11	1.09	–	–
Ratio of impaired debts or debts in arrears 90 days or longer to loans to the public	1.07	1.23	1.18	1.20	1.34	1.41
Expenses (income) with respect to credit losses for the period to loans to the public, net(2)	(0.38)	0.02	0.19	0.59	0.50	0.66
Ratio of net accounting write-offs to average loans to the public(2)	0.04	0.06	0.06	0.13	0.15	0.16
Additional information						
Share price (in NIS) at end of the quarter	100.40	87.14	74.25	60.74	64.62	66.23
Dividends per share (in Agorot)(7)	–	–	–	–	–	75
Ratio of net interest revenues to average assets(2)	2.20	1.86	1.92	1.99	1.85	1.95
Ratio of commissions to average assets(2)	0.50	0.52	0.54	0.54	0.52	0.61

	First half of		All of
	2021	**2020**	**2020**
Key performance benchmarks			
Net profit return on equity(1)(2)	17.7	9.0	9.5
Net profit return on risk assets(1)(2)(3)	1.64	0.86	0.89
Return on average assets(2)	0.91	0.51	0.53
Ratio of revenues to average assets(2)	2.77	2.66	2.63
Operating expenses to total revenues(6) (Cost-Income Ratio)	52.8	52.6	53.9
Basic earnings per share (in NIS)	6.52	3.05	6.70
Key credit quality benchmarks			
Expenses (income) with respect to credit losses for the period to loans to the public, net(2)	(0.18)	0.57	0.43
Ratio of net accounting write-offs to average loans to the public(2)	0.04	0.16	0.12
Additional information			
Dividends per share (in Agorot)(7)	–	75	75
Ratio of net interest revenues to average assets(2)	2.03	1.89	1.93
Ratio of commissions to average assets(2)	0.51	0.57	0.55

Financial ratios indicate as follows:

- Net profit return on equity in the first half of this year reached 17.7%, against the background of higher revenues, primarily due to increase in operations and to revenues with respect to decrease in provisions for credit losses.
- In the first half of 2021, revenues with respect to provision for credit losses amounted to NIS 227 million, primarily due to decrease in the group-based provision, against the background of improved macro-economic data and decrease in loan amount subject to repayment deferral.
- The ratio of Tier I capital to risk components increased to 10.53%. The minimum ratio required of the Bank is 8.63% (the minimum ratio without relief granted due to the Corona Virus crisis is 9.63%).
- The cost-income ratio for the first half of 2021 was 52.8%.

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

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(1) Any mention of "net profit" or "equity" in this Board of Directors' Report refers to net profit and equity attributable to shareholders of the Bank.

(2) 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.

For more information, including with regard to the Bank of Israel circular dated July 26, 2021, allowing dividend distributions in the banking system, see also chapter "Dividend distribution policy".

For more information about the strategic plan, 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.

On July 26, 2021, the Bank's Board of Directors approved, after approval by the Bank's Remuneration Committee, an option offering to Bank officers and to other managers at the Bank and at its subsidiaries. See Note 17 to the financial statements for additional information.

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 and obligatory notes 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 June 30, 2021 amounted to NIS 294.4 billion, compared to NIS 284.2 billion at end of 2020: an increase by 3.6%.

Deposits from the public in the NIS-denominated, non-CPI linked segment increased in the first half of 2021 by 1.9%; deposits in the CPI-linked segment increased by 27.1%; and deposits denominated in or linked to foreign currency increased by 3.2%.

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 June 13, 2021, the merger of Union Issuance Ltd. with and into Tefahot Issuance was completed, including transfer of all assets and liabilities to Tefahot Issuance (including inventory of obligatory notes and debenture series issued by Union Issuance Ltd.).

Tefahot Issuance has a shelf prospectus, dated August 5, 2019, for issuance of obligatory notes.

On July 27, 2021, further to the Company's request, ISA resolved to extend the deadline for offering securities pursuant to the shelf prospectus by a further 12 months, to August 4, 2022.

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 half of 2021, the Bank Group conducted no public issuance of obligatory notes or debentures.

As of June 30, 2021, total debentures and subordinated notes amounted to NIS 35.6 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 qualification provisions and recognized by the supervisor of Banks as Tier II capital), as of June 30, 2021, amounted to NIS 6.5 billion, compared to NIS 4.5 billion as of December 31, 2020.

In July 2021, after the balance sheet date, Bank Yahav raised Tier II capital by issue of CoCo subordinated notes amounting to NIS 320 million, of which NIS 220 million issued to the Bank.

These notes qualify for recognition as Tier II equity pursuant to Basel III provisions.

Furthermore, in July 2021, Bank Yahav made a full early redemption, after obtaining approval by the Bank of Israel, of subordinated notes amounting to NIS 218 million.

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 June 30, 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 June 30, 2021, amounted to NIS 0.8 billion, similar to December 31, 2020.

For more information about the credit rating of the Bank and its obligatory 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 assumes 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 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.

On December 31, 2020, the Bank announced a resolution to merge Union Bank Issuance Ltd. Into Mizrahi Tefahot Issuance Ltd., a wholly owned subsidiary of the Bank, and this merger was completed on June 13, 2021.

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 transaction is a material, large-scale and highly complex process which entails a wide range of risks.

The merger process 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 Board committee established to supervise this process.

Risk management is an integral and dynamic part of all work teams, and the Group's Chief Risks Officer reviews and integrates all risks of the merger process and the measures applied to reduce and manage such risk.

The process of client transition started in the second quarter of this year and is gradual, as the number of branches and clients is expanded.

The Bank's Risk Control Division and Internal Audit regularly accompany and conduct control and lesson learning processes.

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.

For more information about the agreement signed by Igud Systems Ltd. and Mizrahi-Tefahot Technology Division Ltd. and the Employee Union of Union Bank Systems Ltd., which governs onboarding of Igud 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.

In conjunction with the sale agreement, the Bank would act so that Mizrahi Overseas Holding may fulfill its obligations pursuant to the agreement.

On May 21, 2021, the sale transaction closed after receiving approvals from the regulatory authority in Switzerland, for consideration amounting to CHF 44 million (the consideration depends on actual client assets upon the relevant calculation date).

With respect to sale of the Bank in Switzerland, the Bank recognized capital gain amounting to NIS 14 million on its financial statements for the second quarter of 2021.

Significant developments in human resources and administration

Developments in labor relations

Special collective bargaining agreement at Union Bank

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 stated 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 stated 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.

On June 21, 2021, an addendum to the agreement was signed, whereby the number of retiring employees would be increased to 480. Moreover, the periods and dates for employee retirement were updated – all through 2022. Union Bank believes that the final number of retiring employees would be close to the aforementioned number. Upon signing the addendum to the agreement, Union Bank assessed the cost of the Retirement Program, beyond actuarial provisions for retirement at beneficial terms, at NIS 430 million (in net profit terms: NIS 283 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.

Agreement between Igud Systems and Mizrahi Tefahot Technology Division

On April 11, 2021, an agreement was signed (hereinafter: "the Agreement") between Igud Systems Ltd. (hereinafter: "Igud Systems") and Mizrahi Tefahot Technology Division Ltd. (hereinafter: "Technology Division") and the Employee Union of Igud Systems, which governs the onboarding of Igud Systems employees subject to the Agreement, as employees of the Technology Division, upon the operational merger between the Technology Division and Igud Systems (scheduled for January 1, 2023 or sooner, as determined by the Technology Division), each one based on their employment status at Igud Systems immediately prior to the merger, and also governs the employment terms and conditions of Igud Systems employees upon onboarding in the Technology Division. The Agreement has no impact on the Bank's financial statements.

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

Developments in 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, and on May 21, 2021 the sale transaction closed after receiving approvals from the regulatory authority in Switzerland. For more information see chapter "Significant developments in management of Bank business" above.

Other matters

HaPhoenix Holdings Ltd. And Excellence Investments Ltd. became interested parties

On March 8, 2021, the Bank reported that HaPhoenix Holdings Ltd. And Excellence Investments Ltd. became interested parties in the Bank (for more information, see Immediate Reports dated March 8, 2021, reference 2021-01-029244 and 2021-01-029247).

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).

Harel Insurance Investments & Financial Services Ltd. became an interested party

On May 6, 2021, the Bank reported that Harel Insurance Investments & Financial Services Ltd. became an interested party in the Bank (for more information, see Immediate Report dated May 6, 2021, reference 2021-01-079641).

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 closing of the 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 2020, the Bank applied measures in response to client needs arising from the situation. Action taken by the Bank includes approval of deferral 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.

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.

As of June 30, 2021, out of all residential mortgages subject to deferral, some NIS 45.6 billion resumed payment (of which NIS 7.2 billion chose the partial payment track in conformity with the Bank of Israel outline). NIS 0.2 billion is still subject to full deferral, mostly ended in July 2021. As of June 30, 2021, out of all loans for which repayment has resumed, only NIS 0.7 billion are in arrears.As of June 30, 2021, out of all other (non-housing) loans subject to deferral, NIS 4.7 billion resumed repayment and NIS 0.8 billion are still subject to deferral, mostly expected to end in 2021.

As of June 30, 2021, out of all loans for which repayment has resumed, only NIS 0.1 billion are in arrears. As of June 30, 2021, the balance of loans provided by the Bank from State-guaranteed funds amounted to NIS 5.1 billion. Against the loans extended, in conformity with the Bank of Israel outline, the Bank participated and obtained a special-purpose monetary loan from the Bank of Israel for 3 years bearing fixed interest at 0.1%, whose balance as of June 30, 2021 amounted to NIS 4.5 billion.

For more information about loans subject to repayment deferral 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 half and in the second 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 December 2020, the campaign to vaccinate the population in Israel against the Corona Virus started, and as of mid-July 2021, 62% of the population (and over 90% of those aged 60 or older) in Israel were 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. However, in July the number of cases in Israel increased once again, due to the Delta variant outbreak. Consequently, the Green Pass restrictions were reinstated indoors with occupancy of over 100 people and a decision was made to offer a third dose of the vaccine to those at high-risk.

GDP in Israel in the first quarter of 2021 declined at an annualized 5.8%, further to 2.6% annualized decrease in 2020 and following a 3.4% increase for all of 2019. GDP growth in the final quarter was negatively impacted by purchasing of vehicles brought forward to the fourth quarter of 2020, due to the Green Taxation reform. The Bank of Israel Research Division estimates that excluding the impact of lower vehicle imports, GDP decreased by 2.9%.

The lower GDP was primarily negatively affected by lower public consumption and investment in economic sectors, offset by higher current private consumption and export of services. The Bank of Israel Composite Index increased in the first six months of this year at an annualized rate of 1.6%, compared to a decrease of 0.1% in 2020 and 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 8.8% in the second half of June 2021, compared to 12.9% in December 2020. As of May, the number of vacant jobs in the economy was at a record 128 thousand jobs, indicating the challenge faced by employers in hiring employees.

According to forecast by the Bank of Israel Research Division dated July 2021, GDP in Israel is expected to grow by 5.5% in 2021, and the broad unemployment rate at the end of the year should be at 8.0%.

Inflation and exchange rates

In the first half of 2021, the Consumer Price Index increased by 1.6%, compared to a decrease by 0.8% in the corresponding period last year. The increase in CPI was primarily due to lifting of restrictions on economic activity with release of the pent-up demand and due to higher commodity prices globally. All CPI components were higher, except for clothing and footwear.

During the Corona Virus crisis, the NIS was revaluated against the USD, more intensively so in late 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, of which USD 25 billion were purchased in the first half of this year. 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:

	June 30, 2021	December 31, 2020	Change in %
Exchange rate of:			
USD (in NIS)	3.260	3.215	1.4
EUR (in NIS)	3.875	3.944	(1.8)

On August 10, 2021, the USD/NIS exchange rate was 3.227 – a 1.0% revaluation compared to June 30, 2021. The EUR/NIS exchange rate on this date was 3.748 – a revaluation of 2.4% since June 30, 2021.

Monetary policy

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. The Loans to Banks program, launched during the crisis to support credit supply to small and medium businesses, was concluded after NIS 40 billion were utilized.

Fiscal policy

In the first half of 2021, the government budget recorded a NIS 43.5 billion cumulative deficit, compared to NIS 59.3 billion in the corresponding period last year. The deficit rate as percentage of GDP for the 12 months ended in June 2021 was 10.1%, compared to 11.7% for 2020 and 3.7% for 2019. In the first half of 2021, expenditure by Government ministries increased by 14.0% compared to the corresponding period last year; Excluding expenses for addressing the Corona Virus crisis, Government expenditure increased by 3.5%. Tax collection increased by a nominal 22.8% 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, 77% was actually executed.

In early August, the Government approved the state budget for 2021-2022, after 3 years during which it operated based on a continual budget. The proposed budget is subject to approval by the Knesset. The state budget includes multiple reforms, including the following: Extensive plan to open the economy for imports, higher retirement age for women, regulatory improvement program, launch of the metro project in the Dan Region and promotion of open banking in Israel.

Residential construction and the mortgage market

According to data from the Central Bureau of Statistics, in the first five months of 2021 demand for new apartments (apartments sold and apartments constructed not for sale, net of seasonal effect) was 25.4 thousand apartments, an increase by 27.4% over the corresponding period last year and an increase by 18.9% over the corresponding period in 2019. In the first half of 2021, residential mortgages given to the public amounted to NIS 52.1 billion, compared to NIS 37.5 billion in the corresponding period last year and NIS 32.6 billion in the corresponding period in 2019 – an increase by 39% and 60%, respectively.

According to data from the Central Bureau of Statistics, owned housing prices, in terms of twelve months ended May 2021, increased by 7.2%, 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 second 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 indices in Israel (in %):

	2021		2020			
CPI	**Second quarter of**	**First Quarter**	**Fourth Quarter**	**Third Quarter**	**Second quarter of**	**First Quarter**
Tel-Aviv 35	4.9	7.0	14.6	(2.6)	1.0	(21.0)
Tel-Aviv 125	6.0	6.1	16.6	1.5	3.8	(21.0)
Tel-Aviv 90	8.7	6.1	24.1	11.8	8.6	(21.6)

The average daily trading volume of shares and convertible securities in the second quarter amounted to NIS 1.9 billion on average – similar to the average trading volume for the corresponding period last year. Average daily trading volume in equities and convertible securities in the first half of this year was NIS 1.9 billion, compared to NIS 2.0 billion in the corresponding period last year. The average daily trading volume in 2020 was NIS 1.9 billion.

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

	2021		2020			
CPI	**Second quarter of**	**First Quarter**	**Fourth Quarter**	**Third Quarter**	**Second quarter of**	**First Quarter**
All-Bond general	1.0	0.3	1.4	1.1	2.9	(4.5)
CPI-indexed Government debentures	1.2	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	2.2	1.8	3.7	3.0	0.5	(7.1)
Tel Bond 40	1.9	1.7	2.6	2.0	2.3	(6.5)

Global economy

The US economy grew in the second quarter of 2021 at an annualized 6.5%, compared to 6.3% growth in the previous quarter and compared to 3.4% decline for all of 2020. This was in view of progress made on vaccinating the population against the Corona Virus and the gradual lifting of restrictions on business activity, offset by the Delta variant outbreak, disruption to supply chains and shortage of employees. The Purchasing Manager Indexes show rapid expansion in both industrial and service sectors. Retail trade and industrial manufacturing grew at a strong pace in the second quarter, due to the pent-up demand released by lifting restrictions on activity. The unemployment rate in June 2021 was 5.9%, compared to 14.8% at the high point of the Corona Virus crisis in April 2020, and 3.5% immediately prior to the crisis. The inflation rate for the 12 months ended June 2021 was 5.4%, compared to 1.6% for all of 2020. On January 20, 2021, Joe Biden was inaugurated as President of the USA. 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 1 trillion. Moreover, President Biden announced his intentions to raise corporate tax and capital gains tax rates.

GDP in the Euro Zone in the second quarter of 2021 increased at an annualized 8.3%, following a decrease by 1.3% in the first quarter and compared to 6.6% decrease for all of 2020. The Industrial Output Index and the Retail Trade Index were unchanged in the first months of this year, due to the slow progress made on vaccinations in EU countries. The Purchasing Manager Index in economic sectors increased year to date, indicating a fast-paced expansion. The Index in service sectors was negatively affected by restrictions on activity, returned to indicating expansion only in April 2021, and is currently at a high level. The inflation rate in the 12 months ended June 2021 was 1.9%, compared to -0.3% in all of 2020.

China's economy grew in the second quarter of 2021 at a 1.3% quarterly rate, following 0.4% growth in the previous quarter and compared to 2.3% for all of 2020. The growth rate in industrial manufacturing and retail trade was more moderate in recent months. The Purchasing Manager Indexes continued to indicate expansion in activity in this half, but in July 2021 started to indicate a freeze in activity. This was due to the renewed Delta variant outbreak and the lock-down imposed in Nanjing province. Due to increased supervision by the Chinese government and restrictions imposed on operations of Chinese companies, in late July 2021 equity indexes in China declined sharply.

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

	2021		2020			
CPI	**Second quarter of**	**First Quarter**	**Fourth Quarter**	**Third Quarter**	**Second quarter of**	**First Quarter**
Dow Jones	4.6	7.8	10.2	7.6	23.3	(23.2)
S&P 500	8.2	5.8	11.7	8.5	25.5	(20.0)
NASDAQ 100	11.2	1.6	12.9	12.4	35.7	(10.5)
DAX	3.5	9.4	7.5	3.7	29.0	(25.0)
FTSE 100	4.8	3.9	10.1	(4.9)	13.9	(24.8)
CAC	7.3	9.3	15.6	(2.7)	17.3	(26.5)
Nikkei	(1.3)	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" below, the Risks Report for the second quarter of 2021 and the Risks Report 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

On July 26, 2021, after the balance sheet date, the Bank Board of Directors, after receiving approval from the Remuneration Committee, approved the offering of options to the Bank President & CEO and to officers of the Bank (other than Bank Board members) and to other managers at the Bank and at subsidiaries of the Bank, with respect to 2021. See Note 17 to the financial statements for additional information.

For more information about distribution of dividends with respect to earnings in 2020, see chapter "Analysis of developments in assets, liabilities, equity and capital adequacy" below and the statement of changes to shareholder equity and the Note "Events after the balance sheet date" of these condensed financial statements.

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 half of 2021 amounted to NIS 1,664 million, compared to NIS 717 million in the corresponding period last year – an increase by 132.1%. This reflects a 17.7% annualized return on equity, compared to 9.0% in the corresponding period last year and 9.5% for all of 2020.

Group net profit in the second quarter of 2021 amounted to NIS 988 million, compared to NIS 360 million in the corresponding period last year – an increase by 174.4%. This reflects annualized return on equity of 21.3%, compared to 9.0% in the corresponding period last year.

Analysis of developments in revenues, expenses and other comprehensive income

Net interest revenues and non-interest financing revenues(1) in the first half of 2021 amounted to NIS 3,981 million. Net interest revenues and non-interest financing revenues, excluding Union Bank, amounted to NIS 3,477 million, compared to NIS 2,810 million in the corresponding period last year, an increase by 23.7%.
Net interest revenues and non-interest financing revenues(1) in the second quarter of 2020 amounted to NIS 2,101 million. Net interest revenues and non-interest financing revenues, excluding Union Bank, amounted to NIS 1,859 million, compared to NIS 1,399 million in the corresponding period last year, an increase by 32.9%.

Net interest revenues and non-interest financing revenues (1) from current operations in the first half of 2021, excluding the effect of Union Bank, amounted to NIS 2,934 million, as described below, compared to NIS 2,784 million in the corresponding period last year, an increase by 5.4%.
Net interest revenues and non-interest financing revenues(1) from current operations in the second quarter of 2021, excluding the effect of Union Bank, amounted to NIS 1,494 million, as described below, compared to NIS 1,368 million in the corresponding period last year, an increase by 9.2%.

The increase in revenues from current operations in the first half of 2021 was achieved despite the negative impact of the lower interest rates of the Federal Reserve and of the Bank of Israel.

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

	2021		2020				Change in %
	Second quarter	First quarter	Fourth quarter	Third quarter	Second quarter	First quarter	Second quarter of 2021 to second quarter of 2020
Interest revenues, net	2,035	1,691	1,686	1,464	1,323	1,347	
Non-interest financing revenues[(1)]	66	189	27	54	76	64	
Total financing revenues	**2,101**	**1,880**	**1,713**	**1,518**	**1,399**	**1,411**	
Financing revenues of Union Bank	242	262	235	–	–	–	
Total financing revenues excluding Union Bank	**1,859**	**1,618**	**1,478**	**1,518**	**1,399**	**1,411**	**32.9**
Less:							
Effect of CPI	209	16	–	18	(40)	(83)	
Revenues from collection of interest on problematic debts	13	10	12	11	9	7	
Gains (losses) from realized debentures and available-for-sale securities and gains from debentures held for trading, net	(1)	12	1	14	54	28	
Effect of accounting treatment of derivatives at fair value and others[(2)]	144	140	53	100	8	43	
Total effects from other than current operations	**365**	**178**	**66**	**143**	**31**	**(5)**	
Total financing revenues from current operations	**1,494**	**1,440**	**1,412**	**1,375**	**1,368**	**1,416**	**9.2**

	Six months		
	2021	2020	Change in %
Total financing revenues	**3,981**	**2,810**	
Financing revenues of Union Bank	504	–	
Total financing revenues excluding Union Bank	**3,477**	**2,810**	**23.7**
Total effects from other than current operations	**543**	**26**	
Total financing revenues from current operations	**2,934**	**2,784**	**5.4**

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

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

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

	First half of			
Operating segment	**2021**	**2020**	**Change amount**	**Change rate (In %)**
Individuals:				
Households – residential mortgages	1,090	923	167	18.1
Households – other	720	654	66	10.1
Private banking	42	41	1	2.4
Total – individuals	**1,852**	**1,618**	**234**	**14.5**
Business operations:				
Small and micro businesses	667	575	92	16.0
Medium businesses	170	147	23	15.6
Large businesses	301	266	35	13.2
Institutional investors	59	55	4	7.3
Total – business operations	**1,197**	**1,043**	**154**	**14.8**
Financial management	829	54	775	–
Total activity in Israel	**3,878**	**2,715**	**1,163**	**42.8**
Overseas operations	103	95	8	8.4
Total	**3,981**	**2,810**	**1,171**	**41.7**

	Second quarter of			
Operating segment	**2021**	**2020**	**Change amount**	**Change rate (In %)**
Individuals:				
Households – residential mortgages	555	464	91	19.6
Households – other	359	317	42	13.2
Private banking	19	19	–	–
Total – individuals	**933**	**800**	**133**	**16.6**
Business operations:				
Small and micro businesses	333	277	56	20.2
Medium businesses	85	71	14	19.7
Large businesses	159	132	27	20.5
Institutional investors	33	26	7	26.9
Total – business operations	**610**	**506**	**104**	**20.6**
Financial management	504	43	461	–
Total activity in Israel	**2,047**	**1,349**	**698**	**–**
Overseas operations	54	50	4	8.0
Total	**2,101**	**1,399**	**702**	**–**

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):

	Second quarter of			First half of		
Linkage segment	**2021**	**2020**	**Change in %**	**2021**	**2020**	**Change in %**
Israeli currency – non-linked	259,754	189,717	36.9	252,117	186,679	35.1
Israeli currency – linked to the CPI	66,729	59,528	12.1	69,761	59,543	17.2
Foreign currency (including Israeli currency linked to foreign currency)	13,336	10,387	28.4	14,799	11,028	34.2
Total	**339,819**	**259,632**	**30.9**	**336,677**	**257,250**	**30.9**

Change in average balances of interest-bearing assets 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 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:

	Second quarter of		First half of	
Linkage segments	**2021**	**2020**	**2021**	**2020**
Israeli currency – non-linked	1.95	1.98	1.89	2.08
Israeli currency – linked to the CPI	1.26	1.41	1.43	1.48
Foreign currency	1.72	1.33	1.42	1.13
Total	**1.78**	**1.77**	**1.73**	**1.80**

(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 early in the second quarter of 2020, 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 segment, the decrease is due to the fact that the interest rate spread excludes the effect of derivatives.

Including the effect of derivatives, there was no material change in the interest rate spread in this segment.

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.

Revenues with respect to credit losses for the Group amounted to NIS 227 million in the first half of 2021, or an annualized rate of 0.18% of total loans to the public, net, compared to expenses amounting to NIS 615 million in the corresponding period last year – an annualized rate of 0.57% of total loans to the public, net in the corresponding period last year.

Revenues with respect to credit losses for the Group amounted to NIS 240 million in the second quarter of 2021, or an annualized rate of 0.38% of total loans to the public, net, compared with expenses amounting to NIS 270 million in the corresponding period last year – an annualized rate of 0.50% of total loans to the public, net.

Revenues with respect to credit losses in the first half and in the second quarter of 2021 was due to decrease in the group-based provision, due to improved macro-economic data and lower credit volume subject to repayment deferral.

This compares to the corresponding periods last year, when expenses included expense with respect to provision 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 below in chapter "Analysis of evolution of revenues and expenses" and in Notes 6 and 13 to the financial statements.

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

	Second quarter of		First half of	
	2021	**2020**	**2021**	**2020**
Provision for credit losses on individual basis (including accounting write-offs)				
Increased expenses	93	135	207	288
Reduced expenses	(116)	(36)	(182)	(74)
Total individual provision	**(23)**	**99**	**25**	**214**
Provision for credit losses on Group basis:				
By extent of arrears	(4)	13	(1)	16
Other	(213)	158	(251)	385
Total expenses (revenues) with respect to credit losses	**(240)**	**270**	**(227)**	**615**
Rate of the expenses (revenues) with respect to credit losses as percentage of total loans to the public, net (annualized)	**(0.38%)**	**0.50%**	**(0.18%)**	**0.57%**
Of which: With respect to commercial loans other than residential mortgages	**(0.80%)**	**1.17%**	**(0.32%)**	**1.34%**
Of which: With respect to residential mortgages	**(0.14%)**	**0.15%**	**(0.10%)**	**0.17%**

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

	Second quarter of		First half of		Rate of expenses with respect to credit losses[(1)] in the second quarter		Rate of expenses with respect to credit losses[(1)] in the first half	
Operating segment	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
Individuals:								
Households – residential mortgages	(59)	53	(82)	118	(0.14)	0.15	(0.10)	0.17
Households – other	(24)	44	(31)	84	(0.37)	0.85	(0.24)	0.81
Private banking	(1)	1	(4)	–	(1.90)	3.19	(3.79)	–
Total – individuals	**(84)**	**98**	**(117)**	**202**	**(0.18)**	**0.24**	**(0.12)**	**0.25**
Business operations:					–	–		
Small and micro businesses	(53)	83	(37)	155	(0.74)	1.48	(0.26)	1.38
Medium businesses	4	7	20	79	0.16	0.39	0.40	2.20
Large businesses	(92)	74	(57)	161	(1.81)	1.64	(0.56)	1.79
Institutional investors	(7)	4	(26)	6	(1.09)	0.72	(2.03)	0.54
Total – business operations	**(148)**	**168**	**(100)**	**401**	**(0.96)**	**1.35**	**(0.33)**	**1.60**
Financial management	–	(1)	–	1	–	–	–	–
Total activity in Israel	**(232)**	**265**	**(217)**	**604**	**(0.37)**	**0.50**	**(0.17)**	**0.57**
Overseas operations	(8)	5	(10)	11	(0.91)	0.53	(0.57)	0.58
Total	**(240)**	**270**	**(227)**	**615**	**(0.38)**	**0.50**	**(0.18)**	**0.57**

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

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 in the first half of 2021 amounted to NIS 1,342 million, compared to NIS 1,068 million in the corresponding period last year, an increase by NIS 274 million.

See explanation below.

Non-interest revenues amounted to NIS 610 million in the second quarter of 2021, compared with NIS 475 million in the corresponding period last the third – an increase by NIS 135 million.

See explanation below.

Non-interest financing revenues in the fourth half of 2021 amounted to NIS 255 million, compared to NIS 140 million in the corresponding period last year.

Non-interest financing revenues in the second quarter of 2021 amounted to NIS 66 million, compared to NIS 76 million in the corresponding period last year.

Non-interest financing revenues in the first half and in the second quarter of 2021 include revenues amounting to NIS 139 million and NIS 50 million, respectively, 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 amounted to NIS 946 million in the first half of 2021, compared with NIS 800 million in the corresponding period last year – a year-over-year increase of 18.3%.

Commission revenues in the second quarter of 2021 amounted to NIS 469 million, compared to NIS 376 million in the corresponding period last year – an increase by 24.7%.

Excluding the effect of Union Bank, commission revenues in the first half and in the second quarter of 2021 amounted to NIS 826 million and NIS 409 million, an increase by 3.3% and 8.8% compared to the corresponding periods, respectively.

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

	2021		2020			
	Second quarter	First quarter	Fourth quarter	Third quarter	Second quarter	First quarter
Account management	101	95	96	90	77	93
Activities involving securities	71	89	83	64	70	65
Conversion differences	73	75	69	58	53	75
Commissions from financing transactions	62	66	75	55	54	53
Credit cards	50	54	52	46	42	50
Credit processing(1)	37	31	33	32	25	27
Other commissions	75	67	64	54	55	61
Total commissions	**469**	**477**	**472**	**399**	**376**	**424**

	First half of		All of
	2021	2020	2020
Account management	196	170	356
Activities involving securities	160	135	282
Conversion differences	148	128	255
Commissions from financing transactions	128	107	237
Credit cards	104	92	190
Credit processing(1)	68	52	117
Other commissions	142	116	234
Total commissions	**946**	**800**	**1,671**

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

Other revenues in the first half of 2021, amounted to NIS 141 million compared with NIS 128 million in the corresponding period last year – an increase by NIS 13 million.

Other revenues in the second quarter of 2021 amounted to NIS 75 million, compared to NIS 23 million in the corresponding period last year.

Other revenues in the first half and in the second quarter of 2021 include NIS 104 million and NIS 52 million, respectively, with respect to net deferred credit balance recognized with respect to acquisition of Union Bank, recognized in profit & loss over 5 years, as from the fourth quarter of 2020, as well as gain amounting to NIS 14 million from sale of the subsidiary United Mizrahi Bank (Switzerland) Limited.

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

Other revenues in the first half 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 17 million (in the second quarter of 2020: NIS 4 million) from realized assets in conjunction with asset reorganization and improvements to the Bank's branch network.

Operating and other expenses in the first half of 2021 amounted to NIS 2,674 million.

Excluding the effect of Union Bank, operating and other expenses in the first half of 2021 amounted to NIS 2,210 million, compared to NIS 1,967 million in the corresponding period last year, an increase by 12.4%.

Operating and other expenses in the second quarter of 2020 amounted to NIS 1,333 million.

Excluding the effect of Union Bank, operating and other expenses in the second quarter of 2021 amounted to NIS 1,102 million, compared to NIS 950 million in the corresponding period last year, an increase by 16.0%.

See details by operating expense component below.

Payroll and associated expenses in the first half of 2021 amounted to NIS 1,713 million.

Excluding the effect of Union Bank, payroll and associated expenses in the first half of 2021 amounted to NIS 1,480 million, compared to NIS 1,240 million in the corresponding period last year, an increase by 19.4%.

Payroll and associated expenses in the second quarter of 2021 amounted to NIS 843 million.

Excluding the effect of Union Bank, payroll and associated expenses in the second quarter of 2021 amounted to NIS 736 million, compared to NIS 596 million in the corresponding period last year, an increase by 23.5%.

Payroll expenses in the first half and in the second quarter of 2021 include, inter alia, adjustment of variable remuneration components.

Maintenance and depreciation expenses for buildings and equipment in the first half of 2021 amounted to NIS 485 million.

Excluding the effect of Union Bank, maintenance and depreciation expenses for buildings and equipment amounted to NIS 425 million in the first half of 2021, compared with NIS 413 million in the corresponding period last year – an increase by 2.9%.

Maintenance and depreciation expenses for buildings and equipment in the second quarter of 2021 amounted to NIS 245 million. Excluding the effect of Union Bank, maintenance and depreciation expenses for buildings and equipment amounted to NIS 213 million in the second quarter of 2021, compared with NIS 208 million in the corresponding period last year – an increase by 2.4%.

Other expenses in the first half of 2021 amounted to NIS 476 million.

Excluding the effect of Union Bank, other expenses in the first half of 2021 amounted to NIS 305 million, compared to NIS 314 million in the corresponding period last year, a decrease by 2.9%, primarily due to decrease in legal expenses. Other expenses in the second quarter of 2021 amounted to NIS 245 million.

Excluding the effect of Union Bank, other expenses in the first quarter of 2021 amounted to NIS 153 million, compared to NIS 146 million in the corresponding period last year, an increase by 4.8%.

Cost-Income ratio information(1) (in %):

	2021		2020			
	Second quarter	**First quarter**	**Fourth quarter**	**Third quarter**	**Second quarter**	**First quarter**
Cost-income ratio	50.4	55.3	(3)58.8	50.8	52.8	(2)52.4

	First half of		All of
	2021	**2020**	**2020**
Cost-income ratio	52.8	52.6	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 amounted to NIS 2,621 million in the first half of 2021, compared with NIS 1,156 million in the corresponding period last year – an increase by 126.7%. See detailed explanation above.

Pre-tax profit for the Group in the second quarter of 2021 amounted to NIS 1,552 million, compared to NIS 578 million(1) in the corresponding period last year – an increase by 168.5%.

See detailed explanation above.

The rate of provision for taxes on profit in the first half of 2021 was 34.3% – similar to the corresponding period last year.

The provision rate for taxes on profit in the second quarter of 2021 was 34.8% – compared to 33.9% in the corresponding period last year.

Bank share of after-tax profit of associates – in the first half of 2021 the Bank recognized loss with respect to associates amounting to NIS 11 million. No gain or loss was recognized with respect to associates in the corresponding period last year.

Bank share of after-tax profit of associates – in the second quarter of 2021 the Bank recognized gain with respect to associates amounting to NIS 1 million. No gain or loss was recognized with respect to associates in the corresponding period last year.

The share of the non-controlling interests in net results of subsidiaries attributable to Bank Yahav in the first half of 2021 amounted to NIS 48 million, compared to NIS 43 million in the corresponding period last year.

The share of the non-controlling interests in net results of subsidiaries attributable to Bank Yahav in the second quarter of 2020 amounted to NIS 25 million, compared to NIS 22 million in the corresponding period last year.

Net profit attributable to shareholders of the Bank in the first half of 2021 amounted to NIS 1,664 million, compared to NIS 717 million in the corresponding period last year.

Net profit attributable to shareholders of the Bank in the second quarter of 2020 amounted to NIS 988 million, compared to NIS 360 million in the corresponding period last year.

Shareholder equity of the Bank includes a decrease by NIS 24 million and an increase by NIS 34 million in the first half and in the second quarter of this year, respectively, due to adjustments with respect to employee benefits and to adjustments with respect to presentation of debentures available for sale at fair value ("Other comprehensive income attributable to shareholders of the Bank"), compared to increase by NIS 26 million and a decrease by NIS 80 million in the corresponding periods 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			
	Second quarter	First quarter	Fourth quarter	Third quarter	Second quarter	First quarter
Net return on equity	21.3	14.9	11.4	9.5	9.0	[(5)]9.1
Ratio of Tier I capital to risk components at end of quarter	10.53	10.15	10.04	9.98	9.96	9.89
(Quarterly) liquidity coverage ratio	132	133	133	128	122	117
Leverage ratio at end of quarter	5.36	5.16	5.19	5.23	5.36	5.40

	First half of		All of
	2021	2020	2020
Net return on equity	17.7	9.0	9.5

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

	Second quarter of		First half of		All of
	2021	2020	2021	2020	2020
Basic earnings per share	3.87	1.53	6.52	3.05	6.70
Diluted earnings per share	3.85	1.53	6.50	3.04	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	
		June 30,	December 31,	June 30,	December 31,
	2021	2020	2020	2020	2020
Balance sheet total	374,370	291,560	360,140	28.4	4.0
Cash and deposits with banks	94,337	61,532	86,570	53.3	9.0
Loans to the public, net	254,236	214,450	245,525	18.6	3.5
Securities	17,539	8,440	17,290	107.8	1.4
Buildings and equipment	1,678	1,433	1,743	17.1	(3.7)
Deposits from the public	294,391	231,784	284,224	27.0	3.6
Deposits from banks	5,945	946	3,779	528.4	57.3
Debentures and subordinated notes	35,594	29,689	33,446	19.9	6.4
Shareholders' equity	20,444	16,653	18,804	22.8	8.7

Cash and deposits with banks – the balance of cash and deposits with banks increased in the first half of 2021 by NIS 7.8 billion.

Due to increase in deposits from the public and in conjunction with current management of Bank liquidity.

Loans to the public, net – loans to the public, net on the consolidated balance sheet as of June 30, 2021 accounted for 68% of total assets, similar to the end of 2020.

Loans to the public, net for the Group increased in the first half of 2021 by NIS 8.7 billion, an increase by 3.5%.

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

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

				Change in % over	
		June 30,	December 31,	June 30,	December 31,
	2021	2020	2020	2020	2020
Israeli currency					
Non-linked	175,719	145,586	168,787	20.7	4.1
CPI-linked	67,405	58,233	64,524	15.8	4.5
Foreign currency and foreign currency linked	10,968	10,631	12,116	3.2	(9.5)
Non-monetary items	144	–	98	–	46.9
Total	**254,236**	**214,450**	**245,525**	**18.6**	**3.5**

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

				Change in % over	
		June 30,	December 31,	June 30,	December 31,
	2021	2020	2020	2020	2020
Individuals:					
Households – residential mortgages	163,542	139,605	155,422	17.1	5.2
Households – other	25,664	20,766	25,335	23.6	1.3
Private banking	209	127	362	–	(42.3)
Total – individuals	**189,415**	**160,498**	**181,119**	**18.0**	**4.6**
Business operations:					
Small and micro businesses	28,607	22,613	28,948	26.5	(1.2)
Medium businesses	9,905	7,219	9,427	37.2	5.1
Large businesses	20,246	18,116	19,859	11.8	1.9
Institutional investors	2,550	2,228	2,404	14.5	6.1
Total – business operations	**61,308**	**50,176**	**60,638**	**22.2**	**1.1**
Overseas operations	3,513	3,776	3,768	(7.0)	(6.8)
Total	**254,236**	**214,450**	**245,525**	**18.6**	**3.5**

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.

Details of problematic credit risk and non-performing assets before provision for credit losses, in accordance with provisions for measurement and disclosure of impaired debt, credit risk and provision for credit losses

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 loss:

Reported amounts (NIS in millions)	**As of June 30, 2021**				**As of June 30, 2020**				**As of December 31, 2020**			
	Credit risk[1]				**Credit risk[1]**				**Credit risk[1]**			
	Commercial	**Housing**	**Individual**	**Total**	**Commercial**	**Housing**	**Individual**	**Total**	**Commercial**	**Housing**	**Individual**	**Total**
1. Credit risk at performing credit rating[2]												
Balance sheet credit risk	65,242	162,402	23,728	251,372	53,375	138,288	18,988	210,651	64,478	154,564	23,716	242,758
Off balance sheet credit risk[3]	50,687	20,288	13,597	84,572	41,598	13,647	12,194	67,439	49,377	16,552	13,530	79,459
Total credit risk at performing credit rating	**115,929**	**182,690**	**37,325**	**335,944**	**94,973**	**151,935**	**31,182**	**278,090**	**113,855**	**171,116**	**37,246**	**322,217**
2. Credit risk other than at performing credit rating												
A. Non-problematic	2,545	735	299	3,579	1,944	827	374	3,145	3,697	732	292	4,721
B. Total problematic	1,886	1,402	180	3,468	2,158	1,500	230	3,888	2,289	1,285	201	3,775
Special supervision[4]	446	1,343	74	1,863	694	1,432	98	2,224	474	1,188	73	1,735
Inferior	180	–	24	204	232	–	42	274	259	–	32	291
Impaired	1,260	59	82	1,401	1,232	68	90	1,390	1,556	97	96	1,749
Total on-balance sheet credit risk other than at performing credit rating	**4,431**	**2,137**	**479**	**7,047**	**4,102**	**2,327**	**604**	**7,033**	**5,986**	**2,017**	**493**	**8,496**
Off-balance sheet credit risk[3] other than at performing credit rating	1,097		25	1,122	1,397		3	1,400	1,744		23	1,767
Total credit risk other than at performing credit rating	5,528	2,137	504	8,169	5,499	2,327	607	8,433	7,730	2,017	516	10,263
Of which: Non-impaired debts in arrears 90 days or longer[4]	25	1,331	19	1,375	42	1,432	27	1,501	28	1,176	24	1,228
Total credit risk, including risk to the public[5]	**121,457**	**184,827**	**37,829**	**344,113**	**100,472**	**154,262**	**31,789**	**286,523**	**121,585**	**173,133**	**37,762**	**332,480**
Non-performing assets[6]	**1,190**	**59**	**44**	**1,293**	**1,223**	**68**	**57**	**1,348**	**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 residential mortgages for which a provision was made by extent of arrears, and with respect to residential mortgages for which no provision was made by extent of arrears and which are in arrears 90 days or longer.
(5) On- and off-balance sheet credit risk, including with respect to derivatives.
Includes: Debts, debentures, securities loaned or purchased in resale agreements.
(6) Assets not accruing interest.

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 June 30, 2021 amounted to NIS 336 billion, compared to NIS 332 billion as of December 31, 2020 – an increase by 1.2%.

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

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

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

				Change in % over	
		June 30,	**December 31,**	**June 30,**	**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	19,660	19,292	20,964	1.9	(6.2)
Guarantees to home buyers	13,197	10,794	11,903	22.3	10.9
– Irrevocable commitments for loans approved but not yet granted	35,283	22,950	31,334	53.7	12.6
Un-utilized revolving credit card facilities	10,445	8,873	10,191	17.7	2.5
Commitments to issue guarantees	10,949	9,354	11,400	17.1	(4.0)
Guarantees and other commitments	10,291	8,879	9,260	15.9	11.1
Loan guarantees	3,226	2,923	2,880	10.4	12.0
Documentary credit	341	171	311	99.4	9.6
Financial derivatives[(2)]:					
Total par value of derivative financial instruments	304,598	237,307	293,100	28.4	3.9
(On-balance sheet) assets with respect to derivatives	2,426	2,200	4,543	10.3	(46.6)
(On-balance sheet) liabilities with respect to derivatives	2,412	2,898	5,506	(16.8)	(56.2)

(1) Contractual balances or their stated amounts at the end of the period, before effect of provision for credit losses. See Note 11 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 half of 2020 by NIS 0.2 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]
					June 30, 2021
Debentures held to maturity	3,410	3,410	63	(7)	3,466
Debentures available for sale	12,016	11,929	[2]140	[2](53)	12,016
Investment in shares not held for trading	623	457	[3]167	[3](1)	623
Securities held for trading	1,490	1,483	[3]16	[3](9)	1,490
Total securities	**17,539**	**17,279**	**386**	**(70)**	**17,595**
					June 30, 2020
Debentures held to maturity	3,985	3,985	73	–	4,058
Debentures available for sale	3,989	3,961	[2]40	[2](12)	3,989
Investment in shares not held for trading	133	106	[3]27	–	133
Securities held for trading	333	329	[3]4	–	333
Total securities	**8,440**	**8,381**	**144**	**(12)**	**8,513**
					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	
		June 30,	**December 31,**	**June 30,**	**December 31,**
	2021	**2020**	**2020**	**2020**	**2020**
Israeli currency					
Non-linked	9,731	4,393	10,937	121.5	(11.0)
CPI-linked	1,982	1,010	1,674	96.2	18.4
Foreign currency and foreign currency linked	5,186	2,904	4,233	78.6	22.5
Non-monetary items	640	133	446	381.2	43.5
Total	**17,539**	**8,440**	**17,290**	**107.8**	**1.4**

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

	Carrying amount as of		
	June 30, 2021	**June 30, 2020**	**December 31, 2020**
Government debentures:			
Government of Israel	14,239	6,607	14,455
Government of USA	884	1,169	451
Total government debentures	**15,123**	**7,776**	**14,906**
Debentures of financial institutions in Israel			
Total debentures of financial institutions in Israel	**487**	**388**	**622**
Debentures of banks in developed nations:			
South Korea	102	110	102
USA	59	–	59
Other	62	–	66
Total debentures of banks in developed nations	**223**	**110**	**227**
Corporate debentures (composition by sector):			
Rental real estate	453	–	439
Supply of electricity, gas, steam and AC	145	32	159
Mining and excavation	83	–	74
Construction	61	–	61
Industry – chemical industry	60	–	59
Other	233	1	264
Total corporate debentures	**1,035**	**33**	**1,056**
Asset-backed corporate debentures (ABS)			
Mining and excavation	28	–	28
Others	3	–	5
Total asset-backed corporate debentures (ABS)	**31**	**–**	**33**
Shares and other securities			
Investment in shares not held for trading	623	133	426
Of which: Shares for which no fair value is available(1)	302	51	216
Shares and other securities held for trading	17	–	20
Total shares and other securities	**640**	**133**	**446**
Total securities	**17,539**	**8,440**	**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 half of 2021 by NIS 65 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 June 30, 2021, similar to their weight as of December 31, 2020.

In the first half of 2021, deposits from the public with the Bank Group increased by NIS 10.2 billion, or 3.6%.

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

				Change in % over	
		June 30,	December 31,	June 30,	December 31,
	2021	**2020**	**2020**	**2020**	**2020**
Israeli currency					
Non-linked	222,075	175,923	218,008	26.2	1.9
CPI-linked	20,922	14,333	16,457	46.0	27.1
Foreign currency and foreign currency linked	51,250	41,528	49,661	23.4	3.2
Non-monetary items	144	–	98	–	46.9
Total	**294,391**	**231,784**	**284,224**	**27.0**	**3.6**

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

				Change in % over	
		June 30,	December 31,	June 30,	December 31,
	2021	**2020**	**2020**	**2020**	**2020**
Individuals:					
Households – other	117,284	96,329	114,987	21.8	2.0
Private banking	21,393	16,002	20,178	33.7	6.0
Total – individuals	**138,677**	**112,331**	**135,165**	**23.5**	**2.6**
Business operations:					
Small and micro businesses	48,538	33,539	44,382	44.7	9.4
Medium businesses	16,357	10,193	14,406	–	13.5
Large businesses	33,824	28,695	38,094	17.9	(11.2)
Institutional investors	53,060	42,179	47,566	25.8	11.6
Total – business operations	**151,779**	**114,606**	**144,448**	**32.4**	**5.1**
Overseas operations	3,935	4,847	4,611	(18.8)	(14.7)
Total	**294,391**	**231,784**	**284,224**	**27.0**	**3.6**

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.

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

		June 30,	December 31,
	2021	**2020**	**2020**
Maximum deposit			
Up to 1	95,948	78,419	94,031
Over 1 to 10	76,255	57,925	73,376
Over 10 to 100	43,886	33,201	41,781
Over 100 to 500	37,455	26,333	35,060
Above 500	40,847	35,906	39,976
Total	**294,391**	**231,784**	**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 June 30, 2021 amounted to NIS 5.9 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 June 30, 2021 amounted to NIS 35.6 billion, an increase by NIS 2.1 billion compared to the balance as of December 31, 2020, due to issuance of subordinated notes amounting to USD 0.6 billion to institutional investors.

For more information see 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 June 30, 2021 amounted to NIS 20.4 billion, compared to NIS 18.8 billion and NIS 16.7 billion as of December 31, 2020 and as of June 30, 2020, an increase by 8.7% and 22.8%, respectively.

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

		June 30,	December 31,
	2021	**2020**	**2020**
Share capital and premium(1)	3,460	2,238	3,445
Capital reserve from benefit from share-based payment transactions	72	66	87
Total cumulative other loss(2)(3)	(300)	(306)	(276)
Retained earnings (4)	17,212	14,655	15,548
Total	**20,444**	**16,653**	**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 shareholders' equity to total assets for the Group as of June 30, 2021 was 5.46% compared to 5.22% as of December 31, 2020 and 5.71% as of June 30, 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 June 30, 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.

Ratio of capital to risk components

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 residential mortgage balance as of the report date.

On March 31, 2020, Proper Conduct of Banking Business Directive 250 "Adjustments to Proper Conduct of Banking Business Directives for addressing the Corona Virus (Interim Directive)" was issued, whereby the Supervisor of Banks reduced the minimum capital ratios to be maintained by banks in the normal course of business, by one percentage point, for as long as this interim directive is in effect.

This was based on the expectation that banks would use their excess capital, due to the reduced capital requirements, to support economic activity in the market, to increase loans and to provide support for households and for the business segment, rather than for other purposes, such as dividend distribution or share buy-back, for as long as this interim directive is in effect.

On April 27, 2020, a further update to Directive 250 was issued, whereby the additional capital requirement of 1% of the outstanding balance of residential mortgages would not apply to residential mortgages to be provided during this crisis period.

On September 16, 2020 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 residential mortgages, as of June 30, 2021, would be at least 8.63%, and the total capital ratio would be at least 12.13% (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) below.

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

	As of June 30,		As of December 31,
	2021	2020	2020
Capital for purpose of calculating the capital ratio			
Tier I shareholders' equity	21,783	17,033	20,137
Tier I capital	21,783	17,033	20,137
Tier II capital	8,484	5,966	7,176
Total capital	**30,267**	**22,999**	**27,313**
Weighted risk asset balances			
Credit risk	190,817	158,555	185,392
Market risks	2,681	1,616	2,228
Operational risk	13,281	10,821	12,864
Total weighted risk asset balances	**206,779**	**170,992**	**200,484**

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

	June 30, 2021	June 30, 2020	December 31, 2020
Ratio of Tier I capital to risk components	10.53	9.96	10.04
Ratio of total capital to risk components	14.64	13.45	13.62
Minimum Tier I capital ratio required by Supervisor of Banks	8.63	8.79	8.68
Total minimum capital ratio required by the directives of the Supervisor of Banks	12.13	12.29	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 June 30, 2021		As of June 30, 2020		As of December 31, 2020	
Exposure group	**Weighted risk asset balances**	**Capital requi-rement[(1)]**	**Weighted risk asset balances**	**Capital requi-rement[(2)]**	**Weighted risk asset balances**	**Capital requi-rement[(3)]**
Sovereign debts	127	15	131	16	135	16
Public sector entity debts	359	44	227	28	368	45
Banking corporation debts	1,296	157	972	119	1,416	172
Corporate debts	57,811	7,012	47,515	5,840	56,194	6,844
Debts secured by commercial real estate	6,587	799	4,288	527	6,758	823
Retail exposure to individuals	18,566	2,252	14,638	1,799	18,325	2,232
Loans to small businesses	9,602	1,165	9,067	1,114	10,342	1,260
Residential mortgages	87,968	10,670	75,609	9,292	83,351	10,152
Other assets	8,095	982	5,681	698	8,016	976
Total	**190,411**	**23,096**	**158,128**	**19,433**	**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 June 30, 2021		As of June 30, 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	2,681	325	1,616	199	2,228	271
CVA risk with respect to derivatives(4)	406	49	427	52	487	59
Operational Risk(5)	13,281	1,611	10,821	1,330	12,864	1,567
Total	**16,368**	**1,985**	**12,864**	**1,581**	**15,579**	**1,897**
Total risk assets	**206,779**	**25,081**	**170,992**	**21,014**	**200,484**	**24,417**

(1) The capital requirement was calculated at 12.13% 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 12.29% 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 4.5% prior to this change, from November 15, 2020, in conformity with the circular dated March 22, 2021, the effective start date of this directive was delayed to September 30, 2021.

For more information see Note 9 to the financial statements.

Below is the Bank's leverage ratio:

	As of June 30,		As of December 31,
	2021	**2020**	**2020**
1. Consolidated data			
Tier I capital	21,783	17,033	20,137
Total exposure	406,235	317,759	388,370
			In %
Leverage ratio	5.36	5.36	5.19
Minimum leverage ratio required by the Supervisor of Banks	4.50	5.00	4.50
2. Significant subsidiaries			
Bank Yahav for Government Employees Ltd. and its subsidiaries			
Leverage ratio	5.27	5.12	5.07
Minimum leverage ratio required by the Supervisor of Banks	4.50	4.70	4.50
Union Bank for Government Employees Ltd. and its subsidiaries			
Leverage ratio	6.49	-	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.

On July 26, 2021, the Supervisor of Banks announced that even while the interim directive is in effect, dividends may be distributed with respect to 2020 earnings, and that dividend distribution of over 30% of net income for 2020 wouldn't be deemed careful, conservative capital planning.

Consequently, the Bank Board of Directors approved on August 16, 2021 (after the balance sheet date) a dividend distribution amounting to NIS 483 million, or 30% of 2020 earnings, as set forth below.

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 dividend paid
		(Agorot)		(NIS in millions)
August 12, 2019	August 27, 2019	167.21	(2)0.40	392.0
November 18, 2019	December 03, 2019	71.89	0.40	168.8
Total dividends distributed in 2019(1)				**392.0**
February 24, 2020	March 11, 2020	74.89	0.40	176.0

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

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

Dividends declared with respect to 2020 earnings

As noted above, in the Supervisor of Banks' circular dated July 26, 2021 the Supervisor of Banks instructed banks that even while the interim directive is in effect, dividends may be distributed with respect to 2020 earnings, and that dividend distribution of over 30% of net income for 2020 wouldn't be deemed careful, conservative capital planning, considering *inter alia* the bank's business results in 2020.

On August 16, 2021, the Bank's Board of Directors resolved to distribute a dividend amounting to NIS 483 million, or 30% of earnings in 2020, in conformity *inter alia* with the aforementioned circular by the Supervisor of Banks.

The dividends are 1890.59% of issued share capital, i.e. NIS 1.89059 per NIS 0.1 par value share.

The effective date for dividends payment is August 24, 2021 and the payment date is August 31, 2021.

The final dividends per share is subject to changes due to realized convertible securities of the Bank.

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	
		June 30,	December 31,	June 30,	December 31,
	2021	2020	2020	2020	2020
Securities[1]	496,939	412,322	452,549	20.5	6.7
Assets of provident funds for which the Group provides operating services	107,825	91,595	93,336	17.7	10.1
Assets held in trust by the Bank Group	68,148	57,392	68,308	18.7	(3.0)
Assets of mutual funds for which the Bank provides operating services	13,031	11,230	13,546	16.0	12.5
Other assets under management[2]	18,314	15,132	15,519	21.0	25.5

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

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

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 – residential mortgages" 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 the first half of 2021, for the second quarter of 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 %)	
	First half of		First half of	
	2021	**2020**	**2021**	**2020**
Individuals:				
Households – residential mortgages	534	368	31.9	49.7
Households – other	(9)	12	–	1.6
Private banking	43	(1)59	2.6	8.0
Total – individuals	**568**	**439**	**34.5**	**59.3**
Business operations:				
Small and micro businesses	279	170	16.7	22.9
Medium businesses	66	34	3.9	4.6
Large businesses	160	50	9.6	6.7
Institutional investors	23	9	1.4	1.2
Total – business operations	**528**	**263**	**31.6**	**35.4**
Financial management	503	(24)	30.1	–
Total activity in Israel	**1,599**	**678**	**96.2**	**94.7**
Overseas operations	65	39	3.8	5.3
Total	**1,664**	**717**	**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 – residential mortgages" 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 six months ended June 30,					
			2021			2020
						NIS in millions
	Other	Residential mortgages	Total	Other	Residential mortgages	Total
Profit and profitability						
Total interest revenues, net	720	1,090	1,810	654	923	1,577
Non-interest financing revenues	–	–	–	–	–	–
Commissions and other revenues	339	72	411	282	75	357
Total revenues	**1,059**	**1,162**	**2,221**	**936**	**998**	**1,934**
Expenses with respect to credit losses	(31)	(82)	(113)	84	118	202
Operating and other expenses	1,069	432	1,501	798	320	1,118
Profit before provision for taxes	21	812	833	54	560	614
Provision for taxes	7	278	285	18	192	210
After-tax profit	14	534	548	36	368	404
Net profit:						
Attributable to non-controlling interests	(23)	–	(23)	(24)	–	(24)
Attributable to shareholders of the banking corporation	**(9)**	**534**	**525**	**12**	**368**	**380**
Balance sheet – key items:						
Loans to the public (end balance)	25,928	164,401	190,329	21,062	140,388	161,450
Loans to the public, net (end balance)	25,664	163,542	189,206	20,766	139,605	160,371
Deposits from the public (end balance)	117,284	–	117,284	96,329	–	96,329
Average balance of loans to the public	23,971	160,503	184,474	20,659	137,907	158,566
Average balance of deposits from the public	116,533	–	116,533	91,754	–	91,754
Average balance of risk assets	22,509	93,201	115,710	19,655	79,719	99,374
Credit margins and deposit margins:						
Margin from credit granting operations	477	1,035	1,512	419	872	1,291
Margin from activities of receiving deposits	227	–	227	236	–	236
Other	16	55	71	(1)	51	50
Total interest revenues, net	**720**	**1,090**	**1,810**	**654**	**923**	**1,577**

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

Contribution of the household segment (in conformity with the supervisory definitions) to Group profit in the first half of 2021 amounted to NIS 525 million, of which a loss of NIS 14 million with respect to Union Bank, compared to NIS 380 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 residential mortgages (including general-purpose loans secured by a lien on a residential apartment) with contribution to net profit the first half of 2021 NIS 534 million, compared to NIS 368 million in the corresponding period last year.

This increase is due to continued growth in operations: Increase by NIS 167 million in financing revenues, against increase by NIS 112 million in expenses attributed to the segment, with an increase by 16% 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 118 million in the first half of 2020, to revenues of NIS 82 million in the first half of 2021, primarily due to decrease in the group-based provision, against the background of improved macro-economic data and decrease in loan amount subject to repayment deferral.

This compares to the corresponding period last year, when expenses included expense with respect to provision for credit losses on group basis, due to the Corona Virus outbreak.

Contribution of households – other operations (other than residential mortgages) in the first half of 2021 amounted to a loss of NIS 9 million, compared to profit of NIS 12 million in the corresponding period last year. This was primarily due to adjustment of payroll expenses with respect to variable remuneration components.

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

Net profit was also impacted by decrease in expenses with respect to credit losses, which amounted to revenues of NIS 31 million in the first half of 2021, compared to expense of NIS 84 million in the corresponding period last year. The change was primarily due to decrease in group-based provision in view of improvement in growth and unemployment benchmarks which affect credit risk 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.

Operating results in the household segment – Continued

	For the three months ended June 30,					
			2021			2020
						NIS in millions
	Other	Residential mortgages	Total	Other	Residential mortgages	Total
Profit and profitability						
Total interest revenues, net	359	555	914	317	464	781
Non-interest financing revenues	–	–	–	–	–	–
Commissions and other revenues	165	36	201	135	37	172
Total revenues	**524**	**591**	**1,115**	**452**	**501**	**953**
Expenses with respect to credit losses	(24)	(59)	(83)	44	53	97
Operating and other expenses	542	221	763	384	154	538
Profit before provision for taxes	6	429	435	24	294	318
Provision for taxes	2	149	151	8	100	108
After-tax profit	4	280	284	16	194	210
Net profit:						
Attributable to non-controlling interests	(12)	–	(12)	(12)	–	(12)
Attributable to shareholders of the banking corporation	**(8)**	**280**	**272**	**4**	**194**	**198**
Balance sheet – key items:						
Loans to the public (end balance)	25,928	164,401	190,329	21,062	140,388	161,450
Loans to the public, net (end balance)	25,664	163,542	189,206	20,766	139,605	160,371
Deposits from the public (end balance)	117,284	–	117,284	96,329	–	96,329
Average balance of loans to the public	23,528	162,811	186,339	20,183	139,364	159,547
Average balance of deposits from the public	117,106	–	117,106	95,510	–	95,510
Average balance of risk assets	22,548	94,342	116,890	19,609	80,483	100,092
Credit margins and deposit margins:						
Margin from credit granting operations	239	524	763	205	438	643
Margin from activities of receiving deposits	112	–	112	113	–	113
Other	8	31	39	(1)	26	25
Total interest revenues, net	**359**	**555**	**914**	**317**	**464**	**781**

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 six months ended June 30,		For the three months ended June 30,	
	2021	**2020**	**2021**	**2020**
	NIS in millions			
Profit and profitability				
Total interest revenues, net	42	41	19	19
Non-interest financing revenues	–	–	–	–
Commissions and other revenues	35	88	19	2
Total revenues	**77**	**129**	**38**	**21**
Expenses with respect to credit losses	(4)	–	(1)	1
Operating and other expenses	16	40	5	16
Profit (loss) before provision for taxes	65	89	34	4
Reduction of provision for taxes	22	30	12	1
Net profit (loss)	**43**	**59**	**22**	**3**
Balance sheet – key items:				
Loans to the public (end balance)	212	129	212	129
Loans to the public, net (end balance)	209	127	209	127
Deposits from the public (end balance)	21,393	16,002	21,393	16,002
Average balance of loans to the public	265	181	223	149
Average balance of deposits from the public	20,829	15,365	21,163	15,731
Average balance of risk assets	123	26	63	26
Credit margins and deposit margins:				
Margin from credit granting operations	1	–	–	–
Margin from activities of receiving deposits	37	41	18	19
Other	4	–	1	–
Total interest revenues, net	**42**	**41**	**19**	**19**

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

Operating results of the private banking segment (in conformity with the supervisory definitions) in the first half of 2021 amounted to profit of NIS 43 million, of which NIS 5 million with respect to Union Bank, compared to NIS 59 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 six months ended June 30,		For the three months ended June 30,	
	2021	2020	2021	2020
	NIS in millions			
Profit and profitability				
Total interest revenues, net	664	575	332	277
Non-interest financing revenues	3	–	1	–
Commissions and other revenues	236	203	115	99
Total revenues	**903**	**778**	**448**	**376**
Expenses with respect to credit losses	(37)	155	(53)	83
Operating and other expenses	511	362	257	175
Profit before provision for taxes	429	261	244	118
Provision for taxes	147	89	85	40
After-tax profit	**282**	**172**	**159**	**78**
Net profit attributed to non-controlling interests	(3)	(2)	(1)	(1)
Net profit attributable to shareholders of the banking corporation	**279**	**170**	**158**	**77**
Balance sheet – key items:				
Loans to the public (end balance)	29,140	23,079	29,140	23,079
Loans to the public, net (end balance)	28,607	22,613	28,607	22,613
Deposits from the public (end balance)	48,538	33,539	48,538	33,539
Average balance of loans to the public	29,655	21,781	29,675	22,121
Average balance of deposits from the public	45,863	29,825	46,036	31,721
Average balance of risk assets	27,389	21,050	27,183	21,450
Credit margins and deposit margins:				
Margin from credit granting operations	577	498	291	242
Margin from activities of receiving deposits	60	64	30	29
Other	27	13	11	6
Total interest revenues, net	**664**	**575**	**332**	**277**

The segment contribution in the first half 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 half of 2021 amounted to NIS 279 million, of which NIS 40 million with respect to Union Bank, compared to NIS 170 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 half of 2021 amounted to revenues of NIS 37 million (of which revenues of NIS 6 million with respect to Union Bank), compared to expenses of NIS 155 million in the corresponding period last year. The decrease in provision for credit losses was primarily due to decrease in group-based provision, against the background of improved macro-economic data and decrease in loan amount subject to repayment deferral.

This compares to the corresponding period last year, when expenses included expense with respect to provision for credit losses on group basis, due to the Corona Virus outbreak.

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 six months ended June 30,		For the three months ended June 30,	
	2021	2020	2021	2020
	NIS in millions			
Profit and profitability				
Total interest revenues, net	170	147	85	71
Non-interest financing revenues	–	–	–	–
Commissions and other revenues	58	43	32	21
Total revenues	**228**	**190**	**117**	**92**
Expenses (reduction of expenses) with respect to credit losses	20	79	4	7
Operating and other expenses	108	59	54	28
Profit before provision for taxes	100	52	59	57
Provision for taxes	34	18	21	19
Net profit	**66**	**34**	**38**	**38**
Balance sheet – key items:				
Loans to the public (end balance)	10,119	7,413	10,119	7,413
Loans to the public, net (end balance)	9,905	7,219	9,905	7,219
Deposits from the public (end balance)	16,357	10,193	16,357	10,193
Average balance of loans to the public	9,627	7,556	9,885	7,701
Average balance of deposits from the public	16,101	9,398	16,921	9,838
Average balance of risk assets	11,770	8,435	11,715	8,459
Credit margins and deposit margins:				
Margin from credit granting operations	141	124	70	61
Margin from activities of receiving deposits	22	18	11	8
Other	7	5	4	2
Total interest revenues, net	**170**	**147**	**85**	**71**

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

Operating results of the medium business segment (in conformity with the supervisory definitions) in the first half of 2021 amounted to profit of NIS 66 million, of which NIS 2 million with respect to Union Bank, compared to profit of NIS 34 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 half of 2021 amounted to NIS 20 million (of which revenues of NIS 1 million with respect to Union Bank), compared to NIS 79 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 half 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 six months ended June 30,		For the three months ended June 30,	
	2021	**2020**	**2021**	**2020**
	NIS in millions			
Profit and profitability				
Total interest revenues, net	300	266	161	132
Non-interest financing revenues	1	–	(2)	–
Commissions and other revenues	77	65	39	31
Total revenues	**378**	**331**	**198**	**163**
Expenses (reduction of expenses) with respect to credit losses	(57)	161	(92)	74
Operating and other expenses	191	94	96	45
Profit before provision for taxes	244	76	194	44
Provision for taxes	84	26	68	15
Net profit	**160**	**50**	**126**	**29**
Balance sheet – key items:				
Loans to the public (end balance)	20,537	18,417	20,537	18,417
Loans to the public, net (end balance)	20,246	18,116	20,246	18,116
Deposits from the public (end balance)	33,824	28,695	33,824	28,695
Average balance of loans to the public	21,908	17,385	23,176	18,174
Average balance of deposits from the public	39,487	27,275	41,906	29,492
Average balance of risk assets	29,377	24,838	29,675	25,341
Credit margins and deposit margins:				
Margin from credit granting operations	253	221	129	111
Margin from activities of receiving deposits	23	33	11	15
Other	24	12	21	6
Total interest revenues, net	**300**	**266**	**161**	**132**

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

Contribution of the large business segment (in conformity with the supervisory definitions) in the first half of 2021 amounted to profit of NIS 160 million, including a loss of NIS 6 million with respect to Union Bank, compared to NIS 50 million in the corresponding period last year.

The change in segment contribution is primarily due to the decrease in expenses with respect to credit losses, which in the first half of 2021 amounted to revenues of NIS 57 million (of which revenues of NIS 7 million with respect to Union Bank), compared to expenses of NIS 161 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 half 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 six months ended June 30,		For the three months ended June 30,	
	2021	2020	2021	2020
	NIS in millions			
Profit and profitability				
Total interest revenues, net	57	55	33	26
Non-interest financing revenues	2	–	–	–
Commissions and other revenues	27	27	13	11
Total revenues	**86**	**82**	**46**	**37**
Reduced expenses with respect to credit losses	(26)	6	(7)	4
Operating and other expenses	77	62	41	31
Profit before provision for taxes	35	14	12	2
Provision for taxes	12	5	4	1
Net profit	**23**	**9**	**8**	**1**
Balance sheet – key items:				
Loans to the public (end balance)	2,560	2,240	2,560	2,240
Loans to the public, net (end balance)	2,550	2,228	2,550	2,228
Deposits from the public (end balance)	53,060	42,179	53,060	42,179
Average balance of loans to the public	1,704	1,204	1,860	1,186
Average balance of deposits from the public	49,173	42,558	51,165	39,707
Average balance of risk assets	2,467	2,463	2,517	2,789
Credit margins and deposit margins:				
Margin from credit granting operations	12	14	7	8
Margin from activities of receiving deposits	31	40	17	18
Other	14	1	9	–
Total interest revenues, net	**57**	**55**	**33**	**26**

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

Contribution of the institutional investor segment (in conformity with the supervisory definitions) in the first half of 2021 amounted to profit of NIS 23 million, including NIS 6 million with respect to Union Bank, compared to NIS 9 million in the corresponding period last year.

Growth in profit is primarily due to decrease in expenses with respect to credit losses of NIS 26 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.

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 six months ended June 30,		For the three months ended June 30,	
	2021	**2020**	**2021**	**2020**
	NIS in millions			
Profit and profitability				
Total interest revenues (expenses), net	583	(86)	440	(33)
Non-interest financing revenues	246	140	64	76
Commissions and other revenues	221	132	109	55
Total revenues	**1,050**	**186**	**613**	**98**
Expenses (reduction of expenses) with respect to credit losses	–	1	–	(1)
Operating and other expenses	234	195	104	100
Profit (loss) before provision for taxes	816	(10)	509	(1)
Provision (reduced provision) for taxes	280	(3)	176	–
After-tax profit (loss)	536	(7)	333	(1)
Share of banking corporation in earnings of associated companies	(11)	–	1	–
Net profit (loss) before attribution to non-controlling interests	525	(7)	334	(1)
Net profit attributed to non-controlling interests	(22)	(17)	(12)	(9)
Net profit (loss) attributable to shareholders of the banking corporation	**503**	**(24)**	**322**	**(10)**
Balance sheet – key items:				
Average balance of risk assets	12,161	6,974	12,597	7,269
Credit margins and deposit margins:				
Margin from credit granting operations	–	–	–	–
Margin from activities of receiving deposits	–	–	–	–
Other	583	(86)	440	(33)
Total interest revenues, net	**583**	**(86)**	**440**	**(33)**

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

Operating results of the financial management segment (in conformity with the supervisory definitions) in the first half of 2021 amounted to profit of NIS 503 million, of which NIS 100 million with respect to Union Bank, compared to loss of NIS 24 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".

The 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 six months ended June 30,		For the three months ended June 30,	
	2021	2020	2021	2020
	NIS in millions			
Profit and profitability				
Total interest revenues, net	100	95	51	50
Non-interest financing revenues	3	–	3	–
Commissions and other revenues	22	13	16	8
Total revenues	**125**	**108**	**70**	**58**
Expenses (reduction of expenses) with respect to credit losses	(10)	11	(8)	5
Operating and other expenses	36	37	13	17
Profit before provision for taxes	99	60	65	36
Provision for taxes	34	21	23	12
Net profit	**65**	**39**	**42**	**24**
Balance sheet – key items:				
Loans to the public (end balance)	3,544	3,810	3,544	3,810
Loans to the public, net (end balance)	3,513	3,776	3,513	3,776
Deposits from the public (end balance)	3,935	4,847	3,935	4,847
Average balance of loans to the public	3,384	3,236	3,347	3,339
Average balance of deposits from the public	4,192	4,649	3,977	4,753
Average balance of risk assets	4,736	4,457	4,717	4,570
Credit margins and deposit margins:				
Margin from credit granting operations	28	53	1	28
Margin from activities of receiving deposits	3	4	–	1
Other	69	38	50	21
Total interest revenues, net	**100**	**95**	**51**	**50**

Contribution of overseas operations to Group profit in the first half of 2021 amounted to NIS 65 million, compared to NIS 39 million in the corresponding period last year.
Growth in profit is primarily due to decrease in expenses with respect to credit losses of NIS 10 million, compared to expenses of NIS 11 million in the corresponding period last year And to capital gain amounting to NIS 14 million from sale of the subsidiary United Mizrahi Bank (Switzerland) Limited.

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 half of 2021 amounted to NIS 212 million.

The contribution of investees to net operating profit, excluding the effect of Union Bank, in the first half of 2021 amounted to NIS 77 million, compared with NIS 98 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 215 million.

Excluding the effect of Union Bank, contribution of investees amounted to NIS 81 million, compared to NIS 95 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 these financial statements and Note 35 to the 2020 financial statements.
Contribution of Union Bank to Group profit in the first half of 2021 amounted to NIS 135 million, as well as NIS 108 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 June 30, 2021 amounted to NIS 45,464 million, compared to NIS 47,663 million as of December 31, 2020 – a decrease by NIS 2,199 million, or 5%.
Net loans to the public reported as of June 30, 2021 amounted to NIS 22,255 million, compared to NIS 24,571 million as of December 31, 2020 – a decrease by NIS 2,316 million, or 9%, Due to gradual transfer of loan operations from Union Bank to Mizrahi Tefahot.
Net deposits from the public reported as of June 30, 2021 amounted to NIS 36,220 million, compared to NIS 37,361 million as of December 31, 2020 – a decrease by NIS 1,141 million, or 3%.

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 half of 2021 amounted to NIS 48 million, compared to NIS 43 million in the corresponding period last year.
Bank Yahav's net profit return on equity in the first half of 2021 was 11.2% on annualized basis, compared to 11.0% in the corresponding period last year.
Bank Yahav's balance sheet total as of June 30, 2021 amounted to NIS 34,153 million, compared to NIS 33,463 million as of December 31, 2020 – an increase by NIS 690 million, or 2%.
Net loans to the public as of June 30, 2021 amounted to NIS 10,696 million, compared to NIS 10,575 million as of December 31, 2020 – an increase by NIS 121 million, or 1%.

Net deposits from the public as of June 30, 2021 amounted to NIS 29,798 million, compared to NIS 29,328 million as of December 31, 2020 – an increase by NIS 470 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.
Net profit of Tefahot Insurance Agency in the first half of 2021 amounted to NIS 33 million, compared to NIS 34 million in the corresponding period last year.
Net profit return on equity from current operations in the first half of 2021 was 5.5%, compared to 5.9% 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 half of 2021 NIS 11 million – compared to NIS 22 million in the corresponding period last year.
This includes profit amounting to NIS 8 million in the first half of 2021 (profit amounting to NIS 19 million in the corresponding period last year, including revenue from indemnification received from insurers) from operations of Mizrahi Tefahot Trust Company Ltd.

United Mizrahi Bank (Switzerland) Ltd.

For more information about a transaction dated May 21, 2021 for sale of the subsidiary, United Mizrahi Bank (Switzerland) Ltd. (hereinafter: "Mizrahi Bank Switzerland ") to Hyposwiss Private Bank Geneve SA of Switzerland for CHF 44 million with recognized capital gain amounting to NIS 14 million, see chapter "Significant developments in management of Bank business" above.
United Mizrahi Bank (Switzerland) Ltd. ("Mizrahi Bank Switzerland") is focused on international private banking services.
Mizrahi Bank Switzerland specialized in international private banking services and was held by a wholly-owned Bank subsidiary, United Mizrahi Overseas Holding Co.
B.V., registered in Holland.
Net loss of Mizrahi Bank Switzerland in the first half of 2021 amounted to CHF 0.1 million, compared to net profit of CHF 0.4 million in the corresponding period last year.
Interest revenues and net interest revenues in the first half of 2021 amounted to CHF 0.3 million, compared to CHF 0.8 million in the corresponding period last year.
Pre-tax revenues in the first half of 2021 amounted to CHF 0.1 million, compared to CHF 0.5 million in the corresponding period last year.
Pre-tax loss net of exchange rate effects in the first half of 2021 amounted to NIS 0.9 million, compared to pre-tax profit amounting to NIS 1.8 million in the corresponding period last year.

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 June 30, 2021 amounted to NIS 659 million, compared to NIS 162 million and NIS 477 million as of June 30, 2020 and as of December 31, 2020, respectively.
Bank net gain from investment in shares in the first half of 2021 amounted to NIS 96 million, compared to Bank net loss from investment in shares amounting to NIS 17 million in the corresponding period last year.
For details of investments in shares not 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.

In early 2020, the overall risk profile of the Bank was higher, due to increase in credit risk due to implications of the global Corona Virus pandemic which started in the first quarter of 2020.

Year to date, the economy showed material improvement, as reflected in major benchmarks (lower unemployment and higher growth forecast for 2021), with recovery posted across all economic sectors.

Despite improvement in the state of the economy, assessment of commercial credit risk in the second quarter of 2021 remained unchanged compared to previous quarters, due to the remaining uncertainty with regard to implications of the crisis and due to the Delta variant outbreak in Israel and around the world.

The risk level in the residential mortgage portfolio decreased to its pre-crisis level of Low risk, in view of the lower volume of loans subject to deferral and with most of the clients subject to deferral resuming regular payments.

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 residential mortgages, 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 stressed scenarios.

Moreover, the Tier I capital ratio under the stressed 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 stability, management and means of addressing the implications of the Corona Virus crisis, with the Bank of Israel and the Supervisor of Banks reviewing the measures required to support the economy and therefore testing stability 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, Corporate Division
Risk from quality of borrowers and collateral	Medium	
Risk from industry concentration	Low-medium	
Risk from concentration of borrowers/ borrower groups	Low	
Risk with respect to mortgage portfolio	Low	
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.

In early 2020, the overall risk profile of the Bank was higher, due to increase in credit risk due to implications of the global Corona Virus pandemic which started in the first quarter of 2020.

Year to date in 2021, the economy showed material improvement, as reflected in major benchmarks (lower unemployment and higher growth forecast for 2021), with recovery posted across all economic sectors.

Despite improvement in the state of the economy, assessment of commercial credit risk in the second quarter of 2021 remained unchanged compared to previous quarters, due to the remaining uncertainty with regard to implications of the crisis and due to the Delta variant outbreak in Israel and around the world.

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.

The risk level in the residential mortgage portfolio decreased to its pre-crisis level of Low risk, in view of the significantly lower volume of loans subject to deferral and with most of the clients subject to deferral resuming regular payments and the low, steady readings of key risk benchmarks.

The Bank continued to monitor this activity and risk aspects with regard to the following: The outstanding deferral amount and the partial repayment rates, deferral period, borrower profile, LTV ratio and so forth.

The Bank also monitors development of borrower behavior after expiration of the repayment deferral.

For more information about loans subject to repayment deferral and loans extended from State-guaranteed funds, see chapter "Credit risk" below.

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 Increased state of alert.

During the current period, the Bank closely monitored (at daily level) qualitative and quantitative indicators (both internal and external) and conducts daily reviews of multiple stress scenarios for various time frames – liquidity is appropriate across all these scenarios and the Bank is in compliance with all internal limitations.

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.

In mid-May 2021, further to events of the military campaign titled "Guardian of the Walls" and events across the country, the state of alert was raised to Increased.

In practice, no events and/or indications were observed which would indicate realization of a liquidity event.

Several days later, after return to normal conditions, the Bank decided to return to the normal course of business.

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 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, and remained at this level in the second quarter of 2021, despite the improved economy.

The risk level in the residential mortgage portfolio decreased to its pre-crisis level of Low risk, in view of the significantly lower volume of loans subject to deferral and with most of the clients subject to deferral resuming regular payments.

Corona Virus crisis

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.

Note that in the second quarter of 2021, economic activity improved significantly.

Economic data, including lower unemployment, higher growth forecast for 2021 and purchases using credit cards, all indicate recovery in on-going economic activity.

In the first half of 2021, the Bank continued to apply measures in response to client needs arising from the situation.

Action taken by the Bank includes deferral of current repayments for clients in conformity with the Bank of Israel outline, and extended State-guaranteed loans from State-guaranteed foundations, as part of the economic assistance program announced by the State.

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 June 30, 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 June 30, 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	568	799	1,367
2.	Financial services	482	650	1,132
3.	Construction and real estate	283	743	1,026
4.	Power	648	214	862
5.	Financial services	753	14	767
6.	Financial services	23	640	663

(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 Corporate 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):

	June 30, 2021				June 30, 2020				December 31, 2020			
Economic sector of acquired company	**On-balance sheet credit risk**	**Off-balance sheet credit risk**	**Total credit risk**	**Individual provision for credit losses**	**On-balance sheet credit risk**	**Off-balance sheet credit risk**	**Total credit risk**	**Individual provision for credit losses**	**On-balance sheet credit risk**	**Off-balance sheet credit risk**	**Total credit risk**	**Individual provision for credit losses**
Construction and real estate	575	–	575	–	–	–	–	–	–	–	–	–
Commerce	–	–	–	–	136	–	136	–	139	–	139	–
Financial services	270	–	270	–	–	–	–	–	–	–	–	–
Total	845	–	845	–	136	–	136	–	139	–	139	–

Credit to leveraged companies (NIS in millions):

	June 30, 2021				June 30, 2020				December 31, 2020			
Economic sector of borrower	**On-balance sheet credit risk**	**Off-balance sheet credit risk**	**Total credit risk**	**Individual provision for credit losses**	**On-balance sheet credit risk**	**Off-balance sheet credit risk**	**Total credit risk**	**Individual provision for credit losses**	**On-balance sheet credit risk**	**Off-balance sheet credit risk**	**Total credit risk**	**Individual provision for credit losses**
Industry and production	–	–	–	–	70	1	71	1	–	–	–	–
Construction and real estate	26	–	26	–	355	–	355	–	28	–	28	–
Power	100	–	100	–	–	–	–	–	100	–	100	–
Commerce	63	12	75	25	473	40	513	23	482	59	541	34
Transport and storage	122	7	129	39	46	9	55	–	213	20	233	11
Information and communications	–	–	–	–	37	90	127	–	45	86	131	–
Financial services	–	–	–	–	123	–	123	3	145	–	145	21
Business services and other services	–	–	–	–	97	1	98	–	–	–	–	–
Public and community services	150	8	158	–	155	8	163	–	152	8	160	–
Total	**461**	**27**	**488**	**64**	**1,249**	**58**	**1,307**	**26**	**1,211**	**87**	**1,298**	**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		
	June 30, 2021	**June 30, 2020**	**December 31, 2020**
Problematic credit risk:			
Impaired credit risk	1,548	1,466	1,808
Inferior credit risk	297	332	439
Credit risk under special supervision – housing	1,343	1,432	1,188
Credit risk under special supervision – other	564	829	583
Total problematic credit risk	**3,752**	**4,059**	**4,018**

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

	June 30, 2021	**June 30, 2020**	**December 31, 2020**
Ratio of impaired loans to the public to total loans to the public	0.5	0.6	0.7
Ratio of impaired loans to the public to total non-residential mortgages	1.4	1.7	1.8
Ratio of problematic loans to the public to total non-residential mortgages	2.2	3.1	2.7
Ratio of residential mortgages in arrears 90 days or longer to total loans to the public (1)(2)	0.5	0.7	0.5
Ratio of problematic credit risk to total credit risk with respect to the public	1.1	1.4	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 June 30, 2021							
	Debts subject to repayment deferral[(1)]				Further details of recorded debt balance of debts subject to deferred repayment			
					Non-problematic debts			
Loans to the public	Recorded debt balance	Number of loans	Payment amounts deferred	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	34	6	25	–	–	–	34	34
Medium businesses	83	28	11	3	5	–	75	80
Small businesses	668	1,432	173	19	7	5	637	649
Private individuals	22	458	7	1	–	–	21	21
Residential mortgages	7,531	(2)9,347	772	296	145	96	6,994	7,235
Total as of June 30, 2021	**(5)8,338**	**11,271**	**988**	**(3)319**	**157**	**101**	**7,761**	**8,019**
Of which, with respect to complete deferral	**1,092**	**2,267**	**230**	**28**	**12**	**5**	**798**	**815**
Of which, with respect to partial deferral in conformity with the Bank of Israel outline	**7,246**	**9,004**	**758**	**291**	**145**	**96**	**6,963**	**7,204**
Total as of March 31, 2021	**10,092**	**17,366**	**1,099**	**330**	**265**	**99**	**9,398**	**9,762**
Total as of December 31, 2020	**24,744**	**43,451**	**1,289**	**411**	**486**	**32**	**23,815**	**24,333**

	As of June 30, 2021				
	Further details of debts subject to repayment deferral, by repayment deferral period[(4)]		Debt for which the payment delay period has expired, as of the report date		Credit provided in State funds
	Non-problematic debts				
Loans to the public	Debts subject to deferral of 3 to 6 months	Debts subject to deferral of 6 months or longer	Recorded debt balance	Of which: In arrears 30 days or longer	Recorded debt balance
Large businesses	–	34	914	2	786
Medium businesses	23	49	226	3	633
Small businesses	73	520	2,529	104	3,708
Private individuals	10	8	1,010	27	–
Residential mortgages	326	6,894	35,144	560	–
Total as of June 30, 2021	**432**	**7,505**	**39,823**	**696**	**5,127**
Of which, with respect to complete deferral	**105**	**445**	**39,035**	**674**	**–**
Of which, with respect to partial deferral in conformity with the Bank of Israel outline	**327**	**7,060**	**788**	**22**	**–**
Total as of March 31, 2021	**1,697**	**7,833**	**39,981**	**685**	**5,337**
Total as of December 31, 2020	**7,810**	**14,442**	**26,277**	**352**	**5,074**

(1) Of which: Deferrals granted other than in conjunction with a general program amounting to NIS 173 million (as of March 31, 2021 – NIS 353 million and 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 7 million (as of March 31, 2021: NIS 4 million and as of December 31, 2020: NIS 11 million).
(4) The repayment deferral period is the cumulative deferral period granted to debt since the start of the Corona Virus crisis, excluding any deferral to which the borrower is entitled by law.
(5) As of July 31, 2021, the recorded debt balance of loans subject to deferral decreased to NIS 7.3 billion, of which NIS 6.5 billion in residential mortgages subject to partial deferral, NIS 0.1 billion in residential mortgages subject to full deferral, and NIS 0.7 billion in commercial loans subject to deferral.

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 six months ended June 30, 2021**			**For the six months ended June 30, 2020**			**For the year ended December 31, 2020**		
	Commercial	**Individual**	**Total**	**Commercial**	**Individual**	**Total**	**Commercial**	**Individual**	**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	262	15	277	334	34	368	696	78	774
Debts re-classified as non-impaired during the period	(34)	(1)	(35)	(26)	(2)	(28)	(70)	(3)	(73)
Impaired debts written off	(89)	(17)	(106)	(96)	(10)	(106)	(183)	(23)	(206)
Impaired debts repaid	(444)	(56)	(500)	(162)	(11)	(173)	(384)	(26)	(410)
Other changes	26	7	33	50	5	55	95	16	111
Initial consolidation of Union Bank	–	–	–	–	–	–	221	9	230
Balance of impaired debts at end of the period	**1,228**	**141**	**1,369**	**1,232**	**158**	**1,390**	**1,507**	**193**	**1,700**

Of which: Movement in problematic debts under restructuring	**For the six months ended June 30, 2021**			**For the six months ended June 30, 2020**			**For the year ended December 31, 2020**		
	Commercial	**Individual**	**Total**	**Commercial**	**Individual**	**Total**	**Commercial**	**Individual**	**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	116	14	130	111	21	132	209	38	247
Debt reclassified as non-impaired due to subsequent restructuring	(40)	(3)	(43)	(1)	–	(1)	(10)	(4)	(14)
Debts under restructuring written off	(14)	(13)	(27)	(38)	(8)	(46)	(52)	(17)	(69)
Debts under restructuring repaid	(235)	(11)	(246)	(16)	(13)	(29)	(65)	(23)	(88)
Other changes	16	3	19	16	2	18	39	8	47
Initial consolidation of Union Bank	–	–	–	–	–	–	127	8	135
Balance of problematic debts under restructuring at end of period	**357**	**65**	**422**	**338**	**67**	**405**	**514**	**75**	**589**

For more information about problematic credit risk, see Notes 6 and 13 to the financial statements.

Analysis of provision for credit losses

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

	For the three months ended June 30, 2021					
	Provision for credit losses					
	Loans to the public				Banks and governments	Total
	Commercial	Housing	Individual – other	Total		
Balance of provision for credit losses at start of period	1,413	918	316	2,647	3	2,650
Expenses with respect to credit losses	(156)	(59)	(25)	(240)	–	(240)
Net accounting write-offs	(2)	(1)	(8)	(11)	–	(11)
Acquisition of Union Bank	16	1	3	20	–	20
Balance of provision for credit losses at end of period	**1,271**	**859**	**286**	**2,416**	**3**	**2,419**
	For the three months ended June 30, 2020					
Balance of provision for credit losses at start of period	1,041	731	293	2,065	3	2,068
Expenses with respect to credit losses	173	53	45	271	(1)	270
Net accounting write-offs	(54)	(1)	(24)	(79)	–	(79)
Balance of provision for credit losses at end of period	**1,160**	**783**	**314**	**2,257**	**2**	**2,259**
	For the six months ended June 30, 2021					
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	(111)	(82)	(35)	(228)	1	(227)
Net accounting write-offs	(20)	(2)	(26)	(48)	–	(48)
Acquisition of Union Bank	19	1	7	27	–	27
Balance of provision for credit losses at end of period	**1,271**	**859**	**286**	**2,416**	**3**	**2,419**
	For the six months ended June 30, 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	412	118	84	614	1	615
Net accounting write-offs	(117)	(9)	(43)	(169)	–	(169)
Balance of provision for credit losses at end of period	**1,160**	**783**	**314**	**2,257**	**2**	**2,259**

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):

	June 30, 2021	June 30, 2020	December 31, 2020
Ratio of provision for credit losses to total loans to the public	0.9	1.0	1.1
Ratio of provision for credit losses to total credit risk with respect to the public	0.7	0.8	0.8
	Six months[(1)]		
	2021	**2020**	**2020**
Ratio of expenses with respect to credit losses to average balance of loans to the public, gross	(0.2)	0.6	0.5
Ratio of net write-offs to average balance of loans to the public, gross	–	0.2	0.1
Ratio of expenses with respect to credit losses to average balance of loans to the public, net	(0.2)	0.6	0.5
Of which: With respect to commercial loans other than residential mortgages[(2)]	(0.3)	1.4	1.0
Ratio of net write-offs to average balance of loans to the public, net	–	0.2	0.1

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

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

The household segment is a key growth engine and a significant component of the Bank's strategic plan for 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 as of December 31 (NIS in millions):

	As of June 30,		As of December 31,
	2021	2020	2020
Debts			
Checking balances	1,887	1,786	1,771
Utilized credit card balances	4,451	3,546	4,262
Auto loans – adjustable interest	2,127	558	1,985
Auto loans – fixed interest	2,670	960	2,564
Other loans and credit – variable interest	12,701	12,279	13,063
Other loans and credit – fixed interest	330	237	388
Total debt (on-balance sheet credit)	**24,166**	**19,366**	**24,033**
Un-utilized facilities, guarantees and other commitments			
Checking accounts – un-utilized facilities	5,107	4,546	5,145
Credit cards – un-utilized facilities	8,147	7,170	8,077
Guarantees	246	176	218
Other liabilities	51	53	42
Total un-utilized facilities, guarantees and other commitments (off-balance sheet credit)	**13,551**	**11,945**	**13,482**
Total credit risk to individuals	**37,717**	**31,311**	**37,515**
Of which:			
Bullet / balloon loans(3)	374	394	376
Financial asset portfolio and other collateral against credit risk(4)			
Financial assets portfolio:			
Deposits	3,900	3,468	3,905
Securities	261	176	244
Other monetary assets	292	307	286
Other collateral(5)	3,622	854	3,964
Total financial assets portfolio and other collateral against credit risk	**8,075**	**4,805**	**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 June 30, 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 June 30, 2021		As of June 30, 2020		As of December 31, 2020	
		Number of Borrowers	Total credit risk	Number of Borrowers	Total credit risk	Number of Borrowers	Total credit risk
	Up to 10	347,918	2,055	207,913	658	331,016	2,106
Above 10	Up to 20	110,405	1,692	89,458	1,307	110,237	1,692
Above 20	Up to 40	144,184	4,238	119,087	3,474	142,499	4,157
Above 40	Up to 80	150,769	8,680	125,665	7,156	149,065	8,513
Above 80	Up to 150	94,996	10,269	82,090	8,773	95,072	10,272
Above 150	Up to 300	43,513	8,826	40,339	8,157	43,006	8,675
Above 300		4,233	1,957	4,037	1,786	4,205	2,100
Total		**896,018**	**37,717**	**668,589**	**31,311**	**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 June 30, 2021		As of June 30, 2020		As of December 31, 2020	
	NIS in millions	**In %**	**NIS in millions**	**In %**	**NIS in millions**	**In %**
Accounts with no fixed income for the account(2)	5,677	23.5	2,073	10.7	5,484	22.8
Less than NIS 10 thousand.	4,658	19.3	5,076	26.2	4,893	20.4
Between NIS 10 thousand and NIS 20 thousand	7,625	31.6	7,231	37.3	7,543	31.4
Over NIS 20 thousand	6,206	25.6	4,986	25.8	6,113	25.4
Total	**24,166**	**100.0**	**19,366**	**100.0**	**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.

(2) Primarily with respect to loans extended in conjunction with assignment of vehicle portfolios and loans extended by Igud Leasing.

Due to the nature of account management, this revenue is not reflected in the current account.

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

Term to maturity	As of June 30, 2021		As of June 30, 2020		As of December 31, 2020	
	NIS in millions	**In %**	**NIS in millions**	**In %**	**NIS in millions**	**In %**
Up to 1 year	3,584	20.1	3,512	25	3,676	20.4
Over 1 year to 3 years	5,735	32.2	4,682	33.4	5,608	31.2
Over 3 years to 5 years	4,391	24.6	2,616	18.6	4,515	25.1
Over 5 years to 7 years	2,104	11.8	1,490	10.6	2,082	11.6
Over 7 years(2)	2,014	11.3	1,734	12.4	2,119	11.7
Total	**17,828**	**100.0**	**14,034**	**100.0**	**18,000**	**100.0**

(1) Excluding checking account and credit cards.

(2) Primarily loans to salaried Government employees, where loan repayment is directly deducted from the client's pay check and which bear significantly lower risk than similar loans for the same term.

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

	As of June 30, 2021			As of June 30, 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	180	2	182	230	3	233	201	4	205
Problematic credit risk rate(2)	0.74%	0.01%	0.48%	1.19%	0.03%	0.74%	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)

	First half of		2020
	2021	**2020**	
Expenses with respect to credit losses as percentage of total loans to the public to individuals	(0.58%)	0.87%	0.56%

Data for credit risk to individuals show that:

- Total debts by individuals (on-balance sheet credit) increased by 24.8% compared to June 30, 2020, primarily due to acquisition of Union Bank, and by 0.6% compared to December 31, 2020.
- Composition of debts as of June 30, 2021:

  Checking accounts – 7.8%

  Credit cards 18.4%

  Auto loans – 19.9%

  Other loans and credit 53.9%
- Of all debts (on-balance sheet credit) as of June 30, 2021, 33.4% is secured by financial assets and other collateral in the client's account (compared to 24.8% as of June 30, 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 half 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 Corporate Division. In financing the construction and real estate industry, specific analysis and monitoring tools are used to assist the Bank in reaching decisions on the granting of financial support to the various projects.
Construction financing in this industry is focused mainly on residential construction in areas with strong demand in central Israel at mid-level prices.
In addition, the financing is allocated between geographic regions, based inter alia on relevant demand.
In extending credit for construction, the Bank focuses on the financial support method (closed assistance).
The application of this method is designed to reduce the exposure to risks in the granting of the loans, because it incorporates current and close monitoring of the progress of the financed projects, both before the loans are provided, and as the project receives the financial support, while maintaining a distinction between the financed projects and the business risks inherent in the other activities of the developer-borrower.
The Bank is assisted by outside construction supervisors, and also relies on liens on the land in the project, to secure the loans.
Loans are issued for financed projects only by business centers and branches with professional knowledge of the subject, and under the supervision of the construction and real estate sector.
The Bank also sets policies and rules for financing other real estate transactions, such as financing for rental properties, Construction, purchase groups, urban renewal, National Zoning Plan 38 etc.
Moreover, in order to minimize risk, the Bank insures the portfolio of housing bonds and some performance guarantees in assisted projects with overseas reinsurers.
The number of new residential units sold in March-May 2021 was 15% higher than in the previous three months; however, planning processes have slowed down and residential housing starts were lower.
Some 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):

	June 30, 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]	Inclu-ding	Impai-red	Other proble-matic[]	Balance sheet credit risk	Off-balance sheet credit risk
Secured by real estate in Israel:							
Housing	11,771	18,904	30,675	69	49	88	48
Commercial and industrial	7,087	1,948	9,035	118	33	52	4
Total secured by real estate in Israel	**18,858**	**20,852**	**39,710**	**187**	**82**	**140**	**52**
Not secured by real estate in Israel	4,285	4,397	8,682	143	87	41	43
Total for construction and real estate economic sector in Israel	**23,143**	**25,249**	**48,392**	**330**	**169**	**181**	**95**
Of which: Designated for project assistance	9,972	17,476	27,448	50	36	84	51

	June 30, 2020						
Secured by real estate in Israel:							
Housing	9,759	15,306	25,065	24	20	82	37
Commercial and industrial	6,427	1,057	7,484	60	364	61	2
Total secured by real estate in Israel	**16,186**	**16,363**	**32,549**	**84**	**384**	**143**	**39**
Not secured by real estate in Israel	2,552	3,650	6,202	124	63	46	22
Total for construction and real estate economic sector in Israel	**18,738**	**20,013**	**38,751**	**208**	**447**	**189**	**61**
Of which: Designated for project assistance	8,702	14,212	22,914	22	15	76	37

	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):

	June 30, 2021			June 30, 2020			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
Real estate collateral in Israel									
Real estate yet to be completely constructed:									
Raw land	5,745	1,018	6,763	4,088	623	4,711	5,500	916	6,416
Real estate under construction	6,461	17,826	24,287	6,909	14,797	21,706	7,299	16,909	24,208
Real estate completely constructed	6,652	2,008	8,660	5,189	943	6,132	6,000	1,191	7,191
Total credit secured by real estate in Israel	**18,858**	**20,852**	**39,710**	**16,186**	**16,363**	**32,549**	**18,799**	**19,016**	**37,815**
Not secured by real estate in Israel	4,285	4,397	8,682	2,552	3,650	6,202	3,654	4,511	8,165
Total credit risk for construction and real estate	**23,143**	**25,249**	**48,392**	**18,738**	**20,013**	**38,751**	**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 June 30, 2021 show that 43.1% of the on-balance sheet credit risk and 69.8% 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 June 30, 2021, as presented below (Credit Risk by Economic Sector) is 14.3%.

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 10.3% (excluding liabilities, including contingent liabilities to extend credit or to provide guarantees and amounts of housing bonds for which the Bank has obtained an insurance policy).

Credit Risk by Economic Sector – Consolidated – continued

As of June 30, 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 performance rating[4]	Credit in good standing other than at performing credit rating[5]	Problematic[6]	Total	Debts[2]	Problematic[6]	Impaired	Expenses with respect to credit losses	Net accounting write-offs	Balance of provision for credit losses
Borrower activity in Israel											
Public – commercial											
Agriculture, forestry and fishing	1,194	1,156	24	14	1,194	923	14	7	(1)	-	10
Mining and excavation	859	859	-	-	800	294	-	-	(6)	(1)	5
Industry and production	11,842	11,160	236	446	11,626	6,978	446	327	(9)	4	193
Of which: Diamonds	1,538	1,377	12	149	1,538	1,072	149	86	2	2	23
Construction and real estate – construction[7]	41,020	39,140	1,509	371	40,948	16,734	371	229	(22)	(12)	241
Construction and real estate – real estate operations	7,372	7,071	173	128	7,299	6,274	128	101	(9)	1	35
Electricity and water delivery	6,387	6,341	33	13	6,222	3,571	13	1	14	-	32
Commerce	14,261	13,368	570	323	14,099	10,218	323	229	(13)	7	228
Hotels, dining and food services	2,114	1,789	180	145	2,114	1,667	145	54	(28)	3	74
Transport and storage	2,849	2,468	154	227	2,820	1,795	227	142	(4)	3	83
Information and communications	1,931	1,821	40	70	1,868	1,184	70	15	(5)	3	29
Financial services	17,042	16,980	15	47	14,467	8,578	47	26	(37)	(21)	136
Other business services	6,131	5,770	191	170	6,124	4,092	170	119	8	4	116
Public and community services	3,268	2,923	313	32	3,264	2,566	32	19	(2)	(1)	30
Total commercial	**116,270**	**110,846**	**3,438**	**1,986**	**112,845**	**64,874**	**1,986**	**1,269**	**(114)**	**(10)**	**1,212**
Private individuals – residential mortgages	184,653	182,516	735	1,402	184,653	164,365	1,402	59	(82)	2	858
Private individuals – other	37,801	37,298	321	182	37,717	24,166	182	82	(35)	26	286
Total public – activity in Israel	338,724	330,660	4,494	3,570	335,215	253,405	3,570	1,410	(231)	18	2,356
Banks in Israel	2,376	2,376	-	-	1,318	1,074	-	-	-	-	-
Government of Israel	14,656	14,656	-	-	59	59	-	-	-	-	-
Total activity in Israel	**355,756**	**347,692**	**4,494**	**3,570**	**336,592**	**254,538**	**3,570**	**1,410**	**(231)**	**18**	**2,356**
Borrower activity overseas											
Total public – activity overseas	5,389	5,284	56	49	4,875	3,036	49	49	3	30	60
Overseas banks	6,752	6,752	-	-	5,436	5,418	-	-	-	-	2
Overseas governments	1,403	1,402	-	1	519	519	1	1	1	-	1
Total activity overseas	13,544	13,438	56	50	10,830	8,973	50	50	4	30	63
Total	**369,300**	**361,130**	**4,550**	**3,620**	**347,422**	**263,511**	**3,620**	**1,460**	**(227)**	**48**	**2,419**

(1) On- and off-balance sheet credit risk, including with respect to derivatives (NIS in millions): Debts[2] – 263,511; debentures – 16,916; securities borrowed or acquired in conjunction with resale agreements – 187; Assets with respect to derivatives – 2,426; and Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower indebtedness limits – 86,260.

(2) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements.

(3) Includes with respect to off-balance sheet credit instruments (included on balance sheet under Other Liabilities).

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

(5) Credit in good standing at a low rating, for which Bank policy includes specific restrictions on extending such credit.

(6) On- and off-balance sheet credit risk which is impaired, inferior or under special supervision, including with respect to residential mortgages for which a provision was made by extent of arrears, and residential mortgages for which no provision was made by extent of arrears and which are in arrears of 90 days or longer.

(7) Includes on-balance sheet credit risk amounting to NIS 2,202 million and off-balance sheet credit risk amounting to NIS 2,356 million, provided to certain purchase groups in the process of construction and includes off-balance sheet credit risk amounting to NIS 5,275 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 June 30, 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(3)		
	Total	Credit performance rating(4)	Credit in good standing other than at performing credit rating(5)	Problematic(6)	Total	Debts(2)	Problematic(6)	Impaired	Expenses with respect to credit losses	Net accounting write-offs	Balance of provision for credit losses
Borrower activity in Israel											
Public – commercial											
Agriculture, forestry and fishing	967	927	23	17	967	716	17	7	2	–	10
Mining and excavation	674	575	–	99	674	300	99	69	21	–	25
Industry and production	10,939	10,143	292	504	10,833	5,913	504	304	50	9	196
Of which: Diamonds	1,676	1,407	105	164	1,675	1,140	164	111	8	(2)	31
Construction and real estate – construction(7)	33,458	32,006	1,222	230	33,441	13,880	230	147	41	15	209
Construction and real estate – real estate operations	5,293	4,695	173	425	5,272	4,836	425	61	8	(3)	41
Electricity and water delivery	2,957	2,912	33	12	2,666	1,581	12	–	2	2	8
Commerce	12,638	11,562	670	406	12,504	9,829	406	340	87	48	243
Hotels, dining and food services	1,691	1,425	188	78	1,691	1,316	78	33	24	6	47
Transport and storage	1,804	1,673	53	78	1,699	1,250	78	23	22	4	36
Information and communications	1,353	1,254	83	16	1,337	819	16	12	16	11	15
Financial services	14,253	14,108	10	135	12,732	5,907	135	133	41	4	119
Other business services	5,071	4,755	167	149	5,064	3,471	149	67	45	19	96
Public and community services	2,749	2,496	227	26	2,741	2,203	26	19	4	2	17
Total commercial	**93,847**	**88,531**	**3,141**	**2,175**	**91,621**	**52,021**	**2,175**	**1,215**	**363**	**117**	**1,062**
Private individuals – residential mortgages	153,983	151,656	827	1,500	153,983	140,336	1,500	68	118	9	782
Private individuals – other	31,664	31,057	374	233	31,304	19,366	233	90	84	43	314
Total public – activity in Israel	**279,494**	**271,244**	**4,342**	**3,908**	**276,908**	**211,723**	**3,908**	**1,373**	**565**	**169**	**2,158**
Banks in Israel	1,606	1,606	–	–	622	570	–	–	–	–	–
Government of Israel	6,661	6,661	–	–	3	3	–	–	–	–	–
Total activity in Israel	**287,761**	**279,511**	**4,342**	**3,908**	**277,533**	**212,296**	**3,908**	**1,373**	**565**	**169**	**2,158**
Borrower activity overseas											
Total public – activity overseas	7,029	6,846	32	151	6,955	4,815	151	93	49	–	99
Overseas banks	10,284	10,284	–	–	9,317	9,254	–	–	1	–	2
Overseas governments	1,795	1,795	–	–	626	626	–	–	–	–	–
Total activity overseas	**19,108**	**18,925**	**32**	**151**	**16,898**	**14,695**	**151**	**93**	**50**	**–**	**101**
Total	**306,869**	**298,436**	**4,374**	**4,059**	**294,431**	**226,991**	**4,059**	**1,466**	**615**	**169**	**2,259**

(1) On- and off-balance sheet credit risk, including with respect to derivatives (NIS in millions): Debts(2) – 226,991; debentures – 8,307; securities borrowed or acquired in conjunction with resale agreements – 51; Assets with respect to derivatives – 2,200; and Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower indebtedness limits – 69,320.

(2) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements.

(3) Includes with respect to off-balance sheet credit instruments (included on balance sheet under Other Liabilities).

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

(5) Credit in good standing at a low rating, for which Bank policy includes specific restrictions on extending such credit.

(6) On- and off-balance sheet credit risk which is impaired, inferior or under special supervision, including with respect to residential mortgages for which a provision was made by extent of arrears, and residential mortgages for which no provision was made by extent of arrears and which are in arrears of 90 days or longer.

(7) Includes on-balance sheet credit risk amounting to NIS 1,976 million and off-balance sheet credit risk amounting to NIS 2,254 million, provided to certain purchase groups in the process of construction and includes off-balance sheet credit risk amounting to NIS 5,382 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)]						
		Of which:							Credit losses[(4)]		
	Total	Credit performance rating[(4)]	Credit in good standing other than at performing credit rating[(5)]	Problematic[(6)]	Total	Debts[(2)]	Problematic[(6)]	Impaired	Expenses with respect to credit losses	Net accounting write-offs	Balance of provision for credit losses
Borrower activity in Israel											
Public – commercial											
Agriculture, forestry and fishing	1,168	1,139	20	9	1,168	905	9	6	2	–	10
Mining and excavation	698	652	6	40	597	345	40	–	6	–	10
Industry and production	13,593	12,724	317	552	13,324	7,795	552	389	73	34	208
Of which: Diamonds	1,528	1,379	18	131	1,527	1,013	131	91	5	3	23
Construction and real estate – construction[(7)]	39,023	36,618	2,064	341	38,957	16,451	341	214	57	21	250
Construction and real estate – real estate operations	6,957	6,380	480	97	6,753	5,737	97	85	(10)	(18)	42
Electricity and water delivery	5,661	5,616	34	11	5,161	3,211	11	–	7	–	18
Commerce	15,033	13,643	901	489	14,791	11,122	489	387	117	81	245
Hotels, dining and food services	2,073	1,712	214	147	2,073	1,650	147	54	82	9	104
Transport and storage	2,533	2,207	82	244	2,489	1,497	244	104	70	7	92
Information and communications	1,966	1,782	109	75	1,870	1,169	75	10	34	10	36
Financial services	18,780	18,528	63	189	15,902	7,812	189	150	67	2	148
Other business services	5,900	5,489	248	163	5,892	3,969	163	118	69	35	107
Public and community services	3,429	3,093	304	32	3,421	2,721	32	18	18	4	30
Total commercial	**116,814**	**109,583**	**4,842**	**2,389**	**112,398**	**64,384**	**2,389**	**1,535**	**592**	**185**	**1,300**
Private individuals – residential mortgages	172,876	170,859	732	1,285	172,876	156,324	1,285	97	279	11	941
Private individuals – other	37,632	37,116	311	205	37,515	24,033	205	96	135	77	339
Total public – activity in Israel	**327,322**	**317,558**	**5,885**	**3,879**	**322,789**	**244,741**	**3,879**	**1,728**	**1,006**	**273**	**2,580**
Banks in Israel	2,179	2,179	–	–	556	512	–	–	–	–	–
Government of Israel	14,709	14,709	–	–	60	60	–	–	–	–	–
Total activity in Israel	**344,210**	**334,446**	**5,885**	**3,879**	**323,405**	**245,313**	**3,879**	**1,728**	**1,006**	**273**	**2,580**
Borrower activity overseas											
Total public – activity overseas	5,158	4,659	360	139	4,689	3,217	139	80	43	–	85
Overseas banks	13,723	13,723	–	–	11,843	11,755	–	–	1	–	2
Overseas governments	1,004	1,004	–	–	553	553	–	–	–	–	–
Total activity overseas	**19,885**	**19,386**	**360**	**139**	**17,085**	**15,525**	**139**	**80**	**44**	**–**	**87**
Total	**364,095**	**353,832**	**6,245**	**4,018**	**340,490**	**260,838**	**4,018**	**1,808**	**1,050**	**273**	**2,667**

(1) On- and off-balance sheet credit risk, including with respect to 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 residential mortgages for which a provision was made by extent of arrears, and residential mortgages for which no provision was made by extent of arrears and which are in arrears of 90 days or longer.

(7) Includes on-balance sheet credit risk amounting to NIS 2,068 million and off-balance sheet credit risk amounting to NIS 2,213 million, provided to certain purchase groups in the process of construction and includes off-balance sheet credit risk amounting to NIS 5,521 million for which insurance has been acquired to cover the portfolio of housing bonds and performance guarantees pursuant to the Sale Law from international re-insurers.

Exposure to Foreign Countries – Consolidated[1]

Reported amounts (NIS in millions)

Country	June 30, 2021			June 30, 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	7,563	504	8,067	11,216	585	11,801	12,844	581	13,425
France	1,537	2,000	3,537	1,474	2,145	3,619	1,586	2,255	3,841
UK	2,470	1,059	3,529	82	2,720	2,802	161	2,844	3,005
Germany[6]	–	–	–	1,753	736	2,489	2,465	764	3,229
Other	2,790	4,160	6,950	2,298	1,216	3,514	3,317	1,845	5,162
Total exposure to foreign countries	**14,360**	**7,723**	**22,083**	**16,823**	**7,402**	**24,225**	**20,373**	**8,289**	**28,662**
Of which: Total exposure to Greece, Portugal, Spain, Italy	41	9	50	49	30	79	44	39	83
Of which: Total exposure to LDC countries	472	66	538	435	85	520	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 5,369 million, primarily with respect to acquiring insurance from international reinsurers for the portfolio of housing bonds for borrowers in the real estate sector in Israel.
(as of June 30, 2020: NIS 5,573 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 June 30, 2021, June 30, 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.

(6) As of June 30, 2021, exposure with respect to Germany does not exceed the reporting threshold specified in Public Reporting Directives and is therefore presented under Other Countries.

Credit exposure to foreign financial institutions

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

External credit rating	On-balance sheet credit risk[(3)] Before offset of deposits with respect to master netting agreements[(5)]	After offset of deposits with respect to master netting agreements[(6)]	Off balance sheet credit risk[(4)]	Current credit exposure Before offset of deposits with respect to master netting agreements	After offset of deposits with respect to master netting agreements[(5)]
					June 30, 2021
AAA to AA-	791	791	4,831	5,622	5,622
A+ to A-	1,357	1,223	241	1,598	1,464
BBB+ to BBB-	136	119	71	207	190
BB+ to B-	88	88	4	92	92
Lower than B-	–	–	–	–	–
Unrated	31	31	9	40	40
Total credit exposure to foreign financial institutions	**2,403**	**2,252**	**5,155**	**7,559**	**7,408**
					June 30, 2020
AAA to AA-	779	740	5,329	6,108	6,069
A+ to A-	129	119	338	467	457
BBB+ to BBB-	20	20	5	25	25
BB+ to B-	–	–	26	26	26
Lower than B-	–	–	–	–	–
Unrated	25	25	–	25	25
Total credit exposure to foreign financial institutions	**953**	**904**	**5,698**	**6,651**	**6,602**
					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 June 30, 2021, June 30, 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 derivative instruments.
(4) The balance of off-balance sheet exposure to financial institutions includes NIS 5,369 million as of June 30, 2021 (as of June 30, 2020: NIS 5,573 million; as of December 31, 2020: NIS 5,653 million) with respect to acquiring insurance from international reinsurers for the portfolio of housing bonds for borrowers in the real estate sector in Israel as well as guarantees and additional commitments to extend credit, including guarantees to secure indebtedness of third parties.
(5) Presented net of fair value of liabilities with respect to derivative instruments for counter-parties which have signed master netting agreements.
(6) With respect to offset of cash deposits used as collateral for transactions with regard to financial 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 residential mortgages.

The Bank estimates the risk profile associated with provision of residential mortgages as low, relative to the inherent risk in the Bank's overall loan portfolio, due to the high level of client 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 residential mortgages, for which the Retail Division, the Risks Control Division and other Bank entities are responsible.

This activity includes portfolio analysis by inherent risk factors (LTV, repayment ratio, geographic location, loan age, income decile etc.) and carrying out a variety of stress scenarios to review the impact of macro-economic factors on portfolio risk level – primarily the impact of the unemployment rate and interest rates.

The Bank has an advanced model for rating residential mortgages, which includes a rating for each loan and calculation of potential loss in case of failure.

This model is part of the Bank's existing monitoring tools.

Risk appetite and risk profile in mortgage segment

As part of its credit risk policies, the Bank has set various restrictions on residential mortgage 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 obligation in default and, in particular, the rate of arrears for new loans (one year since origination), which is testimony to the high quality of underwriting at the Bank.
Note that the average LTV ratio for the Bank's mortgage portfolio (at end of June 2021) was 53.2% (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 deferral, 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: Deferred amount, number of applications, repayments deferral period, borrower profile, LTV ratio and so forth.

Volume of mortgages granted by the Household segment is as follows:

	Loans granted (NIS in millions)		
		Six months	Rate of change
	2021	2020	In %
Mortgages issued (for housing and any purpose)			
From the Bank's funds	17,686	12,751	38.7
From funds of the Finance Ministry			
Directed loans	135	186	(27.4)
Standing loans and grants	48	62	(22.6)
Total new loans	**17,869**	**12,999**	**37.5**
Refinanced loans	3,231	1,508	114.3
Total loans originated	**21,100**	**14,507**	**45.4**
Number of borrowers (includes refinanced loans)	31,200	21,964	42.1

Below are details of various risk attributes of the residential mortgage portfolio[1] as of June 30, 2021 (NIS in millions):

LTV ratio	Repayment ratio out of regular income	Loan age[2] (time elapsed since loan grant) Up to 3 months	3-12 months	1-2 years	2-5 years	5-10 years	Over 10 years	Total
Up to 60%	Up to 35%	4,102	10,464	13,797	29,864	24,994	9,764	92,985
	50%-35%	494	1,269	1,196	3,418	5,392	2,667	14,436
	80%-50%	–	–	3	7	653	753	1,416
	Over 80%	1	–	–	1	59	91	152
75%-60%	Up to 35%	3,170	8,345	8,533	13,741	11,966	2,673	48,428
	50%-35%	416	879	636	1,299	1,872	885	5,987
	80%-50%	2	–	–	2	154	192	350
	Over 80%	–	–	–	–	1	22	23
Over 75%	Up to 35%	27	155	143	292	425	968	2,010
	50%-35%	2	8	10	16	88	279	403
	80%-50%	–	–	–	2	2	85	89
	Over 80%	–	–	–	–	–	13	13
Total		**8,214**	**21,120**	**24,318**	**48,642**	**45,606**	**18,392**	**166,292**
Of which:								
Loans granted with original amount over NIS 2 million		922	2,062	1,826	3,240	2,273	708	11,031
Percentage of total residential mortgages		11.2%	9.8%	7.5%	6.7%	5.0%	3.8%	6.6%
Loans bearing variable interest:								
Non-linked, at prime lending rate		3,000	6,726	7,647	14,172	13,357	7,743	52,645
CPI-linked[3]		599	376	366	610	727	3,390	6,068
In foreign currency[3]		107	358	537	1,314	910	722	3,948
Total		**3,706**	**7,460**	**8,550**	**16,096**	**14,994**	**11,855**	**62,661**
Non-linked loans at prime lending rate, as percentage of total residential mortgages		36.5%	31.8%	31.4%	29.1%	29.3%	42.1%	31.7%
CPI-linked loans bearing variable interest as percentage of total residential mortgages		7.3%	1.8%	1.5%	1.3%	1.6%	18.4%	3.6%
Loans with LTV over 75% as percentage of total residential mortgages		0.4%	0.8%	0.6%	0.6%	1.1%	7.3%	1.5%

(1) Balance of residential mortgages after provision by extent of arrears.
(2) The loan balances presented above are aged based on the date of loan origination, and include under the same age group any loan balances actually provided at a later date.
Furthermore, loan refinancing does not modify the loan age, i.e. the loan balance is attributed to the original loan origination date.
This treatment also applies to refinancing of "directed" loans originally guaranteed by the State and refinanced to loans for which the Bank is responsible.
(3) Pursuant to directives by the Supervisor of Banks, these include loans for which the interest rate is adjusted more frequently than once every 5 years (not inclusive).

Attributes of the Bank's residential mortgage 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 June 30, 2021).

LTV ratio

One of the key parameters used by the Bank in minimizing risk in its residential mortgage 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 June 30, 2021 was 53.2%, compared to 53.0% on June 30, 2020 and to 52.7% on December 31, 2020.

Out of the total loan portfolio of the Bank, amounting to NIS 166.3 million, some 98.5% 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 residential mortgage portfolio.

Note, in this regard, that the Bank's average LTV ratio as of June 30, 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 3.8%.

For loans originated one to 5 years ago – by 4.8%; for loans originated over 5 years ago – by 18.4%; for all loans in total – by 9.9%.

The percentage of loans granted with a high LTV ratio (over 75%) out of total residential mortgage portfolio of the Bank to 0.6% for loans granted 1-2 years ago, 0.8% for loans granted 3-12 months ago and 0.4% for loans granted in the second quarter of 2021.

Repayment as percentage of regular income

The LTV ratio of a residential mortgage 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 residential mortgage portfolio is 25.4%.

Some 86.6% 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 12.1% 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 1.2% 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 91.6%).

The loans with a high repayment ratio are loans granted to borrowers with significant other assets, whose repayment capacity is not necessarily based on current income, to borrowers with very high income where the repayment ratio is less significant, or where additional bolstering of the loan is in place, in addition to the pledged property and repayment capacity of the borrower, such as financially robust guarantors.

Loans bearing variable interest

The Bank offers clients residential mortgages which in part bear adjustable interest and in part are linked (to CPI, foreign currency) or non-linked (NIS-denominated loans).

On December 27, 2020, the Bank of Israel issued an update to Proper Conduct of Banking Business Directive 329 concerning "Restrictions on extending residential mortgages".

The update includes elimination of the restriction on lending at the prime lending rate, so that the restriction of at least one third of the mortgage that must bear fixed interest remains, and up to two thirds may be extended bearing variable interest.

The amendments to the directive pursuant to the circular are effective as from January 17, 2021.

For residential mortgages intended to finance early repayment of a loan extended by the Bank or by another bank, the amendment shall apply as from February 28, 2021.

The Bank 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 17.4 billion, or only 10.4% of the residential mortgage 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 11 billion on June 30, 2021, or only 6.6% of the Bank's residential mortgage portfolio.

Provision by extent of arrears

Below are details of the provision for credit losses with respect to residential mortgages for which a minimum provision for credit losses was made by extent of arrears, in accordance with appendix to Proper Conduct of Banking Business Directive 314, as of June 30, 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	7	25	15	19	202	261	34	302
Of which: Balance of provision for interest(3)	–	–	–	1	112	113	8	121
Recorded debt balance	460	826	195	99	148	1,268	67	1,795
Balance of provision for credit losses (4)	–	–	30	47	107	184	32	216
Debt balance, net	**460**	**826**	**165**	**52**	**41**	**1,084**	**35**	**1,579**

(1) In conformity with Public Reporting Directives, excludes the balance of residential mortgages in arrears up to 2 months.
(2) Loans for which an agreement was signed for repayment of arrears by borrower, where a change was made in the repayment schedule for the loan balance not yet due.
(3) With respect to interest on amounts in arrears.
(4) Excludes balance of provision for interest.

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 second quarter, as morbidity increased in Israel, the Bank continued to address the Corona Virus and maintained work instructions derived fro, guidance issued by the Ministry of Health, including the following: Wearing masks indoors, maintaining hygiene and social distancing, installing barriers at public service counters and continued remote work as needed based on a rapid, structured process.

In the second quarter, the Bank continued to implement its work plan and exercise plan for 2021, and conducted a comprehensive DRP (Disaster Recovery Plan) exercise, led by the Technology Division and the Business Continuity Unit, with a scenario of impact to the computer site and transition to the backup site.

The exercise tested full start-up of the backup facility in conformity with the recovery plan, operating and testing of systems, inclusion of major suppliers and so forth.

The exercise was controlled by the Risk Control Division, and was successfully concluded.

During this quarter, a refresh effort was launched for BIA (Business Impact Analysis) services in conformity with the maintenance procedure; this process is expected to continue over 2 quarters.

During this quarter, as part of regular activity, the Business Continuity Unit maintained control and constant contact with business continuity units across the Group (at Bank Yahav and Union Bank), with current reports and updates also received from the Bank's overseas branches.

Information security and cyber defense

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 Chief Information Security Officer, 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 second 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 half of 2021, the level of legal risk remained low-medium.

For more information about operational risk, see also the Risks Report for the second 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 trading portfolio is minimal, in line with Bank policy.

The Bank structure, which is weighted towards the mortgage portfolio, produces long-term uses for which the Bank requires sources.

The Bank regularly reviews the risk estimation methodology, in line with global common practice.

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 second quarter of 2021 remained at Low-Medium.

Risk values measured in the normal course of business and under stress scenarios were slightly lower compared to those at the end of the year, due to current banking operations, and range at levels lower than the specified risk appetite.

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 half of 2021		All of
	2021	**2020**	**2020**
At end of period	663	1055	770
Maximum value during period	(FEB) 810	(JUN) 1,055	(JUN) 1,055
Minimum value during period	(JUN) 663	(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):

	June 30, 2021					
	Change in fair value					
	Israeli currency		Foreign currency			
	Non-linked	Linked to CPI	Dollar	EUR	Other	Total
2% increase	(327)	(1,478)	332	24	18	(1,431)
Decrease by 2%	(664)	831	(470)	7	(25)	(321)
	June 30, 2020					
2% increase	(220)	(1,284)	269	56	13	(1,166)
Decrease by 2%	280	1,566	(395)	(33)	(20)	1,398
	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 June 30, 2021			As of June 30, 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]	17,811	504	18,315	11,058	(5)	11,053	15,227	236	15,463
Of which: Banking portfolio	(5,387)	21,124	15,737	(15,772)	25,466	9,694	(4,109)	16,203	12,094

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

	As of June 30, 2021			As of June 30, 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	(20)	202	182	(350)	207	(143)	(35)	91	56
Of which: Banking portfolio	(6)	229	223	(355)	215	(140)	(48)	118	70
Concurrent 1% decrease	(418)	(198)	(616)	(93)	(212)	(305)	(35)	(99)	(134)
Of which: Banking portfolio	(418)	(208)	(626)	(88)	(224)	(312)	(10)	(68)	(78)
Non-concurrent changes									
Steeper[3]	(184)	26	(158)	(899)	(6)	(905)	(399)	(8)	(407)
Shallower[4]	130	47	177	737	64	801	624	46	670
Short-term interest increase	344	148	492	43	151	194	263	82	345
Short-term interest decrease	(105)	(156)	(261)	(80)	(156)	(236)	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 745 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 June 30, 2021			As of June 30, 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	1,298	89	1,387	930	127	1,057	1,145	145	1,290
Of which: Banking portfolio	1,294	89	1,383	931	117	1,048	1,148	125	1,273
Concurrent 1% decrease	(1,139)	(90)	(1,229)	157	(129)	28	256	(160)	96
Of which: Banking portfolio	(1,136)	(93)	(1,229)	156	(119)	37	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 June 30, 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)	1,716.6	858.3	(878.9)	(1,757.7)	179.7	(159.3)
Dollar	20.8	16.5	(5.4)	21.7	(8.6)	11.3
Pound Sterling	(3.0)	(1.7)	1.7	3.5	(1.3)	2.2
Yen	0.5	(0.1)	0.5	1.5	(0.1)	0.7
EUR	6.6	3.9	2.1	10.0	2.7	2.4
Swiss Franc	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 515.0 million and NIS (572.3) 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 half of 2021.

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 (which was Elevated) and to return to business as usual.

Note that in mid-May 2021, further to events of the military campaign titled "Guardian of the Walls" and events across the country, the state of alert was raised to Increased.

In practice, no events and/or indications were observed which would indicate realization of a liquidity event.

Several days later, after return to normal conditions, the Bank decided to return to the normal course of business.

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 half 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 second quarter of 2021 was 132%.

As noted above, in this period there were no recorded deviations from these restrictions.

As of June 30, 2021, the balance of the three largest depositor groups at the Bank Group amounted to NIS 10.4 billion.

Soliciting sources and Bank liquidity status – In the first half 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 294.4 billion on June 30, 2021, an increase by 3.6%.
In the non-linked segment, total deposits from the public amounted to NIS 222.1 billion, an increase by 1.9% compared to end of 2020.
In the CPI-linked sector, deposits from the public amounted to NIS 20.9 billion, an increase by 27.1% compared to end of 2020, and in the foreign currency sector – to NIS 51.3 billion, an increase by 3.2% 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 half 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 half 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 first half 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.

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, cyber security event or any other 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 half of 2021, reputational 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.

The strategic plan was reviewed and challenged by Risks Control in aspects of business focus, risk profile and feasibility.

Material deviation from Bank strategy is subject to approval by the Bank's Board of Directors.

Risk is regularly 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 2020 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 2020 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 layout of the financial statements, made in 2020, in the first six months 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 June 30, 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 June 30, 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 second 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
August 16, 2021

Certification

I, MOSHE LARI, certify that:

1. I have reviewed the quarterly report of Bank Mizrahi Tefahot Ltd. ("the Bank") for the quarter ended June 30, 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

August 16, 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 June 30, 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
August 16, 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 June 30, 2021, the condensed consolidated statements of profit and loss, comprehensive income, changes to shareholder equity and cash flows for the six-month and three-month periods 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 financial information of certain consolidated subsidiaries, whose assets included in consolidation constitute 4.84% of total consolidated assets as of June 30, 2021, and whose net interest revenues before expenses with respect to credit losses included in the consolidated statements of profit and loss constitute 5.89% and 5.31% of total consolidated net interest revenues before expenses with respect to credit losses, respectively, for the six-month and three-month periods 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.

Brightman Almagor Zohar & Co

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

Tel Aviv, August 16, 2021

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Bank Mizrahi Tefahot

Condensed Financial Statements as of June 30, 2021

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Condensed consolidated statements of profit and loss

Reported amounts (NIS in millions)

		For the three months ended June 30,		For the six months ended June 30,		For the year ended December 31,
		2021	**2020**	**2021**	**2020**	**2020**
	Note	**(unaudited)**		**(unaudited)**		**(audited)**
Interest revenues	2	3,085	1,740	5,293	3,426	7,528
Interest expenses	2	1,050	417	1,567	756	1,708
Interest revenues, net		2,035	1,323	3,726	2,670	5,820
Expenses (income) with respect to credit losses	6.13	(240)	270	(227)	615	1,050
Interest revenues, net after expenses with respect to credit losses		**2,275**	**1,053**	**3,953**	**2,055**	**4,770**
Non-interest revenues						
Non-interest financing revenues	3	66	76	255	140	221
Commissions		469	376	946	800	1,671
Other revenues		75	23	141	128	221
Total non-interest revenues		**610**	**475**	**1,342**	**1,068**	**2,113**
Operating and other expenses						
Payroll and associated expenses		843	596	1,713	1,240	2,644
Maintenance and depreciation of buildings and equipment		245	208	485	413	871
Other expenses		245	146	476	314	764
Total operating and other expenses		**1,333**	**950**	**2,674**	**1,967**	**4,279**
Pre-tax profit		1,552	578	2,621	1,156	2,604
Provision for taxes on profit		540	196	898	396	903
After-tax profit		**1,012**	**382**	**1,723**	**760**	**1,701**
Share in profit (loss) of associated companies, after tax		1	–	(11)	–	1
Net profit:						
Before attribution to non-controlling interests		1,013	382	1,712	760	1,702
Attributable to non-controlling interests		(25)	(22)	(48)	(43)	(92)
Attributable to shareholders of the Bank		**988**	**360**	**1,664**	**717**	**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, August 16, 2021

Condensed consolidated statement of profit and loss – Continued

Reported amounts (NIS in millions)

	For the three months ended June 30,		For the six months ended June 30,		For the year ended December 31,
	2021	2020	2021	2020	2020
		(unaudited)		(unaudited)	(audited)
Earnings per share[(1)] (in NIS)					
Basic earnings					
Net profit attributable to shareholders of the Bank	3.87	1.53	6.52	3.05	6.70
Weighted average number of ordinary shares used to calculate basic earnings (thousands of shares)	255,326	235,067	255,201	235,036	240,462
Diluted earnings					
Net profit attributable to shareholders of the Bank	3.85	1.53	6.50	3.04	6.69
Weighted average number of ordinary shares used to calculate diluted earnings (thousands of shares)	256,549	235,203	256,143	235,645	240,797

(1) Sshare of NIS 0.1 par value.

Condensed consolidated statements of comprehensive income

Reported amounts (NIS in millions)

	Note	For the three months ended June 30,		For the six months ended June 30,		For the year ended December 31,
		2021	2020	2021	2020	2020
		(unaudited)		(unaudited)		(audited)
Net profit:						
Before attribution to non-controlling interests		1,013	382	1,712	760	1,702
Attributable to non-controlling interests		(25)	(22)	(48)	(43)	(92)
Net profit attributable to shareholders of the Bank		**988**	**360**	**1,664**	**717**	**1,610**
Other comprehensive income (loss) before taxes	4					
Adjustments for presentation of available-for-sale securities at fair value, net		30	64	(35)	(27)	69
Adjustments from translation of financial statements of investments in associated companies(1)		–	–	(1)	–	–
Net gains (losses) with respect to cash flows hedging		(1)	(15)	(31)	17	3
Adjustments of liabilities with respect to employees' benefits(2)		30	(182)	41	52	14
Total other comprehensive income (loss), before tax		**59**	**(133)**	**(26)**	**42**	**86**
Related tax effect		(20)	45	8	(14)	(29)
Other comprehensive income (loss) after taxes(3)						
Other comprehensive income (loss), before attribution to non-controlling interests		39	(88)	(18)	28	57
Less other comprehensive income (loss) attributed to non-controlling interests		5	(8)	6	2	1
Other comprehensive income (loss) attributed to shareholders of the Bank, after taxes		**34**	**(80)**	**(24)**	**26**	**56**
Comprehensive income:						
Before attribution to non-controlling interests		1,052	294	1,694	788	1,759
Attributable to non-controlling interests		(30)	(14)	(54)	(45)	(93)
Comprehensive income attributable to shareholders of the Bank		**1,022**	**280**	**1,640**	**743**	**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 June 30,		As of December 31,
		2021	2020	2020
	Note	(unaudited)		(audited)
Assets				
Cash and deposits with banks		94,337	61,532	86,570
Securities[(1)(2)]	5	17,539	8,440	17,290
Securities loaned or purchased under resale agreements		187	51	200
Loans to the public	6.13	256,441	216,538	247,958
Provision for credit losses	6.13	(2,205)	(2,088)	(2,433)
Loans to the public, net	6.13	254,236	214,450	245,525
Loans to Governments		578	629	613
Investments in associated companies		19	30	31
Buildings and equipment		1,678	1,433	1,743
Intangible assets and goodwill		223	87	239
Assets with respect to derivative instruments	11	2,426	2,200	4,543
Other assets		3,147	2,708	3,386
Total assets		**374,370**	**291,560**	**360,140**
Liabilities and Equity				
Deposits from the public	7	294,391	231,784	284,224
Deposits from banks		5,945	946	3,779
Deposits from the Government		43	34	70
Debentures and subordinated notes		35,594	29,689	33,446
Liabilities with respect to derivative instruments	11	2,412	2,898	5,506
Other liabilities [(3)]		14,622	8,739	13,446
Total liabilities		**353,007**	**274,090**	**340,471**
Shareholders' equity attributable to shareholders of the Bank		20,444	16,653	18,804
Non-controlling interests		919	817	865
Total equity		**21,363**	**17,470**	**19,669**
Total liabilities and equity		**374,370**	**291,560**	**360,140**

(1) Of which: NIS 13,827 million at fair value on consolidated basis (June 30, 2020 – NIS 4,404 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 211 million (on June 30, 2020 – NIS 169 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)[(3)]	Retained earnings[(4)]	Total shareholders' equity	Non-controlling interests	Total equity
	For the three months ended June 30, 2021 (unaudited)							
Balance as of March 31, 2021	3,447	85	3,532	(334)	16,224	19,422	889	20,311
Net profit for the period	–	–	–	–	988	988	25	1,013
Realization of share-based payment transactions[(2)]	13	(13)	–	–	–	–	–	–
Other comprehensive income (loss), net, after tax	–	–	–	34	–	34	5	39
Balance as of June 30, 2021	**3,460**	**72**	**3,532**	**(300)**	**17,212**	**20,444**	**919**	**21,363**
	For the three months ended June 30, 2020 (unaudited)							
Balance as of March 31, 2020	2,235	67	2,302	(226)	14,295	16,371	803	17,174
Net profit for the period	–	–	–	–	360	360	22	382
Benefit from share-based payment transactions	–	2	2	–	–	2	–	2
Realization of share-based payment transactions[(2)]	3	(3)	–	–	–	–	–	–
Other comprehensive income (loss), net, after tax	–	–	–	(80)	–	(80)	(8)	(88)
Balance as of June 30, 2020	**2,238**	**66**	**2,304**	**(306)**	**14,655**	**16,653**	**817**	**17,470**

(1) Share premium generated prior to March 31, 1986.

(2) In the second quarter of 2021, 331,016 ordinary shares of NIS 0.1 par value each were issued for exercise of options pursuant to the Employee Stock Option Plan.
In the second quarter of 2020, 152,505 ordinary shares of NIS 0.1 par value each were issued for exercise of options pursuant to the Employee Stock Option Plan, and 17,840 ordinary shares of NIS 0.1 par value each were issued to the Bank President & CEO. each.

(3) For details see Note 4 – Cumulative Other Comprehensive Income.

(4) For more information about various limitations on distributions of dividends, see Notes 25.F. and 35.B. to the 2020 financial statements.

– On August 16, 2021, after the balance sheet date, the Bank's Board of Directors resolved to distribute dividends amounting to NIS 483 million - 30% of earnings in 2020. According to accounting rules, this amount will be deducted from retained earnings in the third quarter of 2021.

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 shareholders' equity	Non-controlling interests	Total equity
	For the six months ended June 30, 2021 (unaudited)							
Balance as of December 31, 2020	3,445	87	3,532	(276)	15,548	18,804	865	19,669
Net profit for the period	–	–	–	–	1,664	1,664	48	1,712
Realization of share-based payment transactions[6]	15	(15)	–	–	–	–	–	–
Other comprehensive income (loss), net, after tax	–	–	–	(24)	–	(24)	6	(18)
Balance as of June 30, 2021	**3,460**	**72**	**3,532**	**(300)**	**17,212**	**20,444**	**919**	**21,363**
	For the six months ended June 30, 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	–	–	–	–	717	717	43	760
Dividends paid[5]	–	–	–	–	(176)	(176)	–	(176)
Benefit from share-based payment transactions	–	2	2	–	–	2	–	2
Realization of share-based payment transactions[6]	6	(6)	–	–	–	–	–	–
Other comprehensive income (loss), net, after tax	–	–	–	26	–	26	2	28
Balance as of June 30, 2020	**2,238**	**66**	**2,304**	**(306)**	**14,655**	**16,653**	**817**	**17,470**
	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.D.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 half of 2021, 416,968 ordinary NIS 0.1 par value shares each were issued for exercise of options pursuant to the Employee Stock Option Plan.
In the first half of 2020, 251,008 ordinary NIS 0.1 par value shares each were issued for exercise of options pursuant to the Employee Stock Option Plan, and 17,840 ordinary shares of NIS 0.1 par value each were issued to the Bank President & CEO. each.
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 17,840 ordinary shares of NIS 0.1 par value each were issued to the Bank President & CEO. 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.
– On August 16, 2021, after the balance sheet date, the Bank's Board of Directors resolved to distribute dividends amounting to NIS 483 million - 30% of earnings in 2020. According to accounting rules, this amount will be deducted from retained earnings in the third quarter of 2021.

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 June 30,		For the six months ended June 30,		For the year ended December 31,
	2021	**2020**	**2021**	**2020**	**2020**
		(unaudited)		**(unaudited)**	**(audited)**
Cash flows provided by current operations					
Net profit	1,013	382	1,712	760	1,702
Adjustments					
Share of the Bank in undistributed earnings of associated companies	(1)	–	11	–	(1)
Depreciation of buildings and equipment (including impairment)	84	69	174	136	283
Expenses with respect to credit losses	(240)	270	(227)	615	1,050
Gain from sale of securities available for sale and shares not held for trading	(7)	(40)	(37)	(78)	(114)
Realized and unrealized loss (gain) from adjustment to fair value of securities held for trading	5	(13)	13	(33)	(32)
Realized and unrealized loss (gain) from adjustments to fair value of shares not held for trading	(55)	5	(111)	19	(38)
Gain from sale of buildings and equipment	–	(4)	–	(17)	(41)
Impairment of shares not held for trading	–	–	4	–	–
Expenses arising from share-based payment transactions	–	2	–	2	23
Deferred taxes, net	68	77	56	22	(188)
Change in employees' provisions and liabilities	34	17	33	23	1
Adjustments with respect to exchange rate differentials	186	214	57	106	285
Accrual differences included with investment and financing operations	309	(85)	387	(143)	63
Net change in current assets					
Assets with respect to derivative instruments	1,216	2,154	2,086	395	(1,060)
Securities held for trading	(41)	469	(92)	468	647
Other assets, net	401	(124)	181	(903)	(630)
Net change in current liabilities					
Liabilities with respect to derivative instruments	(760)	(1,283)	(3,094)	212	1,690
Other liabilities	(863)	(415)	1,209	234	1,423
Net cash provided by current operations	**1,349**	**1,695**	**2,362**	**1,818**	**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 June 30,		For the six months ended June 30,		For the year ended December 31,
	2021	2020	2021	2020	2020
	(unaudited)		(unaudited)		(audited)
Cash flows provided by investment activities					
Net change in deposits with banks	3,324	272	385	1,156	1,120
Net change in loans to the public	(4,001)	(4,530)	(7,635)	(10,096)	(16,038)
Net change in loans to Governments	4	202	35	27	43
Net change in securities loaned or acquired in resale agreements	(48)	(15)	13	69	(24)
Acquisition of debentures held to maturity	(95)	(403)	(318)	(920)	(954)
Proceeds from redemption of securities held to maturity	203	41	635	870	1,216
Acquisition of securities available for sale	(1,520)	(1,101)	(8,424)	(1,901)	(4,806)
Proceeds from sale of securities available for sale	848	1,043	4,971	2,916	4,751
Proceeds from redemption of securities available for sale	2,678	319	2,885	319	1,030
Proceeds from sale of loan portfolios	–	40	–	40	40
Acquisition of initially consolidated subsidiary – Union Bank	–	–	–	–	10,280
Purchase of loan portfolios – public	(458)	–	(854)	(301)	(733)
Purchase of loan portfolios – Government	–	–	–	–	–
Acquisition of buildings and equipment	(63)	(65)	(111)	(124)	(288)
Proceeds from sale of buildings and equipment	3	6	3	28	73
Proceeds from realized investment in associated companies	–	–	1	2	2
Net cash provided by investment activities	**875**	**(4,191)**	**(8,414)**	**(7,915)**	**(4,288)**
Cash flows provided by financing operations					
Net change in deposits from the public	625	8,595	10,167	20,800	36,372
Net change in deposits from banks	1,652	22	2,166	232	2,946
Net change in deposits from Government	(1)	(35)	(27)	5	41
Issuance of debentures and subordinated notes	1,955	1,610	1,955	1,610	2,010
Redemption of debentures and subordinated notes	–	(2,063)	–	(5,252)	(5,666)
Dividends paid to shareholders	–	–	–	(176)	(176)
Net cash provided by financing operations	**4,231**	**8,129**	**14,261**	**17,219**	**35,527**
Increase in cash	6,455	5,633	8,209	11,122	36,302
Cash balance at beginning of the period	87,348	55,045	85,465	49,448	49,448
Effect of changes in exchange rate on cash balances	(186)	(214)	(57)	(106)	(285)
Cash balance at end of the period	**93,617**	**60,464**	**93,617**	**60,464**	**85,465**
Interest and taxes paid / received					
Interest received	2,605	1,788	5,225	4,002	7,679
Interest paid	719	428	1,177	949	2,258
Dividends received	4	–	8	2	15
Income taxes received	12	13	20	62	67
Income taxes paid	380	277	677	556	1,124
Appendix A – Non-cash Transactions					
Acquisition of buildings and equipment	1	4	1	4	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 August 16, 2021, the Bank's Board of Directors authorized publication of these condensed financial statements as of June 30, 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 13 million. In the second quarter, the economy continued to improve due to lifting of restrictions, and the qualitative factor continued to decrease. In this quarter, the Bank recognized revenues with respect to credit losses amounting to NIS 240 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.

Note 1 – Reporting Principles and Accounting Policies – continued

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.

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 residential mortgages where a minimum provision should be calculated by extent of arrears, such short-term delay of principal or interest payments for a loan that did not constitute problematic debt prior to such delay, generally should not be classified as debt under restructuring.

Pursuant to the Supervisor of Banks' directive dated June 16, 2020, the Bank continues to operate in conformity with the aforementioned guidance. The Bank is also required to expand disclosure in the Board of Directors' report regarding, inter alia, the connection between changes to the provision for credit losses and other credit quality benchmarks and internal assumptions made by the Bank, as well as with regard to debt whose terms and conditions were changed in conjunction with "addressing the Corona Virus crisis".

On October 11, 2020, the Supervisor of Banks issued a document regarding supervisory highlights for further changes to loan terms and conditions which, inter alia, instructs banks to continue operating pursuant to the directives issued in April 2020, with careful management of credit risk; banking corporations are required to evaluate any further change to loans on aggregate, so as to determine whether such change constitutes restructuring of troubled debt and to act in accordance with common practices for prudent risk management.

Note 1 – Reporting Principles and Accounting Policies – continued

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.

On March 31, 2020, a circular was issued regarding "Adjustments to Proper Conduct of Banking Business Directives for addressing the Corona Virus Crisis (Interim Directive)". In conformity with this circular, the minimum capital ratios which banks are required to maintain were reduced by one percentage point for the effective duration of the Interim Directive. In order to allow banks to return to the minimum capital ratios upon expiration of the Interim Directive, this relief would continue to apply for a further 24 months, provided that capital ratios would be no lower than the capital ratios upon expiration of the Interim Directive, or the minimum capital ratios applicable to the banking corporation immediately prior to the Interim Directive, whichever is lower.

On April 27, 2020, an update to the Interim Directive dated March 31, 2020 was issued, whereby residential mortgages to be extended during the crisis would not be subject to the additional capital requirement of 1% of the outstanding balance of residential mortgages.

On March 22, 2021, a further update to the directive was issued, whereby validity of relief provided for in the Interim Directive was extended through September 30, 2021. The circular also stipulates that reduction of capital ratio by up to 0.3 percentage points within six months after expiration of the directive shall not be deemed a deviation.

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 June 30, 2021.

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

As from reporting periods starting on January 1, 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.

Note 1 – Reporting Principles and Accounting Policies – continued

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.

   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 2019-12 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.

Note 1 – Reporting Principles and Accounting Policies – continued

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 a foreign associated company, 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 stipulated 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
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.
Adoption of updates to US GAAP with regard to provision for credit losses ASU 2016-13	March 2018	January 1, 2022	Supervisor of Banks	Provision for credit losses is to be calculated in conformity with the expected loss over the credit term. This is in lieu of estimation of the loss incurred and yet to be identified; estimation of the provision for credit losses shall include significant use of forward-looking information, reflecting reasonable forecasts with regard to future economic events; the new rules for calculating the provision for credit losses shall apply to loans (including residential mortgages), debentures held to maturity and certain off-balance sheet credit exposures. Moreover, in April 2019, the US Financial Accounting Standards Board ("FASB") published a comment with regard to accounting treatment of recoveries and extension options for measuring expected credit losses ASU 2019-04.	The Bank is reviewing the effect of the revisions on its 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
Extension of transitional provision regarding implementation of provisions of Section 830 of the Codification "Foreign currency "	January 2019	January 1, 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.
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 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
Proper Conduct of Banking Business Directive 222 concerning "Net stable funding ratio"	June 2021	December 31, 2021	Supervisor of Banks	This directive stipulates a minimum net stable funding ratio for banking corporations. The directive clarifies that the Supervisor may require a higher minimum level of net stable funding ratio of a specific corporation, should the Supervisor believe that the risk profile for raising liquidity at such banking corporation is not properly reflected in its net stable funding ratio. On August 4, 2021, the Supervisor of Banks issued an update to Public Reporting Directives, listing the new disclosure requirements in public reporting, including inter alia disclosure of the net stable funding ratio in the note regarding capital adequacy, leveraging and liquidity.	The Bank is reviewing the effect of the revisions on its financial statements.
Update to Proper Conduct of Banking Business Directive 336 regarding "Pledging assets of a banking corporation".	June 2021	January 1, 2022	Supervisor of Banks	Removal of the quantitative restriction on pledged assets and definition of requirements for proper management of pledging of assets. An asset no longer recognized on the banking corporation's accounts would not be counted among the pledged assets. Moreover, the mere existence of a restriction on an asset determines that the asset is pledged, rather than the manner or legal form of such restriction alone.	The Bank is reviewing the effect of the revisions on its financial statements.
Update to Public Reporting Directives with regard to presentation of return on capital and annualized quarterly revenue and expense rates	August 2021	January 1, 2022	Supervisor of Banks	Updates the presentation method of return on capital and of revenue and expense rates calculated on quarterly basis to annualized terms, in conformity with acceptable methods at US banks. This means that translation of a quarterly ratio to an annualized one shall be calculated by multiplying it by 4 and dividing by the number of quarters elapsed from the start of the year to the reporting date.	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 June 30,		For the six months ended June 30,		For the year ended December 31,
	2021	**2020**	**2021**	**2020**	**2020**
		(unaudited)		**(unaudited)**	**(audited)**
A. Interest revenues[1]					
From loans to the public	2,993	1,708	5,133	3,309	7,299
From loans to Governments	3	5	6	12	22
From deposits with the Bank of Israel and from cash	16	14	37	58	90
From deposits with banks	2	3	3	4	11
From securities loaned or acquired in resale agreements[2]	–	–	–	–	–
From debentures	71	10	114	43	106
Total interest revenues	**3,085**	**1,740**	**5,293**	**3,426**	**7,528**
B. Interest expenses					
On deposits from the public	563	329	926	641	1,316
On deposits from governments	–	–	–	–	4
On deposits from banks	1	2	2	4	7
On debentures and subordinated notes	485	85	638	110	380
On other liabilities	1	1	1	1	1
Total interest expenses	**1,050**	**417**	**1,567**	**756**	**1,708**
Total interest revenues, net	**2,035**	**1,323**	**3,726**	**2,670**	**5,820**
C. Details of net effect of hedging derivative instruments on interest revenues[3]	(67)	(4)	32	17	17
D. Details of interest revenues on accrual basis from debentures					
Held to maturity	15	1	21	7	22
Available for sale	52	8	87	33	78
Held for trading	4	1	6	3	6
Total included under interest revenues	**71**	**10**	**114**	**43**	**106**

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

Note 3 – Non-interest financing revenues

Reported amounts (NIS in millions)

	For the three months ended June 30,		For the six months ended June 30,		For the year ended December 31,
	2021	2020	2021	2020	2020
		(unaudited)		(unaudited)	(audited)
A. Non-interest financing revenues (expenses) with respect to non-trading purposes					
1. From activity in derivative instruments					
Net revenues (expenses) with respect to ALM derivative instruments[(1)]	(472)	(234)	334	548	(1,020)
Total from activity in derivative instruments	**(472)**	**(234)**	**334**	**548**	**(1,020)**
2. From investment in debentures					
Gains from sale of debentures available for sale[(2)]	12	40	37	78	101
Total from investment in debentures	**12**	**40**	**37**	**78**	**101**
3. Exchange rate differences, net	**489**	**278**	**(268)**	**(520)**	**920**
4. Gains from investment in shares					
Gains (losses) 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	–	8	2	15
Unrealized gains / losses[(4)]	51	(5)	103	(19)	23
Total from investment in shares	**50**	**(5)**	**107**	**(17)**	**51**
5. Net gains with respect to loans sold	**–**	**–**	**–**	**–**	**–**
Total non-interest financing revenues with respect to non-trading purposes	**79**	**79**	**210**	**89**	**52**
B. Non-interest financing revenues (expenses) with respect to trading operations[(3)]					
Net revenues with respect to other derivative instruments	(10)	(16)	56	18	137
Realized gains (losses) from adjustment to fair value of debentures held for trading, net	(2)	5	(11)	29	31
Unrealized gains (losses) from adjustment to fair value of debentures held for trading, net	(1)	8	–	4	1
Total from trading operations[(5)]	**(13)**	**(3)**	**45**	**51**	**169**
Details of non-interest financing revenues (expenses) with respect to trading operations, by risk exposure					
Interest exposure	(1)	(147)	19	(30)	56
Foreign currency exposure	(12)	144	26	81	113
Exposure to shares	–	–	–	–	–
Exposure to commodities and others	–	–	–	–	–
Total	**(13)**	**(3)**	**45**	**51**	**169**

(1) Derivative instruments which constitute part of the Bank's asset and liability management system, which were not designated as hedges.
(2) Reclassified from Cumulative Other Comprehensive Income.
(3) Includes exchange rate differentials resulting from trading operations.
(4) 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.
(5) 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					Other comprehensive income attributed to non-controlling interests	Other comprehensive income (loss) attributable to shareholders of the Bank
	Adjustments for presentation of available-for-sale securities at fair value	Translation adjustments[1]	Net gains (losses) from cash flow hedges	Adjustments with respect to employees' benefits[2]	Total		
	For the three months ended June 30, 2021 (unaudited)						
Balance as of March 31, 2021	39	(2)	(10)	(392)	(365)	(31)	(334)
Net change in the period	19	–	–	20	39	5	34
Balance as of June 30, 2021	**58**	**(2)**	**(10)**	**(372)**	**(326)**	**(26)**	**(300)**
	For the three months ended June 30, 2020 (unaudited)						
Balance as of March 31, 2020	(23)	(1)	29	(254)	(249)	(23)	(226)
Net change in the period	41	–	(10)	(119)	(88)	(8)	(80)
Balance as of June 30, 2020	**18**	**(1)**	**19**	**(373)**	**(337)**	**(31)**	**(306)**
	For the six months ended June 30, 2021 (unaudited)						
Balance as of December 31, 2020	82	(1)	10	(399)	(308)	(32)	(276)
Net change in the period	(24)	(1)	(20)	27	(18)	6	(24)
Balance as of June 30, 2021	**58**	**(2)**	**(10)**	**(372)**	**(326)**	**(26)**	**(300)**
	For the six months ended June 30, 2020 (unaudited)						
Balance as of December 31, 2019	36	(1)	8	(408)	(365)	(33)	(332)
Net change in the period	(18)	–	11	35	28	2	26
Balance as of June 30, 2020	**18**	**(1)**	**19**	**(373)**	**(337)**	**(31)**	**(306)**
	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 June 30,					
	2021			2020		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
						(unaudited)
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	42	(15)	27	104	(37)	67
Losses (gains) with respect to available-for-sale securities reclassified to the statement of profit and loss[1]	(12)	4	(8)	(40)	14	(26)
Net change in the period	**30**	**(11)**	**19**	**64**	**(23)**	**41**
Translation adjustments						
Adjustments from translation of financial statements[2]	–	–	–	–	–	–
Net change in the period	**–**	**–**	**–**	**–**	**–**	**–**
Cash flows hedges						
Net losses from cash flow hedges	(1)	1	–	(15)	5	(10)
Net (gains) losses with respect to cash flow hedges reclassified to the statement of profit and loss[3]	–	–	–	–	–	–
Net change in the period	**(1)**	**1**	**–**	**(15)**	**5**	**(10)**
Employees' benefits						
Net actuarial gain (loss) for the period[4]	15	(4)	11	(191)	66	(125)
Net losses reclassified to the statement of profit and loss	15	(6)	9	9	(3)	6
Net change in the period	**30**	**(10)**	**20**	**(182)**	**63**	**(119)**
Total net change in the period	**59**	**(20)**	**39**	**(133)**	**45**	**(88)**
Total net change in the period attributable to non-controlling interests	**7**	**(2)**	**5**	**(12)**	**4**	**(8)**
Total net change in the period attributable to shareholders of the Bank	**52**	**(18)**	**34**	**(121)**	**41**	**(80)**

(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 4 – Cumulative other comprehensive income (loss) – continued

Reported amounts (NIS in millions)

C. Changes in items of cumulative other comprehensive income (loss) before and after tax effect (Continued)

	For the six months ended June 30,						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	2	(2)	–	51	(18)	33	170	(58)	112
Losses (gains) with respect to available-for-sale securities reclassified to the statement of profit and loss(1)	(37)	13	(24)	(78)	27	(51)	(101)	35	(66)
Net change in the period	**(35)**	**11**	**(24)**	**(27)**	**9**	**(18)**	**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	(31)	11	(20)	17	(6)	11	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	**(31)**	**11**	**(20)**	**17**	**(6)**	**11**	**3**	**(1)**	**2**
Employees' benefits									
Net actuarial gain (loss) for the period(4)	10	(3)	7	33	(11)	22	(33)	11	(22)
Net losses reclassified to the statement of profit and loss	31	(11)	20	19	(6)	13	47	(16)	31
Net change in the period	**41**	**(14)**	**27**	**52**	**(17)**	**35**	**14**	**(5)**	**9**
Total net change in the period	**(26)**	**8**	**(18)**	**42**	**(14)**	**28**	**86**	**(29)**	**57**
Total net change in the period attributable to non-controlling interests	**9**	**(3)**	**6**	**3**	**(1)**	**2**	**2**	**(1)**	**1**
Total net change in the period attributable to shareholders of the Bank	**(35)**	**11**	**(24)**	**39**	**(13)**	**26**	**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

June 30, 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	3,057	3,057	56	(7)	3,106
Of financial institutions in Israel	331	331	6	–	337
Of others in Israel	22	22	1	–	23
Total debentures held to maturity	**3,410**	**3,410**	**63**	**(7)**	**3,466**
	Carrying amount	**Amortized cost**	**Cumulative other comprehensive income(4)**		**Fair value(1)**
			Gains	**Losses**	
(2) Debentures available for sale					
of Government of Israel	9,759	9,741	67	(49)	9,759
Of foreign governments(3)	884	886	–	(2)	884
Of financial institutions in Israel	156	155	1	–	156
Of foreign financial institutions	223	220	3	–	223
Asset-backed (ABS)	31	31	–	–	31
Of others in Israel	685	640	46	(1)	685
Of others overseas	278	256	23	(1)	278
Total debentures available for sale	**12,016**	**11,929**	**140**	**(53)**	**12,016**
	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	**623**	**457**	**167**	**(1)**	**623**
Of which: Shares for which no fair value is available(6)	302	302	–	–	302
Total securities not held for trading	**16,049**	**15,796**	**370**	**(61)**	**16,105**

Note 5 – Securities – Continued

June 30, 2021 (unaudited)

Reported amounts (NIS in millions):

	Carrying amount	Amortized cost (for shares – cost)	Adjustments to fair value yet to be realized[5]		Fair value[1]
			Gains	Losses	
(4) Debentures held for trading					
of Government of Israel	1,423	1,417	9	(3)	1,423
Of others in Israel	27	25	3	(1)	27
Of others overseas	23	21	2	–	23
Total debentures held for trading	**1,473**	**1,463**	**14**	**(4)**	**1,473**
Shares and other securities	17	20	2	(5)	17
Total securities held for trading	**1,490**	**1,483**	**16**	**(9)**	**1,490**
Total securities[2]	**17,539**	**17,279**	**386**	**(70)**	**17,595**

(5) Additional information about debentures

Recorded debt balance of	
Impaired debentures not accruing interest revenues	41
	41

(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 1,031 million and securities provided as collateral to lenders, amounting to NIS 48 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

June 30, 2020 (unaudited)

Reported amounts (NIS in millions):

	Carrying amount	Amortized cost	Adjustments to fair value yet to be recognized – Gains	Losses	Fair value[(1)]
(1) Debentures held to maturity					
of Government of Israel	3,564	3,564	69	–	3,633
Of financial institutions in Israel	388	388	4	–	392
Of others in Israel	33	33	–	–	33
Total debentures held to maturity	**3,985**	**3,985**	**73**	**–**	**4,058**
	Carrying amount	**Amortized cost**	**Cumulative other comprehensive income[(4)] – Gains**	**Losses**	**Fair value[(1)]**
(2) Debentures available for sale					
of Government of Israel	2,710	2,685	36	(11)	2,710
Of foreign governments[(3)]	1,169	1,165	4	–	1,169
Of foreign financial institutions	110	111	–	(1)	110
Total debentures available for sale	**3,989**	**3,961**	**40**	**(12)**	**3,989**
	Carrying amount	**Cost**	**Adjustments to fair value yet to be realized[(5)] – Gains**	**Losses**	**Fair value[(1)]**
(3) Investment in shares not held for trading	**133**	**106**	**27**	**–**	**133**
Of which: Shares for which no fair value is available[(6)]	51	51	–	–	51
Total securities not held for trading	**8,107**	**8,052**	**140**	**(12)**	**8,180**
	Carrying amount	**Amortized cost**	**Adjustments to fair value yet to be realized[(5)] – Gains**	**Losses**	**Fair value[(1)]**
(4) Debentures held for trading					
of Government of Israel	333	329	4	–	333
Total debentures held for trading	**333**	**329**	**4**	**–**	**333**
Total securities[(2)]	**8,440**	**8,381**	**144**	**(12)**	**8,513**

(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 525 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	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**	**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**	**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 June 30, 2021 (unaudited)							
Debentures held to maturity								
of Government of Israel	534	7	–	7	–	–	–	–
Of others in Israel	1	(3)–	–	–	–	–	–	–
Total – debentures held to maturity	**535**	**7**	**–**	**7**	**–**	**–**	**–**	**–**
Debentures available for sale								
of Government of Israel	3,654	46	–	46	300	3	–	3
Of foreign governments(2)	538	2	–	2	–	–	–	–
Of foreign financial institutions	19	(3)–	–	–	–	–	–	–
Asset-backed (ABS)	22	(3)–	–	–	–	–	–	–
Of others in Israel	100	1	–	1	–	–	–	–
Of others overseas	11	1	–	1	–	–	–	–
Total debentures available for sale	**4,344**	**50**	**–**	**50**	**300**	**3**	**–**	**3**
	As of June 30, 2020 (unaudited)							
Debentures held to maturity								
of Government of Israel	71	(3)–	–	–	–	–	–	–
Total – debentures held to maturity	**71**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Debentures available for sale								
of Government of Israel	565	10	–	10	10	1	–	1
Of foreign financial institutions	110	1	–	1	–	–	–	–
Total debentures available for sale	**675**	**11**	**–**	**11**	**10**	**1**	**–**	**1**
	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 June 30, 2021 (unaudited)				
Asset-backed debentures (ABS)	31	31	–	–	31
Total asset-backed debentures available for sale	**31**	**31**	**–**	**–**	**31**
	As of June 30, 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 June 30, 2021, June 30, 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

	June 30, 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	58,116	62	575	58,753	7,070	65,823
reviewed on group basis	9,606	164,477	23,605	197,688	–	197,688
Of which: By extent of arrears	1,970	164,477	–	166,447	–	166,447
Total debts	**67,722**	**[2]164,539**	**24,180**	**256,441**	**7,070**	**263,511**
Of which:						
Impaired debts under restructuring	357	–	65	422	–	422
Other impaired debts	871	59	17	947	1	948
Total impaired debts	**1,228**	**59**	**82**	**1,369**	**1**	**1,370**
Debts in arrears 90 days or longer	25	1,331	19	1,375	–	1,375
Other problematic debts	601	12	79	692	–	692
Total problematic debts	**1,854**	**1,402**	**180**	**3,436**	**1**	**3,437**
Provision for credit losses with respect to debts [1]						
reviewed on individual basis	957	1	26	984	3	987
reviewed on group basis	122	858	241	1,221	–	1,221
Of which: Provision by extent of arrears[3]	8	858	–	866	–	866
Total provision for credit losses	**1,079**	**859**	**267**	**2,205**	**3**	**2,208**
Of which: With respect to impaired debts	**301**	**1**	**18**	**320**	**1**	**321**

	June 30, 2020 (unaudited)					
Recorded debt balance of debts[1]						
reviewed on individual basis	47,087	68	637	47,792	10,453	58,245
reviewed on group basis	9,358	140,547	18,841	168,746	–	168,746
Of which: By extent of arrears	1,817	140,547	–	142,364	–	142,364
Total debts	**56,445**	**[2]140,615**	**19,478**	**216,538**	**10,453**	**226,991**
Of which:						
Impaired debts under restructuring	338	–	67	405	–	405
Other impaired debts	894	68	23	985	–	985
Total impaired debts	**1,232**	**68**	**90**	**1,390**	**–**	**1,390**
Debts in arrears 90 days or longer	42	1,432	27	1,501	–	1,501
Other problematic debts	884	–	113	997	–	997
Total problematic debts	**2,158**	**1,500**	**230**	**3,888**	**–**	**3,888**
Provision for credit losses with respect to debts [1]						
reviewed on individual basis	880	2	31	913	2	915
reviewed on group basis	127	781	267	1,175	–	1,175
Of which: Provision by extent of arrears[3]	7	781	–	788	–	788
Total provision for credit losses	**1,007**	**783**	**298**	**2,088**	**2**	**2,090**
Of which: With respect to impaired debts	**279**	**2**	**23**	**304**	**–**	**304**

(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 9,927 million (as of June 30, 2020 – NIS 8,315 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 June 30, 2020 – NIS 9 million), and assessed on group basis, amounting to NIS 650 million (as of June 30, 2020 – NIS 569 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	1,001	1	37	1,039	2	1,041
reviewed on group basis	174	941	279	1,394	–	1,394
Of which: Provision by extent of arrears[3]	10	672	–	682	–	682
Total provision for credit losses	**1,175**	**942**	**316**	**2,433**	**2**	**2,435**
Of which: With respect to impaired debts	**316**	**1**	**22**	**339**	**–**	**339**

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.

(2) Includes general-purpose loans secured by a lien on a residential apartment, amounting to NIS 9,690 million.

(3) Includes balance of provision beyond that required by extent of arrears, calculated on individual basis amounting to NIS 10 million, and calculated on group basis amounting to NIS 732 million.

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 June 30, 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	1,413	918	316	2,647	3	2,650
Expenses with respect to credit losses	(156)	(59)	(25)	(240)	–	(240)
Accounting write-offs[1]	(79)	(2)	(31)	(112)	–	(112)
Collection of debts written off for accounting purposes in previous years[1]	77	1	23	101	–	101
Net accounting write-offs	(2)	(1)	(8)	(11)	–	(11)
Acquisition of Union Bank	16	1	3	20	–	20
Balance of provision for credit losses at end of period	**1,271**	**859**	**286**	**2,416**	**3**	**2,419**
Of which: With respect to off balance sheet credit instruments	**192**	**–**	**19**	**211**	**–**	**211**
	For the three months ended June 30, 2020 (unaudited)					
Balance of provision for credit losses at start of period	1,041	731	293	2,065	3	2,068
Expenses with respect to credit losses	173	53	45	271	(1)	270
Accounting write-offs[1]	(92)	(2)	(41)	(135)	–	(135)
Collection of debts written off for accounting purposes in previous years[1]	38	1	17	56	–	56
Net accounting write-offs	(54)	(1)	(24)	(79)	–	(79)
Balance of provision for credit losses at end of period	**1,160**	**783**	**314**	**2,257**	**2**	**2,259**
Of which: With respect to off balance sheet credit instruments	**153**	**–**	**16**	**169**	**–**	**169**
	For the six months ended June 30, 2021 (unaudited)					
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	(111)	(82)	(35)	(228)	1	(227)
Accounting write-offs[1]	(120)	(3)	(73)	(196)	–	(196)
Collection of debts written off for accounting purposes in previous years[1]	100	1	47	148	–	148
Net accounting write-offs	(20)	(2)	(26)	(48)	–	(48)
Acquisition of Union Bank	19	1	7	27	–	27
Balance of provision for credit losses at end of period	**1,271**	**859**	**286**	**2,416**	**3**	**2,419**
Of which: With respect to off balance sheet credit instruments	**192**	**–**	**19**	**211**	**–**	**211**
	For the six months ended June 30, 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	412	118	84	614	1	615
Accounting write-offs[1]	(175)	(10)	(76)	(261)	–	(261)
Collection of debts written off for accounting purposes in previous years[1]	58	1	33	92	–	92
Net accounting write-offs	(117)	(9)	(43)	(169)	–	(169)
Balance of provision for credit losses at end of period	**1,160**	**783**	**314**	**2,257**	**2**	**2,259**
Of which: With respect to off balance sheet credit instruments	**153**	**–**	**16**	**169**	**–**	**169**

(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

	June 30,		December 31,
	2021	2020	2020
		(unaudited)	(audited)
In Israel			
On-call			
Non interest-bearing	98,326	63,670	91,615
Interest-bearing	44,284	30,508	40,893
Total on-call	**142,610**	**94,178**	**132,508**
Term deposits	147,846	132,759	147,105
Total deposits in Israel[(1)]	**290,456**	**226,937**	**279,613**
Outside of Israel			
On-call			
Non interest-bearing	541	651	961
Interest-bearing	3	3	3
Total on-call	**544**	**654**	**964**
Term deposits	3,391	4,193	3,647
Total deposits overseas	**3,935**	**4,847**	**4,611**
Total deposits from the public	**294,391**	**231,784**	**284,224**
(1) Includes:			
Deposits from individuals	**138,677**	**112,331**	**135,165**
Deposits from institutional investors	**53,060**	**42,179**	**47,566**
Deposits from corporations and others	**98,719**	**72,427**	**96,882**

B. Deposits from the public by size

	June 30,		December 31,
	2021	2020	2020
		(unaudited)	(audited)
Maximum deposit			
Up to 1	95,948	78,419	94,031
Over 1 to 10	76,255	57,925	73,376
Over 10 to 100	43,886	33,201	41,781
Over 100 to 500	37,455	26,333	35,060
Above 500	40,847	35,906	39,976
Total	**294,391**	**231,784**	**284,224**

Note 8 – Employees' Rights

Description of benefits

1. Employment terms of the vast majority of Bank 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 July 6, 2021, further to approval of a new strategic plan for the Bank, 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 through December 31, 2023.
3. Remuneration policy for all Bank employees other than officers
   In July 2021, the Bank's Board of Directors approved, after receiving the recommendation from the Remuneration Committee, a revised remuneration policy for three (3) years through December 31, 2023 for all Bank employees, other than officers who are subject to the revised remuneration policy for Bank officers, as noted above.
4. Outline for employees
   On July 26, 2021, the Bank's Board of Directors approved, after approval by the Bank's Remuneration Committee, a proposed option allotment to the Bank President & CEO , to Bank officers (other than Board members) and to other managers at the Bank and at its subsidiaries. The outline is for the period 2021-2023. For further details, see Note 17.
5. Special collective bargaining agreement at Union Bank
   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 stated 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 stated 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. On June 21, 2021, an addendum to the agreement was signed, whereby the number of retiring employees would be increased to 480. Moreover, the periods and dates for employee retirement were updated – all through 2022. Union Bank believes that the final number of retiring employees would be close to the aforementioned number. Upon signing the addendum to the agreement, Union Bank assessed the cost of the Retirement Program, beyond actuarial provisions for retirement at beneficial terms, at NIS 430 million (in net profit terms: NIS 283 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.
6. Agreement between Igud Systems and Mizrahi Tefahot Technology Division
   On April 11, 2021, an agreement was signed (hereinafter: "the Agreement") between Igud Systems Ltd. (hereinafter: "Igud Systems") and Mizrahi Tefahot Technology Division Ltd. (hereinafter: "Technology Division") and the Employee Union of Igud Systems, which governs the onboarding of Igud Systems employees subject to the Agreement, as employees of the Technology Division, upon the operational merger between the Technology Division and Igud Systems, each one based on their employment status at Igud Systems immediately prior to the merger, and also governs the employment terms and conditions of Igud Systems employees upon onboarding in the Technology Division. The Agreement has no impact on the Bank's financial statements.

Note 8 – Employees' Rights – Continued

Reported amounts (NIS in millions)

6. 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 June 30,		For the six months ended June 30,		For the year ended December 31,
	2021	**2020**	**2021**	**2020**	**2020**
		(unaudited)		**(unaudited)**	**(audited)**
Under payroll and associated expenses					
Cost of service[(1)]	22	16	43	33	70
Under other expenses					
Cost of interest[(2)]	13	9	24	18	32
Expected return on plan assets[(3)]	(3)	(1)	(6)	(2)	(6)
Deduction of non-allowed amounts:					
Net actuarial loss[(4)]	16	9	30	19	47
Total under other expenses	26	17	48	35	73
Total benefit cost, net	**48**	**33**	**91**	**68**	**143**
Total expense with respect to defined-contribution pension	49	38	98	76	158
Total expenses recognized in profit and loss	**97**	**71**	**189**	**144**	**301**

	Forecast	Actual deposits				
	For[(5)]	For the three months ended June 30,		For the six months ended June 30,		For the year ended December 31,
	2021	**2021**	**2020**	**2021**	**2020**	**2020**
			(unaudited)		**(audited)**	**(audited)**
Deposits	6	4	2	6	3	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 June 30, 2021	As of June 30, 2020	As of December 31, 2020
		(unaudited)	(audited)
1. Consolidated data			
A. Capital for purpose of calculating the capital ratio			
Tier I capital[1]	21,783	17,033	20,137
Tier I capital[1]	21,783	17,033	20,137
Tier II capital	8,484	5,966	7,176
Total capital[1]	**30,267**	**22,999**	**27,313**
B. Weighted risk asset balances			
Credit risk	190,817	158,555	185,392
Market risks	2,681	1,616	2,228
Operational risk	13,281	10,821	12,864
Total weighted risk asset balances[2]	**206,779**	**170,992**	**200,484**
C. Ratio of capital to risk components			
			In %
Ratio of Tier I capital to risk components	10.53	9.96	10.04
Ratio of Tier I capital to risk components	10.53	9.96	10.04
Ratio of total capital to risk components	14.64	13.45	13.62
Minimum Tier I capital ratio required by Supervisor of Banks[3]	8.63	8.79	8.68
Total minimum capital ratio required by the Supervisor of Banks[3]	12.13	12.29	12.18
2. Significant subsidiaries			
Bank Yahav for Government Employees Ltd. and its subsidiaries			
Ratio of Tier I capital to risk components	9.74	9.37	9.44
Ratio of Tier I capital to risk components	9.74	9.37	9.44
Ratio of total capital to risk components	12.97	12.87	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	14.31	–	12.91
Ratio of Tier I capital to risk components	14.31	–	12.91
Ratio of total capital to risk components	17.18	–	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 26 million was deducted due to adjustments with respect to the streamlining plan (June 30, 2020: NIS 82 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 residential mortgage balance as of the report date, excluding residential mortgages 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 June 30,		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	21,363	17,470	19,669
Differences between shareholders' equity and Tier I capital	(486)	(400)	(438)
Total Tier I capital before supervisory adjustments and deductions	**20,877**	**17,070**	**19,231**
Supervisory adjustments and deductions:			
Goodwill	(177)	(87)	(187)
Deferred tax assets	–	–	(127)
Supervisory adjustments and other deductions[1]	1,009	(27)	1,099
Total supervisory adjustments and deductions, before adjustments with respect to the streamlining plan – Tier I capital	**832**	**(114)**	**785**
Total adjustments with respect to the streamlining program[2]	74	77	121
Total Tier I capital after supervisory adjustments and deductions	**21,783**	**17,033**	**20,137**
B. Tier II capital			
Tier II capital: Instruments, before deductions	6,402	4,031	4,861
Tier II capital: Provisions, before deductions	2,082	1,935	2,315
Total Tier II capital, before deductions	**8,484**	**5,966**	**7,176**
Deductions:			
Total deductions – Tier II capital	–	–	–
Total Tier II capital	8,484	5,966	7,176
Total capital	**30,267**	**22,999**	**27,313**

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

	As of June 30,		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	10.50	9.91	9.98
Effect of adjustments with respect to the streamlining plan	0.03	0.05	0.06
Ratio of Tier I capital to risk components	10.53	9.96	10.04

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

(2) Of which, NIS 72 million with respect to streamlining program concerning employees and NIS 2 million with respect to streamlining program concerning real estate (on June 30, 2020: NIS 71 million with respect to streamlining program concerning employees and NIS 6 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 June 30,		As of December 31,
	2021	2020	2020
		(unaudited)	(audited)
		In %	
1. Consolidated data			
Liquidity coverage ratio[1]	132	122	133
Minimum liquidity coverage ratio required by the Supervisor of Banks	100	100	100
2. Bank data			
Liquidity coverage ratio[1]	123	123	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]	233	285	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]	193	–	161
Minimum liquidity coverage ratio required by the Supervisor of Banks	100	–	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 June 30,		As of December 31,
	2021	2020	2020
		(unaudited)	(audited)
1. Consolidated data			
Tier I capital[1]	21,783	17,033	20,137
Total exposure	406,235	317,759	388,370
	In %		
Leverage ratio	5.36	5.36	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	5.27	5.12	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	6.49	–	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.

Note 9 – Capital adequacy, liquidity and leverage – Continued

Reported amounts (NIS in millions)

D. Ratio of capital to risk components

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 residential mortgage balance as of the report date.

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

On September 16, 2020 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 residential mortgages, as of June 30, 2021, would be at least 8.63%, and the total capital ratio would be at least 12.13% (with additional safety margins as appropriate).

E. Issue of subordinated notes with loss-absorption provisions

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.

In July 2021, after the balance sheet date, Bank Yahav raised Tier II capital by issue of CoCo subordinated notes amounting to NIS 100 million. These notes qualify for recognition as Tier II equity pursuant to Basel III provisions. Furthermore, in July 2021, Bank Yahav made a full early redemption, after obtaining approval by the Bank of Israel, of subordinated notes amounting to NIS 218 million.

F. For more information about dividend distribution, see Note 17 below.

Note 9 – Capital adequacy, liquidity and leverage – Continued

G. 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.

H. 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

		June 30,		December 31,
		2021	2020	2020
			(unaudited)	(audited)
1.	Computerization and software service contracts	466	356	513
2.	Acquisition and renovation of buildings	25	23	18

3. Credit sales operations

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

	For the three months ended June 30,		For the six months ended June 30,		For the year ended December 31,
	2021	2020	2021	2020	2020
	(unaudited)		(unaudited)		(audited)
Carrying amount of credit sold	–	40	–	40	233
Consideration received in cash	–	40	–	40	116
Consideration received in securities	–	–	–	–	–
Total consideration	–	40	–	40	116
Total net gain with respect to credit sold	–	–	–	–	–

Note 10 – Contingent Liabilities and Special Commitments – continued

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.

   The plaintiff claims that he is unable to estimate the damage incurred by the entire class of plaintiffs, but assumes (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.

Note 10 – Contingent Liabilities and Special Commitments – continued

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. The Attorney General announced that they had no intention of expressing an opinion on this agreement. On July 26, 2021, a verdict was handed down, confirming the settlement agreement reached by the parties.

Note 10 – Contingent Liabilities and Special Commitments – continued

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").

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. The parties have filed their summations. On June 2, 2021, a Supreme Court hearing was held and a resolution has yet to be handed down.

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.

Note 10 – Contingent Liabilities and Special Commitments – continued

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. Concurrently, on July 19, 2021, the Court handed down a resolution which proposed that the parties conduct a mediation proceeding prior to the scheduled evidentiary hearing, and the parties accepted the Court's proposal.

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 residential mortgages bearing adjustable interest – debentures. The plaintiffs allege that the Bank issues an approval in principle to the client, listing the debenture base as the only mechanism for interest calculation in the adjustable interest track – debentures for the term of the loan. However, the loan agreement includes another mechanism titled "Emergency Protection Mechanism" for setting the interest rate, in addition to the original mechanism, without providing proper disclosure. It is further alleged that the condition stipulated by the Bank in the agreement, with regard to triggering of the Emergency Protection Mechanism, is unfair and gives the Bank an unreasonable advantage over its clients.

the Bank filed its response on July 25, 2018. The plaintiff filed its response to the Bank's response on January 6, 2019.

On February 27, 2019, a pre-trial hearing took place, and the Court scheduled a further pre-trial hearing to allow the parties to conduct preliminary proceedings. The Court also proposed that the parties try to reach agreement. As proposed by the Court, the parties have started a mediation process. In conformity with the Court ruling, on February 18, 2020, the parties filed an update notice with regard to the mediation process and an agreed motion asking for a further 60 days' extension in order to consider the feasibility of concluding this proceeding by agreement. Due to the Corona Virus crisis, the mediation process was extended and has yet to be concluded. On September 30, 2020, a mediation meeting took place (after previous ones were scheduled and then canceled due to the Corona Virus crisis) and dates were agreed for providing the text of the settlement agreement and for parties to comment on it. On January 10, 2021, a further mediation meeting took place. At this meeting, the parties discussed the emerging settlement agreement. The parties agreed on wording of the settlement agreement. The deadline for filing an update notice with the Court regarding the settlement agreement was postponed, as requested by the parties, to September 12, 2021.

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 residential mortgages consisting of multiple tracks, some of which have generated positive capitalization differences and some of which have generated negative capitalization differences, where the Bank fails to offset the capitalization differences of the different tracks against each other,allegedly in contravention of provisions of the Banking Ordinance (Early repayment of residential mortgage), 2002.

Note 10 – Contingent Liabilities and Special Commitments – continued

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 evidentiary hearing scheduled for July 20, 2021 was postponed due to mediation efforts between the parties. Another evidentiary hearing is scheduled for October 3, 2021.

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 an extension to provide an update. The plaintiffs must file their position by August 1, 2021. The Court allowed the motion by the plaintiffs seeking a further 30-day extension to conclude discussions with some of the defendants.

Note 10 – Contingent Liabilities and Special Commitments – continued

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. In conformity with the summation order issued in this case, the parties have filed their summations. On July 28, 2021, a Supreme Court hearing was held to complete verbal arguments, after which the Court recommended two options to the appellants' attorney: One, to withdraw the appeal in return for a reduction of expenses; Second, to accept the verdict with no reduction of expenses. The appellants' attorney chose to accept the verdict in this case with no reduction of expenses, and a verdict has yet to be handed down in this case.

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 residential mortgages, rather than providing all of the credit as a "residential mortgage", at terms and conditions as set forth in the Supervisor of Bank's directives, allegedly in violation of the statute and while bypassing the Supervisor of Bank's directives with regard to residential mortgages, and with the client being un-aware of this splitting action and its implications, and while hiding material facts, such as absence of life insurance in the loan component of the Tefahot credit card, charging of a different interest rate and monthly charge for holding the card.

The plaintiff claims they are unable to quantify the damage to the class, setting their own personal claim at NIS 112,373. The Bank is due to file its response to the motion by November 26, 2020. The Bank filed its response on November 26, 2020 and the plaintiff filed their response to the Bank's response on December 17, 2020. On January 18, 2021, the plaintiff filed a motion with the Court seeking the position of the Attorney General and/or of the Bank of Israel with regard to this claim. On January 31, 2021, the Bank filed its response to the motion. A resolution is still pending.

On February 24, 2021, a pre-trial hearing took place, after which the Court suggested that the plaintiff 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.

K) In May 2020, a motion for approval of class action status was filed with the Tel Aviv District Court, alleging breach of duty of confidentiality, by the Bank providing various identifiable information to international information corporations, and in particular to Facebook, allowing them to gather private information about Bank clients, allegedly in breach of provisions of the Privacy Protection Act, 1981 and other statutes, without providing required disclosure to Bank clients and without obtaining their consent.

The plaintiff alleges that the Bank uses third-party tools, such as those of Facebook and Google, to monitor its clients when transacting on Bank web sites and apps, in order to conduct advertising campaigns, while these corporations process the information provided about the clients for their own needs, with no disclosure provided with regard to the purposes for which such information is being gathered and what information exactly is being gathered, other than a "legal disclaimer" on the Bank website which, the plaintiff alleges, is deficient and may not be regarded as consent. The plaintiff further alleges that all conditions listed in Bank documents, allowing the Bank to provide information about its clients to third parties, including the "legal disclaimer", constitute unfair conditions in a uniform contract.

Note 10 – Contingent Liabilities and Special Commitments – continued

The plaintiff claims they are unable to quantify the damage incurred by the class. The Bank filed its response on March 1, 2021. On July 15, 2021,

the plaintiff filed their response to the Bank's response to the motion for approval of class action status.

On July 15, 2021, a consolidated hearing of this motion and a motion filed in the same matter against other banks took place, after which deadlines were set for filing withdrawal motions with regard to changes to and expansion of the front of the plaintiff's response and responses there to. The lawsuits would be referred to the Supervisor of Banks for comments after a resolution has been given in the motion to withdraw.

L) 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.

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 63 million.

3) 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.

Note 10 – Contingent Liabilities and Special Commitments – continued

B) In September 2020, a motion for approval of a derivative lawsuit was filed with the Tel Aviv District Court by a shareholder on behalf of the Company for Economic and Cultural Enterprises for State Employees Ltd. ("Economic Enterprises Company") and on behalf of Bank Yahav for Government Employees Ltd. ("Bank Yahav") against Bank Yahav, the Bank, Board members of the Economic Enterprises Company and of Bank Yahav, including officers of the Bank.
The plaintiff alleges that Bank Yahav and the Economic Enterprises Company incurred damage due to credit extended by Bank Yahav to the Bank, by way of deposits with the Bank, allegedly in violation of the Law and in breach of fiduciary and care duties of the defendants towards Bank Yahav and towards the Economic Enterprises Company.

The alleged damage incurred by Bank Yahav is in excess of NIS 1 billion. Bank Yahav's response to the motion was filed on April 29, 2021 and the Bank's response was filed on May 3, 2021. The plaintiffs filed their responses to the motion on August 8, 2021. A pre-trial hearing is scheduled for November 21, 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.

Note 10 – Contingent Liabilities and Special Commitments – continued

On April 18, 2016, the Court resolved to postpone the hearing of the motion pending conclusion of the investigation and reporting of its outcome.

On April 12, 2017, the Court directed the Attorney General to inform the Court in 45 days' time of their intention to join the proceeding.

On August 3, 2017, the Attorney General submitted a notice on its behalf, regarding his appearance in the discovery process, to which he attached his position. On September 10, 2017, the Bank and the other defendants filed their responses to the Attorney General's position.

On September 19, 2017 Court approved a procedural arrangement reached by the parties in the case, whereby the hearing of this case will be suspended at this stage, subject to the defendants reporting to the Court and to the plaintiff as from December 31, 2017, once every 90 days, of the investigation by the US DOJ. Updates with regard to the investigation process were given on March 29, 2018 and on June 27, 2018.

On October 2, 2018, the Bank provided an update to the Court with regard to the investigation process, enclosing the report made public in the Bank's financial statements as of June 30, 2018 whereby, inter alia, the Bank started negotiations with the US DOJ, the outcome of which cannot yet be estimated. Consequently, the Court scheduled the case for follow-up in 90 days.

On December 31, the Bank filed another update with the Court with regard to the investigation; the next update is due on March 31, 2019.

On March 14, 2019, the Bank filed an update notice with the Court, whereby on March 12, 2019, the Bank and the US Department of Justice signed a Deferred Prosecution Agreement to conclude the investigation.

In conformity with the District Court ruling dated October 10, 2019, the parties filed a notice of litigation agreement with regard to further litigation of this motion. On December 18, 2019, the Court handed down a ruling whereby, inter alia, a pre-trial hearing was scheduled for April 22, 2020 and requiring the parties to state their consent to referring their dispute to mediation. In view of the notice by the Bank dated January 1, 2020, stating that the Bank assumes this is not the appropriate timing for mediation proceedings, however, as ruled by the Court, in case of circumstances or developments which would warrant this in the Bank's opinion, the Bank would reconsider such option. A pre-trial hearing is scheduled for June 24, 2020.

On March 27, 2020, the Independent Committee appointed by the Bank’s Board of Directors, inter alia, as an independent claims committee, submitted its conclusions and recommendations with regard to the aforementioned proceedings. On March 31, 2020, the Bank Board of Directors resolved to adopt in full the conclusions and recommendations made by the Committee (not to take legal proceedings against Board members and other officers with respect to breach of fiduciary duty or breach of their duty of care, and not to require them to reimburse remuneration they had received, in conjunction with their office at the Bank in the relevant period, and not to take any legal action in this regard) and instructed Bank management to act to apply the recommendations, including with regard to a settlement agreement amounting to USD 23 million with insurers providing Board member and officer liability insurance. Accordingly, on September 8, 2020, a motion was filed with the Court seeking approval of a settlement agreement signed by the plaintiff, the Bank Group, the defendants and the insurers, based on the recommendation by the Independent Committee, along with a motion seeking an order for the Independent Committee's report to be classified as privileged. On September 8, 2020, the Court ruled to temporarily classify the report as privileged; the Bank then filed a motion for a litigation agreement with regard to the motion seeking privilege; on September 17, the Court validated this litigation agreement. On September 9, 2020, the Court ordered that a notification of the settlement agreement be advertised. As ruled by the Court, the Attorney General should file their position with regard to the settlement agreement by October 15, 2020. On October 18, 2020, the Attorney General filed a motion seeking a 30-day extension to file their position and the Court accepted this motion.

Note 10 – Contingent Liabilities and Special Commitments – continued

The position of the Attorney General was filed on November 11, 2020 and a ruling was handed down on November 12, 2020, whereby the parties should file their response to the position of the Attorney General by December 3, 2020 and should act with insurers to obtain clarification, backed by an affidavit or by an opinion, with regard to the Attorney General's comment about the potential negative effect on the insurance market in general, and in particular for officer liability insurance. In conformity with the ruling, on December 3, 2020, the Bank filed its response, as well as clarification by the insurers providing the Bank's Board member and officer liability insurance policy. On December 20, 2020 the Attorney General filed their position in response to the parties' response, after which the Court instructed the Attorney General to inform the Court no later than February 3, 2021 why there was no opinion or affidavit on behalf of the Attorney General enclosed as basis for the assumptions expressed in their position. In conformity with the ruling, on February 3, 2021, the Attorney General filed a notice whereby the matters cited in their position require no factual support. On the same day, the Court ruled that should neither party file notice requesting a hearing of the motion for approval of the settlement agreement by February 7, 2021, the motion would be submitted for a ruling. Consequently, on February 7, 2021, the Bank (and the other defendants) filed a notice with the Court whereby, should the Court consider that the Attorney General's position may have implications for approval of the settlement agreement in this case, then the Bank Group would ask for a hearing of the motion. On February 9, 2021, the Court ruled that in the Court's opinion, there is cause to hold a hearing of the Attorney General's position. Such hearing 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 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 stipulated in the motion filed on September 8, 2020. On May 11, 2021, a verdict was handed down, confirming as a verdict the settlement agreement signed by the parties to the discovery motion. The various payments pursuant to the settlement agreement have been paid.

Note 10 – Contingent Liabilities and Special Commitments – continued

D) On December 12, 2016, a motion was filed with the Tel Aviv District Court, seeking a document discovery order pursuant to provisions of Section 198a of the Companies' Law, 1999 (hereinafter: "Motion for discovery"), asking for Union Bank ("Union Bank") to be instructed to disclose documents with regard to credit extended by the bank to Mr. Eliezer Fishman ("Fishman") and to others whose debt is personally guaranteed by Fishman ("the credit"). The motion alleges that members of the Board of Directors and of the Credit Committee of Union Bank have allowed Fishman to accumulate enormous debt, amounting to NIS 270 million, allegedly without doing their duty to collect such debt when due. After various proceedings, on August 6, 2017 the Court approved a litigation agreement whereby proceedings in this case would be delayed, so as to allow the independent claim committee, which the Union Bank Board of Directors resolved to establish, to discuss this matter and for the Board of Directors to discuss the committee's recommendations. The independent committee concluded its work and the Union Bank Board of Directors discussed its recommendations. In conformity with the litigation agreement between the parties, the content of the Board of Directors' resolution passed in said discussion was provided to the plaintiff's attorney. The parties have entered into a mediation proceeding which proved unsuccessful. Therefore, on September 25, 2019, a motion was filed for approval of a derivative lawsuit ("the motion") against 20 individual defendants who, allegedly, serve or have served as Board members of Union Bank. The motion concerns, allegedly, loans extended to Fishman in 2004-2008, with no collateral or with collateral that only partially covers his debt, with negligent discretion exercised and apparent indifference to the outcome from such matters. It further alleged that Union Bank and officers took no action to recover Union Bank's money. The plaintiff seeks to charge the defendants for the damage they have allegedly caused by their negligence, amounting to NIS 125 million, taking into account the receipts to be collected in Fishman's insolvency proceedings. Concurrently, the plaintiff also filed a motion to reject the motion for document discovery and review. On October 28, 2019, the Court ordered this motion to be rejected. By consensus request by the parties, on December 12, 2019 the Court ordered Union Bank to be added as co-defendant to the motion for approval of class action status. On May 24, 2020, Union Bank filed their response to the motion for approval of a derivative lawsuit. On May 25, 2020, the Court accepted the motion by Union Bank and issued a temporary confidentiality injunction, pending a different ruling, with regard to confidentiality of Union Bank's response to the motion towards third parties.
On July 29, 2020, a motion was filed on behalf of Globes newspaper and others, to remove the temporary confidentiality injunction, thereby allowing unlimited review and disclosure of documents enclosed with the Bank's response to the motion for approval of a derivative lawsuit. On August 10, 2020, a pre-trial hearing took place, after which the Court ruled, denying the motion for confidentiality, both for Court proceedings and for Court documents, allowing Globes to review these documents. On September 21, Union Bank filed a motion for right to appeal this ruling. On January 19, 2021, the Supreme Court rejected the motion for right to appeal filed by Union Bank and adopted the agreement whereby Union Bank would be given time to inform the Court that certain information constitutes trade secrets – with reference both to information regarding Mr. Eliezer Fishman's privacy and the independent committee's report, in conformity with the Court ruling dated February 1, 2021. The Bank must file such notice by February 16, 2021.
The Court approved the parties' consent to postpone the hearing scheduled for January 13, 2021, in order to conduct negotiations 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".

Note 10 – Contingent Liabilities and Special Commitments – continued

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. In conformity with resolution, on May 19, 2021, Union Bank filed a notice whereby the negotiations have yet to be concluded and asking for a further 30-day extension. The Court granted the motion by Union Bank and ordered the update to be filed no later than June 20, 2021. On June 22, 2021, the Court granted the motion by Union Bank seeking a similar extension. On July 21, 2021, Union Bank filed an update motion, whereby the negotiations between the parties were in the final stages and asked for a further extension to conclude negotiations by September 9, 2021; the plaintiff filed their response. On July 23, 2021, the Court partially granted the Bank's motion and ordered a further update with regard to the negotiations to be filed no later than September 1, 2021.

4) 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. On May 11, 2021, a verdict was handed down in the motion for discovery, confirming as a verdict the settlement agreement with the Board member liability insurers and with the officers.

Note 10 – Contingent Liabilities and Special Commitments – continued

C. Guarantees by maturity date

The Bank provides a wide range of guarantees and indemnification to its clients, to allow them to conduct a wide range of transactions. The maximum amount of potential future payments is determined based on the amount stated in the guarantee, without accounting for any potential refunds or collateral helped or pledged. Most guarantees at the Bank are rated by credit performance rating.

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

					As of June 30, 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	2,073	859	95	199	3,226
Guarantees to home buyers	8,410	2,612	658	1,517	13,197
Guarantees and other commitments	4,517	1,001	146	4,627	10,291
Commitments to issue guarantees	4,264	4,347	2,265	73	10,949
Total guarantees	**19,264**	**8,819**	**3,164**	**6,416**	**37,663**

					As of June 30, 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	2,359	369	45	150	2,923
Guarantees to home buyers	8,064	2,612	11	107	10,794
Guarantees and other commitments	4,502	799	151	3,427	8,879
Commitments to issue guarantees	2,859	6,024	235	236	9,354
Total guarantees	**17,784**	**9,804**	**442**	**3,920**	**31,950**

					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

	June 30, 2021 (unaudited)			June 30, 2020 (unaudited)		
	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	1,179	–	1,179	1,229	100	1,329
Options written	–	34	34	–	79	79
Options purchased	–	75	75	–	79	79
Swaps(1)	33,863	20,315	54,178	6,786	28,051	34,837
Total(2)	**35,042**	**20,424**	**55,466**	**8,015**	**28,309**	**36,324**
Of which: Hedging derivatives(3)	**3,876**	**–**	**3,876**	**3,858**	**–**	**3,858**
Currency contracts						
Forward contracts(4)(6)	61,138	83,259	144,397	73,021	59,903	132,924
Options written	1,809	15,674	17,483	–	17,041	17,041
Options purchased	1,694	16,642	18,336	–	16,017	16,017
Swaps	1,511	1,363	2,874	1,166	1,722	2,888
Total	**66,152**	**116,938**	**183,090**	**74,187**	**94,683**	**168,870**
Of which: Hedging derivatives(3)	**–**	**–**	**–**	**–**	**–**	**–**
Contracts for shares						
Options written	356	16,333	16,689	–	6,824	6,824
Options purchased(5)	11	16,270	16,281	–	6,854	6,854
Swaps	–	1,235	1,235	–	2,977	2,977
Total	**367**	**33,838**	**34,205**	**–**	**16,655**	**16,655**
Commodities and other contracts						
Forward contracts	228	8	236	–	1	1
Options written	–	15,621	15,621	–	7,518	7,518
Options purchased	–	15,621	15,621	–	7,518	7,518
Total	**228**	**31,250**	**31,478**	**–**	**15,037**	**15,037**
Credit contracts						
Bank is guarantor	261	–	261	277	–	277
Bank is beneficiary	98	–	98	144	–	144
Total	**359**	**–**	**359**	**421**	**–**	**421**
Total stated amount	**102,148**	**202,450**	**304,598**	**82,623**	**154,684**	**237,307**

(1) Of which: Swaps for which the banking corporation pays a fixed interest rate amounting to NIS 40,280 million (as of June 30, 2020: NIS 24,525 million).
(2) Of which: NIS/CPI swaps amounting to NIS 6,874 million (as of June 30, 2020: NIS 8,510 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 10,371 million (as of June 30, 2020: NIS 5,223 million).
(5) Of which: Traded on the Stock Exchange, amounting to NIS 16,244 million (as of June 30, 2020: NIS 6,824 million).
(6) Including diversion between the trading portfolio and the banking portfolio, primarily due to proactive internal transactions as part of asset and liability management.

Note 11 – Derivative instruments and hedging activities – continued

Reported amounts (NIS in millions)

A) Activity on consolidated basis – continued

	As of December 31, 2020 (audited)		
	Derivatives not held for trading	Derivatives held for trading	Total
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 trading 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

	June 30, 2021 (unaudited)					
	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	455	334	789	641	407	1,048
Of which: Hedging derivatives	42	–	42	167	–	167
Currency contracts(1)	215	1,004	1,219	177	922	1,099
Of which: Hedging derivatives	–	–	–	–	–	–
Contracts for shares	–	418	418	27	235	262
Commodities and other contracts	1	1	2	1	1	2
Credit contracts	6	–	6	4	–	4
Total assets / liabilities with respect to derivatives, gross(2)	**677**	**1,757**	**2,434**	**850**	**1,565**	**2,415**
Fair value amounts offset in the balance sheet	–	–	–	–	–	–
Carrying amount of assets / liabilities with respect to derivative instruments	**677**	**1,757**	**2,434**	**850**	**1,565**	**2,415**
Of which: Carrying amount with respect to derivative instruments not subject to a master netting agreement or to similar agreements	84	332	416	91	341	432

	June 30, 2020 (unaudited)					
	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	220	537	757	254	650	904
Of which: Hedging derivatives	75	–	75	98	–	98
Currency contracts(1)	192	898	1,090	541	1,056	1,597
Of which: Hedging derivatives	–	–	–	–	–	–
Contracts for shares	–	356	356	17	377	394
Commodities and other contracts	–	–	–	–	–	–
Credit contracts	6	–	6	19	–	19
Total assets / liabilities with respect to derivatives, gross(2)	**418**	**1,791**	**2,209**	**831**	**2,083**	**2,914**
Fair value amounts offset in the balance sheet	–	–	–	–	–	–
Carrying amount of assets / liabilities with respect to derivative instruments	**418**	**1,791**	**2,209**	**831**	**2,083**	**2,914**
Of which: Carrying amount with respect to derivative instruments not subject to a master netting agreement or to similar agreements	334	336	670	335	575	910

(1) Including diversion between the trading portfolio and the banking portfolio, primarily due to proactive internal transactions as part of asset and liability management.

(2) Of which: Gross fair value of assets with respect to embedded derivatives amounting to NIS 8 million (as of June 30, 2020: NIS 9 million); Gross fair value of liabilities with respect to embedded derivatives amounting to NIS 3 million (as of June 30, 2020: NIS 16 million).

Note 11 – Derivative instruments and hedging activities – continued

Reported amounts (NIS in millions)

A) Activity on consolidated basis – continued

	As of December 31, 2020 (audited)					
	Assets with respect to derivatives, gross			Liabilities with respect to derivatives, gross		
	Derivatives not held for trading	Derivatives held for trading	Total	Derivatives not held for trading	Derivatives held for trading	Total
2. Fair value of derivative instruments, gross						
Interest contracts	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 trading portfolio and the banking portfolio, primarily due to proactive internal transactions as part of asset and liability management.
(2) Of which: Gross fair value of assets with respect to embedded derivatives amounting to NIS 9 million. 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 June 30, 2021	For the six months ended June 30, 2021
	Interest revenues (expenses)	
Interest contracts		
Hedged items	40	(73)
Hedging derivatives	(41)	68

	Balance as of June 30, 2021	
	Book value	Cumulative fair value adjustments that increased the book value
Securities available for sale	1,909	68

2. Cash flows hedges[2]

For the three months ended June 30, 2021		For the six months ended June 30, 2021	
Amounts recognized in Other Comprehensive Income (loss) from derivatives	Interest revenues (expenses)	Amounts recognized in Other Comprehensive Income (loss) from derivatives	Interest revenues (expenses)
–	(27)	(20)	(25)

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

	June 30, 2021 (unaudited)					
	Stock exchanges	**Banks**	**Dealers/ Brokers**	**Governments and central banks**	**Others**	**Total**
Carrying amount of assets with respect to derivative instruments	**71**	**1,290**	**52**	**9**	**1,012**	**2,434**
Gross amounts not offset in the balance sheet:						
Mitigation of credit risk with respect to financial instruments	–	(1,045)	–	–	(271)	[1](1,316)
Mitigation of credit risk with respect to cash collateral received	–	(245)	–	–	(74)	(319)
Net amount of assets with respect to derivative instruments	**71**	**–**	**52**	**9**	**667**	**799**
Off-balance sheet credit risk on derivative instruments[2]	259	1,046	129	–	1,254	2,688
Mitigation of off-balance sheet credit risk	–	(662)	–	–	(392)	(1,054)
Net off-balance sheet credit risk with respect to derivative instruments	**259**	**384**	**129**	**–**	**862**	**1,634**
Total credit risk on derivative instruments	**330**	**384**	**181**	**9**	**1,529**	**2,433**
Carrying amount of liabilities with respect to derivative instruments	**73**	**1,283**	**60**	**7**	**992**	**2,415**
Gross amounts not offset in the balance sheet:						
Financial instruments	–	(1,045)	–	–	(271)	(1,316)
Pledged cash collateral	–	(106)	–	–	(147)	(253)
Net amount of liabilities with respect to derivative instruments	**73**	**132**	**60**	**7**	**574**	**846**

Note 11 – Derivative instruments and hedging activities – continued

Reported amounts (NIS in millions)

	June 30, 2020 (unaudited)					
	Stock exchanges	**Banks**	**Dealers/ Brokers**	**Governments and central banks**	**Others**	**Total**
Carrying amount of assets with respect to derivative instruments	**54**	**1,110**	**22**	**–**	**1,023**	**2,209**
Gross amounts not offset in the balance sheet:						
Mitigation of credit risk with respect to financial instruments	–	(979)	–	–	(191)	[1](1,170)
Mitigation of credit risk with respect to cash collateral received	–	(82)	–	–	(31)	(113)
Net amount of assets with respect to derivative instruments	**54**	**49**	**22**	**–**	**801**	**926**
Off-balance sheet credit risk on derivative instruments[2]	136	981	229	–	1,095	2,441
Mitigation of off-balance sheet credit risk	–	(576)	–	–	(233)	(809)
Net off-balance sheet credit risk with respect to derivative instruments	**136**	**405**	**229**	**–**	**862**	**1,632**
Total credit risk on derivative instruments	**190**	**454**	**251**	**–**	**1,663**	**2,558**
Carrying amount of liabilities with respect to derivative instruments	**53**	**1,497**	**22**	**8**	**1,334**	**2,914**
Gross amounts not offset in the balance sheet:						
Financial instruments	–	(979)	–	–	(191)	(1,170)
Pledged cash collateral	–	(384)	–	–	(47)	(431)
Net amount of liabilities with respect to derivative instruments	**53**	**134**	**22**	**8**	**1,096**	**1,313**

(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

	As of December 31, 2020 (audited)					
	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 three-month period ended June 30, 2021, the Bank recognized revenues from decrease in provision for credit losses amounting to NIS 3 million. In the six-month period ended June 30, 2021, the Bank recognized revenues from decrease in provision for credit losses amounting to NIS 6 million (in the three-month period ended June 20, 2020, the Bank recognized revenues from decrease in provision for credit losses amounting to NIS 2 million). (In the six-month period ended June 30, 2021, the Bank recognized expenses from increase in provision for credit losses amounting to NIS 13 million)

Note 11 – Derivative instruments and hedging activities – continued

Reported amounts (NIS in millions)

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

					June 30, 2021 (unaudited)
	Up to three months	**3 months to 1 year**	**1-5 years**	**Over 5 years**	**Total**
Interest contracts:					
NIS – CPI	374	2,166	3,706	628	6,874
Other	1,537	5,991	26,950	14,114	48,592
Currency contracts	99,128	77,600	6,195	167	183,090
Contracts for shares	31,233	2,648	321	3	34,205
Commodities and other contracts	31,478	–	359	–	31,837
Total	**163,750**	**88,405**	**37,531**	**14,912**	**304,598**
					June 30, 2020 (unaudited)
Total	**137,971**	**73,553**	**18,253**	**7,530**	**237,307**
					As of December 31, 2020 (audited)
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 – residential mortgages and others", in conformity with definitions of credit risk classification by economic sector.

Definitions of supervisory operating segments are as follows:
Households – individuals, other than private banking clients, as noted below.
Private banking – individuals who manage a financial asset portfolio in excess of NIS 3 million.
Small and micro businesses – businesses with turnover amounting up to NIS 50 million.
Medium businesses – businesses with turnover higher than NIS 50 million and lower than NIS 250 million.
Large businesses – businesses with turnover higher than NIS 250 million
Institutional investors – Businesses which own pension funds, study funds, mutual funds, ETFs, insurance companies, stock exchange members, portfolio managers.
Financial management – includes trading operations, asset and liability management and non-banking investments.

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

Asset and liability management – including investment in debentures available for sale and in debentures held to maturity, hedging using 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.

Note 12 – Operating Segments – continued
Supervisory operating segments

For the six months ended June 30, 2021 (unaudited)

Reported amounts (NIS in millions)

	Operations in Israel					
	Households				Private banking	Small and micro businesses
	Residential mortgages	Others	Of which: Credit cards	Total		
Interest revenues from externals	3,240	620	18	3,860	2	698
Interest expenses from externals	1	360	–	361	102	76
Interest revenues, net from externals	3,239	260	18	3,499	(100)	622
Interest revenues, net – inter-segment	(2,149)	460	(3)	(1,689)	142	42
Total interest revenues (expenses), net	**1,090**	**720**	**15**	**1,810**	**42**	**664**
Total non-interest financing revenues	–	–	–	–	–	3
Total commissions and other revenues	72	339	68	411	35	236
Total non-interest revenues	**72**	**339**	**68**	**411**	**35**	**239**
Total revenues	**1,162**	**1,059**	**83**	**2,221**	**77**	**903**
Expenses (reduction of expenses) with respect to credit losses	(82)	(31)	–	(113)	(4)	(37)
Operating and other expenses to externals	432	1,111	36	1,543	14	535
Operating and other expenses – inter-segment	–	(42)	(4)	(42)	2	(24)
Total operating and other expenses	**432**	**1,069**	**32**	**1,501**	**16**	**511**
Pre-tax profit (loss)	812	21	51	833	65	429
Provision for taxes on profit	278	7	17	285	22	147
After-tax profit (loss)	**534**	**14**	**34**	**548**	**43**	**282**
Share of banking corporation in earnings of associated companies	–	–	–	–	–	–
Net profit (loss) before attribution to non-controlling interests	534	14	34	548	43	282
Net profit attributed to non-controlling interests	–	(23)	(2)	(23)	–	(3)
Net profit (loss) attributable to shareholders of the banking corporation	**534**	**(9)**	**32**	**525**	**43**	**279**
Average balance of assets	160,503	23,971	3,176	184,474	265	29,655
Of which: Investments in associated companies	–	–	–	–	–	–
Average balance of loans to the public	160,503	23,971	3,176	184,474	265	29,655
Balance of loans to the public at end of reported period	164,401	25,928	4,428	190,329	212	29,140
Balance of impaired debts	59	82	–	141	–	773
Balance of debt in arrears 90 days or longer	1,331	19	–	1,350	–	25
Average balance of liabilities	–	119,709	3,176	119,709	20,829	45,863
Of which: Average balance of deposits from the public	–	116,533	–	116,533	20,829	45,863
Balance of deposits from the public at end of reported period	–	117,284	–	117,284	21,393	48,538
Average balance of risk assets(1)	93,201	22,509	4,138	115,710	123	27,389
Balance of risk assets at end of reported period(1)	95,785	22,687	4,247	118,472	77	26,738
Average balance of assets under management(2)	8,696	52,225	–	60,921	6,777	27,688
Breakdown of interest revenues, net:						
Margin from credit granting operations	1,035	477	15	1,512	1	577
Margin from activities of receiving deposits	–	227	–	227	37	60
Other	55	16	–	71	4	27
Total interest revenues, net	**1,090**	**720**	**15**	**1,810**	**42**	**664**

(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	
	191	315	17	107	5,190	103	5,293
	32	99	181	713	1,564	3	1,567
	159	216	(164)	(606)	3,626	100	3,726
	11	84	221	1,189	–	–	–
	170	**300**	**57**	**583**	**3,626**	**100**	**3,726**
	–	1	2	246	252	3	255
	58	77	27	221	1,065	22	1,087
	58	**78**	**29**	**467**	**1,317**	**25**	**1,342**
	228	**378**	**86**	**1,050**	**4,943**	**125**	**5,068**
	20	(57)	(26)	–	(217)	(10)	(227)
	89	164	61	232	2,638	36	2,674
	19	27	16	2	–	–	–
	108	**191**	**77**	**234**	**2,638**	**36**	**2,674**
	100	244	35	816	2,522	99	2,621
	34	84	12	280	864	34	898
	66	**160**	**23**	**536**	**1,658**	**65**	**1,723**
	–	–	–	(11)	(11)	–	(11)
	66	160	23	525	1,647	65	1,712
	–	–	–	(22)	(48)	–	(48)
	66	**160**	**23**	**503**	**1,599**	**65**	**1,664**
	9,627	21,908	1,704	103,096	350,729	16,756	367,485
	–	–	–	22	22	–	22
	9,627	21,908	1,704	–	247,633	3,384	251,017
	10,119	20,537	2,560	–	252,897	3,544	256,441
	164	291	–	–	1,369	1	1,370
	–	–	–	–	1,375	–	1,375
	16,101	39,487	49,173	39,422	330,584	16,006	346,590
	16,101	39,487	49,173	–	287,986	4,192	292,178
	16,357	33,824	53,060	–	290,456	3,935	294,391
	11,770	29,377	2,467	12,161	198,997	4,736	203,733
	12,229	29,612	2,368	12,697	202,193	4,586	206,779
	3,365	19,606	357,608	23,417	499,382	–	499,382
-							
	141	253	12	–	2,496	28	2,524
	22	23	31	–	400	3	403
	7	24	14	583	730	69	799
	170	**300**	**57**	**583**	**3,626**	**100**	**3,726**

Note 12 – Operating Segments – continued
Supervisory operating segments

For the six months ended June 30, 2020 (unaudited)

Reported amounts (NIS in millions)

	Operations in Israel					
	Households				Private banking	Small and micro businesses
	Residential mortgages	Others	Of which: Credit cards	Total		
Interest revenues from externals	1,658	489	19	2,147	1	567
Interest expenses from externals	–	223	–	223	79	51
Interest revenues, net from externals	1,658	266	19	1,924	(78)	516
Interest revenues, net – inter-segment	(735)	388	(3)	(347)	119	59
Total interest revenues, net	**923**	**654**	**16**	**1,577**	**41**	**575**
Total non-interest financing revenues	–	–	–	–	–	–
Total commissions and other revenues	75	282	69	357	88	203
Total non-interest revenues	**75**	**282**	**69**	**357**	**88**	**203**
Total revenues	**998**	**936**	**85**	**1,934**	**129**	**778**
Expenses (reduction of expenses) with respect to credit losses	118	84	–	202	–	155
Operating and other expenses to externals	320	865	30	1,185	(3)36	399
Operating and other expenses – inter-segment	–	(67)	(6)	(67)	4	(37)
Total operating and other expenses	**320**	**798**	**24**	**1,118**	**40**	**362**
Pre-tax profit (loss)	560	54	61	614	89	261
Provision (reduced provision) for taxes on profit	192	18	21	210	30	89
After-tax profit (loss)	**368**	**36**	**40**	**404**	**59**	**172**
Share of banking corporation in earnings of associated companies	–	–	–	–	–	–
Net profit (loss) before attribution to non-controlling interests	368	36	40	404	59	172
Net profit attributed to non-controlling interests	–	(24)	(2)	(24)	–	(2)
Net profit (loss) attributable to shareholders of the banking corporation	**368**	**12**	**38**	**380**	**59**	**170**
Average balance of assets	137,907	20,659	3,002	158,566	181	21,781
Of which: Investments in associated companies	–	–	–	–	–	–
Average balance of loans to the public	137,907	20,659	3,002	158,566	181	21,781
Balance of loans to the public at end of reported period	140,388	21,062	3,535	161,450	129	23,079
Balance of impaired debts	68	90	–	158	–	649
Balance of debt in arrears 90 days or longer	1,432	27	–	1,459	–	50
Average balance of liabilities	–	94,756	3,002	94,756	15,365	29,825
Of which: Average balance of deposits from the public	–	91,754	–	91,754	15,365	29,825
Balance of deposits from the public at end of reported period	–	96,329	–	96,329	16,002	33,539
Average balance of risk assets(1)	79,719	19,655	3,236	99,374	26	21,050
Balance of risk assets at end of reported period(1)	81,371	19,399	3,143	100,770	26	21,832
Average balance of assets under anagement(2)	9,477	39,319	–	48,796	3,067	27,688
Breakdown of interest revenues, net:						
Margin from credit granting operations	872	419	16	1,291	–	498
Margin from activities of receiving deposits	–	236	–	236	41	64
Other	51	(1)	–	50	–	13
Total interest revenues, net	**923**	**654**	**16**	**1,577**	**41**	**575**

(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**	
154	274	18	125	3,286	140	3,426
27	102	117	129	728	28	756
127	172	(99)	(4)	2,558	112	2,670
20	94	154	(82)	17	(17)	–
147	**266**	**55**	**(86)**	**2,575**	**95**	**2,670**
–	–	–	140	140	–	140
43	65	27	132	915	13	928
43	**65**	**27**	**272**	**1,055**	**13**	**1,068**
190	**331**	**82**	**186**	**3,630**	**108**	**3,738**
79	161	6	1	604	11	615
30	53	34	(3)193	1,930	37	1,967
29	41	28	2	–	–	–
59	**94**	**62**	**195**	**1,930**	**37**	**1,967**
52	76	14	(10)	1,096	60	1,156
18	26	5	(3)	375	21	396
34	**50**	**9**	**(7)**	**721**	**39**	**760**
–	–	–	–	–	–	–
34	50	9	(7)	721	39	760
–	–	–	(17)	(43)	–	(43)
34	**50**	**9**	**(24)**	**678**	**39**	**717**
7,556	(4)17,385	1,204	59,078	265,751	14,814	280,565
–	–	–	31	31	–	31
7,556	(4)17,385	1,204	–	206,673	3,236	209,909
7,413	18,417	2,240	–	212,728	3,810	216,538
149	311	123	–	1,390	–	1,390
–	(8)	–	–	1,501	–	1,501
9,398	27,275	42,558	29,798	248,975	14,138	263,113
9,398	27,275	42,558	–	216,175	4,649	220,824
10,193	28,695	42,179	–	226,937	4,847	231,784
8,435	24,838	2,463	6,974	163,160	4,457	167,617
8,380	25,798	2,478	7,114	166,398	4,594	170,992
3,365	19,606	358,482	2,465	463,469	–	463,469
124	221	14	–	2,148	53	2,201
18	33	40	–	432	4	436
5	12	1	(86)	(5)	38	33
147	**266**	**55**	**(86)**	**2,575**	**95**	**2,670**

Note 12 – Operating Segments – continued
Supervisory operating segments

For the three months ended June 30, 2021 (unaudited)

Reported amounts (NIS in millions)

	Operations in Israel					
	Households				Private banking	Small and micro businesses
	Residential mortgages	Others	Of which: Credit cards	Total		
Interest revenues from externals	2,012	350	9	2,362	1	355
Interest expenses from externals	1	230	–	231	62	47
Interest revenues, net from externals	2,011	120	9	2,131	(61)	308
Interest revenues, net – inter-segment	(1,456)	239	(2)	(1,217)	80	24
Total interest revenues, net	**555**	**359**	**7**	**914**	**19**	**332**
Total non-interest financing revenues	–	–	–	–	–	1
Total commissions and other revenues	36	165	24	201	19	115
Total non-interest revenues	**36**	**165**	**24**	**201**	**19**	**116**
Total revenues	**591**	**524**	**31**	**1,115**	**38**	**448**
Expenses (reduction of expenses) with respect to credit losses	(59)	(24)	–	(83)	(1)	(53)
Operating and other expenses to externals	221	542	16	763	5	257
Operating and other expenses – inter-segment	–	–	–	–	–	–
Total operating and other expenses	**221**	**542**	**16**	**763**	**5**	**257**
Pre-tax profit (loss)	429	6	15	435	34	244
Provision (reduced provision) for taxes on profit	149	2	5	151	12	85
After-tax profit	**280**	**4**	**10**	**284**	**22**	**159**
Share of banking corporation in earnings of associated companies	–	–	–	–	–	–
Net profit before attribution to non-controlling interests	280	4	10	284	22	159
Net profit attributed to non-controlling interests	–	(12)	(1)	(12)	–	(1)
Net profit (loss) attributable to shareholders of the banking corporation	**280**	**(8)**	**9**	**272**	**22**	**158**
Average balance of assets	162,811	23,528	3,251	186,339	223	29,675
Of which: Investments in associated companies	–	–	–	–	–	–
Average balance of loans to the public	162,811	23,528	3,251	186,339	223	29,675
Balance of loans to the public at end of reported period	(3)164,401	25,928	4,428	190,329	212	29,140
Balance of impaired debts	59	82	–	141	–	773
Balance of debt in arrears 90 days or longer	1,331	19	–	1,350	–	25
Average balance of liabilities	–	120,357	3,251	120,357	21,163	46,036
Of which: Average balance of deposits from the public	–	117,106	–	117,106	21,163	46,036
Balance of deposits from the public at end of reported period	–	117,284	–	117,284	21,393	48,538
Average balance of risk assets(1)	94,342	22,548	4,247	116,890	63	27,183
Balance of risk assets at end of reported period(1)	95,785	22,687	4,247	118,472	77	26,738
Average balance of assets under management(2)	8,005	58,153	–	66,158	9,355	19,978
Breakdown of interest revenues, net:						
Margin from credit granting operations	524	239	7	763	–	291
Margin from activities of receiving deposits	–	112	–	112	18	30
Other	31	8	–	39	1	11
Total interest revenues, net	**555**	**359**	**7**	**914**	**19**	**332**

(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 residential mortgages to clients classified under the micro and small business segment, amounting to NIS 18,622 million.

Medium businesses	Large businesses	Institutional investors	Financial Management Segment	Total activity in Israel	Operations overseas Total – operations overseas	Total
98	160	10	45	3,031	54	3,085
17	62	123	506	1,048	2	1,050
81	98	(113)	(461)	1,983	52	2,035
4	63	146	901	1	(1)	–
85	**161**	**33**	**440**	**1,984**	**51**	**2,035**
–	(2)	–	64	63	3	66
32	39	13	109	528	16	544
32	**37**	**13**	**173**	**591**	**19**	**610**
117	**198**	**46**	**613**	**2,575**	**70**	**2,645**
4	(92)	(7)	–	(232)	(8)	(240)
54	96	41	104	1,320	13	1,333
–	–	–	–	–	–	–
54	**96**	**41**	**104**	**1,320**	**13**	**1,333**
59	194	12	509	1,487	65	1,552
21	68	4	176	517	23	540
38	**126**	**8**	**322**	**970**	**42**	**1,012**
–	–	–	1	1	–	1
38	126	8	334	971	42	1,013
–	–	–	(12)	(25)	–	(25)
38	**126**	**8**	**314**	**946**	**42**	**988**
9,885	23,176	1,860	109,603	360,761	16,526	377,287
–	–	–	18	18	–	18
9,885	23,176	1,860	–	251,158	3,347	254,505
10,119	20,537	2,560	–	252,897	3,544	256,441
164	291	–	–	1,369	1	1,370
–	–	–	–	1,375	–	1,375
16,921	41,915	51,165	42,338	339,895	15,701	355,596
16,921	41,906	51,165	–	294,297	3,977	298,274
16,357	33,824	53,060	–	290,456	3,935	294,391
11,715	29,675	2,517	12,597	200,640	4,717	205,357
12,229	29,612	2,368	12,697	202,193	4,586	206,779
2,392	20,084	364,991	3,345	486,303	–	486,303
70	129	7	–	1,260	1	1,261
11	11	17	–	199	–	199
4	21	9	440	525	50	575
85	**161**	**33**	**440**	**1,984**	**51**	**2,035**

Note 12 – Operating Segments – continued
Supervisory operating segments
For the three months ended June 30, 2020 (unaudited)
Reported amounts (NIS in millions)

	Operations in Israel					
	Households				Private banking	Small and micro businesses
	Residential mortgages	Others	Of which: Credit cards	Total		
Interest revenues from externals	899	245	10	1,144	–	272
Interest expenses from externals	–	119	–	119	39	25
Interest revenues, net from externals	899	126	10	1,025	(39)	247
Interest revenues, net – inter-segment	(435)	191	(1)	(244)	58	30
Total interest revenues (expenses), net	**464**	**317**	**9**	**781**	**19**	**277**
Total non-interest financing revenues	–	–	–	–	–	–
Total commissions and other revenues	37	135	30	172	2	99
Total non-interest revenues	**37**	**135**	**30**	**172**	**2**	**99**
Total revenues	**501**	**452**	**39**	**953**	**21**	**376**
Expenses (reduction of expenses) with respect to credit losses	53	44	–	97	1	83
Operating and other expenses to externals	154	418	15	572	14	194
Operating and other expenses – inter-segment	–	(34)	(3)	(34)	2	(19)
Total operating and other expenses	**154**	**384**	**12**	**538**	**16**	**175**
Pre-tax profit	294	24	27	318	4	118
Provision for taxes on profit	100	8	9	108	1	40
After-tax profit	**194**	**16**	**18**	**210**	**3**	**78**
Share of banking corporation in earnings of associated companies	–	–	–	–	–	–
Net profit before attribution to non-controlling interests	194	16	18	210	3	78
Net profit attributed to non-controlling interests	–	(12)	(1)	(12)	–	(1)
Net profit attributable to shareholders of the banking corporation	**194**	**4**	**17**	**198**	**3**	**77**
Average balance of assets	139,364	20,183	2,864	159,547	149	22,121
Of which: Investments in associated companies	–	–	–	–	–	–
Average balance of loans to the public	139,364	20,183	2,864	159,547	149	22,121
Balance of loans to the public at end of reported period	140,388	21,062	3,535	161,450	129	23,079
Balance of impaired debts	68	90	–	158	–	649
Balance of debt in arrears 90 days or longer	1,432	27	–	1,459	–	50
Average balance of liabilities	–	98,374	2,864	98,374	15,731	31,721
Of which: Average balance of deposits from the public	–	95,510	–	95,510	15,731	31,721
Balance of deposits from the public at end of reported period	–	96,329	–	96,329	16,002	33,539
Average balance of risk assets(1)	80,483	19,609	3,142	100,092	26	21,450
Balance of risk assets at end of reported period(1)	81,371	19,399	3,143	100,770	26	21,832
Average balance of assets under management(2)	8,830	38,220	–	47,050	2,862	27,160
Breakdown of interest revenues, net:						
Margin from credit granting operations	438	205	9	643	–	242
Margin from activities of receiving deposits	–	113	–	113	19	29
Other	26	(1)	–	25	–	6
Total interest revenues, net	**464**	**317**	**9**	**781**	**19**	**277**

(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.

	Medium businesses	Large businesses	Institutional investors	Financial Management Segment	Total activity in Israel	Operations overseas Total – operations overseas	Total
	79	130	10	45	1,680	60	1,740
	14	49	58	103	407	10	417
	65	81	(48)	(58)	1,273	50	1,323
	6	51	74	25	–	–	–
	71	**132**	**26**	**(33)**	**1,273**	**50**	**1,323**
	–	–	–	76	76	–	76
	21	31	11	55	391	8	399
	21	**31**	**11**	**131**	**467**	**8**	**475**
	92	**163**	**37**	**98**	**1,740**	**58**	**1,798**
	7	74	4	(1)	265	5	270
	13	25	16	99	933	17	950
	15	20	15	1	–	–	–
	28	**45**	**31**	**100**	**933**	**17**	**950**
	57	44	2	(1)	542	36	578
	19	15	1	–	184	12	196
	38	**29**	**1**	**(1)**	**358**	**24**	**382**
	–	–	–	–	–	–	–
	38	29	1	(1)	358	24	382
	–	–	–	(9)	(22)	–	(22)
	38	**29**	**1**	**(10)**	**336**	**24**	**360**
	7,701	(3)18,174	1,186	60,216	269,094	17,176	286,270
	–	–	–	31	31	–	31
	7,701	(3)18,174	1,186	–	208,878	3,339	212,217
	7,413	18,417	2,240	–	212,728	3,810	216,538
	149	311	123	–	1,390	–	1,390
	–	(8)	–	–	1,501	–	1,501
	9,838	29,492	39,707	27,269	252,132	16,319	268,451
	9,838	29,492	39,707	–	221,999	4,753	226,752
	10,193	28,695	42,179	–	226,937	4,847	231,784
	8,459	25,341	2,789	7,269	165,426	4,570	169,996
	8,380	25,798	2,478	7,114	166,398	4,594	170,992
	3,256	18,382	338,106	2,572	439,388	–	439,388
-							
	61	111	8	–	1,065	28	1,093
	8	15	18	–	202	1	203
	2	6	–	(33)	6	21	27
	71	**132**	**26**	**(33)**	**1,273**	**50**	**1,323**

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
	Residential mortgages	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	3,237	102,853	70	22,792
Balance of risk assets at end of reported period[(1)]	90,918	22,432	3,143	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 - The Retail Division is responsible for private banking. Segment clients are primarily 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 Corporate Division, which specializes in provision of dedicated services to this sector.

Business banking – the Major Corporations sector in the Corporate Division is responsible for the Business Banking segment, which is the focal point for handling the largest business clients. As from 2019, businesses with annual turnover above NIS 250 million are assigned to the Corporate Sector. This segment provides a range of banking and financial services to the largest companies in the economy, in an array of industries, at relatively high levels of indebtedness. Segment clients operating in the real estate sector are served by the Construction and Real Estate sector of the Corporate Division, which specializes in provision of dedicated services to this sector.

Financial management – operations in this segment include, inter alia, management of assets and liabilities, management of exposure to market risk, management of the nostro portfolio and liquidity management as well as trading room operations in the financial and capital markets. The segment is under responsibility of the Finance Division, except for investments in non-banking corporations, which are under the responsibility of the 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 six months ended June 30, 2021 (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	358	3,005	(14)	449	134	479	(685)	3,726
Inter-segment	546	(2,066)	36	101	8	68	1,307	–
Total interest revenues, net	**904**	**939**	**22**	**550**	**142**	**547**	**622**	**3,726**
Non-interest financing revenues	36	–	1	–	–	25	193	255
Commissions and other revenues	347	74	37	195	38	157	239	1,087
Total revenues	**1,287**	**1,013**	**60**	**745**	**180**	**729**	**1,054**	**5,068**
Expenses (reduction of expenses) with respect to credit losses	(43)	(79)	(4)	(42)	5	(63)	(1)	(227)
Operating and other expenses	1,107	414	21	443	128	318	243	2,674
Pre-tax profit	223	678	43	344	47	474	812	2,621
Provision for taxes on profit	76	232	15	118	16	162	279	898
After-tax profit	**147**	**446**	**28**	**226**	**31**	**312**	**533**	**1,723**
Share in net profit of associated companies, after tax	–	–	–	–	–	–	(11)	(11)
Net profit (loss):								
Before attribution to non-controlling interests	147	446	28	226	31	312	522	1,712
Attributable to non-controlling interests	(23)	–	–	(3)	–	–	(22)	(48)
Net profit attributable to shareholders of the Bank	**124**	**446**	**28**	**223**	**31**	**312**	**500**	**1,664**
Return on equity (percentage of net profit attributed to shareholders of the banking corporation out of average equity)(1)	10.4%	9.8%	–	23.3%	6.9%	13.1%	–	17.7%
Average balance of loans to the public, net	31,435	152,538	416	22,392	7,420	33,088	–	247,289
Average balance of deposits from the public	133,814	–	8,079	41,126	13,371	75,896	19,892	292,178
Average balance of assets	32,467	153,483	870	22,765	7,577	46,495	103,828	367,485
Average balance of risk assets(2)	27,575	88,400	328	19,387	8,629	46,808	12,606	203,733

(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 six months ended June 30, 2020 (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	332	1,507	(12)	393	104	422	(76)	2,670
Inter-segment	475	(706)	52	67	17	75	20	–
Total interest revenues, net	**807**	**801**	**40**	**460**	**121**	**497**	**(56)**	**2,670**
Non-interest financing revenues	3	–	1	2	–	18	116	140
Commissions and other revenues	278	77	111	167	31	127	137	928
Total revenues	**1,088**	**878**	**152**	**629**	**152**	**642**	**197**	**3,738**
Expenses (reduction of expenses) with respect to credit losses	95	114	–	127	28	246	5	615
Operating and other expenses	830	304	(3)56	306	74	191	(3)206	1,967
Pre-tax profit (loss)	163	460	96	196	50	205	(14)	1,156
Provision (reduced provision) for taxes on profit	56	158	33	67	17	70	(5)	396
After-tax profit (loss)	**107**	**302**	**63**	**129**	**33**	**135**	**(9)**	**760**
Share in net profit of associated companies, after tax	–	–	–	–	–	–	–	–
Net profit (loss):								
Before attribution to non-controlling interests	107	302	63	129	33	135	(9)	760
Attributable to non-controlling interests	(24)	–	–	(2)	–	–	(17)	(43)
Net profit (loss) attributable to shareholders of the Bank	**83**	**302**	**63**	**127**	**33**	**135**	**(26)**	**717**
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	26,100	131,699	1,028	14,915	6,056	28,353	–	208,151
Average balance of deposits from the public	101,891	–	9,687	26,723	8,814	59,089	14,620	220,824
Average balance of assets	26,521	132,193	1,459	15,034	6,114	38,733	60,511	280,565
Average balance of risk assets(2)	23,054	76,533	522	13,375	6,700	39,998	7,435	167,617

(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 June 30, 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	160	1,882	(10)	218	64	219	(498)	2,035
Inter-segment	296	(1,405)	19	59	8	58	965	–
Total interest revenues (expenses), net	**456**	**477**	**9**	**277**	**72**	**277**	**467**	**2,035**
Non-interest financing revenues	20	–	1	–	–	14	31	66
Commissions and other revenues	166	36	19	107	18	79	119	544
Total revenues	**642**	**513**	**29**	**384**	**90**	**370**	**617**	**2,645**
Expenses (reduction of expenses) with respect to credit losses	(33)	(56)	–	(63)	1	(88)	(1)	(240)
Operating and other expenses	562	212	6	223	64	158	108	1,333
Pre-tax profit (loss)	113	357	23	224	25	300	510	1,552
Provision (reduced provision) for taxes on profit	39	124	8	78	9	104	178	540
After-tax profit (loss)	**74**	**233**	**15**	**146**	**16**	**196**	**332**	**1,012**
Share in net profit of associated companies, after tax	–	–	–	–	–	–	1	1
Net profit (loss):								
Before attribution to non-controlling interests	74	233	15	146	16	196	333	1,013
Attributable to non-controlling interests	(12)	–	–	(1)	–	–	(12)	(25)
Net profit (loss) attributable to shareholders of the Bank	**62**	**233**	**15**	**145**	**16**	**196**	**321**	**988**
Return on equity (percentage of net profit attributed to shareholders of the banking corporation out of average equity)[1]	10.5%	10.3%	–	32.0%	7.3%	16.7%	11280.3%	21.3%

(1) Calculated in conformity with capital attributed to this segment based on risk components attributed to it in conformity with provisions of Basel III.

Note 12 – Operating Segments – continued
Operating segments in conformity with the management approach
For the three months ended June 30, 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	158	823	(5)	187	52	209	(101)	1,323
Inter-segment	234	(423)	22	38	9	36	84	–
Total interest revenues (expenses), net	**392**	**400**	**17**	**225**	**61**	**245**	**(17)**	**1,323**
Non-interest financing revenues	1	–	–	1	–	12	62	76
Commissions and other revenues	134	39	16	81	15	63	51	399
Total revenues	**527**	**439**	**33**	**307**	**76**	**320**	**96**	**1,798**
Expenses (reduction of expenses) with respect to credit losses	55	50	–	68	3	94	–	270
Operating and other expenses	400	146	23	148	35	92	106	950
Pre-tax profit	72	243	10	91	38	134	(10)	578
Provision for taxes on profit	24	82	3	31	13	45	(2)	196
After-tax profit	**48**	**161**	**7**	**60**	**25**	**89**	**(8)**	**382**
Share in net profit of associated companies, after tax	–	–	–	–	–	–	–	–
Net profit:								
Before attribution to non-controlling interests	48	161	7	60	25	89	(8)	382
Attributable to non-controlling interests	(12)	–	–	(1)	–	–	(9)	(22)
Net profit attributable to shareholders of the Bank	**36**	**161**	**7**	**59**	**25**	**89**	**(17)**	**360**
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%	–	9.0%

(1) Calculated in conformity with capital attributed to this segment based on risk components attributed to it in conformity with provisions of Basel III.

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)

	Households – other	Households – mortgages	Private banking	Small businesses	Commercial banking	Business banking	Financial management	Total consolidated
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	10,359	63,129	13,746	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

	Provision for credit losses					
	Loans to the public					
	Commercial	Housing	Individual – other	Total	Banks and governments	Total
	For the three months ended June 30, 2021 (unaudited)					
Balance of provision for credit losses at start of period	1,413	918	316	2,647	3	2,650
Expenses with respect to credit losses	(156)	(59)	(25)	(240)	–	(240)
Accounting write-offs[2]	(79)	(2)	(31)	(112)	–	(112)
Collection of debts written off for accounting purposes in previous years[2]	77	1	23	101	–	101
Net accounting write-offs	(2)	(1)	(8)	(11)	–	(11)
Acquisition of Union Bank	16	1	3	20	–	20
Balance of provision for credit losses at end of period	**1,271**	**859**	**286**	**2,416**	**3**	**2,419**
Of which: With respect to off balance sheet credit instruments	**192**	**–**	**19**	**211**	**–**	**211**

	For the three months ended June 30, 2020 (unaudited)					
Balance of provision for credit losses at start of period	1,041	731	293	2,065	3	2,068
Expenses with respect to credit losses	173	53	45	271	(1)	270
Accounting write-offs[2]	(92)	(2)	(41)	(135)	–	(135)
Collection of debts written off for accounting purposes in previous years[2]	38	1	17	56	–	56
Net accounting write-offs	(54)	(1)	(24)	(79)	–	(79)
Balance of provision for credit losses at end of period	**1,160**	**783**	**314**	**2,257**	**2**	**2,259**
Of which: With respect to off balance sheet credit instruments	**153**	**–**	**16**	**169**	**–**	**169**

(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

1. Movement in balance of provision for credit losses

	Provision for credit losses					
	Loans to the public					
	Commercial	Housing	Individual – other	Total	Banks and governments	Total
	For the six months ended June 30, 2021 (unaudited)					
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	(111)	(82)	(35)	(228)	1	(227)
Accounting write-offs[2]	(120)	(3)	(73)	(196)	–	(196)
Collection of debts written off for accounting purposes in previous years[2]	100	1	47	148	–	148
Net accounting write-offs	(20)	(2)	(26)	(48)	–	(48)
Acquisition of Union Bank	19	1	7	27	–	27
Balance of provision for credit losses at end of period	**1,271**	**859**	**286**	**2,416**	**3**	**2,419**
Of which: With respect to off balance sheet credit instruments	**192**	**–**	**19**	**211**	**–**	**211**

	For the six months ended June 30, 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	412	118	84	614	1	615
Accounting write-offs[2]	(175)	(10)	(76)	(261)	–	(261)
Collection of debts written off for accounting purposes in previous years[2]	58	1	33	92	–	92
Net accounting write-offs	(117)	(9)	(43)	(169)	–	(169)
Balance of provision for credit losses at end of period	**1,160**	**783**	**314**	**2,257**	**2**	**2,259**
Of which: With respect to off balance sheet credit instruments	**153**	**–**	**16**	**169**	**–**	**169**

(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:

						June 30, 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	58,116	62	575	58,753	7,070	65,823
reviewed on group basis	9,606	164,477	23,605	197,688	–	197,688
Of which: the relevant provision is calculated by extent of arrears	1,970	164,477	–	166,447	–	166,447
Total debts	**67,722**	**[(2)]164,539**	**24,180**	**256,441**	**7,070**	**263,511**
Provision for credit losses with respect to debts [(1)]						
reviewed on individual basis	957	1	26	984	3	987
reviewed on group basis	122	858	241	1,221	–	1,221
Of which: For which a provision for credit losses is calculated by extent of arrears[(3)]	8	858	–	866	–	866
Total provision for credit losses	**1,079**	**859**	**267**	**2,205**	**3**	**2,208**
						June 30, 2020 (unaudited)
Recorded debt balance of debts [(1)]						
reviewed on individual basis	47,087	68	637	47,792	10,453	58,245
reviewed on group basis	9,358	140,547	18,841	168,746	–	168,746
Of which: the relevant provision is calculated by extent of arrears	1,817	140,547	–	142,364	–	142,364
Total debts	**56,445**	**[(2)]140,615**	**19,478**	**216,538**	**10,453**	**226,991**
Provision for credit losses with respect to debts [(1)]						
reviewed on individual basis	880	2	31	913	2	915
reviewed on group basis	127	781	267	1,175	–	1,175
Of which: For which a provision for credit losses is calculated by extent of arrears[(3)]	7	781	–	788	–	788
Total provision for credit losses	**1,007**	**783**	**298**	**2,088**	**2**	**2,090**
						As of December 31, 2020 (audited)
Recorded debt balance of debts [(1)]						
reviewed on individual basis	56,478	97	948	57,523	12,880	70,403
reviewed on group basis	10,731	156,484	23,220	190,435	–	190,435
Of which: the relevant provision is calculated by extent of arrears	1,951	156,484	–	158,435	–	158,435
Total debts	**67,209**	**[(2)]156,581**	**24,168**	**247,958**	**12,880**	**260,838**
Provision for credit losses with respect to debts [(1)]						
reviewed on individual basis	1,001	1	37	1,039	2	1,041
reviewed on group basis	174	941	279	1,394	–	1,394
Of which: For which a provision for credit losses is calculated by extent of arrears[(3)]	10	672	–	682	–	682
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 9,927 million (as of June 30, 2020: NIS 8,315 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 9 million (as of June 30, 2020: NIS 9 million, as of December 31, 2020: NIS 10 million), and assessed on group basis, amounting to NIS 650 million (as of June 30, 2020: NIS 569 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 June 30, 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]	16,473	93	168	16,734	5	31
Construction and real estate – real estate operations	6,146	29	99	6,274	1	22
Financial services	8,532	21	25	8,578	–	2
Commercial – other	31,898	483	907	33,288	19	115
Total commercial	**63,049**	**626**	**1,199**	**64,874**	**25**	**170**
Private individuals – residential mortgages	162,963	[7]1,343	59	164,365	[7]1,331	[6]460
Private individuals – other	23,986	98	82	24,166	19	45
Total public – activity in Israel	**249,998**	**2,067**	**1,340**	**253,405**	**1,375**	**675**
Banks in Israel	1,074	–	–	1,074	–	–
Government of Israel	59	–	–	59	–	–
Total activity in Israel	**251,131**	**2,067**	**1,340**	**254,538**	**1,375**	**675**
Borrower activity overseas						
Public – commercial						
Construction and real estate	2,042	–	–	2,042	–	–
Commercial – other	777	–	29	806	–	–
Total commercial	**2,819**		**29**	**2,848**	**–**	**–**
Private individuals	188	–	–	188	–	–
Total public – activity overseas	**3,007**		**29**	**3,036**	**–**	**–**
Overseas banks	5,418	–	–	5,418	–	–
Overseas governments	518	–	1	519	–	–
Total activity overseas	**8,943**		**30**	**8,973**	**–**	**–**
Total public	253,005	2,067	1,369	256,441	1,375	675
Total banks	6,492	–	–	6,492	–	–
Total governments	577	–	1	578	–	–
Total	**260,074**	**2,067**	**1,370**	**263,511**	**1,375**	**675**

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.

(2) Credit risk which is impaired, inferior or under special supervision, including with respect to residential mortgages for which a provision was made by extent of arrears, and residential mortgages for which no provision was made by extent of arrears and which are in arrears of 90 days or longer.

(3) Generally, impaired debts do not accrue interest revenues. For information about certain impaired debts restructured using problematic debt restructuring, see Note 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 residential mortgages in arrears up to 2 months.

(7) Includes balance of residential mortgages 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 2,202 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 June 30, 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]	13,703	67	110	13,880	8	20
Construction and real estate – real estate operations	4,412	363	61	4,836	1	36
Financial services	5,772	2	133	5,907	1	3
Commercial – other	26,037	492	869	27,398	32	98
Total commercial	**49,924**	**924**	**1,173**	**52,021**	**42**	**157**
Private individuals – residential mortgages	138,836	[7]1,432	68	140,336	[7]1,432	[6]551
Private individuals – other	19,136	140	90	19,366	27	66
Total public – activity in Israel	**207,896**	**2,496**	**1,331**	**211,723**	**1,501**	**774**
Banks in Israel	570	–	–	570	–	–
Government of Israel	3	–	–	3	–	–
Total activity in Israel	**208,469**	**2,496**	**1,331**	**212,296**	**1,501**	**774**
Borrower activity overseas						
Public – commercial						
Construction and real estate	1,775	2	–	1,777	–	–
Commercial – other	2,588	–	59	2,647	–	–
Total commercial	**4,363**	**2**	**59**	**4,424**	**–**	**–**
Private individuals	391	–	–	391	–	–
Total public – activity overseas	**4,754**	**2**	**59**	**4,815**	**–**	**–**
Overseas banks	9,254	–	–	9,254	–	–
Overseas governments	626	–	–	626	–	–
Total activity overseas	**14,634**	**2**	**59**	**14,695**	**–**	**–**
Total public	212,650	2,498	1,390	216,538	1,501	774
Total banks	9,824	–	–	9,824	–	–
Total governments	629	–	–	629	–	–
Total	**223,103**	**2,498**	**1,390**	**226,991**	**1,501**	**774**

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.
(2) Credit risk which is impaired, inferior or under special supervision, including with respect to residential mortgages for which a provision w made by extent of arrears, and residential mortgages for which no provision was made by extent of arrears and which are in arrears of 90 da 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 62 million were classified as problematic non-impaired debts.
(6) In conformity with Public Reporting Directives, excludes the balance of residential mortgages in arrears up to 2 months.
(7) Includes balance of residential mortgages amounting to NIS 71 million provided for by extent of arrears of borrower, for which an agreement has been signed for repayment of arrears by the borrower, where a change was made to the repayment schedule for the outstanding loan balance not yet due.
(8) Includes debts amounting to NIS 1,976 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 – residential mortgages	155,039	[7]1,188	97	156,324	[7]1,176	[6]434
Private individuals – other	23,832	105	96	24,033	24	61
Total public – activity in Israel	**241,075**	**2,026**	**1,640**	**244,741**	**1,228**	**579**
Banks in Israel	512	–	–	512	–	–
Government of Israel	60	–	–	60	–	–
Total activity in Israel	**241,647**	**2,026**	**1,640**	**245,313**	**1,228**	**579**
Borrower activity overseas						
Public – commercial						
Construction and real estate	1,906	–	–	1,906	–	–
Commercial – other	859	–	60	919	–	–
Total commercial	**2,765**		**60**	**2,825**	**–**	**–**
Private individuals	392	–	–	392	–	–
Total public – activity overseas	**3,157**		**60**	**3,217**	**–**	**–**
Overseas banks	11,755	–	–	11,755	–	–
Overseas governments	553	–	–	553	–	–
Total activity overseas	**15,465**		**60**	**15,525**	**–**	**–**
Total public	244,232	2,026	1,700	247,958	1,228	579
Total banks	12,267	–	–	12,267	–	–
Total governments	613	–	–	613	–	–
Total	**257,112**	**2,026**	**1,700**	**260,838**	**1,228**	**579**

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.
(2) Credit risk which is impaired, inferior or under special supervision, including with respect to residential mortgages for which a provision was made by extent of arrears, and residential mortgages for which no provision was made by extent of arrears and which are in arrears of 90 days or longer.
(3) Generally, impaired debts do not accrue interest revenues. For information about certain impaired 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 residential mortgages in arrears up to 2 months.
(7) Includes balance of residential mortgages amounting to NIS 73 million provided for by extent of arrears of borrower, for which an agreement has been signed for repayment of arrears by the borrower, where a change was made to the repayment schedule for the outstanding loan balance not yet due.
(8) Includes debts amounting to NIS 2,068 million, extended to certain purchase groups which are in the process of construction.

Note 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. B. Credit quality

The state of debts arrears is monitored daily and automatically, providing one of the key indications of credit quality. The state of arrears, and consequently classification of the debt, are based, inter alia, on the actual number of days in arrears for each debt.

Non-performing debts

Debt measured on individual basis is classified as non-performing (not accruing interest revenues) after 90 days in arrears. Debt previously restructured as problematic debt and which is again in arrears with regard to the new terms thereof – is also classified as non-performing. Debt measured on a group basis is classified as non-performing (inferior) after 150 days in arrears. At that time, accounting write-off of the debt is also carried out.

Inferior debts

Debt in the individual track is classified as inferior debt accruing revenues after 60 days in arrears. Debt in the group track is classified as inferior after 90 days in arrears.

residential mortgages

The state of arrears for residential mortgages is monitored by the extent of arrears for the loan, except for loans with no monthly or quarterly payment.
Credit risk attributes, including specific risk for residential mortgages, are included on the Report of the Board of Directors and Management under "Risks Overview".
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:

						As of June 30, 2021 (unaudited)
						Credit segment
Debt quality	**Commercial**	**Housing**	**Individuals**	**Governments**	**Banks**	**Total**
Debts in good standing	63,323	162,402	23,701	577	6,492	256,495
Debts in good standing other than at performing credit rating[1]	2,545	735	299	–	–	3,579
Troubled non-impaired debt.	626	1343	98	0	0	2067
Impaired debts	1,228	59	82	1	–	1,370
Total	**67,722**	**164,539**	**24,180**	**578**	**6,492**	**263,511**
						As of June 30, 2020 (unaudited)
Debt in good standing	51,114	138,288	18,874	629	9,824	219,958
Debts in good standing other than at performing credit rating[1]	3,173	827	374	–	–	3,145
Troubled non-impaired debt.	926	1,432	140	–	–	2,498
Impaired debts	1,232	68	90	–	–	1,390
Total	**56,445**	**140,615**	**19,478**	**629**	**9,824**	**226,991**
						As of December 31, 2020 (audited)
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 residential mortgages for which a provision was made by extent of arrears, and residential mortgages for which no provision was made by extent of arrears and which are in arrears of 90 days or longer.

Note 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 June 30, 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	148	19	20	168	245
Construction and real estate – real estate operations	85	5	14	99	120
Financial services	4	5	21	25	29
Commercial – other	717	250	190	907	1,212
Total commercial	**954**	**279**	**245**	**1,199**	**1,606**
Private individuals – residential mortgages	2	1	57	59	59
Private individuals – other	33	18	49	82	101
Total public – activity in Israel	**989**	**298**	**351**	**1,340**	**1,766**
Banks in Israel	–	–	–	–	–
Government of Israel	–	–	–	–	–
Total activity in Israel	**989**	**298**	**351**	**1,340**	**1,766**
Borrower activity overseas					
Public – commercial					
Construction and real estate	–	–	–	–	–
Commercial – other	29	22	–	29	64
Total commercial	**29**	**22**	**–**	**29**	**64**
Private individuals	–	–	–	–	2
Total public – activity overseas	**29**	**22**	**–**	**29**	**66**
Overseas banks	–	–	–	–	–
Overseas governments	1	1	–	1	1
Total activity overseas	**30**	**23**	**–**	**30**	**67**
Total public	1,018	320	351	1,369	1,832
Total banks	–	–	–	–	–
Total governments	1	1	–	1	1
Total	**1,019**	**321**	**351**	**1,370**	**1,833**
Of which:					
Measured at present value of cash flows	881	320	304	1,185	
Debts under problematic debts restructuring	236	58	186	422	

(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 June 30, 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	99	22	11	110	177
Construction and real estate – real estate operations	53	3	8	61	73
Financial services	127	8	6	133	144
Commercial – other	794	207	75	869	1,048
Total commercial	**1,073**	**240**	**100**	**1,173**	**1,442**
Private individuals – residential mortgages	4	2	64	68	73
Private individuals – other	39	23	51	90	108
Total public – activity in Israel	**1,116**	**265**	**215**	**1,331**	**1,623**
Banks in Israel	–	–	–	–	–
Government of Israel	–	–	–	–	–
Total activity in Israel	**1,116**	**265**	**215**	**1,331**	**1,623**
Borrower activity overseas					
Public – commercial					
Construction and real estate	–	–	–	–	–
Commercial – other	59	39	–	59	61
Total commercial	**59**	**39**	**–**	**59**	**61**
Private individuals	–	–	–	–	–
Total public – activity overseas	**59**	**39**	**–**	**59**	**61**
Overseas banks	–	–	–	–	–
Overseas governments	–	–	–	–	–
Total activity overseas	**59**	**39**	**–**	**59**	**61**
Total public	1,175	304	215	1,390	1,684
Total banks	–	–	–	–	–
Total governments	–	–	–	–	–
Total	**1,175**	**304**	**215**	**1,390**	**1,684**
Of which:					
Measured at present value of cash flows	1,135	300	199	1,334	
Debts under problematic debts restructuring	339	45	66	405	

(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 – residential mortgages	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					
	June 30, 2021 (unaudited)			June 30, 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	166	–	–	106	1	1
Construction and real estate – real estate operations	98	1	1	56	–	–
Financial services	84	3	3	133	–	–
Commercial – other	990	4	3	879	2	2
Total commercial	**1,338**	**8**	**7**	**1,174**	**3**	**3**
Private individuals – residential mortgages	59	–	–	69	–	–
Private individuals – other	86	3	3	89	2	2
Total public – activity in Israel	**1,483**	**11**	**10**	**1,332**	**5**	**5**
Banks in Israel	–	–	–	–	–	–
Government of Israel	–	–	–	–	–	–
Total activity in Israel	**1,483**	**11**	**10**	**1,332**	**5**	**5**
Borrower activity overseas						
Public – commercial						
Construction and real estate	–	–	–	–	–	–
Commercial – other	45	–	–	57	–	–
Total commercial	**45**	**–**	**–**	**57**	**–**	**–**
Private individuals	–	–	–	–	–	–
Total public – activity overseas	**45**	**–**	**–**	**57**	**–**	**–**
Overseas banks	–	–	–	–	–	–
Overseas governments	1	–	–	–	–	–
Total activity overseas	**46**	**–**	**–**	**57**	**–**	**–**
Total public	1,528	11	10	1,389	5	5
Total banks	–	–	–	–	–	–
Total governments	1	–	–	–	–	–
Total[(4)]	**1,529**	**11**	**10**	**1,389**	**5**	**5**

(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 29 million (as of June 30, 2020 – NIS 23 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

B. Average balance and interest revenues[4]

	For the six months ended					
	June 30, 2021 (unaudited)			June 30, 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	160	1	1	109	1	1
Construction and real estate – real estate operations	93	1	1	58	–	–
Financial services	106	3	3	134	–	–
Commercial – other	1,015	9	8	846	6	5
Total commercial	**1,374**	**14**	**13**	**1,147**	**7**	**6**
Private individuals – residential mortgages	71	–	–	65	–	–
Private individuals – other	89	4	4	88	3	3
Total public – activity in Israel	**1,534**	**18**	**17**	**1,300**	**10**	**9**
Banks in Israel	–	–	–	–	–	–
Government of Israel	–	–	–	–	–	–
Total activity in Israel	**1,534**	**18**	**17**	**1,300**	**10**	**9**
Borrower activity overseas						
Public – commercial						
Construction and real estate	–	–	–	–	–	–
Commercial – other	50	–	–	50	–	–
Total commercial	**50**	**–**	**–**	**50**	**–**	**–**
Private individuals	–	–	–	–	–	–
Total public – activity overseas	**50**	**–**	**–**	**50**	**–**	**–**
Overseas banks	–	–	–	–	–	–
Overseas governments	1	–	–	–	–	–
Total activity overseas	**51**	**–**	**–**	**50**	**–**	**–**
Total public	1,584	18	17	1,350	10	9
Total banks	–	–	–	–	–	–
Total governments	1	–	–	–	–	–
Total[4]	**1,585**	**18**	**17**	**1,350**	**10**	**9**

(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 54 million (as of June 30, 2020 – NIS 48 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

	June 30, 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 nterest revenues [2] not in arrears	Total[3]
Borrower activity in Israel					
Public – commercial					
Construction and real estate – construction	31	–	–	1	32
Construction and real estate – real estate operations	25	–	–	–	25
Financial services	–	–	–	19	19
Commercial – other	263	–	–	18	281
Total commercial	**319**	**–**	**–**	**38**	**357**
Private individuals – residential mortgages	–	–	–	–	–
Private individuals – other	27	–	1	37	65
Total public – activity in Israel	**346**	**–**	**1**	**75**	**422**
Banks in Israel	–	–	–	–	–
Government of Israel	–	–	–	–	–
Total activity in Israel	**346**	**–**	**1**	**75**	**422**
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	346	–	1	75	422
Total banks	–	–	–	–	–
Total governments	–	–	–	–	–
Total	**346**	**–**	**1**	**75**	**422**

(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 June 30, 2020, the Bank had commitments to provide additional credit amounting to NIS 4 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

	June 30, 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 nterest 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	186	–	–	9	195
Total commercial	**329**	**–**	**–**	**9**	**338**
Private individuals – residential mortgages	–	–	–	–	–
Private individuals – other	34	–	1	32	67
Total public – activity in Israel	**363**	**–**	**1**	**41**	**405**
Banks in Israel	–	–	–	–	–
Government of Israel	–	–	–	–	–
Total activity in Israel	**363**	**–**	**1**	**41**	**405**
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	363	–	1	41	405
Total banks	–	–	–	–	–
Total governments	–	–	–	–	–
Total	**363**	**–**	**1**	**41**	**405**

(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 nterest revenues [(2)] not in arrears	Total[(3)]
Borrower activity in Israel					
Public – commercial					
Construction and real estate – construction	25	–	–	6	31
Construction and real estate – real estate operations	21	–	–	5	26
Financial services	122	–	–	21	143
Commercial – other	250	–	–	64	314
Total commercial	**418**	**–**	**–**	**96**	**514**
Private individuals – residential mortgages	–	–	–	–	–
Private individuals – other	40	–	1	34	75
Total public – activity in Israel	**458**	**–**	**1**	**130**	**589**
Banks in Israel	–	–	–	–	–
Government of Israel	–	–	–	–	–
Total activity in Israel	**458**	**–**	**1**	**130**	**589**
Borrower activity overseas					
Public – commercial					
Construction and real estate	–	–	–	–	–
Commercial – other	–	–	–	–	–
Total commercial	**–**	**–**	**–**	**–**	**–**
Private individuals	–	–	–	–	–
Total public – activity overseas	**–**	**–**	**–**	**–**	**–**
Overseas banks	–	–	–	–	–
Overseas governments	–	–	–	–	–
Total activity overseas	**–**	**–**	**–**	**–**	**–**
Total public	458	–	1	130	589
Total banks	–	–	–	–	–
Total governments	–	–	–	–	–
Total	**458**	**–**	**1**	**130**	**589**

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.

(2) Accruing interest revenues.

(3) Included under impaired debts.

Note 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					
	June 30, 2021 (unaudited)			June 30, 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	18	2	2	12	1	1
Construction and real estate – real estate operations	5	7	7	5	1	1
Financial services	3	–	–	2	–	–
Commercial – other	71	92	93	121	46	34
Total commercial	**97**	**101**	**102**	**140**	**48**	**36**
Private individuals – residential mortgages	–	–	–	–	–	–
Private individuals – other	253	6	5	268	9	9
Total public – activity in Israel	**350**	**107**	**107**	**408**	**57**	**45**
Banks in Israel	–	–	–	–	–	–
Government of Israel	–	–	–	–	–	–
Total activity in Israel	**350**	**107**	**107**	**408**	**57**	**45**
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	350	107	107	408	57	45
Total banks	–	–	–	–	–	–
Total governments	–	–	–	–	–	–
Total	**350**	**107**	**107**	**408**	**57**	**45**

(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[2]					
	For the six months ended					
	June 30, 2021 (unaudited)			June 30, 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	29	5	5	25	2	2
Construction and real estate – real estate operations	6	7	7	5	1	1
Financial services	5	–	–	4	–	–
Commercial – other	152	101	101	217	112	99
Total commercial	**192**	**113**	**113**	**251**	**115**	**102**
Private individuals – residential mortgages	–	–	–	–	–	–
Private individuals – other	510	13	12	464	17	17
Total public – activity in Israel	**702**	**126**	**125**	**715**	**132**	**119**
Banks in Israel	–	–	–	–	–	–
Government of Israel	–	–	–	–	–	–
Total activity in Israel	**702**	**126**	**125**	**715**	**132**	**119**
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	702	126	125	715	132	119
Total banks	–	–	–	–	–	–
Total governments	–	–	–	–	–	–
Total	**702**	**126**	**125**	**715**	**132**	**119**

(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			
	June 30, 2021 (unaudited)		June 30, 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	5	–	–	–
Construction and real estate – real estate operations	3	–	–	–
Financial services	–	–	–	–
Commercial – other	14	–	13	4
Total commercial	**22**		**13**	**4**
Private individuals – residential mortgages	–	–	–	–
Private individuals – other	88	1	40	–
Total public – activity in Israel	**110**	**1**	**53**	**4**
Banks in Israel	–	–	–	–
Government of Israel	–	–	–	–
Total activity in Israel	**110**	**1**	**53**	**4**
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	110	1	53	4
Total banks	–	–	–	–
Total governments	–	–	–	–
Total	**110**	**1**	**53**	**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) 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[1]

2. Additional information about impaired debts

C. Problematic debts under restructuring – continued

	Restructurings made which are in default[2]			
	For the six months ended			
	June 30, 2021 (unaudited)		June 30, 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	8	–	2	–
Construction and real estate – real estate operations	3	–	–	–
Financial services	1	–	–	–
Commercial – other	40	2	36	4
Total commercial	**52**	**2**	**38**	**4**
Private individuals – residential mortgages	–	–	–	–
Private individuals – other	205	2	89	2
Total public – activity in Israel	**257**	**4**	**127**	**6**
Banks in Israel	–	–	–	–
Government of Israel	–	–	–	–
Total activity in Israel	**257**	**4**	**127**	**6**
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	257	4	127	6
Total banks	–	–	–	–
Total governments	–	–	–	–
Total	**257**	**4**	**127**	**6**

(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 residential mortgages

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

		June 30, 2021 (unaudited)			
		residential mortgage balance			Off-balance sheet credit risk
		Total	Of which: Bullet / balloon	Of which: Variable interest	Total
Senior lien: LTV ratio	Up to 60%	107,727	3,234	68,221	3,952
	Over 60%	56,505	769	35,507	3,902
Junior lien or no lien		307	2	216	12,434
Total		**164,539**	**4,005**	**103,944**	**20,288**

		June 30, 2020 (unaudited)			
		Total	Of which: Bullet / balloon	Of which: Variable interest	Total
Senior lien: LTV ratio	Up to 60%	93,716	2,433	60,221	2,595
	Over 60%	46,618	531	29,593	2,519
Junior lien or no lien		281	–	207	8,533
Total		**140,615**	**2,964**	**90,021**	**13,647**

		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 June 30, 2021				For the three months ended June 30, 2020			
	Commercial	Housing	Other	Total	Commercial	Housing	Other	Total
Loans acquired	–	–	458	458	–	–	–	–
Loans sold	–	–	–	–	40	–	–	40

	For the six months ended June 30, 2021				For the six months ended June 30, 2020			
	Commercial	Housing	Other	Total	Commercial	Housing	Other	Total
Loans acquired	–	–	854	854	–	–	301	301
Loans sold	–	–	–	–	40	–	–	40

	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

	June 30, 2021	June 30, 2020	December 31, 2020	June 30, 2021	June 30, 2020	December 31, 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	19,660	19,292	20,964	37	36	47
– Guarantees to home buyers	13,197	10,794	11,903	7	4	8
– Irrevocable commitments for loans approved but not yet granted[(3)]	35,283	22,950	31,334	43	34	54
– Un-utilized revolving credit card facilities	10,445	8,873	10,191	11	8	13
– Commitments to issue guarantees	10,949	9,354	11,400	4	3	5
– Guarantees and other liabilities[(2)]	10,291	8,879	9,260	65	48	60
– Loan guarantees	3,226	2,923	2,880	42	34	43
– Documentary credit	341	171	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 70 million. (as of June 30, 2020 and December 31, 2020 – NIS 75 million and NIS 71 million, respectively).

(3) Includes the effect of extension of the lock period for approval in principle of residential mortgages, from 12 days to 24 days, in conformity with the revision of Proper Conduct of Banking Business Directive 451 "Procedures for extending residential mortgages".

Note 14 – Assets and Liabilities by Linkage Basis

As of June 30, 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	88,209	–	5,419	596	113	–	94,337
Securities	9,731	1,982	4,714	472	–	640	17,539
Securities borrowed or bought in conjunction with resale agreements	44	143	–	–	–	–	187
Loans to the public, net[3]	175,719	67,405	5,400	3,742	1,826	144	254,236
Loans to Governments	59	–	348	171	–	–	578
Investments in associated companies	36	–	–	–	–	(17)	19
Buildings and equipment	–	–	–	–	–	1,678	1,678
Intangible assets and goodwill	–	–	–	–	–	223	223
Assets with respect to derivative instruments	1,475	21	673	119	41	97	2,426
Other assets	1,797	522	111	1	27	689	3,147
Total assets	**277,070**	**70,073**	**16,665**	**5,101**	**2,007**	**3,454**	**374,370**
Liabilities							
Deposits from the public	222,075	20,922	42,894	5,852	2,504	144	294,391
Deposits from banks	4,736	–	1,065	115	29	–	5,945
Deposits from the Government	25	2	16	–	–	–	43
Debentures and subordinated notes	7,323	26,301	1,970	–	–	–	35,594
Liabilities with respect to derivative instruments	1,326	86	691	136	51	122	2,412
Other liabilities	9,948	2,994	130	8	23	1,519	14,622
Total liabilities	**245,433**	**50,305**	**46,766**	**6,111**	**2,607**	**1,785**	**353,007**
Difference	**31,637**	**19,768**	**(30,101)**	**(1,010)**	**(600)**	**1,669**	**21,363**
Impact of hedging derivative instruments:							
Derivative instruments (other than options)	2,184	(2,184)	–	–	–	–	–
Non-hedging derivative instruments:							
Derivative instruments (other than options)	(31,128)	(1,040)	30,546	1,058	564	–	–
Net in-the-money options (in terms of underlying asset)	331	–	(445)	170	(56)	–	–
Net out-of-the-money options (in terms of underlying asset)	(218)	–	337	(93)	(26)	–	–
Grand total	**2,806**	**16,544**	**337**	**125**	**(118)**	**1,669**	**21,363**
Net in-the-money options (capitalized par value)	(480)	–	389	132	(41)	–	–
Net out-of-the-money options (capitalized par value)	(720)	–	654	(66)	132	–	–

(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 June 30, 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	52,047	–	8,986	303	196	–	61,532
Securities	4,393	1,010	2,665	239	–	133	8,440
Securities borrowed or bought in conjunction with resale agreements	49	2	–	–	–	–	51
Loans to the public, net[3]	145,586	58,233	5,770	3,338	1,523	–	214,450
Loans to Governments	–	3	437	189	–	–	629
Investments in associated companies	36	–	–	–	–	(6)	30
Buildings and equipment	–	–	–	–	–	1,433	1,433
Intangible assets and goodwill	–	–	–	–	–	87	87
Assets with respect to derivative instruments	1,390	124	553	112	21	–	2,200
Other assets	1,457	459	107	–	35	650	2,708
Total assets	**204,958**	**59,831**	**18,518**	**4,181**	**1,775**	**2,297**	**291,560**
Liabilities							
Deposits from the public	175,923	14,333	35,424	4,032	2,072	–	231,784
Deposits from banks	102	–	744	79	21	–	946
Deposits from the Government	12	2	19	1	–	–	34
Debentures and subordinated notes	6,099	23,590	–	–	–	–	29,689
Liabilities with respect to derivative instruments	1,829	21	850	181	17	–	2,898
Other liabilities	6,397	1,907	121	7	36	271	8,739
Total liabilities	**190,362**	**39,853**	**37,158**	**4,300**	**2,146**	**271**	**274,090**
Difference	**14,596**	**19,978**	**(18,640)**	**(119)**	**(371)**	**2,026**	**17,470**
Impact of hedging derivative instruments:							
Derivative instruments (other than options)	3,110	(3,110)	–	–	–	–	–
Non-hedging derivative instruments:							
Derivative instruments (other than options)	(18,256)	(1,067)	19,261	(98)	160	–	–
Net in-the-money options (in terms of underlying asset)	439	–	(432)	12	(19)	–	–
Net out-of-the-money options (in terms of underlying asset)	(389)	–	234	145	10	–	–
Grand total	**(500)**	**15,801**	**423**	**(60)**	**(220)**	**2,026**	**17,470**
Net in-the-money options (capitalized par value)	(535)	–	598	(60)	(3)	–	–
Net out-of-the-money options (capitalized par value)	1,201	–	(1,137)	(154)	90	–	–

(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-	
	Non-linked	CPI-linked	USD	EUR	Other currencies	monetary items[2]	Total
Assets							
Cash and deposits with banks	73,975	1	11,753	576	265	–	86,570
Securities	10,937	1,674	3,685	548	–	446	17,290
Securities borrowed or bought in conjunction with resale agreements	181	19	–	–	–	–	200
Loans to the public, net[3]	168,787	64,524	6,370	3,987	1,759	98	245,525
Loans to Governments	60	–	372	181	–	–	613
Investments in associated companies	36	–	–	–	–	(5)	31
Buildings and equipment	–	–	–	–	–	1,743	1,743
Intangible assets and goodwill	–	–	–	–	–	239	239
Assets with respect to derivative instruments	3,331	127	518	327	127	113	4,543
Other assets	1,954	554	172	6	23	677	3,386
Total assets	**259,261**	**66,899**	**22,870**	**5,625**	**2,174**	**3,311**	**360,140**
Liabilities							
Deposits from the public	218,008	16,457	41,259	5,729	2,673	98	284,224
Deposits from banks	2,646	–	1,055	60	18	–	3,779
Deposits from the Government	22	2	46	–	–	–	70
Debentures and subordinated notes	7,149	26,297	–	–	–	–	33,446
Liabilities with respect to derivative instruments	3,928	22	803	528	112	113	5,506
Other liabilities	8,874	2,718	115	7	52	1,680	13,446
Total liabilities	**240,627**	**45,496**	**43,278**	**6,324**	**2,855**	**1,891**	**340,471**
Difference	**18,634**	**21,403**	**(20,408)**	**(699)**	**(681)**	**1,420**	**19,669**
Impact of hedging derivative instruments:							
Derivative instruments (other than options)	2,441	(2,441)	–	–	–	–	–
Non-hedging derivative instruments:							
Derivative instruments (other than options)	(21,938)	(397)	21,385	508	442	–	–
Net in-the-money options (in terms of underlying asset)	396	–	(639)	267	(24)	–	–
Net out-of-the-money options (in terms of underlying asset)	(203)	–	277	(72)	(2)	–	–
Grand total	**(670)**	**18,565**	**615**	**4**	**(265)**	**1,420**	**19,669**
Net in-the-money options (capitalized par value)	(962)	–	472	455	35	–	–
Net out-of-the-money options (capitalized par value)	816	–	144	(1,055)	95	–	–

(1) Includes linked to foreign currency.
(2) Includes derivative instruments whose base relates to a non-monetary item.
(3) Where the provision for credit losses may not be attributed to any specific linkage basis, such provision was deducted pro-rata from the different linkage bases.

Note 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

	June 30, 2021 (unaudited)				
		Fair value			
	Book balance	Level 1(1)	Level 2(1)	Level 3(1)	Total
Financial assets					
Cash and deposits with banks	94,337	14,570	66,968	12,799	94,337
Securities(3)	17,539	12,909	4,304	382	17,595
Securities loaned or purchased under resale agreements	187	187	–	–	187
Loans to the public, net	254,236	2,090	9,406	(5)245,421	256,917
Loans to Governments	578	–	–	578	578
Investments in associated companies	19	–	–	19	19
Assets with respect to derivative instruments	2,426	242	1,145	(2)1,039	2,426
Other financial assets	1,188	13	–	1,174	1,187
Total financial assets	**(4)370,510**	**30,011**	**81,823**	**261,412**	**373,246**
Financial liabilities					
Deposits from the public	294,391	2,012	95,052	199,726	296,790
Deposits from banks	5,945	–	601	5,344	5,945
Deposits from the Government	43	–	–	47	47
Debentures and subordinated notes	35,594	33,046	5	3,534	36,585
Liabilities with respect to derivative instruments	2,412	266	1,457	(2)689	2,412
Other financial liabilities	11,370	2,403	5,192	3,774	11,369
Total financial liabilities	**(4)349,755**	**37,727**	**102,307**	**213,114**	**353,148**

(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 116,942 million and NIS 131,520 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:

	June 30, 2020 (unaudited)				
		Fair value			
	Book balance	Level 1[1]	Level 2[1]	Level 3[1]	Total
Financial assets					
Cash and deposits with banks	61,532	15,262	45,177	1,093	61,532
Securities[3]	8,440	6,764	1,680	69	8,513
Securities loaned or purchased under resale agreements	51	51	–	–	51
Loans to the public, net	214,450	1,587	9,752	[5]201,832	213,171
Loans to Governments	629	–	–	630	630
Investments in associated companies	30	–	–	30	30
Assets with respect to derivative instruments	2,200	160	995	[2]1,045	2,200
Other financial assets	850	7	–	843	850
Total financial assets	**[4]288,182**	**23,831**	**57,604**	**205,542**	**286,977**
Financial liabilities					
Deposits from the public	231,784	1,587	73,369	159,130	234,086
Deposits from banks	946	–	381	565	946
Deposits from the Government	34	–	–	37	37
Debentures and subordinated notes	29,689	28,232	–	1,941	30,173
Liabilities with respect to derivative instruments	2,898	160	1,215	[2]1,523	2,898
Other financial liabilities	6,870	743	4,472	1,654	6,869
Total financial liabilities	**[4]272,221**	**30,722**	**79,437**	**164,850**	**275,009**

(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 79,294 million and NIS 80,832 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:

	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)]235,639	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)]1,755	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)]1,652	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

	June 30, 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	5,937	3,822	–	9,759
Of foreign governments	884	–	–	884
Of banks and financial institutions in Israel	105	51	–	156
Of banks and financial institutions overseas	10	185	28	223
Asset-backed (ABS)	3	28	–	31
Of others in Israel	466	197	22	685
Of others overseas	245	21	12	278
Shares not held for trading	305	–	16	321
Securities held for trading:				–
Debentures of the Government of Israel	1,423	–	–	1,423
Debentures of others in Israel	26	–	1	27
Debentures of foreign others	23	–	–	23
Shares held for trading	17	–	–	17
Securities loaned or acquired in resale agreements	187	–	–	187
Credit with respect to loans to clients	2,090	–	–	2,090
Assets with respect to derivative instruments(1)				–
Interest contracts:				–
NIS / CPI	–	19	37	56
Other	–	577	156	733
Currency contracts	60	546	613	1,219
Contracts for shares	182	3	225	410
Commodities and other contracts	–	–	8	8
Other financial assets	13	–	–	13
Other	–	–	8	8
Total assets	**11,976**	**5,449**	**1,126**	**18,551**
Liabilities				
Deposits with respect to borrowing from clients	2,012	–	–	2,012
Liabilities with respect to derivative instruments(1)				
Interest contracts:				
NIS / CPI	–	55	50	105
Other	–	748	195	943
Currency contracts	59	641	399	1,099
Contracts for shares	207	12	40	259
Commodities and other contracts	–	1	5	6
Other financial liabilities	2,403	–	–	2,403
Other	–	–	3	3
Total liabilities	**4,681**	**1,457**	**692**	**6,830**

(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

	June 30, 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	1,197	1,513	–	2,710
Of foreign governments	1,169	–	–	1,169
Of banks and financial institutions overseas	–	110	–	110
Investments in shares not held for trading	65	–	17	82
Securities held for trading:				
Debentures of the Government of Israel	276	57	–	333
Securities loaned or acquired in resale agreements	51	–	–	51
Credit with respect to loans to clients	1,587	–	–	1,587
Assets with respect to derivative instruments[(1)]				
Interest contracts:				
NIS / CPI	–	85	153	238
Other	–	310	209	519
Currency contracts	40	483	567	1,090
Contracts for shares	120	114	113	347
Commodities and other contracts	–	3	3	6
Other financial assets	7	–	–	7
Other	–	–	9	9
Total assets	**4,512**	**2,675**	**1,071**	**8,258**
Liabilities				
Deposits with respect to borrowing from clients	1,587	–	–	1,587
Liabilities with respect to derivative instruments[(1)]				
Interest contracts:				
NIS / CPI	–	77	23	100
Other	–	497	307	804
Currency contracts	39	604	954	1,597
Contracts for shares	121	18	239	378
Commodities and other contracts	–	19	–	19
Other financial liabilities	743	–	–	743
Other	–	–	16	16
Total liabilities	**2,490**	**1,215**	**1,539**	**5,244**

(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

	June 30, 2021 (unaudited)				For the three months ended June 30, 2021	For the six months ended June 30, 2021
	Fair value					
	Level 1[(1)]	Level 2[(1)]	Level 3[(1)]	Total	Gains (losses)	
Impaired credit whose collection is contingent on collateral	–	13	171	184	28	25
Investments in shares for which no fair value is available	–	–	302	302	(1)	4

	June 30, 2020 (unaudited)				For the three months ended June 30, 2020	For the six months ended June 30, 2020
	Fair value					
	Level 1[(1)]	Level 2[(1)]	Level 3[(1)]	Total	(Losses)	
Impaired credit whose collection is contingent on collateral	–	6	46	52	(11)	(19)
Investments in shares for which no fair value is available	–	–	51	51	–	–

	As of December 31, 2020 (audited)				For the year ended December 31, 2020
	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 items measured at fair value on recurrent basis, included in level 3:

	For the three months ended June 30, 2021 (unaudited)									
		Realized / unrealized gains (losses) included, net[1]								
	Fair value as of March 31, 2021	In statement of profit and loss	In statement of other comprehensive income under Equity	Acquisitions	Sales	Dispositions	Transfer to level 3[3]	Transfers from Level 3[3]	Fair value as June 30, 2021	Unrealized gains (losses) with respect to instruments held as of June 30, 2021
Assets										
Securities available for sale										
Debentures:										
Of foreign financial institutions	14	–	–	–	–	–	14	–	28	–
Of others in Israel	31	–	–	–	–	(9)	–	–	22	1
Of others overseas	11	–	1	–	–	–	–	–	12	–
Securities held for trading										
Of others in Israel	3	–	–	–	–	(2)	–	–	1	–
Shares not held for trading	16	–	–	–	–	–	–	–	16	–
Assets with respect to derivative instruments[2]										
Interest contracts:										
NIS / CPI	51	(11)	–	2	–	(8)	3	–	37	14
Other	153	4	–	–	–	(1)	–	–	156	89
Currency contracts	1,119	12	–	184	–	(702)	–	–	613	245
Contracts for shares	260	82	–	16	–	(133)	–	–	225	–
Commodities and other contracts	7	1	–	–	–	–	–	–	8	–
Other	9	(1)	–	–	–	–	–	–	8	–
Total assets	**1,674**	**87**	**1**	**202**	**–**	**(855)**	**17**	**–**	**1,126**	**349**
Liabilities										
Liabilities with respect to derivative instruments[2]										
Interest contracts:										
NIS / CPI	61	2	–	2	–	(15)	–	–	50	49
Other	206	(4)	–	1	–	(8)	–	–	195	(128)
Currency contracts	939	(84)	–	101	–	(557)	–	–	399	(254)
Contracts for shares	69	4	–	7	–	(40)	–	–	40	–
Commodities and other contracts	7	(1)	–	–	–	(1)	–	–	5	–
Other	4	(1)	–	–	–	–	–	–	3	–
Total liabilities	**1,286**	**(84)**	**–**	**111**	**–**	**(621)**	**–**	**–**	**692**	**(333)**

(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 June 30, 2020 (unaudited)								
		Realized / unrealized gains (losses) included, net[1]							
	Fair value as of March 31, 2020	In statement of profit and loss	In statement of other comprehensive income under Equity	Acquisitions	Sales	Dispositions	Transfer to level 3[3]	Fair value as of June 30, 2020	Unrealized gains (losses) with respect to instruments held as of June 30, 2020
Assets									
Shares not held for trading	18	(1)	–	–	–	–	–	17	(1)
Assets with respect to derivative instruments[2]									
Interest contracts:									
NIS / CPI	182	(2)	–	4	–	(57)	26	153	102
Other	209	31	–	–	–	(31)	–	209	260
Currency contracts	1,639	(123)	–	264	–	(1,213)	–	567	236
Contracts for shares	335	(144)	–	33	–	(111)	–	113	–
Commodities and other contracts	4	–	–	–	–	(1)	–	3	–
Other	8	1	–	–	–	–	–	9	–
Total assets	**2,395**	**(238)**	**–**	**301**	**–**	**(1,413)**	**26**	**1,071**	**597**
Liabilities									
Liabilities with respect to derivative instruments[2]									
Interest contracts:									
NIS / CPI	11	–	–	–	–	(1)	13	23	(36)
Other	351	(22)	–	–	–	(22)	–	307	346
Currency contracts	1,264	(61)	–	374	–	(623)	–	954	662
Contracts for shares	202	(11)	–	50	–	(2)	–	239	–
Commodities and other contracts	1	–	–	–	–	(1)	–	–	–
Other	19	(3)	–	–	–	–	–	16	–
Total liabilities	**1,848**	**(97)**	**–**	**424**	**–**	**(649)**	**13**	**1,539**	**972**

(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 six months ended June 30, 2021 (unaudited)									
		Net realized / unrealized gains (losses) included[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	Transfer to level 3[3]	Transfers from Level 3[3]	Fair value as of June 30, 2021	Unrealized gains (losses) with respect to instruments held as of June 30, 2021
Assets										
Debentures:										
Of foreign financial institutions	5	–	–	–	–	(2)	25	–	28	–
Of others in Israel	19	1	1	–	–	(9)	10	–	22	1
Of others overseas	–	–	–	–	–	–	12	–	12	–
Securities held for trading										
Of others in Israel	3	–	–	–	–	(2)	–	–	1	–
Shares not held for trading	16	–	–	–	–	–	–	–	16	–
Assets with respect to derivative instruments[2]										
Interest contracts:										
NIS / CPI	59	(26)	–	2	–	(41)	43	–	37	19
Other	162	(5)	–	–	–	(1)	–	–	156	157
Currency contracts	1,337	(235)	–	844	–	(1,333)	–	–	613	567
Contracts for shares	189	169	–	59	–	(192)	–	–	225	–
Commodities and other contracts	8	8	–	–	–	(8)	–	–	8	1
Other	9	(1)	–	–	–	–	–	–	8	–
Total assets	**1,807**	**(89)**	**1**	**905**	**–**	**(1,588)**	**90**	**–**	**1,126**	**745**
Liabilities										
Liabilities with respect to derivative instruments[2]										
Interest contracts:										
NIS / CPI	48	(2)	–	7	–	(27)	24	–	50	45
Other	215	(6)	–	1	–	(15)	–	–	195	(187)
Currency contracts	1,287	(174)	–	695	–	(1,409)	–	–	399	(478)
Contracts for shares	93	14	–	21	–	(88)	–	–	40	–
Commodities and other contracts	9	(3)	–	–	–	(1)	–	–	5	(1)
Other	6	(3)	–	–	–	–	–	–	3	–
Total liabilities	**1,658**	**(174)**	**–**	**724**	**–**	**(1,540)**	**24**	**–**	**692**	**(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 six months ended June 30, 2020 (unaudited)								
		Net realized / unrealized gains (losses) included[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	Transfer to level 3[3]	Fair value as of June 30, 2019	Unrealized gains (losses) with respect to instruments held as of June 30, 2020
Assets									
Shares not held for trading	17	–	–	–	–	–	–	17	–
Assets with respect to derivative instruments[2]									
Interest contracts:									
NIS / CPI	126	35	–	12	–	(71)	51	153	102
Other	24	188	–	28	–	(31)	–	209	260
Currency contracts	485	(116)	–	1,411	–	(1,213)	–	567	236
Contracts for shares	63	13	–	150	–	(113)	–	113	–
Commodities and other contracts	3	–	–	1	–	(1)	–	3	–
Other	8	1	–	–	–	–	–	9	–
Total assets	**726**	**121**	**–**	**1,602**	**–**	**(1,429)**	**51**	**1,071**	**598**
Liabilities									
Liabilities with respect to derivative instruments[2]									
Interest contracts:									
NIS / CPI	14	(1)	–	–	–	(14)	24	23	(36)
Other	40	212	–	77	–	(22)	–	307	346
Currency contracts	771	(317)	–	1,123	–	(623)	–	954	662
Contracts for shares	135	(19)	–	127	–	(4)	–	239	–
Commodities and other contracts	4	(4)	–	1	–	(1)	–	–	–
Other	–	16	–	–	–	–	–	16	–
Total liabilities	**964**	**(113)**	**–**	**1,328**	**–**	**(664)**	**24**	**1,539**	**972**

(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	Transfer 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 June 30, 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	4	Cash flows discounting	Price	5.60 - 101.08	33.82
	7	NAV (Net Asset Value) model	Price	41.78	41.78
Debentures of foreign others	12	Cash flows discounting	Price	19.76 - 88.01	57.85
Securities held for trading					
Debentures of others in Israel	1	Cash flows discounting	Price	33.15 - 101.08	56.21
Assets with respect to derivative instruments:					
NIS / CPI	23	Cash flows discounting	Inflationary expectations	(0.05%) - 1.84%	0.28%
Foreign currency	18	Cash flows discounting	Counter-party credit quality	0.13% - 16.87%	0.35%
Contracts for shares	431	Options pricing model	Standard deviation per share	33.39% - 84.63%	37.41%
Commodities and other contracts	1	Cash flows discounting	Counter-party credit quality	0.17%	0.17%
Other	574	Cash flows discounting	Counter-party credit quality	0.30% - 3.60%	1.65%
Liabilities with respect to derivative instruments:					
Interest contracts – NIS CPI	35	Cash flows discounting	Inflationary expectations	0.41 - 3.69%	1.75%
Other	657	Cash flows discounting	Counter-party credit quality	0.30% - 2.60%	1.62%

	Fair value as of June 30, 2020	Valuation technique	Non-observed data	Range	Weighted average
Shares not held for trading	17	Quote from counter-party to the transaction			
Assets with respect to derivative instruments:					
Interest contracts – NIS CPI	125	Cash flows discounting	Inflationary expectations	0.18% - 0.23%	0.20%
Contracts for shares	1,728	Options pricing model	Standard deviation per share	53.31% - 82.27%	80.07%
Other	524	Cash flows discounting	Counter-party credit quality	0.30% - 3.50%	1.75%
Liabilities with respect to derivative instruments:					
Interest contracts – NIS CPI	23	Cash flows discounting	Inflationary expectations	0.18% - 0.23%	0.19%
Other	941	Cash flows discounting	Counter-party credit quality	0.30% - 3.50%	1.78%

	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	0.12% - 0.30%	0.28%
Foreign currency	55	Cash flows discounting	Counter-party credit quality	0.13% - 16.87%	0.35%
Contracts for shares	383	Options pricing model	Standard deviation per share	29.94% - 47.13%	37.41%
Commodities and other contracts	1	Cash flows discounting	Counter-party credit quality	0.13% - 0.17%	0.16%
Other	1,272	Cash flows discounting	Counter-party credit quality	0.30% - 3.30%	1.74%
Liabilities with respect to derivative instruments:					
Interest contracts – NIS CPI	39	Cash flows discounting	Inflationary expectations	0.20% - 0.55%	0.28%
Other	1,619	Cash flows discounting	Counter-party credit quality	0.30% - 2.85%	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 June 30, 2021, June 30, 2020 and December 31, 2020, the Bank did not select 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 June 30,		For the six months ended June 30,		For the year ended December 31,
	2021	**2020**	**2021**	**2020**	**2020**
		(unaudited)		**(unaudited)**	**(audited)**
Excluding Union Bank:					
Reported revenues for the Bank[1]	1,857	1,399	3,475	2,810	5,807
Reported net profit for the Bank	870	360	1,421	717	1,544
Union Bank:					
Reported revenues for Union Bank[1]	244	245	525	355	729
Reported net profit (loss) for Union Bank	20	58	119	4	(60)

	For the three months ended June 30,	For the six months ended June 30,	For the year ended December 31,
	2020	**2020**	**2020**
			(unaudited)
Pro-forma revenues[1]	1,698	3,273	6,855
Pro-forma net profit	472	829	1,772
Pro-forma earnings per share:			
Basic	2.01	3.53	6.95
Diluted	2.01	3.53	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 in 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 stipulated 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

A. On July 26, 2021, after the balance sheet date the Bank's Board of Directors, after receiving approval by the Remuneration Committee, approved the offering of options to the Bank President & CEO for 2020 and to officers of the Bank (other than the Bank President & CEO and Bank Board members) and to other managers at the Bank and at Bank subsidiaries for 2021, pursuant to Section 15b(1)(a) of the Securities Act, as stated in the employee offering outline dated July 26, 2021, including approval of pools for option warrant issuance in 2021-2023 (hereinafter: "the Employee Offering Memorandum" or "the Memorandum").

As resolved by the Board of Directors on July 26, 2021, the following option plans for 2021 were approved:

- Option plan 1 – 18,468 options 1 exercisable for up to 18,468 Bank ordinary shares of NIS 0.1 par value each.
- Option plan A – up to 301,506 options A to be awarded to up to six Bank officers who are not gatekeepers, exercisable for up to 301,506 Bank ordinary shares of NIS 0.1 par value each.
- Option plan B – up to 173,509 options B to be awarded to up to five Bank officers who are gatekeepers, exercisable for up to 173,509 Bank ordinary shares of NIS 0.1 par value each.
- Option plan C – up to 493,250 options C to be awarded to up to sixteen key Bank employees and up to seventeen key employees at Bank subsidiaries, which have been approved for inclusion in this group, exercisable for up to 493,250 Bank ordinary shares of NIS 0.1 par value each.
- Option plan D – up to 811,300 options D to be awarded to up to sixty managers employed by the Bank subject to individual employment contracts and up to twenty-four other managers at the Bank and at Bank subsidiaries, which have been approved for inclusion in this group, exercisable for up to 811,300 Bank ordinary shares of NIS 0.1 par value each.

- Option plan E – up to 1,547,900 options E to be awarded to up to two hundred sixty-four managers employed by the Bank subject to collective bargaining agreements and up to twenty-four managers of Bank subsidiaries, exercisable for up to 1,547,900 Bank ordinary shares of NIS 0.1 par value each.

The number of options which offerees may actually exercise, pursuant to terms of each plan, would be derived from the eligibility terms set for each plan, as follows. Furthermore, allotment of the maximum number of exercise shares is merely theoretical, since in actual fact the Bank would not allot to the offerees the full number of exercise shares arising from the options which the offerees may exercise pursuant to terms of each plan – but only the number of shares reflecting the monetary benefit inherent in those options, based, inter alia, on the closing price cap of NIS 140 plus linkage differentials from the known CPI upon approval by the Board of Directors to the known CPI upon the exercise date.

In case of dividend distribution, bonus share distribution, rights issuance, share capital split or reverse split or re-organization of the Bank, adjustments would be made as stated in the Employee Offering Memorandum.

The options issued in the name of the Trustee on behalf of the Bank President & CEO, pursuant to options plan 1, may be exercised as from the second anniversary of the issue date and would expire 18 months after the vesting date, as defined in the Memorandum.

The options issued in the name of the Trustee on behalf of each officer, pursuant to option plans A,B or C would be in three equal lots, which may be exercised as from two years after: (1) The issuance date; (2) April 1, 2024; and (3) April 1, 2025, and each lot of options would expire 18 months after each of said dates.

All options issued pursuant to option plans D and E may be exercised in a single lot from the second anniversary of the issue date and would expire two years after the vesting date, as defined in the Memorandum.

An offeree's eligibility for options pursuant to option plans A-E above would be contingent on the Bank's total capital adequacy ratio and Tier I capital ratio for the award year, would not be lower than the minimum ratios stipulated by Bank of Israel directives.

Note 17 – Events after the balance sheet date – continued

In addition, eligibility conditions for options would be based on the following criteria:

- Options A and options B issued to offerees who are officers of the Bank, as noted above, constitute part of these officers' variable remuneration. Officer eligibility to options A or to options B would be determined based on four criteria which are measurable "company-wide criteria" (hereinafter: "the quantitative benchmarks") and based on a qualitative criterion based on supervisor assessment of achievement of individual targets of the officer specified in the employee offering outline.
- Eligibility of offerees who are not officers of the Bank to options C and options D, with respect to any bonus year, would be determined based on the quantitative benchmarks and would not be based on any qualitative benchmark. Eligibility of offerees who are not officers of the Bank to options C and options E, with respect to any bonus year, would be determined based on the quantitative benchmarks and on the quality rating assigned to such offerees, as stated in section 2.12.3 of the Memorandum.

The quantitative benchmarks specified in the option plan are: return on equity, return on Bank shares relative to benchmark, operating efficiency ratio and the core deposit ratio.

The exercise price for each option issued pursuant to any of the plans is NIS 99.36 plus CPI linkage differentials, from the known CPI upon approval of option issuance to offerees by the Board of Directors to the known CPI upon the option exercise date by the offeree. The exercise price was determined based on the average closing price per Bank ordinary share on the stock exchange over the thirty trading days preceding the date of approval by the Board of Directors. Accordingly, note that on the exercise date, the offeree would not be required to pay the exercise price – which would only serve to determine the monetary benefit amount and the number of exercise shares actually issued to the offeree.

For calculation of fair value as of approval of the option award by the Board of Directors, as noted above, the terms of the option plans and the data and assumptions as listed in the Memorandum were taken into account.

Based on the aforementioned assumptions, as stated in the Memorandum, the fair value of each option awarded pursuant to each of the option plans, as of the approval date of option issuance by the Board of Directors, is as follows:

- Options 1 – NIS 11.75;
- Options A – NIS 11.94;
- Options B – NIS 11.93;
- Options C – NIS 11.95;
- Options D and E – NIS 12.70.

The theoretical benefit value of the options in these approved lots, calculated in accordance with US accounting rules (ASC 718 "Share-based Payment"), amounts to NIS 42 million.

The theoretical lot value was recognized in Bank accounts over the vesting period, i.e. from the third quarter of 2021 through the end of the year.

The options were allotted under the "Capital Gain" track, pursuant to the Section 102 of the Income Tax Ordinance. Therefore, any benefit arising to the offerees from exercise of these options will be taxed at the capital gain tax rate applicable to the offerees upon exercise of the options. Therefore, the Bank would not be liable for wages tax with respect to the benefit arising to offerees from exercise of the options pursuant to the option plan. Furthermore, upon payment of tax with respect to this benefit by the offerees, the Bank would not have any tax deductible expense with respect to the aforementioned options.

B. On August 16, 2021, after the balance sheet date, the Bank’s Board of Directors resolved to distribute dividends amounting to NIS 483 million, or 30% of earnings in 2020, inter alia in view of the Bank's operating results in 2020 and in conformity with the Supervisor of Banks' circular dated July 26, 2021.

The dividends are 1890.59% of issued share capital, i.e. NIS 1.89059 per NIS 0.1 par value share. The effective date for dividends payment is August 24, 2021 and the payment date is August 31, 2021. The final dividends per share is subject to changes due to realized convertible securities of the Bank. According to accounting rules, this amount would be deducted from retained earnings in the third quarter of 2021.

Bank Mizrahi Tefahot

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 half of 2021, the Bank Board of Directors held 12 plenary meetings. During this period there were also 37 meetings of Board committees and 5 Board member workshops.

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

On February 27, 2021, Ms. Sabina Biran concluded her term in office as a member of the Bank's Board of Directors.

On February 28, 2021

- Start of term in office of Ms. Estheri Giloz-Ran as external Board member of the Bank and member of the Audit Committee, Remuneration Committee and IT and Technology Innovation Committee.
- On February 27, 2021, Mr. Yosef Plus started their term in office as member of the Credit Committee.
- On February 27, 2021, Mr. Gilad Rabinobich started their term in office as member of the Risks Management Committee.

Members of Bank management and senior officers

In the first half 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 half 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 has contracted with a custodian, is acting to contract with counter parties 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 on September 5, 2021.

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 June 30, 2021 Transaction volume (NIS in millions)
Loans to the public (including mortgages)	6,972
Securities	76
Deposits from the public	38
Net derivatives (par value)	2,951

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, March 22, 2021, July 19, 2021 and August 9, 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. All branches in the banking system were opened to the public and provide all services as provided prior to the crisis).
- Relief for limitations on extending residential mortgages and for issue dates for letters of intent and settlement confirmations.
- Relief for E-banking, providing instructions by telephone and giving precedence in queues to senior citizens (On December 30, 2020, an amendment to Directive 426 with regard to "Providing professional call center service" amended the age of clients to be given precedence in queues, from 75 to 70, under routine conditions as well).
- Delay in payments for commercial loans and residential mortgages (due to the extended Corona Virus outbreak and extension of the outline for delayed loan repayments, on September 30, 2020 the Bank of Israel issued a circular adding Reporting Regulation C889 "Reporting of Delayed Payments Under Special Circumstances (Monthly)").
- On October 11, 2020 and on December 3, 2020, the Supervisor of Banks issued supervisory highlights regarding additional changes to loan terms and regarding the additional outline for postponed payments as part of the Corona Virus outbreak, with regard to risks management, public reporting, classification and internal control.

Application of this circular has no material impact on the Bank's financial statements.

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 "E-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.

On December 30, 2020, the Bank of Israel issued Reporting Directive 880 with regard to "Reporting of Technology Failure Events and Cyber Events", which supersedes and adds to Directive 848 "Reporting of Cyber Events". This reporting directive is effective as from January 1, 2021.

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

Restrictions on extending residential mortgages

On December 27, 2020, the Bank of Israel issued an update to Proper Conduct of Banking Business Directive 329 concerning "Restrictions on extending residential mortgages". The update includes elimination of the restriction on lending at the prime lending rate, so that the restriction of at least one third of the mortgage that must bear fixed interest remains, and up to two thirds may be extended bearing variable interest.

The amendments to the directive pursuant to the circular are effective as from January 17, 2021. For residential mortgages intended 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 half of 2021, applications from clients seeking to re-finance loans increased as a direct result of this updated directive. The Bank is preparing, including in operational aspects, to provide a response to large-scale inquiries. This updated directive had no material impact on the Bank's 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 implement the items which has yet to become effective. Application of this circular has no material impact on the Bank's financial statements.

Outsourcing

On June 21, 2021, the Bank of Israel issued a circular concerning outsourcing (Proper Conduct of Banking Business Directive 359A), which allows proactively contacting households to refer them to the banking corporation, provided that the banking corporation is in compliance with requirements stipulated in Directive 311A with regard to consumer credit management, since the issue of Directive 311A and the presence of a credit data base govern proper and fair credit marketing processes, which reduces the potential risk due to referring clients to the banking corporation for borrowing.

Application of this circular has no material impact on the Bank's financial statements.

Net stable funding ratio

On June 21, 2021, the Bank of Israel issued a circular adding Proper Conduct of Banking Business Directive 222 with regard to "Net stable funding ratio". This directive adopts the Basel III recommendations and reflects the Supervisor of Banks' position on matters where the Supervisor was granted discretion. Net stable funding ratio is designed to improve stability of the liquidity risk profile of banking corporations over the long term, by requiring them to maintain a stable funding profile in conformity with the composition of on-balance sheet assets and off-balance sheet operations. The ratio limits over-reliance by banking corporations on short-term wholesale funding. The directive stipulates a minimum stable funding ratio.

The Bank is preparing to implement this directive, which shall become effective on December 31, 2021. Application of the directive is not expected to have any material impact on the Bank's financial statements.

Bank's credit rating

On July 22, 2021, 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 the next two years is based on our expectations that the Bank would successfully implement its new strategic plan, and would improve its product diversification, profitability and operating efficiency, while maintaining stable credit quality and capital ratios."

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 May 13, 2021, 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. Furthermore, Midroog set a rating of Aa1.il / Stable outlook for Mizrahi Tefahot Issuance, for transfer of subordinated notes (lower secondary capital) issued by Igud Issuance to Mizrahi Tefahot Issuance, in conjunction with completion of the merger between the two issuance companies.

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 April 21, 2021, S&P left the Bank ratings unchanged and raised the rating outlook to Positive.

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.

Operating segments

For more information about supervisory operating segments, see chapter "Corporate Governance, Audit, Other Information about the Bank and Management thereof" of the 2019 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 June 30, 2021			For the three months ended June 30, 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	243,058	[(7)]2,949	4.94	204,320	[(7)]1,661	3.29
Outside of Israel	3,347	44	5.36	3,340	47	5.75
Total	**246,405**	**2,993**	**4.95**	**207,660**	**1,708**	**3.33**
Loans to the Government						
In Israel	248	–	–	234	–	–
Outside of Israel	272	3	4.49	443	5	4.59
Total	**520**	**3**	**2.33**	**677**	**5**	**2.99**
Deposits with banks						
In Israel	1,263	2	0.63	1,548	2	0.52
Outside of Israel	159	–	–	211	1	1.91
Total	**1,422**	**2**	**0.56**	**1,759**	**3**	**0.68**
Deposits with central banks						
In Israel	77,847	13	0.07	46,234	11	0.10
Outside of Israel	11,232	3	0.11	11,796	3	0.10
Total	**89,079**	**16**	**0.07**	**58,030**	**14**	**0.10**
Securities loaned or purchased under resale agreements						
In Israel	196	–	–	50	–	–
Outside of Israel	–	–	–	–	–	–
Total	**196**	**–**	**–**	**50**	**–**	**–**
Debentures held to maturity and available for sale[(4)]						
In Israel	16,691	65	1.57	6,886	6	0.35
Outside of Israel	853	2	0.94	657	3	1.84
Total	**17,544**	**67**	**1.54**	**7,543**	**9**	**0.48**
Debentures held for trading[(5)]						
In Israel	516	4	3.14	360	1	1.12
Outside of Israel	–	–	–	–	–	–
Total	**516**	**4**	**3.14**	**360**	**1**	**1.12**
Total interest-bearing assets	**355,682**	**3,085**	**3.51**	**276,079**	**1,740**	**2.54**
Receivables for credit card operations	4,527			3,352		
Other non-interest bearing assets[(6)]	7,032			5,076		
Total assets	**367,241**			**284,507**		
Total interest-bearing assets attributable to operations outside of Israel	**15,863**	**52**	**1.32**	**16,447**	**59**	**1.44**

See remarks below.

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

Reported amounts (NIS in millions)

	For the six months ended June 30, 2021			For the six months ended June 30, 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	241,553	[7]5,045	4.22	202,875	[7]3,213	3.19
Outside of Israel	3,384	88	5.27	3,236	96	6.02
Total	**244,937**	**5,133**	**4.24**	**206,111**	**3,309**	**3.24**
Loans to the Government						
In Israel	247	–	–	230	–	–
Outside of Israel	322	6	3.76	449	12	5.42
Total	**569**	**6**	**2.12**	**679**	**12**	**3.57**
Deposits with banks						
In Israel	1,463	3	0.41	1,319	3	0.46
Outside of Israel	166	–	–	204	1	0.98
Total	**1,629**	**3**	**0.37**	**1,523**	**4**	**0.53**
Deposits with central banks						
In Israel	76,209	31	0.08	44,775	34	0.15
Outside of Israel	11,468	6	0.10	9,457	24	0.51
Total	**87,677**	**37**	**0.08**	**54,232**	**58**	**0.21**
Securities loaned or purchased under resale agreements						
In Israel	170	–	–	49	–	–
Outside of Israel	–	–	–	–	–	–
Total	**170**	**–**	**–**	**49**	**–**	**–**
Debentures held to maturity and available for sale[4]						
In Israel	16,601	104	1.26	7,489	33	0.88
Outside of Israel	762	4	1.05	657	7	2.14
Total	**17,363**	**108**	**1.25**	**8,146**	**40**	**0.98**
Debentures held for trading[5]						
In Israel	434	6	2.78	513	3	1.17
Outside of Israel	–	–	–	–	–	–
Total	**434**	**6**	**2.78**	**513**	**3**	**1.17**
Total interest-bearing assets	**352,779**	**5,293**	**3.02**	**271,253**	**3,426**	**2.54**
Receivables for credit card operations	4,441			3,571		
Other non-interest bearing assets[6]	6,107			5,514		
Total assets	**363,327**			**280,338**		
Total interest-bearing assets attributable to operations outside of Israel	**16,102**	**104**	**1.30**	**14,003**	**140**	**2.01**

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 June 30, 2021			For the three months ended June 30, 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	45,157	33	0.29	30,802	1	0.01
Term deposits	144,864	528	1.47	128,632	316	0.99
Outside of Israel						
On-call	597	–	–	637	–	–
Term deposits	3,351	2	0.24	4,115	12	1.17
Total	**193,969**	**563**	**1.17**	**164,186**	**329**	**0.80**
Deposits from the Government						
In Israel	56	–	–	71	–	–
Outside of Israel	–	–	–	–	–	–
Total	**56**	**–**	**–**	**71**	**–**	**–**
Deposits from banks						
In Israel	5,099	1	0.08	992	2	0.81
Outside of Israel	47	–	–	3	–	–
Total	**5,146**	**1**	**0.08**	**995**	**2**	**0.81**
Securities loaned or sold in conjunction with repurchase agreements						
In Israel	–	–	–	–	–	–
Outside of Israel	–	–	–	–	–	–
Total	**–**	**–**	**–**	**–**	**–**	**–**
Debentures and subordinated notes						
In Israel	33,250	485	5.96	29,400	85	1.16
Outside of Israel	–	–	–	–	–	–
Total	**33,250**	**485**	**5.96**	**29,400**	**85**	**1.16**
Other liabilities						
In Israel	607	1	0.66	460	1	0.87
Outside of Israel	–	–	–	–	–	–
Total	**607**	**1**	**0.66**	**460**	**1**	**0.87**
Total interest-bearing liabilities	**233,028**	**1,050**	**1.81**	**195,112**	**417**	**0.86**
Non-interest bearing deposits from the public	97,973			62,341		
Payables for credit card transactions	4,736			3,501		
Other non-interest bearing liabilities[8]	10,609			6,428		
Total liabilities	**346,346**			**267,382**		
Total equity resources	**20,895**			**17,125**		
Total liabilities and equity resources	**367,241**			**284,507**		
Interest margin			**1.70**			**1.69**
Net return[9] on interest-bearing assets						
In Israel	339,819	1,985	2.36	259,632	1,276	1.98
Outside of Israel	15,863	50	1.27	16,447	47	1.15
Total	**355,682**	**2,035**	**2.31**	**276,079**	**1,323**	**1.93**
Total interest-bearing liabilities attributable to operations outside of Israel	**3,995**	**2**	**0.20**	**4,755**	**12**	**1.01**

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

Reported amounts (NIS in millions)

	For the six months ended June 30, 2021			For the six months ended June 30, 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	43,735	57	0.26	30,194	7	0.05
Term deposits	144,807	866	1.20	126,374	605	0.96
Outside of Israel						
On-call	718	–	–	601	–	–
Term deposits	3,459	3	0.17	4,048	29	1.44
Total	**192,719**	**926**	**0.96**	**161,217**	**641**	**0.80**
Deposits from the Government						
In Israel	55	–	–	54	–	–
Outside of Israel	–	–	–	–	–	–
Total	**55**	**–**	**–**	**54**	**–**	**–**
Deposits from banks						
In Israel	4,691	2	0.09	1,064	4	0.75
Outside of Israel	24	–	–	4	–	–
Total	**4,715**	**2**	**0.08**	**1,068**	**4**	**0.75**
Securities loaned or sold in conjunction with repurchase agreements						
In Israel	–	–	–	–	–	–
Outside of Israel	–	–	–	–	–	–
Total	**–**	**–**	**–**	**–**	**–**	**–**
Debentures and subordinated notes						
In Israel	33,279	638	3.87	30,865	110	0.71
Outside of Israel	–	–	–	–	–	–
Total	**33,279**	**638**	**3.87**	**30,865**	**110**	**0.71**
Other liabilities						
In Israel	557	1	0.36	437	1	0.46
Outside of Israel	–	–	–	–	–	–
Total	**557**	**1**	**0.36**	**437**	**1**	**0.46**
Total interest-bearing liabilities	**231,325**	**1,567**	**1.36**	**193,641**	**756**	**0.78**
Non-interest bearing deposits from the public	96,174			59,380		
Payables for credit card transactions	4,629			3,746		
Other non-interest bearing liabilities[8]	10,720			6,119		
Total liabilities	**342,848**			**262,886**		
Total equity resources	**20,479**			**17,452**		
Total liabilities and equity resources	**363,327**			**280,338**		
Interest margin			**1.66**			**1.76**
Net return[9] on interest-bearing assets						
In Israel	336,677	3,625	2.16	257,250	2,559	2.00
Outside of Israel	16,102	101	1.26	14,003	111	1.59
Total	**352,779**	**3,726**	**2.12**	**271,253**	**2,670**	**1.98**
Total interest-bearing liabilities attributable to operations outside of Israel	**4,201**	**3**	**0.14**	**4,653**	**29**	**1.25**

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 June 30, 2021			For the three months ended June 30, 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	259,754	1,587	2.47	189,717	1,280	2.73
Total interest-bearing liabilities	158,431	(205)	(0.52)	133,720	(251)	(0.75)
Interest margin			**1.95**			**1.98**
Israeli currency – linked to the CPI						
Total interest-bearing assets	66,729	1,360	8.41	59,528	326	2.21
Total interest-bearing liabilities	45,173	(787)	(7.15)	35,657	(71)	(0.80)
Interest margin			**1.26**			**1.41**
Foreign currency (including Israeli currency linked to foreign currency)						
Total interest-bearing assets	13,336	86	2.60	10,387	75	2.92
Total interest-bearing liabilities	25,429	(56)	(0.88)	20,980	(83)	(1.59)
Interest margin			**1.72**			**1.33**
Total – operations in Israel						
Total interest-bearing assets	339,819	3,033	3.62	259,632	1,681	2.62
Total interest-bearing liabilities	229,033	(1,048)	(1.84)	190,357	(405)	(0.85)
Interest margin			**1.78**			**1.77**

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

Reported amounts (NIS in millions)

	For the six months ended June 30, 2021			For the six months ended June 30, 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	252,117	3,035	2.42	186,679	2,622	2.83
Total interest-bearing liabilities	154,777	(412)	(0.53)	133,340	(502)	(0.75)
Interest margin			**1.89**			**2.08**
Israeli currency – linked to the CPI						
Total interest-bearing assets	69,761	1,984	5.77	59,543	488	1.65
Total interest-bearing liabilities	48,822	(1,047)	(4.34)	37,006	(31)	(0.17)
Interest margin			**1.43**			**1.48**
Foreign currency (including Israeli currency linked to foreign currency)						
Total interest-bearing assets	14,799	170	2.31	11,028	176	3.22
Total interest-bearing liabilities	23,525	(105)	(0.89)	18,642	(194)	(2.09)
Interest margin			**1.42**			**1.13**
Total – operations in Israel						
Total interest-bearing assets	336,677	5,189	3.11	257,250	3,286	2.57
Total interest-bearing liabilities	227,124	(1,564)	(1.38)	188,988	(727)	(0.77)
Interest margin			**1.73**			**1.80**

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 June 30, 2021 – compared to the three months ended June 30, 2020			For the six months ended June 30, 2021 – compared to the six months ended June 30, 2020		
	Increase (decrease) due to change(10)			Increase (decrease) due to change(10)		
	Quantity	Price	Net change	Quantity	Price	Net change
Interest-bearing assets						
Loans to the public						
In Israel	470	818	1,288	808	1,024	1,832
Outside of Israel	–	(3)	(3)	4	(12)	(8)
Total	**470**	**815**	**1,285**	**812**	**1,012**	**1,824**
Other interest-bearing assets						
In Israel	36	28	64	62	9	71
Outside of Israel	–	(4)	(4)	2	(30)	(28)
Total	**36**	**24**	**60**	**64**	**(21)**	**43**
Total interest revenues	**506**	**839**	**1,345**	**876**	**991**	**1,867**
Interest-bearing liabilities						
Deposits from the public						
In Israel	90	154	244	157	154	311
Outside of Israel	–	(10)	(10)	–	(26)	(26)
Total	**90**	**144**	**234**	**157**	**128**	**285**
Other interest-bearing liabilities						
In Israel	101	298	399	102	424	526
Outside of Israel	–	–	–	–	–	–
Total	**101**	**298**	**399**	**102**	**424**	**526**
Total interest expenses	**191**	**442**	**633**	**259**	**552**	**811**

(1) Information in these tables is after effect of hedging I derivative instruments.
(2) Based on balances at start of the months (in Israeli currency, non-linked segment – based on daily balances).
(3) Before deduction of average balance sheet balance of provisions for credit losses. Includes impaired debt not accruing interest revenues.
(4) From (to) the average balance of debentures available for sale, for the three-month periods ended June 30, 2021 and June 30, 2020, and for the six-month periods ended June 30, 2021 and June 30, 2020, we deducted (added) the average balance of unrealized gains (losses) from adjustment to fair value of debentures available for sale, included in equity under Cumulative Other Comprehensive Income, under "Adjustments with respect to presentation of securities available for sale at fair value", amounting to NIS (45) million, NIS (4) million, NIS (20) million and NIS 16 million, respectively.
(5) From the average balance of debentures held for trading, for the three-month periods ended June 30, 2021 and June 30, 2020, and for the six-month periods ended June 30, 2021 and June 30, 2020, we deducted (added) the average balance of unrealized gains from adjustment to fair value of debentures held for trading amounting to NIS (3) million, NIS 17 million, NIS (2) million and NIS 15 million, respectively.
(6) Includes derivative instruments, other non-interest bearing assets, net of provision for credit losses.
(7) Commissions amounting to NIS 191 million, NIS 91 million, NIS 333 million and NIS 224 million were included in interest revenues for the three-month periods ended June 30, 2021 and June 30, 2020 and for the six-month periods ended June 30, 2021 and June 30, 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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