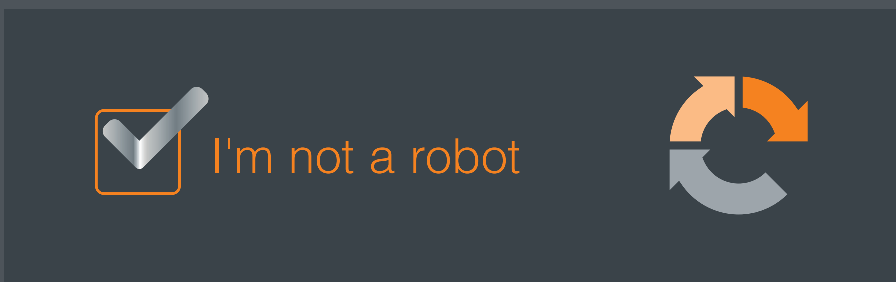
ANNUAL REPORT 2021

מזרחי טפחות
MIZRAHI TEFAHOT



Advanced Banking Between People

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

Mizrahi Tefahot Bank

Annual Report

2021

Main Table of Contents

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

Message from the Chairman of the Board of Directors

In the name of the Bank's Board of Directors, I am honored to present you with Mizrahi Tefahot's 2021 financial statements.

This year saw a global recovery from the Corona Virus pandemic, which started in the first quarter of 2020. The ever expanding vaccination campaigns significantly reduced the number of cases and allowed a return to almost full economic activity in most areas. The banking system, which for the sake of caution and of being conservative, increased expenses for credit losses in 2020, recognized revenues for this item in 2021 – against the backdrop of improved economic activity and with most clients who had delayed loan repayments returning to a regular repayment schedule, which contributed to the profitability of banks in the current year.

The fact that the Corona Virus is still part of our lives in 2021 required the Bank, and indeed the economy as a whole, to adapt to the realities of living with the Corona Virus. As in 2020, the Bank continued in this year as well to provide its clients with a diverse tool box for managing their economic and financial activity. Our bankers are highly attentive to any request or need, in order to ensure that even clients who face special challenges due to the Corona Virus receive the appropriate response that would allow them to safely navigate these challenging times.

In adhering to its human service concept, Mizrahi-Tefahot strives to provide its clients with regular and continuous in-person service at Bank branches. Even in days with higher morbidity, Bank staff continued to come to the branches, diligently and with dedication, in order to meet our utmost commitment to our clients. Our unique human service is complemented by a technological range of advanced digital channels, which allow clients to conduct many transactions by themselves, with ease and high availability, while being able to seek assistance from their personal banker at any time.

As for the Bank's results in this year, there is no doubt that 2021 is a year of outstanding achievements in profit and profitability, as well as in significant growth across most balance sheet items of the Bank. The Union Bank acquisition is a highly significant transaction, not only in its positive impact on Bank profit, but also in its contribution to the increased market shares of Mizrahi-Tefahot Group in loans to the public and in deposits from the public, as well as in the scope of our activity with the business sector.

The merger of Union Bank into the Bank, a process which started in 2021, would continue with even more emphasis in 2022, with the aim of completing it by year end. We estimate that benefits from this move would be reflected as synergies between the various operations increases and progress would be made in conversion of clients and businesses from Union Bank into Mizrahi-Tefahot.

In 2021, new mortgage origination reached an outstanding record of NIS 116 billion. The huge demand at Bank branches and at our Mortgage Center, from individual clients and from mortgage advisors, posed an operating challenge. The fact that Mizrahi-Tefahot has the largest professional mortgage system in Israel has allowed us to overcome the excessive load and to provide an optimal response, individually tailored for the needs and attributes of each and every client, while maintaining our leadership position in this sector.

Last April, the Bank launched a new strategic plan for 2021-2025, which clearly and transparently specifies our targets for the coming years. Along with objectives we set for ourselves in areas such as market share, profitability, cost-income ratio and dividends for shareholders, we also specified growth engines in various areas, which would help us maintain the momentum of expansion and prosperity we have been enjoying for years.

During this year, the Bank established a new arm for real investments, designed to support one of the key objectives of the plan: To turn the Bank into a major player in business banking. By end of 2021, we have already invested hundreds of millions of NIS.

The Bank closely reviews the developments in its operating environment: The increased competition within the banking system and without, the increased integration of technology in the financial world, as well as the regulatory and parliamentary challenges – while striving to create appropriate solutions that would allow the Bank to remain competitive in various operating segments and to execute on its plans.

I would like to take this opportunity to express my sincere appreciation and deep gratitude, in my name and on behalf of all Board members, to the thousands of our dedicated employees and managers, for their unwavering commitment to the Bank and to our clients and for their significant contribution to Bank achievements over the past year. Our human resources are of supreme quality and the key engine driving the continued success of Mizrahi-Tefahot.

We also wish to thank our loyal clients and all of our stake holders for putting their significant trust in us. We shall continue to strictly maintain fair, transparent conduct vis-à-vis all of them, based on the Bank's values and Code of Ethics adopted as an integral part of our organizational culture.

Sincerely yours,

Moshe Vidman
Chairman of the Board of Directors
Mizrahi Tefahot

Bank Mizrahi Tefahot

Report of the Board of Directors and Management

2021

Table of Contents

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

Introduction

At the meeting of the Board of Directors of Mizrahi Tefahot Bank held on February 28, 2022, it was resolved to approve and publish the Report of the Board of Directors and Management, the Risk Management Report and Other Supervisory Disclosures and the consolidated financial statements of Mizrahi Tefahot Bank Ltd. and its subsidiaries as of December 31, 2021. Report of the Board of Directors to the General Meeting of Shareholders.

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

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

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

The Report of the Board of Directors and Management and the 2021 Financial Statements are prepared in conformity with the format stipulated by the Supervisor of Banks. After the Notes to the financial statements is a chapter on corporate governance, audit, other information about the Bank and its management and addendums to the annual financial statements.

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

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

This additional information includes:

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

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

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

Forward-Looking Information

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

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

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

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 and others who issue data and assessments with regard to the capital market in Israel and overseas as well as forecasts and future assessments on various topics, as mentioned above so that there is a possibility that events or developments predicted to be anticipated would not materialize, in whole or in part.

Overview, targets and strategy

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

On September 30, 2020, the transaction between the controlling shareholders of Union Bank Le-Israel Ltd. (hereinafter: "Union Bank") and Bank Mizrahi-Tefahot closed, whereby shares of Union Bank were acquired, and as from this date the Bank holds all of the share capital of Union Bank and therefore the Bank has control over Union Bank Therefore, the consolidated statement of profit and loss for 2021 and for the fourth quarter of 2020 and the Bank's consolidated balance sheet 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 chapter "Significant developments in management of Bank business" below and Note 35 to the financial statements.

Condensed financial information and key performance indicators for the Bank Group

	For the year ended December 31,				
	2021	2020	2019	2018	2017
					NIS in millions
Statement of profit and loss – highlights					
Interest revenues, net	7,685	5,820	5,340	4,922	4,347
Non-interest financing revenues	401	221	357	445	136
Commissions and other revenues	2,234	1,892	1,609	1,522	1,517
Total revenues	**10,320**	**7,933**	**7,306**	**6,889**	**6,000**
Expenses with respect to credit losses	(278)	1,050	364	310	192
Operating and other expenses	5,568	4,279	3,988	(1)4,384	3,611
Of which: Payroll and associated expenses	3,536	2,644	2,562	2,407	2,271
Pre-tax profit	5,030	2,604	2,954	2,195	2,197
Provision for taxes on profit	1,730	903	1,029	922	806
Net profit(2)	**3,188**	**1,610**	**1,842**	**1,206(1)**	**1,347**

	2021				2020			
	Fourth quarter	Third quarter	Second quarter	First quarter	Fourth quarter	Third quarter	Second quarter	First quarter
								NIS in millions
Statement of profit and loss – highlights								
Interest revenues, net	1,958	2,001	2,035	1,691	1,686	1,464	1,323	1,347
Non-interest financing revenues	83	63	66	189	27	54	76	64
Commissions and other revenues	596	551	544	543	557	407	399	529
Total revenues	**2,637**	**2,615**	**2,645**	**2,423**	**2,270**	**1,925**	**1,798**	**1,940**
Expenses with respect to credit losses	(15)	(36)	(240)	13	118	317	270	345
Operating and other expenses	1,555	1,339	1,333	1,341	1,335	977	950	1,017
Of which: Payroll and associated expenses	960	863	843	870	785	619	596	644
Pre-tax profit	1,097	1,312	1,552	1,069	817	631	578	578
Provision for taxes on profit	390	442	540	358	285	222	196	200
Net profit(2)	**679**	**845**	**988**	**676**	**506**	**387**	**360**	**357**

(1) Operating and other expenses in 2018 include a provision amounting to NIS 546 million with respect to the investigation by the US DOJ.
(2) Any mention of "net profit" or "equity" in this Board of Directors' Report refers to net profit and equity attributable to shareholders of the Bank.

Net profit for the Group in 2021 amounted to NIS 3,188 million, compared to net profit of NIS 1,610 million in the corresponding period last year – an increase by 98.0%. Net profit in 2021 reflects return on equity of 15.8%, compared to 9.5% in 2020.

Group net profit in the fourth quarter of 2021 amounted to NIS 679 million, compared to NIS 506 million in the corresponding period last year – an increase by 34.2%. Net profit in the fourth quarter of 2021 reflects annualized return on equity of 13.5%, compared to 11.4% in the corresponding period last year.

The following key factors affected Group profit in 2021, compared to 2020:

- Financing revenues (interest revenues, net and non-interest financing revenues) in 2021, excluding the effect of Union Bank, increased by 23.4% 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" below.
- Revenues from commissions, excluding the effect of Union Bank increased in 2021 by 6.9% compared to 2020. The increase is due to continued growth in client recruitment and in business.
- In 2021, revenues with respect to provision for credit losses amounted to NIS 278 million, due to decrease in the group-based provision, against the background of continued improvement in 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 1,050 million, including expense with respect to increase in the provision for credit losses on group basis, due to the Corona Virus outbreak.
- Operating and other expenses in 2021, excluding the effect of Union Bank, increased by 14.8% compared to the corresponding period last year, primarily due to increase in variable remuneration components.

  See below for additional influences on each operating expense component.

- Group profit in 2021 includes NIS 169 million (in the fourth quarter of 2020: NIS 13 million) with respect to profit of Union Bank, and NIS 216 million (in the fourth quarter of 2020: NIS 54 million) with respect to net deferred credit balance recognized with respect to acquisition of Union Bank on the statement of profit and loss over 5 years as from the fourth quarter of 2020.

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

- Total revenues grew from NIS 6,000 million in 2016 to NIS 9,170 million, an average annual growth rate of 11.2%, in view of the low interest rate environment.
- Moderate increase in expenses – average annual growth rate of 6.2%, impacted by adjustment of payroll expenses with respect to variable remuneration components in view of Bank results in 2021.

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

	As of December 31,					
	2021	2020	2019	2018	2017	2016
	NIS in millions					
Balance sheet – key items						
Balance sheet total	392,271	360,140	273,244	257,873	239,572	230,455
Loans to the public, net	271,428	245,525	204,708	194,381	181,118	171,341
Cash and deposits with banks	95,267	86,570	51,672	45,162	41,130	41,725
Securities	15,033	17,290	10,113	11,081	10,133	10,262
Buildings and equipment	1,734	1,743	1,457	1,424	1,403	1,585
Deposits from the public	307,924	284,224	210,984	199,492	183,573	178,252
Debentures and subordinated notes	38,046	33,446	33,460	30,616	29,923	27,034
Deposits from banks	6,992	3,779	714	625	1,125	1,537
Shareholders' equity(1)	20,770	18,804	16,033	14,681	13,685	12,714

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

Average annual growth in 2017-2021, excluding the effect of consolidation of Union Bank financial statements, was:

Balance sheet total	9.2%
Loans to the public, net	8.1%
Deposits from the public	9.7%
Shareholder equity	9.0%

(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)

	For the year ended December 31,				
	2021	2020	2019	2018	2017
Key performance benchmarks					
Net profit return on equity[(1)]	15.8	9.5	11.9	[(8)]8.5	10.2
Net profit return on risk assets[(2)]	1.53	0.89	1.17	[(9)]0.83	0.99
Return on average assets	0.85	0.53	0.70	[(9)]0.49	0.57
Deposits from the public to loans to the public, net	113.4	115.8	103.1	102.6	101.4
Ratio of Tier I capital to risk components	10.04	10.04	10.14	10.01	10.20
Leverage ratio[(3)]	5.18	5.19	5.55	5.42	5.48
(Quarterly) liquidity coverage ratio[(4)]	125	133	121	116	118
Net stable funding ratio	[(10)]119				
Ratio of revenues[(5)] to average assets	2.75	2.63	2.76	2.79	2.55
Operating expenses to total revenues[(6)] (Cost-Income Ratio)	54.0	53.9	54.6	[(8)]63.6	60.2
Basic earnings per share (in NIS)	12.47	6.70	7.86	5.17	5.80
Key credit quality benchmarks					
Ratio of balance of provision for credit losses to total loans to the public	0.77	0.98	0.82	0.80	0.81
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	0.85	1.11			
Ratio of impaired debts or debts in arrears 90 days or longer to loans to the public	0.98	1.18	1.36	1.23	1.02
Expenses with respect to credit losses to loans to the public, net for the period	(0.10)	0.43	0.18	0.16	0.11
Ratio of net accounting write-offs to average loans to the public	0.05	0.12	0.11	0.11	0.09
Additional information					
Share price (in NIS) as of December 31	120.00	74.25	92.00	63.14	64.19
Dividends per share (in Agorot)[(7)]	482	75	239	106	144
Average number of employees for the Group	7,420	6,684	6,373	6,285	6,215
Ratio of net interest revenues to average assets	2.05	1.93	2.02	1.99	1.84
Ratio of commissions to average assets	0.52	0.55	0.58	0.60	0.60

Financial ratios indicate as follows:

- Net profit return on equity reached 15.8%, against the background of higher revenues, due to increase in business, and to revenues with respect to decrease in provisions for credit losses.
- In 2021, revenues with respect to provision for credit losses amounted to NIS 278 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 10.04%. The minimum ratio required of the Bank is 8.60% (the minimum ratio without relief granted due to the Corona Virus crisis is 9.60%).
- The cost-income ratio in 2021 reached 54.0%.
- The Bank efficiently manages its compliance with regulatory targets required for capital adequacy, liquidity and leverage.
- The number of Bank employees increased due to acquisition of Union Bank, with this increase was fully reflected in 2021, and in line with the Bank's growth strategy and emphasis on the human factor in banking service. Note that as the merger process continues towards completion, some Union Bank employees are expected to retire. For more information see chapter "Significant developments in human capital and administration" below.

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

(1) Any mention of "net profit" or "equity" in this Board of Directors' Report refers to net profit and equity attributable to shareholders of the Bank.
(2) Net profit to average risk assets.
(3) Leverage Ratio – ratio of Tier I capital (according to Basel rules) to total exposure. This ratio is calculated in conformity with Proper Conduct of Banking Business Directive 218
(4) Liquidity Coverage Ratio – ratio of total High-Quality Liquid Assets to net cash outflow. This ratio is calculated in conformity with Proper Conduct of Banking Business Directive 221, in terms of simple averages of daily observations during the most recent reported quarter.
(5) Net interest revenues and non-interest revenues
(6) Total operating and other expenses to total operating and financing revenues before expenses with respect to credit losses.
(7) The rate of dividends is calculated based on the amount of the dividends actually distributed in the reported year.
(8) Net profit return on equity and cost-income ratio in 2018 were affected by a provision amounting to NIS 546 million with respect to the investigation by the US DOJ.
The Bank's net profit return on equity and cost-income ratio in 2018 excluding the provisions with respect to the investigation and taking into account the provisions for bonus payments in line with profitability from business operations and related tax expenses in 2018 amounted to: Return on equity – 11.6%. Cost-income ratio – 57.2%.
(9) Return on risk assets and average return on assets in 2018 were affected by the provision with respect to the investigation by the US Department of Justice, as stated above, decrease by 0.30 and 0.18 percentage points, respectively.
(10) Net stable funding ratio – a liquidity ratio stipulated by the Supervisor of Banks, in conformity with recommendations of the Basel Committee, designed to maintain a sustainable financing structure over time, in addition to the liquidity coverage ratio. The requirement to calculate and maintain a minimum net stable funding ratio and the required public disclosure apply as from December 31, 2021.

Environment, society and governance

Material aspects of environment, society and governance (ESG) at the Bank, which integrate with Bank business objectives and current operations

In 2021, the Bank presented a new five-year strategic plan aimed at continued success of the Bank through faster growth – both organic and non-organic, while reinforcing the technology and operating infrastructure and promoting the Bank's current organizational culture. This strategic plan incorporates the organizational human DNA of "Making progress while staying human", forms the basis for annual work plans in various operational areas. For more information about the Bank's strategic plan, see chapter "Business goals and strategy (Strategic plan)" below.

The strategic plan for 2021-2025 is based on the following key bases: Positioning the Bank as a key player in business banking, establishing Mizrahi-Tefahot's leadership among households in general and in mortgages in particular, providing personal and human banking services supported by advanced digital technology and so forth.

Business objectives are achieved with due consideration to social and environmental topics. This, *inter alia*, the Bank establishes its position as a key player in business banking based on supporting moves, including setting up real investment operations and leading major, complex transactions of project financing in the infrastructure segment and so forth.

The following environment, society and governance aspects are incorporated in the Bank's business objectives:

- Real investments – The Bank was awarded a tender by the Innovation Authority, pursuant to Section 43, designed to encourage institutional investors to invest in Israel start-up companies. The review of real investments includes a qualitative review, also taking into consideration environmental considerations such as environmental and industrial pollution, impact on global warming (gas emissions and so forth), impact on flora and fauna etc. Moreover, the review process takes into consideration social aspects, and the primary considerations are working conditions and employee rights, contribution and community support by the company being reviewed. When making an investment decision, the extent to which the companies consider the importance of contribution to the environment and to the community is taken into account, hence the Bank promotes responsible investment of Bank funds.
- Leading major projects to promote a green environment – The Bank provides loans for development of new technologies for generating, including to clients seeking to construct solar energy generation plants. Projects financed by the Bank include projects in public transportation, renewable energy and so forth. The Bank assists several projects that promote reduction of greenhouse gas emissions to maintain cleaner air.
- The Bank has a unique service concept, which places the personal banker in the branch at the center of the client relationship, complemented by a technological range of advanced digital channels. This service concept – as attested to by satisfaction surveys regularly conducted by the Bank, optimally serves client needs, while accounting for unique attributes of clients from different segments and backgrounds in Israeli society. This allows the client to decide how to manage their financial affairs: When to act on their own through digital channels, and when to seek assistance from their personal banker. Thus the Bank is able to route value propositions to specific clients, based on the channels preferred by each client.
- The Bank sees the great importance of approaching diverse clients and segments in Israeli society and strives to create products and services in response to various client needs. This is designed to allow anyone who so wishes to become a Bank customer.
- The Bank is making progress on construction of a new building for the Bank headquarters campus in Lod. This building is being designed with assistance from an environmental advisor who is an expert on green construction. This advisor assists the project from the outset, from design in conformity with current green construction standards, to obtaining an environmental standard certification when construction is complete. The building is designed for construction using the WELLL green construction standard – a voluntary international standard which promotes the health and well-being of users of the building. For more information see chapter "Significant developments in human resources and administration" below.

Below is a summary of key environmental, social and governance benchmarks:

	2021	2020	2019
Social (as of December 31)			
Number of branches for the Group	(1)225	232	198
Number of Group employees	(2)7,646	7,585	6,531
Loans to environmental products (NIS in millions)	2,025	775	600
Loans to social products (NIS in millions)	1,087	4,530	979
Investment in the community (NIS in millions)	17.2	16.4	19.1
Employee volunteer work hours (in thousands)	20.2	15.6	31.0
Small and micro suppliers as percentage of all Group suppliers	68%	72%	72%
Women as percentage of all employees	64%	64%	64%
Average training hours per employee	41	31	36
Investment in employee training (NIS in millions)	57.4	43.3	55.1
Environmental (For the year ended December 31)			
Reduction in carbon footprint	7.85%	7.95%	7.85%
Reduce energy intensity	4.0%	3.9%	5.1%
Emissions saved due to environmental initiatives of the Bank (tonnes of CO_2)	614	325	529
All Bank initiative to reduce energy consumption resulted in savings of (tonnes of CO_2)	502	305	176

(1) Should decrease due to merger of some Union Bank branches. The expected number of branches across the Group upon conclusion of the merger process is 205.
(2) Expected to decrease as progress is made on the Union Bank merger process, due to retirement of some Union Bank employees.

Bank Group and its lines of business

Mizrahi-Tefahot Bank Ltd. ("the Bank") is a public company and was among the first banks established in the State of Israel. The Bank was incorporated on June 6, 1923 under the name Bank HaMizrahi Ltd. and holds a banking license. The Bank was founded at the initiative of the World Mizrahi Center, in order to facilitate the financing of settlement, construction, manufacturing, labor and commercial activities of the new settlers in the Land of Israel. In 1969, upon the merger of the businesses of the Bank with the businesses of Hapoel Hamizrahi Bank Ltd., the Bank's name was changed to United Mizrahi Bank Ltd. In 1983, within the framework of the arrangement formulated between the Israeli Government and the Banks, the shares of the Bank were transferred to the control of the State through a securities company that was established for this purpose. In 1995, the Bank privatization process started, with control of the Bank transferred to Wertheim and Ofer Groups – this process was completed in 1997. Following the merger between United Mizrahi Bank Ltd and “Tefahot” Israel Mortgage Bank Ltd. (“Tefahot”), the merged bank's name was changed on November 7, 2005 to its present name, Mizrahi-Tefahot Bank Ltd.

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

Since 2008, Mizrahi-Tefahot Group also includes Bank Yahav for Government Employees Ltd. (with the Bank holding 50% of all rights and means of control over Bank Yahav) and Union Bank (which was fully acquired in September 2020, when it became a wholly-owned subsidiary of the Bank) (in this paragraph: "the **Group**"). The Group operates in Israel and overseas, and is engaged in commercial banking (business and retail) as well as in mortgage activities in Israel, and takes part in syndication transactions, through a nation-wide network of 225 branches, business centers and affiliates. Furthermore, business customers are supported by business centers and professional units at Bank headquarters, which specialize by sector. The Bank's overseas operations are conducted via two bank affiliates (in the UK and in the USA).

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

The Bank is one of the five largest bank groups in Israel. Below is the Bank Group share out of the Top 5 groups (based on financial statements as of September 30, 2021):

Loans to the public	21.3%
Deposits from the public	17.8%
Total assets	18.2%
Shareholders’ equity	15.2%

Major risks

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

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

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

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

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

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

> **Information security and cyber risk** – Information security risk is risk arising from faults in protection of the Bank's computer systems and information stored there. Cyber risk arises from an event including an attack on computer systems by or on behalf of internal or external adversaries of the Bank.
>
> **IT risk** – the risk of failure in the Bank's information and/or IT and operating systems, as well as support that is not appropriate and sufficient for business services and processes required by the Bank to realize its business targets.
>
> **Legal risk** – Risk of loss due to exposure to fines, lawsuits and/or punitive action due to breach of contract or disagreements. Legal risk also includes risks arising from legal exposure due to Bank conduct with its various stakeholders (such as: clients, suppliers and other third parties).

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

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

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

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

Business-strategic risk is the risk, in real time or potentially in future, of impairment to Bank profits, capital or reputation, due to erroneous business decisions, improper deployment of decisions or insufficient preparation for changes in the business environment. This means the risk that the Bank chose the wrong strategy or that the Bank would not be able to implement the business and strategic plan as planned.
For more information about major and emerging risks, see chapter "Risk Events" below.

For more information see chapter "Risks overview" and the 2021 Risks Management Report on the Bank website.

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 about the strategic plan, see Immediate Report dated April 27, 2021 (reference: 2021-01-071448).

Significant developments in business activities

Business in the mortgage market grew in 2021, with residential mortgage origination in the banking system amounted to NIS 117 billion, an increase by 48% over 2020. The Bank is acting to maintain its leadership position in the mortgage market in terms of market share and in perception and further reinforce the expertise of mortgage bankers. Over the past year, the Bank successfully retained its leadership position in the mortgage sector, while maintaining low risk attributes for LTV and repayment ratio out of borrower income. Upon acquisition of a controlling interest in Union Bank, on September 30, 2020, the Bank Group's market share includes the mortgage operations of Union Bank as well. In January 2021, the Bank of Israel removed a restriction on the share of loans granted linked to the Prime lending rate. Due the removal of this restriction, demand for mortgages surged and turnover increased.

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

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

The Bank focuses its efforts on raising stable, diversified financing sources for different time frames, from private and business clients, so as to further maintain appropriate liquidity ratios, in order to reduce the cost of sources required for its operations and to improve the level of profitability. These efforts resulted in the Bank continuing to significantly increase the scope of retail deposits in 2021, while maintaining high liquidity ratios.

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

The competition in providing banking and financial services to the business banking segment was affected, in 2021, by strong growth in loans to large businesses. Moreover, competition in this segment have been affected in recent years by expanded operations of non-banking entities, which are focused on providing large-scale credit for long terms. The Bank is dealing with competition in this segment by relying on the advantages of its human resources and on their knowledge and experience in providing professional service and in adapting banking solutions for client needs. The Bank's business strategy in this segment is directed toward maximizing the economic potential of the capital by focusing on activities having high profitability relative to the capital needed for them, Concurrently, the Bank is acting to leverage its professional advantage by increased cooperation in consortiums with other entities.

The Bank continues to maintain high operating efficiency through, *inter alia*, reorganization of assets and optimization of the branch network, including opening new branches in locations with potential for business growth – along with steps for streamlining the existing dispersion.. In early 2021, the Bank decided that responsibility for Bank branches in London and in Los Angeles would be transitioned from the Finance Division to the Corporate Division, in order to enhance the synergies between business operations in Israel and overseas.

Further to acquisition of Union Bank shares by the Bank on September 30, 2020, the Union Bank merger process continued in 2021. In conformity with the rationale underlying the transaction to acquire the sixth largest bank in Israel, the joining of Union Bank allows Mizrahi-Tefahot Group to make a significant step forward in market share of various operating areas, with improvement to the mix of sources and uses and increased competitiveness. Union Bank's lending operations in the various segments diversifies Mizrahi-Tefahot's lending mix, in conformity with the Bank's strategic targets, in particular with regard to the business lending segment. The acquisition would allow for economies of scale at the merged bank and would result in operational cost savings.

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

Developments in capital structure

Investments in Bank Capital and Transactions in Bank Shares

- For more information about share issuance in conjunction with an employee' stock option plan, see statement of changes in shareholders equity in the financial statements.
- On 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 23 to the financial statements for additional information.
- For more information about changes to the control structure at the Bank, see chapter "Corporate Governance, Audit, Other Information about the Bank and Management thereof" (Controlling shareholders) on these financial statements.

Raising of capital sources

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

The plan includes issue of contingent subordinated notes (Contingent Convertibles – CoCo) as needed and should ensure that the overall capital ratio would not be lower than the minimum capital ratio required by the Supervisor of Banks, at 11.5% (excluding relief, as from January 1, 2022: 12.5%).

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 issue of debentures and contingent subordinated notes (Contingent Convertibles – CoCo) in 2021, see "Developments in financing sources" below.

Developments in financing sources

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

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

Deposits

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

Deposits from the public for the Group as of December 31, 2021 amounted to NIS 307.9 billion, compared to NIS 284.2 billion at end of 2020: an increase by 8.3%. Deposits from the public in the NIS-denominated, non-CPI linked segment decreased in 2021 by 6.9%; deposits in the CPI-linked segment increased by 31.3%; and deposits denominated in or linked to foreign currency increased by 7.3%. For more information see chapter "Analysis of developments in assets, liabilities, equity and capital adequacy" below.

Bank of Israel

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

Due to the Corona Virus crisis, in April 2020 the Bank of Israel launched a campaign whereby it provided to banks low-cost, long-term financing sources, so that these may be provided as available credit to the business sector. This plan was concluded in July 2021.

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

Another source for raising short-term funds is the inter-bank money market. Excess liquidity in the banking system in Israel remained high in 2021 as well. The Bank of Israel absorbs excess liquidity through monetary deposit tenders for terms of one day, one week and for terms of up to 8 weeks.

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

Issuance of obligatory notes, debentures and complex capital notes

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). On November 29, 2021, further to the Bank's request, ISA resolved to extend the deadline for offering securities pursuant to the shelf prospectus by a further 12 months, to December 3, 2022.

As of December 31, 2021, total debentures and subordinated notes amounted to NIS 38.0 billion, compared to NIS 33.4 billion as of December 31, 2020.

Of these, 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 December 31, 2021, amounted to NIS 6.1 billion, compared to NIS 4.5 billion as of 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".

Issuance and redemption of funding sources

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 CoCo 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).

In July 2021, 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.

Further to approval by the Supervisor of Banks, Tefahot Issuance conducted, on September 12, 2021, early redemption of contingent convertible (CoCo) subordinated notes (Series 55), with current value amounting to NIS 222 million.

On October 21, 2021, Tefahot Issuance issued a new series of NIS-denominated CPI-linked debentures (Series 62), with total par value of NIS 3.4 billion, for consideration amounting to NIS 3.6 billion.

On December 23, 2021, Tefahot Issuance issued CPI-linked debentures by expansion of traded series (Series 46 and Series 52), with total par value of NIS 1.6 billion, for consideration amounting to NIS 1.8 billion.

Further to approval by the Supervisor of Banks, the Bank conducted an early redemption of subordinated note (Series A) in early January 2022, for NIS 2.1 billion. The subordinated note issued by the Bank did not qualify as supervisory capital pursuant to Basel III directives and was gradually written down.

Significant developments in management of business operations

Branch deployment

Group branches are primarily aimed at providing professional, high-quality service to clients of all banking segments, close to the location where the service is required (residence, place of business). To this end, branches manage day-to-day client activities and offer to clients and the public at large advanced financial products and services, including advisory services for capital market activity and pension advisory services.
As of December 31, 2021, Group branches are located nationwide, consisting of 225 business centers, branches, including 52 Bank Yahav branches (of which 4 branches providing partial service) and 29 Union Bank branches.
The Bank continues to review its branch network in accordance with its strategic plan, with optimization and location selection based on considerations such as providing optimal service to clients, economic viability considerations etc.
In conjunction with the merger process of Union Bank and Mizrahi-Tefahot, the Bank is preparing for a merger of some Union Bank branches with Mizrahi-Tefahot branches, so that after this process is concluded, the branch count would be 205.
For more information about sale of Bank Group properties, see chapter "Significant events in the Bank Group's business" below.
The Bank operates 6 LIVE branches – which are branches providing full personalized service during extended business hours using a range of communication channels between clients and bankers (via telephone, fax, internet, email, SMS, video conferencing).

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.

Direct channels

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

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

Direct channels offered to Bank clients include:

Hybrid Banking services

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

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

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

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

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

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

Tefahot Touch app – this app was launched in late 2021 and is used by clients, together with the Bank's mortgage experts, from the mortgage application stage through loan origination. Some of the actions required for taking out a mortgage, which previously required clients to go to the branch in order to conduct them, can now be easily completed using Tefahot Touch. Moreover, this is yet another channel for clients to contact the Bank's mortgage experts.

Self-service at branches

- The Bank constantly expands its services to clients through self-service stations.
- Service stations – The Bank provides clients with service stations, allowing them to conduct transactions such as: Depositing cash, taking out a loan, ordering checkbooks and depositing checks and obtaining information about their commercial accounts independently, 24 hours a day - even when the branch is closed.
- In 2021, the Bank essentially completed the multi-annual campaign to deploy the cash deposit service using self-service stations at all Bank branches (a few branches remain to be completed in the first quarter of 2022).
- ATMs – The Bank owns 213 cash withdrawal machines, some in Bank branches and some are "remote ATMs".

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.

Expansion of business operations

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

Corona Virus pandemic

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.

As part of preparations for the merger, both banks are acting to convert clients from Union Bank to the Bank, and to transfer various activities of Union Bank to the Bank. As a result of the merger, most Union Bank branches are expected to close.

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.

On January 26, 2022, after the balance sheet date, an agreement was signed by Union Bank to sell their entire holding stake (14.66%) in Hof HaTchelet Development Company Ltd. (hereinafter: "Hof HaTchelet") and for sale of owners' loans provided by Union Bank to Hof HaTchelet for NIS 190 million plus VAT. The Bank would recognize net profit amounting to NIS 100 million in the first quarter of 2022 with respect to this sale.

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.

On May 10, 2021, the Tax Authority approved the merger of Union Bank with and into the Bank, as from 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.

Strategic cooperations

In 2021, the Bank continued to conduct syndication transactions, including for sale and sharing of credit risk with institutional investors and financial institutions in Israel and overseas. Further cooperation with institutional investors is part of the Bank's strategic plan.

Significant developments in human resources and administration

Developments in labor relations

Special collective bargaining agreement at Union Bank

On March 25, 2021, a special collective bargaining agreement was signed by Union Bank and two of its subsidiaries, 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 stipulated 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 not all of which are under the Bank's control.

Developments in logistics

In 2021, the Bank continued the trend of streamlining and utilizing existing resources as follows:

- Streamlining of space usage.
- Optimal deployment of the branch network.
- Further leveraging of infrastructure through temporary leasing of space used by the Bank as reserve for future growth to third parties.
- On April 30, 2017, the Bank Board of Directors approved a strategic move to relocate operations of Bank headquarters units to one central site in Lod. Thus, in 2017 the Bank acquired land in Lod, with an area of 6,000 m^2, for consideration amounting to NIS 25.8 million, adjacent to the property currently housing the Technology-Logistics Center ("Mizrahi Tefahot Lod"). The plan is to construct another building and to gradually relocate all Bank headquarters units to this building. In 2021, planning of the new campus continued (after the Bank Board of Directors approved the project scope and budget), and excavation work accompanied by the Antiquities Authority has been completed. In 2022, frame construction work should begin after the prime contractor for this project will have been selected. Furthermore, the construction permit for above-ground areas is expected to be received sometime this year. Project completion and relocation of the units are expected by 2025.
- In conjunction with the Union Bank merger, all Union Bank properties have been reviewed have been reviewed as for the expected date of vacating the properties vs. their lease expiration date. In properties where the lease needed to be extended for a few months, this was agreed with the property owners. In most of the properties where the lease expiration date was significantly far from the data of vacating the property, compromise agreements have been reached with property owners for vacating the property early with payment of compensation or locating an alternative lessee. Furthermore, all properties owned by Union Bank (along with several other properties owned by Mizrahi-Tefahot) were sold, ensuring a strict lease term to match the expected property usage period, as well as an additional lease term if needed. The transaction was signed in the first quarter of 2022. For more information about the sale of the properties, see chapter "Significant events in the Bank Group's business" below.

The activities and trends described above are expected to continue in 2022.

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

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

Significant developments in IT

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

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

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

Union Bank

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

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

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

Developments in international geographic deployment

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

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

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

As part of an overall 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.

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

Each overseas affiliate operates subject to local laws and regulations, and is regularly assisted by local legal counsel who specialize in banking operations applicable for each affiliate.
International operations also involve cross-border risk, for more information see chapter "Risks overview" below.

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

Other matters

Changes in Bank management

Mr. Israel Engel, serving the Bank as VP, Manager of the Retail Division, announced his wish to conclude his term in office as Head of the Bank's Retail Division. Mr. Engel would conclude his term in office on March 31, 2022. On October 11, 2021, the Bank's Board of Directors resolved to appoint Ms. Shevy Shemer as VP, Manager of the Retail Division, replacing Mr. Engel, and her start date in office would be April 1, 2022. The Board of Directors of Union Bank appointed Mr. Haim Freilichman as CEO of Union Bank as from April 1, 2022. Mr. Freilichman has previously held this position.
Ms. Dina Navot, who had served the Bank as VP, Manager of the Marketing, Promotion and Business Development Division announced her intention to conclude her term in office with the Bank, and concluded it on October 31, 2021.
On October 11, 2021, the Bank's Board of Directors resolved to appoint Ms. Terry Yaskil as VP, Manager of the Marketing, Promotion and Business Development Division. Her start date in office was November 1, 2021.

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

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).
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).

Harel Insurance Investments & Financial Services Ltd.

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). On September 14, 2021, the Bank reported that Harel Insurance Investments & Financial Services Ltd. ceased to be an interested party in the Bank (for more information, see Immediate Report dated September 14, 2021, reference 2021-01-

146871). On November 4, 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 November 7, 2021, reference 2021-01-163710).

Meitav Dash Investments ceased to be an interested party

On January 31, 2022, the Bank reported that Meitav Dash Investments ceased to be an interested party in the Bank (for more information, see Immediate Report dated January 31, 2022, reference: 2022-01-013135).

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 specified 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 derivative proceeding, confirming as a verdict the settlement agreement.

See Note 26 to the financial statements for additional information.

Legal Proceedings

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

Explanation and analysis of results and business standing

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

Trends, phenomena developments and material changes

Significant Events in the Bank Group's Business

Closing of acquisition of Union Bank

For more information about 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

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

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.

Progress made on vaccinating the population and improvement in resilience of healthcare systems in Israel and world-wide in 2021 resulted in more moderate impact of Corona Virus morbidity waves, and consequently to gradual lifting of restrictions imposed on economic activity. Consequently, in 2021 economic growth in Israel rebounded.

As from January 2022, due to the Omicron virus outbreak, the Bank applied measures to address this occurrence, including the following: Dissemination of work guidelines and maintaining hygiene and social distancing, splitting units and branches, transition to capsule-based work, creating an outline for working remotely by means of a fast, structured process, distribution of protective measures and so forth. Concurrently, the Bank monitors cases of morbidity or infection at branches and at headquarters units.

In order to assist Bank clients, the Bank offered its clients a voluntary outline for deferral and re-scheduling of loan repayments for households, and also allowed them to decrease their monthly mortgage payments by 50%. The Bank also played a significant, active role in extending loans to businesses, as part of state-guaranteed funds, and currently the Bank allows small businesses to defer the loan principal repayment for 12 months.

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 December 31, 2021, the deferral period has ended for residential mortgages amounting to NIS 43.7 billion for which the Bank approved deferral during the Corona Virus crisis (estimated balance as of December 31, 2021: NIS 37.2 billion). Of these, NIS 7.4 billion chose the partial repayment track based on the Bank of Israel outline.

As of December 31, 2021, out of all other (non-housing) loans subject to deferral, NIS 4.1 billion resumed repayment and NIS 0.5 billion are still subject to deferral, mostly expected to end in 2022. As of December 31, 2021, out of all loans for which repayment has resumed, only NIS 0.1 billion are in arrears.

As of December 31, 2021, the balance of loans provided by the Bank from State-guaranteed funds amounted to NIS 4.6 billion. Against the loans extended, in conformity with the Bank of Israel outline, the Bank participated and obtained a special-purpose monetary loan from the Bank of Israel whose balance as of December 31, 2021 amounted to NIS 4.9 billion.

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

Sale of properties owned by the Bank Group

On January 30, 2022, the Bank and Bank subsidiaries (hereinafter: "the sellers") signed agreements to sell their entire interest in 24 rental properties across Israel designated for different uses (hereinafter: "the properties"), office and commerce, including: Union Bank management building on Ahuzat Bayit Street, Tel Aviv-Yafo; office building on Lincoln Street, Tel Aviv-Yafo; Union Bank's main Tel Aviv branch on Ahad HaAm Street, Tel Aviv-Yafo; and multiple properties at Mitcham HaBursa in Ramat Gan. The consideration for sale of the interest in the properties amounts to NIS 531.6 million plus VAT (hereinafter: "the consideration" and "the transaction", respectively).

On February 9, 2022, the Anti-Trust Supervisor granted their approval, thereby the suspensive condition in the transaction was fulfilled and the the transaction closed.

Most of the properties would be leased to the sellers for variable terms as from February 2022, in conformity with provisions of the leases signed by the sellers and the buyer.

The Bank would recognize net profit amounting to NIS 179 million in the first quarter of 2022 with respect to sale of these properties. For more information see Immediate Reports dated September 14, 2021, (reference: 2020-01-146793), report dated January 31, 2022, (reference 2020-01-013000), report dated February 9, 2022, (reference: 2022-01-017011).

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

Major developments in the banking industry in Israel and overseas

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

- The global Corona Virus outbreak started in early 2020, with governments around the world and in Israel applying lock-down and social distancing measures in an effort to stop the spread of the virus. This resulted in a global economic crisis, reflected in shut down of large swaths of the global and local economy, with a sharp increase in the unemployment rate. The impact of this crisis was evident on the demand side, due to restrictions imposed on business activity. In an attempt to mitigate the intensity of this impact, governments world-wide applied significant expansive fiscal measures in compensating businesses and employees impacted by this crisis and in extending credit to the business sector. Due to the crisis, the business turnover shrank in Israel and in many world countries, resulting in significant increase in 2020 in expenses with respect to credit losses in the banking system. Progress made on vaccinating the population and improvement in resilience of healthcare systems in Israel and world-wide in 2021 resulted in more moderate impact of Corona Virus morbidity waves, and consequently to gradual lifting of restrictions imposed on economic activity. Consequently, in 2021 economic growth in developed nations, including Israel, rebounded. The recovery in business activity in the Israeli economy resulted in revenues with respect to decrease in provisions for credit losses in the banking system in 2021.
- A low interest rate environment over time, which impairs bank profitability. In recent years, major world economies have applied expansive monetary policy, so as to energize economic activity. Given the impact to economic activity caused by the Corona Virus crisis, most central banks applied expansive monetary measures, including programs to purchase debentures. In 2021, the monetary interest rate in Israel was unchanged at 0.1%. This was due to the moderate inflation rate compared to the rest of the world, with this rate being within the Bank of Israel target range.

- The release of pent-up demand around the world in 2021, as restrictions on business activity were lifted, contributed to deterioration in disruptions in the global supply chain and to higher inflation around the world. In order to moderate the inflation rate, many central banks have raised their monetary interest rates and have taken other measures to reduce their expansive monetary policy. The Federal Reserve has stated that it would complete the reduction of its quantitative expansion program by March 2022, and has signaled that it would raise interest rates after this program will have been concluded.
- 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 revisions to the directive have been applied 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 applies as from February 28, 2021.
- In November, the Bank of Israel announced it would promote a reform designed to increase information transparency for mortgage clients. As part of the reform, banks would allow for a new mortgage application to be filed online; approval in principle would be provided within a few days to the client, in a uniform format; the approval in principle would include, in addition to the mortgage basket proposed by the banks, three uniform baskets with compositions specified by the Bank of Israel. The reform is scheduled to be applicable as from August 31, 2022.
- Rapid development of digital banking based on Internet platforms and increased use of mobile devices, accompanied by regulatory relief from the Bank of Israel, designed to promote digital banking activities. Along with these developments, use of digital channels by households and businesses is constantly growing. Furthermore, the growing digital trends allows technology companies to enter the financial brokerage market, in cooperation with the banking system. The need for social distancing due to the Corona Virus crisis may result in a faster trend towards digital service in banking activities.
- Over the past year, banking activities were affected by implications of the Corona Virus crisis. The State launched special foundations to provide State-guaranteed loans to the business sector, which provided loans in significant amounts. Furthermore, the Bank of Israel launched outlines for delaying credit payments, both for the business segment and for households. In 2021, loans subject to repayment deferral decreased significantly.
- Competition in the household segment, primarily in the housing segment, and in the small and medium business segments has increased in recent years, given the focus of the banking system on these segments, along with increased new entries from non-banking financial institutions. Separation of credit card companies Isracard and Max (formerly: Leumi Card) from the top two banks was completed in 2019. The credit card companies make increased efforts to grow in retail credit and to expand their non-banking club client base. These effects are accompanied by increased regulation in the following areas: Supervision of prices of banking services; elimination of barriers to account transfer between banks; promotion of the Credit Information Act and creation of a banking ID for increased transparency for consumers and for reducing information gaps; increased competition in the banking sector by encouraging entry of new competitors.
- Digital developments and technology advancement in recent years affect the financial system and change the production function in the banking sector, due to growing reliance on advanced technology. Such technology allows for greater diversity of banking services available through digital channels, while reducing production costs. Given these trends, technology-based financial entities – FinTech companies and digital banks – have started making in-roads into the banking sector world-wide. The first digital bank in Israel launched operations in March 2021.

In response to these developments, in recent years banks have been undergoing a digital transformation, designed to streamline their production function in the following areas:

- Deployment of technological improvements for streamlining of operational processes.
- More digital banking services, so as to expand the product offering to clients and to increase the availability and quality of such products.
- Gradual replacement of IT systems for improved response time, enhanced flexibility and infrastructure stability.

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

- The Supervisor of Banks launched a project concerning the Open Banking API (Application Programming Interface) standard. Open Banking would allow sharing of financial information of clients, subject to client consent. Such information sharing may result in improved financial services provided to clients and in increased competition for such services.
- More extensive requirements with regard to maintaining liquidity coverage ratio and leverage ratio, in order to improve stability of the banking system. On the other hand, the Supervisor of Banks allowed Israeli banks to issue debentures with a loss-absorption provision, as is common around the world (contingent conversion debentures – CoCo). Such debentures contribute to stability of the issuing bank and to reduced support required from the Government should the

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

- Stricter international regulation is characterized by increased, cross-border enforcement as well as by local taxation issues.
- Increased consumer awareness due, *inter alia*, to increased use of social networks and to technology which allows for easier access to information and to evaluation of financial alternatives. Consequently, the banking world is becoming focused on identifying client needs, while applying privacy protection laws.

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

Developments in Israel's Economy and in the global economy in 2021

In early 2021, the global vaccination campaign for vaccination of the population against the Corona Virus was launched. During this year, half of the world population has received at least one vaccine dose. In view of the extensive vaccination campaign, severe morbidity decreased and countries started to gradually lift restrictions on economic activity. The global economy and labor markets have recovered due to higher global demand. However, the release of pent-up demand resulted in disruptions to the global supply chain and in higher energy prices. Challenges on the supply side, along with expansive fiscal and monetary policies applied in major economies, resulted in higher inflation rates around the world.

Crisis in the Ukraine

On February 24, 2022, a military confrontation broke out between Russia and the Ukraine. It is not possible to assess how this confrontation would develop nor its implications, if any, on markets and on economic activity, including of Bank clients. Bank management is monitoring the developments and would take action as required.

Israeli economy

Real Developments

In 2021, vaccination of the population in Israel has resulted in more moderate impact of morbidity waves, and consequently in less severe restrictions. Consequently, economic growth in Israel has recovered rapidly. GDP in Israel in 2021 increased by 8.1%, following 2.2% decrease in 2020 and 3.8% growth in 2019. GDP growth was primarily impacted by higher private consumption, export of services and investment in fixed assets.

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 – decreased sharply during the year as the Government gradually reduced its support during furlough, from 18.0% in January 2021, to 6.0% in December 2021. The employment rate increased during the year, reaching 60.1% in December 2021 – close to its level prior to the Corona Virus crisis.

According to forecast by the Bank of Israel Research Division dated January 2022, GDP in Israel is expected to grow by 5.5% in 2022. The broad unemployment rate should be at 4.8% at the end of 2022.

Inflation and exchange rates

In 2021, the Consumer Price Index increased by 2.8%, compared to a decrease by 0.7% in 2020. 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 energy and commodity prices globally. All CPI components were higher, except for fruits and vegetables,clothing and footwear.

In 2021, the NIS was revalued by 3.3% vs. the USD. The USD/NIS exchange rate was revalued due to foreign currency conversion by institutional investors, a high level of foreign investments in the economy and foreign currency purchased by the Bank of Israel. The stronger NIS serves to moderate inflation in Israel, compared to the rest of the world.

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

	December 31, 2021	December 31, 2020	Change in %
Exchange rate of:			
USD (in NIS)	3.110	3.215	(3.3)
EUR (in NIS)	3.520	3.944	(10.8)

On February 22, 2022, the USD/NIS exchange rate was 3.219 – a 3.5% devaluation compared to December 31, 2021. The EUR/NIS exchange rate on this date was 3.653 – a devaluation of 3.8% compared to December 31, 2021.

Monetary policy

In order to support market liquidity, to provide relief in credit terms in the economy and to support economic activity, the Bank of Israel retained its interest rate un-changed in 2021, at 0.1%. The Bank of Israel continued to apply expansive monetary measures: The Bank of Israel purchased Government debentures valued at NIS 38.8 billion and provided long-term loans to the banking system at negative interest, contingent on these being extended to small and micro businesses. Moreover, the Bank of Israel continued to intervene in the foreign currency market and purchased USD 34.8 billion so as to moderate the NIS revaluation trend.

Fiscal policy

In 2021, the government budget recorded a NIS 68.7 billion cumulative budget deficit, compared to a NIS 160.3 billion cumulative deficit in 2020. In total, the impact of the Corona Virus crisis on the Government expenditure is estimated at NIS 60.1 billion. The deficit rate for 2021, as percentage of GDP, was at 4.5%, compared to 11.7% in 2020 and 3.7% in 2019. In 2021, expenditure by Government ministries decreased by 0.1%, while tax collection increased by a nominal 23.5%. In early November 2021, the Knesset approved the state budget for 2021-2022, after 3 years during which it operated based on a continual budget. 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 2021 demand for new apartments (apartments sold and apartments constructed not for sale, original data) was 70.5 thousand apartments, an increase by 27.6% over 2020 and an increase by 33% over 2019. In 2021, residential mortgages given to the public amounted to NIS 116.8 billion, compared to NIS 79.0 billion in 2020 and NIS 68.5 billion in 2019 – an increase by 48% and 71%, respectively.

According to data from the Central Bureau of Statistics, owned housing prices increased in the 12 months ended in December by 11.3%, compared to 4.0% in 2020.

Capital market

Global equity market were highly positive in 2021, led by the US stock exchanges and by the equity market in Israel.

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

CPI	2021	2020	2019
Tel-Aviv 35	32.0	(11.0)	15.0
Tel-Aviv 125	31.2	(3.0)	21.3
Tel-Aviv 90	33.1	18.1	40.3

The average daily trading volume in shares and convertible securities in 2021 was NIS 1.9 billion, similar to the average trading volume in 2020.

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

CPI	2021	2020	2019
General debentures	4.1	0.8	8.7
CPI-indexed Government debentures	7.4	1.2	10.3
Non-linked Government debentures	(0.8)	1.3	8.3
Tel Bond 20	8.3	(0.2)	8.2
Tel Bond 40	7.3	0.1	6.5

Global economy

The US economy grew in 2021 at an annualized rate of 5.7%, after shrinking by 3.4% in 2020. GDP growth was primarily impacted by higher private consumption, investment in fixed assets and exports. The Purchasing Manager Indexes consistently indicated rapid expansion throughout the year, in both service and industrial sectors. However, disruptions in the global supply chain weighed down on economic expansion. The US economy added 6.6 million new jobs this year, with the unemployment rate dropping from 6.4% at the start of the year to 3.9% in December. In order to support the US economy, the Federal Reserve launched a debenture purchase program. In order to moderate the inflation rate, which reached 7.0% in 2021, the Federal Reserve announced that it would be discontinuing this program in March 2022, and has indicated that it would raise the monetary interest rate.

The Euro Zone economy grew in 2021 by an annualized 5.2%, after shrinking by 6.4% in 2020. The Purchasing Manager Indexes indicated expansion throughout most of the year, primarily led by the industrial sectors. The inflation rate in 2021 was 5.0%, compared to -0.3% in 2020. The ECB announced it would slow-down the purchase of debentures in its PEPP assistance program following the Corona Virus crisis.

China's GDP grew by 8.1% in 2021, following 2.2% growth in 2020. The Industrial Output Index rose throughout the year, although at a decreasing pace, due to outbreaks of morbidity and disruptions to the supply chain. The Retail Trade Index also increased during the year, primarily in the first half of the year. The Purchasing Manager Index in industrial sectors showed slow expansion throughout the year, while the Purchasing Manager Index in service sectors showed rapid expansion with high volatility due to local morbidity outbreaks. The Central Bank of China reduced interest rates on loans in December 2021 and in January 2022, so as to support economic activity in view of the slow-down in China's real estate sector.

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

CPI	2021	2020	2019
Dow Jones	18.7	7.3	22.3
S&P 500	26.9	16.3	28.9
NASDAQ 100	26.6	47.6	38.0
DAX	15.8	3.6	23.0
FTSE 100	14.3	(14.3)	19.0
CAC	28.9	(7.1)	19.1
Nikkei 225	4.9	18.4	22.3

Risk events

In 2021, there were no material loss events nor any events with a potential for material loss.

Key and emerging risks

Bank business exposes it to various financial and non-financial risks, which may impact the Bank's business results and reputation.
Top risks and evolving risks are derived from the Bank's business environment, which is impacted by the macro-economic environment, by risk associated with regulation and legislation, by changes to the business model and by social and consumer trends. In recent years, due to changes to the competitive environment, to the consumer environment, to the regulatory environment and to the technology environment, a trend of evolving non-financial risks is becoming apparent. Top risks are risks arising from developments in the Bank's business environment, which may materialize over the coming 12 months which potentially may materially impact the Bank's financial results and stability. Furthermore, evolving risks are identified, which are risks that may materialize in the longer term and their nature and impact on the Bank are uncertain. Such risks include cyber and information security risk, IT risk and reputational risk.

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

Material top risks and evolving risks are:

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

Increased competition, changes to client behavior and to business models, that may result in material impact on the banking system over the medium to long range. Furthermore, regulatory changes may impact the Bank's business results. The impact of regulatory provisions in core areas of banking operations, including the potential impact of the Increased Competition and Reduced Concentration in Israeli Banking Act. The objective of this Act is to increase competition in retail banking services, with reference to both supply (adding new players) and demand (increasing consumer capacity to compare the costs of financial services).

Technological developments in the world of finance and changes to consumer preferences result in growing transition of banking activity to digital channels. The evolution of open banking may result in greater competition for pricing, in particular with regard to payments and money transfers. Given these developments, there is growing concern of a division of the basket of banking products and of increased competitive threat to the banking system due to non-bank financial entities and technology companies entering banking activity segments. The Bank is preparing for this changing world of technology by adapting the banking production function through, *inter alia*, investing in technology.

On April 26, 2021, the Bank's Board of Directors approved a new five-year strategic plan for 2021-2025 based, *inter alia*, on positioning the Bank as a key player in business banking, establishing the Bank Group's leadership position among households, providing 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, adapting the operating model to future challenges and further improvement in operating efficiency and leveraging the Union Bank merger to generate operating and business synergies and to realize economies of scale. For more information see Immediate Report dated April 27, 2021 (reference: 2021-01-071448).

Furthermore, this risk is impacted by the Corona Virus event which may potentially impact the Bank's entire risk profile, due to uncertainty as to further development of this risk and material macro-economic implications arising from it.

Macro-economic risk – Bank operations are affected by the macro-economic environment. The state of the global economy, significant changes in monetary policy and in interest rate curves, market volatility and changes in prices of financial assets in Israel and world-wide and in real estate prices and in the economic and geo-political situation of Israel and of the region may potentially impact Bank operations.

Geo-political tensions and the possibility of war breaking out between Russia and the Ukraine is a material risk factor, which could affect the global macro-economic environment.

The effect of the Corona Virus pandemic, which started in early 2020, and the uncertainty with regard to its conclusion and various effects, including in the coming years, is a significant global macro-economic risk, which may disrupt business and economic activity. Materialization of this risk may increase troubled debts and may negatively impact the Bank's business results. Progress made on vaccinating the population and improvement in resilience of healthcare systems in Israel and world-wide in 2021 resulted in more moderate impact of Corona Virus morbidity waves, and consequently to gradual lifting of restrictions imposed on economic activity. Consequently, in 2021 economic growth in Israel rebounded, but concurrently with economic improvement, certain inflationary pressures emerged in Israel and world-wide, in particular higher real estate prices and challenges to the global supply chain. There is still uncertainty with regard to future outbreaks of the virus, its future attributes and potential future impact on business and economic activity.

Information security risk – increasing cyber threats towards financial institutions. The Bank applies protective measures in order to limit the ability 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.

The Corona Virus crisis elevated cyber risk, both due to increase in working remotely, which provided more attack vectors for organizations and due to increased fraud attempts in the shadow of the outbreak. 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.

Technology risk – technology evolution and the age of current systems at the Bank, as well as multiple requirements by banking regulators within short time frames, increase the potential damage that may arise from technology risk that are material for proper operations at the Bank. Throughout 2021, the Technology Division operated in providing full support for regular operations at the Bank and for technology needs required for Bank operations, including needs during Corona Virus emergency routine operations. In 2021 there were no material events and/or malfunctions.

Compliance and regulatory risk – Bank business operations are subject to regulation. 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 provisions also include the following laws: ISA Enforcement Proceeding Streamlining Act (Legislative Amendments), 2011; Securities Law 1968; Mutual Investment Act, 1994; Arrangement of Engagement in Investment Consultancy, Investment Marketing and Management of Portfolios Act, 1995 (hereinafter: "the Advisory Act"); hereinafter jointly – "securities laws" as well as the Economic Competition Act, 1988. Compliance with these laws is also addressed in conjunction with the "Internal Enforcement Program" for Securities Law and for the Economic Competition Act, respectively. Compliance risk also includes fairness issues and privacy protection laws.

Note that the Bank has practically zero risk appetite for compliance and regulatory risk, with regard to compliance with statutory provisions applicable to the Bank. Therefore, the Bank has specified that any faults discovered in compliance with statutory provisions would be addressed by Bank units as a top priority. The Bank has specified a multi-annual work plan, which includes required action for reducing compliance risk.

Environmental risk – This is risk due to potential harmful impact of environmental changes on financial institutions. The Bank is exposed to potential loss due to deterioration in the borrower's financial position due to high costs incurred as a result of environmental hazard and regulation concerning environmental protection, or due to impairment of collateral exposed to environmental risk or to the Bank being indirectly liable for an environmental hazard caused by a project funded by the Bank. Environmental risk also includes other risk factors derived from this risk: goodwill, third party liability etc. Environmental risks include: air, water and land pollution, impact to biological diversity and de-forestation.

Climate risk – This is risk due to increased frequency and intensity of weather events due to global warming. Climate risks include transition risks, arising from moves designed to reduce warming, including reduction of carbon emissions (such as: transition to renewable energy sources, carbon taxation, improved energy efficiency and so forth), as well as physical risks which materialize as direct consequence of climate change, such as: fire, flooding and so forth.

Awareness and importance of environmental risk and climate risk management increased, in Israel and world-wide. In December 2020, the Supervisor of Banks issued a letter regarding environmental risks, with emphasis on climate risk, designed to establish a framework for managing environmental risks and climate risks in the Israeli banking system, in conformity with world-wide regulation and practice. In March 2021, the banks received another letter, requesting them to complete a self-assessment questionnaire in aspects related to environmental risks and climate risks, with the results of this questionnaire forming the basis for discussion between banks and the Supervisor of Banks. In the fourth quarter of 2021, the Supervisor of Banks issued an update to Public Reporting Directives with regard to public disclosure of environmental, social and governance (ESG) aspects.

The Bank sees great importance in promoting activity and risk management in this regard, and is preparing to expand its activity, to monitor and manage environmental risks, including climate risks, in conformity with expectations of the Supervisor of Banks and emerging global practice in this field. To this end, the Bank established in late 2020 a dedicated team, headed by the CRO, to review this matter. The dedicated team includes representatives from all relevant Bank divisions and has reviewed during the year the various aspects of risk management at the Bank.

Based on insights gained from the team's work and supervisory expectations which are being formulated, the Bank has set milestones for actual progress and improvement in handling this matter. The 2022 work plan includes implementation of recommendations arising from insights of the dedicated team's work. In order to implement the team's conclusions and to carry out the work plan, the Bank established a strategic ESG team, consisting of managers of various divisions, tasked with leading policy, activity, control and reporting in conjunction with promoting ESG across all Bank operations. This team convenes once per quarter and reports to Bank management on progress made and on improvement in the Bank's ESG performance.

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, including analysis of major risks to which the Bank is exposed and an overview of their management and evolution in the reported period, see chapter "Risks Overview" as well as the 2021 Risks Report on the Bank website: www.mizrahi-tefahot.co.il >> about the bank >> investor relations >> financial statements.

Independent Auditors’ reports

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

The Independent Auditor, in their review, has drawn attention to Note 26.C.11 with regard to claims filed against the Bank, including motions for class action status.

For more information about disclosure in the Independent Auditor's opinion of key audit matters, in conformity with the Supervisor of Banks' circular dated February 17, 2020, see Independent Auditors’ Report to Shareholders of Bank Mizrahi-Tefahot Limited on the financial statements.

Events after the balance sheet date

- On January 30, 2022, after the balance sheet date, the Bank and Bank subsidiaries signed agreements for sale of Bank Group properties. For more information see chapter "Significant Events in the Bank Group's Business".
- On January 26, 2022, after the balance sheet date, an agreement was signed by Union Bank to sell their entire holding stake (14.66%) in Hof HaTchelet Development Company Ltd. (hereinafter: "Hof HaTchelet") and for sale of owners' loans provided by Union Bank to Hof HaTchelet for NIS 190 million plus VAT. The Bank would recognize net profit amounting to NIS 100 million in the first quarter of 2022 with respect to this sale.
- For more information about a dividend distribution with respect to earnings of the fourth quarter of 2021, 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 the financial statements.

Changes to critical accounting policies and to critical accounting estimates

The financial statements are prepared in accordance with generally accepted accounting policies in Israel (Israeli GAAP) and in accordance with directives and guidance from the Supervisor of Banks. The significant accounting policies are detailed in Note 1 to the financial statements.
Below are changes to critical accounting policies and to critical accounting estimates which impact the Business results in the reported periods:
As stated in Note 1.B to these financial statements, the group-based provision for credit losses is based, *inter alia*, on historical loss rates in 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

Net profit for the Group in 2021 amounted to NIS 3,188 million, compared to NIS 1,610 million in the corresponding period last year – an increase by 98.0%.
Net profit in 2021 reflects return on equity of 15.8%, compared to 9.5% in 2020.
Group net profit in the fourth quarter of 2021 amounted to NIS 679 million, compared to NIS 506 million in the corresponding period last year – an increase by 34.2%.

Net profit in the fourth quarter of 2021 reflects annualized return on equity of 13.5%, compared to 11.4% 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 2021 amounted to NIS 8,086 million, compared to NIS 6,041 million in 2020. Net interest revenues and non-interest financing revenues in 2021, excluding Union Bank, amounted to NIS 7,164 million, compared to NIS 5,806 million in 2020, an increase by 23.4%.

Net interest revenues and non-interest financing revenues[(1)] in the fourth quarter of 2021 amounted to NIS 2,041 million, compared to NIS 1,713 million in the corresponding period last year, an increase by 19.1%.

Net interest revenues and non-interest financing revenues[(1)] from current operations in 2021, excluding Union Bank, amounted to NIS 6,106 million, as described below, compared to NIS 5,571 million in 2020, an increase by 9.6%.

These revenues in the fourth quarter of 2021 amounted to NIS 1,621 million, compared to NIS 1,412 million in the corresponding period last year – an increase by 14.8%.

The increase in revenues from current operations in 2021 was achieved despite the negative impact of the lower Fed and Bank of Israel interest rates, from 1.75% and 0.25%, respectively in the start of 2020, to 0.25% and 0.1% in 2021.

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

	All of		
	2021	**2020**	**Change in %**
Interest revenues, net	7,685	5,820	
Non-interest financing revenues[(1)]	401	221	
Total financing revenues	**8,086**	**6,041**	
Financing revenues of Union Bank	922	235	
Total financing revenues excluding Union Bank	**7,164**	**5,806**	**23.4**
Less:			
Effect of CPI	406	(105)	
Revenues from collection of interest on problematic debts	53	39	
Gains from realized debentures and securities not held for trading, and gains from debentures held for trading, net	6	97	
Effect of accounting treatment of derivatives at fair value and others[(2)]	593	204	
Total effects from other than current operations	**1,058**	**235**	
Total financing revenues from current operations	**6,106**	**5,571**	**9.6**

(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) Includes 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 and early repayment commissions.

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

	2021				2020			
	Fourth Quarter	Third Quarter	Second quarter	First Quarter	Fourth Quarter	Third Quarter	Second quarter	First Quarter
Interest revenues, net	1,958	2,001	2,035	1,691	1,686	1,464	1,323	1,347
Non-interest financing revenues[1]	83	63	66	189	27	54	76	64
Total financing revenues	**2,041**	**2,064**	**2,101**	**1,880**	**1,713**	**1,518**	**1,399**	**1,411**
Financing revenues of Union Bank	213	205	242	262	235	–	–	–
Total financing revenues excluding Union Bank	**1,828**	**1,859**	**1,859**	**1,618**	**1,478**	**1,518**	**1,399**	**1,411**
Less:								
Effect of CPI	34	147	209	16	–	18	(40)	(83)
Revenues from collection of interest on problematic debts	17	13	13	10	12	11	9	7
Gains from realized debentures and securities not held for trading, and gains from debentures held for trading, net	1	(6)	(1)	12	1	14	54	28
Effect of accounting treatment of derivatives at fair value and others[2]	155	154	144	140	53	100	8	43
Total effects from other than current operations	**207**	**308**	**365**	**178**	**66**	**143**	**31**	**(5)**
Total financing revenues from current operations	**1,621**	**1,551**	**1,494**	**1,440**	**1,412**	**1,375**	**1,368**	**1,416**

(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) Includes 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 and early repayment commissions.

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

	For the year ended December 31,			
Operating segment	**2021**	**2020**	**Change amount**	**Change rate (In %)**
Individuals:				
Households – residential mortgages	2,263	1,923	340	17.7
Households – other	1,437	1,337	100	7.5
Private banking	81	79	2	2.5
Total – individuals	**3,781**	**3,339**	**442**	**13.2**
Business operations:				
Small and micro businesses	1,364	1,188	176	14.8
Medium businesses	335	310	25	8.1
Large businesses	590	560	30	5.4
Institutional investors	112	99	13	13.1
Total – business operations	**2,401**	**2,157**	**244**	**11.3**
Financial management	1,688	341	1,347	–
Total activity in Israel	**7,870**	**5,837**	**2,033**	**34.8**
Overseas operations	216	204	12	5.9
Total	**8,086**	**6,041**	**2,045**	**33.9**

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

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

Linkage segment	For the year ended December 31, 2021	2020	Change in %
Israeli currency – non-linked	256,660	204,346	25.6
Israeli currency – linked to the CPI	73,138	61,359	19.2
Foreign currency (including Israeli currency linked to foreign currency)	15,482	11,747	31.8
Total	**345,280**	**277,452**	**24.4**

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

Linkage segment	For the year ended December 31, 2021	2020	For the quarter ended December 31, 2021	2020
Israeli currency – non-linked	1.92	1.97	2.05	1.96
Israeli currency – linked to the CPI	1.43	1.49	1.58	1.56
Foreign currency	1.33	1.16	1.36	1.47
Total	**1.76**	**1.78**	**1.90**	**1.86**

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

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

Changes to interest rate spreads:

Across all linkage segments, the interest rate spread shown excludes the effect of derivatives. Including the effect of derivatives, there was no material change in the interest rate spread in the various linkage segments.

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 278 million in 2021, or an annualized rate of 0.10% of total loans to the public, net, compared to expenses amounting to NIS 1,050 million in the corresponding period last year – an annualized rate of 0.43% 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 15 million in the fourth quarter of 2021, or an annualized rate of 0.02% of total loans to the public, net, compared with expenses amounting to NIS 118 million in the corresponding period last year – an annualized rate of 0.19% of total loans to the public, net.

Revenues with respect to credit losses in 2021 and in the fourth 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.

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

	For the year ended December 31, 2021	2020	For the quarter ended December 31, 2021	2020
Provision for credit losses on individual basis (including accounting write-offs)				
Increased expenses	352	547	74	150
Reduced expenses	(284)	(215)	(60)	(92)
Total individual provision	**68**	**332**	**14**	**58**
Provision for credit losses on Group basis:				
By extent of arrears	(12)	19	(15)	(4)
Other	(334)	699	(14)	64
Total expenses with respect to credit losses	**(278)**	**1,050**	**(15)**	**118**
Rate of the expenses with respect to credit losses as percentage of total loans to the public, net (annualized)	**(0.10%)**	**0.43%**	**(0.02%)**	**0.19%**
Of which: With respect to commercial loans other than residential mortgages	**(0.15%)**	**0.86%**	**0.11%**	**0.49%**
Of which: With respect to residential mortgages	**(0.08%)**	**0.18%**	**(0.09%)**	**0.02%**

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

Operating segments	For the year ended December 31,		For the quarter ended December 31,		Rate of expenses with respect to credit losses: Annual		Rate of expenses with respect to credit losses: Fourth Quarter	
	2021	2020	2021	2020	2021	2020	2021	2020
Individuals:								
Households – residential mortgages	(133)	279	(41)	7	(0.08)	0.18	(0.09)	0.02
Households – other	(55)	130	(22)	10	(0.21)	0.51	(0.34)	0.16
Private banking	(1)	6	-	4	(0.72)	1.66	-	4.49
Total – individuals	**(189)**	**415**	**(63)**	**21**	**(0.09)**	**0.23**	**(0.13)**	**0.05**
Business operations:								
Small and micro businesses	(71)	321	(23)	103	(0.23)	1.11	(0.30)	1.43
Medium businesses	22	136	14	36	0.22	1.44	0.57	1.54
Large businesses	(7)	138	57	(46)	(0.03)	0.69	0.98	(0.92)
Institutional investors	(32)	23	(5)	1	(2.17)	0.96	(0.68)	0.17
Total – business operations	**(88)**	**618**	**43**	**94**	**(0.13)**	**1.02**	**0.26**	**0.62**
Financial management	(1)	1	(1)	–	–	–	–	–
Total activity in Israel	**(278)**	**1,034**	**(21)**	**115**	**(0.10)**	**0.43**	**(0.03)**	**0.19**
Overseas activity	–	16	6	3	–	0.42	0.57	0.32
Total	**(278)**	**1,050**	**(15)**	**118**	**(0.10)**	**0.43**	**(0.02)**	**0.19**

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

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

For more information about analysis of credit risk, see chapter "Credit risk" below and the 2021 Risks Report on the Bank website.

Non-interest revenues amounted to NIS 2,635 million in 2021, compared with NIS 2,113 million in 2020, an increase by NIS 522 million.

Non-interest revenues in the fourth quarter of 2021 amounted to NIS 679 million, compared to NIS 584 million in the corresponding period last year, an increase by NIS 95 million – see explanation below.

Non-interest financing revenues in 2021 amounted to NIS 401 million, compared to NIS 221 million in 2020.

In 2021, Non-interest financing revenues include revenues amounting to NIS 218 million due to consolidation of Union Bank's financial statements, compared to revenues amounting to NIS 52 million in the corresponding period.

Non-interest financing expenses in the fourth quarter of 2021 amounted to NIS 83 million, compared to NIS 27 million in the corresponding period last year.

This item includes, *inter alia*, the effect of fair value, gains (losses) from transactions in debentures and securities, as well as linkage differentials on CPI derivatives and the effect of interest accrual (time value) inherent in derivative 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 1,947 million in 2021, compared with NIS 1,671 million in 2020, an increase by 16.5%.

Excluding the effect of Union Bank, commission revenues amounted to NIS 1,721 million in 2021, compared with NIS 1,610 million in 2020, an increase by 6.9%, due to continued business expansion.

Commission revenues in the fourth quarter of 2021 amounted to NIS 528 million, compared to NIS 472 million in the corresponding period last year – an increase by 11.9%.

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

	2021				2020			
	Fourth quarter	Third quarter	Second quarter	First quarter	Fourth quarter	Third quarter	Second quarter	First quarter
Account management	112	103	102	95	96	90	77	93
Activities involving securities	75	72	78	89	83	64	70	65
Conversion differences	88	69	74	75	69	58	53	75
Commissions from financing transactions	66	64	62	66	75	55	54	53
Credit cards	71	61	50	54	52	46	42	50
Credit processing(1)	44	42	38	28	33	32	25	27
Other commissions	76	62	61	70	64	54	55	61
Total commissions	**532**	**473**	**465**	**477**	**472**	**399**	**376**	**424**

	2021	2020
Account management	412	356
Activities involving securities	314	282
Conversion differences	306	255
Commissions from financing transactions	258	237
Credit cards	236	190
Credit processing(1)	152	117
Other commissions	269	234
Total commissions	**1,947**	**1,671**

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

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

Other revenues in 2021 amounted to NIS 287 million, compared with NIS 221 million in 2020, an increase by NIS 66 million.

Other revenues in the fourth quarter of 2021 amounted to NIS 68 million, compared to NIS 85 million in the corresponding period last year.

Other revenues in 2021 include NIS 206 million (NIS 51 million in the fourth quarter) 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, amounting to NIS 18 million from realized assets in conjunction with asset re-organization and improvements in the branch network, capital gain 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 2020 include NIS 51 million (recognized in the fourth quarter) with respect to net deferred credit balance recognized with respect to acquisition of Union Bank, as noted above; revenues amounting to NIS 82 million with respect to an agreement with insurers to conclude derivative proceedings; and capital gain amounting to NIS 51 million (in the fourth quarter: NIS 24 million) from realized assets in conjunction with asset reorganization and improvements to the Bank's branch network.

Operating and other expenses amounted to NIS 5,568 million in 2021, compared with NIS 4,279 million in 2020.

Excluding the effect of Union Bank, operating and other expenses amounted to NIS 4,587 million in 2021, compared with NIS 3,997 million in 2020, an increase by 14.8%.

Operating and other expenses amounted to NIS 1,555 million in the fourth quarter of 2021, compared with NIS 1,335 million in the corresponding period last year – an increase by 16.5%.

See details by operating expense component below.

Payroll and associated expenses amounted to NIS 3,536 million in 2021, compared with NIS 2,644 million in 2020.

Excluding the effect of Union Bank, payroll and associated expenses amounted to NIS 3,073 million in 2021, compared with NIS 2,524 million in 2020, an increase by 21.8%.

Payroll and associated expenses amounted to NIS 960 million in the fourth quarter of 2021, compared with NIS 785 million in the corresponding period last year – an increase by 22.3%.

The increase in payroll expenses is primarily due to variable remuneration items, due to the fiscal results in 2021.

Maintenance and depreciation expenses for buildings and equipment in 2021 amounted to NIS 1,002 million, compared to NIS 871 million in 2020.

Excluding the effect of Union Bank, maintenance and depreciation expenses for buildings and equipment amounted to NIS 869 million in 2021, compared with NIS 841 million in 2020, an increase by 3.3%.

Maintenance and depreciation expenses for buildings and equipment amounted to NIS 267 million in the fourth quarter of 2021, compared with NIS 250 million in the corresponding period last year – an increase by 6.8%.

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

Other expenses amounted to NIS 1,030 million in 2021, compared with NIS 764 million in 2020.

Excluding the effect of Union Bank, other expenses amounted to NIS 645 million in 2021, compared with NIS 632 million in 2020, an increase by 2.1%.

Other expenses in the fourth quarter of 2021 amounted to NIS 328 million, compared to NIS 300 million in the corresponding period last year – an increase by 9.3%, due *inter alia* to costs associated with the merger process.

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

	2021				2020			
	Fourth quarter	Third quarter	Second quarter	First quarter	Fourth quarter	Third quarter	Second quarter	First quarter
Cost-income ratio	59.0	51.2	50.4	55.3	(3)58.8	50.8	52.8	(2)52.4

	For the year ended December 31,	
	2021	2020
Cost-income ratio	54.0	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 5,030 million in 2021, compared with NIS 2,604 million in 2020.

Excluding the effect of Union Bank, pre-tax profit for the Group amounted to NIS 4,715 million in 2021, compared with NIS 2,532 million in 2020, an increase by 86.2% – see detailed explanation above.

Pre-tax profit for the Group in the fourth quarter of 2021 amounted to NIS 1,097 million, compared to NIS 817 million in the corresponding period last year – an increase by 34.3%. See detailed explanation above.

The rate of provision for taxes on profit in 2021 was 34.4%, compared to 34.7% in 2020.

The provision rate for taxes on profit in the fourth quarter of 2021 was 35.6% – compared to 34.9% in the corresponding period last year.

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

See Note 8 to the financial statements for additional information.

The Bank's share of after-tax profit of associates in 2021 amounted to loss with respect to associates of NIS 10 million, compared to profit of NIS 1 million in the corresponding period last year.

Bank share of after-tax profit of associates – in the fourth quarter of 2021 there was no profit with respect to associates, compared to profit of NIS 1 million in the corresponding period last year.

The share of non-controlling interest in net results of subsidiaries attributable to Bank Yahav in 2021 amounted to NIS 102 million, compared to NIS 92 million in 2020.

The share of the non-controlling interests in net results of subsidiaries attributable to Bank Yahav in the fourth quarter of 2021 amounted to NIS 28 million, compared to NIS 27 million in the corresponding period last year.

Net profit attributable to shareholders of the Bank amounted to NIS 3,188 million in 2021, compared with NIS 1,610 million in 2020.

Net profit attributable to shareholders of the Bank in the fourth quarter of 2021 amounted to NIS 679 million, compared to NIS 506 million in the corresponding period last year.

Shareholder equity of the Bank includes a decrease by NIS 27 million and NIS 11 million in 2021 and in the fourth quarter of 2020, respectively, due to adjustments with respect to employee benefits and to adjustments with respect to presentation of debentures available for sale at fair value ("Other comprehensive income attributable to shareholders of the Bank"), compared to increase by NIS 56 million and NIS 27 million in the corresponding periods last year. For more information see Note 10 to the financial statements.

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

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

Development of Group return on equity and ratio of Tier I capital to risk components, liquidity coverage ratio and leverage ratio at the end of the quarter (in %)

	2021				2020			
	Fourth quarter	Third quarter	Second quarter	First quarter	Fourth quarter	Third quarter	Second quarter	First quarter
Net return on equity	13.5	17.3	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	10.04	10.44	10.53	10.15	10.04	9.98	9.96	9.89
(Quarterly) liquidity coverage ratio	125	126	132	133	133	128	122	117
Leverage ratio at end of quarter	5.18	5.37	5.36	5.16	5.19	5.23	5.36	5.40

	For the year ended December 31,	
	2021	2020
Net return on equity	15.8	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):

	2021				2020			
	Fourth quarter	Third quarter	Second quarter	First quarter	Fourth quarter	Third quarter	Second quarter	First quarter
Basic earnings per share	2.65	3.30	3.87	2.65	2.13	1.65	1.53	1.52
Diluted earnings per share	2.62	3.24	3.85	2.64	2.13	1.65	1.53	1.51
Dividends per share (in Agorot)	293	189	–	–	–	–	–	75

	For the year ended December 31,	
	2021	2020
Basic earnings per share	12.47	6.70
Diluted earnings per share	12.35	6.69
Dividends per share (in Agorot)	482	75

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

Assets and liabilities

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

	December 31,		
	2021	2020	Change in %
Balance sheet total	392,271	360,140	8.9
Cash and deposits with banks	95,267	86,570	10.0
Loans to the public, net	271,428	245,525	10.6
Securities	15,033	17,290	(13.1)
Buildings and equipment	1,734	1,743	(0.5)
Deposits from the public	307,924	284,224	8.3
Deposits from banks	6,992	3,779	85.0
Debentures and subordinated notes	38,046	33,446	13.8
Shareholders' equity	20,770	18,804	10.5

Cash and deposits with banks – the balance of cash and deposits with banks increased in 2021 by NIS 8.7 billion. The increase in this balance is part of on-going management of Bank liquidity.

Loans to the public, net – loans to the public, net as of December 31, 2021 accounted for 69% of total assets, compared to 68% at the end of 2020. Loans to the public, net increased in 2021 by NIS 25.9 billion, an increase by 10.6%.

For more information about on-balance sheet and off-balance sheet credit risk, development of problematic debts and various risk benchmarks with regard to residential mortgages, see chapter "Risks" below and the 2021 Risks Report on the Bank website.

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

	Balance as of December 31,			Percentage of total loans to the public, net as of December 31	
Linkage segment	2021	2020	Change in %	2021	2020
Israeli currency					
Non-linked	190,455	168,787	12.8	70.2	68.8
CPI-linked	69,534	64,524	7.8	25.6	26.3
Foreign currency and foreign currency linked	11,439	12,116	(5.6)	4.2	4.9
Non-monetary[(1)]	–	98	(100.0)	-	-
Total	**271,428**	**245,525**	**10.6**	**100.0**	**100.0**

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

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

	2021	2020	Change in %
Individuals:			
Households – residential mortgages	174,822	155,422	12.5
Households – other	25,948	25,335	2.4
Private banking	139	362	(61.6)
Total – individuals	**200,909**	**181,119**	**10.9**
Business operations:			
Small and micro businesses	30,245	28,948	4.5
Medium businesses	9,848	9,427	4.5
Large businesses	23,289	19,859	17.3
Institutional investors	2,939	2,404	22.3
Total – business operations	**66,321**	**60,638**	**9.4**
Overseas operations	4,198	3,768	11.4
Total	**271,428**	**245,525**	**10.6**

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

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

Reported amounts	As of December 31, 2021				As of December 31, 2020			
(NIS in millions)	Credit risk[1]				Credit risk[1]			
	Commercial	Housing	Individual	Total	Commercial	Housing	Individual	Total
1. Credit risk at performing credit rating[2]								
Balance sheet credit risk	71,349	173,576	24,400	269,325	64,478	154,564	23,716	242,758
Off balance sheet credit risk[3]	51,173	19,769	13,823	84,765	49,377	16,552	13,530	79,459
Total credit risk at performing credit rating	**122,522**	**193,345**	**38,223**	**354,090**	**113,855**	**171,116**	**37,246**	**322,217**
2. Credit risk other than at performing credit rating								
A. Non-problematic	2,440	882	281	3,603	3,697	732	292	4,721
B. Total problematic	1,972	1,300	193	3,465	2,289	1,285	201	3,775
Special supervision[4]	556	1,229	69	1,854	474	1,188	73	1,735
Inferior	144	35	36	215	259	–	32	291
Impaired	1,272	36	88	1,396	1,556	97	96	1,749
Total on-balance sheet credit risk other than at performing credit rating	4,412	2,182	474	7,068	5,986	2,017	493	8,496
Off-balance sheet credit risk[3] other than at performing credit rating	921	–	28	949	1,744	–	23	1,767
Total credit risk other than at performing credit rating	**5,333**	**2,182**	**502**	**8,017**	**7,730**	**2,017**	**516**	**10,263**
Of which: Non-impaired debts in arrears 90 days or longer[4]	61	1,229	26	1,316	28	1,176	24	1,228
Total credit risk, including risk to the public[5]	**127,855**	**195,527**	**38,725**	**362,107**	**121,585**	**173,133**	**37,762**	**332,480**
Non-performing assets[6]	**1,102**	**36**	**50**	**1,188**	**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.

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" below and chapter "Credit risk" in the 2021 Risks Report available on the Bank website. For more information see also Notes 13 and 30 to the financial statements.

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

	2021		2020	
Credit risk per borrower (NIS in thousands)	Share of total Group credit risk	Share of total Group number of borrowers	Share of total Group credit risk	Share of total Group number of borrowers
Up to 150	9.3	70.9	9.9	72.4
150-600	19.8	17.5	21.0	17.2
600-2,000	36.9	10.6	35.2	9.6
Above 2000	34.0	1.0	33.9	0.8

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

	2021		2020	
Sector	Risk	Percentage of total	Risk	Percentage of total
	On-balance sheet credit[1]	Balance sheet credit risk	On-balance sheet credit[1]	Balance sheet credit risk
Private individuals (includes mortgages)	200,465	73.5	180,398	72.9
Construction and real estate	26,387	9.7	22,453	9.1
Financial services	9,636	3.5	9,273	3.7
Industry	7,800	2.9	7,991	3.2
Commerce	10,656	3.9	11,300	4.6
Other	17,723	6.5	16,172	6.5
Total	**272,667**	**100.0**	**247,587**	**100.0**

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

Credit risk is composed of on-balance-sheet risk and off-balance-sheet credit risk, which are weighted by nature of the borrower and credit type, as per Bank of Israel directives. On-balance-sheet risk includes balances of loans to the public, derivative instruments purchased by the public and Group investment in public debentures. Off-balance-sheet credit risk includes guarantees and transactions in off-balance-sheet instruments, obligations to provide credit and un-utilized credit facilities. Total credit risk to the public for the Bank Group as of December 31, 2021 amounted to NIS 362 billion, compared to NIS 332 billion as of December 31, 2020 – an increase by 9%.

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

			Change in % over
		December 31,	December 31,
	2021	2020	2020
Off balance sheet financial instruments other than derivatives[1]:			
Unutilized debitory account and other credit facilities in accounts available on demand	21,168	20,964	1
Guarantees to home buyers	16,582	11,903	39.3
Irrevocable commitments for loans approved but not yet granted	32,963	31,334	5.2
Unutilized revolving credit card facilities	10,643	10,191	4.4
Commitments to issue guarantees	9,351	11,400	(18.0)
Guarantees and other commitments	10,571	9,260	14.2
Loan guarantees	3,321	2,880	15.3
Documentary credit	430	311	38.3
Financial derivatives[2]:			
Total par value of financial derivatives	306,727	293,100	4.6
(On-balance sheet) assets with respect to derivative instruments	3,652	4,543	(19.6)
(On-balance sheet) Commitments with respect to derivative instruments	3,753	5,506	(31.8)

(1) Contractual balances or their stated amounts at the end of the period, before effect of provision for credit losses. See Note 30 to the financial statements for additional information.

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

Securities - investment in securities decreased in 2021 by NIS 2.3 billion. The decrease in total investment in securities is within asset and liability management of the Bank.

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

	Carrying amount	Amortized cost (for shares – cost)	Gain from fair value adjustments	Loss from fair value adjustments	Fair value[1]
					December 31, 2021
Debentures held to maturity	2,934	2,934	66	(5)	2,995
Debentures available for sale	10,823	10,675	[2]192	[2](44)	10,823
Investment in shares not held for trading	706	574	[3]134	[3](2)	706
Securities held for trading	570	560	[3]17	[3](7)	570
Total securities	**15,033**	**14,743**	**409**	**(58)**	**15,094**
					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:

	Balance as of December 31,		
	2021	2020	Change in %
Israeli currency			
Non-linked	6,728	10,937	(38.5)
CPI-linked	1,469	1,674	(12.3)
Foreign currency and foreign currency linked	6,110	4,233	44.3
Non-monetary items	726	446	62.8
Total	**15,033**	**17,290**	**(13.1)**

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

	Carrying amount as of	
	December 31, 2021	December 31, 2020
Government debentures:		
Government of Israel	10,421	14,455
Government of USA	2,035	451
Total government debentures	**12,456**	**14,906**
Debentures of financial institutions in Israel		
Total debentures of financial institutions in Israel	**601**	**622**
Debentures of banks in developed nations:		
South Korea	67	102
USA	48	59
Other	62	66
Total debentures of banks in developed nations	**177**	**227**
Corporate debentures (composition by sector):		
Rental real estate	473	439
Supply of electricity, gas, steam and AC	179	159
Mining and excavation	95	74
Industry – chemical industry	58	59
Construction	57	61
Other	205	264
Total corporate debentures	**1,067**	**1,056**
Asset-backed corporate debentures (ABS)		
Mining and excavation	4	**28**
Others	2	**5**
Total asset-backed corporate debentures (ABS)	**6**	**33**
Shares and other securities		
Investment in shares not held for trading	**706**	**426**
Of which: Shares for which no fair value is available(1)	414	216
Shares and other securities held for trading	**20**	**20**
Total shares and other securities	**726**	**446**
Total securities	**15,033**	**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.

(2) Includes exposure to Multi-party Development Banks (MDB).

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

Buildings and equipment – The balance of buildings and equipment increased in 2021 by NIS 9 million. The decrease in buildings and equipment is due to current change with respect to depreciation and to new investments, primarily in technology.

Investments and expenses with respect to IT

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

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

	For the year ended December 31 (reported amounts)							
	2021				2020[1]			
	Software	Hardware	Other	Total	Software	Hardware	Other	Total
Payroll and associated expenses[2]	317	62	6	385	292	62	5	359
Usage license expenses not capitalized to assets[3]	152	9	–	161	130	13	–	143
Outsourcing expenses[4]	[7]216	11	6	233	[7]244	11	8	263
Depreciation expenses[5]	228	54	–	282	201	45	–	246
Other expenses[6]	52	9	–	61	44	8	–	52
Total expenses	**965**	**145**	**12**	**1,122**	**911**	**139**	**13**	**1,063**

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

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

	For the year ended December 31 (reported amounts)							
	2021				2020[1]			
	Software	Hardware	Other	Total	Software	Hardware	Other	Total
Payroll and associated expenses[2]	20	–	–	20	18	–	–	18
Cost of acquisition of usage licenses[3]	75	52	–	127	93	66	–	159
Outsourcing expenses[4]	142	–	–	142	103	8	1	112
Total	**237**	**52**	**–**	**289**	**214**	**74**	**1**	**289**

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

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

	For the year ended December 31 (reported amounts)							
	2021				2020			
	Software	Hardware	Other	Total	Software	Hardware	Other	Total
Total depreciated balance	604	133	1	738	595	131	2	728
Of which: Payroll and associated expenses	64	1	–	65	71	1	–	72

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

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

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

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

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

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

(7) As from January 1, 2017, Bank Yahav receives IT and operating services from an international Tata Group company. The company specializes, *inter alia*, in providing IT services to financial institutions and banking corporations world-wide. In this regard, Bank Yahav uses a core banking system which includes banking services in various channels, based on the bank's lines of business. The cost of service in 2021 amounted to NIS __ million (in 2020: NIS 99 million).

Deposits from the public – these account for 78% of total consolidated balance sheet as of December 31, 2021, compared to 79% as of December 31, 2020. In 2021, deposits from the public increased by NIS 23.7 billion, an increase by 8.3%. Deposits from the public include deposits from retail clients, corporations, financial entities and others.

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

	Balance as of December 31,			Percentage of total deposits from the public, net as of December 31	
Linkage segment	**2021**	**2020**	**Change in %**	**2021**	**2020**
Israeli currency					
Non-linked	233,149	218,008	7.0	75.7	76.7
CPI-linked	21,503	16,457	30.7	7.0	5.8
Foreign currency and foreign currency linked	53,272	49,661	7.3	17.3	17.5
Non-monetary	–	98	(100.0)	–	0.0
Total	**307,924**	**284,224**	**8.3**	**100.0**	**100.0**

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

	As of December 31,		Change rate
	2021	**2020**	**(In %)**
Individuals:			
Households – other	118,051	114,987	2.7
Private banking	21,664	20,178	7.4
Total – individuals	**139,715**	**135,165**	**3.4**
Business operations:			
Small and micro businesses	50,247	44,382	13.2
Medium businesses	15,742	14,406	9.3
Large businesses	36,669	38,094	(3.7)
Institutional investors	61,365	47,566	29.0
Total – business operations	**164,023**	**144,448**	**13.6**
Overseas operations	4,186	4,611	(9.2)
Total	**307,924**	**284,224**	**8.3**

Below is the evolution of deposits from the public for the Group by depositor size (NIS in millions):

	For the year ended December 31,	
	2021	**2020**
Maximum deposit (NIS in millions)		
Up to 1	95,170	94,031
Over 1 to 10	78,746	73,376
Over 10 to 100	44,740	41,781
Over 100 to 500	36,591	35,060
Above 500	52,677	39,976
Total	**307,924**	**284,224**

Deposits from banks – The balance of deposits from banks as of December 31, 2021 amounted to NIS 7.0 billion, an increase by NIS 3.2 billion compared to December 31, 2020. The increase in deposits from banks is due to a monetary loan received from the Bank of Israel.

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

Debentures and subordinated notes – The balance of debentures and subordinated notes as of December 31, 2021 amounted to NIS 38.0 billion, an increase by NIS 4.6 billion compared to the balance as of December 31, 2020**.** In 2021, debentures and subordinated notes were affected, *inter alia*, by issuance of debentures amounting to NIS 5.2 billion, by issuance of subordinated notes amounting to USD 0.6 billion to institutional investors, by current redemptions and by early redemption of Contingent convertible (CoCo) subordinated notes amounting to NIS 0.2 billion. For more information see chapter "Developments in financing sources" above.

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

Capital, capital adequacy and leverage

Shareholders' equity attributable to shareholders of the Bank – Shareholders' equity attributable to equity holders of the Bank as of December 31, 2021 amounted to NIS 20.8 billion, compared to NIS 18.8 billion as of December 31, 2020, an increase by 10.5%.

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

	As of December 31,		Rate of change
	2021	2020	(In %)
Share capital and premium[1]	3,497	3,445	1.5
Capital reserve from benefit from share-based payment transactions	76	87	(12.6)
Total cumulative other loss[2][3]	(303)	(276)	9.8
Retained earnings[4]	17,500	15,548	12.6
Total	**20,770**	**18,804**	**10.5**

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

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

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

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

The ratio of shareholders' equity to total assets for the Group as of December 31, 2021 was 5.29%, compared to 5.22% as of the end of 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 December 31, 2021, the Bank had no equity instruments included in additional Tier I capital.

Tier II capital consists of the group-based provision for credit losses and CoCo (Contingent Convertible) capital instruments, which include a provision for absorbing loss of principal when the Tier I Capital ratio drops below the specified quantitative trigger level, or upon receiving notice from the Supervisor of Banks, whereby activating the provision for absorbing loss of principal is required to ensure stability of the banking corporation (a Bank "non existence" event). For more information about issue of debentures and contingent subordinated notes (Contingent Convertibles – CoCo) in 2021, see chapter "Developments in financing sources" above.

Subordinated notes, recognized as Tier II capital instruments under the previous directives, no longer qualify as supervisory capital under the current directives (primarily due to lacking loss absorption provisions) and are amortized over the term of the transitional provisions through 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 2021 Risks Report available on the Bank website.

Capital adequacy target

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 the Tier I equity ratio at 1% of the residential mortgage balance as of the report date.

Due to the Corona Virus outbreak and as part of adaptations of Proper Conduct of Banking Business Directives, the Supervisor of Banks issued Proper Conduct of Banking Business Directive 250 which includes, *inter alia*, an interim directive with regard to update to Directive 201, including reduction of regulatory capital requirements applicable to banks by one percentage point, and update to Directive 329, eliminating the capital requirements of one additional percentage point for residential mortgages for purchase of a residential apartment extended from March 19, 2020 through September 30, 2021 and for general purpose residential mortgages extended as from March 19, 2020.

Throughout the crisis, the Supervisor of Banks issued updates extending the interim directive, and with regard to reduction of capital requirements, this relief would apply through 24 months after expiration of the interim directive, provided that the banking corporation's capital ratios would be no less than the capital ratios upon expiration of the 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.

On December 27, 2021, the Supervisor of Banks issued a circular stating that as from January 1, 2022, the interim directive would expire.Moreover, an update to Proper Conduct of Banking Business Directive 329 regarding "Restrictions on residential mortgages" was issued, whereby the additional capital requirement of 1% would only apply to residential mortgages for residential purpose only, and would not apply to residential mortgages for purchasing interest in real estate and secured by by a lien on a residential apartment (hereinafter: "General Purpose Loan").

In conformity with the interim directive and considering the additional capital requirement for the balance of residential mortgages, the minimum Tier I equity ratio required of the Bank as of the report date is 8.60%, and the total minimum capital ratio required of the Bank as of the report date is 11.50% (to which appropriate safety margins would be added).

For more information about issue and redemption 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 2021 financial statements and the chapter "Analysis of composition of assets, liabilities, capital and capital adequacy" (Dividend) below.

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

	As of December 31,	
	2021	**2020**
Capital for purpose of calculating minimum capital ratio		
Tier I shareholders' equity	21,969	20,137
Tier I capital	21,969	20,137
Tier II capital	7,914	7,176
Total capital	**29,883**	**27,313**
Weighted risk asset balances		
Credit risk	202,611	185,392
Market risks	2,268	2,228
Operational risk	13,831	12,864
Total weighted risk asset balances	**218,710**	**200,484**

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

	As of December 31,	
	2021	**2020**
Ratio of Tier I equity to risk components	10.04	10.04
Ratio of Tier I capital to risk components	10.04	10.04
Ratio of total capital to risk components	13.66	13.62
Minimum Tier I equity ratio required by Supervisor of Banks	8.60	8.68
Total minimum capital ratio required by the directives of the Supervisor of Banks	11.50	11.50
2. Significant subsidiaries (in percent)		
Bank Yahav for Government Employees Ltd. and its subsidiaries		
Ratio of Tier I equity to risk components	9.85	9.44
Ratio of total capital to risk components	13.49	12.76
Minimum Tier I equity ratio required by Supervisor of Banks	8.00	8.00
Total minimum capital ratio required by the directives of the Supervisor of Banks	11.50	11.50
Union Bank Le-Israel Ltd. and its subsidiaries		
Ratio of Tier I equity to risk components	16.28	12.91
Ratio of total capital to risk components	19.40	16.23
Minimum Tier I equity ratio required by Supervisor of Banks	8.40	8.43
Total minimum capital ratio required by the directives of the Supervisor of Banks	11.50	11.50

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

	As of December 31, 2021		As of December 31, 2020	
Exposure group	**Weighted risk asset balances**	**Capital requirement[(1)]**	**Weighted risk asset balances**	**Capital requirement[(1)]**
Sovereign debts	99	11	135	16
Public sector entity debts	556	64	368	42
Banking corporation debts	1,475	170	1,416	163
Debts of securities companies	287	33	258	30
Corporate debts	61,969	7,126	55,936	6,403
Debts secured by commercial real estate	6,099	701	6,758	777
Retail exposure to individuals	19,412	2,232	18,325	2,107
Loans to small businesses	9,776	1,124	10,342	1,189
Residential mortgages	93,992	10,809	83,351	9,585
Other assets	8,417	968	8,016	922
Total	**202,082**	**23,238**	**184,905**	**21,234**

(1) The capital requirement was calculated at 11.5% of risk asset balances.

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

	December 31, 2021		December 31, 2020	
Exposure group	**Weighted risk asset balances**	**Capital requirement[1]**	**Weighted risk asset balances**	**Capital requirement[1]**
Market risk	2,268	261	2,228	256
CVA risk[2]	529	61	487	56
Operational Risk[3]	13,831	1,591	12,864	1,479
Total	16,628	1,913	15,579	1,791
Total risk assets	218,710	25,151	200,484	23,025

(1) The capital requirement was calculated at 11.5% of risk asset balances.

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

(3) Capital allocation with respect to operational risk was calculated using the standard approach.

Leverage ratio

The Bank applies Proper Conduct of Banking Business Directive 218 regarding "Leverage ratio" (hereinafter: “the directive”). The directive stipulates a simple, transparent leverage ratio which is not risk-based, to serve as a reliable, additional measure to risk-based capital requirements, which is intended to limit the accumulation of leverage at banking corporations.

The leverage ratio, in percent, is defined as the ratio of capital measure to exposure measure. Capital for measurement of the leverage ratio is Tier I capital, as defined in Proper Conduct of Banking Business Directive 202, taking into consideration the stipulated transitional provisions. Total exposure measure for the Bank is the sum of balance sheet exposures, exposures to derivatives and to securities financing transactions and off-balance sheet items. In general, this measurement is consistent with accounting values, and for this reason no risk weightings are taken into account. Furthermore, the Bank may not use physical or financial collateral, guarantees nor other techniques to mitigate credit risk in order to reduce exposure measurement, unless specifically allowed by the directive. Balance sheet items deducted from Tier I capital (pursuant to Directive 202) are deducted from the exposure measure. In conformity with the directive, the Bank calculates the exposure with respect to derivatives in conformity with Appendix C of Proper Conduct of Banking Business Directive 203, and exposures with respect to off-balance sheet items by converting the notional amount of such items into credit conversion factors, as set forth in Proper Conduct of Banking Business Directive 203.

In conformity with the Directive, banking corporations shall maintain a leverage ratio of 5% or higher on consolidated basis.

Nevertheless, in conformity with Proper Conduct of Banking Business Directive 250 concerning "Adjustments to Proper Conduct of Banking Business Directives for addressing the Corona Virus" which includes, *inter alia*, the interim directive issued on November 15, 2020 whereby banking corporations shall maintain a leverage ratio of 4.5% or higher on consolidated basis.

As aforesaid, the minimum leverage ratio required of the Bank is 4.5%.

With regard to reduced leverage requirements, the relief shall remain in effect through December 31, 2023, provided that the leverage ratio would be no less than the leverage ratio as of June 30, 2022, or the minimum leverage ratio applicable to the banking corporation prior to the Interim Directive, whichever is lower.

Below is the Bank's leverage ratio:

	As of December 31,	
	2021	**2020**
1. Consolidated data		
Tier I capital[(1)]	21,969	20,137
Total exposure	423,950	388,370
		In %
Leverage ratio	5.18	5.19
Minimum leverage ratio required by the Supervisor of Banks[(2)]	4.50	4.50
2. Significant subsidiaries		
Bank Yahav for Government Employees Ltd. and its subsidiaries		
Leverage ratio	5.55	5.07
Minimum leverage ratio required by the Supervisor of Banks	4.50	4.50
Union Bank Le-Israel Ltd. and its subsidiaries		
Leverage ratio	8.37	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 dividends 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 dividends 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 dividends amount to be distributed by the Bank pursuant to the dividends policy. "Distribution" pursuant to the dividends policy (both dividends 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 dividends 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 dividends distribution in excess of 30% of net income for 2020 would not be deemed careful, conservative capital planning. Consequently, the Bank Board of Directors approved on August 16, 2021 a dividends distribution amounting to NIS 483 million, or 30% of 2020 earnings.

On September 30, 2021, the Supervisor of Banks extended the interim directives (in addition to certain adjustments) by a further 3 months, through December 31, 2021, and announced that dividends distribution is allowed also with respect to 2021 earnings (even when the interim directive is in effect), and that distribution of dividends in excess of 30% of net earnings in 2021 would not be deemed careful, conservative capital planning. Consequently, the Bank Board of Directors approved on November 15, 2021 a dividends distribution amounting to NIS 752.7 million, or 30% of earnings in the first nine months of 2021, as stated below.

On December 27, 2021, the Supervisor of Banks announced that as from January 1, 2022, the interim directive expired, except for specific provisions for which a later expiration date was specified in the interim directive. In the explanation, the Supervisor of Banks noted that with regard to dividend distribution, banking corporations should be careful and should consider that some uncertainty still exists in the markets.

The Bank intends to continue acting in conformity with the Bank's dividends policy, subject to statutory provisions and the foregoing, and to approval by the Supervisor of Banks of the 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 dividends 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 equity 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

Dividends declaration

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

Declaration date	Payment date	Dividends per share	Dividends as percent of profit	Total dividends paid
		(Agorot)		(NIS in millions)
August 12, 2019	August 27, 2019	167.21	(1)0.40	392.0
November 18, 2019	December 03, 2019	71.89	0.40	168.8
Total dividends distributed in 2019(4)				**560.8**
February 24, 2020	March 11, 2020	74.89	0.40	176.0
Total dividends distributed in 2020(5)				**176.0**
August 16, 2021	August 31, 2021	188.99	(2)0.30	483.0
November 15, 2021	November 30, 2021	293.47	(3)0.30	752.7
Total dividends distributed in 2021(6)				**1,235.7**

(1) Dividends rate as percentage of net profit in the first half of 2019.
(2) Dividends rate as percentage of net profit in 2020.
(3) Dividends rate as percentage of net profit in the first nine months of 2021.
(4) Total dividends distributed with respect to 2019 earnings – NIS 736.8 million.
(5) Total dividends distributed with respect to 2020 earnings – NIS 483.0 million.
(6) Total dividends distributed with respect to 2021 earnings – NIS 752.7 million.

Dividends declared with respect to earnings in the fourth quarter of 2021

On February 28, 2022, the Bank's Board of Directors resolved to distribute dividends amounting to NIS 271.6 million, or 40% of earnings in the fourth quarter of 2021, in conformity with the Bank's dividend policy.

And in view of the announcement by the Supervisor of Banks on December 27, 2021, whereby as from January 1, 2022, the interim directive expired, except for specific provisions for which a later expiration date was specified in the interim directive, as noted above.

The dividends are 1058.9% of issued share capital, i.e. NIS 1.0589 per NIS 0.1 par value share. The effective date for dividends payment is March 08, 2022 and the payment date is March 15, 2022. 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):

	As of December 31,		Change rate
	2021	2020	(In %)
Securities(1)	545,852	465,591	17.2
Assets of provident funds for which the Group provides operating services	125,960	97,895	28.7
Assets held in trust by the Bank Group	78,783	70,254	12.1
Assets of mutual funds for which the Bank provides operating services	13,564	11,585	17.1
Other assets under management(2)	17,732	14,597	21.5

(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.

Description of Businesses of the Bank Group by Supervisory Operating Segment

Supervisory operating segments

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

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

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

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

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

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

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

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

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

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

For more information and detailed description of the segments, see chapter "Corporate Governance" of these annual financial statements.

Financial results using "management approach" are presented in Note 29 to the financial statements.

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

	Net profit[1]		Share of total net profit (in %)	
	For the year ended December 31,		For the year ended December 31,	
	2021	2020	2021	2020
Individuals:				
Households – residential mortgages	1,118	726	34.4	44.8
Households – other	(261)	(10)	–	–
Private banking	51	[2]65	1.6	4.0
Total – individuals	**1,108**	**781**	**36.0**	**48.8**
Business operations:				
Small and micro businesses	544	324	16.7	20.1
Medium businesses	123	88	3.8	5.4
Large businesses	248	207	7.6	12.9
Institutional investors	18	10	0.6	0.6
Total – business operations	**933**	**629**	**28.7**	**39.1**
Financial management	1,028	115	31.6	7.1
Total activity in Israel	**3,069**	**1,525**	**96.3**	**94.7**
Overseas operations	119	85	3.7	5.3
Total	**3,188**	**1,610**	**100.0**	**100.0**

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

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

Household segment

The supervisory definition

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

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

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

Differences between the management approach and the supervisory definition

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

Developments in the household segment during the reported period

- In 2021, public moves continued, designed to encourage non-bank entities to enter the competition in the household segment and to increase competition in consumer credit. Along with the Increased Competition and Reduced Concentration in Israeli Banking Act, there are several legislative and regulatory efforts under way, which should result in increased competition in this segment, including operation of the credit information database, launched in April 2019, the project for arranging account relocation between banks, which went live in September 2021, and a project for arranging a system for sharing banking information by definition of a standard Open Banking API, with the first stage going live in 2021 and should continue in accordance with the specified milestones.

- In 2021, branch closures and elimination of teller positions at branches of some banks continued, although more moderately than in previous years, with clients referred to digital solutions. Consequently and in conformity with legislation dated August 2016 of the Banking Act (Licensing) (Amendment no. 22), 2016, any banking corporation seeking to close a permanent branch is required to obtain permission from the Supervisor of Banks after filing a written justification and application to do so.
- In the credit card market, regulatory changes continued due, *inter alia*, to implementation of the Increased Competition and Reduced Concentration in Israeli Banking Act. In 2019, the process of separating credit card companies from banks started. Furthermore, several significant agreements have been signed by credit card companies and retail clubs, for joint issuing of non-bank cards. In 2010, significant change took place in the credit card market, due to the schedule set by the Bank of Israel for conducting transactions by merchants using terminals supporting EMV technology (for reading a chip located on the credit card) and preparation for entry of international payment applications into the Israeli market. In this regard, the Bank and Apple signed an agreement, whereby Bank clients would be able to pay using Apple Pay and bank credit cards. This activity went live in May 2021. The Bank also supports payment using Google Pay on Android devices, as well as payment using e-wallets of the 3 credit card companies on Android devices.

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

	For the year ended December 31,					
	2021			2020		
	NIS in millions					
	Other	Residential mortgages	Total	Other	Residential mortgages	Total
Profit and profitability						
Total interest revenues, net	1,436	2,263	3,699	1,329	1,929	3,258
Non-interest financing revenues (expenses)	1	-	1	8	(6)	2
Commissions and other revenues	699	143	842	574	146	720
Total revenues	**2,136**	**2,406**	**4,542**	**1,911**	**2,069**	**3,980**
Expenses (reduction of expenses) with respect to credit losses	(55)	(133)	(188)	130	279	409
Operating and other expenses	2,205	835	3,040	1,724	678	2,402
Profit before provision for taxes	(14)	1,704	1,690	57	1,112	1,169
Provision for taxes	(5)	586	581	20	386	406
After-tax profit (loss)	**(9)**	**1,118**	**1,109**	**37**	**726**	**763**
Net profit Attributable to non-controlling interests	(52)	-	(52)	(47)	-	(47)
Net profit (loss) Attributable to shareholders of the banking corporation	**(61)**	**1,118**	**1,057**	**(10)**	**726**	**716**
Balance sheet – key items:						
Loans to the public (end balance)	26,184	175,626	201,810	25,643	156,364	182,007
Loans to the public, net (end balance)	25,948	174,822	200,770	25,335	155,422	180,757
Deposits from the public (end balance)	118,051	-	118,051	114,987	-	114,987
Average balance of loans to the public	24,262	165,384	189,646	21,398	142,921	164,319
Average balance of deposits from the public	117,274	-	117,274	99,635	-	99,635
Average balance of risk assets	22,835	96,065	118,900	20,182	82,671	102,853
Credit margins and deposit margins:						
Margin from credit granting operations	958	2,152	3,110	861	1,831	2,692
Margin from activities of receiving deposits	450	-	450	458	-	458
Other	28	111	139	10	98	108
Total interest revenues, net	**1,436**	**2,263**	**3,699**	**1,329**	**1,929**	**3,258**

Segment contribution in 2021 includes Union Bank, whereas in 2020 operating results of Union Bank were only included in the fourth quarter.

Contribution of the household segment (in conformity with supervisory definitions) to Group profit in 2021 amounted to NIS 1,057 million, compared to NIS 716 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 in 2021 amounting to NIS 1,118 million, compared to NIS 726 million in the corresponding period last year. This increase is due to continued growth in operations: Increase by NIS 340 million in financing revenues, due to 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 279 million in the corresponding period last year, to revenues of NIS 133 million in 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 other household operations (other than residential mortgages) in 2021 amounted to a loss of NIS 61 million, compared to a loss of NIS 10 million in the corresponding period last year. This was primarily due to increase in operating expenses due to higher payroll expenses, primarily due to increase in variable remuneration items, due to the fiscal results in 2021.

Contribution of households excluding residential mortgages was also impacted by decrease in expenses with respect to credit losses, which amounted to revenues of NIS 55 million in 2021, compared to expense of NIS 130 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.

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 29 to the financial statements.

Private Banking Segment

The supervisory definition

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

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

The private banking segment provides banking services in Israel to both Israeli clients and foreign resident clients. Private banking is the concept of banking services geared to clients with high financial wealth, with a considerable part of their activity executed in the management of financial assets. Private banking segment clients are individual clients with liquid deposits and investments in securities in excess of NIS 3 million.

Financial consulting, which is part of the service offered to this operating segment, is provided to the clients of the segments who have signed consulting agreements. A response is also provided for other financial needs of these clients, while providing high-quality personal service and offering a range of advanced products.

This segment has potential for expanding business relationships with clients from a high socio-economic standing, who demand personal, professional service which is highly available.

Differences between the management approach and the supervisory definition

- Some individual clients attributed to the private banking segment using the "management approach" are classified to the household segment using supervisory segments. The difference is primarily due to clients' financial assets used for client classification – the Bank threshold for client classification according to the "management approach" is NIS 1 million, lower than the supervisory definition.
- The private banking segment according to the management approach also includes businesses with liquid assets in excess of NIS 8 million. These clients are classified to the business operating segments under the supervisory approach.

Developments in the private banking segment during the reported period

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

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

Analysis of Business results of the private banking segment

	For the year ended December 31,	
	2021	**2020**
		NIS in millions
Profit and profitability		
Total interest revenues, net	81	79
Non-interest financing revenues	-	-
Commissions and other revenues	23	99
Total revenues	**104**	**178**
Expenses (reduction of expenses) with respect to credit losses	(1)	6
Operating and other expenses	28	72
Profit before provision for taxes	77	100
Provision for taxes	26	35
Net profit	**51**	**65**
Balance sheet – key items:		
Loans to the public (end balance)	141	370
Loans to the public, net (end balance)	139	362
Deposits from the public (end balance)	21,664	20,178
Average balance of loans to the public	203	178
Average balance of deposits from the public	20,947	17,072
Average balance of risk assets	98	70
Credit margins and deposit margins:		
Margin from credit granting operations	1	1
Margin from activities of receiving deposits	72	76
Other	8	2
Total interest revenues, net	**81**	**79**

Segment contribution in 2021 includes Union Bank, whereas in 2020 operating results of Union Bank were only included in the fourth quarter.

Results of the private banking segment (in conformity with supervisory definitions) in 2021 amounted to a profit of NIS 51 million, compared to NIS 65 million in the corresponding period last year.

Commissions and other revenues decreased compared to the corresponding period last year, which included 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. Conversely, operating and other expenses decreased in 2021, 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 29 to the financial statements.

Micro and Small Business Segment

The supervisory definition

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

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

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

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

Differences between the management approach and the supervisory definition

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

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

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

Changes to client attributes in this segment

This segment is highly diversified as for clients, with strong collateral requirements from clients to secure repayment of credit. In 2021, due to the Corona Virus crisis, special loans were extended to clients from State-guaranteed foundations for small and medium businesses, to help address the Corona Virus crisis.

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

Analysis of Business results of micro and small business segment

	For the year ended December 31,	
	2021	**2020**
		NIS in millions
Profit and profitability		
Total interest revenues, net	1,363	1,188
Non-interest financing revenues	1	-
Commissions and other revenues	543	440
Total revenues	**1,907**	**1,628**
Expenses (reduction of expenses) with respect to credit losses	(71)	321
Operating and other expenses	1,140	803
Profit before provision for taxes	838	504
Provision for taxes	288	175
After-tax profit	**550**	**329**
Net profit attributed to non-controlling interests	(6)	(5)
Net profit attributable to shareholders of the banking corporation	**544**	**324**
Balance sheet – key items:		
Loans to the public (end balance)	30,744	29,514
Loans to the public, net (end balance)	30,245	28,948
Deposits from the public (end balance)	50,247	44,382
Average balance of loans to the public	30,459	23,880
Average balance of deposits from the public	47,118	34,255
Average balance of risk assets	27,504	22,792
Credit margins and deposit margins:		
Margin from credit granting operations	1,182	1,026
Margin from activities of receiving deposits	124	122
Other	57	40
Total interest revenues, net	**1,363**	**1,188**

Segment contribution in 2021 includes Union Bank, whereas in 2020 operating results of Union Bank were only included in the fourth quarter.

Contribution of the micro and small business segment (in conformity with the supervisory definitions) to Group profit in 2021 amounted to NIS 544 million, compared to NIS 324 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 2021 amounted to revenues of NIS 71 million, compared to expenses of NIS 321 million in the corresponding period last year. The decrease in provision for credit losses is 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 29 to the financial statements.

Medium business segment

The supervisory definition

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

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

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

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

In recent years, new clients are classified under this segment in conformity with the supervisory approach – those with annual turnover over NIS 50 million and under NIS 250 million.

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

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

Differences between the management approach and the supervisory definition

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

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

Analysis of Business results in the medium business segment-

	For the year ended December 31,	
	2021	2020
	NIS in millions	
Profit and profitability		
Total interest revenues, net	337	309
Non-interest financing revenues	(2)	1
Commissions and other revenues	114	96
Total revenues	**449**	**406**
Expenses with respect to credit losses	22	136
Operating and other expenses	239	136
Profit before provision for taxes	188	134
Provision for taxes	65	46
Net profit	**123**	**88**
Balance sheet – key items:		
Loans to the public (end balance)	10,066	9,660
Loans to the public, net (end balance)	9,848	9,427
Deposits from the public (end balance)	15,742	14,406
Average balance of loans to the public	8,958	8,108
Average balance of deposits from the public	15,525	10,570
Average balance of risk assets	11,927	9,192
Credit margins and deposit margins:		
Margin from credit granting operations	285	260
Margin from activities of receiving deposits	42	36
Other	10	13
Total interest revenues, net	**337**	**309**

Segment contribution in 2021 includes Union Bank, whereas in 2020 operating results of Union Bank were only included in the fourth quarter.

Results of the medium business segment (in conformity with supervisory definitions) in 2021 amounted to a profit of NIS 123 million, compared to a profit of NIS 88 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 2021 amounted to NIS 22 million, compared to expenses of NIS 136 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 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 29 to the financial statements.

Large business segment

The supervisory definition

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

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

The segment specializes in providing complete banking and financing services to the largest companies, in a range of sectors, with turnover exceeding NIS 120 million.
In recent years, new clients are classified in conformity with the supervisory approach – those with annual turnover over NIS 250 million.
Segment clients are served under responsibility of the Bank's Corporate Division, primarily by the Large Corporation Sector.
Segment clients operating in the real estate sector are served by the Construction and Real Estate sector of the Corporate Division, which specializes in provision of dedicated services to this sector.
In its activities in this segment, the Bank emphasizes expansion of the current client base and improved profitability through expansion of activity in financing areas with very high profitability relative to capital, such as trading room transactions, including transactions in derivatives and other products provided to clients by the trading room.

Differences between the management approach and the supervisory definition

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

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

Analysis of Business results in the large business segment-

	For the year ended December 31,	
	2021	**2020**
		NIS in millions
Profit and profitability		
Total interest revenues, net	585	561
Non-interest financing revenues (expenses)	5	(1)
Commissions and other revenues	160	134
Total revenues	**750**	**694**
Expenses (reduction of expenses) with respect to credit losses	(7)	138
Operating and other expenses	379	239
Profit before provision for taxes	378	317
Provision for taxes	130	110
Net profit	**248**	**207**
Balance sheet – key items:		
Loans to the public (end balance)	23,574	20,169
Loans to the public, net (end balance)	23,289	19,859
Deposits from the public (end balance)	36,669	38,094
Average balance of loans to the public	20,838	19,125
Average balance of deposits from the public	36,129	31,004
Average balance of risk assets	30,618	25,729
Credit margins and deposit margins:		
Margin from credit granting operations	490	475
Margin from activities of receiving deposits	53	59
Other	42	27
Total interest revenues, net	**585**	**561**

Segment contribution in 2021 includes Union Bank, whereas in 2020 operating results of Union Bank were only included in the fourth quarter.
Contribution of the large business segment (in conformity with supervisory definitions) in 2021 amounted to a profit of NIS 248 million, compared to NIS 207 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 2021 amounted to revenues of NIS 7 million, compared to expenses of NIS 138 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 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 29 to the financial statements.

Institutional investor segment

The supervisory definition

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

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

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

Differences between the management approach and the supervisory definition

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

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

Analysis of Business results of institutional investor segment-

	For the year ended December 31,	
	2021	**2020**
		NIS in millions
Profit and profitability		
Total interest revenues, net	109	98
Non-interest financing revenues	3	1
Commissions and other revenues	51	56
Total revenues	**163**	**155**
Expenses (reduction of expenses) with respect to credit losses	(32)	23
Operating and other expenses	168	117
Profit before provision for taxes	27	15
Provision for taxes	9	5
Net profit	**18**	**10**
Balance sheet – key items:		
Loans to the public (end balance)	2,960	2,434
Loans to the public, net (end balance)	2,939	2,404
Deposits from the public (end balance)	61,365	47,566
Average balance of loans to the public	1,777	1,108
Average balance of deposits from the public	53,355	41,903
Average balance of risk assets	2,295	2,455
Credit margins and deposit margins:		
Margin from credit granting operations	26	26
Margin from activities of receiving deposits	62	66
Other	21	6
Total interest revenues, net	**109**	**98**

Segment contribution in 2021 includes Union Bank, whereas in 2020 operating results of Union Bank were only included in the fourth quarter.
Contribution of the institutional investor segment (in conformity with supervisory definitions) in 2021 amounted to a profit of NIS 18 million, compared to NIS 10 million in the corresponding period last year.

Growth in profit is primarily due to revenues with respect to credit losses of NIS 32 million, compared to expenses of NIS 23 million in the corresponding period last year.
For more details and extensive information about results of this segment and operating results in conformity with management's approach – see Note 29 to the financial statements.

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.

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

Financial management at the Bank is conducted by the Finance Division. The financial management segment operates in Israel and overseas in several key areas: Management of Bank assets and liabilities, management of the debenture portfolio, management of exposure to market risk and liquidity management as well as trading room operations in the financial and capital markets, in conformity with management's viewpoint as to management of these activities.
Asset and liability management operations are managed by the Financial Management Sector, including management of sources and uses, exposures to market risk – including management of liquidity, basis and interest risk, management of transfer prices ("Fund Transfer Prices (FTP)"), pricing of special financial transactions and management of the debenture portfolio.
Trading operations are carried out by the Trading Room, including the Bank's activity in foreign currency, options, interest derivatives, securities in Israel and overseas and financial assets, with local and overseas entities as counter-parties.
The Division also includes a unit dedicated to managing relations with financial institutions and investors. This unit is in charge of all activities with overseas banks, including management of correspondent accounts, obtaining and providing service and developing activities in support of Bank client needs.
Business in this segment is subject to the relevant risk management policy and to restrictions imposed by the Board of Directors and by management on various exposure levels.
This segment also includes Bank activity in securities for the Bank (in the available-for-sale portfolio and in the held-for-trading portfolio), and as from September 30, 2020 also includes activity at Union Bank. This activity, including at Union Bank, includes adjustment of the portfolio structure and composition to the business environment, to the state of the capital market in Israel and world-wide, to restrictions on risk assets, while maintaining appropriate level of revenues and creating an anchor for future long-term revenues, in conformity with the risk appetite specified by the Board of Directors.

Differences between the management approach and the supervisory definition

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

Developments in the financial management segment during the reported period

In 2021, operations in this segment were affected by:
- Revenues and expenses due to changes related to market curves.
- Higher inflation in Israel and world-wide.
- Activities involving securities.

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

Analysis of Business results of the financial management segment

	For the year ended December 31,	
	2021	2020
	NIS in millions	
Profit and profitability		
Total interest revenues (expenses), net	1,303	133
Non-interest financing revenues	385	208
Commissions and other revenues	467	316
Total revenues	**2,155**	**657**
Expenses (reduction of expenses) with respect to credit losses	(1)	1
Operating and other expenses	505	421
Profit before provision for taxes	1,651	235
Provision for taxes	569	81
After-tax profit	1,082	154
Share of banking corporation in earnings of associated companies	(10)	1
Net profit before attribution to non-controlling interests	1,072	155
Net profit attributed to non-controlling interests	(44)	(40)
Net profit attributable to shareholders of the banking corporation	**1,028**	**115**
Balance sheet – key items:		
Average balance of risk assets	11,971	8,010
Credit margins and deposit margins:		
Margin from credit granting operations	-	-
Margin from activities of receiving deposits	-	-
Other	1,303	133
Total interest expenses, net	**1,303**	**133**

Segment contribution in 2021 includes Union Bank, whereas in 2020 operating results of Union Bank were only included in the fourth quarter.

Operating results of the financial management segment (in conformity with the supervisory definitions) in 2021 amounted to profit of NIS 1,028 million, of which NIS 174 million with respect to Union Bank, compared to profit of NIS 115 million in the corresponding period last year.

Key factors affecting the change in segment results are as follows: Increase in financing revenues due to continued growth in current operations, impact of change in the Consumer Price Index and increase in non-interest financing revenues, primarily due to effect of accounting treatment of derivatives at fair value. See also analysis of evolution of financing revenues in chapter "Material developments in revenues, expenses and other comprehensive income".

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

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

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

Business results of overseas operations

The supervisory definition

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

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

The Bank Group's international operations include mostly providing banking services to businesses overseas. The Group's international operations include: personal banking services, foreign trade financing local credit for purchase of real estate; commercial financing and participation in syndicated lending. Overseas international operations reports to the Business Division as from January 2021.

Differences between the management approach and the supervisory definition

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

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

Developments in the overseas operations segment during the reported period

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

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

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

Analysis of Business results of overseas operations-

	For the year ended December 31,	
	2021	**2020**
		NIS in millions
Profit and profitability		
Total interest revenues, net	208	194
Non-interest financing revenues	8	10
Commissions and other revenues	34	31
Total revenues	**250**	**235**
Expenses with respect to credit losses	-	16
Operating and other expenses	69	89
Profit before provision for taxes	181	130
Provision for taxes	62	45
Net profit	**119**	**85**
Balance sheet – key items:		
Loans to the public (end balance)	4,236	3,804
Loans to the public, net (end balance)	4,199	3,768
Deposits from the public (end balance)	4,186	4,611
Average balance of loans to the public	3,552	3,300
Average balance of deposits from the public	4,067	4,742
Average balance of risk assets	5,010	4,544
Credit margins and deposit margins:		
Margin from credit granting operations	121	107
Margin from activities of receiving deposits	8	10
Other	79	77
Total interest revenues, net	**208**	**194**

Contribution of overseas operations to Group profit in 2021 amounted to NIS 119 million, compared to NIS 85 million in the corresponding period last year.

The increase in profit is primarily due to increase in financing revenues and to absence of expenses with respect to credit losses in 2021, compared to expense amounting to NIS 13 million in the corresponding period last year. Furthermore, segment contribution was affected by capital gain amounting to NIS 14 million, due to sale of the subsidiary United Mizrahi Bank (Switzerland) Limited in the second quarter of 2021.

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

Major Investee companies

Contribution of investees to net operating profit in 2021 amounted to NIS 319 million (excluding Union Bank: NIS 151 million), compared to NIS 194 million in 2020 (excluding Union Bank: NIS 175 million). 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 331 million (excluding Union Bank: NIS 163 million), compared to NIS 198 million in 2020 (excluding Union Bank: NIS 179 million).

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

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

Union Bank is a banking corporation operating in accordance with a "Bank" license as per provisions of the Banking Act (Licensing), 1981.

On September 30, 2020, the transaction between controlling shareholders of Union Bank and Bank Mizrahi-Tefahot closed, whereby shares of Union Bank held by the controlling shareholders were acquired in exchange for issue of Bank Mizrahi-Tefahot shares and the share purchase from the remaining shareholders was completed. As from this date, the Bank holds all of the share capital of Union Bank and therefore the Bank has control over Union Bank. See Note 35 to the financial statements for details.

Contribution of Union Bank to Group profit in 2021 amounted to NIS 169 million, as well as NIS 216 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 December 31, 2021 amounted to NIS 34,620 million, compared to NIS 47,663 million as of December 31, 2020 – a decrease by NIS 13,043 million, or 27%. Net loans to the public reported as of December 31, 2021 amounted to NIS 18,592 million, compared to NIS 24,571 million as of December 31, 2020 – a decrease by NIS 5,979 million, or 24%, due to gradual transfer of lending operations from Union Bank to Mizrahi Tefahot. Net deposits from the public reported as of December 31, 2021 amounted to NIS 24,822 million, compared to NIS 37,361 million as of December 31, 2020 – a decrease by NIS 12,539 million, or 34%.

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

government and public sector employees. In accordance with the replacement license, Bank Yahav may engage in new operations and may expand its client base, subject to advance permission by the Supervisor of Banks.

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

Bank Yahav’s contribution to Group net profit in 2021 amounted to NIS 102 million, compared with NIS 92 million in 2020. Net profit was primarily affected by increase in interest revenues, net, primarily due to increase in operations in the NIS-denominated segment and increase in non-interest revenues. Net profit return on equity for Bank Yahav amounted in 2021 to 11.2%, compared to 11.2% in 2020. Bank Yahav's balance sheet total as of December 31, 2021 amounted to NIS 33,759 million, compared to NIS 33,463 million as of December 31, 2020, an increase by 1%. The balance of loans to the public, net as of December 31, 2021 amounted to NIS 11,129 million, compared to NIS 10,575 million as of December 31, 2020, an increase by 5%. The balance of deposits from the public as of December 31, 2021 amounted to NIS 29,991 million, compared to NIS 29,328 million as of December 31, 2020, an increase by 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 2021 amounted to NIS 70 million, compared to NIS 67 million in 2020. Net profit return on equity was 5.5% in 2021, compared to return of 5.6% in 2020.

Other investee companies operating in Israel

Other investee companies operating in Israel, wholly controlled by the Bank and supported by Bank infrastructure, contributed to the Bank's net profit in 2021 NIS 22 million, net – compared to loss of NIS 28 million in 2020. This includes profit amounting to NIS 16 million in 2021 (NIS 23 million in 2020) from operations of Mizrahi Tefahot Trust Company Ltd. (hereinafter: "Trust Company"). Profit of the Trust Company in 2021 and 2020 included revenues from indemnification payouts received from insurers.

On November 8, 2020, the General Meetings of shareholders and Board of Directors of the relevant subsidiaries approved the merger of Union Bank Trust Company Ltd. and Mizrahi Tefahot Trust Company Ltd. The merger was completed on May 2, 2021.

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.

The Bank's financial results in 2021 include net loss of Mizrahi Bank Switzerland, amounting to CHF 0.1 million, compared to net profit of CHF 0.1 million in 2020.

Interest revenues and net interest revenues for the Bank in 2021 include CHF 0.1 million, compared to CHF 1.5 million in 2020. Pre-tax revenues include CHF 0.1 million, compared to CHF 0.1 million in 2020. Pre-tax loss net of exchange rate effects includes NIS 0.9 million, compared to pre-tax profit amounting to NIS 0.3 million in 2020.

Investments in shares

The Bank manages nostro investments in shares. Shares in which the Bank invested are partially presented in the portfolio held for trading, and partially 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.

Non-tradeable investments which are non-tradeable 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 (tradeable and with fair value available) are presented at market value thereof, and unrealized changes to fair value are recognized on the statement of profit and loss.

Bank Group investments in shares as of December 31, 2021 amounted to NIS 795 million, compared to NIS 477 million as of December 31, 2020, as follows:

	For the year ended December 31,	
	2021	**2020**
		NIS in millions
Under "securities not held for trading":		
Participation units in equity funds	264	112
Tradeable investments	339	193
Investments in corporations presented on cost basis	103	121
Total under "securities not held for trading"	**706**	**426**
Shares held for trading	20	20
Total under "securities held for trading"	**20**	**20**
Investments in associated companies	69	31
Total under investment in associates	**69**	**31**
Total investment in shares	**795**	**477**

Bank Group net gain from investments in shares, after provision for impairment, amounted in 2021 to NIS 146 million for the Bank, compared to NIS 51 million in 2020.

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

Risks overview

Overview of risks and manner of managing them

The Bank is engaged in commercial banking operations (business and retail) and in mortgage operations, where the Bank is a leader in the Israeli banking system. Day-to-day activities in a variety of balance sheet and off-balance-sheet financial instruments expose the Group to various financial risks, such as: Market and credit risks, liquidity risk and credit risks, as well as non-financial risks, such as: Operational risks (including IT risk and information and cyber security risk), compliance and regulatory risks, business=strategic risk and reputational risk.

Risks management at the Group is conducted from a comprehensive viewpoint of Bank operations in Israel and at overseas affiliates and in conformity with regulatory requirements, so as to support achievement of the Group's strategic objectives, while assuming risks in an informed manner and maintaining a risk level in line with the overall risk appetite specified by the Bank's Board of Directors.

The 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 regularly managed in conformity with directives concerning risk management and control, as stipulated by the Supervisor of Banks, and in particular with Proper Conduct of Banking Business Directive310 "Risks Management", which is based on the Basel Committee recommendations and which specifies the principles for risks management and control in the Israeli banking system and stipulates the standards required of the banks for creating their risks management and control framework in line with regulatory requirements, the Bank's risk profile and its business targets.

Risks management at the Bank consists of all management and control layers at the Bank. These include: the Bank Board of Directors, management and business units, as well as internal control and audit functions. The Risks Control Division (headed by the Bank's CRO) is the overall entity tasked with risk management and control at the Bank. The Bank has three defined lines of defense; the Board of Directors and management constitute additional lines of defense, acting to supervise operation of the three lines of defense.

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 for the Group 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 tasked with ensuring that Bank operations are in conformity with the business strategy and targets specified by the Board of Directors and within the specified risk appetite. Bank management is committed to regular management of material risks to which the Bank is exposed and to implementation of principles stipulated by the Bank's Board of Directors for addressing such risks.

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

The Bank has 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.

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

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.

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

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

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

The Bank's business model is based on the five-year business strategy for 2021-2025 and overall risk appetite principles of the Bank. For more information see chapter "Business goals and strategy" above.

Bank management regular monitors the achievement of work plan targets. The Risk Control Division maintains regular processes to challenge the work plans and achievement of strategic plan targets. Rapid evolution of technological developments and client behavior in recent years has been changing the landscape of the financial world in terms of increased competition. These changes impact the survivability and nature of banks in future. Such technology changes, as well as growing competition in the financial world, may impact the Bank's business model in the long term.

To this end, the Bank acts in systematic fashion, in the permanent steering committee on innovation, designed to monitor activity in the banking system, mapping of technology gaps and regular review of alternatives to be recommended for Bank operations, in line with the Bank's strategic principles. This is based on a strategic perception of the client experience, reinforcing the trust-based relationship with clients, while providing the best service experience, with a choice of relevant products and services available.

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

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

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

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

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

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

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

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. Risk appetite is defined in qualitative and quantitative terms in the normal course of business and under stress scenarios, and is based on the risk strategy and on basic principles of the Bank's business and strategic plan, on the required liquidity and capital for achieving the strategic objectives and on results of the various stress scenarios tested by the Bank.

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

The Bank's risk appetite is specified for all material risks; the quantitative restrictions are mostly specified as percentage of Tier I shareholder equity at the Bank. 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.

System-wide scenario

The system-wide scenario is a uniform stress scenario delivered by the Supervisor of Banks to the banking system. In October 2021, the Bank of Israel issued a revised uniform stress scenario, a macro-economic scenario which includes a global shock, reflected by slower economic activity and market declines in Israel and around the world, higher interest rates rise due to higher inflation, with a sharp, concurrent drop in asset prices, higher unemployment and reduced private consumption. Moreover, concurrently in late 2022, a significant military operation starts in Israel, resulting in further deterioration in economic activity, which brings about a material lowering of Israel's credit rating (down to BBB), along with changes in the business environment and increased competition with new financial players. The Bank's results under this scenario, describing the anticipated development of the Bank's balance sheet and data for profitability, capital and leverage ratios, were provided to the Bank of Israel in mid-February 2022.

ICAAP process (Internal Capital Adequacy Assessment Process)

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 2021 and includes qualitative and quantitative references to all risk aspects at the Bank.

This document includes several chapters describing the corporate governance for risk management at the Bank, a concise qualitative and quantitative analysis of material risks to the Bank, capital targets, the current risk profile and looking forward to 2021, and developments during the year based on the risk self-assessment process and presentation of the Bank's overall risk map. Note that capital planning and risk assessment as part of the annual ICAAP document also include the impact of the Union Bank merger, as well as reference to the specific risk profile of Union Bank, as part of the Group risk view.

The core of the ICAAP document is the internal capital planning process conducted over a three-year planning horizon, from June 30, 2021 through June 30, 2024. This framework was used to calculate the required capital allocation with respect to each of the risks, from the requirements specified in Pillar 1 with additional capital required with respect to Pillar 2. Pillar 2 includes capital allocation for risks not included in Pillar 1, such as: credit concentration risk and interest risk in the bank portfolio as well as additional capital allocation for risks included in Pillar 1, where the Bank assumes that additional capital allocation is required in respect thereof. The capital allocation is calculated both for normal conditions and for stress scenarios. Stress scenarios are applied at variable frequency, intensity and levels, from scenarios at segment and risk level, a system-wide scenario to test concurrent materialization of multiple risks, based on the Bank of Israel Uniform Scenario, and through to application of stressed scenarios. These scenarios are intended to ensure that the Bank has sufficient capital cushions to survive even stressed scenarios, with high impact and very remote likelihood of materializing, and that the Bank is in compliance with the limit on ratio of Tier I equity for the stressed scenario – minimum ratio of 6.5%. The Bank also applies Reverse Stress Tests ("RST") which review, based on the Bank's risk profile, which event is likely to bring the Bank closest to the Tier I capital limit under a stress scenario.

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%.

Risks Document

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

For more information see the 2021 Risks Report available on the Bank website.

Risk factor severity

The Bank has specified a framework for risks management and control by the Group, which includes mapping of material risks and their materiality threshold, as well as assignment of Risk Owners for all risks. For each risk, the potential impact to business operations over the coming year is assessed.

The table below lists the risk factors, executives appointed as Risk Owner for each one and management assessment of the impact of each risk factor, on a scale of five risk levels: low, low-medium, medium, medium-high, high.

The Bank assesses risk levels based on the estimated impact (potential impact) on Bank capital, during the year under scenarios of different magnitudes, under business as usual conditions and under stress conditions, based on the severity levels set forth in the framework policy on risk management. Note that the impact of potential damage to Bank capital is assessed by review of both quantitative and qualitative benchmarks, including risk management quality, existence of emergency plans and the Bank's capacity to rapidly and dynamically respond in order to minimize damage from materialization of stress events. The assessment of risk level for each risk is subjective, with some risks having clear quantitative benchmarks while for others, the subjective assessment is more significant. This is in line with the annual ICAAP process conducted by the Bank, including self-assessment of risk levels, quality of risks management and control processes, including the direction of the risks evolution for the coming year and alignment with work plans of the various departments. These results are extensively discussed by management and by the Board of Directors:

Risk factor	Risk factor impact	Risk Owner
Overall effect of credit risks	Medium	Head of the 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 Bank's overall risk profile increased since early 2020, due to increased credit risk. Since early 2021, the state of the economy has improved significantly, as reflected by key benchmarks (such as: decrease in unemployment, increase in business and slower execution rate in the State-guaranteed fund, as well as the number of applications for deferral and the number of deferrals), with the recovery seen across all economic sectors. However, due to the Omicron variant outbreak in the first quarter of 2022, there is still some uncertainty with regard to implications of the crisis, primarily the impact of reduced labor force, and therefore the overall assessment of credit risks remains unchanged.

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.

Moreover, the assessment of the total impact of credit risks and sector concentration includes the risk assessment with respect to Bank exposure to the construction and real estate sector. The Bank is mostly focused on extending credit for construction using the financial support method (closed assistance). Most of the credit risk in the construction and real estate sector is backed by real estate fully pledged to secure loan repayment, and for credit not secured by real estate collateral, there is other collateral in place, such as: deposits, securities etc.

In 2021, the Bank acted to expand its loan operations in the construction and real estate sector, as part of the trend of growing demand in this sector reflected, *inter alia*, in increased transaction volume. Consequently, the total credit exposure in the construction and real estate sectors increased by 13.7% in 2021 (similar to the growth rate in the mortgage portfolio), but the share of the construction and real estate sector in Israel out of total credit risk to the public at the Bank as of December 31, 2021 remained relatively low at 14.7% (compared to 14.1% at end of 2020). Continued growth in lending to the real estate sector, even in view of competition, is achieved while adhering to underwriting procedures and credit spreads to reflect the risk and is regularly monitored. Therefore, we believe that this activity has no material impact on the overall credit risk level at the Bank (and this risk is not assessed as a separate risk in the risk factors table).

The risk level in the residential mortgage portfolio decreased in the second quarter of 2021 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, which is partially offset by the impact of the cost of living, which is addressed by Government programs designed to provide relief for those on the lower end of scale. 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 delay and loans extended from State-guaranteed funds, see chapter "Risks overview" in the Report of the Board of Directors and Management.

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, which 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 by focusing on changing needs in line with the Bank's business strategy, and taking most of the steps to mitigate 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. At the end of the fourth quarter of 2021, the Bank raised its alert level to High Alert, due to the significant increase in morbidity in Israel and world-wide due to the Omicron variant outbreak and due to market volatility. In practice, no events and/or indications were observed which would indicate realization of a liquidity event. In the fourth quarter and throughout 2021, the Bank maintained appropriate liquidity by investing excess liquidity in liquid assets of very high quality – Level 1 assets. The average liquidity coverage ratio (consolidated, including data for Union Bank) for the fourth quarter of 2021 was 125%.

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 and second quarters of the year. There was no material impact on the Bank's reputational risk.

For more information see the 2021 Risks Report available on the Bank website.

Credit risk

Risk description

Credit risk is the risk that a borrower or counter-party of the Bank would not fulfill its obligations towards the Bank. Credit risk is a material risk to Bank operations. This risk is affected by multiple factors: Business risk due to client activities, concentration risk due to over-exposure to a borrower / borrower group and to economic sectors, geographic concentration risk, risk due to exogenous changes which mostly involve changes to the borrower's macro-economic environment, environmental risks and climate risks, 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.

Credit is at the core of banking operations and therefore, credit risk is the major risk addressed by the banking system. Accordingly, the lion's share of capital allocated in Tier I is with respect to credit risk.

Description of risk appetite and management guidelines

Credit risk management at the Bank is carried out in conformity with Directive 311 "Credit risk management" of the Bank of Israel.

The Bank's Board of Directors is responsible for setting the Bank's credit policies, which prescribe principles and rules for making credit available and for the management and control over the loan portfolio, in order to preserve its quality and mitigate its inherent risk. These principles and rules enable controlled management of the risks involved in granting loans to borrowers, at the level of the individual borrower, group of borrowers and the level of economic and business sectors – to the level of the entire portfolio. The Bank's Board of Directors annually approves the Bank's credit policy and reviews the need to revise this policy throughout the year, in view of development in the business environment in which the Bank and its clients operate. The credit policies includes other policy documents which discuss the relevant risks to the Bank's credit operations, including: Credit concentration policy, which ensures that the credit concentration level at the Bank is regularly managed and monitored; policy on client trading of derivatives and securities, collateral policy, which stipulates the principles required for management of client collateral, safety factors required by transaction type and risk factors; and the environmental risks policy.

Risk appetite consists of a long list of benchmarks and risk factors relevant to the Bank's credit operations, including: Economic sectors, borrower groups, risk factors in the mortgage portfolio, unique activity types, quality of credit portfolio, overseas operations etc. and other risk factors relevant for the Bank's credit risk profile and its business operations. Credit risk is also monitored using a range of stress tests, which estimate the potential impact of stress events on the Bank's credit portfolio. This is done, *inter alia*, in order to review the stability of Bank capital to various stress events and as part of the ICAAP process.

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

Corona Virus crisis

The 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 third quarter of 2021, despite the improved economy and despite the significant improvement in client repayment standards – with clients resuming payment of deferred loans, as well as start of repayment of loans from the State-guaranteed loans from the Corona Virus funds extended during the crisis. In the second quarter of 2021, the risk level in the residential mortgage portfolio decreased to its pre-crisis level of Low risk, in view of the material decrease in volume of loans subject to deferral and with most of the clients subject to deferral resuming regular payments.

Note that as from the second quarter of 2021, the economy has improved significantly and nearly resumed normal operations. However, the outbreak of the Omicron variant in the first quarter of 2022 did impact the scope of economic activity in certain sectors due, *inter alia*, to reduced headcount of employees and reduced demand.

In 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. The Bank has also acted to expand digital support for loan management processes, including repayment deferral (an improved process was applied during the crisis, which provided optimal response to client applications).

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, a level which reflects the uncertainty with regard to the full continuing impact of the crisis on the quality of the Bank's loan portfolio.

The three lines of defense for credit risk management

The Bank's risks management setup consists of all management and control layers at the Bank, from the Bank’s Board of Directors, management and business units to control functions and Internal Audit. The Risks Control Division (headed by the Bank's CRO) is the overall entity tasked with risks management at the Bank, including credit risk management.

In this regard, and in conformity with Proper Conduct of Banking Business Directive 301, the Bank has specified these three lines of defense:

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

Credit at the Bank involves several key areas, supported by an organizational structure based on divisions and units with specific specializations, with credit extended to clients in various operating segments divided among different divisions (Retail, Business) and within those divisions and among different organizational units. Lines of business management are fully responsible for risks management and for implementing an appropriate control environment for its operations The professional units in each of these client segments are responsible for regularly verification, monitoring and control of exposure to clients and operating segments for which they are responsible. This line of defense includes specific control units, such as division controllers, control over clients capital market exposures and other control functions. A set of procedures ensures the actual implementation of policy guidelines.

Second line of defense

Risks Control

The Risks Control Division acts as the Bank's independent risks management function, thus serving as the second line of defense within corporate governance for risks management. Division operations and responsibilities include the following: With regard to credit risk management, the Division operates through multiple independent units:

–Credit risks control – *post-factum* assessment, independent of Bank entities which approve credit, of the borrower quality and quality of the Bank's credit portfolio.

–Analysis – a professional entity tasked with producing an independent opinion for credit to material clients, as part of the credit approval process.

Financial Information and Reporting Division – Chief Accountant

The Chief Accountant is responsible for appropriate credit classification and for determination of provisions for credit losses.

Legal Division

Responsible for statutory provisions and legislative changes that impact Bank operations and for providing current legal counsel to Bank units, as well as handling lawsuits brought against the Bank.

Third line of defense – Internal Audit

Internal Audit serves as the third line of defense within corporate governance for risks management, conducting audits of credit risk management as part of its annual and multi-annual work plan.

The Bank Group operates on multiple levels to monitor and mitigate credit risk in as much as possible, from the credit approval stage, emphasizing the required collateral and financial covenants specified in accordance with procedures, authorization and diversification policies specified by the Bank, through to regular control by business units and dedicated control units operating within the lines of business. This is done with constant effort invested in improving the professional expertise of those involved with credit, by means of banking courses and training, as well as professional seminars at all levels. Concurrently, the Bank invests extensive resources in improving its control mechanisms and IT systems available to decision makers in the credit sector.

The overall impact of credit risk increased in 2020, due to the Corona Virus crisis, from Low-Medium to Medium; The risk level in the residential mortgage portfolio also increased from Low to Low-Medium.

Most of the Retail Division clients (both small businesses and households) are rated using advanced custom models. In 2021, the Bank continued to deploy, implement and use advanced models under development for optimal analysis and management of retail credit, including an update and re definition of some risk benchmarks which are closely monitored due, *inter alia*, to implications of the Corona Virus crisis. Actual current management at the Retail Division is primarily based on the MADHOM system (advanced rating, underwriting and management system). As part of this effort, the Bank's Training Center conducts customized activity for deployment of diverse uses of the model outcomes at branches.

For more information about key processes involved in management and control of credit risk at the Bank, see the 2021 Risks Report on the Bank website.

Handling of non-performing loans and collection of debts – The handling of problem loans requires special focus and professionalism, other than the level that approved or processed the credit extended and collateral received. Initial identification is typically computer-based by designated departments for identification and control in the Corporate Division and in the Retail Division. Identified clients are handled by the Special Client Sector of the Corporate Division (first line).

In order to identify credit risk materializing, or which may materialize, at the Bank, the Bank regularly conducts a process to review and identify debts, based on specified criteria. Some of these criteria require debt to be classified as problematic debt, while others provide a warning and allow the professional entity to exercise discretion. Debts are reviewed by a ranking of authorizations specified in Bank procedures. This authorization ranking includes individual authorizations, from branch and headquarters staff, to authorizations at higher levels with regard to classifications and provisions. A built-in, independent control process is conducted by regional management and by designated units at headquarters. The Information and Reporting Division forms a second line in the classification and provision setting process; he is responsible, in conformity with Proper Conduct of Banking Business Directive 311, for being the independent factor in charge of classification and setting the provision for credit losses.

A computer system which supports application of measurement and disclosure provisions for impaired debts, credit risk and provision for credit losses, including in identification and control processes, carries out logical, criteria-based testing and determines defaults for debts classification as debts under special supervision, inferior debt, impaired debt or debt in restructuring, as required.

Identification of residential mortgages (mortgages) with risk attributes is automated by identifying criteria for arrears and other qualitative criteria. In early stages of arrears, the Bank mostly applies automated collection processes. Later on, the Bank applies proactive processes, both internal and external, including legal proceedings, if needed.

For more information about impaired debts, credit risk and provision for credit losses, see Note 1.E.6. to the financial statements and the chapter "Credit risk" of the 2021 Risks Report on the Bank website.

Analysis of credit quality and problematic credit risk

Significant exposure to groups of borrowers

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

As of December 31, 2021, the Bank had no borrower group which meets the aforementioned criteria.

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

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

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

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

Major borrowers

Below is the sector composition of the top 6 borrowers for the Group as of December 31, 2021 (NIS in millions):

Borrower no.	Sector	On-balance sheet credit risk(1)	Off balance sheet credit risk(1)	Total credit risk(1)
1.	Power	1,302	139	1,441
2.	Financial services	111	1,100	1,211
3.	Construction and real estate	796	179	975
4.	Construction and real estate	226	738	964
5.	Power	553	340	893
6.	Financial services	831	5	836

(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 interest in another banking corporation, or in a banking holding corporation, provided that the balance of such credit exceeds NIS 35 million.
- Additional credit extended to the borrower after the financing 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. The forum 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):

	December 31, 2021				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**
Construction and real estate	762	1	763	–	–	–	–	–
Mining and excavation	–	180	180	–	–	–	–	–
Commerce	–	–	–	–	139	–	139	–
Total	**762**	**181**	**943**	**–**	**139**	**–**	**139**	**–**

Credit to leveraged companies (NIS in millions):

	December 31, 2021				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**
Construction and real estate	26	–	26	–	28	–	28	–
Power	100	–	100	–	100	–	100	–
Commerce	92	46	138	–	482	59	541	34
Transport and storage	112	25	137	49	213	20	233	11
Information and communications	–	–	–	–	45	86	131	–
Financial services	–	–	–	–	145	–	145	21
Public and community services	164	8	172	–	152	8	160	–
Total	**494**	**79**	**573**	**49**	**1,165**	**173**	**1,338**	**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	
	December 31, 2021	December 31, 2020
Problematic credit risk:		
Impaired credit risk	1,432	1,808
Inferior credit risk	240	439
Credit risk under special supervision – housing	1,229	1,188
Credit risk under special supervision – other	749	583
Total problematic credit risk	**3,650**	**4,018**

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

	December 31, 2021	December 31, 2020
Ratio of impaired loans to the public to total loans to the public	0.5	0.7
Ratio of impaired loans to the public to total non-residential mortgages	1.3	1.8
Ratio of problematic loans to the public to total non-residential mortgages	2.2	2.7
Ratio of residential mortgages in arrears 90 days or longer to total loans to the public [(1)(2)]	0.5	0.5
Ratio of problematic credit risk to total credit risk with respect to the public	1.0	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 December 31, 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	10	3	2	–	4	–	6	10
Medium businesses	90	20	14	5	11	–	74	85
Small businesses	375	769	96	20	38	1	316	355
Private individuals	3	36	2	–	–	–	3	3
Residential mortgages	6,120	[2] 7,430	677	272	128	102	5,618	5,848
Total as of December 31, 2021	**6,598**	**8,258**	**791**	**297[3]**	**181**	**103**	**6,017**	**6,301**
Of which, with respect to complete deferral	**522**	**874**	**118**	**26**	**53**	**1**	**422**	**476**
Of which, with respect to partial deferral in conformity with the Bank of Israel outline	**6,076**	**7,384**	**673**	**271**	**128**	**102**	**5,595**	**5,825**
Total as of September 30, 2021	**6,825**	**8,591**	**832**	**321**	**196**	**98**	**6,210**	**6,504**
Total as of June 30, 2021	**8,338**	**11,271**	**988**	**319**	**157**	**101**	**7,761**	**8,019**
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 December 31, 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 delay of 3 to 6 months**	**Debts subject to delay of 6 months or longer**	**Recorded debt balance**	**Of which: In arrears 30 days or longer**	**Recorded debt balance**
Large businesses	–	10	931	2	652
Medium businesses	13	72	205	2	555
Small businesses	23	332	2,260	80	3,480
Private individuals	3	–	788	24	–
Residential mortgages	82	5,766	32,775	604	–
Total as of December 31, 2021	**121**	**6,180**	**36,959**	**712**	**4,687**
Of which, with respect to complete deferral	**41**	**295**	**34,941**	**647**	**–**
Of which, with respect to partial deferral in conformity with the Bank of Israel outline	**80**	**5,885**	**2,018**	**65**	**–**
Total as of September 30, 2021	**176**	**6,274**	**39,196**	**757**	**4,962**
Total as of June 30, 2021	**432**	**7,505**	**39,823**	**696**	**5,127**
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 228 million (as of September 30, 2021: NIS 301 million; as of June 30, 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 1 million (as of September 30, 2021: NIS 1 million; as of June 30, 2021: 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.

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

	December 31, 2021		December 31, 2020	
	Recorded debt balance	Recorded debt balance	Recorded debt balance	Recorded debt balance
	Before restructuring	After restructuring	Before restructuring	After restructuring
Restructurings made	185	185	252	237

	December 31, 2021	December 31, 2020
	Recorded debt balance	Recorded debt balance
Restructurings made which are in default	15	9

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

Analysis of change to impaired debts

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

Movement in impaired debt with respect to loans to the public[(1)]	**For the year ended December 31, 2021**			**For the year ended December 31, 2020**		
	Commercial	**Individual**	**Total**	**Commercial**	**Individual**	**Total**
Balance of impaired debts at start of the year	1,507	193	1,700	1,132	142	1,274
Debts classified as impaired during the year	460	26	486	696	78	774
Debts re-classified as non-impaired during the year	(315)	(5)	(320)	(70)	(3)	(73)
Impaired debts written off	(222)	(23)	(245)	(183)	(23)	(206)
Impaired debts repaid	(341)	(85)	(426)	(384)	(26)	(410)
Other changes	138	18	156	95	16	111
Acquisition of Union Bank	–	–	–	221	9	230
Balance of impaired debts at end of the year	**1,227**	**124**	**1,351**	**1,507**	**193**	**1,700**

[(1)]Includes: Movement in problematic debts under restructuring	**For the year ended December 31, 2021**			**For the year ended December 31, 2020**		
	Commercial	**Individual**	**Total**	**Commercial**	**Individual**	**Total**
Balance of problematic debts under restructuring at start of year	514	75	589	266	65	331
Re-structuring made during the year	135	18	153	209	38	247
Debt reclassified as non-impaired due to subsequent restructuring	(175)	(4)	(179)	(10)	(4)	(14)
Debts under restructuring written off	(63)	(15)	(78)	(52)	(17)	(69)
Debts under restructuring repaid	(127)	(19)	(146)	(65)	(23)	(88)
Other changes	126	11	137	39	8	47
Acquisition of Union Bank	–	–	–	127	8	135
Balance of problematic debts under restructuring at end of year	**410**	**66**	**476**	**514**	**75**	**589**

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

Analysis of provision for credit losses

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

	For the year ended December 31, 2021					
	Provision for credit losses					
	Loans to the public					
	Commercial	Housing	Individual – other	Total	Banks and governments	Total
Balance of provision for credit losses at start of period	1,383	942	340	2,665	2	2,667
Expenses with respect to credit losses	(88)	(133)	(56)	(277)	(1)	(278)
Accounting write-offs	(241)	(10)	(143)	(394)	–	(394)
Recovery of debts written off for accounting purposes in previous years	165	3	98	266	–	266
Net accounting write-offs	(76)	(7)	(45)	(128)	–	(128)
Other	37	2	15	54	–	54
Balance of provision for credit losses at end of period	**1,256**	**804**	**254**	**2,314**	**1**	**2,315**

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

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

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

	December 31, 2021	December 31, 2020
Ratio of provision for credit losses to total loans to the public	0.8	1.1
Ratio of provision for credit losses to total credit risk with respect to the public	0.6	0.8

	Year ended	
	December 31, 2021	December 31, 2020
Ratio of expenses with respect to credit losses to average balance of loans to the public, gross	(0.1)	0.5
Ratio of net write-offs to average balance of loans to the public, gross	0.1	0.1
Ratio of expenses with respect to credit losses to average balance of loans to the public, net	(0.1)	0.5
Of which: With respect to commercial loans other than residential mortgages(1)	(0.2)	1.0
Ratio of net write-offs to average balance of loans to the public, net	0.1	0.1

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

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

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

The household segment is a key growth engine and a significant component of the Bank's strategic plan for 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. With regard to loans to individual clients, Bank policy is in conformity with the Supervisor of Banks' directive on "Consumer credit management" (Proper Conduct of Banking Business Directive 311A).

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. For more information about credit risk management following the Corona Virus crisis, see chapter "Credit risks" and chapter "Explanation and analysis of results and business standing".

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

	December 31,	
	2021	**2020**
Debts		
Checking balances	1,976	1,771
Utilized credit card balances	4,653	4,262
Auto loans – adjustable interest	2,133	1,985
Auto loans – fixed interest	2,823	2,564
Other loans and credit – variable interest	13,063	13,063
Other loans and credit – fixed interest	194	388
Total debt (on-balance sheet credit)	**24,842**	**24,033**
Un-utilized facilities, guarantees and other commitments		
Checking accounts – un-utilized facilities	5,134	5,145
Credit cards – un-utilized facilities	8,331	8,077
Guarantees	253	218
Other liabilities	57	42
Total un-utilized facilities, guarantees and other commitments (off-balance sheet credit)	**13,775**	**13,482**
Total credit risk to individuals	**38,617**	**37,515**
Of which:		
Bullet / balloon loans(3)	380	376
Financial asset portfolio and other collateral against credit risk(4)		
Financial assets portfolio:		
Deposits	3,998	3,905
Securities	271	244
Other monetary assets	257	286
Other collateral(5)	3,484	3,964
Total financial assets portfolio and other collateral against credit risk	**8,010**	**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.

Below is composition by size of borrower indebtedness(1):

Loan ceiling and credit risk (NIS in thousands)		As of December 31, 2021 Number of Borrowers	Balance sheet credit risk	Off-balance sheet credit risk	Total credit risk	As of December 31, 2020 Number of Borrowers	Balance sheet credit risk	Off-balance sheet credit risk	Total credit risk
	Up to 10	353,214	428	1,247	1,675	331,016	491	1,615	2,106
Above 10	Up to 20	111,402	740	946	1,686	110,237	773	919	1,692
Above 20	Up to 40	147,002	2,035	2,268	4,303	142,499	1,998	2,159	4,157
Above 40	Up to 80	154,397	5,032	3,896	8,928	149,065	4,853	3,660	8,513
Above 80	Up to 150	97,395	7,339	3,234	10,573	95,072	7,187	3,085	10,272
Above 150	Up to 300	44,683	7,520	1,825	9,345	43,006	6,954	1,721	8,675
Above 300		4,361	1,748	359	2,107	4,205	1,777	323	2,100
Total		**912,454**	**24,842**	**13,775**	**38,617**	**875,100**	**24,033**	**13,482**	**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 December 31, 2021 NIS in millions	In %	As of December 31, 2020 NIS in millions	In %
Accounts with no fixed income for the account(2)	5,913	23.8	5,484	22.8
Less than NIS 10 thousand.	4,459	17.9	4,893	20.4
Between NIS 10 thousand and NIS 20 thousand	7,620	30.7	7,543	31.4
Over NIS 20 thousand	6,850	27.6	6,113	25.4
Total	**24,842**	**100.0**	**24,033**	**100.0**

(1) For measuring regular income in client accounts, the Bank uses "credit turnover" data for the account, including *inter alia* salaries and regular pensions.
(2) Primarily with respect to loans extended in conjunction with assignment of vehicle portfolios and loans extended by Igud Leasing. Due to the nature of account management, this revenue is not reflected in the current account.

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

Term to maturity	As of December 31, 2021 NIS in millions	In %	As of December 31, 2020 NIS in millions	In %
Up to 1 year	3,696	20.3	3,676	20.4
Over 1 year to 3 years	5,970	32.8	5,608	31.2
Over 3 years to 5 years	4,387	24.1	4,515	25.1
Over 5 years to 7 years	2,118	11.6	2,082	11.6
Over 7 years(2)	2,042	11.2	2,119	11.7
Total	**18,213**	**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.

Problematic credit risk before provision for credit losses (NIS in millions):

	As of December 31, 2021			As of December 31, 2020		
	Credit risk[1]			Credit risk[1]		
	On balance sheet	Off balance sheet	Including	On balance sheet	Off balance sheet	Including
Balance of problematic credit risk	193	7	200	201	4	205
Problematic credit risk rate[2]	0.78%	0.05%	0.52%	0.84%	0.03%	0.55%

(1) On- and off-balance sheet credit before impact of provision for credit losses, and before impact of deductible collateral with respect to indebtedness of borrower and of borrower group.
(2) The ratio of problematic credit risk to total credit risk before provision for credit losses.

Below is the expense rate with respect to credit losses to individuals (annualized)

	For the year ended December 31,	
	2021	2020
Expense with respect to credit losses as percentage of total loans to the public to individuals	(0.22%)	0.56%

Data for credit risk to individuals show that:

- Total debts by individuals (on-balance sheet credit) increased by 3.37% compared to December 31, 2021, respectively.

Composition of debts as of December 31, 2021:

Checking accounts	8.0%
Credit cards	18.7%
Auto loans	20.0%
Other loans and credit	53.4%

- Of all debts (on-balance sheet credit) as of December 31, 2021, 32.2% is secured by financial assets and other collateral in the client's account (compared to 34.9% as of December 31, 2020).

Given the risk attributes of this segment, the rate of group-based qualitative provision for individuals is higher than in other segments, in conformity with guidelines from the Supervisor of Banks.

Credit risk in construction and real estate economic sector in Israel

Credit operations in this sector account for a significant component of credit operations of the Corporate Division. In financing the construction and real estate industry, specific analysis and monitoring tools are used to assist the Bank in reaching decisions on the granting of financial support to the various projects. Construction financing in this industry is focused mainly on residential construction in areas with strong demand in central Israel. 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.
With the recovery from the Corona Virus crisis and in given the excess demand for apartments in Israel and the low interest rate, business in this sector increased significantly and housing prices continued to increase, by over 10% in 2021, and the Construction Input Price Index also increased by a significant 5.6%. New residential units sold in September-November 2021 (net of seasonal effects) was 11% higher than in the previous three months, and review of trend data shows that since March 2018, sales increased by 2.4% per month. In 2021, housing construction starts were stable, and housing construction completions were lower. Furthermore, ILA tenders closed in 2021 reached record prices, reflecting the expectations of market players for further price increases.

In late 2021, the Government approved a new program for 2022-2025, designed to address the rising housing costs; this program includes Government-specified targets for planning and development, using budgets included in the national budget to eliminate barriers to increasing housing supply, as well as measures designed to reduce demand and thereby to bring about structural changes in order to streamline the housing market in Israel. The Bank is monitoring this program and its market implications.

Demand in the rental real estate segment also recovered impressively, as the number of those vaccinated increased and as the economy resumed normal operations. Addressing the implications of the Corona Virus crisis accelerated processes of remote working and integration with office work (hybrid model), which are expected to remain over the long term. Therefore, and in view of many companies entering the eCommerce market, accelerated trend of online shopping and growth in private consumption, there is increased demand for logistics centers.

Financing of real estate transactions at the Bank is conducted in conformity with clear policy and rules stipulated in the lending policy for various activity channels, such as: financing for land, residential construction, rental real estate, purchase groups, urban renewal, TAMA 38 and so forth. Growth in activity, in view of increased competition, is achieved while adhering to appropriate underwriting procedures and credit spreads to reflect the risk.

The Bank regularly monitors the loan portfolio, as well as new loans extended, in conformity with benchmarks stipulated in Bank policy.

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

								December 31, 2021
	Credit risk to the public(1)							
				Credit risk		**Total problematic credit risk**		**Balance of provision for credit losses**
	On balance sheet(2)		**Off balance sheet(3)**	**Including**	**Impaired**	**Other proble-matic(4)**	**Balance sheet credit risk**	**Off-balance sheet credit risk**
		Guaran-tees to home buyers(5)	**Facilities and other commit-ments**					
Secured by real estate:								
Housing	13,472	5,517	13,708	32,697	86	70	105	57
Commercial and industrial	7,263	83	2,150	9,496	111	28	54	7
Total secured by real estate	**20,735**	**5,600**	**15,858**	**42,193**	**197**	**98**	**159**	**64**
Not secured by real estate	5,652	219	4,193	10,064	127	94	52	33
Total for construction and real estate economic sector in Israel	**26,387**	**5,819**	**20,051**	**52,257**	**324**	**192**	**211**	**97**
Of which: Designated for project assistance	12,788	5,549	12,348	30,685	48	63	122	59

							December 31, 2020
	Credit risk to the public(1)						
			Credit risk		**Total problematic credit risk**		**Balance of provision for credit losses**
	On balance sheet(2)	**Off balance sheet(3)**	**Including**	**Impaired**	**Other proble-matic(4)**	**Balance sheet credit risk**	**Off-balance sheet credit risk**
							December 31, 2020
Secured by real estate:							
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	**18,799**	**19,016**	**37,815**	**145**	**37**	**152**	**59**
Not secured by real estate	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 derivatives 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.
(5) Off-balance sheet credit risk due to housing bonds, which are mostly backed by insurance purchased from international reinsurers.

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

	December 31,					
	2021			2020		
	Credit risk(1)			Credit risk(1)		
	On balance sheet	Off balance sheet	Including	On balance sheet	Off balance sheet	Including
Secured by real estate						
Real estate yet to be completely constructed:						
Raw land	8,795	1,276	10,071	5,500	916	6,416
Real estate under construction	5,698	18,865	24,563	7,299	16,909	24,208
Real estate completely constructed	6,242	1,317	7,559	6,000	1,191	7,191
Total credit secured by real estate in Israel	**20,735**	**21,458**	**42,193**	**18,799**	**19,016**	**37,815**
Not secured by real estate	5,652	4,412	10,064	3,654	4,511	8,165
Total credit risk for construction and real estate in Israel	**26,387**	**25,870**	**52,257**	**22,453**	**23,527**	**45,980**

(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.

	December 31,		
	2021	2020	Change
	Credit risk to the public		
Credit risk at performing credit rating:			
Total non-problematic credit risk	50,559	42,998	17.6%
Credit risk other than at performing credit rating:			
Problematic, not impaired	192	139	38.1%
Impaired	324	299	8.4%
Non-problematic	1,182	2,544	(53.5%)
Total credit risk other than at performing credit rating	**1,698**	**2,982**	**(43.1%)**
Total credit risk for construction and real estate in Israel	**52,257**	**45,980**	**13.7%**

Credit risk data for the construction and real estate clients sector as of December 31, 2021 show that 48.5% of the on-balance sheet credit risk and 69.2% 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 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.

In 2021, the Bank acted to expand its loan operations in the construction and real estate sector, as part of the trend of growing demand in this sector reflected, *inter alia*, in rising prices and increased transaction volume. Consequently, the total credit exposure in the construction and real estate sectors increased by 13.7% in 2021.
Continued growth in lending to the real estate sector, even in view of competition, is achieved while adhering to appropriate underwriting procedures and credit spreads to reflect the risk and is regularly monitored. The risk level in this sector is also taken into account in the quarterly review process of the group-based provision.
The share of the construction and real estate sector in Israel out of total credit risk to the public at the Bank as of December 31, 2021, as presented below (Credit Risk by Economic Sector) is 14.7%. 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 11.0% (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).

In the second half of 2021, the Bank reviewed the calculation of the group-based provision for credit losses in this sector, and adjusted this provision so as to account, *inter alia*, for growth in the loan portfolio and the underwriting conditions.

Credit risk(2) by economic sector

As of December 31, 2021

Reported amounts (NIS in millions)

	Total credit risk(1)				Off balance sheet debts(2) and credit risk (other than derivatives)(3)						
		Of which:							Credit losses(4)		
	Total	Credit performance rating(4)	Credit in good standing other than at performing credit rating(5)	Proble-matic(6)	Total	Debts	Proble-matic(6)	Impaired	Expenses with respect to credit losses	Net accounting write-offs	Balance of provision for credit losses
Borrower activity in Israel											
Public – commercial											
Agriculture, forestry and fishing	1,203	1,179	8	16	1,203	939	16	8	(1)	1	9
Mining and excavation	750	750	–	–	651	158	–	–	(6)	-	4
Industry and production	13,280	12,517	298	465	13,116	7,689	465	296	14	37	188
Of which: Diamonds	1,552	1,390	23	139	1,552	1,031	139	68	8	4	27
Construction and real estate – construction(7)	44,695	43,288	1,004	403	44,603	19,881	403	235	43	(1)	265
Construction and real estate – real estate operations	7,562	7,271	178	113	7,360	6,228	113	89	(16)	1	43
Electricity and water delivery	7,686	7,637	36	13	7,427	4,655	13	1	11	(4)	35
Commerce	14,146	13,410	380	356	13,993	10,531	356	230	(42)	19	231
Hotels, dining and food services	2,082	1,773	142	167	2,082	1,577	167	72	(44)	8	55
Transport and storage	2,877	2,523	140	214	2,858	1,992	214	174	21	10	99
Information and communications	1,864	1,744	27	93	1,807	1,181	93	16	(2)	(2)	35
Financial services	16,457	16,387	28	42	13,165	8,143	42	23	(35)	(20)	129
Other business services	6,211	5,825	213	173	6,192	4,229	173	115	(12)	(8)	102
Public and community services	3,350	2,963	351	36	3,343	2,582	36	19	(13)	(2)	21
Total commercial	**122,163**	**117,267**	**2,805**	**2,091**	**117,800**	**69,785**	**2,091**	**1,278**	**(82)**	**39**	**1,216**
Private individuals – residential mortgages	195,368	193,185	883	1,300	195,368	175,599	1,300	36	(133)	7	803
Private individuals – other	38,707	38,201	306	200	38,617	24,842	200	92	(55)	45	254
Total public – activity in Israel	**356,238**	**348,653**	**3,994**	**3,591**	**351,785**	**270,226**	**3,591**	**1,406**	**(270)**	**91**	**2,273**
Banks in Israel	3,690	3,690	–	–	2,588	2,333	–	–	–	–	–
Government of Israel	11,827	11,827	–	–	74	74	–	–	–	–	–
Total activity in Israel	**371,755**	**364,170**	**3,994**	**3,591**	**354,447**	**272,633**	**3,591**	**1,406**	**(270)**	**91**	**2,273**
Borrower activity overseas											
Total public – activity overseas	5,869	5,437	373	59	5,431	3,305	59	26	(7)	37	41
Overseas banks	9,081	9,081	–	–	7,286	7,260	–	–	(1)	–	1
Overseas governments	2,438	2,437	–	1	403	403	1	1	–	–	–
Total activity overseas	**17,388**	**16,955**	**373**	**60**	**13,120**	**10,968**	**60**	**27**	**(8)**	**37**	**42**
Total	**389,143**	**381,125**	**4,367**	**3,651**	**367,567**	**283,601**	**3,651**	**1,433**	**(278)**	**128**	**2,315**

(1) On- and off-balance sheet credit risk, including with respect to derivatives (NIS in millions): Debts(2) – 283,601; debentures – 14,307; securities borrowed or acquired in conjunction with resale agreements – 1332; Assets with respect to derivatives – 3,652; and Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower indebtedness limits – 86,251.
(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 1,699 million and off-balance sheet credit risk amounting to NIS 2,096 million, provided to certain purchase groups in the process of construction and includes off-balance sheet credit risk amounting to NIS 5,699 million for which insurance has been acquired to cover the portfolio of housing bonds and performance guarantees pursuant to the Sale Law from international re-insurers.

Credit risk(2) by economic sector – Consolidated – Continued

As of December 31, 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	Problematic(6)	Impaired	Expenses with respect to credit losses(8)	Net accounting write-offs(8)	Balance of provision for credit losses
Borrower activity in Israel											
Public – commercial											
Agriculture, forestry and fishing	1,168	1,139	20	9	1,168	905	9	6	2	–	10
Mining and excavation	698	652	6	40	597	345	40	–	6	–	10
Industry and production	13,593	12,724	317	552	13,324	7,795	552	389	73	34	208
Of which: Diamonds	1,528	1,379	18	131	1,527	1,013	131	91	5	3	23
Construction and real estate – construction(7)	39,023	36,618	2,064	341	38,957	16,451	341	214	57	21	250
Construction and real estate – real estate operations	6,957	6,380	480	97	6,753	5,737	97	85	(10)	(18)	42
Electricity and water delivery	5,661	5,616	34	11	5,161	3,211	11	–	7	–	18
Commerce	15,033	13,643	901	489	14,791	11,122	489	387	117	81	245
Hotels, dining and food services	2,073	1,712	214	147	2,073	1,650	147	54	82	9	104
Transport and storage	2,533	2,207	82	244	2,489	1,497	244	104	70	7	92
Information and communications	1,966	1,782	109	75	1,870	1,169	75	10	34	10	36
Financial services	18,780	18,528	63	189	15,902	7,812	189	150	67	2	148
Other business services	5,900	5,489	248	163	5,892	3,969	163	118	69	35	107
Public and community services	3,429	3,093	304	32	3,421	2,721	32	18	18	4	30
Total commercial	**116,814**	**109,583**	**4,842**	**2,389**	**112,398**	**64,384**	**2,389**	**1,535**	**592**	**185**	**1,300**
Private individuals – residential mortgages	172,876	170,859	732	1,285	172,876	156,324	1,285	97	279	11	941
Private individuals – other	37,632	37,116	311	205	37,515	24,033	205	96	135	77	339
Total public – activity in Israel	**327,322**	**317,558**	**5,885**	**3,879**	**322,789**	**244,741**	**3,879**	**1,728**	**1,006**	**273**	**2,580**
Banks in Israel	2,179	2,179	–	–	556	512	–	–	–	–	–
Government of Israel	14,709	14,709	–	–	60	60	–	–	–	–	–
Total activity in Israel	**344,210**	**334,446**	**5,885**	**3,879**	**323,405**	**245,313**	**3,879**	**1,728**	**1,006**	**273**	**2,580**
Borrower activity overseas											
Total public – activity overseas	5,158	4,659	360	139	4,689	3,217	139	80	43	–	85
Overseas banks	13,723	13,723	–	–	11,843	11,755	–	–	1	–	2
Overseas governments	1,004	1,004	–	–	553	553	–	–	–	–	–
Total activity overseas	**19,885**	**19,386**	**360**	**139**	**17,085**	**15,525**	**139**	**80**	**44**	**–**	**87**
Total	**364,095**	**353,832**	**6,245**	**4,018**	**340,490**	**260,838**	**4,018**	**1,808**	**1,050**	**273**	**2,667**

(1) On- and off-balance sheet credit risk, including with respect to 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.
(8) As from September 30, 2020 the Bank consolidates the financial statements of Union Bank. The consolidated statement of profit and loss for 2020 includes the financial results of Union Bank

Key exposure to foreign countries[1]

Reported amounts (NIS in millions)

Country	December 31, 2021			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
USA	11,809	742	12,551	12,844	581	13,425
France	1,469	1,952	3,421	1,586	2,255	3,841
UK	3,156	1,086	4,242	2,465	764	3,229
Germany[6]	–	–	–	161	2,844	3,005
Other	2,435	4,535	6,970	3,317	1,845	5,162
Total exposure to foreign countries	**18,869**	**8,315**	**27,184**	**20,373**	**8,289**	**28,662**
Of which: To Greece, Portugal, Spain, Italy	49	6	55	44	39	83
Of which: Total exposure to LDC countries	548	54	602	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 5,777 million with respect to acquiring insurance from international reinsurers for the portfolio of housing bonds for borrowers in the real estate sector in Israel. (As of December 31, 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 25 to the financial statements.
(5) As of December 31, 2021 and December 31, 2020, the Bank has no exposure to foreign countries facing liquidity issues.
(6) As of December 31, 2021, exposure to Germany does not exceed the reporting threshold specified in Public Reporting Directives and is therefore presented under Other Countries.

The exposure presented above represents, in accordance with directives of the Supervisor of Banks, exposure based on final risk. The party bearing the final risk is an individual, business, institution or instrument which provides "credit reinforcement" to the Bank, such as guarantees, collateral, insurance contracts or credit derivatives. When no "credit reinforcement" exists, the party bearing the final risk is the debtor.

The row "Total exposure to LDC countries" includes total exposure to countries classified as "Less Developed Countries" (LDC) in Proper Conduct of Bank Businesses Directive 315 "Supplementary provision for doubtful debts".

Balance sheet exposure to a foreign country includes cross-border balance sheet exposure and balance sheet exposure of affiliates of the banking corporation in foreign country to local residents. Cross-border balance sheet exposure includes balance sheet exposure of Israeli offices of the banking corporation to residents of the foreign country and balance sheet exposure of overseas affiliates of the banking corporation to non-residents of the country where the affiliate is located.

Credit exposure to foreign financial institutions

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

External credit rating	On-balance sheet credit risk[(3)]		Off balance sheet credit risk[(4)]	Current credit exposure	
	Before offset of deposits with respect to net Settlement agreements[(5)]	After offset of deposits with respect to net Settlement agreements[(6)]		Before offset of deposits with respect to net Settlement agreements	After offset of deposits with respect to net Settlement agreements[(5)]
	December 31, 2021				
AAA to AA-	682	566	5,508	6,190	6,074
A+ to A-	2,305	1,653	240	2,545	1,893
BBB+ to BBB-	15	15	–	15	15
BB+ to B-	1	1	–	1	1
Lower than B-	–	–	–	–	–
Unrated	7	11	4	11	15
Total credit exposure to foreign financial institutions	**3,010**	**2,246**	**5,752**	**8,762**	**7,998**

External credit rating	On-balance sheet credit risk[(3)]		Off balance sheet credit risk[(4)]	Current credit exposure	
	Before offset of deposits with respect to net Settlement agreements[(5)]	After offset of deposits with respect to net Settlement agreements[(6)]		Before offset of deposits with respect to net Settlement agreements	After offset of deposits with respect to net Settlement agreements[(5)]
	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**

(1) Foreign financial institutions include: banks, investment banks, brokers/dealers, insurance companies, institutional entities and entities controlled by the former. Bank exposure is almost entirely to banks and investment banks primarily incorporated in the UK, USA, Germany, Switzerland and France.

(2) After deduction of provision for credit losses.

(3) Bank deposits, loans to the public, investment in debentures, securities borrowed or acquired in conjunction with resale agreements and other assets with respect to derivatives.

(4) The balance of off-balance sheet exposure to financial institutions includes NIS 5,777 million as of December 31, 2021 (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 derivatives for counter-parties which have signed net Settlement agreements.

(6) With respect to offset of cash deposits used as collateral for transactions with regard to financial derivatives.

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 and in 2021, financial markets appear to be stabilizing, although the financial system still reflects increased risk due to further waves of the Corona Virus and higher inflation in different parts of the world. Due to this higher inflation, central banks are expected to raise interest rates. During this period and in line with developments, the Bank closely monitored all exposure frameworks of the Bank, analysis and review of relevant risks by various parameters, and in line with the level of business activity with counter-parties, the Bank revised the various exposure frameworks (right-sizing).

As of December 31, 2021 and December 31, 2020 there was no problematic commercial credit risk,(impaired, inferior credit or credit under special supervision) net.

The aforementioned credit exposure excludes exposure to financial institutions for which complete, explicit government guarantees are in place, and exclude investments in asset-backed securities. For more information with regard to credit exposure composition with respect to derivative instruments vis-à-vis banks and dealers/brokers (domestic and foreign), see Note 28.C. to the financial statements.
Some of the exposures listed in the above table are included under "Credit Risk by Economic Sector", under "Financial services". This includes deposits with banks, loans to the public, public investment in debentures and other assets with respect to 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 or more of the leading international rating agencies are 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.

Ratings – Bank activity with overseas entities generates exposure to nations and to financial institutions. The Bank has set policies with regard to review and routing of risk arising from this exposure. For credit risk exposure management, as stated above, the Bank uses ratings by independent rating agencies, primarily: Fitch, Standard & Poor's, and Moody's. These ratings are accounted for as part of the considerations in setting limits on the Bank's exposure to nations and banks, intended primarily for derivatives operations, financing and guarantees for foreign trade and various investments. The external ratings form a basis for in-house analysis of a country or counter-party, conducted by the Bank. Other data from various sources used for this analysis are also taken into account. The Bank's assessment of the counter-party may differ from that of the rating agency.

As noted above, the Bank acquires the ratings, and analysis underlying such ratings, from Fitch, Standard & Poor's and Moody's. Ratings and analysis are periodically updated by the rating agencies and the Bank uses the most current information available when setting facilities or when evaluating a counter-party.

Housing credit risk

In conjunction with credit risks management, the Bank takes various actions to manage, control and mitigate risks associated with provision of residential mortgages. The Bank estimates the risk profile associated with provision of residential mortgages as low, relative to the inherent risk in the Bank's overall loan portfolio, due to the high level of client dispersion, geographic dispersion of borrowers, relatively low leverage, which recently has decreased recently due to Bank of Israel directives, intensive review procedures of borrower quality and their repayment capacity, and securing credit with property as collateral.

The Bank acts regularly to control and manage the risk associated with residential mortgages, for which the Retail Division, the Risks Control Division and other Bank entities are responsible. This activity includes portfolio analysis by inherent risk factors (LTV, repayment ratio, geographic location, loan age, income decile etc.) and carrying out a variety of stress scenarios to review the impact of macro-economic factors on portfolio risk level – primarily the impact of the unemployment rate and interest rates. The Bank has an advanced model for rating residential mortgages, which includes a rating for each loan and calculation of potential loss in case of failure. This model is part of the Bank's existing monitoring tools.

Risk appetite and risk profile in mortgage segment

As part of its credit risk policies, the Bank has set various restrictions on 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 December 2021) was 53.4% (reflecting the LTV ratio upon loan origination – see more details below). The Bank also estimates the "actual" LTV ratio for the portfolio, based on changes to property values, based on estimates by the Central Bureau of Statistics against the outstanding portfolio balances. This ratio is lower than the original LTV ratio due to the constantly higher housing prices, reflected by the mortgage inventory in the portfolio. These data support the Bank's estimate that the potential for loss due to the Bank's mortgage portfolio, even in scenarios involving material decline in housing prices, is low. In addition, the Bank regularly reviews its mortgage portfolio under stress conditions, including under significant change in macro-economic conditions, using multiple methodologies. The outcome of stress testing indicates that portfolio risk has decreased and that the potential impact of a severe stress event in the market is low.

In a scenario of deterioration in conditions of borrowers in the Bank's residential mortgage portfolio, the Bank has exposure to the risk of impairment to borrower ability to make current repayments, with concurrent material decline in value of collateral and other expenses and costs which the Bank may incur, including legal expenses, alternative housing expenses and other expenses.

In order to minimize the risk of overall impairment to borrower ability to make repayments, the Bank maintains a conservative policy on loan repayment ratio. Even in case of impairment to borrower ability to make repayments, the Bank has wide safety margins, due to its conservative policy on the rate of financing, in order to ensure full coverage of outstanding debt and additional costs, even in case of significant decline in value of real estate collateral. For more information see risk attributes in the residential mortgage portfolio below.

Stress scenarios tested by the Bank, which assume impairment to borrower income and decline in value of real estate collateral, show that even under scenarios of highly significant price decline, the potential damage to the Bank is within the boundaries of its risk appetite.

Corona Virus pandemic

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)			Change in %	
	2021	2020	2019	2020-2021	2019-2020
Mortgages issued (for housing and any purpose) out of Bank funds	38,353	27,074	23,702	41.7	14.2
From funds of the Finance Ministry					
Directed loans	257	343	357	(25.0)	(3.9)
Standing loans and grants	73	125	90	(41.1)	38.9
Total new loans	**38,684**	**27,542**	**24,149**	**40.5**	**14.1**
Refinanced loans	7,563	4,304	3,862	75.7	11.4
Total loans originated	**46,247**	**31,846**	**28,012**	**45.2**	**13.7**
Number of borrowers (includes refinanced loans)	70,150	52,922	46,883	32.6	12.9

Below are details of various risk attributes of the residential mortgage portfolio(1) as of December 31, 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%	4,792	12,393	13,309	30,603	26,459	10,155	97,711
	50%-35%	656	1,465	1,477	3,067	5,194	2,907	14,766
	80%-50%	–	–	5	11	493	790	1,299
	Over 80%	–	1	–	1	29	85	116
75%-60%	Up to 35%	3,852	10,199	9,506	15,238	12,140	2,779	53,714
	50%-35%	528	1,372	868	1,200	1,782	914	6,664
	80%-50%	–	2	–	2	103	201	308
	Over 80%	–	–	–	–	–	21	21
Over 75%	Up to 35%	35	136	188	348	347	913	1,967
	50%-35%	3	16	5	23	70	260	377
	80%-50%	–	–	–	2	1	77	80
	Over 80%	–	–	–	–	–	11	11
Total		**9,866**	**25,584**	**25,358**	**50,495**	**46,618**	**19,113**	**177,034**
Of which:								
Loans granted with original amount over NIS 2 million		1,392	3,049	2,262	3,409	2,338	783	13,233
Percentage of total residential mortgages		14.1%	11.9%	8.9%	6.8%	5.0%	4.1%	7.5%
Loans bearing variable interest:								
Non-linked, at prime lending rate		3,865	9,789	8,099	15,696	13,767	7,692	58,908
CPI-linked(3)		692	1,660	396	861	665	3,265	7,539
In foreign currency(3)		231	308	516	1,226	772	730	3,783
Total		**4,788**	**11,757**	**9,011**	**17,783**	**15,204**	**11,687**	**70,230**
Non-linked loans at prime lending rate, as percentage of total residential mortgages		39.2%	38.3%	31.9%	31.1%	29.5%	40.2%	33.3%
CPI-linked loans bearing variable interest as percentage of total residential mortgages		7.0%	6.5%	1.6%	1.7%	1.4%	17.1%	4.3%
Loans with LTV over 75% as percentage of total residential mortgages		0.4%	0.6%	0.8%	0.7%	0.9%	6.6%	1.4%

(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 December 31, 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 December 31, 2021 was 53.4% compared to 52.7% on December 31, 2020 and on December 31, 2019. Out of the total loan portfolio of the Bank, amounting to NIS 177 million, some 98.6% were granted with an original LTV ratio under 75%, which secures the loan even in case of an extreme 25% decrease in value of the property pledged as collateral.

The LTV ratio in this report is the historical LTV ratio calculated upon loan approval, and does not account for any current repayments which reduce the loan balance nor any changes in value of properties pledged as collateral. The significant increase in housing prices, as from late 2008 and, conversely, reduced loan balances due to current repayments result in a decrease in the current "actual" LTV ratio and, as noted above, based on changes to property values as estimated by the Central Bureau of Statistics, against current portfolio balances. This ratio is significantly lower than the historical LTV ratio. Total loans granted at LTV ratios over 75% in the past two years amounted to NIS 0.4 billion, or only 0.2% of the total residential mortgage portfolio.

Note, in this regard, that the Bank's average LTV ratio as of December 31, 2021, based on current outstanding balances (with no change to property value due to changes in housing prices) would have decreased as follows: For loans originated up to one year ago – by 3.5%; for loans originated one to 5 years ago – by 4.7%; and for loans originated over 5 years ago – by 18.3%; for all loans in total – by 9.5%.

The percentage of loans granted with a high LTV ratio (over 75%) out of total residential mortgage portfolio of the Bank to 0.8% for loans granted 1-2 years ago, 0.6% for loans granted 3-12 months ago and 0.4% for loans granted in the fourth 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 23.8%. Some 87.0% of the Bank's mortgage portfolio were granted to borrowers with a repayment ratio under 35% (the average repayment ratio for these borrowers is 22.8%). Some 11.9% of the mortgage portfolio was granted to borrowers with a repayment ratio of 35% to 50% (the average repayment ratio for these borrowers is 38.8%). Some 1.0% of mortgages was granted to borrowers with a repayment ratio of 50% to 80% (the average repayment ratio for these borrowers is 59.3%), and only 0.1% were granted to borrowers with a repayment ratio over 80% (the average repayment ratio for these borrowers is 91.7%).

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 21.7 billion, or 12.3% 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 13.2 billion on December 31, 2021, or only 7.5% 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 December 31, 2021 (NIS in millions):

	Extent of arrears							
		In arrears 90 days or longer						
	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	Balance with respect to refinanced loans in arrears(2)	Total
Amount in arrears	7	21	15	16	189	241	32	280
Of which: Balance of provision for interest(3)	–	–	–	1	113	114	6	120
Recorded debt balance	519	776	212	84	133	1,205	59	1,783
Balance of provision for credit losses (4)	–	–	34	37	99	170	29	199
Debt balance, net	**519**	**776**	**178**	**47**	**34**	**1,035**	**30**	**1,584**

(1) In conformity with Public Reporting Directives, excludes the balance of residential mortgages in arrears up to 2 months.

(2) Loans for which an agreement was signed for repayment of arrears by borrower, where a change was made in the repayment schedule for the loan balance not yet due.

(3) With respect to interest on amounts in arrears.

(4) Excludes balance of provision for interest.

Means for risk management in residential mortgages

Means for risk management in residential mortgages include:

- Underwriting process – residential mortgages are evaluated and approved based on the following criteria:
- Loan approval criteria include: Accumulated experience at the Bank with regard to residential mortgages; Results of current credit reviews; Review of loan portfolios carried out by a special-purpose nation-wide examination center; Assessment of credit risks in different areas of the country; Borrower quality and repayment capacity; Proposed property collateral and guarantors; Nature of the transaction.
- Credit authorization – Specification of the party authorized to approve a loan is based on data in the credit application and the risk associated there with.
- Model for determination of differential risk premium – This model was developed by the Bank, based on past empirical data, for rating transaction risk.
- Built-in controls in loan origination system – These controls include: Ensure information completeness; Control over transactions based on authorizations; Work flow process.
- Mortgage-related training – The Bank's Training Center delivers courses for training, development and improvement of all those involved in provision of residential mortgages.
- Professional conferences – In these conferences, extensive reviews of developments in the mortgage market are presented, along with steps to be taken to handle the risks associated with such developments.
- Regular monitoring of borrower condition and of the residential mortgage portfolio – At the individual loan level, the Bank acts to identify as early as possible any symptoms indicating a decline in borrower repayment capacity, in order to identify as soon as possible any credit failure situation. The Bank applies multiple control types, including regular internal controls at branches, regions and headquarters.

Entities participating in risk management and control for residential mortgages

- Mortgage Management Department of the Retail Division – This department handles different events which occur during the loan term.
- The National Examination Center of the Retail Division – Loan files are sent to this Center prior to origination. These files are reviewed by the Center, in order to verify that the branch did carry out the actions required according to Bank procedures, regulations and instructions of the loan approver.
- Collection Department – Handles debts collection from borrowers in arrears and realization of properties.
- Arrears Forum – The Forum specifies targets for debts processing and for reducing arrears.
- Legal Division – As part of the underwriting process, collateral for non-standard loans and for high-value loans are reviewed.
- Risks Control Division – The Risks Control Division monitors the quality of the Bank's loan portfolio and the evolution of the Bank portfolio's risk profile, in view of the specified risk appetite. The division is responsible for regularly applying stress scenarios to the Bank's mortgage portfolio.
- Credit risks and credit concentration monitoring forum – The Bank operates a forum for monitoring credit risks, headed by the Manager, Risks Control Division, which promotes issues such as: review of credit policy and, in particular, changes to the risk appetite specified there, analysis of credit portfolio risk level, application of advanced modeling approaches, supervision of design and application process of stress scenarios, and monitoring of the risk profile of the Bank's loan portfolio.
- Internal Audit – The work plan for Internal Audit with regard to loans includes, inter alia, reference to review of entities involved in loan approval, origination, administration and control.

Tools for risk mitigation in residential mortgages

- Collateral – In accordance with Bank procedures for mortgages, loans are only provided if secured by property collateral. In some cases, the Bank demands guarantors for the debt, in addition to property collateral.
- Insurance – According to Bank procedures, all properties serving as collateral must be insured under property insurance. In addition, the borrowers are insured by life insurance assigned to the Bank in case of death prior to complete repayment of the loan.
- Loan To Value (LTV) Ratio – The maximum LTV ratio approved by the Bank is determined by the credit policies and is periodically reviewed. Generally, the Bank requires borrowers to contribute part of the financing for the acquisition. This self-equity payment forms a safety cushion in case the property is realized during a down-turn in the real estate market. Furthermore, the rate of the borrower's participation is a further indication of the borrower's financial robustness.

For more information about operations of these entities, see the 2021 Risks Report on the Bank website.

Sale of residential mortgage portfolios

Transactions involving sale of residential mortgage portfolios transfer the entire credit risk from the Bank to the buyer, and are backed by legal and accounting opinions that establish a True Sale. The Bank only retains the operational risk, with respect to the Bank's commitment to the buyer to operate these loans, to collect and transfer funds and to provide regular reports. In order to minimize this operational risk, the Bank has created a computer-based operational mechanism to manage these loans and to generate regular reports to the buyers. Moreover, an annual external review (ISAE3402) is conducted of the integrity and effectiveness of processes and controls for management of the loan portfolios sold.

For more information about the Bank of Israel revision of Proper Conduct of Banking Business Directive 329 concerning "Restrictions on extending residential mortgages", see chapter "The General Environment and Effect of External Factors on the Bank Group" above and chapter "Corporate Governance, Audit, Other Information about the Bank and Management thereof" (Legislation and Supervision of Bank Group Operations).

For more information about housing credit risk, see also the 2021 Risks Report available on the Bank website.

Environmental risks

For more information about environmental risks, see Other Risks below.

Market risk and interest risk

Risk description

Market risk – This is the risk of loss from on– and off-balance sheet positions, arising from change in fair value of financial instruments, due to change in market risk factors (interest rates, exchange rates, inflation, prices of equities and commodities).
Interest risk in the banking portfolio is the risk to Bank profit (change in revenues) or to the Bank's economic value, primarily due to changes in the structure of interest rate curves relevant for Bank operations, non-identical fluctuations of various curves used by the Bank for pricing and management of its exposures, or from the fact that a change in interest rates may result in a change in composition of the Bank's assets and liabilities due to exercise of options for early repayment due to change in market interest rates.

Overview of market and interest risk and guidelines for its management

The Bank has no exposure to commodities and its exposure to equities is not material; thus, the Bank's major exposure to market risk is due to basis risk – which is due to Bank assets and liabilities being denominated in different currencies or linkage segments – and to interest risk in the banking book. Changes in interest rates impact Bank profits (change in revenues) and the value of Bank assets (change in fair value).
Market risk and interest risk form an integral part of banking business and of management of Bank assets and liabilities. However, excessive market risk and/or interest risk may expose the Bank to loss and may pose a threat to Bank capital. Therefore, the Bank's Board of Directors and management have specified, in the Bank's structured process for risks mapping and identification, that market risk and interest risk are material risks and that management of these risks is critical for stability of the Bank, especially in view of the low interest rate environment and the potential for change in market interest trend. Management of these risks is designed to maintain a reasonable risk level, in conformity with the exposure caps, i.e. the risk appetite specified for these risks, while taking advantage of opportunities and constant monitoring of the risk profile, so that the Bank would not be exposed to significant losses.
Management of market risk and interest risk at the Bank consists of two main risk focus points:

- Bank portfolio – This portfolio, which is the Bank's primary activity and risk, consists of all transactions not included in the trading portfolio, including financial derivatives used to hedge the bank portfolio. This portfolio is exposed to interest and inflation risk. The measure of exposure which the Bank wishes to retain is due to the Bank's business operations and is reflected in the Bank's financial statements. This exposure is limited by the risk appetite, specified individually for market risk and interest risk in the bank portfolio, which is reviewed by the Bank daily, using various tools and models. Any deviation from or even getting close to the specified exposure limits are regularly reported and immediately addressed, in conformity with principles specified in the policy document created by the Bank. Management of this risk is designed to maintain a reasonable risk level, in conformity with the risk appetite specified for such risk, while taking advantage of opportunities and constant monitoring of the risk profile, so that the Bank would not be exposed to significant losses.
- trading portfolio – The portfolio consists of positions in financial instruments held for trade or for hedging of other components in the trading portfolio. The consolidated portfolio (including Union Bank) includes portfolios managed by the trading room and portfolios of debentures held for trade and strategy in Israeli currency and in foreign currency – as well as derivatives designated for execution of strategies. The portfolio also includes hedging transactions for instruments included in the trading portfolio. This portfolio is associated with risk that is not high.

Market risk and interest risk are managed at Group level, including the Bank's overseas affiliates and subsidiaries. Operations vis-à-vis Bank Yahav and Union Bank are regularly coordinated, in particular for setting the Group risk appetite, which requires monitoring of the Group-level risk profile. Policy principles were specified in line with Bank strategy and with regulatory requirements, i.e. Proper Conduct of Banking Business Directives of the Bank of Israel, relevant Basel Committee directives and in line with globally accepted best practice.

As part of risk management, the Bank is required to allocate capital, as part of Basel II, Pillar 1, against risk in the trading portfolio, in conformity with Proper Conduct of Banking Business Directive 208 "Capital measurement and adequacy – market risk" which includes the Basel II directives with regard to definition, management and revaluation of the trading portfolio.

Overall market risk is categorized as Low-Medium. The market risk in the trading portfolio is minimal, in line with Bank policy. The bank portfolio includes the positions not classified as tradeable positions in the trading portfolio. The Bank handles interest risk in the bank portfolio and overall additional capital allocation with respect there to, in conformity with Basel Pillar 2. Capital allocation in conformity with Basel Pillar 2 is reviewed both under scenarios which reflect the normal course of business and under stress scenarios, including systemic scenarios and stressed scenarios. This is done as part of the ICAAP process, as described in chapter "Capital adequacy".

The structure of the Bank's assets and liabilities portfolio, which is weighted towards the mortgage portfolio, produces medium-term uses for which the Bank requires sources. Due to a mismatch between the average duration of uses and the average duration of sources, the Bank's economic value is exposed to changes in interest rate curves.

This risk is monitored on a regular basis, both in managing interest risk for the overall portfolio in VAR terms, and in EVE (Economic Value of Equity) terms, as well as another range of scenarios which mostly reflect stress conditions. Assessment of Bank exposure to interest risks in the fourth quarter of 2021 remained at Low-Medium. It is Bank policy to raise unique deposits which both answer client needs and hedge interest rate exposures.

For more information about these models, their use and their limitations, see the 2021 Risks Report on the Bank website.

Means of supervision over and implementation of the policy

The Bank has put in place an organizational structure for management of market risks and interest risks in the bank portfolio, which includes the Board of Directors, Management and the three lines of defense. This structure is supported by special committees and forums, created for such risks management and in order to create an internal controls system, designed to prevent deviation from Bank policy in its activity in the trading portfolio and in the bank portfolio.

For more information about market and interest risk, see also the 2021 Risks Report available on the Bank website.

Hedging and risks mitigation policy

A major tool for management and mitigation of interest risk is setting Fund Transfer Prices (FTP) at the Bank (transfer pricing). Fund Transfer Prices (FTP) at the Bank are determined daily by the Asset and Liability Management Department (hereinafter: "ALM") of the Financial Management Sector and reflect the needs for management of various exposures under the policy on risk / reward management.

Another tool is buying / selling government debentures. The Asset and Liability Management Department o the Financial Management Sector also manages the interest and/or basis position through forward contracts, swap transactions and options. The advantages of using these tools stem from the ability of rapid execution at large amounts, which allows for dynamic, effective management of market and interest exposures for asset and liability management by the Bank, within a reasonable time frame. In addition, these transactions are unfunded, are highly liquid and are conducted through the Bank's trading room.

Derivatives transactions, which are identified as hedging balance sheet positions in accordance with accounting rules, are to be specified as hedge accounting transactions, in accordance with the Bank's hedging procedure. Hedge effectiveness is the degree of correlation between changes in fair value or between cash flows of the hedged item and of the hedging derivative. The hedge is considered highly effective if the changes in fair value or cash flows of the hedged item, are nearly fully set off by changes in fair value or cash flows of the hedged instrument. Hedge effectiveness is tested quarterly.

At least once a year, the Bank reviews the underlying assumptions of models used to manage market and interest risks, including behavioral assumptions made in order to determine forecasting of certain instruments.

The Bank reviews the concentration of interest risk by linkage segment and by major instrument type. The concentration map is discussed annually by the risks management committee.

The Bank constantly acts to increase awareness of market and interest risks in the bank portfolio at Group level, including at overseas units of the Bank, through operating procedures, training and seminars on this topic. Furthermore, constant contact is maintained with all relevant units for management of market and interest risk. Coordination between units is designed to achieve a uniform methodology for management of market and interest risks in the bank portfolio.

Measurement of market and credit risks exposure and their management using models for risks management

Measurement of market and interest risks is supported by a wide range of information systems, models, processes, risk benchmarks and stress tests, which are regularly evaluated, through internal controls processes at the Bank, including continuous validation processes.

The Bank has two major models for managing its market and interest risks: The VAR model and the EVE model. The Bank calculates these benchmarks, as well as other benchmarks used for management of such risks, at least once per day.
The VAR model is a statistical model that estimates the loss expected for the Bank in a certain investment period and at a predetermined statistical level of assurance. This model measures risk level in terms of money, where the Bank aligns the investment horizon for the portfolios reviewed using this benchmark. The Bank uses a combination of multiple methods for VAR calculation, commonly used around the world. The VAR calculation is in addition to a back testing calculation, designed to review the quality of its calculation estimates, i.e. evaluate the model forecast, compared to actual results.
EVE (Economic Value of Equity) is a model which reflects the economic value approach. This is the Bank's main model for estimating interest risk in the bank portfolio, which evaluates changes in economic value of the portfolio under various assumptions of changes to interest rate curves, under normal conditions and under stress conditions, including a concurrent increase / decrease in the interest rate curve and scenarios of non-concurrent increase/decrease in the interest rate curve. In addition, the Bank has various stress tests at different severity levels, designed to review its risk profile under stress conditions, in view of the risk appetite determined by the Board of Directors. The Bank also applies innovative methods to review interest risk in the bank portfolio under emergency conditions, including under stress scenarios of an economic outline. This scenario is based on the Bank's understanding as to development under stress conditions of macro-economic conditions relevant for these risks.

Bank methods for measuring risk values are conservative in many aspects, in line with common practice for implementation of the Basel principles. This reliably reflects the interest exposure, including effects of behavioral options inherent in the mortgage portfolio and in the deposit portfolio, which are dependent on interest. The 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 fourth quarter of 2021 remained at Low-Medium.

Risk values measured in the normal course of business and under stress scenarios were lower in this quarter, 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.

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

	2021	**2020**
At end of period	592	770
Maximum value during period	(FEB)810	(JUN)1,055
Minimum value during period	(OCT)521	(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):

	Israeli currency		Foreign currency			
	Non-linked	Linked to CPI	Dollar	EUR	Other	Total
December 31, 2021 — Change in fair value						
2% increase	(905)	(1,187)	418	14	16	(1,644)
Decrease by 2%	(82)	427	(439)	14	(17)	(97)
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 December 31, 2021			As of December 31, 2020		
	NIS	Foreign currency[2]	Total	NIS	Foreign currency[2]	Total
Net adjusted fair value[1]	18,054	363	18,417	15,227	236	15,463
Of which: Banking portfolio	14,355	2,250	16,605	(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 December 31, 2021			As of December 31, 2020		
	NIS	Foreign currency[2]	Total	NIS	Foreign currency[2]	Total
Concurrent changes						
Concurrent 1% increase	57	134	191	(35)	91	56
Of which: Banking portfolio	95	140	235	(48)	118	70
Concurrent 1% decrease	(297)	(193)	(490)	(35)	(99)	(134)
Of which: Banking portfolio	(333)	(199)	(532)	(10)	(68)	(78)
Non-concurrent changes						
Steeper[3]	(240)	(32)	(272)	(399)	(8)	(407)
Shallower[4]	311	87	398	624	46	670
Short-term interest increase	314	163	477	263	82	345
Short-term interest decrease	85	(168)	(83)	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 exposure of the bank portfolio 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 738 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 33 to the financial statements for additional information.

Note that the internal rate of return and the average effective duration, as presented under Bank exposure to changes in interest rates on the Risks Report, are average data and therefore it is not possible to make deductions based on a linear change there to with regard to sensitivity of net adjusted fair value to changes in interest rates.

Impact of change scenarios in interest rates on net interest revenues and non-interest financing revenues[1]:

	As of December 31, 2021			As of December 31, 2020		
	Interest revenues	Non-interest financing revenues[3]	Total	Interest revenues	Non-interest financing revenues[3]	Total
Concurrent changes[2]						
Concurrent 1% increase	1,291	30	1,321	1,145	145	1,290
Of which: Banking portfolio	1,291	47	1,338	1,148	125	1,273
Concurrent 1% decrease	(1,158)	(36)	(1,194)	256	(160)	96
Of which: Banking portfolio	(1,157)	(59)	(1,216)	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 more information about interest risk, see the Detailed Risk Management Report on the Bank website.

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

CPI and exchange rate

Overview of inflation and currency risks and guidelines for its management

Inflation exposure – The risk appetite varies with expected profit from holding a position and the Bank's capacity to reduce the exposure within a reasonable time frame. This exposure is included among the risk appetite benchmarks and models applied by the Bank to all market risks.

Currency exposures – It is Bank policy to maintain minimal (operating) currency positions, except for specific strategic positions approved by the different committees and/or Trading Room positions, in conformity with approved risk restrictions. Foreign currency strategic positions are capped by a Stop Loss mechanism to restrict and reduce risk.

Derivatives in the bank portfolio used for economic hedging of balance sheet activity, or which cannot be defined as an accounting hedge, impact accounting profit and loss. The gap derives from difference in accounting treatment between balance sheet items and derivatives other than accounting hedges. This effect is regularly monitored and managed subject to guidelines specified by management, by the Financial Management Sector and is reported and discussed by various risks management committees.

Presented below are major data reflecting CPI and exchange rate exposures, as reflected in the financial statements, while relating to the difference between the accounting presentation and measurement of economic exposure:

Financial capital – As of December 31, 2020, the Group capital exceeded its non-monetary items by NIS 19,696 million. Free capital of the Group, which includes financial capital, was used in 2020 to finance uses in the NIS segment, in line with current policies on resource and use management in the bank portfolio.

Linkage status – Details on the assets and liabilities in the various linkage segments at December 31, 2021 and 2020 are presented in Note 31 to the financial statements. However, the extent of the Bank's economic exposure is not fully reflected in the positions included in this note because of differences between the accounting approach and the economic approach with regard to capital items, non-monetary items and investments in investee companies, as explained below.

Surplus CPI-linked assets of the Group, which include balance sheet and off-balance-sheet items as of December 31, 2021 as presented in Note 31 to the financial statements, amounts to NIS 14.7 billion, representing the economic exposure. In December 2020, excess assets in this segment amounted to NIS 18.6 billion.

Excess assets in foreign currency for the Group as of December 31, 2021 amounted to NIS 134 million. After adjustment of the economic reference to deposits used to cover investments in overseas subsidiaries, which are presented as non-monetary items, and to temporary impairment of investments in securities, the position in this segment amounts to surplus uses of NIS 538 million. As of December 31, 2020, the foreign currency position for the Group, after the aforementioned adjustments amounted to surplus uses of NIS 400 million. The position in the non-linked NIS segment balances the open economic positions in the CPI-linked and foreign currency segments.

The Bank has CPI-linked uses due to current operations in the mortgage portfolio linked to the CPI, for which the Bank raises CPI-linked sources, including debenture issues and deposits from the public. The Bank uses financial derivatives to actively manage this exposure, in line with the specified exposure policy.

The Report of the Board of Directors and Management presents the Group's exposure to interest on a consolidated basis,s presented in terms of average effective duration and in terms of fair value. Cash flows used in calculating exposure are based on assumptions with regard to withdrawal rates at exit points for deposits and early mortgage repayment rates. The percentage of withdrawals is based on empirical data.

For further details of assumptions used in calculation of cash flows and fair value of financial instruments, see Note 33 to the financial statements.

Below is analysis of the sensitivity of Bank Group capital to changes in major exchange rates and in the CPI (before tax effect) as of December 31, 2021, capital increase (erosion) (NIS in millions):

	Scenarios				Historical stress scenario[1]	
	10% increase	5% increase	5% decrease	10% decrease	Maximum increase	Maximum decrease
CPI[2]	1,492.5	746.2	(746.2)	(1,492.5)	156.2	(133.9)
Dollar	18.1	12.7	(9.5)	(12.5)	10.0	(7.7)
Pound Sterling	0.4	0.2	(0.2)	(0.4)	0.1	(0.2)
Yen	0.4	(0.2)	0.2	0.4	(0.2)	0.2
EUR	0.3	(0.9)	2.5	5.3	(1.1)	2.6
Swiss Franc	–	–	–	–	(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 447.7 million and NIS (447.7) million, respectively.

Share price risk

For more information about share price risk, see the 2021 Risks Report available on the Bank website.

For more information about equity investments in the bank portfolio, see chapter "Major investee companies" above, the 2021 Risks Report on the Bank website and Notes 12 and 15.A to the financial statements.

Liquidity and financing risk

Risk description

Liquidity risk – risk resulting from uncertainty as to the availability of sources and the ability to realize assets within a specified period of time and at a reasonable price.

Financing risk – risk resulting from shortage of financing sources or too high costs to raise such sources.

Overview of liquidity risk and guidelines for management

Liquidity risk is managed in conjunction with Proper Conduct of Banking Business Directive 310 "Risks management", Directive 342 "Liquidity risk management", Directive 221 "Liquidity coverage ratio" and Directive 222 "Net stable funding ratio". The risk is managed subject to the limitations of the Board of Directors and Executive Management in an effort to minimize the losses deriving from an investment of surplus liquidity in assets that are highly liquid, but have a low yield.

Liquidity risk management is governed by a policies document submitted annually or more frequently for approval by the Board of Directors. The policies document covers how risk is managed, including roles and responsibilities of the various organs, the regular management of liquidity risk, all parameters used for risk measurement in the normal course of business and under various stress scenarios, restrictions specified by the Board of Directors and by management, including restrictions on source concentration and composition, as well as a detailed emergency plan for handling a liquidity crisis, including various states of alert for liquidity risk management and potential means under each scenario type and the estimated time for execution.

The Bank's Board of Directors sets strategy for liquidity risk management and the risk appetite in conformity with regulatory requirements, using a range of restrictions on three risk dimensions: Normal course of business, scenarios (liquidity coverage ratio, net stable funding ratio and minimum liquidity ratio – internal model) and concentration. Bank management has specified a further set of restrictions to serve as management guidelines – beyond those specified by the Board of Directors. In 2021 there were no recorded deviations from the Board of Directors' restrictions.

The Bank applies tools for monitoring liquidity risk using endogenous and exogenous indicators, which may point to an increase in risk up to crisis status. The Bank developed an integrated benchmark for monitoring financial markets in Israel, in order to identify any instability in the financial system in Israel – this benchmark is a decision-support tool for declaring a state of alert due to systemic failure.

In 2021 there were no recorded deviations from the Board of Directors' restrictions.

For more information about liquidity risk, see also the 2021 Risks Report available on the Bank website.

Overview of financing risk and guidelines for its management

Financing risk is managed, as part of the liquidity risk, using Board and Management restrictions on concentration of financing sources and through reduced dependence on material counter-parties.

Concentration of financing sources is monitored through a wide range of restrictions set by the Board of Directors, management as well as by key risk indicators, classified into several sub-categories: Size, client type, individual depositor, number of clients, product, currency and average deposit term. A "comprehensive index" was defined, which averages all indicators related to concentration of financing sources. Current management of resource composition includes setting policies on source diversification and financing terms as well as setting specific targets for risk benchmarks. Concentration is monitored daily and is regularly managed and reported.

The Bank's main financing sources are stable and diverse sources for different time horizons – retail and business deposits, long-term deposits from financial institutions and issues of debentures and notes. The Bank sees the great importance of diversification of its financing sources and acts proactively to identify sources for longer terms, including through a wide range of deposits offered by the Bank to its clients, deposits with unique attributes, which allow clients to benefit from relatively high interest over the long term with optional liquidity during the deposit term. In 2021, concentration risk for financing sources remained low.

Furthermore, exposure to derivatives is regularly managed, in line with the exposure to each counter-party, counter-party collateral is immediately increased or collateral is immediately demanded from the counter-party.

For more information about financing sources, see chapter "Developments in financing sources" above.

For more information about financing risk, see also the 2021 Risks Report available on the Bank website.

Liquidity coverage ratio

In conformity with Proper Conduct of Banking Business Directive 221 "Liquidity coverage ratio", the minimum regulatory requirement is 100%. This Directive stipulates minimum liquidity ratios for a one-month term (regulatory LCR), calculated based on uniform multipliers for the banking system, specified by the Bank of Israel based on Basel III directives. As part of its risks management policy, the Bank's Board of Directors specified that additional safety cushions are to be maintained, beyond the regulatory minimum ratio; so that the target liquidity coverage ratio for the Bank and the Group would by 5% higher than the minimum required. This ratio is managed and reported for all currencies in aggregate and for NIS separately, both at Bank level and on Group basis. The ratio for the Bank solo and the consolidated ratio are calculated daily and reported as the average of daily observations over 90 days prior to the report date. This directive is in addition to liquidity risk management using internal models, as stipulated by Directive 342, as described above.

The average liquidity coverage ratio for the fourth quarter of 2021 was 125%. As noted above, in 2021 there were no recorded deviations from these restrictions.

Net stable funding ratio

Proper Conduct of Banking Business Directive 222 "Net stable funding ratio" stipulates a minimum net stable funding ratio of 100% ("Regulatory NSFR") of available stable funding and required stable funding. 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 net stable financing ratio for the Group would be 5% higher than the minimum required. This ratio is managed and reported in total for all currencies, on consolidated basis.

As of December 31, 2021, the ratio on consolidated basis was 119%.

For more information about liquidity risk, see also the 2021 Risks Report available on the Bank website.

For more information about the Bank's cash flows by maturity, see Note 32 to the financial statements.

As of December 31, 2021, the balance of the three largest depositor groups at the Bank Group amounted to NIS 13.7 billion.

The Bank consistently acts, as part of its strategy on resource and use management, to raise long-term sources.

The Bank's NIS-denominated balance sheet sources for terms longer than 1 month, as percentage of total NIS-denominated sources as of December 31, 2021, was 45% (as of December 31, 2020: 53%), of which balance sheet sources for terms longer than 1 year – 41% (as of December 31, 2020: 38%).

Most of the Bank's balance sheet sources in foreign currency as of December 31, 2021 are for terms of up to 1 year, constituting 96% of total foreign currency-denominated sources (as of December 31, 2020: 89%), of which 40% are sources for terms longer than 3 months (as of December 31, 2019: 34%).

The NIS-denominated sources have longer terms than foreign currency-denominated sources, in line with the longer term use of NIS-denominated funds, primarily for mortgages denominated in NIS.

The Bank also conducts a significant volume of futures transactions to divert excess liquidity between NIS and foreign currency and by conforming the terms, as part of dynamic management of sources and uses.

raising resources and Bank liquidity status – During 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 307.9 billion on December 31, 2021, an increase by 8.3%. In the non-linked segment, total deposits from the public amounted to NIS 233.0 billion, an increase by 6.9% compared to end of 2020. In the CPI-linked sector, deposits from the public amounted to NIS 21.6 billion, an increase by 31.3%, and in the foreign currency sector – to NIS 53.3 billion, an increase by 7.3% compared to end of 2020.

Operational risk

Risk description

Operational risk is defined by the Bank of Israel as the risk of loss due to inappropriateness or failure of internal procedures, people, systems or due to external events.

The Bank has defined a framework for management of operational risks, which includes a definition of corporate governance that specifies the roles and responsibilities of the lines of defense and the importance of deploying an appropriate operational risk management culture at the Bank.

The Bank actively handles operational risk in order to support operations of the business units, to improve major business processes associated with their operations and thus, to increase business value, rather than only reduce expected loss due to operational risk.

Operational risk includes information security and cyber risk, IT risk and legal risk.

Operational events are classified under seven risk categories, based on the Basel principles: Embezzlement (Bank defrauded by employees), external fraud (Bank defrauded by client), work practices and work environment safety (loss due to activity incompatible with laws or labor agreements), practices involving clients, products and businesses (failure to meet obligations to client), damage to physical assets, performance, distribution and process management, business disruption and system failures. The Bank manages and monitors operational risk based on these categories as well.

Overview of operational risk and guidelines for management thereof

With the developments in global markets and the higher complexity of financial activity and supporting technological infrastructure, an understanding has emerged, that Bank exposure to potential loss due to failures in regular operating activity may impact the business activity. Operating failure events which occurred at financial institutions have increased legislator awareness and financial institutions' awareness of materiality of operating failure events, to the large potential for damage which may be caused by such operational risk event and to their main attributes.

Operational risk is material, since it exists across all operating segments and Bank units. Operational risk may potentially impact earnings, revenues, capital and reputation of the Bank and is inter-related to other risks, such as: Market risk, credit risk, liquidity risk, reputation risk and other risks. Operating events sometimes occur which are not under control of the Bank, and may develop as a result of external events, some of which are unforeseen, with chances of occurring which cannot be estimated in advance, such as: natural disaster (earthquake, flooding), plague and security event. Therefore, efficient management of this risk is required for risks management processes at the Bank.

Operational risk is inherent in all products, activities, processes and systems. With the developments in global markets and the higher complexity of financial activity and supporting technological infrastructure, an understanding has emerged, that Bank exposure to potential loss due to failures in regular operating activity may impact the business activity.

Bank management and the Board of Directors attach great importance to managing this risk, due to its materiality, as part of the Bank's overall framework for risks management and control. The Board of Directors and management have determined that management of operational risk requires creation of an appropriate culture within the organization, by means of training, dissemination of related content and application of elevated standards of internal control at all levels.

The Bank has a framework policy on operational risk management that specifies the principles whereby the Bank manages operational risk, risk materiality, how it is managed, measurement and monitoring processes and actions taken by the Bank to mitigate such risk. Policy principles were specified in line with Bank strategy with regulatory requirements (Proper Banking Conduct Directives of the Bank of Israel and relevant Basel Committee directives) and in line with globally accepted best practice.

The policy elaborates the corporate governance and the roles and responsibilities of the various lines of defense and stipulates the importance of deploying an appropriate culture for management of operational risks at the Bank and Group. Risk management at the Bank is carried out in conformity with Bank of Israel directives. Directive350 "Operational risks management" and Directive310 "Risk management", which specify the overall risk management framework, and the Basel document "Principles for management of operational risk" (dated October 2014), which specify the rules for proper management of operational risk.

The Operational Risk Manager at the Bank is the Manager, Risks Control Division – who is also the Bank's CRO, responsible for proper implementation of the operational risk handling framework, acting through the Risks Control Division. The framework stipulated also includes the framework required for handling fraud and embezzlement risks, which are part of the operational risk categories according to Bank of Israel directives.

Bank policy specifies the Bank's operational risk appetite from several aspects: qualitative and quantitative in the normal course of business and under stress scenarios. The risk appetite was specified with respect to actual losses and potential losses, at the overall portfolio level and by risk category.

The policy document was approved by Bank management and by the Board of Directors in 2021, as part of the approval process of all policy documents for risk management and control.

The Bank acts to dynamically measure and identify operational risk on two levels: Measuring loss due to failure events that actually materialized, and measuring potential risk identified by the operational risk survey process and in the risk map. Operational surveys are conducted for all Bank operations, in conformity with a three-year plan. The Bank implements a three-year plan for conducting operational risks surveys for all Bank operations, to be concluded by end of 2022. This activity is an on-going process designed to generate a risk map, to increase the effectiveness of risk management and mitigation, while learning, re-assessing risk, including to due materialized events.

The Bank monitors and documents all operational failure events, including events for which a loss was incurred, as well as events with no loss or even events with a profit. Measurement of actual loss vs. the risk appetite in the normal course of business only includes loss events (without offset of profit events) and after accounting for any insurance coverage if actually realized.

The Bank conducts surveys to identify and map potential operational risks at various divisions, as a continuous process focused on mapping and assessment of material risks at each unit. The Bank has specified multiple key risk indicators (KRI) designed to identify potential risk prior to materialization. The survey results and action items (AI) are discussed, as part of self-assessment processes, by specific forums, attended by managers of the surveyed units and representatives from the Risks Control Division.

In addition to these surveys, the Bank also analyzes external events in Israel and overseas, which may provide information about potential circumstances and damage which may result in materialization of operational risk. Such analysis serves the Bank in implementation of appropriate steps for parallel processes within the Bank.

The Bank has a custom system for operational risks management (PSTL – Operational Risk Portal), used by the Bank to monitor and analyze failure events, risk surveys and generating the risk map, linking any actual materialized events to the risks map, regular monitoring of recommendations for implementation arising from surveys, failure events and lessons learned. And reports with regard to operational risk.

The Bank is acting to improve the effective handling of fraud and embezzlement risk. As part of this effort, the Bank is implementing a system using business rules to flag and identify unusual activity. Handling of fraud and embezzlement is in conformity with a specific operational risks management framework policy document. The framework includes a combination of Bank entities: Risks Controls, information security and cyber, human resources and the Technology Division.

The Bank allocates capital with respect to operational risk using the standard approach. According to this approach, the Bank was segmented into eight lines of business, as stipulated by the Bank of Israel, with a standard risk weighting assigned to each line of business, reflecting its sensitivity to loss with respect to operational risk. This segmentation and treatment of the required capital allocation are incorporated in a specific policies document which governs the aspects required for capital allocation using the standard approach and, in particular, specified the lines of business in Bank operations.

The Bank framework for handling operational risk is reviewed quarterly, as part of the Bank's Risks Document. The quantitative and qualitative risk profile is presented in this context in view of the risk appetite, the operational risk map and the most material events which occurred during the quarter are also presented and analyzed.

On September 30, 2020, the transaction whereby the Bank acquired the shares of Union Bank closed. The merger transaction is a material, large-scale process entailing challenges to risk management. The process involves multiple operating aspects, such as data transfer and system merger and conversion. Moreover, the control quality at Union Bank may decrease in the short term through completion of this merger, and therefore the potential for realization of operational risk increases.

Operational risk mitigation

Due to the significance of operational risk, the Bank takes different steps to mitigate this risk. One of the key tools is conducting operational risk surveys for all Bank operations, to create and manage the risks map on a regular basis. The surveys are conducted as risk self-assessment (RSA), where the business unit (the first line of defense) assesses the risks associated with its operations. The Risks Control Division provides guidance to the business unit with regard to the methodology for conducting the survey and for effective assessment of the existing risks, and challenges the survey outcome. The Bank would conclude the three-year plan for conducting operational risk surveys across all Bank operations by end of 2022. The methodology for conducting surveys consists of four stages: Assessment of inherent risk, assessment of the effectiveness of controls, assessment of residual risk, and managing the findings and risk mitigation processes.

Another key process is to instill a corporate culture which promotes strong awareness of operational risk, and of deployment of risk-mitigating processes. Operational risk trustees were appointed at headquarters and in branches, serving as the long arm of the Operational Risks Owner in this process. The Bank initiates delivery of in-person and technology-based training about operational risk to new employees and to units and populations within such units which were identified as being associated with high operational risk, as well as conducting seminars to provide regular guidance to operational risk trustees at headquarters and in branches.

One of the risk mitigation tools used by the Bank is debriefing and lesson learning flowing internal and/or external events. Conclusions formulated by this process are incorporated into work processes, systems, training content and procedures – and are also disseminated to operational risk trustees for deployment at their units.

The Bank has established policies and operating plans for a time of emergency, for backup, recovery and business continuity in case of physical damage to Bank infrastructure. This plan, supported by emergency procedures and pre-appointed officers, is exercised annually and the conclusions from such exercises is incorporated into the action plan.

Mitigating operational risk through insurance – the Bank is insured under a banking insurance policies, against damage which may be incurred in the course of normal operations, as a result of human error, fraud, embezzlement etc. The Bank acquires an officers' insurance policies, which applies to all officers at the Bank and at the different Bank Group companies, which provides insurance coverage for personal claims which may be filed against officers with respect to their actions in the course of their position with Group companies. Obtaining such an officer liability insurance policy is subject to approval by the General Meeting of Bank shareholders.

The Bank has obtained specific insurance policies for property damage and liability, which provide insurance coverage of Bank property and liability. The Bank also has insurance coverage under a custom cyber insurance policy, an additional layer over the banking insurance policy, which adds coverage related to computer-based crimes to the banking insurance policy. The Bank has a specific policies document which governs insurance aspects related to Bank operations.

Business continuity

The Bank applies Proper Conduct of Banking Business Directive 355 concerning "Management of business continuity".
In the fourth quarter, the Bank continued to address the Corona Virus and maintained work instructions derived fro, guidance issued by the Ministry of Health and by the Bank of Israel, including the following: Wearing masks indoors, maintaining hygiene and social distancing, barriers at public service counters and continued remote work as needed based on a rapid, structured process. The Bank monitors the number of cases and people in isolation, and late in the quarter, with reports of the outbreak of the Omicron variant, the Bank reiterated its guidelines and implemented stricter monitoring and adherence to such guidelines.
In the fourth quarter, the Bank continued to implement its work plan and exercise plan for 2021, including: Conducting a second exercise for the backup site (DRP exercise), in co-operation with the Technology Division and the Business Continuity Unit. Exercise at core branches on operating emergency procedures, exercise on transfer of SWIFT orders under a computer failure scenario and so forth. As for the business continuity plan, in this quarter the Bank concluded comprehensive reiteration of critical services under emergencies, Business Impact Analysis (BIA) and revised the work plan including, *inter alia*, revision of procedures and revision of basic plan documents. During this quarter, too, the Bank continued to maintain 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.
For more information see chapter "Significant Events in the Bank Group's Business" on the Report of the Board of Directors and Management.

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 fourth 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.

The Technology Division Manager is responsible for management of IT assets and the management framework is specified in a special policies document, in line with principles specified in policy documents on risks management and control at the Bank. The IT asset management policy is in line with requirements of the Supervisor of Banks and, in particular, with the principles stipulated in Proper Conduct of Banking Business Directive 357 "IT management"; Proper Conduct of Banking Business Directive 350 "Operational risk management"; Proper Conduct of Banking Business Directive 355 "Business continuity management" and Proper Conduct of Banking Business Directive 361 "Cyber security management". Risk appetite is defined in quantitative and qualitative terms under normal and emergency scenarios, with the Bank's risk appetite in operational aspects for IT risk included under management of operational risk appetite. Risk appetite for technology aspects is defined by multiple benchmarks, including risk levels on the map of technology risk and specific risk appetite for diverse risk factors.

The Bank operates multiple measures to mitigate risk, including use of indicators (KRI) and support systems. Note that the SOC (Security Operation Center) operates 24/7 and is responsible for monitoring Bank infrastructure and systems, analyzing logs and identifying anomalies in real time, unusual behavior of users and systems in the network from information and cyber security aspects. The Bank also established this year the NOC (Network Operations Center), operating 24/7 as an operational unit for presenting the unified picture of enterprise infrastructure, capability for monitoring and forecasting faults, analyzing logs and identifying anomalies from technology risk aspects.

Given current developments in the financial market 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 several years.

As part of the Union Bank merger process, the Bank's Technology Division is conducting a technology merger program, consisting of multiple projects designed to transfer Union Bank activity that is based on Bank Leumi and Union Bank systems and integrating them with the Bank's systems.

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

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

Other risks

Compliance and regulatory risk

Risk description

Compliance risk is the risk of imposition of legal or regulatory sanctions, material financial loss or impact to reputation, which the Bank may incur due to its failure to comply with compliance provisions.

Compliance risk includes conduct risk, cross-border risk and AML and terror financing risk, presented separately below.

Overview of compliance and regulatory risk and guidelines for management thereof

The compliance and regulatory Risk Manager for the Bank is the Manager, Risks Control Division. The Compliance Officer is responsible for continuous management of this risk.
The Bank has specified a multi-annual work plan for the Compliance Function, which includes qualitative targets for managing and reducing compliance risk across the Bank.
The Bank operates in conformity with policies on compliance and regulation risk management, approved by the Bank’s Board of Directors. The Compliance Officer acts to deploy a compliance culture at the Bank, at subsidiaries including Bank Yahav and Union Bank and Bank affiliates overseas, by implementing a Group policy and supervising the implementation of appropriate compliance processes at subsidiaries and affiliates. Compliance risk is managed by identification, documentation and assessment of compliance risk associated with business operations of the Bank, including developments related to new products, business conduct, lines of business or new clients, or to material changes to any of the above. The Bank conducts compliance surveys in various compliance areas, so as to ensure the effectiveness of compliance risk management activities. The Bank deals fairly with all stake holders. The value of fairness is enterprise-wide and is based on application of basic values: integrity, fairness and transparency. The Bank strives to maintain a fair relationship with its clients and with other stake holders, places the client at the center of its business operations and strictly adheres to business fairness in all its operations. Fairness is a basic value in the Bank's Code of Ethics and the Bank takes action to deploy and implement the value of Fairness among employees.
The Bank has an internal enforcement program for securities and for anti-trust law,
The Bank has minimal risk appetite for compliance and regulatory risk, with regard to compliance with statutory provisions applicable to the Bank.
Compliance risk remained unchanged in 2021, at Low-Medium.
This risk assessment is due, *inter alia*, to addressing of risks classified as high and to further enhancement of controls, training delivery, findings of surveys and audit reports 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.
For more information about compliance and regulation risk, see also the 2021 Risks Report available on the Bank website.

Cross-border risk

Risk description

Cross-border risk is the risk of financial loss (including due to legal proceedings, fines or sanctions imposed by statutory authorities or others in Israel and in other countries) and of impact to reputation, arising from the Bank's failure to comply with statutory provisions originating in other countries – whether provisions binding on the Bank or provisions which are not binding, but failure to comply with them may cause the Bank to incur damage, or from overseas activities of Bank clients in contravention of any statutory provisions.
Cross-border risk includes, *inter alia*, risk of damage, including impact to reputation, due to lawsuits or other enforcement proceedings brought by authorities in other countries, with regard to foreign tax laws applicable to certain Bank clients,

AML and terror financing laws, sanctions imposed by international bodies and foreign authorities or other laws. Cross-border risk also applies to the Bank's overseas affiliates, in activity with foreign-resident clients.
Cross-border risk includes the risk arising from obligations arising from US tax laws applicable to Bank Group operations outside of the USA (the Foreign Account Tax Compliance Act – "FATCA" and Qualified Intermediary – "QI"). This risk is also due to obligations stipulated by the Common Reporting Standard (CRS) issued by the OECD.

Overview of cross-border risk and guidelines for management thereof

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

Cross-border risk remained unchanged in 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.

The Bank also monitors regulatory updates from relevant countries for the Bank and its affiliates, and implements them if applicable.
For more information about cross-border risk, see also the 2021 Risks Report available on the Bank website.

AML and terror financing risk

Risk description

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

Overview of AML and terror financing risk and guidelines for management thereof

The Bank regards itself as a partner in the international AML and terror financing effort and takes part in the international effort against bribery and corruption, acting to identify, monitor and follow up on activities and clients that may be exposed to bribery and corruption. The Bank also avoids any activities opposed to the international sanctions regime of OFAC (of the US Department of Treasury) and of the European Union.
The Bank applies on a Group basis, with required changes, its policies in this area as well as statutory provisions, at its subsidiaries and branches in Israel and overseas.
The Bank applies a risk-based approach to account opening and management, allocating resources in conformity with the risk level of the account and activity, reflected *inter alia* by enhanced controls and appropriate custom training.
The Bank has near-zero risk appetite with regard to AML risk.
AML and terror financing risk remained unchanged in 2021 at 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 in the first and second lines of defense, 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, see also the 2021 Risks Report available on the Bank website.

Reputational risk

Risk description

The Bank has mapped reputation risk as a material risk, because past events indicate that impact to the reputation of a financial institution may result in significant loss of value. Reputation risk is a stand-alone risk, but may also arise from materialization of other risks at the Bank, such as materialization of an operational risk event, 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.

Overview of reputational risk and guidelines for management thereof

The Bank has defined its risk appetite for reputation risk as minimal. In recent years, the Bank took action to put in place a framework for handling reputation risk. The Bank considers that this risk should be addressed based on similar principles to those used to address other risks, such as credit risk or market risk – even though this risk is considered harder to quantify.
The Reputational Risk Manager is the Manager, Marketing, Promotion and Business Development Division at the Bank. Reputation risk is managed in conformity with the policy on three levels: In advance (under normal conditions), in real time (alert condition) and in retrospect.
In 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 2021 Risks Report available on the Bank website.

Business-strategic risk

Risk description

Business-strategic risk is the risk, in real time or potentially in future, of impact to Bank profits, capital or reputation, due to erroneous business decisions, improper deployment of decisions or insufficient preparation for changes in the business environment. This means the risk that the Bank chose the wrong strategy or that the Bank would not be able to implement the business and strategic plan as planned. The materiality of business-strategic risk requires the Bank to take measures which would allow it to manage this risk and take steps for assessment and early identification of events which may preclude implementation of the strategy.

Overview of business-strategic risk and guidelines for its management

The Bank operates in conformity with 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.

The Business-Strategic Risk Owner is the President & CEO; based on his guidance, management periodically reviews the implementation of the strategy: monitoring of regulatory, economic or technology developments which affect the strategy and initiating annual work plans derived from and in conformity with the strategic plan. In addition, the Financial Information and Reporting Division and the Risks Control Division regularly and independently monitor business-strategic risk from different control aspects, primarily the following: achievement of targets, risk mapping and identification, stress testing, threat tests and continuous monitoring of the risk profile in view of the Bank's risk appetite. In addition to continuous monitoring of the implementation of work plans and aligning them with the strategic outline, the Bank also monitors developments of external factors which may impact the Bank's business-strategic risk. The work plans of Bank divisions are adapted, when needed, to the changing business environment in order to achieve business targets and the strategic outline. The Bank is prepared for emergencies so as to reduce the impact to the Bank's business and strategic plan, should extreme economic or geo-political conditions evolve.

Developments in the business environment which may impact strategic risk

Bank business exposes it to various financial and non-financial risks, which may impact the Bank's business results and reputation. Top risks and evolving risks are derived from the Bank's business environment, which is impacted by the macro-economic environment, by risk associated with regulation and legislation, by changes to the business model and by social and consumer trends. In recent years, due to changes to the competitive environment, to the consumer environment, to the regulatory environment and to the technology environment, a trend of evolving non-financial risks is becoming apparent. For more information see chapter "Risk events" above.

For more information about strategic-business risk, see also the 2021 Risks Report available on the Bank website.

Environmental risks

Risk description

Environmental risk – This is risk due to potential impact of environmental changes on financial institutions. The Bank is exposed to potential loss due to deterioration in the borrower's financial position due to high costs incurred as a result of environmental hazard and regulation concerning environmental protection, or due to impairment of collateral exposed to environmental risk or to the Bank being indirectly liable for an environmental hazard caused by a project funded by the Bank. Environmental risk also includes other risk factors derived from this risk: goodwill, third party liability etc.

Climate risk – This is risk due to increased frequency and intensity of weather events due to global warming. Climate risks include transition risks arising from moves designed to reduce warming, including reduction of carbon emissions (such as transition to renewable energy sources, carbon taxation, improved energy efficiency and so forth), as well as physical risks which materialize as direct consequence of climate change, such as: fire, flooding and so forth.

Overview of business-strategic risk and guidelines for its management

In recent years, global awareness of the potential financial exposure arising from regulations related to environmental protection has grown. In conformity with a letter issued by the Supervisor of Banks, banks are required to act to incorporate management of exposure to environmental risk within all risks at the Bank, including specification of work processes for identification of significant risk when extending credit and inclusion of risk assessment, within periodic assessment of quality of credit extended.

As for loans, the Bank has reviewed, with assistance from external advisors, the implications of environmental risks as an integral part of credit risks (from financial, legal and insurance aspects). Consequently, the Bank has set policy on environmental risk management in extending credit, which is the most relevant, significant risk impacted by entities with a potential to create pollution and environmental hazards. This policy, which is part of the Bank's risk management and control process, also accounts for environmental considerations. This is based on the understanding that client operations may have environmental impact. Based on this concept, the Bank strives to find a balance between the various considerations, including environmental considerations, when providing products and services to its clients.

As part of this policy, the Bank has a structured methodology for identification, assessment and handling of environmental risk and acts to incorporate management of exposure to environmental risk within all risks at the Bank, including specification of work processes for identification of significant risk when extending credit and inclusion of risk assessment, if any, within periodic assessment of quality of credit extended.

In December 2020, the Bank created a dedicated team, headed by the CRO with representatives from relevant divisions which may be impacted by environmental risks. In 2021, this team was involved in review of diverse aspects of risk management at the Bank, such as ensuring environmental protection, credit aspects, social aspects, real investments and so forth, as well as identification of business opportunities for the Bank. The team has reviewed common practice at leading banks world-wide, and has conducted gap surveys vis-à-vis the practice. Based on insights gained from the team's work and supervisory expectations which are being formulated, the Bank has set milestones for actual progress and improvement in handling this matter. The 2022 work plan includes implementation of recommendations arising from insights of the dedicated team's work. In order to implement the team's conclusions and to carry out the work plan, the Bank established a strategic ESG team, consisting of managers of various divisions, tasked with leading policy, activity, control and reporting in conjunction with promoting ESG across all Bank operations. This team convenes once per quarter and reports to Bank management on progress made and on improvement in the Bank's ESG performance.

Furthermore, management of environmental risks and climate risks is specifically discussed by the Board of Directors' Risk Management Committee, which advises the Bank Board of Directors on risk management – in similar fashion to most of the material risks. In the fourth quarter of 2021, ESG aspects were presented to the Board of Directors' Risk Management Committee. This topic shall be reported semi-annually to the Board of Directors' Risk Management Committee and annually to the Board of Directors.

The framework credit risk management policy includes policy on environmental risk management in extending credit. This policy, as part of the Bank's risk management and control process, accounts for considerations based on client quality, repayment capacity, financial robustness, liquidity, reliability, seniority with the Bank, account management and collateral quality – as well as environmental considerations. The environmental risk policy is approved annually by the Board of Directors, as part of the Bank's policy documents, as part of the Board's role in setting risk policy for the Bank, including environmental risks, in conformity with Bank strategy.

Identification and mapping of environmental risks to which the Bank is exposed

Managing exposure to environmental risks includes these major components:

- Identification and mapping – economic sectors have been mapped by material environmental implications and material clients operating in these sectors have been identified as having significant environmental impact requiring specific reference in this regard.
- Estimating the impact of environmental risks – this is carried out as needed, including through the following: Property valuation (based on criteria for identification of land and properties which require reference to environmental aspects), information obtained from project supervisors, material information included on financial statements, information obtained from clients.
- As required, the Bank is assisted by external advisors for reference and cost estimation.
- Loans to economic sectors with material environmental impact – as part of material loan applications by companies in economic sectors identified as having material environmental impact, reference is made to environmental risks which may affect loan repayment capacity, such as compliance with regulatory provisions, material environmental costs and legal proceedings involving the company.
- Use of environmental databases – as part of incorporating environmental risks into the Bank's work, an extensive list has been created of various databases related to environmental protection, to assist business entities as required.

For more information see the Bank's Corporate Social Responsibility Report on the Bank website:
www.mizrahi-tefahot.co.il >> about the bank >> investor relations

Policies and critical accounting estimates

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

For most topics, these directives are based on generally acceptable accounting practices by US banks. For other, less material topics, these directives are based on International Financial Reporting Standards (IFRS) and on generally accepted accounting principles in Israel (Israeli GAAP). When International Financial Reporting Standards (IFRS) allow multiple alternatives, or do not specifically refer to a certain situation, these directives prescribe specific implementation guidelines, mostly based on generally acceptable accounting practices by US banks.

The significant accounting policies are detailed in Note 1 to the financial statements.

The application of generally accepted accounting principles by management at the time that the financial statements are prepared occasionally involves various assumptions, assessments and estimates that affect the amounts and business results reported in the financial statements. Some of the assumptions, assessments and estimates are critical to the financial position or the results of operations reflected in the Group's financial statements, because of the materiality of the matter, complexity of calculations or the extent of the probability that matters shrouded in uncertainty will be realized.

The following were used in assumptions, assessments and estimates:

Provision for credit losses

- Individual provision – The Bank regularly reviews the forecasted expected credit losses, based on actual cash flows, and adjusts the individual provision to the current forecast.
- Group provision – based on historical loss rates in various economic sectors, divided into problematic and non-problematic debt, for the period from January 1, 2011 through the report date. The Bank also accounts for relevant environmental factors, including trends in credit volume for each sector as well as sector condition, macro-economic data, general quality assessment of credit to each economic sector, changes in volume and in trend of balances in arrears and impaired balances and the effect of changes in credit concentration. Furthermore, the rate of adjustment with respect to relevant environmental factors for group provision for credit losses with respect to individuals is not less than 0.75% of the non-impaired consumer credit balance (excluding credit due to receivables for bank credit cards without interest charge).

The group-based provision accounts for the effect of deterioration in macro-economic conditions and market activity due to the Corona Virus crisis, on borrowers at the Bank. For more information see below and see chapter "Significant Events in the Bank Group's Business" above.

- Residential mortgages – A minimum provision with respect to residential mortgages is calculated based on the formula stipulated by the Supervisor of Banks, by extent of arrears, such that the provision rate is higher the longer the arrears. This directive applies to all residential mortgages, other than loans not repaid by periodic installments and loans used to finance activity of a business nature. The group-based provision for credit losses with respect to residential mortgages shall be at least 0.35% of the balance of such loans as of the report date.
- Off-balance sheet credit – The provision is based on provision rates specified for total credit exposure (as stated above), accounting for expected credit realization rate for the off-balance sheet credit risk.

Sensitivity of provisions for credit losses to changes in economic conditions is due to a significant number of connections and mutual effects: Effect on certain clients who cannot meet their obligations, and consequently subject to a specific provision; effect on certain clients who are facing difficulties that require classification as inferior or under special supervision, and consequently the group-based provision with respect there to has increased; effect on the additional qualitative component of the group-based provision, through parameters of growth and unemployment that are part of the model; additional effect on the additional qualitative component, through other parameters affected by unemployment and growth, such as the number of Watchlists and average rating of clients.
In February 2022, the Bank conducted a system-wide stress scenario – a uniform stress scenario delivered by the Supervisor of Banks to the banking system. The stress scenario involves a global shock, reflected by slower economic activity and market declines in Israel and around the world, lasting through 2024. The stress scenario assumes, *inter alia*, inflation of up to 6% in the record year of the scenario, the Bank of Israel interest rate peaking at 4.75%, the unemployment rate peaking at 15%, 20% cumulative decline in housing prices, up to 42% currency devaluation, 50% decline in the equity benchmark (at the peak of the scenario) and so on. The outcome of this scenario shows that the provision rate for credit losses, at the peak of the stress scenario, may reach 1.26% of total credit on annual basis, compared to 0.43% on the 2020 financial statements.

For more information see Note 1.F. 6 to the financial statements.

Derivative instruments

Instruments measured at fair value are divided into 3 levels:

Level 1 – fair value measured using prices quoted for identical instruments on an active market accessible by the Bank upon the measurement date.

Level 2 – fair value measured using observed data, either direct or indirect, which are not quoted prices as stipulated under Level 1. Level 2 data include quoted market data on active markets, or on non-active markets, if they exist, or data derived from or based upon such observed market data.

Level 3 – fair value measured by using non-observed data.

The Bank estimates credit risk for derivative instruments using a model based on indications of credit quality of the counter-party, derived from prices of debt instruments of the counter-party traded on an active market, and from prices of credit derivative instruments based on the counter-party's credit quality. In the absence of such indications, the Bank calculates the adjustments based on internal ratings. The Bank reviews the materiality of the credit risk component compared to fair value as a whole, in conjunction with review of instrument classification under fair value ranking levels.

Fair value measurement of a derivative instrument, when no quoted prices, liquid collateral or offset agreements exist which adequately secure the derivative's credit quality, and when no market information exists as to the credit quality of the counter-party (such as CDS or tradeable debentures of the counter-party) – shall be classified as a Level 3 fair value measurement.

For more information see Note 1.F. 16 to the financial statements. For details of derivatives measured at fair value by different fair value levels – see Note 33 to the financial statements.

Liabilities with respect to employees' rights

are calculated using actuarial models, based on a discount rate determined based on the yield of Government debentures in Israel plus the average yield spread for corporate debentures rated AA (international rating scale) or higher upon the report date. For practical reasons, the spread would be determined by the difference between yields to maturity, by term to maturity, for corporate debentures rated AA or higher in the USA – and yields to maturity, for the same term to maturity, for US government debentures, all as of the report date. The actuarial models include assumptions related to the mortality tables, disability rates, departure rates and wage hike rates. A change in any of the parameters could lead to a change in the amount of the Bank's liabilities for employees' rights.

Group liabilities for employees' rights calculated based on an actuarial model amount to NIS 2,927 million (including provision for employees' retirement at beneficial terms).

The following is a sensitivity analysis of total provision for employees' rights to changes in key assumptions used as basis for the actuarial estimate, as of the transition date (NIS in millions):

	1% increase	1% change in annual payroll increase		1% change in departure rate before retirement age	
	in discount rate	Increase	Decrease	Increase	Decrease
Severance pay provision	(159)	144	(120)	144	(143)
Budgetary pension	(47)	–	–	–	–
Other	(97)	10	(9)	(12)	9

For more information see Note 1.F. 12 to the financial statements.

Provisions with respect to contingent liabilities and lawsuits

The financial statements include appropriate provisions to cover possible damages, where, in the opinion of the Bank's Management, based on the opinion of its legal counsel, a provision is required.

In accordance with the guidelines of the Supervisor of Banks, claims have been classified according to the range of probability of realization of the risk exposure, as follows:

1) Probable risk: there is a probability of more than 70% of a loss from the claim. For claims whose probability of realization has been classified as Probable, an appropriate provision was made in the financial statements.
2) Reasonably Possible risk: there is a probability of between 20% and 70% that a loss will be sustained from the claim. For claims whose probability of realization has been classified as Reasonably Possible, an appropriate provision is made in specific instances in the financial statements, at the discretion of Bank Management and based on the opinion of legal counsel.
3) Remote risk: there is a probability of less than 20% of a loss from the claim. For claims whose probability of realization has been classified as Remote, no provision is made in the financial statements.

Note 26.C. provides disclosure of material claims (whose amount, excluding interest and expenses, is over 1% of equity attributable to equity holders of the Bank).

Likewise, disclosure is given to motions for recognition as class actions, when the amount claimed in them is material, when, in the estimation of the Bank's management, based on the opinion of its legal counsel, it is not possible, on the date of preparing these financial statements, to estimate their possible outcome, and therefore, no provision was recorded for them.

In accordance with the directives of the Supervisor of Banks, the Bank is permitted to determine for class actions that it is not possible to estimate the prospects for realization of the exposure to risk in the four financial statements published since the claim was filed, or in case of delay of proceedings by decision of the Court. Beyond this, only in rare cases is the Bank permitted to determine that the prospects for realizing the exposure cannot be determined.

Note that the provision for legal claims and contingent liabilities depends on multiple factors and involves a high degree of uncertainty. New information to be received by the Bank in the future with regard to existing exposures as of the approval date of the financial statements may materially impact the exposure amount or the provision required with respect to such exposure.

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.

Controls and procedures with regard to disclosure

At the end of the period covered by this Report, the Bank's management, together with the Bank President & CEO and the Chief Accountant of the Bank, evaluated the effectiveness of the Bank's disclosure controls and procedures. Based on this evaluation, the Bank President & CEO and Chief Accountant of the Bank concluded that at the end of this period, the disclosure controls and procedures are effective for recording, processing, summarizing and reporting the information that the Bank is required to disclose in the annual report, in accordance with the Public Reporting Directives of the Supervisor of Banks, on the date stipulated in these Directives.

Developments in internal controls

In the quarter ended December 31, 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 an effect on the Bank's internal controls over financial reporting.

In accordance with the directive by the Supervisor of Banks with regard to adoption of provisions of Section 404 of the Sarbanes-Oxley Act, this report includes a declaration concerning the responsibility of management and the Board of Directors for setting and maintaining proper internal controls over financial reporting and management's assessment of the effectiveness of internal controls over financial reporting as of the date of the financial statements. Concurrently, the opinion of the Bank's independent auditors with regard to appropriateness of the Bank's internal controls over financial reporting in accordance with the applicable standards of the Public Company Accounting Oversight Board (PCAOB) is also provided.

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

Approval date:
Ramat Gan, February 28, 2022

Certification by the President & CEO – Disclosure and internal controls

As of December 31, 2021

Certification

I, MOSHE LARI, certify that:

1. I have reviewed the annual report of Bank Mizrahi Tefahot Ltd. ("the Bank") for 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 financial statements and other financial information included in the Report fairly present, in all material respects, the financial condition, results of operations, and changes in shareholders' equity and cash flows of the Bank as of the dates and for the periods presented in this Report.
4. I and others at the Bank who provide this certification, are responsible for determining and maintaining controls and procedures with regard to disclosure[(1)] and to the Bank's internal controls over financial reporting[(1)] as well as:

    A. We have determined such controls and procedures, or caused these controls and procedures to be determined under our supervision, for the purpose of ensuring that material information relating to the Bank, including its subsidiaries, is made known to us by others in the Bank and in those entities, particularly during the period in which the Report is being prepared;

    B. We have set such internal controls over financial reporting, or had it set under our supervision, intended to provide a reasonable degree of certainty with regard to the reliability of financial reporting and to the fact that the financial statements for external use are prepared in accordance with generally accepted accounting principles and with directives and guidelines of the Supervisor of Banks;

    C. We have evaluated the effectiveness of the Bank's disclosure controls and procedures and have presented in this report our conclusions about the effectiveness of the disclosure controls and procedures in this Report, as of the end of the period covered by this Report based on our evaluation; and

    D. We have disclosed in this Report any change in the Bank's internal controls over financial reporting that occurred during the fourth quarter, that has materially affected, or is reasonably likely to materially affect, the Bank's internal controls over financial reporting; and

5. I and others in the Bank who are declaring this certification, have disclosed, based on our most recent evaluation of the internal controls over financial reporting, to the Bank's independent auditors, the Board of Directors and the Audit Committee of the Board of Directors of the Bank:

    A. All significant deficiencies and material weaknesses in the determination or operation of internal controls over financial reporting which are reasonably likely to impair the Bank's ability to record, process, summarize and report financial information; and

    B. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Bank's internal controls over financial reporting.

The aforesaid does not derogate from my responsibility or the responsibility of any other person according to the law.

Lari Moshe

Moshe Lari

President & CEO

Ramat Gan, February 28, 2022

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

Certification by the Chief Accountant – Disclosure and internal controls

As of December 31, 2021

Certification

I, MENAHEM AVIV, certify that:

1. I have reviewed the annual report of Bank Mizrahi Tefahot Ltd. ("the Bank") for 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 financial statements and other financial information included in the Report fairly present, in all material respects, the financial condition, results of operations, and changes in shareholders' equity and cash flows of the Bank as of and for the periods presented in this Report.
4. I and others at the Bank who provide this certification, are responsible for determining and maintaining controls and procedures with regard to disclosure(1) and to the Bank's internal controls over financial reporting(1) as well as:

   A. We have determined such controls and procedures, or caused these controls and procedures to be determined under our supervision, for the purpose of ensuring that material information relating to the Bank, including its subsidiaries, is made known to us by others in the Bank and in those entities, particularly during the period in which the Report is being prepared;

   B. We have set such internal controls over financial reporting, or had it set under our supervision, intended to provide a reasonable degree of certainty with regard to the reliability of financial reporting and to the fact that the financial statements for external use are prepared in accordance with generally accepted accounting principles and with directives and guidelines of the Supervisor of Banks;

   C. We have evaluated the effectiveness of the Bank's disclosure controls and procedures and have presented in this report our conclusions about the effectiveness of the disclosure controls and procedures in this Report, as of the end of the period covered by this Report based on our evaluation; and

   D. We have disclosed in this Report any change in the Bank's internal controls over financial reporting that occurred during the fourth quarter, that has materially affected, or is reasonably likely to materially affect, the Bank's internal controls over financial reporting; and

5. I and others in the Bank who are declaring this certification, have disclosed, based on our most recent evaluation of the internal controls over financial reporting, to the Bank's independent auditors, the Board of Directors and the Audit Committee of the Board of Directors of the Bank:

   A. All significant deficiencies and material weaknesses in the determination or operation of internal controls over financial reporting which are reasonably likely to impair the Bank's ability to record, process, summarize and report financial information; and

   B. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Bank's internal controls over financial reporting.

The aforesaid does not derogate from my responsibility or the responsibility of any other person according to the law.

Menahem Aviv

Vice-president, Chief Accountant

Ramat Gan, February 28, 2022

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

Report of the Board of Directors and Management as to Internal Controls over Financial Reporting

The Board of Directors and Management of Mizrahi Tefahot Bank Ltd. (hereinafter: "the Bank") are responsible for establishing and maintaining proper internal controls over financial reporting (as defined in Public Reporting Directives with regard to "Report of the Board of Directors and Management"). The Bank's internal controls system has been designed to provide the Bank's Board of Directors and management a reasonable degree of certainty as to proper preparation and presentation of financial statements published in accordance with generally accepted accounting principles and with directives and guidelines of the Supervisor of Banks. Regardless of the quality of the design there of, all internal controls systems have inherent limitations. Therefore, even should it be determined that these systems are effective, they may only provide a reasonable degree of certainty with regard to preparation and presentation of financial statements.

The management, under supervision of the Board of Directors, maintains a comprehensive system of controls intended to ensure that transactions are executed in line with management authorization, that assets are protected, and that accounting records are reliable. Furthermore, management under supervision of the Board of Directors, takes steps to ensure that information and communication channels are effective and monitor execution, including execution of internal control procedures.

The Bank's management, under supervision of the Board of Directors, has evaluated the effectiveness of the Bank's internal controls system over financial reporting as of December 31, 2021 based on criteria stipulated in the internal control model of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on the aforementioned evaluation, management assumes that as of December 31, 2021, the Bank's internal controls over financial reporting are effective.

The effectiveness of the Bank's internal controls over financial reporting as of December 31, 2021 was audited by the Bank's independent auditors, Brightman Almagor Zohar & Coas noted in their report on page 113, which includes their unqualified , . .opinion as to the effectiveness of the Bank's internal controls over financial reporting as of December 31, 2021

Moshe Vidman	**Moshe Lari**	**Menahem Aviv**
Chairman of the Board of Directors	President & CEO	Vice-president, Chief Accountant

Approval date:
Ramat Gan, February 28, 2022

Deloitte.

Independent Auditors' Report to Shareholders of Bank Mizrahi-Tefahot Limited Pursuant to Public Reporting Directives of the Supervisor of Banks Concerning Internal Controls over financial Reporting

We have audited the internal controls over financial reporting at Bank Mizrahi Tefahot Ltd. and subsidiaries (hereinafter jointly: "the Bank") as of December 31, 2021, based on criteria stipulated by the integrated framework for internal controls published by the Committee of Sponsoring Organizations of the Tread way Commission (hereinafter: "COSO"). The Bank's Board of Directors and management are responsible for maintaining effective internal controls over financial reporting, and for evaluating the effectiveness of said internal controls over financial reporting which is included in the attached enclosed report of the Board of Directors and management with regard to internal controls over financial reporting. We are responsible for our opinion on the Bank's internal controls over financial reporting, based on our audit.

We have not audited the effectiveness of internal controls over financial reporting at subsidiaries whose assets and net interest revenue before expenses with respect to credit losses, included in consolidation, account for 4.38% and 5.05%, respectively of the referring amounts on the consolidated financial statements as of December 31, 2021 and for the year then ended. The effectiveness of internal controls over financial reporting at these companies was audited by other independent auditors whose reports have been provided to us and our opinion, in as much as it refers to effectiveness of internal controls over financial reporting at these companies, Is based on the reports of these other independent auditors.

We have conducted our audit in accordance with standards of the Public Company Accounting Oversight Board (PCAOB) in the USA with regard to audit of internal controls over financial reporting, as adopted by the Institute of Certified Public Accountants in Israel. In accordance with these standards, we are required to plan and perform the audit and obtain a reasonable degree of assurance as to the maintenance of effective internal controls over financial reporting, in all material aspects. Our audit included: obtaining an understanding of the internal controls over financial reporting, assessing the risk of existence of a material weakness, and also testing and evaluating of the design and operating effectiveness of internal controls based on the assessed risk. Our audit also included performing such other procedures which we considered necessary under the circumstances. We believe that our audits and the reports of the other independent auditors provide a reasonable basis for our opinion.

A bank's internal controls over financial reporting is a process designed to provide a reasonable degree of certainty as to the reliability of financial reporting and preparation of financial statements for external use in accordance with Israeli GAAP, and directives and guidelines of the Supervisor of Banks. A bank's internal controls over financial reporting include policies and procedures which: (1) refer to record keeping which, with reasonable detail, accurately and properly reflects transactions and transfers of Bank assets (including their removal from Bank ownership); (2) provide a reasonable degree of certainty that transactions are properly recorded so as to allow for preparation of financial statements in accordance with Israeli GAAP and directives and guidelines of the Supervisor of Banks, and that the Bank's receipts and expenditures are made exclusively in line with authorizations of the Bank's management and Board members; and (3) provide a reasonable degree of certainty with regard to avoidance or timely discovery of any unauthorized acquisition, use or transfer of Bank assets (including removal from Bank ownership) which may materially impact the financial statements.

Due to structural limitations, internal controls over financial reporting may not prevent or disclose misleading presentation. Also, reaching conclusions about the future on the basis of any current assessment of effectiveness is exposed to the risk that controls will become unsuitable due to changes in circumstances or that the extent of observance of the policies or procedures will change adversely

In our opinion, the Bank maintained, in all material aspects, effective internal controls over financial reporting as of December 31, 2021 based on criteria stipulated in the integrated framework for internal controls published by COSO.

We have also audited, in accordance with generally accepted auditing standards in Israel and certain audit standards whose application to audits of banking corporations was stipulated in directives of and guidance from the Supervisor of Banks, the Bank's consolidated balance sheet as of December 31, 2021 and 2020 and the consolidated statements of profit and loss, consolidated statements of comprehensive income, consolidated statements of changes to equity and consolidates statements of cash flows for each of the three years ended December 31, 2021, and our report dated February 28, 2022 includes an unqualified opinion on the aforementioned financial statements, based upon our audit and on the reports of other independent auditors, as well as drawing of attention to a claim filed against the Bank and motion to approve it as class actions.

Brightman Almagor Zohar & Co.

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

Ramat Gan, February 28, 2022

.

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

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

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

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

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

Deloitte.

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

We have audited the accompanying consolidated balance sheets of Mizrahi Tefahot Limited and its subsidiaries ("the Bank") as of December 31, 2021 and 2020, and the statements of profit and loss, consolidated statements of comprehensive income, consolidated statements of changes to equity and consolidated statements of cash flows – for each of the three years in the period ended December 31, 2021. The Bank's Board of Directors and management are responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audit.

We have not audited the financial statements of subsidiaries whose assets included in consolidation account for 4.38% and 5.05% of total consolidated assets as of December 31, 2021 and 2020, respectively and whose net interest revenues before expenses with respect to credit losses, included in the consolidated statements of profit and loss, account for 5.79%, 8.06% and 9.29%, respectively of total consolidated net interest revenues before expenses with respect to credit losses for the years ended December 31, 2020, 2020 and 2019, respectively. The financial statements of these companies were audited by other auditors, whose reports were furnished to us, and our opinion, insofar as it relates to amounts included with respect to these companies, is based on the reports of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards in Israel, including those prescribed by the Auditors' Regulations (Mode of Performance), 1973 and certain auditing standards, the application of which was prescribed by the directives of the Supervisor of Banks. These regulations require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors and by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the above consolidated financial statements present fairly, in all material respects, the financial position – of the Bank – as of December 31, 2021 and 2020, and the results of operations, changes in shareholders' equity and cash flows of the Bank for each of the three years in the period ended December 31, 2021, in conformity with generally accepted accounting principles in Israel (Israeli GAAP). Also, in our opinion, the financial statements have been prepared in accordance with the directives and guidelines of the Supervisor of Banks.

Without qualifying our aforementioned opinion, we draw your attention to Note 26.C. section 11 with regard to lawsuit filed against the Bank and its subsidiary, including request to recognize it as class actions.

We have also audited in accordance with PCAOB standards in the USA with regard to audit of internal controls over financial reporting, as adopted by the Institute of Certified Public Accountants in Israel, the internal controls over financial reporting at the Bank as of December 31, 2021, based on criteria specified in the integrated framework for internal controls published by COSO, and our report dated February 28, 2022 included an unqualified opinion on the effectiveness of internal controls over financial reporting at the Bank.

Key audit matters

The key audit matters listed below have been, or needed to be, communicated to the Bank's Board of Directors and, in our professional opinion, were most significant in audit of the consolidated financial statements for the current period. These matters include, *inter alia*, any matter which: (1) Refers to material items or disclosures on the financial statements; and (2) Our discretion with regard there to was especially challenging, subjective or complex in view of the Supervisor of Banks' directives and guidelines. These matters were resolved in our audit and in forming our opinion of the consolidated financial statements as a whole. Communicating these matters, as set forth below, does not alter our opinion of the consolidated financial statements as a whole, and we do not use these to provide a separate opinion of these matters, nor of the items or disclosures to which they refer.

Provision for credit losses – classification and provision with respect to debts assessed on individual basis

As set forth in Notes 13 and 30 to the consolidated financial statements, the provision for credit losses with respect to debts assessed on individual basis amounted, as of December 31, 2021, to NIS 981 million.

The process of assessment of the loss inherent in the loan portfolio, with respect to debts assessed on individual basis, is based on significant estimates associated with uncertainty, and on subjective assessments – both in identification and classification of debts as problematic debts or debts in good standing, and in measuring individual provisions. Changes in these estimates or assessments may have material impact on the individual provision for credit losses presented on the Bank's financial statements.

Given (1) the extensive discretion required of Bank management to identify problematic debts, based on specific criteria which may indicate that debt has become problematic, the estimated potential or current impact to the borrower's primary debt repayment source, the borrower's estimated cash flow for full repayment of the debt when due, and assessment of other financial data for the borrower which may provide indications for existence of current or potential weaknesses of the borrower, (2) discretion exercised by Bank management in calculating the individual provision for future cash flows expected to be used for debt service out of borrower operations, and realization of collateral and guarantees, and (3) audit of the provision for credit losses, which require significant discretion by the Independent Auditor as well as knowledge and experience, in order to review the reasonability of assumptions and data used by management in estimating the provision, we have identified the classification of debts reviewed on individual basis and the estimates used as basis for calculation of the individual provision for credit losses as a key audit matter.

The response to the aforementioned key audit matter included application of procedures and assessment of audit evidence with respect to forming our opinion of the financial statements as a whole. We have applied audit procedures with respect to this key matter, including review of the effectiveness of relevant controls for review of debt classification and for the individual provision for credit losses with respect to impaired debt. Furthermore, these procedures included, *inter alia*, review of the process conducted by Bank management with regard to debt classification and estimating the individual provision for credit losses, including (1) review of appropriateness of classification of debts in good standing for a sample of debts, and (2) review of assumptions for cash flows used to determine the provision for credit losses for a sample of debts classified as impaired, based on review of the reported outcome for the borrower, value of their collateral and understanding the status of debt collection proceedings or debt re-structuring by the Bank.

Brightman Almagor Zohar & Co.

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

Ramat Gan, February 28, 2022

We have been serving as the Bank's Independent Auditor since 1995.

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

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

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

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

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

Bank Mizrahi Tefahot

Financial Statements

2021

Table of Contents

Consolidated statement of profit and loss

For the year ended December 31,

Reported amounts (NIS in millions)

	Note	2021	2020	2019
Interest revenues	2	10,557	7,528	7,711
Interest expenses	2	2,872	1,708	2,371
Interest revenues, net	2	7,685	5,820	5,340
Expenses with respect to credit losses	13.30	(278)	1,050	364
Interest revenues, net after expenses with respect to credit losses		**7,963**	**4,770**	**4,976**
Non-interest revenues				
Non-interest financing revenues	3	401	221	357
Commissions	4	1,947	1,671	1,535
Other revenues	5	287	221	74
Total non-interest revenues		**2,635**	**2,113**	**1,966**
Operating and other expenses				
Payroll and associated expenses	6	3,536	2,644	2,562
Maintenance and depreciation of buildings and equipment	16	1,002	871	770
Other expenses	7	1,030	764	656
Total operating and other expenses		**5,568**	**4,279**	**3,988**
Pre-tax profit		5,030	2,604	2,954
Provision for taxes on profit	8	1,730	903	1,029
After-tax profit		**3,300**	**1,701**	**1,925**
Share of profits of associated companies, after tax effect	15	(10)	1	–
Net profit:				
Before attribution to non-controlling interests		3,290	1,702	1,925
Attributable to non-controlling interests		(102)	(92)	(83)
Attributable to shareholders of the Bank		**3,188**	**1,610**	**1,842**
Earnings per share[(1)] (in NIS)	9			
Basic earnings				
Net profit attributable to shareholders of the Bank		**12.47**	**6.70**	**7.86**
Diluted earnings				
Net profit attributable to shareholders of the Bank		**12.35**	**6.69**	**7.83**

(1) Share of NIS 0.1 par value.

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

M. Vidman

Moshe Vidman

Chairman of the Board of Directors

Moshe Lari

President & CEO

Menahem Aviv

Vice-president, Chief Accountant

Approval date:
Ramat Gan, February 28, 2022

Consolidated statement of comprehensive income

For the year ended December 31,

Reported amounts (NIS in millions)

	Note	2021	2020	2019
Net profit:				
Before attribution to non-controlling interests		3,290	1,702	1,925
Attributable to non-controlling interests		(102)	(92)	(83)
Net profit attributable to shareholders of the Bank		**3,188**	**1,610**	**1,842**
Other comprehensive income (loss) before taxes	10			
Adjustments for presentation of available-for-sale securities at fair value, net		25	69	144
Adjustments from translation of financial statements of investments in associated companies(1)		(1)	–	–
Net gains (losses) with respect to cash flows hedging		(33)	3	6
Adjustments of liabilities with respect to employees' benefits(2)		(18)	14	(152)
Total other comprehensive income (loss), before tax		**(27)**	**86**	**(2)**
Related tax effect		7	(29)	1
Other comprehensive income (loss) after taxes(3)				
Other comprehensive income (loss), before attribution to non-controlling interests		(20)	57	(1)
Less other comprehensive income (loss) attributed to non-controlling interests		7	1	(15)
Other comprehensive income (loss) attributed to shareholders of the Bank, after taxes		**(27)**	**56**	**14**
Comprehensive income:				
Before attribution to non-controlling interests		3,270	1,759	1,924
Attributable to non-controlling interests		(109)	(93)	(68)
Comprehensive income attributable to shareholders of the Bank		**3,161**	**1,666**	**1,856**

(1) Translation adjustments of financial statements of associated companies whose functional currency differs from the Bank's functional currency.
(2) Includes adjustments with respect to actuarial estimates included in the reported period for defined-benefit pension plans and current amortization of adjustments with respect to liabilities to profit and loss.
(3) For more information see Note 10 – Cumulative Other Comprehensive Income (Loss).

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

Consolidated balance sheet

As of December 31,

Reported amounts (NIS in millions)

	Note	2021	2020
Assets			
Cash and deposits with banks	11	95,267	86,570
Securities[(1)(2)]	12	15,033	17,290
Securities loaned or purchased under resale agreements	27	1,332	200
Loans to the public	13.30	273,531	247,958
Provision for credit losses	13.30	(2,103)	(2,433)
Loans to the public, net	13.30	271,428	245,525
Loans to Governments	14	477	613
Investments in associated companies	15	69	31
Buildings and equipment	16	1,734	1,743
Intangible assets and goodwill	15.D	208	239
Assets with respect to derivative instruments	28	3,652	4,543
Other assets	17	3,071	3,386
Total assets		**392,271**	**360,140**
Liabilities and Equity			
Deposits from the public	18	307,924	284,224
Deposits from banks	19	6,992	3,779
Deposits from the Government		81	70
Debentures and subordinated notes	20	38,046	33,446
Liabilities with respect to derivative instruments	28	3,753	5,506
Other liabilities [(3)]	30.E, 21	13,746	13,446
Total liabilities		**370,542**	**340,471**
Shareholders' equity attributable to shareholders of the Bank		20,770	18,804
Non-controlling interests		959	865
Total equity	**24**	**21,729**	**19,669**
Total liabilities and equity		**392,271**	**360,140**

(1) Of which: NIS 11,689 million recognized on the financial statements at fair value (on December 31, 2020: NIS 13,359 million).
(2) For more information with regard to securities pledged to lenders, see Note 27.
(3) Of which: Provision for credit losses with respect to off balance sheet credit instruments amounting to NIS 211 million (on December 31, 2020: NIS 232 million).

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

Statement of Changes in Shareholders' Equity

For the year ended December 31,

Reported amounts (NIS in millions)

	Share capital and premium[1]	Capital reserve from benefit from share-based payment transact-ions	Total paid-up share capital and capital reserves	Cumulative other compre-hensive income (loss)[2]	Retained earnings[3]	Total share-holders' equity	Non-controlling interests	Total equity
Balance as of December 31, 2018	**2,197**	**48**	**2,245**	**(346)**	**12,782**	**14,681**	**709**	**15,390**
Net profit for the period	–	–	–	–	1,842	1,842	83	1,925
Dividends paid[7]	–	–	–	–	(561)	(561)	–	(561)
Benefit from share-based payment transactions	–	57	57	–	–	57	–	57
Realization of share-based payment transactions[4]	35	(35)	–	–	–	–	–	–
Dividends attributable to non-controlling interests in subsidiary	–	–	–	–	–	–	(5)	(5)
Other comprehensive income (loss), net, after tax	–	–	–	14	–	14	(15)	(1)
Balance as of December 31, 2019	**2,232**	**70**	**2,302**	**(332)**	**14,063**	**16,033**	**772**	**16,805**
Cumulative effect of initial application of US GAAP[5]	–	–	–	–	51	51	–	51
Adjusted balance as of January 1, 2020 after initial application	2,232	70	2,302	(332)	14,114	16,084	772	16,856
Net profit for the period	–	–	–	–	1,610	1,610	92	1,702
Dividends paid[7]	–	–	–	–	(176)	(176)	–	(176)
Benefit from share-based payment transactions	–	23	23	–	–	23	–	23
Realization of share-based payment transactions[4]	6	(6)	–	–	–	–	–	–
Shares issued[6]	1,207	–	1,207	–	–	1,207	–	1,207
Other comprehensive income (loss), net, after tax	–	–	–	56	–	56	1	57
Balance as of December 31, 2020	**3,445**	**87**	**3,532**	**(276)**	**15,548**	**18,804**	**865**	**19,669**
Net profit for the period	–	–	–	–	3,188	3,188	102	3,290
Dividends paid[7]	–	–	–	–	(1,236)	(1,236)	–	(1,236)
Benefit from share-based payment transactions	–	41	41	–	–	41	–	41
Realization of share-based payment transactions[4]	52	(52)	–	–	–	–	–	–
Dividends attributable to non-controlling interests in subsidiary	–	–	–	–	–	–	(15)	(15)
Other comprehensive income (loss), net, after tax	–	–	–	(27)	–	(27)	7	(20)
Balance as of December 31, 2021	**3,497**	**76**	**3,573**	**(303)**	**17,500**	**20,770**	**959**	**21,729**

(1) Share premium generated prior to March 31, 1986.
(2) For more information see Note 10 – Cumulative Other Comprehensive Income (Loss).
(3) For details on various limitations on dividend distributions, see Note 24.
(4) In 2021, the Bank issued 1,432,671 ordinary shares of NIS 0.1 par value each for exercise of options pursuant to the Employee Stock Option Plan.
In 2020, the Bank issued 266,111 ordinary shares of NIS 0.1 par value each for exercise of options pursuant to the Employees' Stock Option Plan, and issued to the President 17,840 ordinary shares of NIS 0.1 par value each.
In 2019, the Bank issued 1,472,307 ordinary shares of NIS 0.1 par value each for exercise of options pursuant to the Employees' Stock Option Plan, and issued to the President 85,880 ordinary shares of NIS 0.1 par value each.
(5) Cumulative effect of initial application of generally accepted accounting principles for banks in the USA with regard to leases (ASU-2016-02) and updates there to.
(6) Includes shares issued in conjunction with acquisition of Union Bank.
(7) On November 30, 2021, August 16, 2021, March 11, 2020, December 3, 2019 and August 27, 2019, the Bank paid dividends amounting to NIS 753, 483, 176, 392 and 169 million, respectively, in conformity with a decision by the Bank's Board of Directors.
- On February 28, 2022, after the balance sheet date, the Bank's Board of Directors resolved to distribute dividends amounting to NIS 272 million, or 40% of earnings in the fourth quarter of 2021. According to accounting rules, this amount will be deducted from retained earnings in the first quarter of 2022.

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

Statement of cash flows – consolidated

For the year ended December 31,

Reported amounts (NIS in millions)

	2021	2020	2019
Cash flows provided by current operations			
Net profit	3,290	1,702	1,925
Adjustments			
Share of the Bank in undistributed earnings of associated companies	10	(1)	–
Depreciation of buildings and equipment (including impairment)	339	283	245
Expenses with respect to credit losses	(278)	1,050	364
Gain from sale of securities available for sale and shares not held for trading	(111)	(114)	(35)
Realized and unrealized loss (gain) from adjustment to fair value of securities held for trading	26	(32)	(11)
Unrealized loss (gain) from adjustments to fair value of shares not held for trading	(97)	(38)	(47)
Gain from sale of buildings and equipment	(18)	(41)	(26)
Impairment of shares not held for trading	9	–	6
Expenses arising from share-based payment transactions	41	23	57
Deferred taxes, net	78	(188)	79
Change in employees' provisions and liabilities	1,111	1	57
Adjustments with respect to exchange rate differentials	52	285	232
Gain from sale of loan portfolios	–	–	–
Accrual differences included with investment and financing operations	324	63	566
Net change in current assets			
Assets with respect to derivative instruments	858	(1,060)	668
Securities held for trading	815	647	(469)
Other assets, net	259	(630)	(67)
Net change in current liabilities			
Liabilities with respect to derivative instruments	(1,753)	1,690	(975)
Other liabilities	(824)	1,423	274
Net cash provided by current operations	**4,131**	**5,063**	**2,843**

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

Statement of cash flows – consolidated – continued

For the year ended December 31,

Reported amounts (NIS in millions)

	2021	2020	2019
Cash flows provided by investment activities			
Net change in deposits with banks	499	1,120	(1,643)
Net change in loans to the public	(24,087)	(16,038)	(10,480)
Net change in loans to Governments	136	43	12
Net change in securities loaned or acquired in resale agreements	(1,132)	(24)	(94)
Acquisition of debentures held to maturity	(447)	(954)	(1,662)
Proceeds from redemption of securities held to maturity	1,247	1,216	1,452
Acquisition of securities available for sale	(12,078)	(4,806)	(5,517)
Proceeds from sale of securities available for sale	8,316	4,751	3,517
Proceeds from redemption of securities available for sale	4,320	1,030	3,265
Proceeds from sale of loan portfolios	234	40	577
Acquisition of initially consolidated subsidiary – Union Bank	–	10,280	–
Purchase of loan portfolios – public	(1,778)	(733)	(782)
Purchase of loan portfolios – Government	–	–	(38)
Acquisition of buildings and equipment	(336)	(288)	(300)
Proceeds from sale of buildings and equipment	35	73	57
Purchase of shares in associated companies	(49)	–	–
Proceeds from realized investment in associated companies	1	2	–
Net cash used in investment activities	**(25,119)**	**(4,288)**	**(11,636)**
Cash flows provided by financing operations			
Net change in deposits from the public	23,700	36,372	11,492
Net change in deposits from banks	3,213	2,946	89
Net change in deposits from Government	11	41	(13)
Issuance of debentures and subordinated notes	7,304	2,010	6,634
Redemption of debentures and subordinated notes	(2,741)	(5,666)	(3,744)
Dividends paid to shareholders	(1,236)	(176)	(561)
Dividends paid to external shareholders in subsidiaries	(15)	–	(5)
Net cash provided by financing operations	**30,236**	**35,527**	**13,892**
Increase (decrease) in cash	9,248	36,302	5,099
Cash balance at beginning of the period	85,465	49,448	44,581
Effect of changes in exchange rate on cash balances	(52)	(285)	(232)
Cash balance at end of the period	**94,661**	**85,465**	**49,448**
Interest and taxes paid / received			
Interest received	10,938	7,679	6,872
Interest paid	2,393	2,258	2,369
Dividends received	20	15	17
Income taxes received	–	67	178
Income taxes paid	1,471	1,124	1,135
Appendix A – Non-cash Investment and Financing Transactions			
Acquisition of buildings and equipment	13	9	–
Sales of buildings and equipment	2	–	5
Shares issued in conjunction with acquisition of Union Bank	–	(1,207)	–

Statement of cash flows – consolidated – continued

For the year ended December 31,

Reported amounts (NIS in millions)

Appendix B – Initial consolidation of Union Bank

	2020
Assets and liabilities acquired and cash paid, as of the consolidation date:	
Cash acquired	10,296
Assets (other than cash)	36,480
Liabilities	44,091
Identified assets and liabilities	2,685
Deferred credit balance from acquisition	(1,462)
Total acquisition cost	1,223
Less non-cash consideration paid	1,207
Consideration paid in cash	16
Less cash acquired	10,296
Net cash flow provided by consolidation of Union Bank	(10,280)

Note 1 – Reporting Principles and Accounting Policies

A. Overview

1) On February 28, 2022, the Bank's Board of Directors authorized publication of these consolidated financial statements as of December 31, 2021.

2) The financial statements are prepared in conformity with generally accepted accounting policies in Israel (Israeli GAAP) and in accordance with Public Reporting Directives of the Supervisor of Banks. For most topics, the Supervisor of Banks' directives are based on generally acceptable accounting practices by banks in the United States. For other, less material topics, these directives are based on International Financial Reporting Standards (IFRS) and on generally accepted accounting principles in Israel (Israeli GAAP). When International Financial Reporting Standards (IFRS) allow multiple alternatives, or do not specifically refer to a certain situation, these directives prescribe specific implementation guidelines, mostly based on generally acceptable accounting practices by banks in the United States..

3) In conformity with the Supervisor of Banks' Public Reporting Directives, the Bank may – under certain circumstances stated in the directives – present annual financial statements on a consolidated basis only. In conformity with approval of the Supervisor of Banks, the Bank presents its annual financial statements on a consolidated basis only. For more information about the condensed financial statements of the Bank solo, including balance sheet, statement of profit and loss and statement of cash flows, see Note 37 to the financial statements.

4) Definitions
"International Financial Reporting Standards" – Standards and interpretations adopted by the International Accounting Standards Board (hereinafter: "IASB"), which include International Financial Reporting Standards (hereinafter: "IFRS") and International Accounting Standards (hereinafter: "IAS"), including interpretations of these standards determined by the International Financial Reporting Interpretations Committee (IFRIC) or interpretations by the Standing Interpretations Committee (SIC), respectively.
"Generally accepted accounting principles for banks in the United States" Accounting rules which American banks traded in the USA are required to apply. These principles are specified by banking supervisory authorities in the USA, the US SEC, the US Financial Accounting Standards Board and other US entities; they are applied in conformity with the hierarchy specified in FAS 168 (ASC 105-10) – Codification of accounting standards of the US Financial Accounting Standards Board and GAAP hierarchy. In addition, as stipulated by the Supervisor of Banks, notwithstanding the hierarchy specified in the American FAS 168, it has been clarified that any position made public by US banking supervision authorities or by the team of the US banking supervision authorities , with regard to application of generally accepted accounting principles in the USA, is a Generally Accepted Accounting Principle for Banks in the USA.
"FASB" – Financial Accounting Standards Board in the USA.
"The Bank" – Bank Mizrahi-Tefahot Ltd.
"Subsidiaries" – entities whose financial statements are fully consolidated with those of the Bank, directly or indirectly.
"Bank Group" – The Bank and its subsidiaries.
"Associated companies" – Entities in which the Group has material influence over financial and operational policies, but over which it has no control. Investment in associated companies is included in the financial statements using the equity method.
"Investees" – Subsidiaries and associated companies.
"Overseas affiliates" – Representatives, branches or subsidiaries of the Bank outside Israel.
"Functional currency" – The currency of the primary economic environment in which the Bank operates. This is typically the currency of the environment in which the corporation generates and expends most of its cash.
"Presentation currency" – The currency in which the financial statements are presented.
"Adjusted amount" – Historical nominal amount, adjusted for changes in the economic purchasing power of Israeli currency.
"Reported amount" – An amount adjusted as of December 31, 2003 (hereinafter: "the transition date"), plus amounts in nominal values that were added after the transition date, minus amounts deducted after the transition date.
"Cost" – Cost in reported amount.
"Related parties" and "Interested parties" – As defined in Section 80 of the Public Reporting Directives.

Note 1 – Reporting Principles and Accounting Policies – continued

B. Preparation basis of the financial statements

1) Principles of financial reporting
The Bank's financial statements are prepared in conformity with generally accepted accounting policies in Israel (Israeli GAAP) and in accordance with Public Reporting Directives of the Supervisor of Banks. See above in section A.2).

2) Functional currency and reporting currency
The consolidated financial statements are presented in NIS, which is the Bank's functional currency, rounded to the nearest one million, unless otherwise indicated. NIS is the currency which reflects the principal economic environment in which then Bank operates. For information about the functional currency of overseas banking affiliates, see section F. 1 below.

3) Measurement basis

The financial statements were prepared based on historical cost, except for the following items:

- Financial derivative instruments and other financial instruments that are measured at fair value through profit and loss (such as: investments in securities in the held-for-trade portfolio or instruments for which the fair value option was selected);
- Financial instruments classified as available for sale;
- Liability with respect to share-based payment;
- Non-current assets held for sale and asset group held for sale;
- Deferred tax assets and liabilities
- Various provisions, such as provisions for credit losses and provision for legal claims;
- Assets and liabilities with respect to employees' benefits;
- Investments in associated companies.

The value of non-monetary assets and capital items measured based on historical cost was adjusted for changes in the Consumer Price Index through December 31, 2003. Through this date, the Israeli economy was considered a hyper-inflationary economy. As from January 1, 2004, the Bank prepares its financial statements in reported amounts.

4) Use of estimates

In preparing the consolidated financial statements in accordance with Israeli GAAP and with directives and guidelines of the Supervisor of Banks, Bank management is required to use judgment, assessments, estimates and assumptions which impact implementation policies and amounts of assets and liabilities, revenues and expenses. Note that actual results may differ from these estimates.
When formulating accounting estimates during preparation of the financial statements, Bank management is required to make assumptions with regard to circumstances and events involving significant uncertainty. In its judgment when determining these estimates, Bank management relies on past experience, various facts, external factors and reasonable assumptions in accordance with the appropriate circumstances for each estimate.
These estimates and assumptions are regularly reviewed, and changes to accounting estimates are recognized in the period in which these estimates were revised and in any affected future period.
As stated in section 1.F.6)D. below, the group provision for credit losses for 2021 was based, *inter alia*, on historical loss rates in various economic sectors, divided into problematic and non-problematic debt, for the 11 years ended on December 31, 2021, in conformity with directives of the Supervisor of Banks.
For more information about supervisory highlights with regard to accounting treatment of debt, and public reporting in view of the Corona Virus crisis, see section E.3. below.
For more information about estimated useful life of fixed asset items at Union Bank, see section E.9. below.

Note 1 – Reporting Principles and Accounting Policies – continued

C. Effect of the Corona Virus crisis

The Corona Virus outbreak and global pandemic resulted in a global healthcare and economic crisis. The virus outbreak in January 2020 started to impact most world countries in the first quarter of 2020. In response, many governments, including the Israeli Government, implemented defensive measures, such as restrictions on travel between countries, isolation, reduced crowding and movement, lock-downs, restrictions on operations of private businesses and Government and municipal services and so forth. At the outset of this crisis, prices of securities on various major stock exchanges around the world declined sharply, with increased volatility in prices of commodities, diverse assets and in foreign currency exchange rates. Given the significant uncertainty with regard to evolution of the crisis and its cumulative negative implications over the long term, many countries – including Israel – may encounter economic recession. In early December 2020, emergency use of two vaccines for COVID-19 was authorized. Pursuant to this emergency authorization, an extensive vaccination effort started around the world late in the fourth quarter, as reflected in the high vaccination rate in Israel among medical teams and among the population at risk and thereafter in the general population.
In February 2021, due to the rapid 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.

Furthermore, in the second quarter of 2021, recovery was apparent from the crisis in Israel, due to the high rate of vaccinated population. This recovery allowed for lifting travel restrictions in various destinations around the world and for return to business as usual. In the third quarter of 2021, morbidity in Israel increased due to the Delta variant outbreak. This outbreak resulted in the Government resolving to inoculate a third vaccine dose to the population, which resulted in a sharp decrease in the number of infected. The economy faced the Delta variant outbreak with no severe restrictions on activity. However, there is still some uncertainty about the risks associated with the virus spreading, due to the risk of new variants of the Corona Virus emerging, and concern about further restrictions being imposed consequently.

Due to the Corona Virus crisis, the Supervisor of Banks reduced capital requirements of banks in an interim directive (extended through December 31, 2021).
The virus outbreak resulted in material deterioration in economic activity in Israel, to which Bank operations are exposed and which has other effects on Bank operations, including with respect to further increase in credit risk and liquidity issues among borrowers, both in the business segment and in the private segment, and with regard to the economic slow-down. In 2020, the Bank recognized expenses for credit losses amounting to NIS 1,050 million, mostly due to the crisis resulting from the Corona Virus outbreak.

In 2021, the Bank recognized revenues with respect to credit losses amounting to NIS 278 million, primarily due to a decrease in the group provision given the improvement in macro-economic benchmarks, collection in the reported period, a decrease in average write-offs, in the volumes of problematic debts and a decrease in debts subject to repayment deferral.

For more information about the impact of the Corona Virus pandemic on Group business, see the following Notes:

Note 1.E.7 regarding handling of impaired debt, credit risk and provision for credit losses;
Note 25 – regarding capital Adequacy, liquidity and leverage;

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

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

1. Updated standard 2018-14 of the codification, with regard to changes to disclosure requirements of defined benefit plans;
2. Updated standard 2018-13 of the codification, with regard to changes to disclosure requirements of fair value measurement
3. Updated standard 2019-12 of the codification, with regard to simplified accounting treatment of taxes on income;

Note 1 – Reporting Principles and Accounting Policies – continued

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 consolidated financial statements and description of the effect of their initial application, if any.

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

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

In conformity with the Supervisor of Banks' circular regarding "Improved usefulness of public reports by banking corporations for 2019 and 2020", which was based on the updated standard 14-2018 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.

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

Highlights of revised topics in the Update include the following: Allocation of income tax expenses or benefits to continued operations, discontinued operations, other comprehensive income and items recognized directly in equity; recognition of deferred tax liabilities with respect to temporary differences liable for tax with respect to an investment in a foreign associated company; calculation of tax income with respect to accrued losses on interim financial statements; recognition of the effect of changes in tax legislation or in tax rates on interim financial statements; assessment of the increase in tax base for goodwill to determine whether it would be accounted for as part of a business combination or as a separate transaction.

Note 1 – Reporting Principles and Accounting Policies – continued

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.

E. Accounting policies applied in preparing the financial statements

1) Foreign currency and linkage:

A. Foreign currency transactions

Upon recognition of a foreign currency transaction, any asset, liability, revenue, expense, gain or loss from the transaction are translated, upon initial recognition, to the functional currency of the Bank and its affiliates (NIS), using the exchange rate in effect as of the transaction date.

Upon each reporting date, monetary assets and liabilities denominated in foreign currency as of the reporting date are translated into the functional currency at the exchange rate as of that date.

Non-monetary assets and liabilities denominated in foreign currency and measured at fair value, are translated into the functional currency using the exchange rate effective as of the date on which the fair value is determined.

Non-monetary items denominated in foreign currency and measured at historical cost, are translated at the exchange rate as of the transaction date.

Gains or losses from translation of foreign currency transactions due to currency fluctuations between the transaction date and the settlement date / the balance sheet date, including with respect to exchange rate differences with respect to available-for-sale debt instruments which, according to the Public Reporting Directives, would continue to be recognized on the statement of profit and loss through December 31, 2021 (as stipulated in transitional provisions for 2019, recognized on the statement of profit and loss gains or losses from translation differences (non-interest financing revenues), except for:

- The effective portion of gain or loss with respect to a hedging instrument in a cash flow hedge.
- Exchange rate differentials with respect to items that are part of a net investment.
- Exchange rate differentials with respect to equity financial instruments classified as available for sale (except in a case of impairment, in which case translation differences recognized under Other Comprehensive Income are reclassified to profit and loss).

Note 1 – Reporting Principles and Accounting Policies – continued

B. Overseas banking affiliates

The Bank treats its overseas banking affiliates as those whose functional currency is the same as the Bank's (NIS). Assets and Liabilities linked to the CPI which are not measured at fair value, are included based on the linkage terms specified for each balance.

Below is information about major official exchange rates, the Consumer Price Index and changes:

	As of December 31,			Change in %		
	2021	2020	2019	2021	2020	2019
Consumer Price Index:						
CPI for December (points)	110.3	107.3	108.0	2.8	(0.7)	0.6
Known CPI for November (points)	110.0	107.4	108.0	2.4	(0.6)	0.3
Exchange rate of:						
USD (in NIS)	3.110	3.215	3.456	(3.3)	(7.0)	(7.8)
EUR (in NIS)	3.520	3.944	3.878	(10.8)	1.7	(9.6)

2) Consolidation basis

A. Subsidiaries in which the Bank does not hold more than 50%

The Bank holds 50% of the issued and paid-in share capital of Bank Yahav for Government Employees Ltd. (hereinafter: "Bank Yahav"). The balance of the issued and paid-in share capital is held by a single shareholder and the Bank has no excess legal rights. The Supervisor of Banks has allowed the Bank to consolidate the financial statements of Bank Yahav under the circumstances concerning the Bank's influence over management of Bank Yahav business and in conformity with Section 9G of the Public Reporting Directives.

For more information about the balance of the investment in investee companies and the contribution to net profit attributable to shareholders of the Bank, see Note 15 to the financial statements.

B. Subsidiaries

Financial statements of subsidiaries are included in the consolidated financial statements from the date control is achieved and through the date control is terminated. Accounting policies of subsidiaries were modified as needed, to align them with the accounting policies of the Bank.

C. Non-controlling interests

Non-controlling interests are any shareholders' equity in a subsidiary which is not attributable, directly or indirectly, to the parent company.

Attribution of Comprehensive Income to shareholders.

Profit or loss and any Other Comprehensive Income item are attributed to the controlling shareholder of the Bank and to non-controlling interests. Total profit, loss and Other Comprehensive Income are attributed to the owners of the Bank and to non-controlling interests, even if this results in a negative balance of non-controlling interests.

D. Transactions canceled upon consolidation

Mutual balances within the Group and unrealized revenues and expenses arising from inter-company transactions have been canceled in the course of preparing the consolidated financial statements.

3) Investments in associated companies

In reviewing the existence of material influence, the assumption is that a holding stake of 20%-50% in an investee confers material influence.

Investment in associated companies is accounted for using the equity method and is initially recognized at cost. The investment cost includes transaction costs.

Investment in an associated company is evaluated for impairment when events or changes in circumstances indicate that the carrying amount of such investment is not recoverable. Impairment is recognized when impairment is other-than-temporary in nature.

The consolidated financial statements include the Group's share of revenues and expenses, profit or loss and other comprehensive income of investee companies treated according to the equity method. After required adjustments to align accounting policies with those of the Group, from the date when material influence is achieved through the date when material influence is discontinued.

Note 1 – Reporting Principles and Accounting Policies – continued

4) Offset of assets and liabilities

The Bank offsets assets and liabilities arising from the same counter-party and will present their net balance on the balance sheet, when all of the following conditions are met:

- The banking corporation has an enforceable legal right to offset assets against liabilities with regard to said liabilities
- The banking corporation intends to repay the liabilities and realize the assets on a net basis or concurrently;
- Both the banking corporation and the counter-party owe each other amounts which may be determined.

It was further stipulated that a banking corporation should offset deposits whose repayment to the depositor is contingent on the extent of collection of borrowing against those deposits, when the banking corporation has no risk of credit losses.

However, the banking corporation may not offset amounts on the balance sheet without prior approval of the Supervisor of Banks.

Currently, it is Bank policy to present exposures with transactions on a gross basis, except for deposits whose repayment to the depositor is contingent on the extent of collection of borrowing, as described above. Accordingly, designated deposits for extending credit, for which repayment to the depositor is contingent upon the collection of the loan (when the Bank Group is not at risk of credit loss) were set off against the loans issued out of these deposits. The interest margins from this activity are presented in the statement of profit and loss under “commissions”.

5) Basis of recognition of revenues and expenses

A. Interest revenues and expenses are included on an accrual basis, except as follows:

1) Interest accrued on problematic debt classified as non-performing debt is recognized as revenue on a cash basis when there is no doubt about collection of the outstanding recorded balance of the non-performing debt. In such cases, the amount collected on account of interest to be recognized as interest revenues, is limited to the amount which would have accrued in the reported period on the outstanding recorded debt balance at the contractual interest rate. Interest revenues on a cash basis are classified as interest revenues under the relevant item on the statement of profit and loss.

   When collection of the outstanding recorded balance is doubtful, all payments collected serve to decrease the loan principal, until such doubt has been eliminated. Moreover, interest on amounts in arrears with respect to residential mortgages are recognized in the statement of profit and loss based on actual collection.

   For more information about interest accrual for impaired debt under restructuring, see section 7)C. below.

2) Securities – see section 6 below.

3) Financial derivative instruments – see section 16 below.

B. Commissions revenues with respect to services rendered (such as: activities in securities and derivative instruments, credit cards, account management, handling of credit, conversion differences and foreign trade activities) are recognized in profit and loss when the Bank becomes eligible to receive them. Certain commissions, such as commissions with respect to guarantees and certain commissions with respect to project support, are recognized on a relative basis over the transaction term.

C. Other revenues and expenses – are recognized on the accrual basis.

D. Measuring interest revenues

As from January 1, 2014, the Bank applies the Supervisor of Banks' directives with regard to adoption of adoption of generally accepted accounting principles for banks in the USA with regard to measuring interest revenues (ASC 310-20 in the codification). These principles stipulate that commissions from loan origination would not be recognized in the statement of profit and loss, but rather would be accounted for in calculating the effective interest for the loan.

Note 1 – Reporting Principles and Accounting Policies – continued

Changes to terms and conditions of debt

In case of refinancing or restructuring of non-problematic debt, the Bank reviews whether a material change was made to terms of the loan. Accordingly, the Bank evaluates whether the present value of cash flows under the new terms and conditions of the loan differs by at least 10% from the present value of remaining cash flows under the current terms and conditions (plus early repayment fee), or whether this involves a change in loan currency. In such cases, all unamortized commissions and early repayment commissions collected from the client with respect to changes to the terms and conditions of the loan are recognized in profit & loss. Otherwise, these commissions are included as part of net investment in the new loan and are recognized as adjustments to returns, as described above.

Early repayment commissions

Early repayment commissions are immediately recognized under Interest Revenues, except for such commissions included as part of net investment in the new loan, which are recognized as an adjustment of yield.

6) Securities

A. Securities in which the Bank invests are classified as follows:

1) Debentures held to maturity – debentures which the Bank intends and is able to hold to maturity, except for debentures subject to early redemption or other disposal, such that the Bank would not recoup substantially all of its recognized investment. Debentures held to maturity are carried on the balance sheet at par value plus interest and linkage differentials and accrued exchange rate differentials, considering the relative share of premium or discount and net of loss with respect to other-than-temporary impairment
2) Debentures available for sale – debentures not classified as debentures held to maturity or as securities held for trading. Debentures available for sale are carried on the balance sheet at fair value as of the reporting date. Any unrealized gains or losses from adjustment to fair value are not included in the statement of profit and loss and are reported net of the appropriate tax reserve, under a separate equity item under Cumulative Other Comprehensive Income, except for loss with respect to other-than-temporary impairment. For securities which include embedded derivatives – see section 16.C below.
3) Securities held for trading – securities acquired and held in order to be sold in the near term, or securities which the Bank has elected to measure at fair value through profit & loss using the fair value option, except for shares for which no fair value is available. Securities held for trading are carried on the balance sheet at fair value as of the report date. Unrealized gains or losses from the adjustments to fair value are charged to the statement of profit and loss.
4) Shares not held for trading
Shares that have an available fair value are carried on the balance sheet at fair value as of the report date. Unrealized gains or losses from the adjustment to fair value are charged to the statement of profit and loss.
Shares for which no fair value is available are carried on the balance sheet at cost net of impairment, plus or minus observed price changes in ordinary transactions for similar or identical investments of the same issuer. Unrealized gains or losses from the adjustments to such observed price changes are recorded to the statement of profit and loss.

B. Bank investments in other funds not accounted for using the equity method, are stated at cost net of any other-than-temporary impairment loss. Gain from these investments are recognized in the Statement of Profit and Loss upon realization of the investment. Dividends received from Bank investments in these funds are recorded to profit & loss when the Bank has the right to receive them, up to the amount of earnings accumulated since this investment was acquired.

C. The cost of realized securities is calculated on FIFO basis, except for securities acquired as part of hedging relations, or in conjunction with creating a strategic position or for any other specific purpose, which is separately identified. Cost of realized securities in the subsidiary – Union Bank, is calculated on a moving average basis.

D. With regard to calculation of fair value, see section 17 below.

Note 1 – Reporting Principles and Accounting Policies – continued

E. Impairment:

Pursuant to directives and guidelines of the Supervisor of Banks, the Bank periodically evaluates whether impairment of the fair value of securities classified under the available-for-sale portfolio or the held-to-maturity portfolio, below their cost (or the amortized cost for debentures held to maturity), is of an other-than-temporary nature.

To this end, the following indicators, inter alia, are evaluated:

- Intent and capacity of the Bank to hold the securities for a sufficient period which would allow the security to recover its original cost.
- The time period during which the value of the security was lower than its cost.
- The ratio of impairment to total cost.
- Adverse change in conditions of the issuer or of the economy as a whole.
- Evaluation of conditions reflecting the financial standing of the issuing entity, including whether or not the impairment is due to individual reasons related to the issuer or to existence of any macro-economic conditions.

Furthermore, in any of the following situations, the Bank recognizes other-than-temporary impairment:

- Debenture sold prior to publication of the issue date to the public of the report for that period.
- Debenture which, close to the issue date of the report to the public for that period, the Bank intends to sell within a short time.
- Debenture is significantly impaired between the debenture's rating on the date of acquisition by the Bank and its rating on the date of publication of the report for that period.
- Debenture classified by the Bank as problematical after its acquisition.
- Debenture which is in payment default after its acquisition.
- Debenture whose fair value as of the end of the reported period and close to the issue date of the financial statements, was significantly lower than its amortized cost. Unless the Bank has solid objective evidence and careful analysis of all relevant factors, which prove with high certainty that impairment is of other than a temporary nature.

For this purpose, a significant rate is a rate higher than 20%. However, should the Bank have objective evidence that impairment is of a temporary nature, an exception may be made with regard to this rate.

If the impairment of fair value is deemed to be other-than-temporary in nature, the cost of the security is written down to its fair value, so that any loss amounts referring to securities classified as available for sale, accrued in equity under Other Comprehensive Income, would be classified upon impairment to the statement of profit and loss. This value would serve as the new cost basis. Appreciation in subsequent reported periods (for securities classified in the available-for-sale portfolio) are recognized to a separate section in equity under Cumulative Other Comprehensive Income, and are not recorded in profit and loss.

Securities – shares for which no fair value is available

In each reported period, the Bank conducts a qualitative assessment, taking into account impairment indications, in order to assess whether shares for which no fair value is available have been impaired. If this assessment shows impairment of the investment in shares, the Bank estimates the fair value of the investment in shares, to determine the amount of impairment loss.

7) Impaired debt, credit risk and provision for credit losses

A. Pursuant to the Supervisor of Banks' directive on measurement and disclosure of impaired debt, credit risk and provision for credit losses, the Bank applies as from January 1, 2011 the rules stipulated by codification of US accounting standards ASC 310 and the position of the US banking supervision authorities and of the US SEC, as adopted in the Public Reporting Directives, in position statements and guidelines of the Supervisor of Banks. Moreover, as from the aforementioned date, the Bank applies the Supervisor of Banks' guideline with regard to treatment of problematic debt. Moreover, as from January 1, 2013, the Bank applies the Supervisor of Banks' directive with regard to updated disclosure of credit quality of debts and of provision for credit losses.

Furthermore, the Supervisor of Banks revises from time to time the Public Reporting Directives and the Q&A File with regard to the manner of implementation of the directives with regard to impaired debt and provision for credit losses, in order to incorporate directives on this matter applicable to banks in the USA,

Note 1 – Reporting Principles and Accounting Policies – continued

including directives of US supervisory authorities. As from 2016, the guidelines were revised, inter alia, with regard to treatment of restructuring of problematic debt, regulations with regard to the manner of classification of debts based on primary repayment source, as well as certain regulations with regard to the manner of evaluation of debts.

B. Loans to the public and other debt balances

The directive is applied for all debt balances, such as: deposits with banks, debentures, securities borrowed or purchased in resale agreements, loans to the public and loans to the government. Loans to the public and other debt balances for which no specific rules on measurement of provision for credit losses were specified in the Public Reporting Regulations (such as: loans to the government, deposits with banks and other assets) are reported in the Bank's accounts at their recorded debt balance.

The recorded debt balance is defined as the debt balance after accounting write-offs but before deduction of the provision for credit losses for that debt. The recorded debt balance does not include accrued interest not recognized, or previously recognized and then canceled.

As for other debt balances, for which there are specific rules in place with regard to measurement and recognition of a provision for impairment (such as debentures), the Bank continues to apply the measurement rules as specified in section 6.E. above.

C. Identification and classification of problematic debt

The Bank classifies all problematic debt and problematic off-balance sheet credit items under: special supervision, inferior or impaired. Debt under special supervision is a debt with potential weaknesses, which require special attention by Bank Management. Should these weaknesses not be addressed, the likelihood of debt repayment may deteriorate. Inferior debt is debt insufficiently protected by collateral or by debtor repayment capacity, and for which the Bank may incur a loss if faults are not corrected.

In conformity with Bank policy, debt in excess of NIS 700 thousand is classified as impaired when, based on current information and events, it is expected that the Bank will be unable to collect all amounts due pursuant to contractual terms of the debt contract. In any case, debt in excess of NIS 700 thousand is classified as impaired debt when its principal or interest is in arrears over 90 days, unless the debt is well secured and is in collection proceedings. Further, any debt whose terms and conditions have been changed in conjunction with restructuring of problematic debt would be classified as impaired debt, unless prior to and following such restructuring, a provision for credit losses by extent of arrears was made with respect to the debt pursuant to the appendix to Proper Conduct of Banking Business Directive 314 concerning "Proper assessment of credit risks to proper measurement of debts".

Debts under NIS 700 thousand in arrears 90 days are assessed on a Group basis and in such case, classified as inferior debt.

Decisions with regard to debt classification are made based, *inter alia*, on the past-due status of the debt, assessment of the borrower's financial standing and repayment capacity, assessment of the primary debt repayment source, existence of collateral and its status, the financial standing of guarantors, if any and their commitment to support the debt and the borrower's capacity to obtain financing from third parties.

As from July 1, 2017, the Bank applies the update to Q&A file issued by the Supervisor of Banks, concerning "Implementation of Public Reporting Directives with regard to impaired debts, credit risk and provision for credit losses".

The update primarily concerns debt classification, definition of impaired debt and measurement of specific provision for credit losses. Appropriate debt classification, through default or when default is highly probable, is based in general on the debtor's repayment capacity, i.e. expected robustness of the primary repayment source, despite support from secondary and tertiary repayment sources (such as: collateral, guarantor support, refinancing by a third party).

The file included, *inter alia*, a question with regard to definition of primary repayment source.

Primary repayment source is defined as a sustainable cash source over time, which must be controlled by the debtor and must be separated, explicitly or by substance, for debt coverage. The Q&A file clarified that for a repayment source to be considered a primary repayment source, the Bank must show that the debtor is highly likely to generate, within a reasonable time, suitable cash flows from continued business operations, to be used to repay all of the necessary payments in full and when due, as stated in the agreement.

Note 1 – Reporting Principles and Accounting Policies – continued

The Bank has revised its policy on identification and classification of problematic debt, so that debt has been assigned repayment sources from business cash flows, except for certain cases where, in the normal course of business, debt should be repaid out of the cash flows generated by the financed property.

Debt restructuring and treatment of problematic debt in restructuring – In general, when it is possible to reach a debt repayment arrangement without impact on collateral available to the Bank and without taking any legal proceedings, the Bank gives preference to reaching a debt repayment arrangement.

In order to improve loan collection and to avoid, in as much as possible, debt collection default – the Bank makes attempts to reach arrangements on debt repayment prior to taking legal proceedings or even during and after taking such action, which may include: Deferral of payment date, debt redeployment, reduced interest rates, changes to repayment schedule, changes to debt terms in order to align it with the borrower's financing structure, debt consolidation for the borrower, transfer of debt to other borrowers in a borrower group under joint control, renewed evaluation of financial covenants imposed on the borrower etc.

Debt which has been formally restructured as problematic debt is defined as debt for which, for economic or legal reasons related to financial difficulties of the debtor, the Bank has made a concession by way of modification to terms of the debt, designed to ease the burden on the debtor of cash payments in the near term (reduction or deferral of cash payments due from the debtor), or by way of receiving other assets as debt repayment (in whole or in part).

In order to determine whether a debt arrangement executed by the Bank constitutes problematic debt restructuring, the Bank conducts a qualitative evaluation of all terms of the arrangement and the circumstances under which it was made in order to determine whether: (1) the creditor is in financial duress; and (2) the Bank made a concession to the debtor in conjunction with the arrangement.

In order to determine whether the creditor is in financial duress, the Bank evaluates whether there are indications of the creditor being in financial duress at the time of the arrangement, or for the existence of a reasonable likelihood that the borrower would be in financial duress if not for the arrangement. *Inter alia*, the Bank reviews the existence of one or more of the following circumstances:

- The debtor is currently in payment default for any of its debts. Moreover, the Bank estimates whether it is expected that the debtor would be in payment default for any of its debts in the foreseeable future, if the change is not made. This means that the Bank may conclude that the debtor is in financial difficulties, even if the debtor is not currently in payment default.
- The debtor has declared bankruptcy or is in Receivership or any in any other bankruptcy or Receivership proceedings.
- There is significant doubt about the debtor continuing as a going concern.
- The debtor has securities that have been delisted, are in the process of being delisted or are being threatened with delisting from the stock exchange.
- According to estimates and projections which only include the debtor's current capabilities, the Bank expects specific cash flows for the debtor entity would be insufficient to service any of its debt (principal and interest) in conformity with contractual terms of the existing agreement in the foreseeable future.
- Without the existing change, the debtor would be unable to obtain cash from sources other than the current lenders, at effective interest rates equal to the prevailing market interest rates for similar debt of a non-problematic debtor.
- The Bank concludes that a concession was made to the debtor in conjunction with the arrangement, even if the contractual interest rate was increased in the arrangement – if one or more of the following exists: Due to the restructuring, the Bank does not expect to collect all debt amounts (including accrued interest pursuant to contractual terms); the current fair value of collateral, for debts contingent on collateral, does not cover the contractual debt balance and indicates inability to collect all debt amounts; the debtor is unable to raise funds at customary market rates for debt with similar terms and characteristics as those of the debt arrangement. If a the Bank does not perform such a process of an additional underwriting upon renewal of inferior debt, or if there is no change in debt pricing or if pricing has not been adjusted to align with the risk prior to renewal, or the borrower does not provide additional means to compensate for the increase in risk due to the borrower's financial difficulties, it is presumed that such renewal is restructuring of problematic debt.

- The Bank does not classify debt as restructured problematic debt, if in conjunction with the arrangement, it granted to the debtor a deferral of in payments which is not material considering the payment frequency, the contractual term to maturity and the expected effective maturity of the original debt. For this matter, if multiple arrangements took place involving changes to debt terms, the Bank accounts for the accumulated effect of previous structurings in order to determine whether the deferral of payments is not material.

Note 1 – Reporting Principles and Accounting Policies – continued

Handling of debt under restructuring and subsequent restructuring – debt whose terms and conditions have been changed in conjunction with restructuring of problematic debt, including debt assessed on a group basis prior to restructuring, shall be classified as impaired debt and shall be individually assessed for making a provision for credit losses. In general, reorganized problematic debt would continue to be measured and classified as impaired debt until fully repaid. However, under certain circumstances, when debt is restructured as problematic debt restructuring and later on, the Bank and the debtor have signed an additional restructuring agreement, the Bank is no longer required to treat the debt as restructured problematic debt if the following conditions are fulfilled:

- The debtor is no longer facing financial difficulties upon the date of the subsequent restructuring.
- According to terms of the subsequent restructuring, the banking corporation did not grant a concession to the debtor (including no waiver of principal on cumulative basis as from the original loan origination date).

Such debt which has been subsequently restructured and from which the Impaired classification has been removed, is to be evaluated on a group basis in order to quantify the provision for credit losses and the recorded debt balance will not change during the subsequent structuring (unless cash has been received or paid).

If, in subsequent periods, such debt has been individually evaluated and it was found that impairment should be recognized with respect to it, or if it undergoes problematic debt restructuring, the Bank would reclassify it as Impaired Debt and would treat it as reorganization of problematic debt.

Reinstatement of impaired debt to non-impaired status – impaired debt is reclassified as non-impaired debt upon one of these conditions occurring:

- It includes no principal or interest components which are past due, and the Bank anticipates payment of the outstanding principal and interest in full according to contractual terms (includes amounts subject to accounting write-off or provision).
- When the debt has become well-secured and is in collection proceedings.

Rules governing reinstatement from the Impaired classification, as noted above, shall not apply to debt classified as impaired due to restructuring of problematic debt.

Reinstatement of impaired debt to impaired and accruing status – debt which has been formally restructured, such that after restructuring all of the following conditions are fulfilled::

- There is reasonable certainty that the debt would be repaid and will perform according to its new terms, based on a current, well-documented credit evaluation of the debtor's financial situation and repayment schedule according to its new terms.
- The debtor has made cash and cash equivalent payments over a reasonable period of at least six months for loans repaid (principal and interest) by monthly installments, or has repaid 20% of the restructured debt for loans with longer maturities.
- The loan, after restructuring, is not in arrears of 90 days or more.

D. Provision for credit losses

The Bank has put in place procedures for classification of credit and for measurement of provision for credit losses, in order to maintain an appropriate provision to cover expected credit losses with regard to the Bank's loan portfolio. Further, the Bank has put in place procedures to be followed, an appropriate provision to cover expected credit losses with regard to off-balance sheet credit instruments (such as: commitments to provide credit, unutilized credit facilities and different types of guarantees).

The provision to cover expected credit losses from the credit portfolio is estimated under one of the following tracks: "individual provision" or "group provision". Further, the Bank evaluates the overall appropriateness of the provision for credit losses.

Such evaluation of debts in order to determine the provision and debt handling is consistently applied to all debts in excess of NIS 700 thousand and in conformity with the Bank's credit management policy – and no transition is made, during the debt term, between the individual evaluation track and the group-based evaluation track – unless in case of restructuring of problematic debt, as noted above.

Note 1 – Reporting Principles and Accounting Policies – continued

Individual provision for credit losses – According to Bank policies, this is applied for any debts determined to be impaired, whose original contractual balance (including accounting write-offs, unrecognized interest, provisions for credit losses and collateral) is NIS 700 thousand or higher.
An individual provision is also applied to any debt whose terms have been changed in conjunction with restructuring of problematic debt, unless this debt is subject to a provision by extent of arrears. The individual provision for credit losses is estimated based on expected future cash flows, discounted using the effective interest rate of the original debt. When debt is contingent on collateral, or when the Bank has determined that seizure of an asset is expected, the individual provision for credit loss is evaluated based on the fair value of the collateral pledged to secure such debt, after application of consistent, conservative factors to reflect, *inter alia*, the volatility in fair value of such collateral, the time it would take until actual realization and the expected cost for selling the collateral. For this matter, the Bank defines debt as debt contingent upon collateral, when it is expected to be exclusively repaid by the pledged collateral, or when the Bank expects repayment from the asset even with no specific pledge on such asset, provided that the borrower has no other reliable sources available for repayment.
The Bank regularly evaluates the forecasted expected credit losses, based on actual cash flows, and adjusts the individual provision to the current forecast. Actual credit losses may differ from the Bank's original estimates upon classification of the debt as impaired.
Group provision for credit losses – This is applied for large, homogeneous groups of small debts (whose balance is below NIS 700 thousand, according to Bank policy) (such as: credit card debts, residential mortgages and consumer debts repaid by installments) as well as for large, non-impaired debts. The provision for credit losses with respect to debts based on a group estimate, other than residential mortgages for which the provision has been calculated based on a formula specified by the Supervisor of Banks based on extent of arrears, is calculated based on rules specified in FAS 5 (ASC 450) as topic 450 of the codification "Accounting treatment of contingencies" and in conformity with directives and guidance from the Supervisor of Banks. The group-based provision for credit losses is based, *inter alia*, on historical loss rates in various economic sectors, divided into problematic and non-problematic debt.
On February 20, 2017, the Supervisor of Banks issued a circular concerning provision for credit losses, whereby the "range of years" used as a component in determining the group-based provision for credit losses, should continue to include 2011 and thereafter in the financial statements for 2016 and 2017. These guidelines have been revised and the range of years continues to grow, pending new instructions.
In addition to the average range of historic loss rates for various economic sectors, as per the above, for determining the appropriate rate of provision, the Bank also considers relevant environmental factors, including trends in credit volumes for each sector as well as sector conditions, macro-economic data, general quality assessment of credit to each economic sector, changes in volume and in trend of balances in arrears and impaired balances and the effect of changes in credit concentration.
In conformity with directives of the Supervisor of Banks, the Bank has formulated a methodology for measuring the group provision, which takes into account both past loss rates and adjustments with respect to relevant environmental factors.
Furthermore, in conformity with the Supervisor of Banks' guideline, the rate of adjustment with respect to relevant environmental factors for the group provision for credit losses with respect to individuals is 0.75% of the non-impaired consumer credit balance (excluding credit with respect to receivables for bank credit cards without interest charge). This is based on a specific directive by the Supervisor of Banks, dated January 19, 2015.
On July 10, 2017, the Supervisor of Banks issued a circular updating Proper Conduct of Banking Business Directive 314 concerning "Proper assessment of credit risk and proper measurement of debts". According to this circular, as from 2018, when determining the provision for credit losses, credit for which there are no current financial statements should also be weighted.
residential mortgages – A minimum provision with respect to residential mortgages is calculated based on the formula stipulated by the Supervisor of Banks, by extent of arrears, such that the provision rate is higher the longer the arrears. This directive applies to all residential mortgages, other than loans not repaid by periodic installments and loans used to finance activity of a business nature.
The Bank also applies Proper Conduct of Banking Business Directive 329 concerning "Restrictions on provision of residential mortgages".
In conformity with these directives, the Bank has set policies designed to ensure that the Bank would be in compliance with stipulations of this directive and that, as from June 30, 2013, the balance of the group provision for credit losses with respect to residential mortgages shall be at least 0.35% of the outstanding balance of such loans as of the report date.

Note 1 – Reporting Principles and Accounting Policies – continued

Off-balance sheet credit – The required provision with regard to off-balance sheet credit instruments is assessed as per rules stated in FAS 5. The provision estimated on a group basis for off-balance sheet credit instruments is based on provision rates specified for total credit exposure (as stated above), while considering expected credit realization rate for the off-balance sheet credit risk. The credit realization rate is calculated by the Bank, inter alia, based on credit conversion factors, as stated in Proper Conduct of Banking Business Directive 203 "Measurement and capital adequacy – Credit risk – Standard approach" with certain adjustments.

Further, the Bank reviews the overall appropriateness of the provision for credit losses. Such assessment of appropriateness is based on Management discretion, taking into account the inherent risk in the credit portfolio and in assessment methods applied by the Bank to determine the provision.

Furthermore, in view of the Corona Virus outbreak and the significant uncertainty associated with estimation of credit losses in each of the loan portfolios negatively impacted by this situation, the Bank has made a further adjustment to the provision factor, so as to reflect the negative impact of this crisis on borrowers' repayment capacity.

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

Furthermore, in view of the letters from the Supervisor of Banks dates August 19, 2021 and December 30, 2021 with regard to "Higher credit risk in the construction and real estate sector", a focused review was conducted to adapt the group provision with respect to the commercial loan portfolio, so as to properly reflect the risk level of this portfolio.

For more information about adoption of updates to US GAAP with regard to provision for credit losses (ASU 2016-13), as from January 1, 2022, see section F. below.

E. Revenue recognition

Upon classification of debt as impaired, the Bank classifies the debt as non-accruing interest revenue debt and discontinues accrual of interest revenues with respect to it, except as stated above for certain restructured debt. Further, upon classification of debt as impaired, the Bank reverses all accrued and uncollected interest revenues recognized as income in profit and loss. The debt continues to be classified as non-accruing debt for as long as it is classified as impaired debt. For further information about revenue recognition on the cash basis with respect to debt classified as impaired, see section 5.A.1) above.

For debt reviewed and provided for on a group basis, the Bank discontinues accrual of interest revenues when conditions for accounting write-off of the debt are fulfilled, usually after 150 days in arrears, unless the debt is well-secured and in collection proceedings. Such debts are subject to assessment of provision for credit losses, which ensures that Bank profit is not skewed upwards.

F. Accounting write-off

The Bank makes accounting write-offs of any debt, or part of it, individually assessed as not collectible and of low value, so that maintaining it as an asset is not justified, or any debt which is subject to long-term collection efforts by the Bank (typically defined as terms in excess of two years). For debt whose collection is contingent on collateral, the Bank immediately writes off the debt against the balance of the provision for credit losses of the part of the recorded debt balance in excess of the fair value of the collateral. For debt assessed on a group basis, write-off rules have been put in place based on extent of arrears (mostly – over 150 consecutive days in arrears) and on other problem parameters. Note that accounting write-offs do not involve any legal concession, and merely reduce the debt balance reported for accounting purposes, while creating a new cost basis for the debt in Bank accounts.

Debts which has been reviewed on a group basis and classified as impaired due to restructuring of problematic debt, are subject to accounting write-off no later than the date when the debt is in arrears 60 days or longer, with regard to terms and conditions of such restructuring.

As from 2015, in conformity with directives of the Supervisor of Banks with regard to change in layout of the financial statements, the Bank presents a summary of highlight information about credit risk to the public and provision for credit losses (see Note 13) and additional information about credit risk (see Note 30).

Note 1 – Reporting Principles and Accounting Policies – continued

8) Transfer and service of financial assets and discharge of liabilities

The Bank applies the measurement and disclosure rules stated in sub-topic 860-10 of the codification, with regard to transfer and service of financial assets, for handling the transfer of financial assets and discharging of liabilities.

Under these rules, the accounting treatment of transfer of a financial asset would only be deemed a sale if all of these conditions are fulfilled: (1) the transferred financial asset was separated from the transferring entity, even in case of bankruptcy or other Receivership; (2) any recipient may pledge or replace the assets (or the beneficiary interests) received, and there is no condition which limits the recipient from exercising their right to pledge or exchange the financial assets, and grants the transferor a non-trivial benefit; (3) the transferor, or subsidiaries consolidated with its financial statements , or their agents do not retain effective control over the financial assets or beneficiary interests related to these transferred assets.

In transactions involving transfer of financial assets, if it is determined that the transferor maintains effective control over transferred assets, the asset transfer shall be accounted for as secured debt. When all of the following conditions are satisfied, *inter alia*, effective control over the asset is maintained:

- The assets repurchased or redeemed are identical or essentially identical to the transferred assets;
- The agreement is to repurchase or redeem them prior to maturity, at a fixed or determinable price.
- The agreement is made simultaneously with the transfer.

Moreover, for the transfer of part of a financial asset to be considered a sale, the transferred part must fulfill the definition of participatory rights. Participatory rights must fulfill the following criteria: the interest should represent an interest proportional to the complete financial asset; all cash flows received from the assets are divided among participatory interest pro-rata to their ownership stake; interests are not subordinated to other interests; there is no recourse to the transferor or to other holders of participatory interests (other than in case of breach of presentations or obligations, current contractual obligations to service the financial asset as a whole and management of the transfer contract, and contractual obligations to share in offset of any benefits received by any holder of participatory interests); and the transferor and the holder of participatory interests have no right to pledge or replace the financial asset in whole, unless all holders of participatory interests agree to pledge or replace the financial asset in whole.

If the transaction fulfills the conditions for treating it as a sale, the transferred financial assets are removed from the Bank's balance sheet. If the sale conditions are not fulfilled, the transfer is considered as secured debt. Sale of part of a financial asset, other than a participatory right, is treated as secured debt – that is, the transferred assets remain on the Bank's balance sheet and proceeds from the sale are recognized as a Bank liability.

The Bank only removes a liability if it has been settled, i.e. if one of the following conditions has been fulfilled: (a) the Bank has paid the lender and has been released from its commitment for said liability; or (b) the Bank was legally released in a judicial process or by consent of the lender, being the major debtor for said liability.

For details of syndication transactions, see Note 30 to the financial statements.

Transactions for loaning securities managed as credit transactions

The Bank applies specific provisions specified in Public Reporting Directives for handling transactions to borrow or loan securities, in which lending is made against the borrower's general credit and collateral quality, where the borrower does not provide as collateral for the loaner liquid instruments specifically related to the securities loaning transaction, which the loaner may sell or pledge.

Handling un-secured loaning of securities from the available-for-sale portfolio or from the trading portfolio.

When the Bank loans securities to cover short selling by the borrower, the Bank de-recognizes the loaned securities and recognizes credit equal to the market value of these securities on the loaning date. In subsequent periods, the Bank measures the credit extended in the same way it measured the securities prior to loaning. Credit is measured at market value, revenues on the accrual basis are recognized as interest income from credit and changes to market value (in excess of changes on the accrual basis) are recognized under Non-interest Financing Revenues in case of securities in the held-for-trade portfolio or under Other Comprehensive Income in case of debentures available for sale. Upon concluding the loaning, the Bank recognizes once again the securities and de-recognizes the credit.

Note 1 – Reporting Principles and Accounting Policies – continued

9) Buildings, equipment and software

This item includes investments by the Bank in fixed assets (including payments on account), assets leased by the Bank under a financing lease, and cost of software for its own use, recognized as an asset.

Buildings and equipment

Recognition and Measurement

Fixed asset items are measured at cost net of accumulated depreciation and accumulated impairment loss, if any. Cost includes any cost directly attributable to acquisition of the asset. Cost of self-constructed assets includes the cost of materials and direct labor, as well as any additional cost directly attributable to bringing the asset to the required location and state so as to operate as intended by management.

When significant portions of fixed asset items have a different useful life, they are treated as separate fixed asset items.

The cost of purchased software, which is an integral part of operation of related equipment, is recognized as part of the cost of such equipment. Furthermore, in conformity with Public Reporting Directives, the Bank classifies under "Buildings and equipment" the cost of software assets acquired, or costs capitalized to an asset with respect to self-developed software for in-house use. For more information about the accounting treatment of the cost of software for in-house use, see below.

Gain or loss from disposition of fixed asset items is determined by comparing the proceeds from asset disposition to its book value and are recognized, net, under "Other revenues" in the statement of profit and loss.

Transactions whereby the Bank sells a property and leases it back under an operating lease are treated as accounting sale transactions, and the full profit with respect there to is recognized, subject to fulfillment of conditions for recognizing the sale.

Subsequent costs

Current maintenance costs of fixed asset items are charged to profit and loss when incurred.

Depreciation

Depreciation is methodical allocation of the depreciable amount of an asset over its useful life. A depreciable amount is the asset cost, or another amount which is a substitute for such cost, less the residual value of the asset.

Depreciation is charged to the statement of profit and loss using the straight line method over the estimated useful life of each part of the fixed asset items – since this method best reflects the anticipated consumption pattern of future economic benefits inherent in the asset. Leasehold improvements are depreciated over the lease term or the length of useful life, whichever is shorter. Owned land is not depreciated.

An asset is depreciated when available for use, i.e. when it has reached the location and state required for it to be put into operation as intended by management.

In view of the merger process of Union Bank with the Bank, we reviewed the estimates with regard to useful life of fixed asset items at Union Bank, and adjustments were made to these estimates accordingly.

For more information about estimated useful life of buildings and equipment, as of December 31, 2021, see Note 16 to the financial statements.

Impairment

The Bank reviews non-current assets (or asset groups) for impairment when events or changes in circumstances occur, indicating that the depreciated cost may not be recoverable.

For the purpose of impairment evaluation and measurement, the Bank groups an asset (or asset group) together with other assets and liabilities at the lowest level that generates cash flows, which is independent of cash flows for other groups of assets and liabilities. Impairment loss recognized is only charged to an asset (or asset group) within the scope of Section 360 of the Codification.

Impairment loss is only recognized if the carrying amounts of a non-current asset (asset group) is not recoverable and exceeds its fair value. The book value is not recoverable if it exceeds total non-capitalized cash flows expected from use of the non-current asset (asset group) and its realization.

Impairment loss is equal to the difference between the book value of the non-current asset (asset group) and its fair value, and is charged to the statement of profit and loss.

When impairment loss is recognized, the adjusted book value of the non-current asset (asset group) becomes the new cost basis. These losses are not canceled in subsequent periods, even in case of appreciation.

Note 1 – Reporting Principles and Accounting Policies – continued

Software

Recognition

The Bank applies US GAAP, including the presentation, measurement and disclosure rules specified in provisions of ASC 350 "Intangible assets – Goodwill" and others. The Bank also applies the Bank of Israel directive concerning capitalization of in-house software development costs, as follows:

- Setting of a materiality threshold for capitalization of each software development project; The materiality threshold specified by the Bank is NIS 450 thousand.
- Revision of the useful life of capitalized software costs, so as not to exceed 5 years.
- With respect to software development projects for which the total cost which may be capitalized is higher than the specified materiality threshold, capitalization factors would be specified for work hours – factors which would take into account the potential for deviation in recording work hours and for economic inefficiency.

In conformity with Public Reporting Directives, the Bank classifies under "Buildings and equipment" the cost of software assets acquired, or costs capitalized to an asset with respect to self-developed software for in-house use.

Software acquired by the Group is measured at cost, net of accumulated amortization and impairment loss.

Cost associated with software development or adaptation for in-house use are capitalized only if the development cost may be reliably measured, the software is technically and commercially feasible, future economic benefits are expected and the Bank has the intention and sufficient resources to complete development and to use the software. Cost recognized as an intangible asset with respect to development activities includes direct costs of materials, services and direct payroll cost with respect to employees. Other costs associated with development activities and research costs are charged to the statement of profit and loss when incurred.

In subsequent periods, capitalized development costs are measured at cost net of accumulated amortization and impairment loss.

Subsequent costs

Cost of upgrades and improvements to software for own use are only capitalized if the expenses incurred are expected to result in additional functionality. Other subsequent costs are recognized as an expense when incurred.

Amortization

Depreciation is methodical allocation of the depreciable amount of an asset over its useful life. A depreciable amount is the asset cost, or another amount which is a substitute for such cost, less the residual value of the asset.

Intangible assets generated from a software project are amortized to the statement of profit and loss using the straight line method over the useful life of the software but not to exceed 5 years, as noted above, as from the date on which the software is ready for its designated use. In this regard, the software is ready for its designated use when all material testing has been completed.

Impairment of cost of in-house development of computer software

Impairment of such intangible assets is recognized and measured upon occurrence of any event or change in circumstances that indicate that it is possible that the book value of the asset may not be recovered.

Events or changes in circumstances which may indicate impairment are:

- It is not expected that the software would provide significant potential service;
- A significant change has occurred in the manner or scope of use or expected use of the software;
- A material modification to the software has been made or will be made in the future;
- The costs of development or adaptation of software designated for in-house use significantly exceed the amount anticipated in advance.

When it is no longer expected that software development would be completed, the Bank adjusts the book value of the software to be the lower of its book value and fair value net of selling costs.

Note 1 – Reporting Principles and Accounting Policies – continued

10) Intangible assets and goodwill

The Bank applies US GAAP with regard to intangible assets including the presentation, measurement and disclosure rules specified in provisions of ASC 350 "Intangible assets – Goodwill and other".

Intangible assets of un-specified useful life are amortized to the statement of profit and loss using the straight line method over the useful life of the intangible assets, as from the date on which these assets are available for use.

Intangible assets with unspecified useful life are evaluated if there are indicators of impairment at the Asset Group level. An asset group is the smallest group of assets and liabilities which generates a separate cash flow. First is an evaluation of whether the book value of the asset group is higher than the non-discounted cash flow amount expected to result from it. If so, impairment is to be recognized equal to the difference between the book value and the fair value of the asset group. Impairment is to be proportionately attributed solely to assets in the asset group, provided that the value of any individual asset does not drop below its fair value.

Assets of unspecified useful life are reviewed for impairment at least once per year. They should be evaluated as to whether the book value of the asset exceeds its fair value. If so, impairment is to be recognized, to the extent to the difference between the book value and the fair value.

Goodwill is not systematically amortized.

Development costs of acquired software or costs capitalized to an asset with respect to software developed in-house for in-house use, are classified under "Buildings and equipment".

11) Leases

Contracts that confer on the Bank control over use of an asset in conjunction with a lease for a certain duration in exchange for consideration, are accounted for as leases. Upon initial recognition, a liability is recognized equal to the present value of future rent payments during the lease term (these payments exclude variable lease payments) and concurrently, a right-to-use asset is recognized equal to the amount of the liability with respect to the lease, adjusted for lease payments made in advance or accrued and net of lease incentives, plus direct costs incurred with respect to the lease.

The lease term is the period for which the lease may not be terminated, along with periods subject to an option to extend or terminate the lease, if it is reasonably certain that the lessee would or would not exercise such option, respectively, and along with periods subject to an option to extend or terminate the lease where the lessor has control over the right to exercise such option.

The Bank has elected to apply the practical relief whereby short-term leases, for terms of up to one year, are accounted for by recognizing the lease fees to profit and loss using the straight line method over the lease term, without recognizing a right-to-use asset and/or liability with respect to the lease on the statement of financial position.

Subsequent measurement

After initial recognition, liabilities with respect to leases (whether an operational lease or a financial lease) are measured at amortized cost using the effective interest method. Moreover, the Bank reviews a right-to-use asset (with respect to operational or financial lease) for impairment in conformity with provisions of sub-topic 360-10-35 of the codification with regard to impairment with respect to fixed assets.

Lease payments

Operational lease

Lease payments, other than variable leasing fees, are charged to profit and loss using the straight line method over the lease term. Lease incentives received are recognized as an integral part of all lease expenses using the straight line method over the lease term. Variable lease payments which depend on an index or on interest are recognized on the statement of profit and loss in the period when varied. Variable lease payments which do not depend on an index or on interest are recognized on the statement of profit and loss in the period when it is expected that the specific objective resulting in variance of the lease payments would be achieved, and are reversed in the period when that specific objective is no longer expected to be achieved.

Upon each subsequent reporting date, a right-to-use asset is recognized equal to the depreciated cost of the liability with respect to the lease, adjusted for lease payments made in advance or accrued and net of lease incentives, plus direct costs yet to be amortized and net of impairment loss accumulated with respect to the right-to-use asset.

Financing lease

After the lease start date, the right-to-use asset is measured at cost net of accumulated depreciation and net of any accumulated impairment loss, and is adjusted for re-measurement of the lease liability. Depreciation is calculated using the straight line method over the useful life or over the contractual lease term.

Note 1 – Reporting Principles and Accounting Policies – continued

12) Contingent liabilities

The financial statements include appropriate provisions with respect to claims to cover possible damages, where, in the opinion of the Bank's Management, based on the opinion of its legal counsel, a provision is required.

In accordance with the guidelines of the Supervisor of Banks, claims have been classified according to the range of probability of realization of the risk exposure, as follows:

A. Probable risk: there is a probability of more than 70% of a loss from the claim. For claims whose probability of realization has been classified as Probable, an appropriate provision was made in the financial statements.

B. Reasonably Possible risk: there is a probability of between 20% and 70% that a loss will be sustained from the claim. For claims whose probability of realization has been classified as Reasonably Possible, an appropriate provision is made in specific instances in the financial statements, at the discretion of Bank Management and based on the opinion of legal counsel.

C. Remote risk: there is a probability of less than 20% of a loss from the claim. For claims whose probability of realization has been classified as Remote, no provision is made in the financial statements.

See Note 26.C.10 for disclosure of material claims (whose amount, excluding interest and expenses, is over 1% of shareholders' equity attributable to shareholders of the Bank.

Likewise, Note 26.C.11 provides disclosure of motions for recognition as class actions, when the amount claimed in them is material which, in the opinion of the Bank's Management, based, according to the case, on the opinion legal counsel, the subsidiaries' managements and on the opinion of their legal counsel, it is not possible at this stage to estimate their possible outcome, and therefore, no provision was recorded for them.

In accordance with the directives of the Supervisor of Banks, the Bank is permitted to determine for class actions that it is not possible to estimate the prospects for realization of the exposure to risk in the four financial statements published since the claim was filed, or in case of delay of proceedings by decision of the Court. Beyond this, only in rare cases is the Bank permitted to determine that the prospects for realizing the exposure cannot be determined.

13) Employees' rights

The Bank applies the Supervisor of Bank's directives with regard to adoption of US GAAP concerning employees' rights. These principles were codified in the following codification sections (hereinafter: "the directives").

- ASC 710 – Compensation – General.
- ASC 712 – Compensation – Non retirement post employment benefits.
- ASC 715 – Compensation – Retirement benefits.
- ASC 718 – Compensation – Stock Compensation.
- ASC 420 – Exit or Disposal Cost Obligations.

According to the directives, banking corporations should classify employees' benefits according to groups listed in US GAAP, including setting of clear policies and procedures as to how different types of benefits may be distinguished. Employees' benefits fall into the following categories:

- Benefits prior to termination.
- Benefits post termination and prior to retirement.
- Post-retirement benefits.

Furthermore, the principle set by the Supervisor of Banks whereby a liability should be included with respect to a material obligation – should be maintained. It is expected that cases where the Bank expects payment of benefits beyond contractual terms, would match these to situations where a material obligation exists.

According to the Supervisor of Banks' directives, the discount rate for employee benefits is calculated based on yields of government debentures in Israel plus the average spread for corporate debentures rated AA (international rating scale) or higher as of the reporting date. For practical reasons, the spread would be determined by the difference between yields to maturity, by term to maturity, for corporate debentures rated AA or higher in the USA – and yields to maturity, for the same term to maturity, for US government debentures, all as of the reporting date.

Note 1 – Reporting Principles and Accounting Policies – continued

Below are details of benefit groups at the Bank:

Post-retirement benefits – pension, severance pay and other benefits – defined-benefit programs

The Bank recognizes amounts with regard to pension programs and other post-retirement programs based on calculations which include actuarial and other assumptions, including: discount rates, mortality rates, increase in remuneration and turnover.

The Bank regularly examines the need to update actuarial assumptions used in the model.

Changes to assumptions are generally recognized, subject to provisions listed below, first in Cumulative Other Comprehensive Income and are amortized to Profit and Loss in subsequent periods, in conformity with the remaining average terms of service for employees expected to receive benefits.

The liability is accrued over the relevant period, determined in conformity with rules listed in Section 715 of the codification.

The Bank applies the Supervisor of Banks' guidelines with regard to internal controls over the financial reporting process with regard to employees' rights, including with regard to review of a "commitment in substance" to award benefits to Bank employees with respect to increased severance pay and/or early retirement.

Other long-term benefits to active employees:

- The liability is accrued over the period of eligibility for this benefit.
- In calculating the liability, the Bank accounts for discount rates and for actuarial assumptions.
- All components of the benefit cost for the period, including actuarial gains and losses, are recorded to Profit and Loss.

Absence eligible for compensation – paid leave and sick leave:

The liability with respect to paid leave is measured on a current basis, without use of discount rates and actuarial assumptions.

The Bank does not accrue a liability with respect to sick leave utilized during current service.

For more information about employees' benefits, see Note 2 to the financial statements.

As for accounting treatment of actuarial gains / losses recognized under Other Comprehensive Income due to changes to discount rates:

The actuarial loss as of January 1, 2013, arising from the difference between the discount rate used for calculation of provisions to cover employee rights, linked to the Consumer Price Index, as stipulated by the interim directive in the Public Reporting Directives (4%) – and the discount rates as of that date for CPI-linked employee liabilities, determined based on the new rules as noted above (hereinafter: "the loss") is included under Cumulative Other Comprehensive Income.

Any actuarial gains recognized as from January 1, 2013, due to current changes in discount rates during the reported period, would be included under Cumulative Other Comprehensive Income and would decrease the loss balance recorded as noted above – down to zero.

Actuarial losses due to current changes in discount rates during the reported year and actuarial gains due to current changes in discount rates during the reported year after the loss balance has been decreased to zero as noted above, would be amortized using the straight line method over the remaining average terms of service for employees expected to receive benefits over the plan term.

Other actuarial gains and losses(not due to changes in discount rates) as of January 1, 2013 and in subsequent periods are to be included in cumulative other comprehensive income and would be amortized using the straight line method over the average remaining service period of employees expected to receive plan benefits.

Principles of accounting treatment of the streamlining plan:

On December 27, 2016, the Bank's Board of Directors approved the streamlining program recommended by Bank management, whereby early retirement would be made possible for 300 employees in 2017-2021, at improved conditions.

The cost of update to the actuarial liability with respect to the streamlining program, recorded in the financial statements as of December 31, 2016, amounts to NIS 286 million; the cost net of tax, amounting to NIS 188 million, was charged to shareholders' equity (under Other Comprehensive Income).

Note 1 – Reporting Principles and Accounting Policies – continued

In subsequent periods, the Bank amortizes the plan costs to the statement of profit and loss, under "Actuarial gain and loss" using the straight line method over the average remaining service period for the employees, which is at 15 years.

If, in certain periods, total severance pay payments should exceed the cost of service and cost of interest recognized for that year and a settlement would take place (in conformity with US GAAP concerning employees rights), then the ratio of amortization of "actuarial gain and loss" would be adjusted for the settlement pace of the actuarial liability in that period, respectively.

In conformity with the Supervisor of Banks' letter dated January 12, 2016, with regard to operating streamlining of the Israeli banking system, the Supervisor of Banks allowed capital relief with respect to this plan. The Bank applies this capital relief so that supervisory capital used to calculate capital adequacy is adjusted (increased) and the capital effect of the streamlining (a decrease by 0.14%) is applied on a straight line basis as from 2017, over a five-year period.

See Notes 22 and 25 to the financial statements for further information.

Streamlining program at Bank Yahav

In 2017, the Board of Directors of Bank Yahav approved streamlining measures, including a voluntary retirement program. Bank Yahav was granted approval for this program by the Supervisor of Banks, as required in the streamlining directive.

Voluntary retirement is offered to employees in conformity with criteria stated in the program. The program ended in 2020. The costs of actuarial liability with respect to the retirement program at Bank Yahav amounted to NIS 35 million before tax (NIS 23 million after tax).

As per guidelines of the Bank of Israel, supervisory capital used to calculate capital adequacy is adjusted (increased) and the capital effect of the streamlining is applied on a straight line basis over a five-year period.

14) Share-based payment transactions (employee stock options)

The Bank applies provisions of ASC 718 "Share-based payment transactions" with regard to options granted to employees. In conformity with these provisions, the Bank recognizes payroll expenses due to the granted options. Expenses are recognized based on fair value of the options on the grant date, concurrently with an increase in capital over the term of service for which the options are granted.

When determining the fair value of options upon the grant date, vesting restrictions due to market conditions (such as vesting contingent on share price) are taken into account. Other qualitative restrictions which do not concern market conditions (such as: discretionary component of benefit grant) have no impact on determining fair value upon the grant date and are reflected in current expensing of the benefit granted. As allowed by the standard, the Bank treats each granted lot as a separate grant.

As for a grant in the ordinary income track, tax authorities in Israel allow an expense to be recognized upon option exercise, so that a tax benefit is expected and deferred taxes should be recognized. According to provisions of the standard, the tax benefit would be recognized based on the cumulative expense amount in the accounts, multiplied by the tax rate. Upon exercise of the options, when the allowed expense for income tax exceeds the expense recognized in the accounts, the difference, multiplied by the tax rate, would be recorded to profit and loss. As for the capital track, the Taxes Authority does not recognize expenses upon option exercise.

15) Guarantees

Guarantees are contracts which require the guarantor, on contingent basis, to make payments to the guaranteed party upon occurrence of conditions requiring the guarantee to be exercised. The guarantee obligation is measured upon initial recognition at the higher of the fair value or the amount of expected loss provisions with respect to them. The obligation is de-recognized when the Bank no longer bears the risk.

16) Derivative instruments and hedging activities

A. The Bank performs transactions in derivative instruments, including currency and interest contracts and credit derivative contracts. The currency contracts include forwards, futures, swaps and options. These trades are executed in all linkage sectors. The trades are executed with the public and with banks in Israel and overseas, as part of the Bank's day-to-day activities as a market maker, and as part of the overall strategy of managing the expedient level of exposure for the various market risks, including basis and interest risks – risks to which the Bank is exposed in its everyday activities.

Note 1 – Reporting Principles and Accounting Policies – continued

B. Derivative instruments are stated at fair value on the Bank balance sheet, under Assets or Liabilities, as the case may be. Changes to fair value of derivative instruments, other than derivatives used as cash flow hedges, are recognized in the Statement of Profit and Loss.

C. It is possible that the Bank will enter into a contract, which by itself is not a derivative instrument, but contains an embedded derivative. When an embedded derivative has economic characteristics that are not clearly and closely tied to the economic characteristics of the host contract, and a separate instrument with the same conditions as the embedded derivative would qualify as a derivative, then the embedded derivative is detached from the host contract and is treated as a hedge by itself.

   A detached embedded derivative is stated in the balance sheet together with the host contract. Changes in fair value of detached embedded derivatives are immediately charged to profit and Loss.

E. In certain cases, in which the embedded derivative must be detached from the host contract, the Bank adopts policies of measuring the entire contract according to its fair value, and records the changes in its fair value in the statement of profit and loss. These policies was adopted for structured securities in the available-for-sale portfolio.

Hedge accounting

The Bank is exposed to market risks due to its business operations. As part of the Bank's overall strategy for management of exposure to such risks, the Bank designates certain financial instruments as fair value hedges and as cash flow hedges.

Upon the hedge relationship start date, the Bank formally documents the hedge relationship and the objective of its risks management and strategy for executing this hedge. Documentation includes identification of each of the following: Hedging instrument; hedged item or transaction; nature of hedged risk; method to be applied by the Bank to assess the effectiveness of hedge relationship, offsetting exposure to changes in fair value of the hedged item (for fair value hedge), or offsetting exposure to changes in cash flows with respect to the hedged transaction (for cash flow hedge), attributable to the hedged risk.

Fair value hedge

The Bank designates derivative instruments as hedges for exposure to changes in fair value of an asset or liability, or an identified part of them, which is attributable to a specific risk.

When a derivative instrument is used as a hedging instrument for fair value hedge, the changes to fair value included in assessment of the hedge effectiveness are currently recognized in the statement of profit and loss, presented under the same item as effects of the hedged item. Gain or loss (i.e. change in fair value) with respect to the hedged item attributable to the hedged risk is accounted for as adjustment to the book value of the hedged item and is currently recognized in the statement of profit and loss. The adjustment to book value amount of the hedged item shall be accounted for similarly to other components of the its book value.

The preliminary value of components excluded from assessment of hedge effectiveness is recognized in the statement of profit and loss, methodically and rationally over the term of the hedging instrument, with the difference between changes to fair value of components excluded from assessment of hedge effectiveness and amounts methodically and rationally recognized in the statement of profit and loss, recognized under Other Comprehensive Income.

The Bank discontinues hedge accounting when: The criteria for applying hedge accounting cease to exist; the derivative expires, is sold, canceled or realized, or when the Bank discontinues the designation of hedge relationships.

Amount in Other Comprehensive Income (AOCI) related to amounts excluded from assessment of hedge effectiveness are recognized in the statement of profit and loss in the period when the hedged item was de-recognized from the accounts. For all other discontinued fair value hedges, Amounts in Other Comprehensive Income (AOCI) related to amounts excluded from assessment of hedge effectiveness are recognized in the statement of profit and loss similarly to other components included in the book value of the hedged asset or liability.

Note 1 – Reporting Principles and Accounting Policies – continued

Cash flows hedges

The Bank designates derivative instruments as hedges for exposure to changes in expected future cash flows attributable to a specific risk.

When a derivative instrument is used as a hedging instrument for a cash flow hedge, changes to fair value included in assessment of the hedge effectiveness are regularly recognized in Other Comprehensive Income. These amounts are reclassified to the statement of profit and loss in the period(s) in which the hedged anticipated transaction impacts earnings, and are presented under the same item as effects of the hedged item.

The Bank has elected to regularly recognize changes to fair value of components excluded from assessment of hedge effectiveness in profit and loss, under the same item as effects of the hedged item.

The Bank discontinues hedge accounting when: The criteria for applying hedge accounting cease to exist; the derivative expires, is sold, canceled or realized, or when the Bank discontinues the designation of hedge relationships.

Net gain or loss with respect to the hedging instrument, related to a discontinued cash flow hedge, continue to be reported under cumulative Other Comprehensive Income (AOCI), unless it is probable that the anticipated transaction would not take place by the end of the original term determined (as documented at the start of the hedging relationship), or within two months thereafter.

If the anticipated hedged transaction is not expected to take place, whether by the end of the original term determined or within two months thereafter, net gain or loss with respect to the hedging instrument reported in cumulative Other Comprehensive Income is immediately reclassified to the statement of profit and loss.

Economic hedge

Hedge accounting is not applied for derivative instruments used as part of the Bank's asset and liability management (ALM). Changes to fair value of such derivatives are recognized in profit and loss when created.

17) Fair value

A. Fair value is defined as the price which would have been obtained upon sale of an asset, or the price which would have been paid upon transfer of a liability, in a regular transaction between market participants on the measurement date. The standard requires, *inter alia*, for assessment of fair value, that maximum use be made of observed data and minimum use be made of non-observed data. Observed data reflects information available in the market, obtained from independent sources whereas non-observed data reflects assumptions by the Bank. Sub-topic 820-10 of the codification lists a hierarchy of measurement techniques, based on the source of data used to determine fair value. These data sources result in the following fair value ranking:

Level 1 – fair value measured using prices quoted for identical instruments on an active market accessible by the Bank on the measurement date.

Level 2 – fair value measured using observed data, either direct or indirect, which are not quoted prices as stipulated under Level 1. Level 2 data include use of quoted market data in active markets, or in non-active markets, if they exist, or data derived from or based upon such observed market data.

Level 3 – fair value measured by using non-observed data.

The standard stipulates that the Bank should reflect credit risk and non-performance risk in measuring the fair value of debt, including derivative instruments that it issued and are measured at fair value. Non-performance risk includes the Bank's credit risk, but is not limited to this risk alone.

Note 1 – Reporting Principles and Accounting Policies – continued

The Bank assesses credit risk for derivative instruments as follows:

- When there is sufficient liquid collateral with respect to the exposure, which specifically secures the derivative instrument at a high legal level of certainty, the Bank assumes that credit risk is zero, and does not adjust the fair value with respect to credit quality of the counter-party.
- In other cases, the Bank estimates the fair value based on indications from transactions in an active market of the credit quality of the counter party, if such indications are available with reasonable effort. The Bank derives these indications, inter alia, from prices of debt instruments of the counter-party traded on an active market, and from prices of credit derivatives based on the credit quality of the counter-party. In the absence of such indications, the Bank calculates the adjustments based on internal ratings.

When the counter-party exposure, on a consolidated basis, is not material, the Bank calculates the aforementioned adjustment on a group basis, using a benchmark for credit quality by groups of similar counter-parties, e.g. based on internal ratings.

Further, the Bank conducts reasonability testing of results obtained from internal assessment with regard to changes in market spreads, and makes the required adjustments, if any.

In order to adapt the Bank's valuation methods to the exit price principle and to guidelines stated in the standard, the Bank is required to review the valuation methods applied for measuring fair value, taking into consideration the relevant circumstances of the various transactions, including recent transaction prices on the market, indicative prices from valuation services and results of back testing of similar transaction types.

In accordance with Bank of Israel directives, fair value measurement of a derivative instrument, when no quoted prices, liquid collateral or offset agreements exist which adequately secure the derivative's credit quality, and when no market information exists as to the credit quality of the counter-party (such as CDS or negotiable debentures of the counter-party) – shall be classified as a Level 3 fair value measurement.

For more information about adoption of updates to US GAAP with regard to disclosure requirements concerning fair value measurement as from January 1, 2021, see section D.2. above.

How fair value is determined:

1) Securities

Fair value of securities held for trading, debentures available for sale and shares not held for trading is determined based on quoted market prices on the major market. When there are multiple markets on which the security is traded, the estimate is based on the quoted market price on the most effective market. In such cases, the fair value of the Bank's investment in securities is the product of the number of units at the aforementioned quoted market price. The quoted price used to determine fair value is not adjusted for the size of the Bank's position relative to the trading volume (holding size factor).

If such quoted market price is not available, the fair value estimate is based on the best available information, with maximum use of observed data and taking into account the risk inherent in the financial instrument (market risk, credit risk, non-negotiability etc.), except for shares not held for trading for which no fair value is available, which are measured as stated in Note 1E(6) above.

2) Financial derivative instruments

Financial derivative instruments with an active market are valued based on market value, determined on the primary market, or in the absence of a primary market – using a quoted market price on the most effective market. Derivative financial instruments not traded on an active market are valued using models which take into account the risk inherent in the derivative instrument (market risk, credit risk etc.)

3) Financial instruments other than derivatives

Most of the financial instruments in this category (such as: loans to the public and loans to the Government, deposits from the public and deposits with banks, non-negotiable subordinated notes and bonds) no "market price" is quotable, since there is no active market on which they are traded. Therefore, the fair value is estimated using acceptable pricing models, such as present value of future cash flows, discounted at an interest rate that reflects the level of risk inherent in the financial instrument. To this end, the future cash flows for impaired and other debts have been calculated net of effects of accounting write-offs and provision for credit losses with respect to the debts.

For more information about principal methods and assumptions used in estimating fair value, see Note 33 to the financial statements.

Note 1 – Reporting Principles and Accounting Policies – continued

B. Fair value option

Sub-topic 825-10 of the codification allows banking corporations to elect, upon specified election dates, to measure at fair value financial instruments and certain other items ("qualified items") which, according to Public Reporting Directives, are not required to be measured at fair value. Unrealized gains and losses due to changes in fair value of items for which the fair value option has been selected, are recognized in the statement of profit and loss at each subsequent reporting date. Furthermore, prepaid costs and commissions related to items for which the fair value option has been elected, are recognized in the statement of profit and loss as they are incurred. Election of the fair value option, as stated above, is made for each instrument individually, and may not be canceled.

Further, the standard stipulates presentation and disclosure requirements designed to assist in comparing banking corporations which elect different measurement bases for similar types of assets and liabilities.

Notwithstanding the foregoing, the Supervisor of Banks' directives with regard to application of the standard have clarified that a banking corporation may not elect the fair value option, unless the banking corporation had previously developed knowledge, systems, procedures and high-level controls which would allow it to measure the item with a high degree of reliability. Therefore, the Bank may not elect the fair value option for any asset which may be classified under Level 2 or Level 3 of the fair value ranking, nor for any liability, without prior consent of the Supervisor of Banks.

18) Taxes on income

Taxes on income include current and deferred taxes. Current and deferred taxes are recorded to the statement of profit and loss, or recorded directly to equity if they arise from items directly recognized in equity. The provision for taxes on income of the Bank and its subsidiaries that are financial institutions for VAT purposes includes profit tax levied on earnings under the Value Added Tax Law. The payroll tax levied on the salaries of financial institutions is included under “Payroll and associated expenses”.

A. Current taxes

Current taxes are taxes on income paid or payable (or refundable) for the current period, as determined by application of statutory tax provisions legislated with regard to taxable income. Current taxes include changes in tax payments with regard to previous years.

B. Deferred taxes

Deferred tax liabilities and deferred tax assets reflect the future effects on taxes on income, due to temporary differences and carry-forward losses existing at the end of the period.

The Bank recognizes deferred tax liabilities with respect to taxable temporary differences. In conformity with directives of the Supervisor of Banks, as from January 1, 2017 the Bank recognizes a deferred tax liability with respect to undistributed earnings of subsidiaries accumulated since January 1, 2017.

The Bank recognizes deferred tax assets with respect to all deductible temporary differences and carry-forward losses, while concurrently recognizing a separate valuation allowance for the amount included in the asset that is more likely than not to be realized.

Deferred tax liabilities or deferred tax assets are measured using the statutory tax rates legislated, that are expected to apply to taxable income in the period when the deferred tax liability is expected to be settled or the deferred tax asset is expected to be realized.

C. Offset of deferred tax assets and liabilities

The Bank offsets deferred tax assets and deferred tax liabilities, as well as any related valuation allowance, for a specific taxable component and within a specific tax jurisdiction.

D. Uncertain tax positions

The Bank applies the rules for recognition, measurement and disclosure stipulated in FIN 48. In conformity with these rules, the Bank only recognizes the effect of tax positions if it is more likely than not that those positions would be accepted by the tax authorities or by the Court. Tax positions recognized are measured at the maximum amount whose likelihood of realization exceeds 50%. Changes in recognition or measurement are reflected in the period in which a change in circumstances resulted in a change in judgment.

For more information about adoption of updates to US GAAP with regard to simplified accounting treatment of taxes on income (ASU 2019-12) as from January 1, 2021, see section D.3. above.

Note 1 – Reporting Principles and Accounting Policies – continued

19) Earnings per share

The Bank presents earnings per share data, both basic and diluted, for its ordinary share capital. Basic earnings per share is calculated by dividing the earnings attributable to holders of ordinary shares of the Group, by the weighted average number of ordinary shares outstanding during the period, after adjustment for treasury shares.

Diluted earnings per share is calculated by adjusting earnings (such as adjustment for after-tax effect of dividends, financing costs and other changes, if any) related to holders of ordinary shares, and adjusting the weighted average number of ordinary shares outstanding, after adjustment for treasury shares and for the effect of all potentially dilutive ordinary shares, including stock options granted to employees.

20) The Bank's operating segments

A. Supervisory operating segments

A supervisory operating segment is a Bank component engaged in certain activities or grouping clients in certain classifications, as specified by the Supervisor of Banks. The format for reporting Bank supervisory operating segments was prescribed in Public Reporting Directives by the Supervisor of Banks.

A supervisory operating segment is mostly specified in terms of client classification. Individual clients are classified based on financial assets for the household and private banking segments. Clients other than individuals are primarily classified based on their turnover for business segments (separated into small and micro business, medium business and large business), institutional entities and the financial management segment.

Furthermore, the Bank is required to apply disclosure requirements for supervisory segments based on the management approach, when such operating segments materially differ from the supervisory operating segments.

On September 10, 2015, the Supervisor of Banks issued an updated Q&A file, which includes certain relief with regard to client categorization by operating segments based on their volume of revenues – when this data is not typical or is unavailable to the Bank. According to the Q&A file, in such cases the Bank may categorize clients into operating segments based on other parameters, in line with total client indebtedness. Thus, in some cases listed in the Q&A file, clients may be categorized based on the number of employees or total assets on their balance sheet. If this information is also not available, the client may be categorized, in such cases, based on its total financial assets with the bank, multiplied by a specified factor.

B. Operating segments – the management approach

In addition to uniform reporting by supervisory operating segments, the Supervisor of Banks' circular dated November 3, 2014 stipulates that disclosure of "Operating segments in conformity with the management approach" should be provided in conformity with generally acceptable accounting practices by banks in the United States with regard to operating segments (included in ASC 280), if there is a material difference between the management approach and supervisory reportable segments.

An operating segment in conformity with the management approach is a Bank component with operations which may derive revenues and incur expenses which meet the following criteria:

- Its operating results are regularly reviewed by chief decision makers at the Bank for the purpose of making decisions about resource allocation and performance evaluation, and
- Separate financial information is available with regard to it.

In fact, there is a correlation between the supervisory operating segments and "operating segments in conformity with the management approach" but nevertheless, there are some differences in client attribution to segments and in decision making. Therefore, the financial statements also include reporting of operating results in conformity with "the management approach", as noted above.

For more information about criteria for client classification into supervisory segments and into segments in conformity with the management approach and for differences between them and additional extensive segment information, see Note 29 to the financial statements.

21) Transactions with controlling shareholders

The Bank applies US GAAP for accounting treatment of transactions between the Bank and its controlling shareholder and a company controlled by the Bank. In cases where the aforementioned rules do not refer to the manner of treatment, the Bank applies the rules stated in Standard 23 of the Israel Accounting Standards Board concerning the accounting treatment of transactions between an entity and its controlling shareholder.

Assets and liabilities subject to a transaction with a controlling shareholder are measured at fair value as of the transaction date.

Note 1 – Reporting Principles and Accounting Policies – continued

F. New accounting standards and new directives by the Supervisor of Banks prior to their implementation

Standard / update topic	Issue date	Start date	Issued by	Standard summary	Effect on the Bank's financial statements
Adoption of updates to US GAAP with regard to provision for credit losses ASU (CECL) 2016-13	March 2018	January 01, 2022	Supervisor of Banks	The new rules are designed to improve the quality of reporting of the banking corporation's financial standing, through earlier recognition and provisions for credit losses, in such way as to bolster the anti-cyclical element of behavior and provision for credit losses, supporting a faster response by banks to deterioration in borrower creditworthiness, and to reinforce the connection between credit risk management and how such risk is reflected on the financial statements, based on existing methods and processes. The new rules for calculation of the provision for credit losses would apply to loans (including residential mortgages), to debentures held to maturity and to certain off-balance sheet credit exposures. The major expected changes in accounting treatment on the financial statements of banking corporations due to implementation of these rules include the following: Calculation of the provision for credit losses based on expected loss over the term of the credit, in lieu of estimating the loss incurred and yet to be identified; in estimating the provision for credit losses, significant use shall be made of forward-looking information to reflect reasonable, supported forecasts with regard to future economic events; expansion of disclosure of the impact of the lending date on the credit quality of the credit portfolio; change in recognition of impairment of debentures in the available-for-sale portfolio. Furthermore, the rules with regard to non-accruing debt, re-structuring of problematic debt and rules for accounting write-offs would also be applied to residential mortgages, with rules specified for deduction of amounts with respect to non-accruing residential mortgages whose handling continues from Tier I supervisory capital. In this regard, on February 2, 2021, the Supervisor of Banks issued a circular regarding "Expected credit losses from financial instruments" which, inter alia, rescinded the requirement to calculate a group-based provision at a minimum of 0.35% with respect to residential mortgages, and rescinded the requirement to calculate the minimum provision by extent of arrears, as well as added amendments to provisions whereby banking corporations are required to deduct from Tier I capital amounts with respect to residential mortgages classified over time as non-accruing loans. On December 1, 2020, the Supervisor of Banks issued a circular regarding "Supervisory capital – Effect of implementation of accounting principles with respect to expected credit losses". This circular stipulates transitional provisions to be applicable to the effect of initial adoption of the new rules regarding expected credit losses, so as to reduce unexpected effects of application of these rules on supervisory capital, in conformity with guidance from the Basel Committee on Bank Supervision and supervisory authorities for banks in the USA and in other countries.	The Bank has applied the new directives with regard to provisions for credit losses as from January 1, 2022 and charged the cumulative effect to retained earnings upon initial application. Furthermore, the Bank intends to adopt upon initial application certain relief, as allowed by the transition provisions, including recognizing the effect of initial application with regard to the effect on Tier I equity ratio over a 3-year period. According to Bank estimates, application of the new directives should result in increase by NIS 0.1 billion in the balance of provision with respect to households, and NIS 0.3 billion with respect to business and commercial borrowers, against decrease by NIS 0.1 billion in provision with respect to residential mortgages. In total, the expected effect is decrease by NIS 0.5 billion in loans to the public, net including with respect to loan write-offs and the effect of residential mortgages classified under non-accruing loans. As noted above, the Bank intends to charge the cumulative effect to retained earnings upon initial application. Furthermore, application of the new directives should result in net deduction of NIS 0.1 million from Tier I equity upon initial application, due to the requirement to deduct from Tier I equity amounts with respect to residential mortgages classified over time as non-accruing loans. This amount is not subject to relief allowed in the transitional provisions.

Note 1 – Reporting Principles and Accounting Policies – continued

F. New accounting standards and new directives by the Supervisor of Banks prior to their implementation – Continued

Standard / update topic	Issue date	Start date	Issued by	Standard summary	Effect on the Bank's financial statements
Updated standard regarding relief due to the impact of interest rate benchmark reform on financial reporting ASU 2021-01	January 2021	May be applied as from the financial statements for the first quarter of 2020, subject to specific scope provisions stated in the standard (May be applied to relevant transactions within the scope of the amendment, that took place through December 31, 2022)	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. On January 7, 2021, the US Financial Accounting Standards Board ("FASB") issued ASU 2020-01 with regard to relief due to the impact of interest rate benchmark reform on financial reporting, which is an expansion of the scope of topic 848 in the codification with regard to the interest rate benchmark reform. According to this update, the scope of topic 848 in the codification was expanded to include derivatives affected by the interest rate benchmark reform, even if the derivatives do not bear LIBOR or other benchmark interest expected to be eliminated.	Further to the Bank's preparations, no material impact is expected on Bank operations and clients.
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. Furthermore, on October 3, 2021, the Supervisor of Banks issued a circular regarding Proper Conduct of Banking Business Directive 250A "Transition from LIBOR Interest Rates", so as to help in completing preparations of the banking system in Israel for this transition.	See note (1) below.

Note 1 – Reporting Principles and Accounting Policies – continued

F. New accounting standards and new directives by the Supervisor of Banks prior to their implementation – Continued

Standard / update topic	Issue date	Start date	Issued by	Standard summary	Effect on the Bank's financial statements
Extension of transitional provision regarding implementation of provisions of Section 830 of the Codification "Foreign currency "	January 2019	January 01, 2022	Supervisor of Banks	The transitional provision instructs banking corporations not to include exchange rate differentials with respect to available-for-sale debentures as part of fair value adjustment of such debentures, but rather to continue treating these as stipulated in the Public Reporting Directives prior to adoption of Section 830 of the Codification "Foreign currency", through December 31, 2021.	No material effect is expected.
Update to Public Reporting Directives with regard to presentation of return on capital and annualized quarterly revenue and expense rates	August 2021	January 01, 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.	No material effect is expected

(1) Preparations for discontinued use of LIBOR

The table below lists the balances of Bank contracts affected by LIBOR interest, for which the change applies as from January 1, 2022:

	As of December 31, 2021
	Transaction volume (NIS in millions)
Loans to the public (including mortgages)	7,655
Securities	65
Net derivatives (par value)	5,408

Major risks and relevant Bank preparations

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 non-material accounting implications in multiple areas, including the following:

- Discount rates – transition to alternative interest rate benchmarks would result in some 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. Since the Bank has signed the ISDA protocol for transition to alternative underlying interest rates and has applied this protocol to on-balance sheet instruments,
- 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 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.

Note 2 – Interest revenues and expenses

For the year ended December 31,

Reported amounts (NIS in millions)

	2021	2020	2019
A. Interest revenues[1]			
From loans to the public	10,242	7,299	7,293
From loans to Governments	11	22	33
From deposits with the Bank of Israel and from cash	79	90	203
From deposits with banks	7	11	16
From securities loaned or acquired in resale agreements[2]	–	–	–
From debentures	218	106	166
Total interest revenues	**10,557**	**7,528**	**7,711**
B. Interest expenses			
On deposits from the public	1,716	1,316	1,787
On deposits from governments	4	4	1
On deposits from banks	4	7	8
On debentures and subordinated notes	1,142	380	573
On other liabilities	6	1	2
Total interest expenses	**2,872**	**1,708**	**2,371**
Total interest revenues, net	**7,685**	**5,820**	**5,340**
C. Details of net effect of hedging derivative instruments on interest revenues and expenses[3]	83	17	22
D. Details of interest revenues on accrual basis from debentures			
Held to maturity	41	22	35
Available for sale	167	78	130
For trading[4]	10	6	1
Total included under interest revenues	**218**	**106**	**166**

(1) Includes the effective element in the hedging ratios.
(2) Balance lower than NIS 0.5 million.
(3) Details of effect of hedging derivative instruments: on interest revenues, net
(4) Net interest revenues from trading operations for 2021, as presented in Note 29, amounting to NIS 20 million (in 2020 and 2019: net interest revenues (expenses) amounting to NIS 47 million and NIS 47 million, respectively), include interest revenues from debentures held for trading, amounting to NIS 6 million (in 2020 and 2019: NIS 10 million and NIS 1 million, respectively), as stated above, linkage differentials amounting to NIS 4 million (in 2020: NIS 4 million) as well as inter-segment expenses amounting to NIS 6 million (in 2020 and 2019: NIS 2 million and NIS 48 million, respectively) with respect to internal transactions between the Assets and Liability Management segment and the trading segment.

Note 3 – Non-interest financing revenues

For the year ended December 31,

Reported amounts (NIS in millions)

	2021	2020	2019
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]	(890)	(1,020)	(1,151)
Total from activity in derivative instruments	**(890)**	**(1,020)**	**(1,151)**
2. From investment in debentures			
Gains on sale of debentures available for sale	60	101	35
Total from investment in debentures	**60**	**101**	**35**
3. Exchange rate differences, net	**1,124**	**920**	**1,267**
4. Gains from investment in shares			
Gains from sale of shares not held for trading	51	13	2
Provision for impairment of shares not held for trading	(9)	–	(6)
Dividends from shares not held for trading	20	15	17
Unrealized gains (losses)[3]	77	23	45
Total from investment in shares	**139**	**51**	**58**
5. Net gains with respect to loans sold	**–**	**–**	**–**
Total non-interest financing revenues with respect to non-trading purposes	**433**	**52**	**209**
B. Non-interest financing revenues (expenses)with respect to trading operations[2]			
Net revenues (expenses) with respect to other derivative instruments	(6)	137	137
Realized gains (losses) from adjustment to fair value of debentures held for trading, net	(30)	31	13
Unrealized gains (losses) from adjustment to fair value of debentures held for trading, net	4	1	(2)
Total from trading operations[4][5]	**(32)**	**169**	**148**
Details of non-interest financing revenues (expenses) with respect to trading operations, by risk exposure			
Interest exposure	23	(27)	59
Foreign currency exposure	(55)	196	92
Exposure to shares	–	–	(3)
Exposure to commodities and others	–	–	–
Total	**(32)**	**169**	**148**

(1) Derivative instruments which constitute part of the Bank's asset and liability management system, which were not designated as hedges.

(2) Includes exchange rate differentials resulting from trading operations.

(3) Including gains / losses from measurement at fair value of shares for which fair value is available, and upward / downward adjustment of shares for which no fair value is available.

(4) For interest revenues from investments in debentures held for trading, see Note 2.D.

(5) Financing revenues other than interest from trading operations for 2021, as presented in Note 29, amounting to NIS 90 million (in 2020 and 2019: NIS 121 million and NIS 141 million, respectively), include total revenues from trading operations, as stated above, amounting to NIS (33) million (in 2020 and 2019: NIS 141 million and NIS 148 million, respectively), as well as exchange rate differentials (difference between exchange rate differentials with respect to ALM derivative operations and exchange rate differentials for balance sheet operations) amounting to NIS 123 million (in 2020 and 2019: NIS (7) million and NIS 7 million, respectively) as stated above.

Note 4 – Commissions

For the year ended December 31,

Reported amounts (NIS in millions)

	2021	2020[1]	2019
Account management[2]	412	356	360
Credit cards	236	190	190
Activities involving securities	314	282	193
Commissions on distribution of financial products[3]	76	56	54
Provident fund operations	27	22	23
Handling credit	68	39	34
Conversion differences	306	255	221
Foreign trade activity	53	40	43
Net revenues from credit portfolio service	31	38	43
Life insurance distribution commissions	109	100	107
Home insurance distribution commissions	13	15	17
Other commissions	44	41	42
Total commissions other than from financing business	**1,689**	**1,434**	**1,327**
Commissions from financing transactions[4]	258	237	208
Total commissions	**1,947**	**1,671**	**1,535**

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

(2) In Israeli and foreign currency

(3) Includes distribution commissions from mutual funds and pension products.

(4) After effect of risk sale by acquiring an insurance policy for guarantees under the Sale Act, amounting to NIS 69 million (in 2020 and 2019: NIS 72 million and NIS 67 million, respectively).

Note 4A – Revenue from contracts with clients[5]

For the year ended December 31,

Reported amounts (NIS in millions)

	2021[1]							
	House-holds – other	House-holds – mort-gages	Private banking	Small busi-nesses	Com-mercial banking	Business banking	Financial mana-gement	Total
Account management[2]	163	–	1	192	20	30	6	412
Credit cards	176	–	1	52	4	3	–	236
Activities involving securities	194	–	13	31	9	38	29	314
Commissions on distribution of financial products[3]	65	–	3	6	1	–	1	76
Provident fund operations	–	–	–	–	–	2	25	27
Handling credit	16	4	–	25	5	16	2	68
Conversion differences	82	–	4	77	9	12	122	306
Foreign trade activity	–	–	–	23	11	19	–	53
Net revenues from credit portfolio service	5	17	–	–	–	7	2	31
Life insurance distribution commissions	–	109	–	–	–	–	–	109
Home insurance distribution commissions	–	13	–	–	–	–	–	13
Other commissions	9	–	1	1	2	14	17	44
Total commissions other than from financing business	**710**	**143**	**23**	**407**	**61**	**141**	**204**	**1,689**
Commissions from financing transactions[4]	9	4	–	45	25	175	–	258
Total commissions	**719**	**147**	**23**	**452**	**86**	**316**	**204**	**1,947**

	2020[1]							
	House-holds – other	House-holds – mort-gages	Private banking	Small busi-nesses	Com-mercial banking	Business banking	Financial mana-gement	Total
Account management[2]	140	–	8	167	16	20	5	356
Credit cards	148	–	1	36	3	2	–	190
Activities involving securities	149	–	24	20	6	41	42	282
Commissions on distribution of financial products[3]	46	3	2	3	–	1	1	56
Provident fund operations	–	–	–	–	–	–	22	22
Handling credit	6	6	–	15	2	9	1	39
Conversion differences	54	–	13	56	8	11	113	255
Foreign trade activity	–	–	–	18	9	13	–	40
Net revenues from credit portfolio service	9	22	–	–	–	4	3	38
Life insurance distribution commissions	–	100	–	–	–	–	–	100
Home insurance distribution commissions	–	15	–	–	–	–	–	15
Other commissions	9	3	5	–	1	13	10	41
Total commissions other than from financing business	**561**	**149**	**53**	**315**	**45**	**114**	**197**	**1,434**
Commissions from financing transactions[4]	7	7	–	35	20	168	–	237
Total commissions	**568**	**156**	**53**	**350**	**65**	**282**	**197**	**1,671**

(1) As from September 30, 2020 the Bank consolidates the financial statements of Union Bank. The consolidated statement of profit and loss for 2020 includes the financial results of Union Bank for the fourth quarter only.
(2) In Israeli and foreign currency
(3) Includes distribution commissions from mutual funds and pension products.
(4) After effect of risk sale by acquiring an insurance policy for Sale Act guarantees, amounting to NIS 69 million (in 2020: NIS 72 million).
(5) Classification of revenues to operating segments is based on the management approach.

Note 5 – Other revenues

For the year ended December 31,

Reported amounts (NIS in millions)

	2021	2020[1]	2019
Capital gain from sale of buildings and equipment	18	41	26
Trustee fees	18	16	20
Revenues from security services	14	11	11
Rent revenues	5	4	10
Amortization of deferred credit balance, net	206	51	–
Other	26	[2]98	7
Total other revenues	**287**	**221**	**74**

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

(2) Includes revenues of NIS 82 million with respect to indemnification from insurers.

Note 6 – Salaries and Related Expenses

For the year ended December 31,

Reported amounts (NIS in millions)

	2021	2020[3]	2019
Salaries (including bonuses)	2,549	1,812	1,756
Expense due to transactions accounted for as share-based payment transactions settled using equity instruments[1]	41	23	57
Other associated expenses, including study fund and paid leave	105	106	81
Long-term benefits	21	14	23
National Insurance and VAT on salaries	507	427	428
Expenses with respect to pension (including severance pay and provident funds)			
Defined benefit – cost of service[2]	78	75	48
Defined contribution	193	158	146
Other post-employment benefits and post-retirement benefits, other than pension payment[2]	11	8	6
Expenses with respect to other employees' benefits	31	21	17
Total salaries and related expenses	**3,536**	**2,644**	**2,562**
Of which: Payroll and associated expenses overseas	**46**	**50**	**51**

(1) See Note 23 "Share-based Payment Transactions".

(2) See Note 22 "Employees' Rights".

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

Note 7 – Other Expenses

For the year ended December 31,

Reported amounts (NIS in millions)

	2021	2020(1)	2019
Expenses with respect to pension (including severance pay and provident funds), defined benefit (excluding cost of service)	105	79	76
Marketing and advertising	87	68	67
Communications	51	43	41
Computer	318	219	139
Office expenses	43	46	37
Insurance	36	25	12
Professional services	133	124	113
Board members' fees	13	10	9
Training and continuing education	8	7	15
Commissions	52	40	33
Cars and travel	31	31	36
Other	153	72	78
Total other expenses	**1,030**	**764**	**656**

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

Note 8 – Provision for Taxes on Profit

For the year ended December 31,

Reported amounts (NIS in millions)

A. Composition

	2021	2020[1]	2019
Current taxes –			
For the current year	1,650	1,087	943
For prior years	2	4	7
Total current taxes	**1,652**	**1,091**	**950**
Changes in deferred taxes –			
For the current year	78	(184)	82
For prior years	–	(4)	(3)
Total deferred taxes	**78**	**(188)**	**79**
Total provision for taxes on income	**1,730**	**903**	**1,029**
Includes provision for income tax overseas	**47**	**35**	**46**

B. The table excludes the tax effect with respect to certain items recognized directly in equity in each period. The tax effect of all items recognized directly in equity amounted to increase by NIS 16 million in 2021, compared to decrease by NIS 6 million in 2020 and increase by NIS 51 million in 2019.

C. Below is a reconciliation between the theoretical tax amount that would be applicable had the profit been taxable at the statutory tax rate applicable to banks in Israel, and between the provision for taxes on profit as included in the statement of profit and loss:

	2021	2020[1]	2019
Pre-tax profit	**5,030**	**2,604**	**2,954**
Statutory tax rate applicable to a bank in Israel	**34.19%**	**34.19%**	**34.19%**
Tax amount based on statutory tax rate	1,720	890	1,010
Tax (tax saving) from:			
Income of subsidiaries in Israel[2]	(3)	(3)	(3)
Income of subsidiaries overseas	2	2	4
Exempt and reduced tax rate income	(1)	(1)	(4)
Adjustment differences on depreciation, amortization and capital gains	2	–	(1)
Other non-deductible expenses	73	25	20
Temporary differences for which deferred taxes have not been recorded	12	5	(1)
Taxes with respect to previous years:			
Additional amounts payable for problematic debts	4	2	3
Others	2	3	1
Amortization of deferred credit balance[3]	(81)	(20)	–
Total provision for taxes on income	**1,730**	**903**	**1,029**

(1) As from September 30, 2020 the Bank consolidates the financial statements of Union Bank. The consolidated statement of profit and loss for 2020 includes the financial results of Union Bank for the fourth quarter only.
(2) Includes revenues of auxiliary corporations.
(3) Revenue recognition with respect to deferred credit balance from acquisition of Union Bank, as from September 30, 2020.

Note 8 – Provision for Taxes on Profit – continued

For the year ended December 31,

Reported amounts (NIS in millions)

D. Deferred tax assets and provision for deferred taxes

	Balances as of December 31,						
	2020[1]	Changes charged to profit and loss	Changes charged to Other Compre-hensive Income	Changes charged to equity	Other (if material)	2021	Average tax rate in %
Deferred tax assets[2]:							
Provision for credit losses	921	(197)	–	–	–	724	34.2
Provision for vacation pay, long-service bonuses and employees' rights	130	87	–	–	–	217	33.5
Excess liabilities with respect to employees' benefits over plan assets	682	36	5	–	–	723	34.1
Carry-forward tax loss[3]	15	(9)	–	–	–	6	34.2
Other – from monetary items	2	(2)	–	–	–	–	23.0
Other – from non-monetary items	9	(1)	–	–	–	8	34.2
Deferred tax balance, gross	**1,759**	**(86)**	**5**	**–**	**–**	**1,678**	**34.1**
Provision for tax asset	**–**	**–**	**–**	**–**	**–**	**–**	
Tax asset balance net of provision for deferred taxes	**1,759**	**(86)**	**5**	**–**	**–**	**1,678**	**34.1**
Deferred tax liabilities with respect to[2]:							
Fixed assets and leases	24	3	–	–	–	27	23.0
Securities[4]	–	8	–	–	–	8	34.2
Investments in investees	84	16	–	–	–	100	12.0
Other – from monetary items[5]	5	–	(11)	–	–	(6)	34.2
Other – from non-monetary items, net	10	(3)	–	–	–	7	34.2
Tax reserve with respect to PPA adjustments	99	(32)	–	–	–	67	34.2
Deferred tax liability balance, gross	**222**	**(8)**	**(11)**	**–**	**–**	**203**	**20.5**
Deferred tax balance, net	**1,537**	**(78)**	**16**	**–**	**–**	**1,475**	

(1) As from September 30, 2020 the Bank consolidates the financial statements of Union Bank.
(2) The Bank assumes that, with respect to all of the aforementioned deferred taxes, it is more likely than not that future operating results would generate sufficient taxable income to realize these deferred tax assets.
(3) Carry-forward tax loss with respect to subsidiaries in Israel.
(4) Changes in this item include with respect to a gain amounting to NIS 9 million due to adjustment of fair value of securities available for sale (previous year – gain amounting to NIS 23 million) were charged to a separate item in shareholders' equity.
(5) Changes in this item amounting to NIS 11 million due to net gain from cash flow hedges (previous year – loss amounting to NIS 1 million) were charged to a separate item in shareholders' equity.

Note 8 – Provision for Taxes on Profit – continued

For the year ended December 31,

Reported amounts (NIS in millions)

D. Deferred tax assets and provision for deferred taxes – Continued

	Balances as of December 31						
	2019	**Changes charged to profit and loss**	**Changes charged to Other Compre-hensive Income**	**Changes charged to equity**	**Business combination[1]**	**2020**	**Average tax rate in %**
Deferred tax assets[2]:							
Provision for credit losses	562	213	–	–	146	921	34.2
Provision for vacation pay, long-service bonuses and employees' rights	94	(5)	–	–	41	130	33.4
Excess liabilities with respect to employees' benefits over plan assets	479	17	(5)	–	191	682	34.2
Carry-forward tax loss[3]	7	(14)	–		22	15	34.2
Other – from monetary items	7	(5)	–	–		2	23.0
Other – from non-monetary items	26	2	–	(19)		9	34.2
Deferred tax balance, gross	**1,175**	**208**	**(5)**	**(19)**	**400**	**1,759**	**34.1**
Provision for tax asset	–	–	–	–		–	–
Tax asset balance net of provision for deferred taxes	**1,175**	**208**	**(5)**	**(19)**	**400**	**1,759**	**34.1**
Deferred tax liabilities with respect to[2]:							
Fixed assets and leases	23	1	–	–	–	24	23.0
Securities[4]	–	–	–	–	–	–	–
Investments in investee companies	60	24	–	–	–	84	12.0
Other – from monetary items[5]	4	–	1	–	–	5	34.2
Other – from non-monetary items, net	–	–	–	–	10	10	34.2
Tax reserve with respect to PPA adjustments	–	(5)	–	–	104	99	34.2
Deferred tax liability balance, gross	**87**	**20**	**1**	**–**	**114**	**222**	**24.6**
Tax balance, net	**1,088**	**188**	**(6)**	**(19)**	**286**	**1,537**	

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

(2) The Bank assumes that, with respect to all of the aforementioned deferred taxes, it is more likely than not that future operating results would generate sufficient taxable income to realize these deferred tax assets.

(3) Carry-forward tax loss with respect to subsidiary in Israel and overseas.

(4) Changes in this item with respect to a gain amounting to NIS 23 million due to adjustment of fair value of securities available for sale (previous year – gain amounting to NIS 50 million) were charged to a separate item in shareholders' equity.

(5) Changes in this item amounting to NIS 1 million due to net loss from cash flow hedges (previous year – loss amounting to NIS 2 million) were charged to a separate item in shareholders' equity.

Note 8 – Provision for Taxes on Profit – continued

For the year ended December 31,

Reported amounts (NIS in millions)

E. In conformity with directives of the Supervisor of Banks, as from January 1, 2017 the Bank recognizes a deferred tax liability with respect to undistributed earnings of subsidiaries accrued since January 1, 2017. Total liability as of December 31, 2021: NIS 100 million (as of December 31, 2020: NIS 84 million).

F. The Bank has a subsidiary in Holland (United Mizrahi International Holding Company Ltd. B.V. Holland). The company in Holland has carry-forward losses which have no effect on the Bank's tax liability.

G. Legislation changes with regard to tax

1. Corporate tax

On December 22, 2016 the Knesset plenum approved the Economic Streamlining Act (Legislation Amendments to Achieve Budget Goals for 2017 and 2018 Budget Years), 2016, which stipulated a reduction of the corporate tax rate from 25% to 23% in two steps: the first step, to 24%, as from January 2017 and the second step, to 23%, as from January 2018.

Deferred tax balances were calculated using the new tax rates, as stated in the Economic Streamlining Act (Legislation Amendments to Achieve Budget Goals for 2017 and 2018 Budget Years), based on the tax rate expected to apply upon the reversal date.

2. VAT, profit tax and payroll tax

On October 12, 2015, the Knesset plenum enacted the VAT Ordinance (VAT Rate for Non-Profits and Financial Institutions) (Revised), 2015. Stipulating that profit tax and payroll tax rates applicable to financial Institutions would decrease from 18% to 17% as from October 1, 2015. Due to said change, the statutory tax rate applicable to financial institutions decreased to 35% in 2017 and to 34.2% as from 2018.

Following the aforementioned amendments, the statutory tax rates applicable to banking corporations have been amended as follows:

Tax year	Profit tax rate	Income tax rate	Total tax rate
2018 and later	17%	23%	34.19%

The tax indebtedness of Bank subsidiaries is determined based on applicable tax rates in those countries. For overseas branches, the Bank supplements the tax indebtedness based on the tax rate in Israel.

H. The Bank has finalized tax assessments through 2016.

The Bank received agreed withholding deduction tax assessments through the 2017 tax year.

Bank Yahav has finalized tax assessments through 2019.

The Bank has finalized tax assessments through 2013. With respect to 2014-2017, the Bank has signed a tax assessment agreement with the Tax Authority, except for one issue that is not

material for the financial statements.

I.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. This is subject to meeting conditions and restrictions set forth in the tax ruling.

Note 9 – Earnings per Ordinary Share

	For the year ended December 31,		
	Reported amounts (NIS in millions)		
	2021	2020	2019
Net profit used to calculate earnings per share:			
Basic and diluted earnings per share			
Total net profit attributable to shareholders of the Bank	**3,188**	**1,610**	**1,842**
Weighted average number of shares (in thousands of shares)[(1)(2)]			
Weighted average number of ordinary shares used to calculate basic earnings	255,679	240,462	234,268
Weighted average number of ordinary shares used to calculate diluted earnings	258,056	240,797	235,124
Earnings per share:			
Total basic earnings attributable to holders of ordinary Bank shares	**12.47**	**6.70**	**7.86**
Total diluted earnings attributable to holders of ordinary Bank shares	**12.35**	**6.69**	**7.83**

(1) Share of NIS 0.1 par value.

(2) The weighted average number of ordinary shares used to calculate diluted earnings per share includes the number of options due to share-based payment transactions. For more information see Note 23 to the financial statements.

Note 10 – Cumulative other comprehensive income (loss)

Reported amounts (NIS in millions)

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

	Other comprehensive income (loss), before attribution to non-controlling interests						
	Adjustments for presentation of available-for-sale securities at fair value	Translation adjustments[1]	Net gains (losses) from cash flow hedges	Adjustments with respect to employees' benefits	Total	Other compre-hensive income attributed to non-controlling interests	Other compre-hensive income attribu-table to share-holders of the Bank
Balance as of January 01, 2019	**(58)**	**(1)**	**4**	**(309)**	**(364)**	**(18)**	**(346)**
Net change in the period	94	–	4	[2](99)	(1)	(15)	14
Balance as of December 31, 2019	**36**	**(1)**	**8**	**(408)**	**(365)**	**(33)**	**(332)**
Net change in the period	46	–	2	[2]9	57	1	56
Balance as of December 31, 2020	**82**	**(1)**	**10**	**(399)**	**(308)**	**(32)**	**(276)**
Net change in the period	16	(1)	(22)	[2](13)	(20)	7	(27)
Balance as of December 31, 2021	**98**	**(2)**	**(12)**	**(412)**	**(328)**	**(25)**	**(303)**

(1) Translation adjustments of financial statements of associated companies whose functional currency differs from the Bank's functional currency.

(2) Primarily consists of the effect of changes in interest rates on the actuarial liability, as well as deduction of the capital reserve for the streamlining program.

Note 10 – Cumulative other comprehensive income (loss) – continued

Reported amounts (NIS in millions)

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

	For the year ended December 31,								
	2021			2020			2019		
	Before tax	**Tax effect**	**After tax**	**Before tax**	**Tax effect**	**After tax**	**Before tax**	**Tax effect**	**After tax**
Change in items of other comprehensive income (loss), before attribution to non-controlling interests:									
Adjustments for presentation of available-for-sale securities at fair value									
Net unrealized gains (losses) from adjustments to fair value	85	(30)	55	170	(58)	112	179	(62)	117
Losses (gains) with respect to available-for-sale securities reclassified to the statement of profit and loss(1)	(60)	21	(39)	(101)	35	(66)	(35)	12	(23)
Net change in the period	**25**	**(9)**	**16**	**69**	**(23)**	**46**	**144**	**(50)**	**94**
Translation adjustments									
Adjustments from translation of financial statements(2)	(1)	–	(1)	–	–	–	–	–	–
Net change in the period	**(1)**	**–**	**(1)**	**–**	**–**	**–**	**–**	**–**	**–**
Cash flows hedges									
Net gains (losses) with respect to cash flows hedging	(33)	11	(22)	3	(1)	2	6	(2)	4
Net (gains) losses with respect to cash flow hedges reclassified to the statement of profit and loss	–	–	–	–	–	–	–	–	–
Net change in the period	**(33)**	**11**	**(22)**	**3**	**(1)**	**2**	**6**	**(2)**	**4**
Employees' benefits									
Net actuarial gain (loss) for the period	(82)	27	(4)(55)	(33)	11	(4)(22)	(188)	65	(4)(123)
Net losses reclassified to the statement of profit and loss(3)	64	(22)	42	47	(16)	31	36	(12)	24
Net change in the period	**(18)**	**5**	**(13)**	**14**	**(5)**	**9**	**(152)**	**53**	**(99)**
Total net change in the period	**(27)**	**7**	**(20)**	**86**	**(29)**	**57**	**(2)**	**1**	**(1)**
Total net change in the period attributable to non-controlling interests	**11**	**(4)**	**7**	**2**	**(1)**	**1**	**(24)**	**9**	**(15)**
Total net change in the period attributable to shareholders of the Bank	**(38)**	**11**	**(27)**	**84**	**(28)**	**56**	**22**	**(8)**	**14**

(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 amounts are included under "Salaries and related expenses" in the statement of profit and loss. For more information see Note 22.C.2.
(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 11 – Cash and Deposits with Banks

As of December 31,

Reported amounts (NIS in millions)

	2021	2020
Cash and deposits with central banks	93,672	84,450
Deposits with commercial banks	1,595	2,120
Total cash and deposits with banks	**95,267**	**86,570**
Includes: Cash, deposits with banks and deposits with central banks for an original period of up to three months	94,661	85,465

For more information about liens see Note 27 below.

Note 12 – Securities

As of December 31, 2021

Reported amounts (NIS in millions)

	Carrying amount	Amortized cost	Adjust-ments to fair value yet to be recognized		Fair value(1)
			Gains	Losses	
(1) Debentures held to maturity					
of Government of Israel	2,634	2,634	62	(5)	2,691
Of financial institutions in Israel	271	271	4	–	275
Of others in Israel	29	29	–	–	29
Total debentures held to maturity	**2,934**	**2,934**	**66**	**(5)**	**2,995**

	Carrying amount	Amortized cost	Cumulative other comprehensive income(4)		Fair value(1)
			Gains	Losses	
(2) Debentures available for sale					
of Government of Israel	7,314	7,244	110	(40)	7,314
Of foreign governments(3)	2,035	2,035	1	(1)	2,035
Of financial institutions in Israel	326	323	3	–	326
Of foreign financial institutions	177	176	2	(1)	177
Asset-backed (ABS)	6	6	–	–	6
Of others in Israel	712	659	55	(2)	712
Of others overseas	253	232	21	–	253
Total debentures available for sale	**10,823**	**10,675**	**192**	**(44)**	**10,823**

Note 12 – Securities – Continued

As of December 31, 2021

Reported amounts (NIS in millions)

	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	**706**	**574**	**134**	**(2)**	**706**
Of which: Shares for which no fair value is available[6]	414	403	11	–	414
Total securities not held for trading	**14,463**	**14,183**	**392**	**(51)**	**14,524**

	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	*473*	*465*	*9*	*(1)*	*473*
Of financial institutions in Israel	*4*	*4*	*–*	*–*	*4*
Of others in Israel	*24*	*23*	*2*	*(1)*	*24*
Of others overseas	*49*	*47*	*2*	*–*	*49*
Total debentures held for trading	***550***	***539***	***13***	***(2)***	***550***
Shares and other securities	*20*	*21*	*4*	*(5)*	*20*
Total securities held for trading	***570***	***560***	***17***	***(7)***	***570***
Total securities[2]	**15,033**	**14,743**	**409**	**(58)**	**15,094**

(5)Additional information about debentures	
Recorded debt balance of	
Impaired debentures not accruing interest revenues	45
	45

(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 1,079 million and securities provided as collateral to lenders, amounting to NIS 143 million.

(3) US government debentures.

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

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

(6) Generally shown at cost (net of impairment), adjusted for changes in observed prices in ordinary transactions for similar or identical investments of the same issuer.

Remarks:

– For more information about operations involving investments in debentures – see Notes 2.D, 3.A.2 and 3.B For more information of investments in shares – see Note 3.A.4.

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

Note 12 – Securities – Continued

As of December 31, 2020

Reported amounts (NIS in millions)

	Carrying amount	Amortized cost	Adjustments to fair value yet to be recognized – Gains	Adjustments to fair value yet to be recognized – Losses	Fair value[1]
(1)Debentures held to maturity					
of Government of Israel	3,315	3,315	63	–	3,378
Of financial institutions in Israel	368	368	6	–	374
Of others in Israel	32	32	–	–	32
Total debentures held to maturity	**3,715**	**3,715**	**69**	**–**	**3,784**

	Carrying amount	Amortized cost	Cumulative other comprehensive income[4] – Gains	Cumulative other comprehensive income[4] – Losses	Fair value[1]
(2)Debentures available for sale					
of Government of Israel	9,798	9,728	72	(2)	9,798
Of foreign governments[3]	451	446	5	–	451
Of financial institutions in Israel	252	250	2	–	252
Of foreign financial institutions	227	225	2	–	227
Asset-backed (ABS)	33	33	–	–	33
Of others in Israel	683	653	30	–	683
Of others overseas	294	286	8	–	294
Total debentures available for sale	**11,738**	**11,621**	**119**	**(2)**	**11,738**

Note 12 – Securities – Continued

As of December 31, 2020

Reported amounts (NIS in millions)

	Carrying amount	Cost	Adjustments to fair value yet to be realized(5) Gains	Losses	Fair value(1)
(3) Investment in shares not held for trading	**426**	**355**	**71**	**–**	**426**
Of which: Shares for which no fair value is available(6)	216	216	–	–	216
Total securities not held for trading	**15,879**	**15,691**	**259**	**(2)**	**15,948**

	Carrying amount	Amortized cost (for shares – cost)	Adjustments to fair value yet to be realized(5) Gains	Losses	Fair value(1)
(4) Debentures held for trading					
of Government of Israel	1,342	1,348	2	(8)	1,342
Of financial institutions in Israel	2	2	–	–	2
Of others in Israel	20	19	1	–	20
Of others overseas	27	26	1	–	27
Total debentures held for trading	**1,391**	**1,395**	**4**	**(8)**	**1,391**
Shares and other securities	20	20	–	–	20
Total securities held for trading	**1,411**	**1,415**	**4**	**(8)**	**1,411**
Total securities(2)	**17,290**	**17,106**	**263**	**(10)**	**17,359**

(5) Additional information about debentures

Recorded debt balance of	
Impaired debentures not accruing interest revenues	47
	47

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

(2) Of which: Securities pledged to lenders, amounting to NIS 1,018 million and securities provided as collateral to lenders, amounting to NIS 150 million.

(3) US government debentures.

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

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

(6) Generally shown at cost (net of impairment), adjusted for changes in observed prices in ordinary transactions for similar or identical investments of the same issuer.

Remarks:

– For more information about operations involving investments in debentures – see Notes 2.D, 3.A.2 and 3.B For more information of investments in shares – see Note 3.A.4.

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

Note 12 – Securities – Continued

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 0%-20%	Unrealized losses 20%-40%	Total	Fair value[1] (to maturity – amortized cost)	Unrealized losses 0%-20%	Unrealized losses 20%-40%	Total
	As of December 31, 2021							
Debentures held to maturity								
of Government of Israel	202	5	–	5	–	–	–	–
Total – debentures held to maturity	**202**	**5**	**–**	**5**	**–**	**–**	**–**	**–**
Debentures available for sale								
of Government of Israel	2,029	32	–	32	602	8	–	8
Of foreign governments[2]	1,834	1	–	1	–	–	–	–
Of financial institutions in Israel	25	[3] -	–	–	–	–	–	–
Of foreign financial institutions	38	1	–	1	–	–	–	–
Asset-backed (ABS)	1	[3] -	–	–	–	–	–	–
Of others in Israel	75	2	–	2	–	–	–	–
Of others overseas	5	[3] -	–	–	–	–	–	–
Total debentures available for sale	**4,007**	**36**	**–**	**36**	**602**	**8**	**–**	**8**
	As of December 31, 2020							
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.

(7) Asset-backed and mortgage-backed securities

	Carrying amount	Amortized cost	Cumulative other comprehensive income Gains	Cumulative other comprehensive income Losses	Fair value
	As of December 31, 2021				
Asset-backed debentures	6	6	–	–	6
Total asset-backed debentures available for sale	**6**	**6**	**–**	**–**	**6**
	As of December 31, 2020				
Asset-backed debentures	33	33	–	–	33
Total asset-backed debentures available for sale	**33**	**33**	**–**	**–**	**33**

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

Note 13 – Credit risk, loans to the public and provision for credit losses

Reported amounts (NIS in millions)

A. Debts[(1)], loans to the public and balance of provision for credit losses

	December 31, 2021					
	Loans to the public					
	Commercial	Housing	Individual – other	Total	Banks and governments	Total
Recorded debt balance of debts [(1)]						
reviewed on individual basis	63,761	36	564	64,361	10,070	74,431
reviewed on group basis	9,162	175,722	24,286	209,170	–	209,170
Of which: By extent of arrears	1,476	175,722	–	177,198	–	177,198
Total debts	**72,923**	**[(2)]175,758**	**24,850**	**273,531**	**10,070**	**283,601**
Of which:						
Impaired debts under restructuring	410	–	66	476	–	476
Other impaired debts	817	36	22	875	1	876
Total impaired debts	**1,227**	**36**	**88**	**1,351**	**1**	**1,352**
Debts in arrears 90 days or longer	26	1,264	26	1,316	–	1,316
Other problematic debts	674	–	79	753	–	753
Total problematic debts	**1,927**	**1,300**	**193**	**3,420**	**1**	**3,421**
Provision for credit losses with respect to debts [(1)]						
reviewed on individual basis	959	1	21	981	1	982
reviewed on group basis	102	803	217	1,122	–	1,122
Of which: Provision by extent of arrears[(3)]	5	803	–	808	–	808
Total provision for credit losses	**1,061**	**804**	**238**	**2,103**	**1**	**2,104**
Of which: With respect to impaired debts	**297**	**1**	**15**	**313**	**–**	**313**

(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 11,145 million.

(3) Includes balance of provision beyond that required by extent of arrears, calculated on individual basis amounting to NIS 11 million, and calculated on group basis amounting to NIS 609 million. For details see Note 1.F.6.

Note 13 – Credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

A. Debts[1], loans to the public and balance of provision for credit losses – Continued

	December 31, 2020					
	Loans to the public					
	Commercial	Housing	Individual – other	Total	Banks and governments	Total
Recorded debt balance of debts[1]						
reviewed on individual basis	56,478	97	948	57,523	12,880	70,403
reviewed on group basis	10,731	156,484	23,220	190,435	–	190,435
Of which: By extent of arrears	1,951	156,484	–	158,435	–	158,435
Total debts	**67,209**	**[2]156,581**	**24,168**	**247,958**	**12,880**	**260,838**
Of which:						
Impaired debts under restructuring	514	–	75	589	–	589
Other impaired debts	993	97	21	1,111	–	1,111
Total impaired debts	**1,507**	**97**	**96**	**1,700**	**–**	**1,700**
Debts in arrears 90 days or longer	28	1,176	24	1,228	–	1,228
Other problematic debts	705	12	81	798	–	798
Total problematic debts	**2,240**	**1,285**	**201**	**3,726**	**–**	**3,726**
Provision for credit losses with respect to debts [1]						
reviewed on individual basis	1,001	1	37	1,039	2	1,041
reviewed on group basis	174	941	279	1,394	–	1,394
Of which: Provision by extent of arrears[3]	10	941	–	951	–	951
Total provision for credit losses	**1,175**	**942**	**316**	**2,433**	**2**	**2,435**
Of which: With respect to impaired debts	**316**	**1**	**22**	**339**	**–**	**339**

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

(2) Includes general-purpose loans secured by a lien on a residential apartment, amounting to NIS 9,349 million.

(3) Includes balance of provision beyond that required by extent of arrears, calculated on individual basis amounting to NIS 10 million, and calculated on group basis amounting to NIS 732 million. For details see Note 1.F.6.

Note 13 – Credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Change in balance of provision for credit losses

	For the year ended December 31, 2021					
	Provision for credit losses					
	Loans to the public					
	Commercial	Housing	Individual – other	Total	Banks and governments	Total
Balance of provision for credit losses at the start of the period	1,383	942	340	2,665	2	2,667
Expenses with respect to credit losses	(88)	(133)	(56)	(277)	(1)	(278)
Accounting write-offs[1]	(241)	(10)	(143)	(394)	–	(394)
Collection of debts written off for accounting purposes in previous years[1]	165	3	98	266	–	266
Net accounting write-offs	(76)	(7)	(45)	(128)	–	(128)
Other[2]	37	2	15	54	–	54
Balance of provision for credit losses at end of period	**1,256**	**804**	**254**	**2,314**	**1**	**2,315**
Of which: With respect to off balance sheet credit instruments	**195**	**–**	**16**	**211**	**–**	**211**

	For the year ended December 31, 2020					
Balance of provision for credit losses at the start of the period	865	674	273	1,812	1	1,813
Expenses with respect to credit losses	634	279	136	1,049	1	1,050
Accounting write-offs[1]	(304)	(12)	(153)	(469)	–	(469)
Collection of debts written off for accounting purposes in previous years[1]	119	1	76	196	–	196
Net accounting write-offs	(185)	(11)	(77)	(273)	–	(273)
Acquisition of Union Bank	69	–	8	77	–	77
Balance of provision for credit losses at end of period	**1,383**	**942**	**340**	**2,665**	**2**	**2,667**
Of which: With respect to off balance sheet credit instruments	**208**	**–**	**24**	**232**	**–**	**232**

	For the year ended December 31, 2019					
Balance of provision for credit losses at the start of the period	766	644	263	1,673	4	1,677
Expenses with respect to credit losses	222	44	101	367	(3)	364
Accounting write-offs[1]	(237)	(15)	(155)	(407)	–	(407)
Collection of debts written off for accounting purposes in previous years[1]	114	1	64	179	–	179
Net accounting write-offs	(123)	(14)	(91)	(228)	–	(228)
Balance of provision for credit losses at end of period	**865**	**674**	**273**	**1,812**	**1**	**1,813**
Of which: With respect to off balance sheet credit instruments	**110**	**–**	**9**	**119**	**–**	**119**

(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.

(2) Movement in provision for credit losses in subsidiary, primarily attributed to cost of acquisition upon initial consolidation, and is therefore not included on the consolidated balance sheet.

Note 14 – Loans to Governments

As of December 31,

Reported amounts (NIS in millions)

	2021	2020
Loans to the Government of Israel	74	60
Loans to foreign governments	403	553
Total loans to governments	**477**	**613**

Note 15 – Investments in and Details of Investee companies

As of December 31,

Reported amounts (NIS in millions)

A. Item composition:

	2021	2020
	Associated companies	Associated companies
Investment in shares stated on equity basis	34	(4)
Subordinated notes and capital notes	35	35
Total investments	**69**	**31**
Of which:		
Losses accrued since acquisition date	(26)	(16)
Post-acquisition items accrued in shareholders' equity:		
Adjustments from translation of financial statements	(2)	(1)

B. Bank's share in net profits of associated companies, net:

	2021	2020	2019
Bank's share in net profits (losses) of associated companies(1)(2)	(10)	1	–

(1) There are no losses or reversal of losses from impairment of investee companies.
(2) The tax effect on earnings of associated companies is less than NIS 1 million.

Note 15 – Investments in and Details of Investee companies – continued

Reported amounts (NIS in millions)

	Company information	Share in capital conferring rights to profits		Share in voting rights	
		As of December 31,			
		2021	2020	2021	2020
C. Details of principal investee companies[1]:					
1) Subsidiaries					
Union Bank Le-Israel Ltd.[2]	The Bank	100%	100%	100%	100%
Bank Yahav for Government Employees Ltd.[3]	The Bank	50%	50%	50%	50%
Tefahot Insurance Agency (1989) Ltd.	Insurance agency	100%	100%	100%	100%
Mizrahi International Holding Company Ltd. (B.V. Holland)[4]	International holding company	100%	100%	100%	100%
Etgar Investment Portfolio Management Company of the Mizrahi Tefahot Group Ltd.	Portfolio management	100%	100%	100%	100%
Mizrahi Tefahot Issue Company Ltd.[5]	Issuance company	100%	100%	100%	100%
Mizrahi Tefahot Trust Company Ltd.[6]	Trust company	100%	100%	100%	100%
2) Main subsidiaries of a subsidiary of Union Bank Le-Israel Ltd.[7]					
Union Investments and Development (A.S.I.) Ltd.	Real investments	100%	100%	100%	100%
Union Leasing Ltd.	Leasing	100%	100%	100%	100%
Union Bank Trust Company Ltd.[6]	Trust services		100%		100%
Carmel-Union Mortgages and Investments Ltd.	Bank operating services	100%	100%	100%	100%
Livluv Insurance Agency (1993) Ltd.	Real estate insurance	100%	100%	100%	100%
Union Issuance Ltd.[5]	Issuance of obligatory notes		100%		100%
Igudim Insurance Agency	Insurance agency	100%	100%	100%	100%

	December 31, 2021		
	Cost	Accumulated amortization	Amortized balance
D. Balance of goodwill with respect to investees:[3][8]	140	53	87

(1) The above list does not include wholly owned and controlled companies constituting property companies that provide services to the Bank, or companies that provide services to the Bank, and whose assets and liabilities and operating results are included in the Bank's financial statements.
(2) Deferred credit balance with respect to acquisition of Union Bank is included on the consolidated balance sheet under "Other Liabilities". For more information about the acquisition of Union Bank, see Note 35.
(3) Balance of goodwill with respect to acquisition of Bank Yahav is included on the consolidated balance sheet under Intangible Assets and Goodwill.
(4) The Company is incorporated in Holland. On May 21, 2021, the sale of United Mizrahi Bank (Switzerland) Limited closed – this is a commercial bank incorporated in Switzerland, which had been a subsidiary of Mizrahi International Holding Company Ltd. (B.V. Holland)
(5) On June 13, 2021, the merger of Mizrahi Tefahot Issuance Company Ltd. and Union Bank Issuance Company Ltd. closed.
(6) On May 2, 2021, the merger of Mizrahi Tefahot Trust Company Ltd. and Union Bank Trust Company Ltd. closed.
(7) The Bank is acting in as much as possible to merge Union Bank subsidiaries with and into Bank subsidiaries.
(8) The goodwill balance includes goodwill with respect to acquisition of Tefahot Mortgage Bank Ltd., whose amortized balance as of December 31, 2021 amounted to NIS 14 million (identical to amortized balance as of December 31, 2020 and as of December 31, 2019), and with respect to acquisition of Adanim Mortgage Bank Ltd., whose amortized balance as of December 31, 2021 amounted to NIS 4 million (identical to amortized balance as of December 31, 2020 and as of December 31, 2019).
(9) Includes goodwill balance included on the consolidated balance sheet under "Intangible assets and goodwill".
(10) Including adjustments from translation of financial statements and adjustments with respect to presentation of certain securities of investees at fair value and changes to Other Comprehensive Income with respect to employee benefits.
(11) Includes loss due to revaluation of the shekel, relative to foreign currency exchange rates, amounting to NIS 12 million (2020 – loss amounting to NIS 4 million).

-	Investment in shares at equity value[9]		Goodwill balance [3]		Other capital investments		Contribution to net profit (loss) attributable to shareholders of the banking corporation		Dividends recorded		Other items accrued under shareholders equity[10]	
-	As of December 31,								For the year ended December 31,			
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
-												
-												
-	3,071	3,051	–	–	500	500	211	19	–	–	–	–
-	1,028	934	69	69	–	–	102	92	(15)	–	8	(1)
-	1,265	1,195	–	–	–	–	70	67	–	–	–	–
-												
	225	225	–	–	–	–	[11] -	[11] (3)	–	–	–	–
-												
	28	28	–	–	–	–	–	–	–	–	–	–
-	95	60	–	–	–	–	2	3	–	–	–	–
-	171	84	–	–	–	–	18	23	–	–	–	–
-												
-	149	266	–	–	–	–	6	11	–	–	10	1
-	835	801	–	–	–	–	34	7	–	–	–	–
-	–	68	–	–	–	–	1	1	–	–	–	–
-	105	105	–	–	–	–	2	1	(2)	–	–	–
-	44	43	–	–	–	–	1	–	–	–	–	–
-	–	32	–	–	–	–	1	1	–	–	–	–
-	22	18	–	–	–	–	4	1	–	–	–	–

Note 16 – Buildings and Equipment

Reported amounts (NIS in millions)

	Buildings and land (including installations and leasehold improvements)[1]	Equipment, furniture, and vehicles	Cost of software	Total
A. Composition				
Cost of assets				
Cost of assets as of December 31, 2019	**1,248**	**1,328**	**2,310**	**4,886**
Additions	40	36	221	297
Disposals	(76)	–	–	(76)
Initial consolidation of Union Bank[2]	467	380	519	1,366
Cost of assets as of December 31, 2020	**1,679**	**1,744**	**3,050**	**6,473**
Additions	48	48	253	349
Disposals	(50)	(4)	–	(54)
Cost of assets as of December 31, 2021	**1,677**	**1,788**	**3,303**	**6,768**
Depreciation and impairment losses				
Accumulated depreciation as of December 31, 2019	**578**	**1,080**	**1,771**	**3,429**
Depreciation	38	40	198	276
Impairment	–	–	7	7
Disposals	(44)	–	–	(44)
Initial consolidation of Union Bank[2]	232	349	481	1,062
Accumulated depreciation as of December 31, 2020	**804**	**1,469**	**2,457**	**4,730**
Depreciation	47	59	233	339
Impairment	–	–	–	–
Disposals	(31)	(4)	–	(35)
Accumulated depreciation as of December 31, 2021	**820**	**1,524**	**2,690**	**5,034**
Book value[3]:				
As of December 31, 2019	**670**	**248**	**539**	**1,457**
As of December 31, 2020	**875**	**275**	**593**	**1,743**
As of December 31, 2021	**857**	**264**	**613**	**1,734**
Weighted average depreciation rate as of December 31, 2020	4.0%	13.7%	23.6%	
Weighted average depreciation rate as of December 31, 2021	4.1%	13.9%	23.8%	

B. Additional information

Depreciation rates are as follows:

Buildings	4%-2%
Leasehold improvements	7%
Office equipment and furniture	25%-6%
Vehicles	20%-15%
Computers, software usage rights and costs	33%-20%

(1) Installations, rights in leasehold and payments on account of some of the buildings and leasing rights, amounting to NIS 132 million (as of December 31, 2020: NIS 109 million) have yet to be recorded at the Land Registry Office in the name of the Bank or its subsidiaries.

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

(3) Includes amortized capitalized cost of independently developed computer software as of December 31, 2021 amounting to NIS 538 million (December 31, 2020: NIS 444 million; December 31, 2019: NIS 401 million). For more information about policy on software cost capitalization, see Note 1.D.8.

Note 16 – Buildings and Equipment – continued

Reported amounts (NIS in millions)

C. Assets not used by the Group (depreciable balance):

	Consolidated	
	December 31,	
	2021	2020
Not designated for sale	26	34
Includes – leased to others	26	26
Designated for sale(1)	–	6

(1) In addition, assets used by the Group and designated for sale of December 31, 2021 amounted to NIS 200 million (as of December 31, 2020: NIS 2 million).

D. As of December 31, 2021, the Bank Group has an obligation to acquire and refurbish buildings, amounting to NIS 14 million (December 31, 2020 – NIS 18 million).

E. In 2017, the Bank acquired land in order to concentrate, in as much as possible, the Bank's headquarters units in a single central site, in Lod. The acquisition cost amounted to NIS 27 million. For information about this commitment, its effect on the financial statements and capital relief authorized by the Supervisor of Banks with regard to streamlining in the real estate sector, see Note 25.

F. Information with respect to leases

Expenses with respect to leases:

	2021	2020
Expenses with respect to operational leases	153	118
Total expenses with respect to leases	**153**	**118**

Additional information about leases:

	2021	2020
Capital gain from sale and lease-back transactions, net	16	40
Cash flow with respect to current operations with respect to operational leases	140	104
Right-to-use assets recognized with respect to new operational leases	173	24
Weighted average remaining term (in years)	4.5	4.2
Weighted average discount rate	1.3	1.2

Non-capitalized cash flows and liabilities with respect to operational leases, by term to maturity:

	As of December 31, 2021		As of December 31, 2020	
	Non-capitalized cash flows	Liability with respect to lease	Non-capitalized cash flows	Liability with respect to lease
Up to 1 year	107	107	36	36
Over 1 year to 2 years	92	91	112	111
Over 2 years to 3 years	80	78	93	92
Over 3 years to 4 years	65	63	83	80
Over 4 years to 5 years	47	44	67	64
Over 5 years	273	234	280	248
Total	**664**	**617**	**671**	**631**

Note 17 – Other Assets

Reported amounts (NIS in millions)

	December 31,	
	2021	**2020**
Deferred taxes receivable, net(1)	1,678	1,759
Excess of advance income tax payments over current provisions	114	278
Revenues receivable	130	202
Issuance expenses for debentures and subordinated notes(2)	118	79
Right-to-use asset with respect to operational lease(3)	614	630
Other receivables and debit balances	417	438
Total other assets	**3,071**	**3,386**

(1) For further details, see Note 8.
(2) For more information about debentures and subordinated notes see Note 20.
(3) For more information about right-to-use asset with respect to operational lease, see Note 16.

Note 18 – Deposits from the Public

As of December 31,

Reported amounts (NIS in millions)

A. Deposit types by location solicited and depositor type

	2021	2020
In Israel		
On-call		
Non interest-bearing	103,889	91,615
Interest-bearing	47,151	40,893
Total on-call	**151,040**	**132,508**
Term deposits	152,698	147,105
Total deposits in Israel(1)	**303,738**	**279,613**
Outside of Israel		
On-call		
Non interest-bearing	492	961
Interest-bearing	1	3
Total on-call	**493**	**964**
Term deposits	3,693	3,647
Total deposits overseas	**4,186**	**4,611**
Total deposits from the public	**307,924**	**284,224**

(1) Includes:

	2021	2020
Deposits from individuals	**139,715**	**135,165**
Deposits from institutional investors	**61,365**	**47,566**
Deposits from corporations and others	**102,658**	**96,882**

B. Deposits from the public by size

	2021	2020
Maximum deposit (NIS in millions)		
Up to 1	95,170	94,031
Over 1 to 10	78,746	73,376
Over 10 to 100	44,740	41,781
Over 100 to 500	36,591	35,060
Above 500	52,677	39,976
Total	**307,924**	**284,224**

Note 19 – Deposits from Banks

As of December 31,

Reported amounts (NIS in millions)

	December 31,	
	2021	**2020**
In Israel		
Commercial banks:		
On-call deposits	1,085	670
Term deposits	707	612
Acceptances	299	253
Central banks:		
Term deposits	4,877	2,200
Outside of Israel		
Commercial banks:		
On-call deposits	24	37
Term deposits	–	–
Acceptances	–	7
Total deposits from banks	**6,992**	**3,779**

Note 20 – Debentures and Subordinated Notes

As of December 31,

Reported amounts (NIS in millions)

	Average maturity in years [1]	Internal rate of return[2]	December 31, 2021	December 31, 2020
Debentures and subordinated notes not convertible into shares:				
In Israeli currency – non-linked				
Debentures	1.80	1.78%	6,741	6,957
Subordinated notes[3]	1.57	4.27%	192	192
In Israeli currency – CPI-linked				
Debentures	3.97	0.75%	22,391	18,311
Subordinated notes[3]	6.46	2.06%	3,582	4,823
Debentures and subordinated notes convertible into shares:				
In Israeli currency – CPI-linked				
Subordinated notes[3]	3.55	4.64%	3,260	3,163
In foreign currency – USD				
Subordinated notes[3]	4.55	3.10%	1,880	–
Total debentures and subordinated notes	**3.80**	**1.50%**	**38,046**	**33,446**

(1) Average maturity is the average of the repayment periods, weighted by the flows discounted according to the internal rate of return.

(2) Internal rate of return is the interest rate used to discount the projected flow of payments to the carrying value in the financial statements.

(3) Upon liquidation, the subordinated notes issued by the Bank and included under this item are repayable after all other liabilities.

A. On October 30, 2006, the Bank's Board of Directors approved the issuance of Bank subordinated notes (Series A) which will be deemed complex capital instruments ("Upper Tier II capital"), as the term is defined in Proper Business Conduct Directive 311 and in accordance with the approval received from the Supervisor of Banks on November 12, 2006), amounting up to NIS 500 million. The subordinated notes are obligatory notes that, if certain events specified in advance in their terms should occur, will be converted in a forced conversion, according to a formula prescribed in advance, into shares of the Bank. On November 15, 2006, Ma'alot Israel Securities Rating Company Ltd. issued a rating of AA- for the subordinated notes issued. The rating of the subordinated notes in its offering is based on the rating of the Bank's debentures, including subordinated notes, with the changes required by the terms of the subordinated notes.
On September 15, 2009, the Bank and the Trustee for the Bank's subordinated capital notes (Series A) signed an addendum, revising the Deed of Trust dated November 16, 2006, which is effective as of the signing date there of ("the revision"). According to the revision, the capital note section stipulating that interest payment to holders of capital notes would be suspended, inter alia, in case "within a period of six consecutive quarters, the financial statements for the most recent of which was published prior to the date set for payment of such interest, the Bank has not reported a cumulative net profit" (i.e. if the simple summation of quarterly net profit or loss amounts stated on the Bank financial statements, with respect to six consecutive quarters, should be negative).
On January 4, 2017, Maalot announced that the subordinated capital notes, which qualify as Tier II equity in conformity with transitional provisions of Basel III, are rated ilA+.
The balance of subordinated capital notes (Series A) as of December 31, 2021 amounted to NIS 2,101 million, NIS 1,623 million par value, issued for consideration of NIS 1,644 million. The capital notes were repaid after the balance sheet date, on January 2, 2022.

B. Mizrahi Tefahot Issue Company (“the Company”), a company wholly-owned and controlled by the Bank, issued to the public CPI-linked pursuant to prospectus, debentures and subordinated notes with a par value of NIS 24,515 million and non-linked debentures with a par value of NIS 6,640 million, as of December 31, 2021, and deposited the proceeds in the Bank earmarked for its day-to-day activities.
In 2021, the Company issued a new series of debentures (Series 62), linked to the Consumer Price Index, with par value of NIS 3,377 million, debentures (Series 46) by way of series expansion, linked to the Consumer Price Index, with par value of NIS 1,017 million, as well as debentures (Series 52) by way of series expansion, linked to the Consumer Price Index, with par value of NIS 545 million. Gross proceeds from these three series amounted to NIS 5,400 million. 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. As part of this merger, debentures and notes (Series 54-61) with total par value of NIS 3,631 million were merged into the company. These capital notes are listed for trading on the Tel Aviv Stock Exchange.
On September 12, 2021, Tefahot Issuance conducted a forced early redemption of contingent convertible (CoCo) subordinated notes (Series 55), with current value amounting to NIS 222 million.

Note 20 – Debentures and Subordinated Notes – continued

C. In December 2015 and in January 2016, the Bank issued contingent subordinated notes (Contingent Convertibles – CoCo) with loss-absorption provisions through principal write-off, amounting to NIS 600 million. These notes qualify for recognition as Tier II equity pursuant to Basel III provisions.

The notes include loss-absorption provisions if the Bank's Tier I capital should drop below 5% or in case of another event leading to non-sustainability of the Bank, in conformity with the Supervisor of Banks' decision. In such case, the notes would be partially or completely written off.
Should the Tier I capital ratio exceed the minimum required ratio, the Bank may announce a write-off of principal, in whole or in part. Rating agency Standard & Poor's Ma'alot rated the contingent subordinated notes ilAA-. In July 2016 and in August 2017, Bank Yahav issued contingent subordinated notes (Contingent Convertibles – CoCo) with loss-absorption provisions through principal write-off, amounting to NIS 218 million and NIS 120 million, respectively. These notes qualify for recognition as Tier II equity pursuant to Basel III provisions.

In August 2018, Bank Yahav issued, by private placement, contingent convertible subordinated notes (CoCo) amounting to NIS 180 million. The subordinated notes stipulate that in case of a dissolution event, the instrument principal would be erased. These notes qualify for recognition as Tier II equity pursuant to Basel III provisions.

On April 7, 2021, the Bank issued to institutional investors by international private placement, underwritten by international financial institutions, contingent subordinated notes (CoCo – Contingent Convertibles) amounting to USD 600 million. The subordinated notes qualify as Tier II capital.

In July 2021, Bank Yahav raised Tier II capital by issue of CoCo (Contingent Convertible) 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.

Note 21 – Other Liabilities

Reported amounts (NIS in millions)

	December 31,	
	2021	**2020**
Provision for deferred taxes, net[(1)]	203	222
Excess of provision over funding severance pay, retirement and pension[(2)]	2,382	1,909
Unearned revenues	241	206
Deferred credit balance from acquisition of Union Bank	1,027	1,403
Accrued expenses	832	591
Provision for vacations and long- service bonus	215	244
Guarantees payable	147	116
Provision for doubtful debts for off-balance sheet items	211	232
Payables for credit card operations	2,894	5,431
Market value of securities sold short	2,057	986
Liabilities with respect to operational leases[(3)]	617	631
Other payables and credit balances	2,920	1,475
Total other liabilities	**13,746**	**13,446**

(1) For further details, see Note 8.
(2) For more information see Note 22 "Employee rights".
(3) For more information about liability with respect to operational leases, see Note 16.

Note 22 – Employees' Rights

A. Description of benefits

1. Below is a summary of the terms of office and employment of the Chairman of the Board of Directors, Mr. Moshe Vidman.

Mr. Moshe Vidman serves as Chairman of the Bank's Board of Directors, in a full-time position equivalent, as from December 1, 2012.

On February 14, 2017, the General Meeting of Bank shareholders approved, in line with the resolution by the Board of Directors and after approval by the Remuneration Committee, the terms of office and employment of Mr. Vidman as Chairman of the Bank's Board of Directors in line with a new officer remuneration policy, also approved by the General Meeting on said date, which was made to conform to provisions of the Remuneration of Officers in Financial Corporations Act (Special Permission and Non-allowance of Expenses for Tax Purposes with Respect to Excessive Remuneration), 2016 ("the Executive Remuneration Act") and following revisions to Proper Conduct of Banking Business Directive 301A on remuneration ("the new remuneration policy").

For complete information about terms of office and employment of the Chairman of the Board of Directors, see Appendix B to report dated January 9, 2017 and report dated February 14, 2017.

The employment term according to the approved employment agreement ("the amended employment agreement") is from December 1, 2016 through December 31, 2017 and will be automatically renewed, every year, for one additional year – all subject to provisions of the amended employment agreement ("the additional employment term").

Notwithstanding the foregoing, either party may announce discontinuation of employment at any time during the additional employment period, for any reason and with no need to justify their position to the other party, subject to providing six months' advance notice to the other party.

During the advance notice period, the Chairman of the Board of Directors will be required to fully work as usual, but the Bank may waive such notice period, in whole or in part, and may terminate employment of the Chairman of the Board of Directors; in such case, the Bank will pay to the Chairman of the Board of Directors for the portion of the advance notice period for which the Bank waived the Chairman's work – in an amount equal to the salary for the waived period plus an amount equal to Bank contributions to provident fund, retirement fund, severance pay and study fund as stated above.

In conformity with the amended employment agreement, the Chairman of the Board of Directors will be entitled to monthly salary of NIS 189,660. This salary is fully linked to changes in the Consumer Price Index. The Bank provides to the Chairman of the Board of Directors a budget equal to 14.83% for contributions towards provident fund, retirement fund and severance pay payable by the Bank (6.5% for provident fund and 8.33% for severance pay). The Chairman of the Board of Directors is also eligible to employer contributions to a study fund at 7.5% of the salary. These amounts are contributed to provident / pension / study funds as selected by the Chairman of the Board of Directors.

Should the Chairman of the Board of Directors request, from time to time, the Bank would update the Chairman's monthly salary, subject to required adjustments and changes to payment of associated expenses, so that any increase or decrease in the salary would be against concurrent decrease or increase in associated expenses and vice versa, provided that the total cost of employment of the Chairman would remain unchanged, including the tax cost to the Bank, all subject to statutory provisions and subject to the maximum remuneration allowed by the Executive Remuneration Act and the statutory rate of contributions to severance pay and provident funds.

Upon approval of the terms of office and employment of the Chairman of the Board of Directors by the Remuneration Committee and by the Board of Directors, the total maximum remuneration which the Bank may have paid to the Chairman of the Board of Directors (subject to obtaining statutory approvals), pursuant to Section 2(b) to the Executive Remuneration Act, amounted to NIS 2,746 thousand per annum (for this matter, any remuneration for which expenses are not expected pursuant to GAAP and contribution towards severance pay and provident funds by law would not be taken into account).

Pursuant to terms of employment and office of the Chairman of the Board of Directors, should the maximum remuneration pursuant to the Executive Remuneration Act, including pursuant to Section 2(b) of the Act, allow this, the Bank would pay the Chairman of the Board of Directors an additional fixed remuneration component equal to up to 2 months' salary (based on the salary for December of that year).

Note 22 – Employees' Rights – Continued

With respect to this additional fixed remuneration component, the Bank would make all statutory payments and contributions as well as contribution towards severance pay and provident funds by law.

Since the expense with respect to cost of salary to be incurred by the Bank, directly or indirectly, in the tax year with respect to the Chairman of the Board of Directors would exceed the "Maximum payment", as defined in Section 4 of the Executive Remuneration Act, part of the remuneration payable to the Chairman of the Board of Directors would not be tax deductible for the Bank pursuant to provisions of the aforementioned Section 4.

Upon termination of employment pursuant to the amended employment agreement, the Bank will pay to the Chairman of the Board of Directors an acclimation bonus in exchange for non-competition, equal to three monthly salaries ("Acclimation Bonus for the Chairman of the Board of Directors").

The amended employment agreement clarifies that the Acclimation Bonus payable to the Chairman of the Board of Directors, as noted above, is the only acclimation bonus to which the Chairman of the Board of Directors would be entitled upon termination of the employment term pursuant to the amended employment agreement.

Furthermore, upon termination of employment pursuant to the amended employment agreement, the Bank would pay the Chairman of the Board of Directors the retirement bonus to which the Chairman is eligible pursuant to the Previous Employment Agreement. for the employment term from December 1, 2012 to November 30, 2015, equal to 150% of the Chairman's final salary, according to the Previous Employment Agreement for 2012-2015, multiplied by the number of years in office (three years), in conformity with the Previous Employment Agreement for said period ("Retirement Bonus for the Chairman of the Board of Directors").

Note that the cost of the Retirement Bonus for the Chairman of the Board of Directors and Acclimation Bonus for the Chairman of the Board of Directors, payable to the Chairman of the Board of Directors, as noted above, has been fully provided for on the Bank's financial statements prior to the end of the transition period for the Executive Remuneration Act.

Should the Chairman of the Board of Directors be eligible for severance pay, pursuant to the Severance Pay Law, 1963 ("the Severance Pay Law") and should the amount accrued in the provident fund with respect to Bank contributions towards severance pay (8.33%) and all accrued returns as of the termination date and as reported by the provident fund, be lower than the Severance Pay Amount, as defined in the Severance Pay Law, gross (hereinafter: "statutory severance pay"), then the aforementioned Retirement Bonus for the Chairman of the Board of Directors, in whole or as required, will be on account of the statutory severance pay; should the amount accrued in the provident fund plus the Retirement Bonus for the Chairman of the Board of Directors amount together be lower than the statutory severance pay – then the Bank will make up the difference up to the statutory severance pay.

2. On October 15, 2020, the General Meeting of Bank shareholders approved, in line with the resolution by the Board of Directors and after approval by the Remuneration Committee, the terms of office and employment of Mr. Moshe Lari as Bank President & CEO (hereinafter: "President & CEO").

   The Bank President & CEO is entitled to gross monthly salary of NIS 230,000. This salary is fully linked to changes in the Consumer Price Index ("Salary"). Notwithstanding the foregoing, in case of decrease in the CPI, the Salary would not be reduced accordingly. The Bank provides to the Bank President & CEO a budget of 15.33% for Bank contributions towards provident, pension and severance pay funds, to be transferred in whole or in part and as the case may be, to one or more provident funds as selected by the Bank President & CEO and in conformity with the cumulative conditions set forth in Appendix D to the report convening the General Meeting, dated August 27, 2020.

   The Bank President & CEO is also eligible to employer contributions to a study fund of the former's choice at 7.5% of the Salary.

   Upon approval of the terms of office and employment of the Bank President & CEO by the Remuneration Committee and by the Board of Directors, the total maximum remuneration which the Bank may have paid to the Bank President & CEO (subject to obtaining statutory approvals), pursuant to Section 2(b) of the Remuneration of Officers in Financial Corporations Act (Special Permission and Non-allowance of Expenses for Tax Purposes with Respect to Excessive Remuneration), 2016 (hereinafter: "the Executive Remuneration Act") amounted to NIS 3,456 thousand per annum and severance pay and provident funds by law.

   Upon termination of employment, the Bank will pay to the Bank President & CEO an acclimation bonus in exchange for non-competition, equal to six monthly salaries (excluding social benefits), as they were immediately prior to their appointment to Bank President & CEO. He would also be entitled to social benefits with respect to this amount (to be accrued over the first two years in office as Bank President & CEO) (all these amounts jointly: "Acclimation Bonus for the President & CEO").

Note 22 – Employees' Rights – Continued

The Remuneration Committee and the Board of Directors may award to the Bank President & CEO an additional acclimation bonus amounting to the difference between the Acclimation Bonus for the President & CEO and an amount equal to six salaries, as they may be at that time, plus social benefits with respect there to, all subject to the maximum allowed by the Executive Remuneration Act.

Furthermore, upon termination of employment, the Bank would pay to the Bank President & CEO a retirement bonus equal to 150% of their monthly salary for December 2016 multiplied by the number of years of service to the Bank through 2016.

The Remuneration Committee and the Board of Directors may, at their own discretion, award to the Bank President & CEO performance-based remuneration – a monetary bonus not to exceed three salaries ("the maximum bonus") or part thereof for part of the bonus year. Notwithstanding the foregoing, should the Remuneration Committee and the Board of Directors resolve that the performance-based bonus awarded for a given year to officers (other than the Bank President & CEO or Board members) would also include equity-based remuneration, they may resolve, at their own discretion, that the performance-based remuneration to be awarded to the Bank President & CEO for the bonus year would constitute, in whole or in part, equity-based remuneration. The value of equity-based remuneration to be awarded to the Bank President & CEO for that bonus year (if awarded) would not exceed (on aggregate 100% of the maximum bonus.

Eligibility of the Bank President & CEO for any performance-based remuneration, should it be awarded, would be contingent on the Bank's total capital adequacy ratio and Tier I capital adequacy ratio, in conformity with the Bank's annual financial statements for the bonus year, would not be lower than the minimum ratios stipulated by Bank of Israel directives.

The variable remuneration to be awarded to the Bank President & CEO would be subject to restitution provisions as per Section 6.10 of the Bank's remuneration policy. Such restitution provisions would not apply to half of the acclimation bonus pursuant to terms of employment of the Bank President & CEO, prior to being appointed Bank President & CEO, which constitutes variable remuneration (due to transitional provisions of the Supervisor of Bank's directive with regard to no impact to previously accrued rights).

Either party may announce discontinuation of employment at any time, for any reason and with no need to justify their position to the other party, subject to providing to the other party six months' advance notice.

During the early notification period, the Bank President & CEO would be required to work as usual and in full, but the Bank may waive such period, in whole or in part, and may terminate the work of the Bank President & CEO. In such case, the Bank will pay to the Bank President & CEO for the portion of the notice period in which the Bank waived the Bank President & CEO's work – in an amount equal to the salary for the waived period plus an amount equal to Bank contributions to provident fund, retirement fund, severance pay and study fund as stated above.

3. Officer remuneration policy

On 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. The revised remuneration policy incorporates provisions of the Companies Law, 1999, the Remuneration of Officers in Financial Corporations Act (Special Approval and Non-allowance of Expenses for Tax Purposes with Respect to Excessive Remuneration), 2016 ("the Executive Remuneration Act") and Proper Conduct of Banking Business Directive 301A "Remuneration" with general principles which the Bank's Board of Directors, after recommendations by the Remuneration Committee, saw fit to adopt with regard to officer remuneration at the Bank with due attention, *inter alia*, to the Bank's strategic plan and to current employment terms of officers at the Bank.

Note 22 – Employees' Rights – Continued

The revised remuneration policy incorporates provisions of the Companies Law and the Supervisor of Bank's directives with regard to remuneration. The remuneration of officers, other than Board members, will include two major components: monthly salary (and associated components) and performance-based variable remuneration (based on the Bank's performance targets, on individual performance benchmarks and including discretionary remuneration), to include a monetary bonus and which may include long-term equity-based remuneration not to exceed one half of the performance-based variable remuneration. The remuneration package may also include remuneration related to retirement.

The mid-term remuneration (annual bonus) and the long-term remuneration are designed to align the interests of officers with those of the Bank and to strengthen the link between overall Bank performance and the officer's contribution to achievement of such performance to the officer's remuneration, in line with the Bank's risk profile.

In conformity with the remuneration policy, the maximum variable remuneration shall not exceed 85% of the fixed remuneration, except under special conditions, where the maximum variable remuneration may not exceed 170% of the fixed remuneration. The Bank's Board of Directors also stipulated that the maximum variable remuneration for officers who are gatekeepers would not exceed 55% of fixed remuneration and that such officers would be eligible for an additional fixed component (named "Retention bonus" in the previous policy) equal to two months' salary, which constitutes fixed remuneration pursuant to the remuneration policy.

In conformity with the remuneration policy, the maximum remuneration as defined in the Executive Remuneration Act (i.e. excluding payments for severance pay and provident funds by law) for the Chairman of the Board of Directors and the Bank President & CEO would be less than 35 times the lowest salary of any full-time Bank employee, including contractors. The maximum remuneration of other officers (other than Board members) would be NIS 2.5 million (plus linkage differentials to the Consumer Price Index, as stated in the Executive Remuneration Act).

The policy stipulates that the variable remuneration may be subject to restitution, in whole or in part, under circumstances listed in the remuneration policy.

As from January 1, 2017, the notice period to the Bank from the Bank President & CEO and from other officers reporting there to, including the Chief Internal Auditor with regard to termination of their employment with the Bank, would be of 6 months.

4. Senior officers are eligible upon their retirement to an acclimation grant equal up to six months' salary, for which a provision was recorded in the financial statements.

5. Remuneration policy for all Bank employees

   In 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 (hereinafter: "the revised remuneration policy for all Bank employees").

   The revised remuneration policy for all Bank employees discusses remuneration terms of key employees at the Bank and those of other managers at the Bank and of other Bank employees for 2021-2023.

   The terms of office or employment of Bank employees include fixed and variable remuneration, as customary at the Bank, as well as retirement terms and any other benefit, payment or commitment to make a payment, provided with respect to the aforementioned office or employment.

6. On 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 for 2021, in conformity with Section 15b(1)(a) of the Securities Act based on the outline for 2021-2023. For more information see Note 23.B.4.

Note 22 – Employees' Rights – Continued

7. On September 16, 2009, a special collective bargaining agreement was signed by the Bank and by the Employee Union, whereby the special collective bargaining agreement signed on April 27, 2006 was extended by a further 5 years, from January 1, 2011 through December 31, 2015. This agreement was approved by the Bank Board of Directors on October 19, 2009.

   In late 2015, an economic arbitration process (hereinafter: "arbitration") was launched between the Bank and the Mizrahi Tefahot Employees Union ("the Employee Union"), to discuss the demands made by the Employee Union for 2005-2015.

   On January 28, 2019, an arbitration verdict was issued to the Bank and the Employees' Association, which stipulated that the Bank is to pay a one-time compensation payment, amounting to NIS 94.3 million (cost) to employees who are members of the Employees' Association, who worked for the Bank from January 1, 2005 through December 31, 2015, or during part of this period, and who work for the Bank on the date of issue of this arbitration verdict, as well as to employees who are members of the Employees' Association who worked during said period and retired after June 30, 2013 due to reaching the retirement age. This compensation was paid in two installments: in May 2019 and in April 2020. The arbitration verdict also accepted some of the demands for various benefits, including an increase of contribution to provident funds, to 7% as from January 1, 2019 and to 7.5% as from January 1, 2021.

8. On December 3, 2017, a collective bargaining agreement was signed with the Employees' Union and on December 11, 2017 this agreement was approved by the qualified organs of the Bank (hereinafter: "the new collective bargaining agreement").

   Below are highlights of the new collective bargaining agreement:

   - The agreement applies to the period 2016-2021.
   - Full and complete labor relations would be maintained throughout the term of the agreement.
   - Bank employees would be engaged and would assist in successful completion of moves to acquire and/or merge another bank, other than the four major banks and including success of the merger with Union Bank LeIsrael Ltd. at no additional cost to the Bank.
   - During this period, fixed pay increases and differential pay increases would be given.
   - The seniority increase to be given to new employees hired by the Bank as from signing the agreement would be lower than the current one.
   - A bonus would be given contingent on Bank performance (return on equity), including a gradual increase based on achievement of the strategic plan targets.
   - Employees employed by the Bank upon signing the agreement would receive a special perseverance and engagement bonus, equal to one half of a 13th monthly salary (based on the value as of the agreement signing date), for each year from 2018 through 2021 in return for their actual work during these years, where the bonus part with regard to 2019 being contingent on overall agreement as to how Union Bank employees would be included in the collective bargaining agreement. The contingent part has been postponed until 2021.
   - The voluntary retirement plan approved by the Bank's Board of Directors on December 27, 2016 would be implemented.
   - Various understandings were reached to allow the Bank additional managerial flexibility with regard to human resources.

9. On December 20, 2018, a collective bargaining agreement was signed with the Managers' Organization for 2018-2022. Below are highlights of the new collective bargaining agreement:
   - This agreement includes a new pay structure, consisting of base pay, additional seniority pay, additional management pay, global overtime and expense reimbursement (per diem, car expenses, education and so forth).
   - The base pay includes all fixed monthly pay components paid prior to the effective start date of this agreement, except for additional seniority pay and additional management pay.
   - The annual additional seniority pay would be at 1% of the base pay.
   - The additional management pay would be determined based on managerial complexity.
   - Overtime will be paid on a global basis.
   - Updated contribution towards expenses for kindergarten, after-school activity and higher education for managers' children.
   - Voluntary retirement program.
   - Monthly pay increase of NIS 2,500 per manager, as from January 1, 2018.
   - Differential pay increase for managers for 2019-2022 (based on return on equity for 2020-2022).
   - Absolutely complete calm labor relations throughout the term of the agreement.

Note 22 – Employees' Rights – Continued

10. Labor and payroll agreements at the Technology Division

    Employment terms of employees of Mizrahi Tefahot Technology Division Ltd. (hereinafter: "the Technology Division") are arranged in the labor constitution that was signed in 1989 and in a series of agreements signed by the Technology Division Employee Council, the Labor Union and the Technology Division over the years.

    Employees of the Technology Division have their pay linked to the pay for Bank employees.

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

11. Some Bank employees who take early retirement, sometimes receive, upon retirement, higher amounts than their entitlement pursuant to the law and to agreements. Sometimes the Bank pays these employees a pension until they reach the full retirement age. According to the Supervisor of Banks' directive, an actuarial reserve with respect to these payments is included on the financial statements.

12. On December 27, 2016, the Bank's Board of Directors approved the streamlining program recommended by Bank management, whereby early retirement would be made possible for 300 employees in 2017-2021, at improved conditions.

    Note that the retiring employees, who would be allowed to take such early retirement, include Bank employees and 50 employees of a wholly-owned and wholly-controlled subsidiary of the Bank, Mizrahi-Tefahot Technology Division Ltd. The number of retiring employees from each group may change, but the total number will not exceed 300.

    In conformity with the streamlining plan, the retiring employees were entitled to an early pension through the official retirement age or to increased severance pay at 150% (in addition to receiving ownership of provident fund accounts in their name), based on the criteria listed in the plan. It is possible that retirement terms and conditions offered additional, non-material benefits to such employees.

    The cost of update to the actuarial liability with respect to the streamlining program, recorded on the financial statements as of December 31, 2016, amounted to NIS 286 million; the cost net of tax, amounting to NIS 188 million, was charged in that quarter to shareholders' equity (under Other Comprehensive Income).

13. A small group of employees who retired in the past is entitled to a fixed monthly pension from the Bank. Employees who retired from the Bank prior to June 30, 1997 are entitled to pension payments from the Bank for certain salary components. Bank retirees are also eligible to receive non-pension benefits. The Bank's liability for these payments is covered by provisions, based on an actuarial calculation.

14. Personal employment contracts have been signed with a group of senior employees, entitling them to a special bonus upon termination, under the circumstances prescribed in the agreements that could, in a few years' time, reach seventeen months' salary for certain employees with high seniority. These employees are entitled upon retirement to moneys and other rights accrued on their behalf in various funds as well as to advance termination notice three to six months in advance. The Bank has no intention to terminate any of these senior Bank employees. The Bank's liability for these payments is covered by provisions, based on an actuarial calculation.

Note 22 – Employees’ Rights – Continued

15. Long-service bonuses

Bank employees are entitled to special lump-sum bonuses upon attaining thirteen and eighteen years of service. A provision for these liabilities was recorded in the financial statements according to an actuarial calculation based on past experience and the likelihood that the employee will still be employed by the Bank on the vesting date.

16. Reserve with respect to tuition pay

Bank employees under the collective bargaining agreement hired by August 16, 2017 are entitled to tuition reimbursement for biblical studies and for higher education, based on reimbursement percentage customary at the Bank. A provision for these liabilities was recorded in the financial statements according to an actuarial calculation based on past experience and the likelihood that the employee is still employed by the Bank.

17. Reserves with respect to long-service bonuses, tuition and voluntary retirement programs were made based on an actuarial calculation, with the discount rate based on the yield of Government debentures in Israel plus the average yield spread for corporate debentures rated AA (international rating scale) or higher upon the report date. For practical reasons, the spread would be determined by the difference between yields to maturity, by terms to maturity, for corporate debentures rated AA or higher in the USA – and yields to maturity, for the same terms to maturity, for US government debentures, all as of the reporting date.

The calculation takes into account future real increase in pay of between 3.50%-4.50%.

The provision with respect to voluntary retirement was calculated in conformity with the retirees' eligibility to have their pension linked to the Consumer Price Index.

18. Bank Yahav

Bank Yahav has a defined benefit plan, funded and unfunded, with respect to all of its employees. The plan provides a defined benefit based on years of service and most recent salary.

Bank Yahav's obligation to pay severance or retirement pay is primarily covered by current deposits based on the salary for pension purposes to official provident and pension funds in the name of the employees. Bank Yahav customarily makes up the difference, for employees eligible to receive severance pay, between the employee's most recent salary multiplied by their number of years in service and the amount accrued in their name in the aforementioned provident funds. Bank Yahav may not withdraw the funded amounts other than for severance payment.

To some of its employees, Bank Yahav committed to transfer, upon termination of their employment for any reason, the severance pay component of recognized provident funds (pursuant to Section 14 of the Severance Pay Law). The Bank is not required to supplement the difference for these employees between the employee's most recent salary multiplied by their number of years in service and the amount accrued in their name in the aforementioned provident funds.

In 2017, the Bank Yahav Board of Directors approved the voluntary retirement program, as recommended by Bank Yahav management.

Bank Yahav was granted approval for this program by the Supervisor of Banks, as required in the streamlining directive. Pursuant to the program, early retirement of employees would be authorized subject to criteria stated in the program. The costs of actuarial liability with respect to employees amounted to NIS 35 million before tax (NIS 23 million after tax effect).

On January 17, 2019, Bank Yahav signed a new collective bargaining agreement with employee representation which governs labor and remuneration for 2018-2022.

Note 22 – Employees' Rights – Continued

19. Union Bank

- Retirement program

On December 31, 2018, the Union Bank Board of Directors resolved to approve a voluntary retirement program for 70 employees, as part of streamlining measures applied by Union Bank (hereinafter: "the Program"), whereby 70 Union Bank employees would retire (there are 5 employees remaining, expected to retire in 2021). The benefits offered, based on employee age and seniority, include early pension payments through the retirement age by law; or increased severance pay, by an average 270%, based on attributes of the retiring employees' demographics. It is possible that retirement terms and conditions could offer additional, non-material benefits.

On January 17, 2019, the Supervisor of Banks approved relief, whereby Union Bank may account for the impact of Program cost with regard to calculation of capital adequacy over five years.

Consequently, and in conformity with the Supervisor of Banks' Public Reporting Directives with regard to employee rights, Union Bank recognized a loss with respect to reduction of defined benefit plans, i.e. when an event significantly reduces the number of future years of service expected for employees in the benefit plan, or eliminates for a significant number of employees the accrual of defined benefits with respect to all or part of their future service, in conformity with Union Bank policy.

The total cost of the Program, as estimated by Union Bank management, based on actuarial calculations, amounted to NIS 80 million before tax effect. This cost was charged to profit and loss on Union Bank's 2018 financial statements, due to meeting the definition of "plan reduction", in conformity with the Supervisor of Banks' Public Reporting Regulations with regard to employee rights and as stated above. This amount was revised to NIS 71 million in 2019.

- Special collective bargaining agreement at Union Bank

On March 25, 2021, a special collective bargaining agreement was signed by Union Bank and two of its subsidiaries, 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 stipulated 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.

Note 22 – Employees' Rights – Continued

- 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.

- Remuneration plan for Union Bank employees

  In June 2021, the Board of Directors of Union Bank approved a remuneration plan for Union Bank employees which includes incentives for achieving the merger objectives in 2021-2022. Furthermore, the Board of Directors of Union Bank approved remuneration and a remuneration plan for executives of Union Bank, in conformity with the Union Bank remuneration policy approved on February 23, 2021. Union Bank has recognized sufficient provisions on the financial statements with regard to this remuneration plan.

B. Liability amounts with respect to benefits by type:

	December 31,	
	2021	**2020**
	NIS in millions	
Post-retirement benefits[(1)]		
Liability amount	254	236
Benefits post termination and prior to retirement[(2)]		
Liability amount	2,493	2,134
Fair value of plan assets	497	461
Excess liability over plan assets	**1,996**	**1,673**
Benefits prior to termination of employment[(3)]		
Liability amount	181	173
Excess liability included under Other Liabilities	**2,431**	**2,082**
Of which: With respect to overseas employee benefits	**4**	**3**

(1) Holiday gifts and other post-retirement employee benefits
(2) Pension, severance pay and other benefits in defined-benefit plan, including balance of liability with respect to employees who have retired.
(3) Primarily jubilee bonus and tuition for current employees.

Note 22 – Employees' Rights – Continued

C. Defined benefit plans (pension, severance pay and other benefits)[(1)]

1. Obligations and funding status

1.1. Change in obligations with respect to expected benefit

	December 31,	
	2021	**2020**
	NIS in millions	
Obligation with respect to expected benefit at start of period	2,370	1,453
Initial consolidation of Union Bank	–	891
Cost of service	84	70
Cost of interest	53	32
Actuarial loss (gain)	393	28
Benefits paid	(153)	(104)
Obligation with respect to expected benefit at end of period	**2,747**	**2,370**
Obligation with respect to cumulative benefit at end of period[(2)]	**2,368**	**2,104**

(1) Post-employment pre-retirement benefits and post-retirement benefits, including balance of liability with respect to employees who have retired.

(2) Excludes any assumptions with regard to level of future remuneration.

1.2. Change in fair value of plan assets and plan funding status

	December 31,	
	2021	**2020**
	NIS in millions	
Fair value of plan assets at start of period	461	136
Initial consolidation of Union Bank	–	329
Actual return on plan assets	46	5
Deposits to plan by the Bank	14	6
Benefits paid	(24)	(15)
Fair value of plan assets at end of period	**497**	**461**
Funding status – net asset recognized at end of period	**497**	**461**

1.3. Amounts recognized on the consolidated balance sheet

	December 31,	
	2021	**2020**
	NIS in millions	
Amounts recognized under Other Liabilities	**2,250**	**1,909**

1.4. Amounts recognized under Other Comprehensive Income (Loss), before tax effect

	December 31,	
	2021	**2020**
	NIS in millions	
Net actuarial loss	(789)	(584)
Net liability with respect to transition	–	–
Total – recognized under Other Comprehensive Income	**(789)**	**(584)**

Note 22 – Employee Rights – Continued

C. Defined benefit plans (pension, severance pay and other benefits)[1] – Continued

1.5. Plans for which the obligation with respect to cumulative and expected benefit exceeds plan assets

	December 31,	
	2021	**2020**
		NIS in millions
Obligation with respect to expected benefit	2,747	2,370
Obligation with respect to cumulative benefit	2,368	2,104
Fair value of plan assets	497	461

2. Expenses during the reported period

2.1. Net benefit cost components recognized in profit and loss

	For the year ended December 31,		
	2021	**2020**	**2019**
			NIS in millions
Under payroll and associated expenses			
Cost of service	84	70	51
Under other expenses			
Cost of interest	53	32	47
Expected return on plan assets	(13)	(6)	(4)
Deduction of non-allowed amounts:			
Net actuarial loss	62	47	36
Total under other expenses	**102**	**73**	**79**
Total benefit cost, net	**186**	**143**	**130**

2.2. Changes to plan assets and benefit obligation recognized under Other Comprehensive Income (Loss), before tax effect

	For the year ended December 31,		
	2021	**2020**	**2019**
			NIS in millions
Net actuarial loss (gain) for the period	87	33	188
Amortization of actuarial loss[2]	(62)	(47)	(36)
Total – recognized under Other Comprehensive Income	**25**	**(14)**	**152**
Total benefit cost, net	**186**	**143**	**130**
Total recognized under benefit cost, net for the period and under Other Comprehensive Income	**211**	**129**	**282**

2.3. Estimated amounts included under Cumulative Other Comprehensive Income expected to be deducted from Cumulative Other Comprehensive Income to the Statement of Profit and Loss as expense in 2021, before tax effect

	NIS in millions
Net actuarial loss	75
Total expected to be deducted from Cumulative Other Comprehensive Income	**75**

(1) Post-employment pre-retirement benefits and post-retirement benefits, including balance of liability with respect to employees who have retired.
(2) Actuarial loss due to current changes in discount rates during the reported year would be amortized using the straight line method over the remaining average term of service for employees expected to receive benefits over the plan term or, alternatively, over the average remaining term for receipt of benefits by employees. See also Note 1.D.12 to the financial statements.

Note 22 – Employees' Rights – Continued

3. Assumptions

3.1 Assumptions based on weighted average, used to determine the obligation with respect to benefit and to measure the benefit cost, net

3.1.1. Key assumptions used to determine the obligation with respect to benefit:

	December 31,	
	2021	**2020**
		In %
Discount rate	(0.07)	0.47
Discount rate – CPI	1.40	1.40
Departure rate	2.65	2.65
Remuneration increase rate	3.50	3.50

3.1.2. Key assumptions used to measure benefit cost for the period (in %):

	December 31,		
	2021	**2020**	**2019**
			In %
Discount rate	2.09	2.02	4.02
Expected long-term return on plan assets	2.88	4.43	3.52
Remuneration increase rate	3.50	3.50	3.50

3.2. Effect of change of 1 percentage point on obligation with respect to expected benefit, before tax effect:

	Increase by 1 percentage point		Decrease by 1 percentage point	
	December 31,		December 31,	
	2021	**2020**	**2021**	**2020**
Discount rate	(247)	(228)	312	287
Departure rate	138	131	(138)	(129)
Remuneration increase rate	154	139	(127)	(116)

Note 22 – Employees' Rights – Continued

4. Plan assets

4.1. Fair value composition of plan assets

Asset type		December 31,			
	2021				2020
	Level 1	Level 2	Level 3	Total	
Cash and deposits with banks	23	–	–	23	15
Shares	97	3	–	100	81
Government assistance to legacy pension funds	–	13	–	13	10
Other	17	61	23	101	88
Debentures: Government	43	123	–	166	172
Designated Government	–	12	–	12	9
Corporate	40	44	–	84	86
Total	**220**	**256**	**23**	**499**	**461**

4.2. Fair value of plan assets by asset type and allocation target for 2022 (in %)

Asset type	Allocation target	Percentage of plan assets	
	For year	As of December 31,	
	2022	2021	2020
Cash and deposits with banks	5	5	3
Shares	20	20	18
Government assistance to legacy pension funds	3	3	2
Other	20	20	19
Debentures: Government	33	33	37
Designated Government	2	2	2
Corporate	17	17	19
Total	**100**	**100**	**100**

5. cash flows

5.1. Deposits to defined-benefit pension plan

Asset type	Allocation target	Actual deposits	
	For year	For the year ended December 31,	
	(1)2022)	2021	2020
Deposits	11	14	7

(1) Estimated deposits expected to be paid into defined-benefit pension plans in 2022.

5.2 Cash flows – Benefits which the corporation expects to pay in future:

Year	NIS in millions
2022	243
2023	290
2024	143
2025	142
2026	135
2027-2030	568
2031 and later	1,187
Total	**2,707**

Note 23 – Share-based Payment Transactions

A. Stock option plan for the current and former Bank President & CEO

On October 15, 2020, the General Meeting of Bank shareholders approved, in line with the resolution by the Board of Directors and after approval by the Remuneration Committee, the terms of office and employment of Mr. Moshe Lari as Bank President & CEO (hereinafter:"the Current Bank President & CEO"), who replaced Mr. Eldad Fresher (hereinafter: "the Former Bank President & CEO").

1. Stock option plan for the current President & CEO

In conjunction with the 2021 option plan, approved by the Bank Board of Directors on July 26, 2021, the Bank President & CEO was allotted 18,468 options. Each option may be exercised for one Bank ordinary share of NIS 0.1 par value, subject to adjustments for bonus share distribution, rights issuance, share split or reverse-split, dividends distributions etc.

The options allotted with respect to 2021 may be exercised as from September 5, 2023. The exercise price for each option allotted to the Bank President pursuant to the plan is NIS 99.36(1) plus CPI linkage differentials, from the known CPI upon approval by the Board of Directors of the allotment of options to the former President and until the known CPI upon the exercise date.

The exercise price (NIS 99.36) 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 Bank President would not be required to pay the exercise price – which would only serve to determine the monetary benefit amount and the number of exercise shares to be actually allotted to the Bank President & CEO. Furthermore, the closing price cap was set at NIS 140, plus linkage differentials to the CPI, from the known CPI upon approval by the Board of Directors to the known CPI upon exercise.

For calculation of fair value as of approval of the option award by the General Meeting of Bank shareholders, as noted above, the following terms of the option plan were taken into account as well as annualized standard deviation of 23.11%, reflecting the standard deviation for a period of 8 years. The risk-free interest rate used to value the options was estimated at (1.44%).

Based on these assumptions, the average fair value of each option awarded to the Bank President pursuant to the option plan, as of the approval date of option award by the General Meeting of Bank shareholders, is NIS 11.75.

Accordingly, the theoretical benefit value of the options in this plan (the fair value), calculated in accordance with accounting standards, amounts to NIS 217 thousand.

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

In 2021, the Bank President & CEO exercised 65,709 options from previous plans, at an exercise price of NIS 67.22 (in 2020, exercised 47,482 options at an exercise price of NIS 55.43(1); in 2019, exercised 114,462 options at an exercise price of NIS 46.21(1)). The average share price upon exercise of options into shares in 2021 was NIS 94.29 (in 2020 the exercise price was NIS 84.89 and in 2019 the exercise price was NIS 76.75).

As of December 31, 2021, the Bank President & CEO had 87,362 options (as of December 31, 2020: 142,349 options; as of December 31, 2019: 147,204 options) at an exercise price of NIS 99.36(1) (in 2020 the exercise price was NIS 67.62; in 2019 the exercise price was NIS 65.32).

2. Stock option plan for the former President & CEO

As part of the 2019 option plan, the Bank allotted 22,148 options to the Former Bank President & CEO. Each option may be exercised for one Bank ordinary share of NIS 0.1 par value, subject to adjustments for bonus share distribution, rights issuance, share split or reverse-split, dividend distributions etc.

The options allotted with respect to 2019 may be exercised as from July 26, 2022. The exercise price for each option allotted to the Former Bank President pursuant to the plan is NIS 70.88(1) plus CPI linkage differentials, from the known CPI upon approval by the Board of Directors of the allotment of options to the former President and up to the known CPI upon the exercise date.

(1) Plus linkage differentials and adjustment.

Note 23 – Share-based Payment Transactions – Continued

The exercise price was determined based on the average closing price per Bank ordinary share on the stock exchange over the thirty trading days preceding the date of approval by the Board of Directors. Accordingly, note that on the exercise date, the Former Bank President would not be required to pay the exercise price – which would only serve to determine the monetary benefit amount and the number of exercise shares to be actually allotted to the Former Bank President & CEO.

For calculation of fair value as of approval of the option award by the General Meeting of Bank shareholders, as noted above, the following terms of the option plan were taken into account as well as annualized standard deviation between 22.84%-22.33%, reflecting the standard deviation for periods of 3.59-5.30 years. Risk-free interest ranges between (0.58%)-(0.73%) for the various lots.

Based on these assumptions, the average fair value of each option awarded to the Former Bank President pursuant to the option plan, as of the approval date of option award by the General Meeting of Bank shareholders, is NIS 10.61.

Accordingly, the theoretical benefit value of the options in this plan (the fair value), calculated in accordance with accounting standards, amounts to NIS 235 thousand.

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

In 2021, no options from previous plans were exercised (in 2010 and 2019, 40,558 and 198,861 options, respectively were exercised at an exercise price of NIS 46.19[(1)]). The average share price upon exercise of options into shares in 2020 was NIS 71.74 (in 2019: NIS 76.05).

As of December 31, 2021, the former Bank President & CEO had 22,148 options (as of December 31, 2020: 22,148 options; as of December 31, 2019: 40,558 options) at an exercise price of NIS 70.88[(1)] (identical to the exercise price in 2020. In 2019, the exercise price was NIS 46.19).

B. Stock option plan for employees

1. On June 10, 2014, the General Meeting of Bank shareholders approved, after approval by the Board of Directors and recommendation by the Remuneration Committee, the revised officer remuneration policy at the Bank.

   On June 19, 2014, the Bank's Board of Directors approved, after approval by the Remuneration Committee on June 16, 2014, the offering of options to Bank officers, pursuant to section 15B(1)(a) of the Securities Act. Further, the Bank's Board of Directors approved, after approval by the Remuneration Committee, an option offering to key Bank employees and to other managers of the Bank and its subsidiaries, pursuant to section 15B(1)(a) of the Securities Act, all as delisted a report issued by the Bank on June 19, 2014 (hereinafter: "the outline report").

   As resolved by the Board of Directors on June 19, 2014, the following option plans were approved:

   - **Option plan A** – up to 2,083,197 options A to be awarded to up to eight Bank officers who are not gatekeepers, exercisable for up to 2,083,197 Bank ordinary shares of NIS 0.1 par value each.
   - **Option plan B** – up to 873,066 options B to be awarded to up to five Bank officers who are gatekeepers, exercisable for up to 873,066 Bank ordinary shares of NIS 0.1 par value each.
   - **Option plan C** – up to 2,708,060 options C to be awarded to up to forty-three key Bank employees and up to ten managers at Bank subsidiaries, which have been approved for inclusion in this group, exercisable for up to 2,708,060 Bank ordinary shares of NIS 0.1 par value each.
   - **Option plan D** – up to 1,183,110 options D to be awarded to up to twenty-eight managers employed by the Bank subject to individual employment contracts and up to eight managers at Bank subsidiaries, which have been approved for inclusion in this group, exercisable for up to 1,183,110 Bank ordinary shares of NIS 0.1 par value each.
   - **Option plan E** – up to 5,046,390 options E to be awarded to up to two hundred fifty-three managers employed by the Bank subject to collective bargaining agreements, exercisable for up to 5,046,390 Bank ordinary shares of NIS 0.1 par value each.

(1) Plus linkage differentials and adjustment.

Note 23 – Share-based Payment Transactions – Continued

Threshold conditions and eligibility conditions for options

An offeree's eligibility for options pursuant to each of the aforementioned option plans, for any bonus year, is contingent on fulfillment of all of the following threshold conditions in the bonus year:

- Return on equity for the bonus year shall be at least 9%.
- Overall capital adequacy ratio and core capital adequacy ratio for the Bank, for the bonus year, shall be no less than the minimum ratios specified in Bank of Israel directives.

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

- Options A and options B to be issued to offerees who are officers of the Bank, as noted above, constitute part of these officers' variable remuneration. Officer eligibility to options A or to options B included in any annual lot would be determined based on four criteria which are measurable "company-wide criteria" (hereinafter: "the quantitative benchmarks") and on two qualitative criteria based on supervisor assessment of achievement of individual targets (hereinafter: "the individual targets") of the officer specified in the employee offering outline and on assessment of the officer's performance by the supervisor at the latter's discretion (hereinafter: "supervisor's discretion"). The individual targets and supervisor's discretion, hereinafter: "the qualitative benchmarks").
- The total weight assigned to quantitative benchmarks would be 80% of the annual lot of options A or options B. The total weight assigned to the qualitative benchmarks would be 20%: the weight assigned to the individual target benchmark would be 10% and the weight assigned to the supervisor's discretion benchmark would be 10%.

Eligibility of offerees who are not officers of the Bank to options C and options D, with respect to any bonus year, would be determined based on the quantitative benchmarks and would not be based on any qualitative benchmark. Eligibility of offerees who are not officers of the Bank to options C and options E, with respect to any bonus year, would be determined based on the quantitative benchmarks and on the quality rating assigned to such offerees, as stated in section 2.12.9 of the outline report.

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

The theoretical benefit value of the options in these plans, calculated in accordance with accounting standards, amounts to NIS 96 million (NIS 113 million including Payroll Tax). When spreading the theoretical benefit value in the Bank's accounts, the estimated expected churn rate for plan offerees would be taken into account.

The options would be allotted under the "wages" track, pursuant to the Section 102 of the Income Tax Ordinance. Therefore, any benefit arising to the offerees from exercise of these options shall be taxed at the marginal tax rate applicable to the offerees upon exercise of the options. The Bank would be required to pay the wages tax with respect to the benefit arising to the offerees from exercise of the options under the stock option plan. Furthermore, upon payment of the tax with respect to this benefit by the offerees, the Bank may make deduct the expenses for tax purposes with respect to the aforementioned options based on the effective tax rate applicable upon the exercise date.

All other details of the plans and the outline of offering to employees (including the threshold conditions for eligibility for options, vesting and exercise periods of options and the Board of Directors' authority to reduce the number of options and provisions with regard to reimbursement of the monetary benefit are described in an Immediate Report dated June 19, 2014.

On August 3, 2015, the Bank's Board of Directors, after receiving the recommendation of the Bank Remuneration Committee, resolved to approve the outline of an offering to employees, whereby the Bank would allot 229,990 options to 19 offerees who are managers at the Bank.

The option plan is based on the principles of the stock option plan approved by the Bank in 2014, according to which the Bank allotted options to managers on June 19, 2014. See below.

The options were allotted as follows:

- Up to 11,494 options D to be awarded to up to one Bank officer who is employed by an individual employment contract, exercisable for up to 11,494 Bank ordinary shares of NIS 0.1 par value each. In conformity with Option Plan D dated June 19, 2014.
- Up to 218,496 options E to be awarded to up to eighteen managers employed by the Bank subject to collective bargaining agreements, exercisable for up to 218,496 Bank ordinary shares of NIS 0.1 par value each. In conformity with Option Plan E dated June 19, 2014.

Note 23 – Share-based Payment Transactions – Continued

The theoretical benefit value of the options in these plans, calculated in accordance with accounting standards, amounts to NIS 1.6 million (NIS 1.9 million including Wages Tax). When spreading the theoretical benefit value in the Bank's accounts, the estimated expected churn rate for plan offerees would be taken into account.

All other details of the plans and the outline of offering to employees (including the threshold conditions for eligibility for options, vesting and exercise periods of options and the Board of Directors' authority to reduce the number of options and provisions with regard to reimbursement of the monetary benefit are described in an Immediate Report dated August 03, 2015.

Below are the assumptions used in calculating the fair value of a single option, as well as the resulting fair value per single option, for each of the lots awarded on June 19, 2014:

	Lot 1	Lot 2	Lot 3	Total
Option plan A				
Number of options (in thousands)	728	690	665	2,083
Annualized standard deviation	28.99%-20.07%	34.72%-22.00%	25.94%-35.64%	
Exercise price (in NIS)	46.21	46.21	46.21	
Risk-free interest rate	0.08%-(0.45%)	0.64%-(0.87%)	1.08%-(0.70%)	
Term to expiration (in years)	2.75-4.75	3.75-5.75	4.75-6.75	
Fair value per single option	7.70	8.12	8.43	
Total fair value per lot, NIS in thousands	5,605	5,605	5,605	16,815
Option plan B				
Number of options (in thousands)	314	284	275	873
Annualized standard deviation	28.99%-20.07%	34.72%-22.00%	25.94%-35.64%	
Exercise price (in NIS)	46.21	46.21	46.21	
Risk-free interest rate	0.08%-(0.45%)	0.64%-(0.87%)	1.08%-(0.70%)	
Term to expiration (in years)	2.75-4.75	3.75-5.75	4.75-6.75	
Fair value per single option	7.73	8.17	8.43	
Total fair value per lot, NIS in thousands	2,428	2,319	2,319	7,066
Option plan C				
Number of options (in thousands)	917	896	896	
Annualized standard deviation	28.99%-20.07%	34.72%-22.00%	25.94%-35.64%	2,709
Exercise price (in NIS)	46.21	46.21	46.21	
Risk-free interest rate	0.08%-(0.45%)	0.64%-(0.87%)	1.08%-(0.70%)	
Term to expiration (in years)	2.75-4.75	3.75-5.75	4.75-6.75	
Fair value per single option	7.64	8.06	8.35	
Total fair value per lot (NIS in thousands)	7,006	7,222	7,482	21,710
Option plan D				
Number of options (in thousands)	394	394	394	1,182
Annualized standard deviation	27.06%-20.07%	28.31%-22.00%	25.94%-26.81%	
Exercise price (in NIS)	46.21	46.21	46.21	
Risk-free interest rate	(0.12%)-(0.16%)	0.26%-(0.87%)	0.61%-(0.70%)	
Term to expiration (in years)	4.50	4.50	4.50	
Fair value per single option	8.42	8.17	7.64	
Total fair value per lot (NIS in thousands)	3,317	3,219	3,010	9,546
Option plan E				
Number of options (in thousands)	1,682	1,682	1,682	5,046
Annualized standard deviation	27.06%-20.07%	28.31%-22.00%	25.94%-26.81%	
Exercise price (in NIS)	46.21	46.21	46.21	
Risk-free interest rate	(0.12%)-(0.16%)	0.26%-(0.87%)	0.61%-(0.70%)	
Term to expiration (in years)	4.50	4.50	4.50	
Fair value per single option	8.42	8.17	7.64	
Total fair value per lot (NIS in thousands)	14,162	13,742	12,850	40,754

Note 23 – Share-based Payment Transactions – Continued

Below are the assumptions used in calculating the fair value of a single option, as well as the resulting fair value per single option, for each of the lots awarded on August 03, 2015:

	Lot 1	Lot 2	Total
Option plan D			
Number of options (in thousands)	6	6	12
Annualized standard deviation	21.01%-17.48%	22.92%-17.48%	
Exercise price (in NIS)	(1)47.76	(1)47.76	
Risk-free interest rate	(0.58%)-(0.86%)	(0.45%)-(0.86%)	
Term to expiration (in years)	3.50	3.50	
Fair value per single option	7.08	6.91	
Total fair value per lot (NIS in thousands)	40	40	80
Option plan E			
Number of options (in thousands)	109	109	218
Annualized standard deviation	21.01%-17.48%	22.92%-17.48%	
Exercise price (in NIS)	47.76	47.76	
Risk-free interest rate	(0.58%)-(0.86%)	(0.45%)-(0.86%)	
Term to expiration (in years)	3.50	3.50	
Fair value per single option	7.08	6.91	
Total fair value per lot (NIS in thousands)	774	755	1,529

(1) Plus linkage differentials and dividend adjustment.

Details of the number of stock options and their exercise price for all plans are as follows:

	2021		2020		2019	
	Number of options	Weighted average exercise price (in NIS)	Number of options	Weighted average exercise price (in NIS)	Number of options	Weighted average exercise price (in NIS)
Outstanding at year start	40,324	46.21	440,984	46.21	2,951,940	46.22
Granted during the year	–	–	–	–	–	–
Forfeited during the year	–	–	14,165	46.21	–	–
Exercised during the year(1)	40,324	46.21	386,495	46.21	2,510,956	46.23
Outstanding at year end	–	–	40,324	46.21	440,984	46.21

(1) The weighted average share price upon exercise of options into shares during 2021 was NIS 90.42 (2020 – NIS 72.90).

Below is information about stock options outstanding at year end by exercise price range:

	December 31, 2021	December 31, 2020	December 31, 2019
Range of exercise prices (in NIS)	**40-50**	**40-50**	**40-50**
Number of stock options	–	40,324	440,984
Weighted average exercise price (in NIS)	–	46.21	46.21
Weighted average remaining contractual term (in years)	–	0.75	1.68
Of which vested:			
Number of stock options	–	40,324	30,822
Weighted average exercise price (in NIS)	–	46.21	46.21

Note 23 – Share-based Payment Transactions – Continued

2. On February 14, 2017, the General Meeting of Bank shareholders approved, after approval by the Board of Directors and recommendation by the Remuneration Committee, the revised officer remuneration policy at the Bank, effective for three years as from January 1, 2017.
   On August 31, 2017, the Bank's Board of Directors approved, after approval by the Remuneration Committee on June 12, 2017, the offering of options to Bank officers, pursuant to section 15B(1)(a) of the Securities Act. Further, the Bank's Board of Directors approved, after approval by the Remuneration Committee, an option offering to key Bank employees and to other managers of the Bank and its subsidiaries, pursuant to section 15B(1)(a) of the Securities Act, all as delisted a report issued by the Bank on August 31, 2017 (hereinafter: "the outline report"). (In addition, stock option reserves were approved to be issued in two additional annual lots for 2018 and 2019, in addition to those allocated in 2017, which issue would be subject to the required approvals from the Remuneration Committee and the Board of Directors in due course).

   As resolved by the Board of Directors on August 31, 2017, the following option plans were approved:
   - Option plan A – up to 572,985 options A to be awarded to up to seven Bank officers who are not gatekeepers, exercisable for up to 572,985 Bank ordinary shares of NIS 0.1 par value each.
   - Option plan B – up to 254,076 options B to be awarded to up to five Bank officers who are gatekeepers, exercisable for up to 254,076 Bank ordinary shares of NIS 0.1 par value each.
   - Option plan C – up to 180,353 options C to be awarded to up to four key Bank employees and up to three key employees at Bank subsidiaries, which have been approved for inclusion in this group, exercisable for up to 180,353 Bank ordinary shares of NIS 0.1 par value each.
   - Option plan D – up to 978,796 options D to be awarded to up to sixty-nine managers employed by the Bank subject to individual employment contracts and up to thirty-one other managers at the Bank and at Bank subsidiaries, which have been approved for inclusion in this group, exercisable for up to 978,796 Bank ordinary shares of NIS 0.1 par value each.
   - Option plan E – up to 1,365,244 options E to be awarded to up to two hundred sixty-seven managers employed by the Bank subject to collective bargaining agreements, exercisable for up to 1,365,244 Bank ordinary shares of NIS 0.1 par value each.

   The options issued in the name of the Trustee on behalf of each officer, pursuant to option plans A,B or C were in three equal lots, which may be exercised as from April 1, 2019, April 1, 2020 and April 1, 2021 and would expire eighteen months after said date.
   All options issued pursuant to option plans D and E may be exercised in a single lot from the 2nd to the 5th anniversaries of the issue date.
   An offeree's eligibility for options pursuant to each of the aforementioned option plans, for any bonus year, is contingent on fulfillment of all of the following threshold conditions in the bonus year:

   Return on equity for the bonus year shall be at least 9%;
   Overall capital adequacy ratio and core capital adequacy ratio for the Bank, for the bonus year, shall be no less than the minimum ratios specified in Bank of Israel directives. In addition, eligibility conditions for options would be based on the following criteria:

   - Options A and options B issued to offerees who are officers of the Bank, as noted above, constitute part of these officers' variable remuneration. Officer eligibility to options A or to options B included in the annual lot for 2017 would be determined based on four criteria which are measurable "company-wide criteria" (hereinafter: "the quantitative benchmarks") and on two qualitative criteria based on supervisor assessment of achievement of individual targets (hereinafter: "the individual targets") of the officer specified in the employee offering outline and on assessment of the officer's performance by the supervisor at the latter's discretion (hereinafter: "supervisor's discretion"). The individual targets and supervisor's discretion, hereinafter: "the qualitative benchmarks").
     The total weight of quantitative benchmarks would be forty-two percent of the annual lot of options A and thirty percent of the annual lot of options B. The total weight assigned to the qualitative benchmarks would be fifty-two percent of the annual lot of options: the weight assigned to the individual target benchmark would be thirty-six percent and the weight assigned to the supervisor's discretion benchmark would be twenty-two percent.
     The total weight of qualitative benchmarks would be fifty-eight percent of the annual lot of options A and forty percent for options B. The total weight assigned to the qualitative benchmarks would be seventy percent of the annual lot of options: the weight assigned to the individual target benchmark would be thirty-six percent and the weight assigned to the supervisor's discretion benchmark for options A would be forty percent for options B.

Note 23 – Share-based Payment Transactions – Continued

- Eligibility of offerees who are not officers of the Bank to options C and options D, with respect to any bonus year, would be determined based on the quantitative benchmarks and would not be based on any qualitative benchmark. Eligibility of offerees who are not officers of the Bank to options C and options E, with respect to any bonus year, would be determined based on the quantitative benchmarks and on the quality rating assigned to such offerees, as stated in section 2.12.9 of the outline report.
  The quantitative benchmarks specified in the option plan are: return on equity, return on Bank shares relative to banking benchmark, operating efficiency ratio and average ratio of deposits to loans.

The theoretical benefit value of the options in these plans, calculated in accordance with accounting rules of US standards pursuant to ASC718, amounts to NIS 28 million. When spreading the theoretical benefit value in the Bank's accounts, the estimated expected churn rate for plan offerees would be taken into account.
The options were allotted under the "Capital Gain" track, pursuant to the Section 102 of the Income Tax Ordinance. Therefore, any benefit arising to the offerees from exercise of these options will be taxed at the capital gain tax rate applicable to the offerees upon exercise of the options. All other details of the plans and the outline of offering to employees (including the threshold conditions for eligibility for options, vesting and exercise periods of options and the Board of Directors' authority to reduce the number of options and provisions with regard to reimbursement of the monetary benefit are described in an Immediate Report dated August 31, 2017.
In 2018, no options were issued under any of the plans listed in the outline report.
On April 11, 2019, the Bank's Board of Directors, after receiving the recommendation of the Bank Remuneration Committee, resolved to approve allotment of options to other officers and managers of the Bank and its subsidiaries, whereby the Bank would allot 4,363,275 options to 396 offerees. The options were allotted pursuant to the employee offering outline, issued by the Bank on August 31, 2017 ("the 2017 outline").

The options were allotted as follows:
- Up to 357,140 options A to be awarded pursuant to option plan A to up to 7 Bank officers who are not gatekeepers.
- Up to 159,145 options B to be awarded pursuant to option plan B to up to 5 Bank officers who are not gatekeepers.
- Up to 263,975 options C to be awarded pursuant to option plan C to up to 4 key employees of the Bank and 19 key employees of Bank subsidiaries.
- Up to 1,430,360 options D to be awarded pursuant to option plan D to up to 98 managers employed by the Bank subject to individual employment contracts and to other managers at the Bank and at Bank subsidiaries, which have been approved for inclusion in this group for the purpose of the outline.
- Up to 2,152,655 options E to be awarded pursuant to option plan E to up to 267 managers employed by the Bank subject to collective bargaining agreements.

The theoretical benefit value of the options in these plans, calculated in accordance with accounting rules of US standards pursuant to ASC718, amounts to NIS 57 million. When spreading the theoretical benefit value in the Bank's accounts, the estimated expected churn rate for plan offerees would be taken into account.
All other details of the plans and the outline of offering to employees (including the threshold conditions for eligibility for options, vesting and exercise periods of options and the Board of Directors' authority to reduce the number of options and provisions with regard to reimbursement of the monetary benefit are described in an Immediate Report dated April 11, 2019.
Below are the assumptions used in calculating the fair value of a single option, as well as the resulting fair value per single option, for options awarded on August 31, 2017:

Exercise price	NIS 64.65(1)
Risk-free interest rate	(0.44%)–0.39%
Annualized standard deviation	16.54%–19.11%

Option plan	A	B	C	D	E
Number of options (in thousands)	573	254	180	979	1,365
Term to expiration (in years)	3.09-5.09	3.09-5.09	3.09-5.09	5.09	5.09
Average fair value per single option	(2)7.33	(2)7.36	7.22	8.63	8.63
Total fair value (NIS in thousands)	4,200	1,869	1,300	8,449	11,780

(1) Plus linkage differentials and dividend adjustment.
(2) Fair value with respect to supervisor's discretion and achievement of individual targets components was recalculated as of December 31, 2017.

Note 23 – Share-based Payment Transactions – Continued

Below are the assumptions used in calculating the fair value of a single option, as well as the resulting fair value per single option, for options awarded on April 11, 2019:

Exercise price	NIS 72.37(1)
Risk-free interest rate	(0.10%)–(0.55%)
Annualized standard deviation	17.74%–18.03%

Option plan	**A**	**B**	**C**	**D**	**E**
Number of options (in thousands)	347	156	264	1,430	2,153
Term to expiration (in years)	3.48-5.48	3.48-5.48	3.48-5.48	5.15	5.15
Average fair value per single option	11.76	11.75	11.82	13.42	13.42
Total fair value (NIS in thousands)	4,198	1,868	3,120	19,191	28,893

(1) Plus linkage differentials and dividend adjustment.

Details of the number of stock options and their exercise price for all plans are as follows:

	2021		**2020**		**2019**	
	Number of options	**Weighted average exercise price (in NIS)**	**Number of options**	**Weighted average exercise price (in NIS)**	**Number of options**	**Weighted average exercise price (in NIS)**
Outstanding at year start	5,007,742	71.36	5,344,353	70.94	2,604,052	64.65
Granted during the year(1)	–	–	–	–	4,363,275	72.37
Forfeited during the year	–	–	2,883	64.79	13,456	72.37
Exercised during the year(2)	4,313,987	71.24	333,728	64.65	1,609,518	64.65
Outstanding at year end	693,755	72.37	5,007,742	71.36	5,344,353	70.94

(1) The weighted average fair value of stock options granted in 2019 was NIS 13.13.
(2) The weighted average share price upon exercise of options into shares during 2021 was NIS 102.71 (2020 – NIS 92.77).

Below is information about stock options outstanding at year end by exercise price range:

	December 31, 2021	**December 31, 2020**	**December 31, 2019**
Range of exercise prices (in NIS)	**70-80**	**70-80**	**60-70**
Number of stock options	693,755	5,007,742	5,344,353
Weighted average exercise price (in NIS)	72.37	71.36	70.94
Weighted average remaining contractual term (in years)	2.25	3.00	3.83
Of which vested:			
Number of stock options	188,226	371,090	420,866
Weighted average exercise price (in NIS)	72.37	64.65	64.65

Note 23 – Share-based Payment Transactions – Continued

3. On June 22, 2020, the Bank's Board of Directors, after receiving approval by the Remuneration Committee dated June 8, 2020, approved the offering of options with respect to 2019 to officers of the Bank (other than the Bank President & CEO and Bank Board members) and to other managers at the Bank and at Bank subsidiaries for 2020, pursuant to Section 15b(1)(a) of the Securities Act, as stated in the employee offering outline dated June 22, 2020 (hereinafter: "the Employee Offering Memorandum" or "the Memorandum").

   As resolved by the Board of Directors on June 22, 2020, the following option plans were approved:
   For the Bank's previous President & CEO with respect to 2019:

   - Option plan 1 – 22,148 options 1 exercisable for up to 22,148 Bank ordinary shares of NIS 0.1 par value each.

   For other Bank managers with respect to 2020:

   - Option plan A – up to 343,527 options A to be awarded to up to six Bank officers who are not gatekeepers, exercisable for up to 343,527 Bank ordinary shares of NIS 0.1 par value each. (Includes allotment of 42,627 options A awarded to the Bank President & CEO with respect to the period from January 1, 2020 through September 15, 2020.
   - Option plan B – up to 199,500 options B to be awarded to up to five Bank officers who are gatekeepers, exercisable for up to 199,500 Bank ordinary shares of NIS 0.1 par value each.
   - Option plan C – up to 517,700 options C to be awarded to up to eighteen key Bank employees and up to sixteen key employees at Bank subsidiaries, which have been approved for inclusion in this group, exercisable for up to 517,700 Bank ordinary shares of NIS 0.1 par value each.
   - Option plan D – up to 779,930 options D to be awarded to up to fifty-six managers employed by the Bank subject to individual employment contracts and up to twenty-seven other managers at the Bank and at Bank subsidiaries, which have been approved for inclusion in this group, exercisable for up to 779,930 Bank ordinary shares of NIS 0.1 par value each.
   - Option plan E – up to 1,454,530 options E to be awarded to up to two hundred sixty-eight managers employed by the Bank subject to collective bargaining agreements, exercisable for up to 1,454,530 Bank ordinary shares of NIS 0.1 par value each.

   The number of exercise shares, as stated above, is the maximum number of shares arising from exercise of all options which may be issued pursuant to all plans. However, the number of options which offerees may actually exercise, pursuant to terms of each plan, would be derived from the eligibility terms set for each plan, as follows. Furthermore, allotment of the maximum number of exercise shares is merely theoretical, since in actual fact the Bank would not allot to the offerees the full number of exercise shares arising from the options which the offerees may exercise pursuant to terms of each plan – but only the number of shares reflecting the monetary benefit inherent in those options, based, inter alia, on the closing price cap of NIS 110 plus linkage differentials from the known CPI upon approval by the Board of Directors to the known CPI upon the exercise date.
   Also note that in case of dividend distribution, bonus share distribution, rights issuance, share capital split or reverse split or re-organization of the Bank, adjustments would be made as stated in the Employee Offering Memorandum.
   The options issued in the name of the previous Trustee on behalf of the Bank President & CEO, pursuant to options plan 1, may be exercised as from the second anniversary of the issue date and would expire two years after the vesting date, as defined in the Memorandum.
   The options issued in the name of the Trustee on behalf of each officer, pursuant to option plans A,B and key employees in plan C would be in three equal lots, which may be exercised as from two years after: (1) The issuance date; (2) April 1, 2023; and (3) April 1, 2024, and each lot of options would expire 18 months after each of said dates.
   All options issued pursuant to option plans D and E may be exercised in a single lot from the second anniversary of the issue date and would expire two years after the vesting date, as defined in the Memorandum.
   An offeree's eligibility for options pursuant to option plans A-E above would be contingent on the Bank's total capital adequacy ratio and Tier I capital ratio for the award year, would not be lower than the minimum ratios stipulated by Bank of Israel directives.

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

   - Options A and options B issued to offerees who are officers of the Bank, as noted above, constitute part of these officers' variable remuneration. Officer eligibility to options A or to options B would be determined based on four criteria which are measurable "company-wide criteria" (hereinafter: "the quantitative benchmarks") and based on
   - a qualitative criterion based on supervisor assessment of achievement of individual targets of the officer.

Note 23 – Share-based Payment Transactions – Continued

– Eligibility of offerees who are not officers of the Bank to options C and options D, with respect to any bonus year, would be determined based on the quantitative benchmarks and would not be based on any qualitative benchmark. Eligibility of offerees who are not officers of the Bank to options C and options E, with respect to any bonus year, would be determined based on the quantitative benchmarks and on the quality rating assigned to such offerees, as stated in section 2.12.10 of the Memorandum.

The quantitative benchmarks specified in the option plan are: return on equity, return on Bank shares relative to benchmark, operating efficiency ratio and average ratio of deposits to loans.
The theoretical benefit value of the options in these approved lots, calculated in accordance with US accounting rules (ASC 718 "Share-based Payment"), amounts to NIS 23 million.
The theoretical lot value was recognized in Bank accounts over the vesting period, i.e. from the second quarter of 2020 through the end of the year.

The options were allotted under the "Capital Gain" track, pursuant to the Section 102 of the Income Tax Ordinance. Therefore, any benefit arising to the offerees from exercise of these options will be taxed at the capital gain tax rate applicable to the offerees upon exercise of the options. All other details of the plans and the outline of offering to employees (including the threshold conditions for eligibility for options, vesting and exercise periods of options and the Board of Directors' authority to reduce the number of options and provisions with regard to reimbursement of the monetary benefit are described in the employee offering outline dated June 22, 2020.

Below are the assumptions used in calculating the fair value of a single option, as well as the resulting fair value per single option, for options awarded on June 22, 2020:

Exercise price	NIS 70.88[(1)]
Risk-free interest rate	(0.58%)–(0.44%)
Annualized standard deviation	24.09%–26.06%

Option plan	**A**	**B**	**C**	**D**	**E**
Number of options (in thousands)	344	199	518	780	1,454
Term to expiration (in years)	3.59-5.30	3.59-5.30	3.59-5.30	4.08	4.08
Average fair value per single option	9.97	10.00	9.89	10.41	10.41
Total fair value (NIS in thousands)	3,430	1,990	5,123	8,120	15,136

(1) Plus linkage differentials and dividend adjustment.

Details of the number of stock options and their exercise price for all plans are as follows:

	2021		**2020**	
	Number of options	**Weighted average exercise price (in NIS)**	**Number of options**	**Weighted average exercise price (in NIS)**
Outstanding at year start	2,288,081	70.88	–	–
Granted during the year[(1)]	–	–	3,295,187	70.88
Forfeited during the year	–	–	1,007,106	70.88
Exercised during the year	–	–	–	–
Outstanding at year end	2,288,081	70.88	2,288,081	70.88

(1) The weighted average fair value of stock options granted in 2020 was NIS 10.26.

Note 23 – Share-based Payment Transactions – Continued

Below is information about stock options outstanding at year end by exercise price range:

	December 31, 2021	December 31, 2020
Range of exercise prices (in NIS)	**70-80**	**70-80**
Number of stock options	2,288,081	2,288,081
Weighted average exercise price (in NIS)	70.88	70.88
Weighted average remaining contractual term (in years)	2.67	3.66
Of which vested:		
Number of stock options	–	–
Weighted average exercise price (in NIS)	–	–

4. On July 26, 2021, the Bank's Board of Directors, after receiving approval by the Remuneration Committee, approved the offering of options 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 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 nineteen key Bank employees and up to fourteen 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 exercise shares, as stated above, is the maximum number of shares arising from exercise of all options which may be issued pursuant to all plans. However, the number of options which offerees may actually exercise, pursuant to terms of each plan, would be derived from the eligibility terms set for each plan, as follows. Furthermore, allotment of the maximum number of exercise shares is merely theoretical, since in actual fact the Bank would not allot to the offerees the full number of exercise shares arising from the options which the offerees may exercise pursuant to terms of each plan – but only the number of shares reflecting the monetary benefit inherent in those options, based, *inter alia*, on the closing price cap of NIS 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 reorganization 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 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 23 – Share-based Payment Transactions – 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 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 41 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. All other details of the plans and the outline of offering to employees (including the threshold conditions for eligibility for options, vesting and exercise periods of options and the Board of Directors' authority to reduce the number of options and provisions with regard to reimbursement of the monetary benefit are described in the employee offering outline dated July 26, 2021.

Below are the assumptions used in calculating the fair value of a single option, as well as the resulting fair value per single option, for options awarded on July 26, 2021:

Exercise price	NIS 99.36[1]
Risk-free interest rate	(1.47%)–(1.25%)
Annualized standard deviation	23.11%

Option plan	A	B	C	D	E
Number of options (in thousands)	301	174	493	811	1,548
Term to expiration (in years)	3.59-5.19	3.59-5.19	3.59-5.19	4.09	4.09
Average fair value per single option	11.94	11.93	11.96	12.70	12.70
Total fair value (NIS in thousands)	3,594	2,076	5,896	10,300	19,660

Details of the number of stock options and their exercise price for all plans are as follows:

	2021	
	Number of options	**Weighted average exercise price (in NIS)**
Outstanding at year start	–	–
Granted during the year[1]	3,327,465	99.36
Forfeited during the year	7,915	99.36
Exercised during the year	–	–
Outstanding at year end	3,319,550	99.36

(1) The weighted average fair value of stock options granted in 2021 was NIS 12.48.

Note 23 – Share-based Payment Transactions – Continued

Below is information about stock options outstanding at year end by exercise price range:

	December 31, 2021
Range of exercise prices (in NIS)	**90-100**
Number of stock options	3,319,550
Weighted average exercise price (in NIS)	99.36
Weighted average remaining contractual term (in years)	3.74
Of which vested:	
Number of stock options	–
Weighted average exercise price (in NIS)	–

Note 24 – Share Capital and Shareholders' Equity[1]

A. Details on share capital of the Bank (in NIS):

	Registered		Issued and paid-in	
	December 31,		December 31,	
	2021	**2020**	**2021**	**2020**
Ordinary shares, NIS 0.1 par value[2]	400,000,000	400,000,000	256,486,472	255,056,522

(1) For allotment of stock options – see Note 23 to the financial statements.
(2) The shares are listed for trading on the Tel Aviv Stock Exchange.

B. Dividends

– Restrictions on dividends distribution

As directed by the Supervisor of Banks, banking corporations are required to avoid dividends distributions if they may fail to meet the capital targets specified, *inter alia*, in Proper Conduct of Banking Business Directive 331 and in the Supervisor of Banks' letters "Capital policies for interim periods" and "Basel III framework – minimum core capital ratios". For more information see Note 25.

– Policies for dividends distribution

In conformity with resolution by the Bank Board of Directors dated February 26, 2018, it is the Bank's dividends 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 dividends 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 dividends amount to be distributed by the Bank pursuant to the dividends policy. "Distribution" pursuant to the dividends policy (both dividends 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 dividends 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,

Note 24 – Share Capital and Shareholders' Equity[1] – continued

and that dividends distribution in excess of 30% of net income for 2020 would not be deemed careful, conservative capital planning. Consequently, the Bank Board of Directors approved on August 16, 2021 a dividends distribution amounting to NIS 483 million, or 30% of 2020 earnings.

On September 30, 2021, the Supervisor of Banks extended the interim directives (in addition to certain adjustments) by a further 3 months, through December 31, 2021, and announced that dividends distribution is allowed also with respect to 2021 earnings (even when the interim directive is in effect), and that distribution of dividends in excess of 30% of net earnings in 2021 would not be deemed careful, conservative capital planning. Consequently, the Bank Board of Directors approved on November 15, 2021 a dividends distribution amounting to NIS 752.7 million, or 30% of earnings in the first nine months of 2021, as stated below.

On December 27, 2021, the Supervisor of Banks announced that as from January 1, 2022, the interim directive expired, except for specific provisions for which a later expiration date was specified in the interim directive. In the explanation, the Supervisor of Banks noted that with regard to dividend distribution, banking corporations should be careful and should consider that some uncertainty still exists in the markets.

The Bank intends to continue acting in conformity with the Bank's dividends policy, subject to statutory provisions and the foregoing, and to approval by the Supervisor of Banks of the 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 dividends 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 equity 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 dividends 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.

For more information and for a summary of previous decisions by the Board of Directors with regard to dividends distribution policy, see Note 24 to the 2017 financial statements.

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

Declaration date	Payment date	Dividends per share (Agorot)	Dividends as percent of profit	Total dividends paid (NIS in millions)
August 12, 2019	August 27, 2019	167.21	0.40[1]	392.0
November 18, 2019	December 03, 2019	71.89	0.40	168.8
Total dividends distributed in 2019[4]				**560.8**
February 24, 2020	March 11, 2020	74.89	0.40	176.0
Total dividends distributed in 2020[5]				**176.0**
August 16, 2021	August 31, 2021	188.99	0.30[2]	483.0
November 15, 2021	November 30, 2021	293.47	0.30[3]	752.7
Total dividends distributed in 2021[6]				**1,235.7**

(1) Dividends rate as percentage of net profit in the first half of 2019.
(2) Dividends rate as percentage of net profit in 2020.
(3) Dividends rate as percentage of net profit in the first nine months of 2021.
(4) Total dividends distributed with respect to 2019 earnings – NIS 736.8 million.
(5) Total dividends distributed with respect to 2020 earnings – NIS 483.0 million.
(6) Total dividends distributed with respect to 2021 earnings – NIS 752.7 million.

– Dividends declared with respect to earnings in the fourth quarter of 2021

For more information about dividends distribution with respect to earnings in the fourth quarter of 2021, see Note 36 "Events after the balance sheet date".

Note 25 – Capital Adequacy, liquidity and leverage

Reported amounts (NIS in millions)

A. Capital adequacy

Calculated in accordance with Proper Conduct of Banking Business Directives 201-211 "Measurement and Capital Adequacy"

	As of December 31,	
	2021	**2020**
1. Consolidated data		
A. Capital for purpose of calculating minimum capital ratio		
Tier I capital(1)	21,969	20,137
Tier I capital(1)	21,969	20,137
Tier II capital	7,914	7,176
Total capital(1)	**29,883**	**27,313**
B. Risk weighted assets		
Credit risk	202,611	185,392
Market risks	2,268	2,228
Operational risk	13,831	12,864
Total weighted risk asset balances(2)	218,710	200,484
	In %	
C. Ratio of capital to risk components		
Ratio of Tier I equity to risk components	10.04	10.04
Ratio of Tier I capital to risk components	10.04	10.04
Ratio of total capital to risk components	13.66	13.62
Minimum Tier I capital ratio required by Supervisor of Banks(3)	8.60	8.68
Total minimum capital ratio required by the Supervisor of Banks(3)	11.50	11.50
.		
Bank Yahav for Government Employees Ltd. and its subsidiaries		
Ratio of Tier I equity to risk components	9.85	9.44
Ratio of Tier I capital to risk components	9.85	9.44
Ratio of total capital to risk components	13.49	12.76
Minimum Tier I capital ratio required by Supervisor of Banks	8.00	8.00
Total minimum capital ratio required by the Supervisor of Banks	11.50	11.50
Union Bank Le-Israel Ltd. and its subsidiaries		
Ratio of Tier I equity to risk components	16.28	12.91
Ratio of Tier I capital to risk components	16.28	12.91
Ratio of total capital to risk components	19.40	16.23
Minimum Tier I capital ratio required by Supervisor of Banks	8.43	8.44
Total minimum capital ratio required by the Supervisor of Banks	11.50	11.94

(1) These data include adjustments with respect to streamlining programs charged proportionately over 5 years since their start date. For more information, see section 3.A below.

(2) Of the total weighted balance of risk assets, NIS 54 million was deducted due to adjustments with respect to the streamlining plan (December 31, 2020: NIS 54 million).

(3) The minimum Tier I equity ratio required and the total minimum capital ratio required are 9% and 12.5%, respectively. An additional capital requirement was added to the Tier I equity ratio at 1% of the residential mortgage balance as of the report date.

However, in conformity with the interim directive regarding "Adjustments to Proper Conduct of Banking Business Directives for addressing the Corona Virus", as from March 2020, the minimum Tier I equity ratio required and the total minimum capital ratio required are 8% and 11.5%, respectively, and the additional capital requirement at 1% would not apply to residential mortgages extended from the outset of the interim directive (March 19, 2021) through September 30, 2021 nor to general-purpose residential mortgages extended as from the outset of the interim directive (March 19, 2021).

The interim directive applies through January 1, 2022.

Note 25 – Capital adequacy, liquidity and leverage – Continued

Reported amounts (NIS in millions)

A. Capital adequacy – Continued

Calculated in accordance with Proper Conduct of Banking Business Directives 201-211 "Measurement and Capital Adequacy" – continued

	As of December 31,	
	2021	**2020**
3. Capital components for calculating the capital ratio (on consolidated data)		
A. Tier I shareholders' equity		
Shareholders' equity	21,729	19,669
Differences between shareholders' equity and Tier I equity	(513)	(438)
Tier I equity before regulatory adjustments and deductions	**21,216**	**19,231**
Supervisory adjustments and deductions:		
Goodwill and intangible assets	(167)	(187)
Deferred tax assets	(6)	(127)
Supervisory adjustments and other deductions	892	1,099
Total supervisory adjustments and deductions, before adjustments with respect to the streamlining plan – Tier I equity	719	785
Total adjustments with respect to the streamlining program[2]	34	121
Total Tier I equity after supervisory adjustments and deductions	**21,969**	**20,137**
B. Tier II capital		
Tier II capital: Instruments, before deductions	5,933	4,861
Tier II capital: Provisions, before deductions	1,981	2,315
Total Tier II capital, before deductions	**7,914**	**7,176**
Deductions:		
Total deductions – Tier II capital	–	–
Total Tier II capital	**7,914**	**7,176**
Total capital	**29,883**	**27,313**

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

	As of December 31,	
	2020	**2019**
		In %
Ratio of capital to risk components		
Ratio of Tier I equity to risk components, before effect of adjustments with respect to the streamlining plan	10.03	9.98
Effect of adjustments with respect to the streamlining plan[2]	0.01	0.06
Ratio of Tier I equity to risk components	10.04	10.04

(1) Includes deferred credit balance from acquisition of Union Bank as from September 30, 2020.

(2) Of which, NIS 33 million with respect to streamlining program concerning employees and NIS 1 million with respect to streamlining program concerning real estate. As of December 31, 2020: NIS 118 million with respect to streamlining program concerning employees and NIS 3 million with respect to streamlining program concerning real estate.

Note 25 – Capital adequacy, liquidity and leverage – Continued

Reported amounts (NIS in millions)

B. Leverage ratio

Calculated in conformity with Proper Conduct of Banking Business Directive 218 "Leverage ratio"

	As of December 31,	
	2021	2020
1. Consolidated data		
Tier I capital[1]	21,969	20,137
Total exposure	423,950	388,370
		In %
Leverage ratio	5.18	5.19
Minimum leverage ratio required by the Supervisor of Banks[2]	4.50	4.50
2. Significant subsidiaries		
Bank Yahav for Government Employees Ltd. and its subsidiaries		
Leverage ratio	5.55	5.07
Minimum leverage ratio required by the Supervisor of Banks	4.50	4.50
Union Bank Le-Israel Ltd. and its subsidiaries		
Leverage ratio	8.37	6.12
Minimum leverage ratio required by the Supervisor of Banks	4.50	4.50

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

(2) Banking corporations are required to achieve the minimum leverage ratio required by the Supervisor of Banks as from January 1, 2018. For more information about reduction of minimum leverage ratio which banks are required to maintain in the normal course of business, by one half of a percentage point, see section J. below.

C. Liquidity coverage ratio

Calculated in accordance with Proper Conduct of Banking Business Directive 221 "Liquidity coverage ratio"

	As of December 31,	
	2021	2020
		In %
1. Consolidated data		
Liquidity coverage ratio[1]	125	133
Minimum liquidity coverage ratio required by the Supervisor of Banks	100	100
2. Bank data		
Liquidity coverage ratio[1]	120	129
Minimum liquidity coverage ratio required by the Supervisor of Banks	100	100
3. Significant subsidiaries		
Bank Yahav for Government Employees Ltd. and its subsidiaries		
Liquidity coverage ratio[1]	266	249
Minimum liquidity coverage ratio required by the Supervisor of Banks	100	100
Union Bank Le-Israel Ltd. and its subsidiaries		
Liquidity coverage ratio[1]	165	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.

Note 25 – Capital adequacy, liquidity and leverage – Continued

D. Minimum net stable funding ratio required by directives of the Supervisor of Banks

As from December 31, 2021, the Bank applies Proper Conduct of Banking Business Directive 222 concerning "Net stable funding ratio (NSFR)", which adopts the Basel Committee recommendation with regard to net stable funding ratio in the banking system in Israel. According to this directive, the purpose of the net stable funding ratio is to improve the liquidity risk profile of banking corporations over the long term, by requiring banking corporations to maintain a stable funding profile based on the composition of their on-balance sheet assets and off-balance sheet operations. The net stable funding ratio consists of two components: available stable funding items (numerator) and required stable funding items (denominator). "Available stable funding" is defined as the part of capital and liabilities that may be relied upon over the time horizon taken into account in the net stable funding ratio, of one year. The required stable funding amount for a given corporation is based on the liquidity attributes and time to maturity of various assets held by the corporation, as well as of off-balance sheet exposures.

In conformity with the directive, the minimum net stable funding ratio required is 100%.

The net stable funding ratio for significant banking subsidiaries in Israel is calculated in conformity with Proper Conduct of Banking Business Directive 222 "Net stable funding ratio". The net stable funding ratio for significant banking subsidiaries overseas is presented and calculated in conformity with the relevant directives in each jurisdiction, if any.

	As of December 31, 2021
	(audited)
	In %
(1) On consolidated data	
Net stable funding ratio	119
The minimum net stable funding ratio required by the Supervisor of Banks	100
(2) Significant subsidiaries	
Bank Yahav	
Net stable funding ratio	162
The minimum net stable funding ratio required by the Supervisor of Banks	100

Factors which may materially affect the net stable funding ratio

Net stable funding ratio on consolidated basis as of December 31, 2021 was 119%. Volatility of this ratio throughout the quarter was low; the main factors affecting the net stable funding ratio are: composition of Bank sources and uses by financing term, financing type and counter party. On the sources side – long-term liabilities are more stable than short-term liabilities, and funding from retail clients and small businesses is more stable than wholesale funding with the same maturity. When long-term sources grow shorter on a large scale (such as with subordinated notes) to a term shorter than one year, this factor affects the resulting ratio; however, because this is a funding source which typically has scattered maturities, the impact on the resulting ratio is not material. On the uses side – the asset type, duration and quality and the liquidity value determine the amount of required stable funding.

Note 25 – Capital adequacy, liquidity and leverage – Continued

E. Basel III

As from January 1, 2014, the Bank applies Proper Conduct of Banking Business Directives 201-211 with regard to capital measurement and adequacy, as amended to align them with Basel III directives.

The Basel III directives stipulated significant changes to calculation of regulatory capital requirements, including with regard to the following:

- Supervisory capital components
- Deductions from capital and supervisory adjustments
- Treatment of exposures to financial corporations
- Treatment of exposures to credit risk with respect to impaired debt
- Capital allocation with respect to CVA risk

These regulations are applied gradually, in line with transitional provisions specified in Proper Conduct of Banking Business Directive 299 with regard to "Capital measurement and adequacy – Supervisory capital – Transitional provisions", in order to allow for compliance with new supervisory capital requirements in applying Basel III and to specify a transition period pending full application. The transitional provisions refer, *inter alia*, to supervisory adjustments and deductions from capital, and to capital instruments that do not qualify for inclusion in supervisory capital based on the new criteria listed in the Basel directives. In particular, according to the transitional provisions, supervisory adjustments and deductions from capital, as well as non-controlling interest that do not qualify for inclusion in supervisory capital, were gradually deducted from capital at 20% per year, from January 1, 2014 to January 1, 2018. Capital instruments that no longer qualify as supervisory capital were recognized up to 80% on January 1, 2014, and this cap is further reduced by 10% in each subsequent year, until January 1, 2022. As from January 1, 2018, the transitional provisions with regard to supervisory adjustments and deductions from regulatory capital expired and are at 100%. Furthermore, the cap for instruments qualifying as supervisory capital is at 20%. As from January 1, 2021, the cap for instruments qualifying as supervisory capital is at 10%.

F. Minimum capital ratio requirement

As per instructions of the Supervisor of Banks, the Bank is required to maintain a minimum Tier I equity ratio of no less than 9% and a minimum total equity ratio of no less than 12.5% of weighted total of risk components of its balance sheet assets and off-balance-sheet items. The directives specify the manner of calculation of total capital and total risk components

An additional capital requirement was added to the Tier I equity ratio at 1% of the residential mortgage balance as of the report date.

Due to the Corona Virus outbreak and as part of adaptations of Proper Conduct of Banking Business Directives, the Supervisor of Banks issued Proper Conduct of Banking Business Directive 250 which includes, *inter alia*, an interim directive with regard to update to Directive 201, including reduction of regulatory capital requirements applicable to banks by one percentage point, and update to Directive 329, eliminating the capital requirements of one additional percentage point for residential mortgages for purchase of a residential apartment extended from March 19, 2020 through September 30, 2021 and for general purpose residential mortgages extended as from March 19, 2020.

Throughout the crisis, the Supervisor of Banks issued updates extending the interim directive, and with regard to reduction of capital requirements, this relief would apply through 24 months after expiration of the interim directive, provided that the banking corporation's capital ratios would be no less than the capital ratios upon expiration of the 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.

On December 27, 2021, the Supervisor of Banks issued a circular stating that as from January 1, 2022, the interim directive would expire.Moreover, an update to Proper Conduct of Banking Business Directive 329 regarding "Restrictions on residential mortgages" was issued, whereby the additional capital requirement of 1% would only apply to residential mortgages for residential purpose only, and would not apply to residential mortgages for purchasing interest in real estate and secured by by a lien on a residential apartment (hereinafter: "General Purpose Loan").

In conformity with the interim directive and considering the additional capital requirement for the balance of residential mortgages, the minimum Tier I equity ratio required of the Bank as of the report date is 8.60%, and the total minimum capital ratio required of the Bank as of the report date is 11.50% (to which appropriate safety margins would be added).

Note 25 – Capital adequacy, liquidity and leverage – Continued

G. Issue and redemption of subordinated notes with loss-absorption provisions

Since 2015, the Bank has been issuing contingent convertible (CoCo) subordinated notes with loss-absorption provisions by principal write-off (compliant with Basel III qualification provisions and recognized by the supervisor of Banks as Tier II capital of the Bank).

As of December 31, 2021, the balance of CoCo subordinated notes in the Bank's Tier II capital amounted to NIS 5.5 billion.

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 capital in conformity with provisions of Proper Conduct of Banking Business Directive 202.

In July 2021, 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.

Further to approval by the Supervisor of Banks, the Bank conducted, on September 12, 2021, a forced early redemption of contingent convertible (CoCo) subordinated notes (Series 55) amounting to NIS 222 million.
Further to approval by the Supervisor of Banks, the Bank conducted an early redemption of subordinated note (Series A) in early January 2022, for NIS 2.1 billion. The subordinated note issued by the Bank did not qualify as supervisory capital pursuant to Basel III directives and was gradually written down.

H. Streamlining plan

On December 27, 2016, the Bank's Board of Directors approved the streamlining program recommended by Bank management, whereby early retirement would be made possible for 300 employees in 2017-2021, at improved conditions.

The cost of update to the actuarial liability with respect to the streamlining program, recorded in the financial statements as of December 31, 2016, amounted to NIS 286 million; the cost net of tax, amounting to NIS 188 million, was charged to equity (under Other Comprehensive Income).

In conformity with the Supervisor of Banks' letter dated January 12, 2016, with regard to operating streamlining of the Israeli banking system, the Supervisor of Banks allowed capital relief with respect to this plan. The Bank applies this capital relief so that supervisory capital used to calculate capital adequacy would be adjusted (increased) and the capital effect of the streamlining would be applied on a straight line basis as from 2017, over a five-year period.

On June 13, 2017, the Board of Directors of Bank Yahav approved streamlining measures, including a voluntary retirement program and reduction of real estate areas. Bank Yahav was granted approval for this program by the Supervisor of Banks, as required in the streamlining directive. Pursuant to thevoluntary early retirement plan, early retirement of Bank Yahav employees would be authorized subject to criteria stated in the program. The costs of actuarial liability with respect to the retirement program at Bank Yahav amounted to NIS 36 million before tax (NIS 23 million after tax). As directed by the Bank of Israel, supervisory capital used to calculate capital adequacy would be adjusted (increased) and the capital effect of the streamlining would be applied on a straight line basis over a five-year period.

On December 31, 2018, the Union Bank Board of Directors approved a streamlining program (hereinafter: "additional streamlining program"), and after receiving approval from the Supervisor of Banks, in conformity with the aforementioned letter from the Supervisor of Banks, this effect would be recognized in equal parts over 5 years, as from 2019, in supervisory capital. The total cost of the program amounted to NIS 80 million before tax effect. This amount was revised to NIS 71 million in 2019.

The aforementioned voluntary retirement program is an additional one to the voluntary retirement program approved by the Union Bank Board of Directors on November 30, 2016, and nearly fully implemented in 2017-2018. In conformity with the aforementioned letter from the Supervisor of Banks, the effect of this program would be recognized in equal parts over 5 years in supervisory capital.

Note 25 – Capital adequacy, liquidity and leverage – Continued

On June 13, 2017, the Supervisor of Banks issued another letter, encouraging banking institutions to review, in addition to streamlining of payroll expenses, the optional reduction of the cost of real estate and maintenance of headquarters units and management, including through re-evaluation of their geographic location.

On June 19, 2017, the Bank's Board of Directors approved a plan to relocate operations of Bank headquarters units to one central site in Lod and directed Bank management to take the required actions to this end. This is further to contracting the purchase of land in Lod Industrial Zone, adjacent to the existing building in Lod.

The plan, including planning, construction and relocation, should take several years.

On June 28, 2017, the Bank closed (through its subsidiary Netzivim Assets and Equipment Ltd.) the sale of its interest in the headquarters building in Ramat Gan and concurrently leased back the building for a period of 8 years (hereinafter: "the streamlining period"). The Bank may extend the lease for additional terms, so that the total lease term would not exceed 24 years.

As directed by the Supervisor of Banks, the capital gain would be recognized over the lease term, in conformity with existing US standards for sale and lease-back transactions (section 840-40-25-2 of topic 840-40 of the codification concerning "Sale and lease-back transactions"). On July 20, 2017, the Supervisor of Banks allowed the Bank to recognize the capital gain (of NIS 83 million) generated by sale of the headquarters building in Ramat Gan as regulatory capital. The capital relief is to be amortized over the term of the streamlining program.

The effect of relief with respect to the streamlining programs on the Tier I capital ratio as of December 31, 2021 was 0.01%.

I. Updated measurement of capital requirements with respect to exposures to insurance companies, provident funds and mutual funds

On December 26, 2021, the Supervisor of Banks issued a circular updating the measurement of capital requirements with respect to exposures to insurance companies, provident funds and mutual funds. In conformity with this circular, the risk weighting attributable to insurance companies, provident funds and mutual funds would be reduced, and would equal the risk weighting attributable to banking corporations in conformity with Proper Conduct of Banking Business Directive 203.

Application of this update resulted in increase in Tier I equity ratio and in total capital ratio by 0.05% and 0.07%, respectively due to decrease in total risk assets by NIS 1.2 billion with respect to such exposures.

J. Leverage ratio pursuant to directives of the Supervisor of Banks

The Bank applies Proper Conduct of Banking Business Directive 218 regarding "Leverage ratio" (hereinafter: "the directive"). The directive stipulates a simple, transparent leverage ratio which is not risk-based, to serve as a reliable, additional measure to risk-based capital requirements, which is intended to limit the accumulation of leverage at banking corporations.

The leverage ratio, in percent, is defined as the ratio of capital measure to exposure measure. Capital for measurement of the leverage ratio is Tier I capital, as defined in Proper Conduct of Banking Business Directive 202, taking into consideration the stipulated transitional provisions. Total exposure measure for the Bank is the sum of balance sheet exposures, exposures to derivatives and to securities financing transactions and off-balance sheet items. In general, this measurement is consistent with accounting values, and for this reason no risk weightings are taken into account. Furthermore, the Bank may not use physical or financial collateral, guarantees nor other techniques to mitigate credit risk in order to reduce exposure measurement, unless specifically allowed by the directive. Balance sheet items deducted from Tier I capital (pursuant to Directive 202) are deducted from the exposure measure. In conformity with the directive, the Bank calculates the exposure with respect to derivatives in conformity with Appendix C of Proper Conduct of Banking Business Directive 203, and exposures with respect to off-balance sheet items by converting the notional amount of such items into credit conversion factors, as set forth in Proper Conduct of Banking Business Directive 203.

In conformity with the Directive, banking corporations shall maintain a leverage ratio of 5% or higher on consolidated basis. Nevertheless, in conformity with Proper Conduct of Banking Business Directive 250 concerning "Adjustments to Proper Conduct of Banking Business Directives for addressing the Corona Virus" which includes, *inter alia*, the interim directive issued on November 15, 2020 whereby banking corporations shall maintain a leverage ratio of 4.5% or higher on consolidated basis.

As aforesaid, the minimum leverage ratio required of the Bank is 4.5%.

With regard to reduced leverage requirements, the relief shall remain in effect through December 31, 2023, provided that the leverage ratio would be no less than the leverage ratio as of June 30, 2022, or the minimum leverage ratio applicable to the banking corporation prior to the Interim Directive, whichever is lower.

K. For more information about the Bank's policy on distribution of dividends, see Note 24.B. – share capital and equity.

Note 26 – Contingent Liabilities and Special Commitments

Reported amounts (NIS in millions)

A. Off-balance sheet liability for activities based on extent of collection at year end[(1)]

1. Balance of loans from deposits based on extent of collection[(2)]

	As of December 31,	
	2021	**2020**
Israeli currency – linked to the CPI	3,194	3,306
Israeli currency – non-linked	4,037	3,531
Foreign currency	47	62
Total	**7,278**	**6,899**

2. Cash flows with respect to collection commissions on activities based on extent of collection(2)

	As of December 31,							
							2021	**2020**
	Up to 1 year	**Over 1 year to 3 years**	**Over 3 years to 5 years**	**Over 5 years to 10 years**	**Over 10 years to 20 years**	**Over 20 years**	**Total**	**Total**
In the CPI-linked sector[(3)]								
Cash flows of futures contracts	18	23	16	23	12	4	96	114
Expected future cash flows net of management's estimate of early repayments	16	24	15	21	10	2	88	107
Discounted expected future flows net of management's estimate of early repayments[(4)]	16	24	15	21	10	2	88	102
In the non-linked NIS-denominated sector								
Cash flows of futures contracts	–	–	–	–	–	–	–	–
Expected future cash flows net of management's estimate of early repayments	–	–	–	–	–	–	–	–
Discounted expected future flows net of management's estimate of early repayments[(4)]	–	–	–	–	–	–	–	–

3. Information on loans extended by mortgage banks during the year

	2021	**2020**
Loans out of deposits according to extent of collection	263	339
Standing loans and grants	104	125

(1) Loans and deposits from deposits the repayment of which to the depositor is contingent upon collection of the loans (or deposits), with margin or with collection commission (instead of margin).

(2) Standing loans and Government deposits given with respect to them totaling NIS 920 million (2020 – NIS 1,054 million) are not included in this table.

(3) Includes foreign currency sector.

(4) In the CPI- and foreign currency-linked segments, capitalized at a rate of 0.13%; in the non-linked segment, capitalized at a rate of 2.6% (2020: at 1.16% and 2.56%, respectively).

Note 26 – Contingent Liabilities and Special Commitments – continued

B. Other liabilities and special commitments

	2021	2020
1. Computerization and software service contracts[1]	382	513
2. Acquisition and renovation of buildings	16	18

(1) Includes an agreement between Union Bank and Bank Leumi for provision of IT services amounting to NIS 135 million with respect to 2021-2022.

4. Credit sales operations

	2021	2020	2019
Carrying amount of credit sold	234	233	571
Consideration received in cash	234	116	577
Total consideration	234	116	577
Total net gain (loss) with respect to credit sold	–	–	–

C. Contingent liabilities and other commitments

1) In accordance with a resolution of the Board of Directors of the Tel Aviv Stock Exchange ("TASE"), a risk fund was established, which totaled NIS 1,606 million as of December 31, 2021. The share of Bank and subsidiaries in the fund as of December 31, 2021 is estimated at NIS 159 million (as of December 31, 2020 – NIS 136 million).

   In accordance with a decision by the stock exchange clearinghouse Board of Directors, each member of the clearinghouse deposits in cash at least 25% of their share in the risk fund. These funds are deposited by stock exchange clearinghouse members as collateral into an account with the Bank of Israel.

   See Note 27.A regarding liens that the Bank has undertaken to furnish for this liability. to the financial statements.

2) The Bank has undertaken toward the MAOF Clearinghouse Ltd., a wholly-owned subsidiary of the TASE (hereinafter: "MAOF Clearinghouse"), to pay any monetary charge deriving from transactions in derivatives traded on the TASE, executed through it by its customers, and from such transactions executed by several members of the TASE that are not members of the MAOF Clearinghouse, for their customers.

   The amount of the liability for these customers, as of the balance sheet date, amounts to NIS 477 million (as of December 31, 2020 – NIS 415 million).

   Likewise, the Bank has undertaken to deposit its share in the risk fund of the MAOF Clearinghouse, which totaled NIS 627 million as of December 31, 2021. The share of the Bank and subsidiaries in the fund as of December 31, 2021 is estimated at NIS 120 million (as of December 31, 2020: NIS 102 million).

   In accordance with a decision by the MAOF Clearinghouse Board of Directors, each member of the clearinghouse deposits in cash at least 25% of their share in the risk fund. These funds are deposited by MAOF Clearinghouse members as collateral into an account with the Bank of Israel.

   See Note 27.A to the financial statements with regard to liens that the Bank has undertaken to furnish for this liability.

3) Union Bank has a material long-standing contract with Bank Leumi LeIsrael Ltd. (hereinafter: "Leumi") pursuant to an agreement signed on September 2, 2001 and extended from time to time, with regard to provision of IT and operating services for a large part of the core banking systems by outsourcing, which expired on December 31, 2016. As from said date, a three-year period started, classified as "contract termination period", which was extended on March 29, 2018 as suggested by Leumi, through June 30, 2021. Further to approval by the Union Bank Board of Directors dated May 12, 2020, Union Bank and Leumi signed an addendum to the agreement whereby, after fulfillment of suspensive conditions, the agreement term was extended through December 31, 2022. Union Bank may not terminate the contract prior to the expiration date stipulated in the addendum. The consideration paid by Union Bank for services rendered amounted to NIS 125 million for 2020 and NIS 135 million for 2021-2022.

Note 26 – Contingent Liabilities and Special Commitments – continued

4) The Bank has made undertakings to the Tel Aviv Stock Exchange (hereinafter: "TASE") for operations of a company which is a member of the stock exchange but not a member of the clearinghouse. The undertaking is to settle securities and to honor any monetary charge arising from transactions executed by that company.

5) In 1992, a General Meeting of the Bank's shareholders ratified a resolution to indemnify officers of the Bank with the following wording:
   - The Bank will indemnify in full each of the officers for financial liabilities and legal expenses incurred for actions, acts, and omissions performed within the framework stipulated in the Companies Ordinance and the Bank's by-laws, and subject to the above provisions.
   - These officers will be indemnified whether the claim is brought against them during their employment at the Bank, or whether subsequently and refers to an act performed in their capacity as officers.

   There are differing legal opinions regarding a company's authority to approve such broad indemnification, and whether invoking it in a specific case requires additional approval, in a manner stipulated by law. Should the Bank be required to pay any amounts on the basis of the above decision, it will seek advice from its legal counsel regarding its obligation, taking into consideration the specific and special circumstances of each incident, if applicable.

   In December 2001, a General Meeting of the Bank's shareholders ratified the granting a waiver in advance (as described below) as well as advance commitment by the Bank to indemnify Board members and other officers (hereinafter jointly: "the officers"). Pursuant to the resolution by the General Meeting of shareholders, the Bank exempts in advance any liability by officers of the Bank towards the Bank with respect to any damage incurred by the Bank due to breach of the officer's duty of care towards the Bank in the officer's conduct, arising from his position as officer of the Bank. Committed to indemnify officers of the Bank for any liability or expense incurred by the officer in conjunction with his action in the course of their office with the Bank all as stated in the letter of commitment to indemnify, including with regard to actions by officers who are not directors in conjunction with their action as directors on behalf of the Bank, or at the Bank's request, of another company whose shares are owned by the Bank (hereinafter: "the original letter of indemnification").

   According to the original letter of indemnification, the amount if indemnification paid by the Bank to all officers on aggregate shall not exceed 25% of the Bank's shareholder equity on the Bank's 2000 financial statements, adjusted for the CPI as from December 2000 (hereinafter: ("total indemnification amount). This indemnification applies to action related, directly or indirectly, to one or more of the event types listed in the Addendum to the letter of commitment to indemnify.

   On October 28, 2004, the General Meeting of the Bank resolved to add to the list of events for which the Bank granted a commitment to indemnify to Bank officers, pursuant to the original letter of indemnification, a merger event, as defined in the Companies Law, including any decision, action, agreement or reporting with regard to a merger. It was resolved that in all that relates to indemnification resulting from a merger event, the maximum amount of the indemnification will be the lesser of: 25% of the Bank's shareholders' equity according to its financial statements as of December 31, 2000, plus linkage differentials beginning from the CPI for December 2000, or 25% of the Bank's shareholders' equity according to the last financial statements published in proximity to the actual payment date with respect to the indemnification.

   On May 14, 2006, the General Meeting of the Bank resolved to adapt the wording of the letter of indemnification to the provisions of the Companies Law (Amendment 3), 2005 and resolved to grant advance commitment to indemnify, of identical wording, to Bank employees serving as a director in a company in which the Bank owns any shares, and to those serving, from time to time at the Bank's request, as a director in a company controlled by the Bank.

   On November 9, 2011, the General Assembly of the Bank resolved to add a commitment by the Bank to indemnify Bank employees who are not officers of the Bank, who serve from time to time, upon request by the Bank, as officers of companies controlled by the Bank (such a resolution was also passed by the Bank's Board of Directors on February 16, 2009 – resolving to provide a letter of indemnification identical to the one granted to Bank officers), and to those who are not employees or officers of the Bank, who serve from time to time as officers of a company, other than a banking corporation, wholly-owned by the Bank (jointly: "the parties eligible for indemnification").

Note 26 – Contingent Liabilities and Special Commitments – continued

The General Assembly of the Bank further decided to add a commitment by the Bank to indemnify the parties eligible for indemnification for any monetary liability arising from payment to any party injured by the breach and with respect to expenses related to any administrative proceeding, including reasonable litigation expenses – all as specified in the ISA Enforcement Proceeding Streamlining Act (Legislative Amendments), 2011.

The General Assembly also resolved that the maximum indemnification amount payable by the Bank, on aggregate to all those eligible for indemnification pursuant to the letter of commitment to indemnify, shall not exceed 25% of the Bank's shareholder equity, based on its most recent financial statements published soon prior to the actual payment date of the indemnification amount ("maximum indemnification amount"). Should the total indemnification amount exceed the maximum indemnification amount specified above, the maximum amount payable by the Bank on aggregate to all those eligible for indemnification shall not exceed the total indemnification amount, but the differences between these two amounts would only be used for indemnification with respect to action taken before November 9, 2011.

On September 20, 2012, the General Assembly of the Bank further decided to add a commitment by the Bank to indemnify the parties eligible for indemnification for any monetary liability arising from payment to any party injured by the breach and with respect to expenses related to any administrative proceeding, including reasonable litigation expenses, including attorneys fees – all as specified in the in the Financial Services Supervision Act (Insurance), 1981 and in the Financial Services Supervision Act (Provident Funds), 2005 and with respect to expenses related to any administrative proceeding, including reasonable litigation expenses – all as specified in the Restrictive Trade Practices Act, 1988.

The General Assembly of the Bank further decided to add a commitment by the Bank to indemnify the parties eligible for indemnification for any monetary liability arising from payment to any party injured by the breach or similar, pursuant to any other statute, including reasonable litigation expenses, including attorneys' fees, with regard to any administrative proceeding pursuant to any other statute, provided that such indemnification is not prohibited by law.

On December 23, 2015, the General Assembly resolved to reduce the liability exemption for officers, so that it would not apply to any breach of duty of care after the approval date by the General Assembly when making a decision or approving a transaction in which the controlling shareholder of the Bank or any officer of the Bank (including another officer, other than the officer to whom the exemption was granted) has a personal interest.

The General Assembly of the Bank also resolved to add clarifications, details and elaboration to the events listed in the addendum to the letter of commitment to indemnify, according to events which the Board of Directors considers to be likely in view of actual Bank operations. The General Assembly further resolved to amend the letter of commitment to indemnify with regard to obtaining indemnification from an insurer or from a third party, so that the indemnification cap equal to the difference between the liabilities imposed on the officer or on the employee and/or legal expenses incurred by or charged to them, would also apply if the officer or employee would be reimbursed by any third party or by any third party's insurer who provided indemnification to the officer or employee for the same matter. It was further resolved that if the liability or legal expenses would not be actually covered in a timely manner by the insurer or by the third party, the Bank would indemnify the officer or employee for such liability and/or legal expenses – provided that the officer or employee would assign to the Bank their rights vis-a-vis the insurer or third party, so that the Bank would replace them vis-a-vis the insurer or third party.

On August 30, 2018, the General Meeting approved once again the Bank's waiver and commitment to indemnification, with regard to applicability to controlling shareholders of the Bank and their relatives who may serve from time to time, including those who have served in the past or to be appointed in future.

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

6) In May 1998, General Assemblies of the shareholders of the Bank and of Bank Tefahot ratified an undertaking to indemnify officers, which had previously been approved by their Audit Committees and Boards of Directors as follows:

Note 26 – Contingent Liabilities and Special Commitments – continued

The Bank and Bank Tefahot will irrevocably indemnify any of their officers for any action taken in their capacity as officers, in connection with the causes of action listed below, and for any financial obligation to be imposed by a court judgment, including a compromise, or arbitrator's decision that is subsequently approved by a court, and also for any reasonable legal expenses for which they may be indemnified in accordance with provisions of the Companies Ordinance.

The indemnification will be made for all the officers on a cumulative basis, up to a sum not to exceed – for each bank separately – NIS 750 million (linked to the CPI of March 1998), for any financial liability that the officer incurs as a result of an action that he took that is directly or indirectly connected to the prospectus published in 1998, or to the draft prospectus that was filed in that year, in connection with the offer of sale of the Bank's securities by the State, including in connection with the reports submitted by the banks subsequent to the date of the prospectus regarding any matter that occurred before the date of the prospectus.

Furthermore, the total cumulative amount of indemnification to be paid for all officers for any action or matter related to the insurance of borrowers by mortgage banks mentioned in the above prospectus included in the letter of indemnification – by each bank separately – will not exceed NIS 750 million (linked to the CPI of March 1998).

The letters of undertaking for indemnification stipulated further that, notwithstanding the aforesaid, the total cumulative amount of indemnification to be paid for all the officers with regard to all the causes of action included in the letter of indemnification – by each bank separately – will be limited to NIS 1,000 million (linked to the CPI of March 1998).

Under terms and conditions of the merger of Bank Tefahot into the Bank, the Bank assumed this commitment.

7) In November 2001, approval was given by General Assemblies of the shareholders of Bank Tefahot and of a wholly-owned and controlled subsidiary of Bank Tefahot (hereinafter: "Tefahot Issuance"), in connection with the prospectus for issuance of debentures and subordinated notes of Bank Tefahot from November 2001, that Tefahot Issuance irrevocably undertakes to indemnify all of its officers, for any action taken in connection with matters detailed in the letter of indemnity, by virtue of his being an officer ("indemnification").

   The indemnification will be given for any financial debt, if imposed by a judgment, including a judgment issued in a compromise or arbitration that was approved by a court, and with respect to any reasonable legal expenses (including fees to attorneys and other experts), which may be indemnified in accordance with the provisions of the Companies Law, all up to a limit of NIS 1 billion, linked to the CPI.

   Bank Tefahot undertook vis-à-vis Tefahot Issuance that, should it be unable to fulfill its obligations to the indemnity recipients, or any one of them, Bank Tefahot would pay to Tefahot Issuance any amount that Tefahot Issuance will be found liable to indemnify, beyond the amounts paid by Tefahot Issuance.

   Under terms and conditions of the merger of Bank Tefahot into the Bank, the Bank assumed this commitment.

8) In October 2002, the Board of directors of Bank Tefahot, following the approval of the Audit Committee, approved the bestowing of an advance undertaking for indemnification of directors and other officers of Bank Tefahot (together – "the officers"). Accordingly, Bank Tefahot undertakes, subject to the conditions detailed in the letter of undertaking and to the provisions of the Companies Law, to indemnify the officers for any liabilities or expenses imposed on the officer due to his capacity as an officer in Bank Tefahot, provided that these activities are related, directly or indirectly, to one or more of the events listed in the addendum to the letter of undertaking the indemnification.

   The cumulative amount of the indemnification to be paid by Bank Tefahot to all the officers will not exceed 25% of the shareholders' equity of Bank Tefahot according to its annual financial statements for 2001, adjusted for the CPI, beginning from December 2001, or 25% of the shareholder equity of Bank Tefahot according to the latest financial statements published as of the actual payment date of the indemnification, whichever is lower.

   In November 2002, a General Meeting of the shareholders of Bank Tefahot ratified this resolution.

   Under terms and conditions of the merger of Bank Tefahot into the Bank, the Bank assumed this commitment.

9) On June 30, 1998, an extraordinary general meeting of Bank Adanim, following approval by its Board of Directors and approval of its Audit Committee, ratified an undertaking to indemnify ("indemnification letter") for officers in Bank Adanim. The indemnification letter will apply to officers, as defined in Section 96(24) of the Companies Ordinance, who, on the approval date of the indemnification by the General Meeting ("date of record"), are serving in Bank Adanim or whose tenure ended in a period not earlier than 4 years from the date of record.

Note 26 – Contingent Liabilities and Special Commitments – continued

Pursuant to the indemnification letter, Bank Adanim will indemnify any officers in Bank Adanim for any financial liabilities imposed on them by a ruling, including legal expenses, for an act or omission done directly or indirectly in the matters itemized in the letter of indemnification, namely the offer of sale to the public of securities of Mizrahi Tefahot by the State, pursuant to a prospectus published in May 1998.

Pursuant to the indemnification letter, the amount of the indemnification to be paid by Bank Adanim (in addition to the amounts to be received according to the officers' insurance policies as detailed below) to all officers, on a cumulative basis will not exceed NIS 70 million, with the amount linked to the last CPI published before the date of record until the CPI published before the date of payment.

Bank Adanim will take action, to the extent possible, so that during the 10-year period beginning on the date of record, an officers' insurance policies will be purchased by or for Bank Adanim, which will cover the matters covered by the indemnification, the amount of which, including restitution/reinstatement will not be lower than the aforementioned amounts.

On December 16, 2002, a General Meeting of Bank Adanim, following approval by the Audit Committee and ratification by its Board of Directors, ratified the letter of indemnification undertaking ("indemnification letter") for officers in Bank Adanim. The indemnification letter will apply to officers, as defined in Section 1 of the Companies Law, 1999, who, on the approval date of the indemnification letter by the general meeting ("date of record") serve in Bank Adanim. Pursuant to the indemnification letter, Bank Adanim will indemnify all of the officers in Bank Adanim for all the financial liabilities to be imposed on them by a ruling, including legal expenses, relating to an act or omission done directly or indirectly in matters listed in the indemnification letter, up to the indemnification amounts.

The indemnification amounts to be paid by Bank Adanim for each officer, on a cumulative basis, for one or more of the types of events provided in the addendum to the letter of undertaking, shall not exceed 25% of the shareholder equity of Bank Adanim according to its financial statements for the year 2001, adjusted from time to time, according to the rate of increase in the CPI compared with the CPI for December 2001 that was published in January 2002 ("total indemnification amount). In the event the officer will receive indemnification from the insurer of the officers' insurance policies for the matter covered by the indemnification, the indemnification will be provided by Bank Adanim in the amount of the difference between the amount of financial liabilities imposed on the officer and/or legal expenses incurred by or charged to the officer, and between the amount received from the insurer on this matter, provided that the amount of indemnification for which Bank Adanim will be charged will not exceed the total indemnification amount.Beginning December 2002, Bank Adanim was one of the insured parties in the officers' insurance policies purchased by the Bank for itself and its subsidiaries and related companies, which is in effect until April 5, 2007.

Under terms and conditions of the merger of Bank Adanim into the Bank, the Bank assumed this commitment.

10) Various claims are pending against the Bank and its subsidiaries, namely, claims of customers, as well as motions for recognition of various class actions. In the opinion of the management of the Bank, based on the opinion of the managements of its subsidiaries and on the opinion of their legal counsel as to the possible outcome of the pending claims and motions for approval of claims as class actions, the financial statements include appropriate provisions, where necessary, to cover possible damages.

Below are details of significant claims, including motions for approval of class action status and claims in which the amount claimed (excluding interest and fees) exceeds 1% of Bank equity attributable to shareholders of the Bank:

A) In May 2011, the Bank received a claim and motion for approval of class action status. The claim concerns two alleged claims made against the Bank – firstly, late reporting to the Court Order Execution Service of payments made to reduce debt which is subject to proceedings at the Court Order Execution Service. Secondly, failure to indicate on the reporting forms the number of the principal to be reduced by the reported credit, and the number of the interest calculation rule applied to the reported payment amount. The lawsuit and motion allege that, by late reporting to the Court Order Execution Service and by failure to provide the indications on the reporting forms as required, the Bank misleads clients, causes clients not to be credited with interest in line with the date of their payment and in accordance with the correct interest rate, creates a situation in which the debt in Court Order Execution Service files is higher than the real debt, and collects excess payments. The lawsuit and motion further allege that the Enforcement and Collection Authority and the Court Order Execution Service admit that under crediting occurs in case of late reporting and failure to provide the required indications on the reporting form.

The plaintiff claims that he is unable to estimate the damage incurred by the entire class of plaintiffs, but assumes (on a basis which is not clear to the Bank) that it amounts to hundreds of millions of NIS.

Note 26 – Contingent Liabilities and Special Commitments – continued

On January 9, 2012, the Bank filed its response to the motion, describing in detail the factual and legal defense claims possessed by the Bank. On May 20, 2012, the plaintiff filed their response to the Bank's response to the motion. In view of new claims made by the plaintiff in their response to the Bank's response, the Bank filed a further, more detailed response on August 15, 2012.

On October 17, 2012 and on October 29, 2012, the Court held preliminary hearings in this case.

The parties have agreed and launched a mediation process aimed to try and resolve their differences. The mediation process was held concurrently with regard to other motions filed against other banks for the same cause, as well as with regard to other motions for class action status filed against the Bank and against other banks for causes related to debt management in Court Order Execution Service files.

The parties negotiated directly from August 2014 and in January 2016, due to a specific disagreement, the negotiations between the parties were terminated. They were resumed soon thereafter, in an attempt to reach an agreed arrangement.

On August 29, 2016, a Court hearing took place and it was resolved that the parties to this lawsuit and to the lawsuit described in section B. below, should file a settlement agreement and motion for its approval, no later than October 30, 2016. The resolution dated November 7, 2016 allowed the parties an extension to file a settlement agreement and motion for its approval, no later than November 30, 2016. On January 16, 2017, a hearing concerning the settlement agreement took place. On March 28, 2017, a hearing took place with regard to the settlement agreement and in particular, concerning the issue of Court action and its scope On June 12, 2017, the parties filed the draft settlement agreement with the Court, asking for the Court's assistance in the matter of the aforementioned Court action. On June 15, 2017, another hearing on this disagreement took place.

In accordance with the Court ruling of July 4, 2017, on August 13, 2017, the parties submitted the final approved version of the settlement agreement.

On November 7, 2017, the parties submitted to the Court the signed settlement agreement and its appendices with the application for its approval. On March 8, 2018 and on April 10, 2018, further hearings took place, at which the Court raised questions regarding the settlement agreement in general and in particular, the issue of maintaining information confidentiality by the Enforcement and Collection Authority. On May 28, 2018, a further hearing took place, at which the Court asked, *inter alia*, for clarifications regarding the motion by the Bank dated May 22, 2018 with regard to the need for maintaining data confidentiality, as well as clarifications with regard to other sections of the settlement agreement. A clarification notice from the Bank with regard to sections of the settlement agreement was filed on July 5, 2018.

On October 10, 2018, the plaintiff filed a motion to bring forward the approval of this settlement; consequently, on November 6, 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.

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.

Note 26 – Contingent Liabilities and Special Commitments – continued

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. 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.

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").

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 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.

Note 26 – Contingent Liabilities and Special Commitments – continued

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 verdict on this appeal 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. 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. On November 24, 2021, a mediation meeting took place,

which was un-successful. On January 3, 2022, the Court handed down its resolution with regard to a request for the opinion of the Supervisor of Banks, allowing either party to provide to the Court three questions which they would like for the Supervisor to refer to in their position statement. Accordingly, on February 8, 2021, a notice was filed on behalf of the banks, listing their proposed questions. The case is scheduled for evidentiary hearing in March 2023.

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 in the motion for approval, after which the Court recommended that the parties seek mediation to tr and resolve their dispute by mutual agreement. As proposed by the Court, the parties have started a mediation process.

Note 26 – Contingent Liabilities and Special Commitments – continued

On January 18, 2022, the parties filed a motion with the Court seeking approval of a settlement agreement, announcing that following the mediation proceeding, the parties have reached a settlement agreement in the motion for approval of this lawsuit. On February 3, 2022, the Court gave its comments on the settlement agreement. The parties must file their position with regard to the Court comments no later than February 22, 2022.

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.

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. Therefore, mediation meetings between the parties took place in October-December 2021, and the mediation proceeding has yet to be completed.

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 accepted the plaintiffs' motion for an extension for discussions with some of the defendants, through October 30, 2021. Such update notices were filed on October 31, 2021 and on December 31, 2021, wherein the plaintiff announced that they continued to be in discussions with defendants (other than banks), and asked for a further 30-day extension to conclude these discussions. The Court accepted the request made by the parties. Therefore, the plaintiffs must file their position by January 31, 2022. On February 7, 2022, the Court ruled that the plaintiffs should refer in the update notice to all defendants (due to notices filed by some insurers with whom no negotiations are being conducted). Consequently, on February 13, 2022 the plaintiffs filed their own statement. On February 15, 2022, the Court scheduled a pre-trial hearing for March 23, 2022.

Note 26 – 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, 2020, 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.

On August 25, 2021, the Supreme Court handed down a verdict denying the appeal. On August 25, the appellants filed a motion seeking a further hearing. The plaintiffs were required to deposit a bond; On September 13, 2021, the Supreme Court Registrar rejected the plaintiffs' motion for exemption from a bond deposit. The Court ordered the appellants to deposit the bond by October 18, 2021, or else their appeal would be rejected. Since no bond was deposited, on October 25, 2021 the Supreme Court ordered the motion for a further hearing in the appeal to be rejected.

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.

Note 26 – Contingent Liabilities and Special Commitments – continued

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.

The plaintiff claims they are unable to quantify the damage incurred by the class. The Bank filed its response on March 1, 2021. On June 27, 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. Therefore, on August 30, 2021, the Bank filed a motion to dismiss parts of the plaintiff's response to the Bank's response to the motion for approval. On November 29, 2021, the plaintiff filed their response to the motion to dismiss, and on December 9, 2021, the Bank filed its response to the plaintiff's response. In conformity with the resolution by the Court, the lawsuits would be referred to the Supervisor of Banks for comments after a resolution will have been given in the motion to withdraw. Such resolution has yet to be given.

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 deadline for the Bank to file its response to the motion was extended through February 28, 2022.

M. In May 2020, the Bank received a motion for class action status filed with the Central District Court, against 15 banks including the Bank and Bank Yahav and against the National Insurance Institute, the Enforcement and Collection Authority, the Postal Authority ("the Motion"), citing two causes: one, alleging unlawful delay of provident fund amounts that may not be foreclosed, in contravention of the Court Order Enforcement Act and a list of other laws; and the other, with respect to failure to issue debit cards to those who do not have a credit card or ATM card, in alleged breach of the directive by the Supervisor of Banks dated March 22, 2020.

The class was defined in the Motion as any person whose funds were unlawfully delayed by any of the defendant banks under circumstances as stated in the Motion. The plaintiff set the claim amount for all respondents at NIS 300 million.

Concurrently with filing the motion for approval, the plaintiff also filed a motion for fee exemption. The plaintiff's motion was denied in a resolution dated July 28, 2020, which was appealed and the appeal was rejected on September 6, 2020. As the Court fee was not paid when due, the Court handed down a verdict on October 13, 2020, denying the motion for approval of class action status.

Note 26 – Contingent Liabilities and Special Commitments – continued

The plaintiff appealed the verdict denying the appeal of the motion for fee exemption, and appealed the verdict denying the motion for approval. On October 22, 2020, the Bank's attorney received a motion filed by the plaintiff on October 18 with the Supreme Court, seeking exemption from mandatory bond deposit for filing their motion for right to appeal. As ruled by the Court, the Bank filed its response to the motion seeking exemption from mandatory bond deposit on December 2, 2020. On June 3, 2021, the plaintiff filed a clarification with regard to the motion for right to appeal they had filed, whereby they sought the right to appeal in the third level the decision to deny their motion for fee exemption. The Bank has filed its comments on this clarification. On August 15, 2021, the Supreme Court handed down a decision allowing the plaintiff to appeal the verdict rejecting the motion for fee exemption, in conjunction with the appeal of the verdict rejecting the motion for approval, subject to deposit of a bond at a reduced rate. An appeal of this decision was denied. In conformity with the resolution dated September 13, 2021, the appellant was to have deposited the bond by September 29, 2021; As this bond was not deposited, on October 19, 2021 a verdict was handed down rejecting the appeal.

N. In September 2021, the Bank received a motion for approval of class action status, filed at the Central District Court in Lod, against the Bank and four other banks, alleging publication, presentation, setting or charging commissions in foreign currency, in alleged violation of the law, rather than in NIS, and that the banks collect these fees in NIS base on high conversion rates of NIS to foreign currency.
The plaintiffs allege that bank price lists include various bank services for which commissions are denominated in foreign currency rather than in NIS, for services which have not been authorized to publish or charge commissions in foreign currency, across the board – even for clients who have no accounts in foreign currency. The plaintiffs further allege that the defendants collect these commissions with notional conversion of NIS to foreign currency at conversion rates higher than the official conversion rates published by the Bank of Israel.
The plaintiffs seek a determination, whereby the lawsuit would be filed in the name of any or all clients of the defendants, who have received bank services from the defendants, including third parties, and have been charged, directly or indirectly, a commission or expense that has been published, presented or set on the price list in a currency other than NIS (except for the three services set in USD on the complete price list, or for clients who have a foreign currency account).
The plaintiffs state that they are unable to accurately estimate the damage incurred by class members.
Even prior to the deadline for filing the Bank's response, on January 2, 2022, a hearing was held in this motion for approval, consolidated for hearing purposes with another motion alleging the opposite, whereby when a fee is specified in USD on the Bank price list, the Bank should charge it in USD rather than in NIS. After this hearing, the parties agreed to withdraw the aforementioned motion and to commit that the plaintiffs nor anyone on behalf thereof would file it again, with expenses charged to the plaintiffs.

For all claims against the Bank Group in individual amounts over NIS 2 million, excluding claims listed in section 10 above, there is additional, non-remote exposure for which no provision was made, amounting to NIS 63 million.

11) Motions for class action status are pending against the Bank and its subsidiary, where the amount claimed is material, as well as appeals to the High Court of Justice, as itemized below, which, in the opinion of the Bank's management, based on the opinion of the managements of its subsidiaries, and on the opinion of their legal counsel, the prospects for which cannot be estimated on the date of the financial statements, hence no provision was made for these.
In February 2022, the Bank received a motion for approval of class action status filed with the Jerusalem District Court, against the Bank and 9 other banks and against 2 private companies which operate by themselves or by franchise, non-banking ATMs ("the motion").
The motion concerns cash withdrawals from client accounts at the defendant banks, made through non-banking ATMs operated by public companies.
The motion alleges, *inter alia*, that banks charge their clients an additional commission without full disclosure and allegedly unlawfully, for cash withdrawals made through private / non-banking ATMs, in addition to the commission paid to the private companies that operate these ATMs.
It was further alleged that these actions were in contravention of the banks' legal obligations to provide proper service to all clients, including those in areas where a bank branch has been closed (noting, with regard to the Bank, that the Bank is not acting to close branches), with the scope of banking ATMs deployed for making cash withdrawals failing to provide a solution for the entire population and for all bank clients.
The damage incurred by the class, according to the motion, was set at NIS 458 million against all defendants, with the plaintiff leaving the attribution of liability among all defendants to the Court's discretion.

Note 26 – Contingent Liabilities and Special Commitments – continued

12) Motions for class action status and a motion for approval of a derivative claim are pending against the Bank and subsidiaries thereof, as follows.

A. In October 2020, a motion was filed with the Tel Aviv District Court, seeking a document discovery order pursuant to provisions of Section 198a of the Corporate Act, 1999 prior to filing a motion for approval of a derivative lawsuit against the Bank and against Union Bank Le-Israel Ltd. (by way of "double derivative proceeding") (hereinafter: "the defendants"), seeking that the defendants be instructed to provide to them various documents related to "suspect" fund transfer transactions between 1999-2017, as made public on the BuzzFeed media website with regard to the defendants (transfers in 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 motion to be dismissed.

B. In September 2020, a motion for approval of a derivative lawsuit was filed with the Tel Aviv District Court by a shareholder on behalf of the Company for Economic and Cultural Enterprises for State Employees Ltd. ("Economic Enterprises Company") and on behalf of Bank Yahav for Government Employees Ltd. ("Bank Yahav") against Bank Yahav, the Bank, Board members of the Economic Enterprises Company and of Bank Yahav, including officers of the Bank.
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. On December 26, 2021, a pre-trial hearing took place. After this hearing, it was stipulated that prior to setting a date for hearing the actual motion, this case would be referred to internal reminder on February 15, 2022, and should there by no open motions on said date, an evidentiary hearing would be scheduled. an evidentiary hearing has not been scheduledy yet.

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.

Note 26 – Contingent Liabilities and Special Commitments – continued

It should be noted, with regard to the motion for discovery, that on May 3, 2015, a preliminary hearing of this motion took place wherein the Court approved the agreement reached by the parties, that the hearing of the actual motion for discovery would currently be suspended, pending completion of document discovery for filing with authorities in the USA. In December 2015, the Court resolved that the motion for approval would be dismissed, but the dismissal would be delayed that should the motion for discovery be allowed and should the plaintiff of the motion for discovery file a motion for approval 90 days after receiving the documents in a timely manner as instructed by the Court in its resolution, the motion for approval would be dismissed. Should the discovery motion be dismissed, or should a motion for approval not be filed by 90 days after receiving the documents – the motion for approval would be considered a preliminary motion to any other motion, if filed.

On April 18, 2016, the Court resolved to postpone the hearing of the motion pending conclusion of the investigation and reporting of its outcome.
On April 12, 2017, the Court directed the Attorney General to inform the Court in 45 days' time of their intention to join the proceeding.
On August 3, 2017, the Attorney General submitted a notice on its behalf, regarding his appearance in the discovery process, to which he attached his position. On September 10, 2017, the Bank and the other defendants filed their responses to the Attorney General's position.
On September 19, 2017 Court approved a procedural arrangement reached by the parties in the case, whereby the hearing of this case will be suspended at this stage, subject to the defendants reporting to the Court and to the plaintiff as from December 31, 2017, once every 90 days, of the investigation by the US DOJ. Updates with regard to the investigation process were given on March 29, 2018 and on June 27, 2018.
On October 2, 2018, the Bank provided an update to the Court with regard to the investigation process, enclosing the report made public in the Bank's financial statements as of June 30, 2018 whereby, *inter alia*, the Bank started negotiations with the US DOJ, the outcome of which cannot yet be estimated. Consequently, the Court scheduled the case for follow-up in 90 days.
On December 31, the Bank filed another update with the Court with regard to the investigation; the next update is due on March 31, 2019.
On March 14, 2019, the Bank filed an update notice with the Court, whereby on March 12, 2019, the Bank and the US Department of Justice signed a Deferred Prosecution Agreement to conclude the investigation.
In conformity with the District Court ruling dated October 10, 2019, the parties filed a notice of litigation agreement with regard to further litigation of this motion. On December 18, 2019, the Court handed down a ruling whereby, inter alia, a pre-trial hearing was scheduled for April 22, 2020 and requiring the parties to state their consent to referring their dispute to mediation. In view of the notice by the Bank dated January 1, 2020, stating that the Bank 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 26 – Contingent Liabilities and Special Commitments – continued

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

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 the client and to others whose debt is personally guaranteed by the client ("the credit"). The motion alleges that members of the Board of Directors and of the Credit Committee of Union Bank have allowed the client 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 the client 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.

Note 26 – Contingent Liabilities and Special Commitments – continued

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 the client'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 the client'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".

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. In conformity with the resolution, Union Bank has filed a update notice seeking the Court to allow the Bank to make further progress on the settlement, and to file a further update notice with regard to negotiations by the parties, no later than November 3, 2021. On October 4, 2021, the Court allowed the motion by Union Bank to provide an extension for an update, and instructed the parties to agree on dates for evidentiary hearings. On October 6, 2021, the Court handed down its ruling, scheduling the evidentiary hearing on March 22, 2022. Should there be any development in the parties' settlement negotiations – the parties should inform the Court of such progress.

13) 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 stated 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 specified 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.

14) In October 2020, the Bank and Apple signed an agreement, whereby Bank clients with iOS based devices can pay using their Bank-issued credit cards on the Apple Pay app.

Note 26 – Contingent Liabilities and Special Commitments – continued

In February 2019, the Bank entered into an agreement with Israel Credit Cards Ltd. (hereinafter: "CAL") and with Diners Club Israel Ltd., a company controlled by CAL (hereinafter: "Diners") – (hereinafter jointly: "CAL Group") to extend the agreement on joint issuing of charge cards to Bank clients. The extension of this agreement revised the commercial terms agreed by the parties in previous agreements.
In February 2019, the Bank signed with Isracard Ltd. and with Europay (Eurocard) Israel Ltd. an extension to the agreement on joint issuing of charge cards to Bank clients. The extension of this agreement revised the commercial terms agreed by the parties in previous agreements. The Bank also has an agreement with Poalim Express Ltd. of Isracard Group on joint issuing of charge cards to Bank clients.
In March 2015, the Bank signed with Leumi Card Ltd. an agreement on joint issuing of charge cards to Bank clients.
The agreements with the credit card companies are subject to all regulatory requirements required by statute, if any.

15) A trust company that is a subsidiary of the Bank executes trust transactions that include primarily trusteeships for trust funds, for debenture holders, for owners of restricted shares and for the maintenance of bank accounts.

16) The Bank has undertaken vis-à-vis the trustee for debentures and subordinated notes issued by Mizrahi Tefahot Issue Company Ltd., to fulfill the payment terms, as stated in the debentures and subordinated notes.

17) The Bank contracts loan syndication transactions with multiple institutional investors. Some of these transactions are organized, managed and operated by the Bank.
For more information about syndication transactions, see Note 30D.

D. Guarantees by maturity

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

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

	As of December 31, 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	2,177	527	111	506	3,321
Guarantees to home buyers	10,699	3,796	534	1,553	16,582
Guarantees and other commitments	4,137	1,278	435	4,721	10,571
Commitments to issue guarantees	2,480	5,691	1,142	38	9,351
Total guarantees	**19,493**	**11,292**	**2,222**	**6,818**	**40,825**

	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 27 – Liens

On January 1, 2022, the updates to Proper Conduct of Banking Business Directive 336 regarding "Pledging assets of a banking corporation" became effective. These updates result from the increase in scope and variety of activities for which banking corporations are required to pledge assets. The directive includes requirements with regard to management of pledged assets and the risks associated there with. The updated directive transitions from a quantitative directive to a qualitative one, with a requirement for proper management and monitoring of pledging of assets. Accordingly, the Bank has set policy on this matter which governs, *inter alia*, management of these operations subject to corporate governance rules, risk management as well as control and monitoring, with due consideration to the importance of this matter and to materiality of these operations at the banking corporation at Group level.

Below is a summary description of pledged Bank assets as of December 31, 2021:

A. Stock exchange members are required to deposit a system of collateral to secure the fulfillment of all the obligations of their customers and the obligations of the other stock exchange members that are not members of the clearinghouse and their customers, to the stock exchange clearinghouse, with respect to transactions executed through the stock exchange clearinghouse, and to secure their share in the risks fund for this activity as discussed below in Note 26.C.1).

   In the framework of system of collateral, the Bank deposits liquid collateral, as provided below:

   1) In the account opened by the stock exchange clearinghouse in its name ("collateral account in clearinghouse") government debentures of the Bank were deposited as collateral in favor of the stock exchange clearinghouse, at the full value of the customers' obligations plus the Bank's share in the risk fund. As of December 31, 2021: NIS 124 million was deposited. (As of December 31, 2020: NIS 102 million).

   2) Additionally, as from June 19, 2017, in the account opened by the stock exchange clearinghouse in the Bank of Israel in its name on behalf of the Bank, cash is deposited that the Bank furnishes as collateral, as well as the cash to be paid as income on securities that were deposited in the account, the clearinghouse's collateral or cash originating in any other financial right deriving from those securities, including cash proceeds from their sale. As of December 31, 2021, deposits to this account amounted to NIS 41 million (as of December 31, 2020: NIS 36 million).

   3) Through June 19, 2017, funds provided as collateral by stock exchange clearinghouse members, currently deposited with the Bank of Israel (as stated in section 2) above), were deposited on behalf of the Bank with another bank.

   4) The accounts discussed in Par. 1 and 3 above have been pledged under a first-level fixed lien in favor of the stock exchange clearinghouse. The aforementioned account in section 2 above was pledged by a first-ranked lien and by assignment by way of pledge of unlimited amount in favor of the stock exchange clearinghouse.

   Furthermore, stock exchange members are required to deposit a system of collateral that secures the fulfillment of their obligations relating to MAOF transactions that are executed by them or their customers or by stock exchange members that are not members of the MAOF Clearinghouse, and to secure their share in the risks fund covering this activity, as provided below in Note 26.C.2).

   Accordingly, the Bank was required to deposit only liquid collateral, for the full exposure of activity in derivatives and for its share in the risks fund, as provided below:

   1) In the account opened in the TASE Clearinghouse in the name of the MAOF Clearinghouse ("main MAOF collateral account"), government debentures of the Bank were deposited as security in favor of the MAOF Clearinghouse, at the full value of the requirements for customers' collateral plus the Bank's share in the risks fund. The value of debentures deposited as of December 31, 2021 is NIS 511 million (as of December 31, 2020 – NIS 415 million).

   2) Additionally, as from June 19, 2017, in the account opened by the MAOF clearinghouse in its own name on behalf of the Bank with the Bank of Israel, cash is deposited that the Bank furnishes as collateral, as well as the cash to be paid as income on securities that will be deposited in a major clearinghouse collateral account or cash originating in any other financial right deriving from said securities, including cash proceeds from their sale. As of December 31, 2021, deposits to this account amounted to NIS 22 million (as of December 31, 2020: NIS 22 million).

   3) Through June 19, 2017, funds provided as collateral by MAOF clearinghouse members, currently deposited with the Bank of Israel (as state in section 2) above), were deposited on behalf of the Bank with another bank.

Note 27 – Liens – continued

4) The aforementioned accounts in sections 1 and 3 above are pledged under a floating and fixed lien to benefit the MAOF clearinghouse. The aforementioned account in section 2 above was pledged by a first-ranked lien and by assignment by way of pledge of unlimited amount in favor of the MAOF clearinghouse.

The value of collateral deposited by Union Bank in favor of the clearing house as of December 31, 2021 amounted to NIS 260 million (as of December 31, 2020: NIS 316 million).

B. The Bank of Israel operates the Real Time Gross Settlement system (RTGS) – a system which allows customers to transfer in real time NIS-denominated amounts between bank accounts in the same bank or between banks.

The Bank of Israel provides daily and intra-day credit for participants in the RTGS system against specific liens on Bank debentures in the Bank of Israel account with the stock exchange clearinghouse. As of December 31, 2021 and as of December 31, 2020, no debentures were deposited in this account.

C. The Bank conducts securities operations through the EuroClear clearinghouse, which is a settlement system for securities traded on international markets. For these operations, the Bank pledged securities valued, as of December 31, 2021, at USD 16 million (as of December 31, 2020: USD 16 million).

To secure Bank client activity involving options overseas, the Bank provides as collateral debentures of foreign governments. For these operations, the Bank pledged securities valued, as of December 31, 2021, at USD 47 million (as of December 31, 2019: USD 47 million). Furthermore, as of December 31, 2021, the value of collateral and funds pledged by Union Bank to the Euroclear Clearinghouse is estimated at USD 48 million.

D. The Bank and subsidiaries contract Credit Support Annex (CSA) agreements with counter parties, intended to minimize the mutual credit risks created between parties when trading in derivatives. According to these agreements, the fair value of the parties' rights and obligations are measured periodically, and if either party's exposure exceeds the threshold specified in advance, then that party would make a transfer to the other party so as to limit the exposure until the next measurement date.

As of December 31, 2021, the Bank Group has provided to counter parties deposits amounting to NIS 600 million (December 31, 2020: NIS 836 million).

Under the EMIR regulation, applicable to some counter parties with whom the Bank trades OTC derivatives, the Bank is required to use central settlement for some of its transactions with such counter parties through LCH. As part of the central settlement requirements at LCH, the Bank is required to cap the variation margin and the initial margin using transfers to cap such exposure.

As of December 31, 2021, the Bank Group has provided NIS 60 million for variation margin capping, and for capping of initial margin capping – NIS 46 million (as of December 31, 2020: NIS 60 million and NIS 43 million, respectively).

The value of collateral for variation margin capping at Union Bank amounts to NIS 14 million and for initial margin capping – NIS 64 million (as of December 31, 2020: NIS 106 million and NIS 85 million, respectively).

E. In accordance with the requirement of the regulatory agencies in the USA, the Bank's branch pledged securities worth USD 31 million as of the balance sheet date (as of December 31, 2020: USD 34 million), used to secure deposits of the public or to comply with other government regulations, or to fulfill other government directives.

F. To secure credit facilities provided to the Bank by the Bank of Israel, the Bank has pledged an account containing foreign securities. As of December 31, 2021 and December 31, 2020, the Bank pledged no foreign securities.

G. The Bank has pledged a mortgage portfolio valued at NIS 6.5 billion (of which: Actual amount pledged: NIS 3.65 billion) as well as monetary deposits amounting to NIS 1.2 billion, to secure long-term monetary loans received and to be received from the Bank of Israel to finance loans to micro and small businesses. The Bank would serve as Trustee on behalf of the Bank of Israel with regard to loan operations and maintaining the loan portfolio sufficiently pledged. Should a particular loan no longer match the criteria prescribed by the Bank of Israel, this loan can no longer serve as collateral for monetary loans extended to the Bank, and therefore should the value of the pledged portfolio drop below the minimum threshold required, the Bank would be required to pledge additional loan portfolios or to provide other collateral.

Note 27 – Liens – continued

H.

	December 31,	
	2021	**2020**
Sources of securities which have been received and which the Bank may sell or pledge, at fair value excluding set-offs:		
Securities received in transactions for borrowing securities against cash	1,332	200

I. On December 30, 2020, the Bank signed a pledge agreement and a secured debenture to secure credit received from time to time from the Bank of Israel, whereby the Bank pledged by a first-ranked lien of unlimited amount and by assignment by way of pledge all assets and rights in specific accounts in the name of the Bank of Israel at the Tel Aviv Stock Exchange clearing house and at Euroclear, as well as all its assets and rights in certain residential mortgages and collateral to secure such loans, which are part of the residential mortgage portfolio originated by the Bank (for more information see Note 27.G.).

Note 28 – Derivative instruments and hedging activities

Reported amounts (NIS in millions)

A. Description of derivatives and the risks inherent in such activity

1) Overview

The Bank's activities in derivative instruments, such as futures contracts and forward trades, options and financial swaps, are executed both as broker for its customers and as part of the management of its assets and liabilities and in order to minimize as much as possible the Bank's exposure to market risks.

The Bank designates certain derivative instruments as fair value hedges or as cash flow hedges. For more information, see Note 1.E.16. to the financial statements.

2) Types and description of activity in financial derivative instruments

The activities in financial derivative instruments include currency contracts, interest rate contracts and other contracts, and contracts for customers in the MAOF market, on different indices and assets, as outlined below:

- Forward transactions and futures contracts:
  A contract between two parties to buy or sell a specified quantity of commodities, currencies, interest or other financial instruments (hereinafter: "underlying asset"), to be executed on a future date and at a price specified in advance.
- Swaps:
  Contracts to exchange a specified quantity of underlying assets on the transaction date, with a reciprocal obligation to re-exchange the items that had been exchanged on a future date.
- Options:
  Contracts that confer, in return for the payment of a premium, the right to purchase (call) or sell (put) the underlying assets at a pre-determined fixed price, quantity and time.
- Spot trades (transactions for immediate delivery):
  Exchanges of two currencies, based on an exchange rate agreed in advance, to be executed within two business days.
- Credit derivatives:
  Contracts that confer, in return for the payment of a one-time or periodic premium, the right to receive payment in the event of a change in credit rating, the inability to honor obligations or any other credit event, relating to the State or the company, as stipulated in the contract.

Note 28 – Derivative instruments and hedging activities – continued

- Fair value hedges:

  The Bank designates certain derivatives as fair value hedges. Change in fair value of derivatives hedging exposure to change in fair value of an asset, liability or firm commitment, is regularly recognized on the statement of profit and loss, as is the change in fair value of the hedged item, which may be attributed to the hedged risk.
- Cash flows hedges:

  The Bank designates certain derivatives as cash flows hedges. The accounting treatment of changes to fair value of derivatives hedging exposure to change in cash flows from an asset, liability or anticipated transaction depends on the effectiveness of hedging relationship.
- The effective portion of the change in fair value of derivatives used to hedge cash flows is initially recognized under equity (off the statement of profit and loss), as a component of Other Comprehensive Income and then, when the anticipated transaction impacts the statement of profit and loss, it is reclassified to the statement of profit and loss.
- The non-effective portion of the change in fair value of derivatives thus designated is immediately recognized on the statement of profit and loss.

Note 28 – Derivative instruments and hedging activities – continued

Reported amounts (NIS in millions)

b) Activity on consolidated basis

	December 31, 2021			December 31, 2020		
	Derivatives not held for trading	Derivatives held for trading	Total	Derivatives not held for trading	Derivatives held for trading	Total
1. Stated amounts of derivative instruments						
Interest contracts						
Forward contracts	929	–	929	1,439	–	1,439
Options sold	–	–	–	–	33	33
Options purchased	–	–	–	–	74	74
Swaps(1)	28,571	22,422	50,993	20,988	35,492	56,480
Total(2)	**29,500**	**22,422**	**51,922**	**22,427**	**35,599**	**58,026**
Of which: Hedging derivatives(3)	**3,921**	**–**	**3,921**	**3,962**	**–**	**3,962**
Currency contracts						
Forward contracts(4)(6)	58,002	99,090	157,092	52,008	80,362	132,370
Options written	190	14,748	14,938	4,665	15,628	20,293
Options purchased	217	14,349	14,566	4,685	15,038	19,723
Swaps	1,352	1,191	2,543	1,694	1,456	3,150
Total	**59,761**	**129,378**	**189,139**	**63,052**	**112,484**	**175,536**
Of which: Hedging derivatives(3)	**–**	**–**	**–**	**–**	**–**	**–**
Contracts for shares						
Options written	473	32,089	32,562	282	27,666	27,948
Options purchased(5)	18	31,908	31,926	8	27,620	27,628
Swaps	–	791	791	–	2,657	2,657
Total	**491**	**64,788**	**65,279**	**290**	**57,943**	**58,233**
Commodities and other contracts						
Forward contracts	–	1	1	82	14	96
Options written	–	28	28	–	425	425
Options purchased	–	28	28	–	409	409
Total	**–**	**57**	**57**	**82**	**848**	**930**
Credit contracts						
Bank is guarantor	249	–	249	257	–	257
Bank is beneficiary	81	–	81	118	–	118
Total	**330**	**–**	**330**	**375**	**–**	**375**
Total stated amount	**90,082**	**216,645**	**306,727**	**86,226**	**206,874**	**293,100**

(1) Of which: Swaps for which the banking corporation pays a fixed interest rate amounting to NIS 31,953 million (as of December 31, 2020: NIS 34,819 million).

(2) Of which: NIS/CPI swaps amounting to NIS 7,086 million (as of December 31, 2020: 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 5,799 million (as of December 31, 2020: NIS 4,854 million).

(5) Of which: Traded on the Stock Exchange, amounting to NIS 63,320 million (as of December 31, 2020: NIS 27,590 million).

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

Note 28 – Derivative instruments and hedging activities – continued

Reported amounts (NIS in millions)

b) Activity on consolidated basis – continued

	December 31, 2021					
	Assets with respect to derivatives, gross			Liabilities with respect to derivatives, gross		
	Derivatives not held for trading	Derivatives held for trading	Total	Derivatives not held for trading	Derivatives held for trading	Total
2. Fair value of derivative instruments, gross						
Interest contracts	335	266	601	498	299	797
Of which: Hedging derivatives	34	–	34	149	–	149
Currency contracts[(1)]	160	2,183	2,343	214	2,478	2,692
Of which: Hedging derivatives	–	–	–	–	–	–
Contracts for shares	–	713	713	–	259	259
Commodities and other contracts	–	–	–	–	–	–
Credit contracts	2	–	2	5	–	5
Total assets / liabilities with respect to derivatives, gross[(2)]	**497**	**3,162**	**3,659**	**717**	**3,036**	**3,753**
Fair value amounts offset in the balance sheet	–	–	–	–	–	–
Carrying amount of assets / liabilities with respect to derivative instruments	**497**	**3,162**	**3,659**	**717**	**3,036**	**3,753**
Of which: Carrying amount with respect to derivative instruments not subject to a master netting agreement or to similar agreements	88	834	922	57	1,032	1,089

	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 derivative instruments amounting to NIS 7 million (as of December 31, 2020 NIS 9 million). Gross fair value of liabilities with respect to embedded derivatives amounting to NIS 6 million as of December 31, 2020.

Note 28 – Derivative instruments and hedging activities – continued

Reported amounts (NIS in millions)

C) Accounting hedges

1. Fair value hedge[1]

	For the year ended December 31, 2021
	Interest revenues (expenses)
Interest contracts	
Hedged items	(94)
Hedging derivatives	82

	Balance as of December 31, 2021	
	Book value	**Cumulative fair value adjustments that increased the book value**
Securities available for sale	1,841	81

2. Cash flows hedges[2]

	For the year ended December 31, 2021	
	Amounts recognized in Other Comprehensive Income (loss) from derivatives	**Interest revenues (expenses)**
	(22)	(37)

(1) Reflects amounts included in assessment of hedge effectiveness.

(2) Reflects amounts excluded from assessment of hedge effectiveness, for which the difference between the change in fair value and the periodic write-down is recognized on Other Comprehensive Income (Loss).

Note 28 – Derivative instruments and hedging activities – continued

Reported amounts (NIS in millions)

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

	December 31, 2021					
	Stock exchanges	Banks	Dealers/ Brokers	Governments and central banks	Others	Total
Carrying amount of assets with respect to derivative instruments	**73**	**1,905**	**77**	**42**	**1,562**	**3,659**
Gross amounts not offset in the balance sheet:						
Mitigation of credit risk with respect to financial instruments	–	(1,132)	–	–	(791)	[1](1,923)
Mitigation of credit risk with respect to cash collateral received	–	(773)	–	(42)	(195)	(1,010)
Net amount of assets with respect to derivative instruments	**73**	**–**	**77**	**–**	**576**	**726**
Off-balance sheet credit risk on derivative instruments[2]	312	968	142	–	1,175	2,597
Mitigation of off-balance sheet credit risk	–	(661)	–	–	(372)	(1,033)
Net off-balance sheet credit risk with respect to derivative instruments	**312**	**307**	**142**	**–**	**803**	**1,564**
Total credit risk on derivative instruments	**385**	**307**	**219**	**–**	**1,379**	**2,290**
Carrying amount of liabilities with respect to derivative instruments	**74**	**1,150**	**77**	**–**	**2,452**	**3,753**
Gross amounts not offset in the balance sheet:						
Financial instruments	–	(1,132)	–	–	(791)	(1,923)
Pledged cash collateral	–	(18)	–	–	(329)	(346)
Net amount of liabilities with respect to derivative instruments	**74**	**–**	**77**	**–**	**1,332**	**1,483**

	December 31, 2020					
	Stock exchanges	Banks	Dealers/ Brokers	Governments and central banks	Others	Total
Carrying amount of assets with respect to derivative instruments	**119**	**2,384**	**61**	**31**	**1,957**	**4,552**
Gross amounts not offset in the balance sheet:						
Mitigation of credit risk with respect to financial instruments	–	(1,725)	–	–	(814)	[1](2,539)
Mitigation of credit risk with respect to cash collateral received	–	(635)	–	(29)	(420)	(1,084)
Net amount of assets with respect to derivative instruments	**119**	**24**	**61**	**2**	**723**	**929**
Off-balance sheet credit risk on derivative instruments[2]	217	1,085	176	–	1,087	2,565
Mitigation of off-balance sheet credit risk	–	(679)	–	–	(397)	(1,076)
Net off-balance sheet credit risk with respect to derivative instruments	**217**	**406**	**176**		**690**	**1,489**
Total credit risk on derivative instruments	**336**	**430**	**237**	**2**	**1,413**	**2,418**
Carrying amount of liabilities with respect to derivative instruments	**87**	**2,436**	**87**		**2,902**	**5,512**
Gross amounts not offset in the balance sheet:						
Financial instruments	–	(1,725)	–	–	(814)	(2,539)
Pledged cash collateral	–	(340)	–	–	(323)	(663)
Net amount of liabilities with respect to derivative instruments	**87**	**371**	**87**	**–**	**1,765**	**2,310**

(1) This balance consists entirely of derivative instruments subject to offset agreements.

(2) The difference, if positive, between the total amounts with respect to derivative instruments (including with respect to derivative instruments with negative fair value) included under borrower indebtedness, as calculated for restrictions on indebtedness of a borrower, before mitigation of credit risk, and the carrying amount of assets with respect to derivative instruments of the borrower.

In 2021, the Bank recognized revenues with respect to a decrease in credit losses amounting to NIS 6 million (in 2020, the Bank recognized revenues with respect to increase in credit losses with respect to derivative instruments amounting to NIS 6 million; in 2019 the Bank recognized revenues due to a decrease in credit losses amounting to NIS 6 million).

Note 28 – Derivative instruments and hedging activities – continued

Reported amounts (NIS in millions)

E) Maturity dates – stated amounts: year-end balances – Consolidated

	December 31, 2021				
	Up to three months	3 months to 1 year	1-5 years	Over 5 years	Total
Interest contracts:					
NIS – CPI	981	1,908	3,484	713	7,086
Other	1,644	9,497	21,644	12,051	44,836
Currency contracts	107,825	76,491	4,662	161	189,139
Contracts for shares	63,139	1,864	276	–	65,279
Commodities and other contracts	56	1	330	–	387
Total	**173,645**	**89,761**	**30,396**	**12,925**	**306,727**

	December 31, 2020				
Total	**169,107**	**72,278**	**37,163**	**14,552**	**293,100**

Note 29 – Operating Segments and Geographic Regions

A. Information regarding supervisory operating segments

On November 3, 2014, the Supervisor of Banks issued an update to the Public Reporting Directives concerning supervisory operating segments. According to the directive, the Bank is required to provide, on its financial statements, disclosure with regard to supervisory operating segments in conformity with a uniform, comparable layout specified by the Supervisor of Banks; attribution to supervisory operating segments is typically determined by the turnover volume for clients.

Financial information in the Report by the Board of Directors and Management is included in conformity with definitions of supervisory operating segments.

In addition, the financial statements include, in this Note, disclosure with regard to "Operating segments in conformity with the management approach".

An operating segment in conformity with the management approach is a Bank component with operations which may derive revenues and incur expenses which meet the following criteria:

- Its operating results are regularly reviewed for the purpose of decision making about resource allocation and for performance evaluation.
- Separate financial information is available with regard to it.

In fact, there is a strong correlation between supervisory operating segments and "operating segments in conformity with the management approach" but nevertheless, there are some differences in client attribution to segments and in decision making. Therefore, at this stage, the financial statements also include reporting of operating results in conformity with "the management approach", as noted above.

Supervisory operating segments

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

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

Definitions of supervisory operating segments are as follows:

Households – individuals, other than private banking clients, as noted below.

Private banking – individuals who manage a financial asset portfolio in excess of NIS 3 million.

Small and micro businesses – businesses with turnover amounting up to NIS 50 million.

Medium businesses – businesses with turnover higher than NIS 50 million and lower than NIS 250 million.

Large businesses – businesses with turnover higher than NIS 250 million

Institutional investors – Businesses which own pension funds, study funds, mutual funds, ETFs, insurance companies, stock exchange members, portfolio managers.

Financial management – includes trading operations, asset and liability management and non-banking investments.

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

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

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

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

The aforementioned operating segments are divided into operations in Israel and operations overseas; operations overseas are presented separately and are divided into operations of individuals and business operations only.

As from September 30, 2020 the Bank consolidates the financial statements of Union Bank. Therefore, the statement of profit and loss for 2021 and for the fourth quarter of 2020 and the Bank's consolidated balance sheet as of December 31, 2021 and December 31, 2020 include the financial statements of Union Bank.

Note 29 – Operating Segments and Geographic Regions – Continued

For the year ended December 31, 2021

Reported amounts (NIS in millions)

	House-holds – other	Households – residential mortgages	Of which: Business housing	Private banking	Small and micro businesses	Medium businesses
Interest income from externals	1,184	6,456	150	2	1,415	382
Interest expenses from externals	696	1	-	192	153	58
Interest revenues, net from externals	488	6,455	150	(190)	1,262	324
Interest revenues, net – inter-segment	948	(4,192)	(87)	271	101	13
Total interest revenues, net	**1,436**	**2,263**	**63**	**81**	**1,363**	**337**
Total non-interest financing revenues	1	-	-	-	1	(2)
Total commissions and other revenues	699	143	19	23	543	114
Total non-interest revenues	700	143	19	23	544	112
Total revenues	**2,136**	**2,406**	**82**	**104**	**1,907**	**449**
Expenses with respect to credit losses	(55)	(133)	82	(1)	(71)	22
Operating and other expenses to externals	2,247	835	83	26	1,164	220
Operating and other expenses – inter-segment	(42)	-	-	2	(24)	19
Total operating and other expenses	**2,205**	**835**	**83**	**28**	**1,140**	**239**
Pre-tax profit (loss)	(14)	1,704	(83)	77	838	188
Provision for taxes on profit	(5)	586	(29)	26	288	65
After-tax profit (loss)	**(9)**	**1,118**	**(54)**	**51**	**550**	**123**
Share of banking corporation in earnings of associated companies	-	-	-	-	-	-
Net profit (loss) before attribution to non-controlling interests	(9)	1,118	(54)	51	550	123
Net profit attributed to non-controlling interest holders	(52)	-	-	-	(6)	-
Net profit (loss) attributable to shareholders of the banking corporation	**(61)**	**1,118**	**(54)**	**51**	**544**	**123**
Average balance of assets	24,262	165,384	221,820	203	30,459	8,958
Of which: Investments in associated companies	-	-	-	-	-	-
Average balance of loans to the public	24,262	165,384	221,820	203	30,459	8,958
Balance of loans to the public at end of reported period	(3)26,184	175,626	18,126	141	30,744	10,066
Balance of impaired debts	84	36	-	4	704	187
Balance of debt in arrears 90 days or longer	25	1,264	376	-	26	-
Average balance of liabilities	120,539	-	-	20,947	47,118	15,525
Of which: Average balance of deposits from the public	117,274	-	-	20,947	47,118	15,525
Balance of deposits from the public at end of reported period	118,051	-	-	21,664	50,247	15,742
Average balance of risk assets(1)	22,835	96,065	15,635	98	27,504	11,927
Balance of risk assets at end of reported period(1)	23,394	101,946	16,825	75	27,368	12,936
Average balance of assets under management(2)	54,158	8,486	8,364	6,718	38,589	6,410
Breakdown of interest revenues, net:						
Margin from credit granting operations	958	2,152	61	1	1,182	285
Margin from activities of receiving deposits	450	-	-	72	124	42
Other	28	111	1	8	57	10
Total interest revenues, net	**1,436**	**2,263**	**62**	**81**	**1,363**	**337**

(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) Consequently, on February 13, 2022 the plaintiffs filed their own statement. On February 15, 2022, the Court scheduled a pre-trial hearing for March 23, 2022.

Large businesses	Institutional investors	Financial Management Segment	Total activity in Israel	Private individuals	Business operations	Total – operations overseas	Total
611	39	248	10,337	12	208	220	10,557
187	340	1,238	2,865	-	7	7	2,872
424	(301)	(990)	7,472	12	201	213	7,685
161	410	2,293	5	-	(5)	(5)	-
585	**109**	**1,303**	**7,477**	**12**	**196**	**208**	**7,685**
5	3	385	393	-	8	8	401
160	51	467	2,200	22	12	34	2,234
165	54	852	2,593	22	20	42	2,635
750	**163**	**2,155**	**10,070**	**34**	**216**	**250**	**10,320**
(7)	(32)	(1)	(278)	-	-	-	(278)
352	152	503	5,499	14	55	69	5,568
27	16	2	-	-	-	-	-
379	**168**	**505**	**5,499**	**14**	**55**	**69**	**5,568**
378	27	1,651	4,849	20	161	181	5,030
130	9	569	1,668	7	55	62	1,730
248	**18**	**1,082**	**3,181**	**13**	**106**	**119**	**3,300**
-	-	(10)	(10)	-	-	-	(10)
248	18	1,072	3,171	13	106	119	3,290
-	-	(44)	(102)	-	-	-	(102)
248	**18**	**1,028**	**3,069**	**13**	**106**	**119**	**3,188**
20,838	1,777	103,668	355,549	655	15,319	15,974	371,523
-	-	22	22	-	-	-	22
20,838	1,777	-	251,881	354	3,198	3,552	255,433
23,574	2,960	-	269,295	134	4,102	4,236	273,531
336	-	1	1,352	-	-	-	1,352
-	-	1	1,316	-	-	-	1,316
36,129	53,355	41,790	335,403	539	14,551	15,090	350,493
36,129	53,355	-	290,348	431	3,636	4,067	294,415
36,669	61,365	-	303,738	300	3,886	4,186	307,924
30,618	2,295	11,971	203,313	437	4,573	5,010	208,323
33,606	1,429	12,316	213,070	503	5,137	5,640	218,710
27,498	368,943	3,380	514,182	-	-	-	514,182
490	26	-	5,353	7	114	121	5,474
53	62	-	783	-	8	8	791
42	21	1,303	1,569	5	74	79	1,648
585	**109**	**1,303**	**7,477**	**12**	**196**	**208**	**7,685**

Note 29 – Operating Segments and Geographic Regions – Continued

For the year ended December 31, 2021

Reported amounts (NIS in millions)

	Households – other	Households – residential mortgages	Of which: Business housing	Private banking	Small and micro businesses	Medium businesses
Interest revenues from externals	990	3,913	466	2	1,202	330
Interest expenses from externals	501	–	–	161	106	53
Interest revenues, net from externals	489	3,913	466	(159)	1,096	277
Interest revenues, net – inter-segment	840	(1,984)	(237)	238	92	32
Total interest revenues, net	**1,329**	**1,929**	**229**	**79**	**1,188**	**309**
Total non-interest financing revenues	8	(6)	–	–	–	1
Total commissions and other revenues	574	146	19	99	440	96
Total non-interest revenues	582	140	19	99	440	97
Total revenues	**1,911**	**2,069**	**248**	**178**	**1,628**	**406**
Expenses with respect to credit losses	130	279	82	6	321	136
Operating and other expenses to externals	1,864	678	83	64	880	74
Operating and other expenses – inter-segment	(140)	–	–	8	(77)	62
Total operating and other expenses	**1,724**	**678**	**83**	**72**	**803**	**136**
Pre-tax profit (loss)	57	1,112	83	100	504	134
Provision for taxes on profit	20	386	29	35	175	46
After-tax profit (loss)	**37**	**726**	**54**	**65**	**329**	**88**
Share of banking corporation in earnings of associated companies	–	–	–	–	–	–
Net profit (loss) before attribution to non-controlling interests	37	726	54	65	329	88
Net profit attributed to non-controlling interests	(47)	–	–	–	(5)	–
Net profit (loss) attributable to shareholders of the banking corporation	**(10)**	**726**	**54**	**65**	**324**	**88**
Average balance of assets	21,398	142,921	18,706	178	23,880	8,108
Of which: Investments in associated companies	–	–	–	–	–	–
Average balance of loans to the public	21,398	142,921	18,706	178	23,880	8,108
Balance of loans to the public at end of reported period	25,643	156,364	18,878	370	29,514	9,660
Balance of impaired debts	96	97	–	–	810	239
Balance of debt in arrears 90 days or longer	24	1,176	376	–	27	–
Average balance of liabilities	103,115	–	–	17,072	34,255	10,570
Of which: Average balance of deposits from the public	99,635	–	–	17,072	34,255	10,570
Balance of deposits from the public at end of reported period	114,987	–	–	20,178	44,382	14,406
Average balance of risk assets(1)	20,182	82,671	15,635	70	22,792	9,192
Balance of risk assets at end of reported period(1)	22,432	90,918	16,825	240	27,800	11,882
Average balance of assets under management(2)	41,321	9,294	712	3,825	29,986	3,744
Breakdown of interest revenues, net:						
Margin from credit granting operations	861	1,831	227	1	1,026	260
Margin from activities of receiving deposits	458	–	–	76	122	36
Other	10	98	2	2	40	13
Total interest revenues, net	**1,329**	**1,929**	**229**	**79**	**1,188**	**309**

(1) Risk assets – as calculated for capital adequacy (Proper Conduct of Banking Business Directive 201).
(2) Assets under management – includes clients' provident funds, study funds, mutual funds and securities.

	Large businesses	Institutional investors	Financial management segment	Total – operations in Israel	Private individuals	Business operations	Total – operations overseas	Total
	575	32	235	7,279	19	230	249	7,528
	186	240	424	1,671	–	37	37	1,708
	389	(208)	(189)	5,608	19	193	212	5,820
	172	306	322	18	–	(18)	(18)	–
	561	**98**	**133**	**5,626**	**19**	**175**	**194**	**5,820**
	(1)	1	208	211	–	10	10	221
	134	56	316	1,861	21	10	31	1,892
	133	57	524	2,072	21	20	41	2,113
	694	**155**	**657**	**7,698**	**40**	**195**	**235**	**7,933**
	138	23	1	1,034	–	16	16	1,050
	151	63	416	4,190	31	58	89	4,279
	88	54	5	–	–	–	–	–
	239	**117**	**421**	**4,190**	**31**	**58**	**89**	**4,279**
	317	15	235	2,474	9	121	130	2,604
	110	5	81	858	3	42	45	903
	207	**10**	**154**	**1,616**	**6**	**79**	**85**	**1,701**
	–	–	1	1	–	–	–	1
	207	10	155	1,617	6	79	85	1,702
	–	–	(40)	(92)	–	–	–	(92)
	207	**10**	**115**	**1,525**	**6**	**79**	**85**	**1,610**
	19,125	1,108	69,431	286,149	849	14,782	15,631	301,780
	–	–	31	31	–	–	–	31
	19,125	1,108	–	216,718	458	2,842	3,300	220,018
	20,169	2,434	–	244,154	323	3,481	3,804	247,958
	340	118	–	1,700	–	–	–	1,700
	1	–	–	1,228	–	–	–	1,228
	31,004	41,903	31,298	269,217	847	13,937	14,784	284,001
	31,004	41,903	–	234,439	684	4,058	4,742	239,181
	38,094	47,566	–	279,613	719	3,892	4,611	284,224
	25,729	2,455	8,010	171,101	403	4,141	4,544	175,645
	28,781	2,367	11,291	195,711	409	4,364	4,773	200,484
	19,054	357,700	2,663	467,587	–	–	–	467,587
–								
	475	26	–	4,480	10	97	107	4,587
	59	66	–	817	2	8	10	827
	27	6	133	329	7	70	77	406
	561	**98**	**133**	**5,626**	**19**	**175**	**194**	**5,820**

Note 29 – Operating Segments and Geographic Regions – Continued

For the year ended December 31, 2021

Reported amounts (NIS in millions)

	Households – other	Households – residential mortgages	Private banking	Small and micro businesses	Medium businesses
Interest revenues from externals	961	4,014	2	1,157	297
Interest expenses from externals	576	-	176	118	65
Interest revenues (expenses), net from externals	385	4,014	(174)	1,039	232
Interest revenues (expenses), net – inter-segment	964	(2,319)	260	111	63
Total interest revenues (expenses), net	1,349	1,695	86	1,150	295
Total non-interest financing revenues	-	-	-	-	-
Total commissions and other revenues	526	160	11	387	90
Total non-interest revenues	526	160	11	387	90
Total revenues	**1,875**	**1,855**	**97**	**1,537**	**385**
Expenses (reduction of expenses) with respect to credit losses	99	44	2	166	42
Operating and other expenses to externals	1,762	651	85	809	62
Operating and other expenses – inter-segment	(134)	-	7	(75)	60
Total operating and other expenses	1,628	651	92	734	122
Pre-tax profit	148	1,160	3	637	221
Provision for taxes on profit	52	404	1	222	77
After-tax profit	96	756	2	415	144
Share of banking corporation in earnings of associated companies	-	-	-	-	-
Net profit before attribution to non-controlling interests	96	756	2	415	144
Net profit attributed to non-controlling interests	(44)	-	-	(5)	-
Net profit attributable to shareholders of the banking corporation	**52**	**756**	**2**	**410**	**144**
Average balance of assets	20,708	130,749	112	20,412	7,104
Of which: Investments in associated companies	-	-	-	-	-
Average balance of loans to the public	20,708	130,749	112	20,412	7,104
Balance of loans to the public at end of reported period	21,893	135,311	227	21,241	7,196
Balance of impaired debts	86	56	-	622	145
Balance of debt in arrears 90 days or longer	24	1,476	-	37	-
Average balance of liabilities	87,897	-	13,938	25,283	8,388
Of which: Average balance of deposits from the public	84,672	-	13,938	25,283	8,388
Balance of deposits from the public at end of reported period	86,076	-	14,839	26,725	8,935
Average balance of risk assets(1)	19,016	74,823	26	19,517	8,157
Balance of risk assets at end of reported period(1)	19,749	78,190	25	20,250	8,389
Average balance of assets under management(2)	42,576	9,945	2,687	29,648	6,123
Breakdown of interest revenues, net:					
Margin from credit granting operations	831	1,622	-	984	240
Margin from activities of receiving deposits	516	-	86	142	46
Other	2	73	-	24	9
Total interest revenues, net	1,349	1,695	86	1,150	295

(1) Risk assets – as calculated for capital adequacy purposes (Proper Conduct of Banking Business Directive 201).
(2) Assets under management – includes clients' provident funds, study funds, mutual funds and securities.

	Large businesses	Institutional investors	Financial Management Segment	Total – operations in Israel	Private individuals	Business operations	Total – operations overseas	Total
	576	30	266	7,303	24	384	408	7,711
	274	446	615	2,270	1	100	101	2,371
	302	(416)	(349)	5,033	23	284	307	5,340
	224	534	256	93	-	(93)	(93)	-
	526	**118**	**(93)**	**5,126**	**23**	**191**	**214**	**5,340**
	-	-	349	349	-	8	8	357
	143	39	223	1,579	24	6	30	1,609
	143	39	572	1,928	24	14	38	1,966
	669	**157**	**479**	**7,054**	**47**	**205**	**252**	**7,306**
	24	(6)	(3)	368	-	(4)	(4)	364
	105	69	366	3,909	28	51	79	3,988
	85	52	5	-	-	-	-	-
	190	**121**	**371**	**3,909**	**28**	**51**	**79**	**3,988**
	455	42	111	2,777	19	158	177	2,954
	158	15	38	967	7	55	62	1,029
	297	**27**	**73**	**1,810**	**12**	**103**	**115**	**1,925**
	-	-	-	-	-	-	-	-
	297	27	73	1,810	12	103	115	1,925
	-	-	(34)	(83)	-	-	-	(83)
	297	**27**	**39**	**1,727**	**12**	**103**	**115**	**1,842**
	16,881	1,051	53,589	250,606	910	9,169	10,079	260,685
	-	-	32	32	-	-	-	32
	16,881	1,051	-	197,017	591	2,637	3,228	200,245
	15,357	1,569	-	202,794	376	3,231	3,607	206,401
	241	124	-	1,274	-	-	-	1,274
	-	-	-	1,537	-	-	-	1,537
	25,985	39,992	32,083	233,566	699	10,127	10,826	244,392
	25,985	39,992	-	198,258	625	4,648	5,273	203,531
	25,155	45,330	-	207,060	605	3,319	3,924	210,984
	23,107	2,029	6,694	153,369	436	3,743	4,179	157,548
	23,833	1,810	6,385	158,631	424	3,803	4,227	162,858
	27,695	329,318	10,324	458,316	-	-	-	458,316
-								
	434	19	-	4,130	12	96	108	4,238
	70	93	-	953	2	9	11	964
	22	6	(93)	43	9	86	95	138
	526	**118**	**(93)**	**5,126**	**23**	**191**	**214**	**5,340**

Note 29 – Operating Segments and Geographic Regions – Continued

For the year ended December 31, 2021

Reported amounts (NIS in millions)

	Household Segment				Private Banking Segment			
	Residential mortgages	Credit cards	Other	Total – Households	Credit cards	Other	Total – private banking	Total
Interest revenues from externals	6,456	36	1,148	7,640	–	2	2	7,642
Interest expenses from externals	1	–	696	697	–	192	192	889
Interest revenues (expenses), net from externals	6,455	36	452	6,943	–	(190)	(190)	6,753
Interest revenues (expenses), net – inter-segment	(4,192)	(5)	953	(3,244)	–	271	271	(2,973)
Total interest revenues, net	**2,263**	**31**	**1,405**	**3,699**	**–**	**81**	**81**	**3,780**
Total non-interest financing revenues	–	–	1	1	–	–	–	1
Total commissions and other revenues	143	179	520	842	1	22	23	865
Total non-interest revenues	143	179	521	843	1	22	23	866
Total revenues	**2,406**	**210**	**1,926**	**4,542**	**1**	**103**	**104**	**4,646**
Expenses with respect to credit losses	(133)	–	(55)	(188)	–	(1)	(1)	(189)
Operating and other expenses to externals	835	70	2,177	3,082	1	25	26	3,108
Operating and other expenses – inter-segment	–	(4)	(38)	(42)	–	2	2	(40)
Total operating and other expenses	**835**	**66**	**2,139**	**3,040**	**1**	**27**	**28**	**3,068**
Pre-tax profit (loss)	1,704	144	(158)	1,690	–	77	77	1,767
Provision for taxes on profit	586	50	(55)	581	–	26	26	607
After-tax profit (loss)	**1,118**	**94**	**(103)**	**1,109**	**–**	**51**	**51**	**1,160**
Share of banking corporation in earnings of associated companies	–	–	–	–	–	–	–	–
Net profit (loss) before attribution to non-controlling interests	1,118	94	(103)	1,109	–	51	51	1,160
Net profit attributed to non-controlling interests	–	(5)	(47)	(52)	–	–	–	(52)
Net profit (loss) attributable to shareholders of the banking corporation	**1,118**	**89**	**(150)**	**1,057**	**–**	**51**	**51**	**1,108**
Average balance of assets	165,384	3,265	20,997	189,646	15	188	203	189,849
Of which: Investments in associated companies	–	–	–	–	–	–	–	–
Average balance of loans to the public	165,384	3,265	20,997	189,646	15	188	203	189,849
Balance of loans to the public at end of reported period	175,626	4,631	21,553	201,810	22	119	141	201,951
Balance of impaired debts	36	–	84	120	–	4	4	124
Balance of debt in arrears 90 days or longer	1,264	–	25	1,289	–	1	1	1,290
Average balance of liabilities	–	3,265	117,274	120,539	–	20,947	20,947	141,486
Of which: Average balance of deposits from the public	–	–	117,274	117,274	–	20,947	20,947	138,221
Balance of deposits from the public at end of reported period	–	–	118,051	118,051	–	21,664	21,664	139,715
Average balance of risk assets	96,065	4,133	18,702	118,900	7	91	98	118,998
Balance of risk assets at end of reported period	101,946	4,085	19,309	125,340	7	68	75	125,415
Average balance of assets under management	8,486	–	54,158	62,644	–	6,718	6,718	69,362
Breakdown of interest revenues, net:								
Margin from credit granting operations	2,152	30	928	3,110	–	1	1	3,111
Margin from activities of receiving deposits	–	–	450	450	–	72	72	522
Other	111	1	27	139	–	8	8	147
Total interest revenues, net	**2,263**	**31**	**1,405**	**3,699**	**–**	**81**	**81**	**3,780**

Note 29 – Operating Segments and Geographic Regions – Continued

For the year ended December 31, 2020

Reported amounts (NIS in millions)

	Household Segment				Private Banking Segment			
	Residential mortgages	Credit cards	Other	Total – Households	Credit cards	Other	Total – private banking	Total
Interest revenues from externals	3,913	37	953	4,903	-	2	2	4,905
Interest expenses from externals	-	-	501	501	-	161	161	662
Interest revenues (expenses), net from externals	3,913	37	452	4,402	-	(159)	(159)	4,243
Interest revenues (expenses), net – inter-segment	(1,984)	(6)	846	(1,144)	-	238	238	(906)
Total interest revenues, net	**1,929**	**31**	**1,298**	**3,258**	**-**	**79**	**79**	**3,337**
Total non-interest financing revenues	(6)	-	8	2	-	-	-	2
Total commissions and other revenues	146	144	430	720	1	98	99	819
Total non-interest revenues	140	144	438	722	1	98	99	821
Total revenues	**2,069**	**175**	**1,736**	**3,980**	**1**	**177**	**178**	**4,158**
Expenses with respect to credit losses	279	-	130	409	-	6	6	415
Operating and other expenses to externals	678	65	1,799	2,542	2	62	64	2,606
Operating and other expenses – inter-segment	-	(13)	(127)	(140)	-	8	8	(132)
Total operating and other expenses	**678**	**52**	**1,672**	**2,402**	**2**	**70**	**72**	**2,474**
Pre-tax profit	1,112	123	(66)	1,169	(1)	101	100	1,269
Provision for taxes on profit	386	43	(23)	406	-	35	35	441
After-tax profit	**726**	**80**	**(43)**	**763**	**(1)**	**66**	**65**	**828**
Share of banking corporation in earnings of associated companies	-	-	-	-	-	-	-	-
Net profit before attribution to non-controlling interests	726	80	(43)	763	(1)	66	65	828
Net profit attributed to non-controlling interests	-	(3)	(44)	(47)	-	-	-	(47)
Net profit (loss) attributable to shareholders of the banking corporation	**726**	**77**	**(87)**	**716**	**(1)**	**66**	**65**	**781**
Average balance of assets	142,921	3,480	17,918	164,319	12	166	178	164,497
Of which: Investments in associated companies	-	-	-	-	-	-	-	-
Average balance of loans to the public	142,921	3,480	17,918	164,319	12	166	178	164,497
Balance of loans to the public at end of reported period	156,364	4,244	21,399	182,007	18	352	370	182,377
Balance of impaired debts	97	-	96	193	-	-	-	193
Balance of debt in arrears 90 days or longer	1,176	-	24	1,200	-	-	-	1,200
Average balance of liabilities	-	3,480	99,635	103,115	-	17,072	17,072	120,187
Of which: Average balance of deposits from the public	-	-	99,635	99,635	-	17,072	17,072	116,707
Balance of deposits from the public at end of reported period	-	-	114,987	114,987	-	20,178	20,178	135,165
Average balance of risk assets	82,671	3,408	16,774	102,853	7	63	70	102,923
Balance of risk assets at end of reported period	90,918	3,920	18,512	113,350	7	233	240	113,590
Average balance of assets under management	9,294	-	41,321	50,615	-	3,825	3,825	54,440
Breakdown of interest revenues, net:								
Margin from credit granting operations	1,831	30	831	2,692	-	1	1	2,693
Margin from activities of receiving deposits	-	-	458	458	-	76	76	534
Other	98	1	9	108	-	2	2	110
Total interest revenues, net	**1,929**	**31**	**1,298**	**3,258**	**-**	**79**	**79**	**3,337**

Note 29 – Operating segments and Geographic Regions – Continued
Individuals – households and private banking – operations in Israel

For the year ended December 31, 2019

Reported amounts (NIS in millions)

	Household Segment				Private Banking Segment			
	Residential mortgages	**Credit cards**	**Other**	**Total – Households**	**Credit cards**	**Other**	**Total – private banking**	**Total**
Interest revenues from externals	4,014	36	925	4,975	-	2	2	4,977
Interest expenses from externals	-	-	576	576	-	176	176	752
Interest revenues (expenses), net from externals	4,014	36	349	4,399	-	(174)	(174)	4,225
Interest revenues (expenses), net – inter-segment	(2,319)	(6)	970	(1,355)	-	260	260	(1,095)
Total interest revenues, net	**1,695**	**30**	**1,319**	**3,044**	**-**	**86**	**86**	**3,130**
Total non-interest financing revenues	-	-	-	-	-	-	-	-
Total commissions and other revenues	160	149	377	686	1	10	11	697
Total non-interest revenues	160	149	377	686	1	10	11	697
Total revenues	**1,855**	**179**	**1,696**	**3,730**	**1**	**96**	**97**	**3,827**
Expenses with respect to credit losses	44	-	99	143	-	2	2	145
Operating and other expenses to externals	651	62	1,700	2,413	1	84	85	2,498
Operating and other expenses – inter-segment	-	(12)	(122)	(134)	-	7	7	(127)
Total operating and other expenses	**651**	**50**	**1,578**	**2,279**	**1**	**91**	**92**	**2,371**
Pre-tax profit (loss)	1,160	129	19	1,308	-	3	3	1,311
Provision for taxes on profit	404	45	7	456	-	1	1	457
After-tax profit (loss)	**756**	**84**	**12**	**852**	**-**	**2**	**2**	**854**
Share of banking corporation in earnings of associated companies	-	-	-	-	-	-	-	-
Net profit (loss) before attribution to non-controlling interests	756	84	12	852	-	2	2	854
Net profit attributed to non-controlling interests	**-**	**(5)**	**(39)**	**(44)**	**-**	**-**	**-**	**(44)**
Net profit (loss) attributable to shareholders of the banking corporation	**756**	**79**	**(27)**	**808**	**-**	**2**	**2**	**810**
Average balance of assets	130,749	3,225	17,483	151,457	12	100	112	151,569
Of which: Investments in associated companies	-	-	-	-	-	-	-	-
Average balance of loans to the public	130,749	3,225	17,483	151,457	12	100	112	151,569
Balance of loans to the public at end of reported period	135,311	3,961	17,932	157,204	12	215	227	157,431
Balance of impaired debts	56	-	86	142	-	-	-	142
Balance of debt in arrears 90 days or longer	1,476	-	24	1,500	-	-	-	1,500
Average balance of liabilities	-	3,225	84,672	87,897	-	13,938	13,938	101,835
Of which: Average balance of deposits from the public	-	-	84,672	84,672	-	13,938	13,938	98,610
Balance of deposits from the public at end of reported period	-	-	86,076	86,076	-	14,839	14,839	100,915
Average balance of risk assets	74,823	3,347	15,669	93,839	7	19	26	93,865
Balance of risk assets at end of reported period	78,190	3,465	16,284	97,939	7	18	25	97,964
Average balance of assets under management	9,945	-	42,576	52,521	-	2,687	2,687	55,208
Breakdown of interest revenues, net:								
Margin from credit granting operations	1,622	30	801	2,453	-	-	-	2,453
Margin from activities of receiving deposits	-	-	516	516	-	86	86	602
Other	73	-	2	75	-	-	-	75
Total interest revenues, net	**1,695**	**30**	**1,319**	**3,044**	**-**	**86**	**86**	**3,130**

Note 29 – Operating segments and Geographic Regions – Continued
Small and micro, medium and large business – operations in Israel
For the year ended December 31, 2021
Reported amounts (NIS in millions)

	Small and micro business segment			Medium business segment			Large business segment		
	Construction and real estate	Other	Total	Construction and real estate	Other	Total	Construction and real estate	Other	Total
Interest revenues from externals	415	1,000	1,415	81	301	382	368	243	611
Interest expenses from externals	22	131	153	6	52	58	10	177	187
Interest revenues, net from externals	393	869	1,262	75	249	324	358	66	424
Interest revenues (expenses), net – inter-segment	(31)	132	101	(5)	18	13	(40)	201	161
Total interest revenues, net	**362**	**1,001**	**1,363**	**70**	**267**	**337**	**318**	**267**	**585**
Non-interest financing revenues (expenses)	–	1	1	–	(2)	(2)	–	5	5
Total commissions and other revenues	76	467	543	26	88	114	94	66	160
Total non-interest revenues	76	468	544	26	86	112	94	71	165
Total revenues	**438**	**1,469**	**1,907**	**96**	**353**	**449**	**412**	**338**	**750**
Expenses (reduction of expenses) with respect to credit losses	9	(80)	(71)	(1)	23	22	32	(39)	(7)
Operating and other expenses to externals	124	1,040	1,164	27	193	220	90	262	352
Operating and other expenses – inter-segment	(2)	(22)	(24)	2	17	19	5	22	27
Total operating and other expenses	**122**	**1,018**	**1,140**	**29**	**210**	**239**	**95**	**284**	**379**
Pre-tax profit	307	531	838	68	120	188	285	93	378
Provision for taxes on profit	106	182	288	24	41	65	98	32	130
After-tax profit	**201**	**349**	**550**	**44**	**79**	**123**	**187**	**61**	**248**
Share of banking corporation in earnings of associated companies	–	–	–	–	–	–	–	–	–
Net profit before attribution to non-controlling interests	201	349	550	44	79	123	187	61	248
Net profit attributed to non-controlling interests	–	(6)	(6)	–	–	–	–	–	–
Net profit attributable to shareholders of the banking corporation	**201**	**343**	**544**	**44**	**79**	**123**	**187**	**61**	**248**
Average balance of assets	9,329	21,130	30,459	2,773	6,185	8,958	9,755	11,083	20,838
Of which: Investments in associated companies	–	–	–	–	–	–	–	–	–
Average balance of loans to the public	9,329	21,130	30,459	2,773	6,185	8,958	9,755	11,083	20,838
Balance of loans to the public at end of reported period	9,401	21,343	30,744	3,107	6,959	10,066	12,465	11,109	23,574
Balance of impaired debts	202	502	704	13	174	187	56	280	336
Balance of debt in arrears 90 days or longer	10	16	26	–	–	–	–	–	–
Average balance of liabilities	8,664	38,454	47,118	3,117	12,408	15,525	7,730	28,399	36,129
Of which: Average balance of deposits from the public	8,664	38,454	47,118	3,117	12,408	15,525	7,730	28,399	36,129
Balance of deposits from the public at end of reported period	9,645	40,602	50,247	3,071	12,671	15,742	8,833	27,836	36,669
Average balance of risk assets	9,725	17,779	27,504	3,878	8,049	11,927	18,273	12,345	30,618
Balance of risk assets at end of reported period	10,071	17,297	27,368	4,163	8,773	12,936	21,617	11,989	33,606
Average balance of assets under management	4,033	34,556	38,589	999	5,411	6,410	5,527	21,971	27,498
Breakdown of interest revenues, net:									
Margin from credit granting operations	333	849	1,182	55	230	285	305	185	490
Margin from activities of receiving deposits	17	107	124	14	28	42	–	53	53
Other	12	45	57	1	9	10	13	29	42
Total interest revenues, net	**362**	**1,001**	**1,363**	**70**	**267**	**337**	**318**	**267**	**585**

Note 29 – Operating segments and Geographic Regions – Continued
Small and micro, medium and large business – operations in Israel
For the year ended December 31, 2020
Reported amounts (NIS in millions)

	Small and micro business segment			Medium business segment			Large business segment		
	Construction and real estate	Other	Total	Construction and real estate	Other	Total	Construction and real estate	Other	Total
Interest revenues from externals	354	848	1,202	101	229	330	336	239	575
Interest expenses from externals	17	89	106	7	46	53	13	173	186
Interest revenues (expenses), net from externals	337	759	1,096	94	183	277	323	66	389
Interest revenues (expenses), net – inter-segment	(17)	109	92	(6)	38	32	(33)	205	172
Total interest revenues, net	**320**	**868**	**1,188**	**88**	**221**	**309**	**290**	**271**	**561**
Total non-interest financing revenues	-	-	-	-	1	1	-	(1)	(1)
Total commissions and other revenues	60	380	440	29	67	96	76	58	134
Total non-interest revenues	60	380	440	29	68	97	76	57	133
Total revenues	**380**	**1,248**	**1,628**	**117**	**289**	**406**	**366**	**328**	**694**
Expenses (reduction of expenses) with respect to credit losses	46	275	321	6	130	136	(3)	141	138
Operating and other expenses to externals	72	808	880	11	63	74	44	107	151
Operating and other expenses – inter-segment	(6)	(71)	(77)	5	57	62	16	72	88
Total operating and other expenses	**66**	**737**	**803**	**16**	**120**	**136**	**60**	**179**	**239**
Pre-tax profit	268	236	504	95	39	134	309	8	317
Provision for taxes on profit	93	82	175	33	13	46	107	3	110
After-tax profit	**175**	**154**	**329**	**62**	**26**	**88**	**202**	**5**	**207**
Share of banking corporation in earnings of associated companies	-	-	-	-	-	-	-	-	-
Net profit before attribution to non-controlling interests	175	154	329	62	26	88	202	5	207
Net profit attributed to non-controlling interests	-	(5)	(5)	-	-	-	-	-	-
Net profit attributable to shareholders of the banking corporation	**175**	**149**	**324**	**62**	**26**	**88**	**202**	**5**	**207**
Average balance of assets	6,758	17,122	23,880	2,748	5,360	8,108	8,244	10,881	19,125
Of which: Investments in associated companies	-	-	-	-	-	-	-	-	-
Average balance of loans to the public	6,758	17,122	23,880	2,748	5,360	8,108	8,244	10,881	19,125
Balance of loans to the public at end of reported period	8,792	20,722	29,514	3,363	6,297	9,660	8,233	11,936	20,169
Balance of impaired debts	188	622	810	36	203	239	8	332	340
Balance of debt in arrears 90 days or longer	4	23	27	-	-	-	-	1	1
Average balance of liabilities	6,139	28,116	34,255	2,630	7,940	10,570	5,837	25,167	31,004
Of which: Average balance of deposits from the public	6,139	28,116	34,255	2,630	7,940	10,570	5,837	25,167	31,004
Balance of deposits from the public at end of reported period	7,874	36,508	44,382	3,287	11,119	14,406	7,269	30,825	38,094
Average balance of risk assets	8,051	14,741	22,792	3,440	5,752	9,192	15,386	10,343	25,729
Balance of risk assets at end of reported period	9,222	18,578	27,800	4,344	7,538	11,882	15,729	13,052	28,781
Average balance of assets under management	3,725	26,261	29,986	871	2,873	3,744	4,656	14,398	19,054
Breakdown of interest revenues, net:									
Margin from credit granting operations	289	737	1,026	76	184	260	267	208	475
Margin from activities of receiving deposits	20	102	122	8	28	36	9	50	59
Other	11	29	40	4	9	13	14	13	27
Total interest revenues, net	**320**	**868**	**1,188**	**88**	**221**	**309**	**290**	**271**	**561**

Note 29 – Operating segments and Geographic Regions – Continued
Small and micro, medium and large business – operations in Israel
For the year ended December 31, 2019
Reported amounts (NIS in millions)

	Small and micro business segment			Medium business segment			Large business segment		
	Construction and real estate	Other	Total	Construction and real estate	Other	Total	Construction and real estate	Other	Total
Interest revenues from externals	326	831	1,157	93	204	297	331	245	576
Interest expenses from externals	18	100	118	8	57	65	12	262	274
Interest revenues, net from externals	308	731	1,039	85	147	232	319	(17)	302
Interest revenues (expenses), net – inter-segment	(15)	126	111	-	63	63	(42)	266	224
Total interest revenues, net	**293**	**857**	**1,150**	**85**	**210**	**295**	**277**	**249**	**526**
Total non-interest financing revenues	-	-	-	-	-	-	-	-	-
Total commissions and other revenues	51	336	387	45	45	90	83	60	143
Total non-interest revenues	51	336	387	45	45	90	83	60	143
Total revenues	**344**	**1,193**	**1,537**	**130**	**255**	**385**	**360**	**309**	**669**
Expenses (reduction of expenses) with respect to credit losses	-	166	166	(5)	47	42	(9)	33	24
Operating and other expenses to externals	42	767	809	10	52	62	33	72	105
Operating and other expenses – inter-segment	(5)	(70)	(75)	5	55	60	15	70	85
Total operating and other expenses	**37**	**697**	**734**	**15**	**107**	**122**	**48**	**142**	**190**
Pre-tax profit	307	330	637	120	101	221	321	134	455
Provision for taxes on profit	107	115	222	42	35	77	111	47	158
After-tax profit	**200**	**215**	**415**	**78**	**66**	**144**	**210**	**87**	**297**
Share of banking corporation in earnings of associated companies	-	-	-	-	-	-	-	-	-
Net profit before attribution to non-controlling interests	200	215	415	78	66	144	210	87	297
Net profit attributed to non-controlling interests	-	(5)	(5)	-	-	-	-	-	-
Net profit attributable to shareholders of the banking corporation	**200**	**210**	**410**	**78**	**66**	**144**	**210**	**87**	**297**
Average balance of assets	5,502	14,910	20,412	2,406	4,698	7,104	7,956	8,925	16,881
Of which: Investments in associated companies	-	-	-	-	-	-	-	-	-
Average balance of loans to the public	5,502	14,910	20,412	2,406	4,698	7,104	7,956	8,925	16,881
Balance of loans to the public at end of reported period	5,795	15,446	21,241	2,347	4,849	7,196	8,071	7,286	15,357
Balance of impaired debts	146	476	622	27	118	145	6	235	241
Balance of debt in arrears 90 days or longer	9	28	37	-	-	-	-	-	-
Average balance of liabilities	4,450	20,833	25,283	2,176	6,212	8,388	4,298	21,687	25,985
Of which: Average balance of deposits from the public	4,450	20,833	25,283	2,176	6,212	8,388	4,298	21,687	25,985
Balance of deposits from the public at end of reported period	4,737	21,988	26,725	2,367	6,568	8,935	4,729	20,426	25,155
Average balance of risk assets	6,621	12,896	19,517	3,113	5,044	8,157	13,876	9,231	23,107
Balance of risk assets at end of reported period	7,123	13,127	20,250	3,212	5,177	8,389	15,103	8,730	23,833
Average balance of assets under management	3,868	25,780	29,648	711	5,412	6,123	5,179	22,516	27,695
Breakdown of interest revenues, net:									
Margin from credit granting operations	265	719	984	71	169	240	257	177	434
Margin from activities of receiving deposits	21	121	142	9	37	46	9	61	70
Other	7	17	24	5	4	9	11	11	22
Total interest revenues, net	**293**	**857**	**1,150**	**85**	**210**	**295**	**277**	**249**	**526**

Note 29 – Operating Segments and Geographic Regions – Continued
Financial Management Segment – Operations in Israel, Consolidated

For the year ended December 31, 2021

Reported amounts (NIS in millions)

	Financial Management Segment				
	Trading activity	Asset and liability management activity	Real investment activity	Other	Total
Interest revenues from externals	14	234	-	-	248
Interest expenses from externals	-	1,238	-	-	1,238
Interest revenues (expenses), net from externals	14	(1,004)	-	-	(990)
Interest revenues (expenses), net – inter-segment	6	2,287	-	-	2,293
Interest revenues, net	**20**	**1,283**	**-**	**-**	**1,303**
Non-interest revenues from externals – financing	90	238	57	-	385
Non-interest revenues from externals – operating	108	-	-	359	467
Non-interest revenues – inter-segment	-	-	-	-	-
Total non-interest revenues	198	238	57	359	852
Total revenues	**218**	**1,521**	**57**	**359**	**2,155**
Expenses with respect to credit losses	-	-	-	(1)	(1)
Operating and other expenses from externals	124	67	-	312	503
Operating and other expenses – inter-segment	-	-	-	2	2
Total operating and other expenses	**124**	**67**	**-**	**314**	**505**
Pre-tax profit	94	1,454	57	46	1,651
Provisionfor taxes on profit	32	501	20	16	569
After-tax profit (loss)	**62**	**953**	**37**	**30**	**1,082**
Share of banking corporation in earnings of associated companies	-	-	-	(10)	(10)
Net profit before attribution to non-controlling interests	62	953	37	20	1,072
Net profit attributed to non-controlling interests	-	-	-	(44)	(44)
Net profit (loss) attributable to share holders of the banking corporation	**62**	**953**	**37**	**(24)**	**1,028**
Average balance of assets	126	103,342	200	-	103,668
Includes: Investments in associated companies	-	-	22	-	22
Average balance of liabilities	-	41,790	-	-	41,790
Includes: Average balance of deposits from the public	-	-	-	-	-
Balance of deposits from the public at end of reported period	-	-	-	-	-
Average balance of risk assets	2,551	2,095	795	6,530	11,971
Balance of risk assets at end of reported period	2,440	2,121	884	6,871	12,316
Average balance of assets under management	-	-	-	3,380	3,380
Components of net interest revenues and non-interest financing revenues:					
Exchange rate differentials, net	15	(7)	-	-	-
CPI differentials, net	(1)	441	-	-	-
Interest exposure, net	33	830	-	-	-
Equity exposure, net	5	-	-	-	-
Interest spreads attributable to financial management	-	22	-	-	-
Total net interest revenues and non-interest revenues, by accrual basis	52	1,286	-	-	-
Gains or losses from sale or other then temporary impairment of debentures	-	51	-	-	-
Change in difference between fair value and accrual basis of derivative instruments recognized in profit and loss	-	100	-	-	-
Other non-interest revenues	166	84	-	-	-
Total net interest revenues and non-interest revenues	**218**	**1,521**	**-**	**-**	**-**

Note 29 – Operating Segments and Geographic Regions – Continued
Financial Management Segment – Operations in Israel, Consolidated

For the year ended December 31, 2020

Reported amounts (NIS in millions)

	Financial Management Segment				
	Trading activity	Asset and liability management activity	Real investment activity	Other	Total
Interest revenues from externals	10	225	-	-	235
Interest expenses from externals	-	424	-	-	424
Interest revenues (expenses), net from externals	10	(199)	-	-	(189)
Interest revenues (expenses), net – inter-segment	(2)	324	-	-	322
Interest expenses, net	**8**	**125**	**-**	**-**	**133**
Non-interest revenues from externals – financing	121	62	25	-	208
Non-interest revenues from externals – operating	113	-	-	203	316
Non-interest revenues – inter-segment	-	-	-	-	-
Total non-interest revenues	234	62	25	203	524
Total revenues	**242**	**187**	**25**	**203**	**657**
Reduced expenses with respect to credit losses	-	-	-	1	1
Operating and other expenses from externals	134	72	-	210	416
Operating and other expenses – inter-segment	-	-	-	5	5
Total operating and other expenses	**134**	**72**	**-**	**215**	**421**
Pre-tax profit (loss)	108	115	25	(13)	235
Provision (reduced provision) for taxes on profit	37	40	9	(5)	81
After-tax profit (loss)	**71**	**75**	**16**	**(8)**	**154**
Share of banking corporation in earnings of associated companies	-	-	-	1	1
Net profit (loss) before attribution to non-controlling interests	71	75	16	(7)	155
Net profit attributed to non-controlling interests	-	-	-	(40)	(40)
Net profit (loss) attributable to share holders of the banking corporation	**71**	**75**	**16**	**(47)**	**115**
Average balance of assets	76	69,200	155	-	69,431
Includes: Investments in associated companies	-	-	31	-	31
Average balance of liabilities	-	31,298	-	-	31,298
Includes: Average balance of deposits from the public	-	-	-	-	-
Balance of deposits from the public at end of reported period	-	-	-	-	-
Average balance of risk assets	1,973	962	285	4,790	8,010
Balance of risk assets at end of reported period	2,389	1,883	576	6,443	11,291
Average balance of assets under management	-	-	-	2,663	2,663
Components of net interest revenues and non-interest financing revenues:					
Exchange rate differentials, net	9	(29)	-	-	-
CPI differentials, net	5	(110)	-	-	-
Interest exposure, net	58	70	-	-	-
Equity exposure, net	1	-	-	-	-
Interest spreads attributable to financial management	-	57	-	-	-
Total net interest revenues and non-interest revenues, by accrual basis	73	(12)	-	-	-
Gains or losses from sale or other then temporary impairment of debentures	-	124	-	-	-
Change in difference between fair value and accrual basis of derivative instruments recognized in profit and loss	-	49	-	-	-
Other non-interest revenues	169	26	-	-	-
Total net interest revenues and non-interest revenues	242	187	-	-	-

Note 29 – Operating Segments and Geographic Regions – Continued
Financial Management Segment – Operations in Israel, Consolidated

For the year ended December 31, 2019

Reported amounts (NIS in millions)

	Financial Management Segment				
	Trading activity	Asset and liability management activity	Real investment activity	Other	Total
Interest revenues from externals	1	265	-	-	266
Interest expenses from externals	-	615	-	-	615
Interest revenues (expenses), net from externals	1	(350)	-	-	(349)
Interest revenues (expenses), net – inter-segment	(48)	304	-	-	256
Interest revenues (expenses), net	**(47)**	**(46)**	**-**	**-**	**(93)**
Non-interest revenues from externals – financing	141	150	58	-	349
Non-interest revenues from externals – operating	81	-	-	142	223
Non-interest revenues – inter-segment	-	-	-	-	-
Total non-interest revenues	222	150	58	142	572
Total revenues	**175**	**104**	**58**	**142**	**479**
Expenses with respect to credit losses	-	-	-	(3)	(3)
Operating and other expenses from externals	129	70	-	167	366
Operating and other expenses – inter-segment	-	-	-	5	5
Total operating and other expenses	**129**	**70**	**-**	**172**	**371**
Pre-tax profit (loss)	46	34	58	(27)	111
Provision for taxes on profit	16	12	20	(10)	38
After-tax profit (loss)	**30**	**22**	**38**	**(17)**	**73**
Share of banking corporation in earnings of associated companies	-	-	-	-	-
Net profit (loss) before attribution to non-controlling interests	30	22	38	(17)	73
Net profit attributed to non-controlling interests	-	-	-	(34)	(34)
Net profit (loss) attributable to share holders of the banking corporation	**30**	**22**	**38**	**(51)**	**39**
Average balance of assets	74	53,377	138	-	53,589
Includes: Investments in associated companies	-	-	32	-	32
Average balance of liabilities	-	32,083	-	-	32,083
Includes: Average balance of deposits from the public	-	-	-	-	-
Balance of deposits from the public at end of reported period	-	-	-	-	-
Average balance of risk assets	1,922	684	193	3,895	6,694
Balance of risk assets at end of reported period	1,917	531	224	3,713	6,385
Average balance of assets under management	-	-	-	10,324	10,324
Components of net interest revenues and non-interest financing revenues:					
Exchange rate differentials, net	29	(1)	-	-	-
CPI differentials, net	-	64	-	-	-
Interest exposure, net	26	43	-	-	-
Equity exposure, net	(3)	-	-	-	-
Interest spreads attributable to financial management	-	51	-	-	-
Total net interest revenues and non-interest revenues, by accrual basis	52	157	-	-	-
Gains or losses from sale or other then temporary impairment of debentures	-	35	-	-	-
Change in difference between fair value and accrual basis of derivative instruments recognized in profit and loss	-	(88)	-	-	-
Other non-interest revenues	123	-	-	-	-
Total net interest revenues and non-interest revenues	**175**	**104**	**-**	**-**	**-**

Note 29 – Operating Segments and Geographic Regions – Continued

Reported amounts (NIS in millions)

B. Information about operations by geographic region

	Revenues[1]			Net profit attributable to shareholders of the banking corporation			Total assets	
	For the year ended December 31,							
	2021	**2020**	**2019**	**2021**	**2020**	**2019**	**2021**	**2020**
Israel	10,065	7,680	6,961	3,069	1,525	1,727	379,955	344,158
Switzerland	16	24	30	14	-	6	372	785
Other – outside of Israel	239	229	315	105	85	109	11,944	15,197
Total outside Israel	255	253	345	119	85	115	12,316	15,982
Total consolidated	**10,320**	**7,933**	**7,306**	**3,188**	**1,610**	**1,842**	**392,271**	**360,140**

(1) Revenues – net interest revenues and non-interest revenues.

C. Operating segments in conformity with the management approach

The Bank manages its operations in six major operating segments, which are distinguished by client characteristics and type of banking services required, as well as by the organizational unit responsible for servicing each segment. Operating segment definition is based on the Bank's organizational structure, as described below. The operations in the six operating segments include all areas of banking operations including traditional banking activity (loans and deposits), securities activity for clients and activity in derivative instruments, as well as custom banking services designed for needs in specific fields. Operations of the various segments are conducted via Bank branches, trading room, Business Centers, Bank HQ departments and subsidiaries in Israel and overseas.
For more information about measurement of Bank operations in conformity with the supervisory segments approach, as specified by the Supervisor of Banks, see chapter "Supervisory operating segments".

Below are the Bank's operating segments in conformity with the management approach:

Household segment – under responsibility of the Retail Division, This segment includes small household clients and mortgage operations. The division provides appropriate banking services and financial products to segment clients, including in the field of mortgages.

Small business segment – under responsibility of the Retail Division, which also serves micro business clients (businesses with annual turnover below NIS 10 million) and small businesses (with annual turnover from NIS 10 million to under NIS 50 million). It may happen, due to business growth of a client served by the Retail Division, that the client may exceed the aforementioned criteria. Banking services and financial products, including commercial banking services as required, are provided to segment clients.

Private banking – private banking is under responsibility of the Private Banking and International Operations sector of the Financial Division[1]. Private banking sector clients are individual clients with liquid assets (primarily short-term deposits and investments in securities) over NIS 1 million. Clients of this segment have high financial wealth, to whom the Bank offers access to unique products and services in capital market activity, advisory service and investment management.

Commercial banking – clients of this segment are private and public companies of medium size (middle market) and medium level of indebtedness, and are served by the Business Banking Division, primarily by the Business sector, which operates via three business centers located throughout Israel. As from 2019, new business clients with annual turnover from NIS 50 million to under NIS 250 million are assigned to the Business sector. Segment clients operating in the real estate sector are served by the Construction and Real Estate sector of the Corporate Division, which specializes in provision of dedicated services to this sector.

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.

Note 29 – Operating Segments and Geographic Regions – Continued
Operating segments in conformity with the management approach

For the year ended December 31, 2021

Reported amounts (NIS in millions)

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.

As from September 30, 2020 the Bank consolidates the financial statements of Union Bank. Therefore, the statement of profit and loss for 2021 and for the fourth quarter of 2020 and the Bank's consolidated balance sheet as of December 31, 2021 and December 31, 2020 include the financial statements of Union Bank.

	Households – other	Households – mortgages	Private banking	Small businesses	Commercial banking	Business banking	Financial management	Total consolidated
Interest revenues (expenses), net								
From externals	747	5,952	(30)	923	273	990	(1,170)	7,685
Inter-segment	1,078	(4,029)	74	202	15	114	2,546	–
Total interest revenues, net	**1,825**	**1,923**	**44**	**1,125**	**288**	**1,104**	**1,376**	**7,685**
Non-interest financing revenues	79	1	1	3	(1)	57	261	401
Commissions and other revenues	723	147	23	454	86	318	483	2,234
Total revenues	**2,627**	**2,071**	**68**	**1,582**	**373**	**1,479**	**2,120**	**10,320**
Expenses with respect to credit losses	(76)	(130)	(5)	(93)	24	11	(9)	(278)
Operating and other expenses	2,283	801	37	988	283	652	524	5,568
Pre-tax profit	420	1,400	36	687	66	816	1,605	5,030
Provision for taxes on profit	144	482	12	236	23	281	552	1,730
After-tax profit	**276**	**918**	**24**	**451**	**43**	**535**	**1,053**	**3,300**
Share in net profit of associated companies, after tax	–	–	–	–	–	–	(10)	(10)
Net profit:								
Before attribution to non-controlling interests	276	918	24	451	43	535	1,043	3,290
Attributable to non-controlling interests	(52)	–	–	(6)	–	–	(44)	(102)
Net profit attributable to shareholders of the Bank	**224**	**918**	**24**	**445**	**43**	**535**	**999**	**3,188**
Return on equity (percentage of net profit attributed to shareholders of the banking corporation out of average equity)(1)	9.4%	10.0%	–	23.3%	4.8%	11.0%		15.8%
Average balance of loans to the public, net	31,808	157,145	421	22,668	7,631	33,509	–	253,182
Average balance of deposits from the public	135,541	–	7,645	42,268	13,515	79,845	15,601	294,415
Average balance of assets	32,038	156,125	505	22,771	7,652	45,748	106,684	371,523
Average balance of risk assets(2)	28,278	90,985	238	19,220	8,896	48,462	12,244	208,323

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

(2) Risk weighted assets – as calculated for capital adequacy (Proper Conduct of Banking Business Directive 201).

Note 29 – Operating Segments and Geographic Regions – Continued
Operating segments in conformity with the management approach
For the year ended December 31, 2020
Reported amounts (NIS in millions)

	Households – other	Households – mortgages	Private banking	Small businesses	Commercial banking	Business banking	Financial management	Total consolidated
Interest revenues (expenses), net								
From externals	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 (reduction of expenses) with respect to credit losses	144	264	5	260	75	299	3	1,050
Operating and other expenses	1,792	647	100	685	177	469	409	4,279
Pre-tax profit	299	911	103	365	72	579	275	2,604
Provision for taxes on profit	104	316	36	127	25	201	94	903
After-tax profit	195	595	67	238	47	378	181	1,701
Share in net profit of associated companies, after tax	-	-	-	-	-	-	1	1
Net profit:								
Before attribution to non-controlling interests	195	595	67	238	47	378	182	1,702
Attributable to non-controlling interests	(47)	-	-	(5)	-	-	(40)	(92)
Net profit attributable to shareholders of the Bank	148	595	67	233	47	378	142	1,610
Return on equity (percentage of net profit attributed to shareholders of the banking corporation out of average equity)(1)	7.5%	7.5%		15.8%	6.6%	9.1%	19.9%	9.5%
Average balance of loans to the public, net	27,237	136,308	1,000	16,922	6,493	30,123	-	218,083
Average balance of deposits from the public	110,221	-	11,467	30,259	10,358	63,129	13,747	239,181
Average balance of assets	27,886	136,978	1,469	17,164	6,595	41,287	70,401	301,780
Average balance of risk assets(2)	24,034	79,074	596	14,932	7,086	41,399	8,524	175,645

(1) Calculated in conformity with capital attributed to this segment based on risk components attributed to it in conformity with provisions of Basel III.
(2) Risk weighted assets – as calculated for capital adequacy (Proper Conduct of Banking Business Directive 201).

Note 29 – Operating Segments and Geographic Regions – Continued
Operating segments in conformity with the management approach

For the year ended December 31, 2019

Reported amounts (NIS in millions)

	Households – other	Households – mortgages	Private banking	Small businesses	Commercial banking	Business banking	Financial management	Total consolidated
Interest revenues (expenses), net								
From externals	574	3,693	(36)	746	199	674	(510)	5,340
Inter-segment	1,058	(2,231)	131	167	39	304	532	-
Total interest revenues, net	**1,632**	**1,462**	**95**	**913**	**238**	**978**	**22**	**5,340**
Non-interest financing revenues	5	-	2	1	1	26	322	357
Commissions and other revenues	546	159	60	334	59	235	216	1,609
Total revenues	**2,183**	**1,621**	**157**	**1,248**	**298**	**1,239**	**560**	**7,306**
Expenses with respect to credit losses	96	42	(1)	148	39	44	(4)	364
Operating and other expenses	1,692	619	128	620	152	387	390	3,988
Pre-tax profit (loss)	395	960	30	480	107	808	174	2,954
Provision (reduced provision) for taxes on profit	138	334	10	167	37	281	62	1,029
After-tax profit	**257**	**626**	**20**	**313**	**70**	**527**	**112**	**1,925**
Share in net profit of associated companies, after tax	-	-	-	-	-	-	-	-
Net profit:								
Before attribution to non-controlling interests	257	626	20	313	70	527	112	1,925
Attributable to non-controlling interests	(44)	-	-	(5)	-	-	(34)	(83)
Net profit (loss) attributable to shareholders of the Bank	**213**	**626**	**20**	**308**	**70**	**527**	**78**	**1,842**
Return on equity (percentage of net profit attributed to shareholders of the banking corporation out of average equity)[(1)]	11.5%	8.6%	0	25.1%	10.3%	14.2%	11.9%	11.9%
Average balance of loans to the public, net	26,163	124,979	1,036	13,931	6,005	26,538	-	198,652
Average balance of deposits from the public	93,578	-	8,663	23,584	7,898	54,435	15,373	203,531
Average balance of assets	26,599	125,498	1,558	14,059	6,067	32,624	54,280	260,685
Average balance of risk assets[(2)]	22,566	71,771	534	12,332	6,698	36,689	6,958	157,548

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

(2) Risk weighted assets – as calculated for capital adequacy (Proper Conduct of Banking Business Directive 201).

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses

Reported amounts (NIS in millions)

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

1. Movement in balance of provision for credit losses

	Loans to the public – Commercial	Loans to the public – Housing	Loans to the public – Individual – other	Loans to the public – Total	Banks and governments	Total
For the year ended December 31, 2021 – Provision for credit losses						
Balance of provision for credit losses at the start of the period	1,383	942	340	2,665	2	2,667
Expenses with respect to credit losses	(88)	(133)	(56)	(277)	(1)	(278)
Accounting write-offs[2]	(241)	(10)	(143)	(394)	–	(394)
Collection of debts written off for accounting purposes in previous years[2]	165	3	98	266	–	266
Net accounting write-offs	(76)	(7)	(45)	(128)	–	(128)
Other[3]	37	2	15	54	–	54
Balance of provision for credit losses at end of period	**1,256**	**804**	**254**	**2,314**	**1**	**2,315**
Of which: With respect to off balance sheet credit instruments	**195**	**–**	**16**	**211**	**–**	**211**
For the year ended December 31, 2020						
Balance of provision for credit losses at the start of the period	865	674	273	1,812	1	1,813
Expenses with respect to credit losses	634	279	136	1,049	1	1,050
Accounting write-offs[2]	(304)	(12)	(153)	(469)	–	(469)
Collection of debts written off for accounting purposes in previous years[2]	119	1	76	196	–	196
Net accounting write-offs	(185)	(11)	(77)	(273)	–	(273)
Acquisition of Union Bank	69	–	8	77	–	77
Balance of provision for credit losses at end of period	**1,383**	**942**	**340**	**2,665**	**2**	**2,667**
Of which: With respect to off balance sheet credit instruments	**208**	**–**	**24**	**232**	**–**	**232**
For the year ended December 31, 2019						
Balance of provision for credit losses at the start of the period	766	644	263	1,673	4	1,677
Expenses with respect to credit losses	222	44	101	367	(3)	364
Accounting write-offs[2]	(237)	(15)	(155)	(407)	–	(407)
Collection of debts written off for accounting purposes in previous years[2]	114	1	64	179	–	179
Net accounting write-offs	(123)	(14)	(91)	(228)	–	(228)
Balance of provision for credit losses at end of period	**865**	**674**	**273**	**1,812**	**1**	**1,813**
Of which: With respect to off balance sheet credit instruments	**110**	**–**	**9**	**119**	**–**	**119**

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.
(2) Accounting write-offs presented in the Note primarily consist of write-offs of a technical nature, due to passage of time of clients being in arrears, in conformity with US standards applicable to the Bank in this regard. Thus, for example, the balance of the provision for large impaired debts will typically be written off after two years. Debt measured on a group basis will be written off after 150 days in arrears. This means that the Bank's collection efforts may sometimes take longer when compared to the timing for write-off according to accounting rules. Consequently, relatively high balances of "accounting write-offs" and relatively high balances of "Recovery of debts written off in previous years" are presented.
(3) Movement in provision for credit losses in subsidiary, primarily attributed to cost of acquisition upon initial consolidation, and is therefore not included on the consolidated balance sheet.

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

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

2. Additional information about calculation of the provision for credit losses with respect to debts, and debts for which the provision has been calculated

						December 31, 2021
				Loans to the public	Banks and governments	Total
	Commercial	**Housing**	**Individual – other**	**Total**		
Recorded debt balance of debts [1]						
reviewed on individual basis	63,761	36	564	64,361	10,070	74,431
reviewed on group basis	9,162	175,722	24,286	209,170	–	209,170
Of which: the relevant provision is calculated by extent of arrears	1,476	175,722	–	177,198	–	177,198
Total debts	**72,923**	**[2]175,758**	**24,850**	**273,531**	**10,070**	**283,601**
Provision for credit losses with respect to debts [1]						
reviewed on individual basis	959	1	21	981	1	982
reviewed on group basis	102	803	217	1,122	–	1,122
Of which: For which a provision for credit losses is calculated by extent of arrears[3]	5	803	–	808	–	808
Total provision for credit losses	**1,061**	**804**	**238**	**2,103**	**1**	**2,104**

						December 31, 2020
Recorded debt balance of debts [1]						
reviewed on individual basis	56,478	97	948	57,523	12,880	70,403
reviewed on group basis	10,731	156,484	23,220	190,435	–	190,435
Of which: the relevant provision is calculated by extent of arrears	1,951	156,484	–	158,435	–	158,435
Total debts	**67,209**	**[2]156,581**	**24,168**	**247,958**	**12,880**	**260,838**
Provision for credit losses with respect to debts [1]						
reviewed on individual basis	1,001	1	37	1,039	2	1,041
reviewed on group basis	174	941	279	1,394	–	1,394
Of which: For which a provision for credit losses is calculated by extent of arrears[3]	10	941	–	951	–	951
Total provision for credit losses	**1,175**	**942**	**316**	**2,433**	**2**	**2,435**

(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 11,145 million (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 11 million (as of December 31, 2020 – NIS 10 million), and provision calculated on group basis, amounting to NIS 609 million (as of December 31, 2020 – NIS 732 million). For details see Note 1.F.6.

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Debts[1]

1.A. Credit quality and arrears

	As of December 31, 2021					
		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]	19,580	118	183	19,881	9	23
Construction and real estate – real estate operations	6,116	24	88	6,228	1	9
Financial services	8,101	19	23	8,143	–	1
Commercial – other	34,101	505	927	35,533	16	107
Total commercial	**67,898**	**666**	**1,221**	**69,785**	**26**	**140**
Private individuals – residential mortgages	174,299	[7]1,264	36	175,599	[7]1,264	[6]519
Private individuals – other	24,649	105	88	24,842	26	79
Total public – activity in Israel	**266,846**	**2,035**	**1,345**	**270,226**	**1,316**	**738**
Banks in Israel	2,333	–	–	2,333	–	–
Government of Israel	74	–	–	74	–	–
Total activity in Israel	**269,253**	**2,035**	**1,345**	**272,633**	**1,316**	**738**
Borrower activity overseas						
Public – commercial						
Construction and real estate	2,196	1	–	2,197	–	–
Commercial – other	902	33	6	941	–	–
Total commercial	**3,098**	**34**	**6**	**3,138**	**–**	**–**
Private individuals	167	–	–	167	–	–
Total public – activity overseas	**3,265**	**34**	**6**	**3,305**	**–**	**–**
Overseas banks	7,260	–	–	7,260	–	–
Overseas governments	402	–	1	403	–	–
Total activity overseas	**10,927**	**34**	**7**	**10,968**	**–**	**–**
Total public	270,111	2,069	1,351	273,531	1,316	738
Total banks	9,593	–	–	9,593	–	–
Total governments	476	–	1	477	–	–
Total	**280,180**	**2,069**	**1,352**	**283,601**	**1,316**	**738**

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.
(2) Credit risk which is impaired, inferior or under special supervision, including with respect to residential mortgages for which a provision was made by extent of arrears, and residential mortgages for which no provision was made by extent of arrears and which are in arrears of 90 days or longer.
(3) Generally, impaired debts do not accrue interest revenues. For information about certain impaired debt restructured using problematic debt restructuring, see Note 30.B.2.c. to the financial statements.
(4) Classified as problematic non-impaired debts. Accruing interest revenues.
(5) Accruing interest revenues. Debts in arrears 30 to 89 days amounting to NIS 66 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 59 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 1,699 million, extended to certain purchase groups which are in the process of construction.

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Debts[1]

1.A. Credit quality and arrears – continued

	As of December 31, 2020					
		Problematic[2]			Non impaired debts – additional information	
	Non problematic	Non impaired	Impaired[3]	Total	In arrears 90 days or longer[4]	In arrears 30 to 89 days[5]
Borrower activity in Israel						
Public – commercial						
Construction and real estate – construction[8]	16,223	81	147	16,451	4	8
Construction and real estate – real estate operations[9]	5,641	11	85	5,737	–	7
Financial services	7,628	34	150	7,812	–	3
Commercial – other[9]	32,712	607	1,065	34,384	24	66
Total commercial	**62,204**	**733**	**1,447**	**64,384**	**28**	**84**
Private individuals – residential mortgages[9]	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[9]	1,906	–	–	1,906	–	–
Commercial – other[9]	859	–	60	919	–	–
Total commercial	**2,765**	**–**	**60**	**2,825**	**–**	**–**
Private individuals	392	–	–	392	–	–
Total public – activity overseas	**3,157**	**–**	**60**	**3,217**	**–**	**–**
Overseas banks	11,755	–	–	11,755	–	–
Overseas governments	553	–	–	553	–	–
Total activity overseas	**15,465**	**–**	**60**	**15,525**	**–**	**–**
Total public	244,232	2,026	1,700	247,958	1,228	579
Total banks	12,267	–	–	12,267	–	–
Total governments	613	–	–	613	–	–
Total	**257,112**	**2,026**	**1,700**	**260,838**	**1,228**	**579**

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.
(2) Credit risk which is impaired, inferior or under special supervision, including with respect to residential mortgages for which a provision was made by extent of arrears, and residential mortgages for which no provision was made by extent of arrears and which are in arrears of 90 days or longer.
(3) Generally, impaired debts do not accrue interest revenues. For information about certain impaired debt restructured using problematic debt restructuring, see Note 30.B.2.c. to the financial statements.
(4) Classified as problematic non-impaired debts. Accruing interest revenues.
(5) Accruing interest revenues. Debts in arrears 30 to 89 days amounting to NIS 49 million were classified as problematic non-impaired debts.
(6) In conformity with Public Reporting Directives, excludes the balance of residential mortgages in arrears up to 2 months.
(7) Includes balance of residential mortgages amounting to NIS 73 million provided for by extent of arrears of borrower, for which an agreement has been signed for repayment of arrears by the borrower, where a change was made to the repayment schedule for the outstanding loan balance not yet due.
(8) Includes debts amounting to NIS 2,068 million, extended to certain purchase groups which are in the process of construction.

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

1.B. Credit quality

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

Non-performing debts

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

Inferior debts

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

Residential mortgages

The state of arrears for residential mortgages is monitored by the extent of arrears for the loan, except for loans with no monthly or quarterly payment.

Credit risk attributes, including specific risk for residential mortgages, are included on the Report of the Board of Directors and Management under "Risks Overview".

Below is the recorded debt balance by credit quality and by credit segment of the Bank:

						December 31, 2021
						Credit segment
Debt quality	**Commercial**	**Housing**	**Individuals**	**Governments**	**Banks**	**Total**
Debts in good standing at performing credit rating	68,556	173,576	24,376	476	9,593	276,577
Debts in good standing other than at performing credit rating[1]	2,440	882	281	–	–	3,603
Problematic non-impaired debts[2]	700	1,264	105	–	–	2,069
Impaired debts	1,227	36	88	1	–	1,352
Total	**72,923**	**175,758**	**24,850**	**477**	**9,593**	**283,601**
						December 31, 2020
Debts in good standing at performing credit rating	61,272	154,564	23,675	613	12,267	252,391
Debts in good standing other than at performing credit rating[1]	3,697	732	292	–	–	4,721
Problematic non-impaired debts[2]	733	1,188	105	–	–	2,026
Impaired debts	1,507	97	96	–	–	1,700
Total	**67,209**	**156,581**	**24,168**	**613**	**12,267**	**260,838**

(1) On-balance sheet credit risk whose credit rating as of the report date matches the credit rating for new credit performance, in conformity with Bank policies.

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

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Debts[1]

2. Additional information about impaired debts

A. Impaired debts and individual provision

	December 31, 2021				
	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	146	15	37	183	240
Construction and real estate – real estate operations	73	4	15	88	127
Financial services	3	5	20	23	26
Commercial – other	779	272	148	927	1,119
Total commercial	**1,001**	**296**	**220**	**1,221**	**1,512**
Private individuals – residential mortgages	2	1	34	36	37
Private individuals – other	33	15	55	88	105
Total public – activity in Israel	**1,036**	**312**	**309**	**1,345**	**1,654**
Banks in Israel	–	–	–	–	–
Government of Israel	–	–	–	–	–
Total activity in Israel	**1,036**	**312**	**309**	**1,345**	**1,654**
Borrower activity overseas					
Public – commercial					
Construction and real estate	–	–	–	–	–
Commercial – other	6	1	–	6	–
Total commercial	**6**	**1**	**–**	**6**	**–**
Private individuals	–	–	–	–	1
Total public – activity overseas	**6**	**1**	**–**	**6**	**1**
Overseas banks	–	–	–	–	–
Overseas governments	1	–	–	1	–
Total activity overseas	**7**	**1**	**–**	**7**	**1**
Total public	1,042	313	309	1,351	1,655
Total banks	–	–	–	–	–
Total governments	1	–	–	1	–
Total	**1,043**	**313**	**309**	**1,352**	**1,655**
Of which:					
Measured at present value of cash flows	930	312	254	1,184	
Debts under problematic debts restructuring	284	49	192	476	

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

(2) Recorded debt balance.

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

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Debts[1]

2. Additional information about impaired debts

A. Impaired debts and individual provision – continued

	December 31, 2020				
	Balance of impaired debts for which an individual provision has been made[2][3]	Balance of individual provision	Balance of impaired debts for which no individual provision has been made[2]	Total balance of impaired debts[2]	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 30 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Debts[1]

2. Additional information about impaired debts

B. Average balance and interest revenues[4]

	December 31, 2021			December 31, 2020			December 31, 2019		
	Average balance of impaired debts[2]	Interest revenues recorded[3]	Of which: Recorded on cash basis	Average balance of impaired debts[2]	Interest revenues recorded[3]	Of which: Recorded on cash basis	Average balance of impaired debts[2]	Interest revenues recorded[3]	Of which: Recorded on cash basis
Borrower activity in Israel									
Public – commercial									
Construction and real estate – construction	166	2	1	123	2	2	145	6	6
Construction and real estate – real estate operations	92	1	1	67	2	2	33	1	1
Financial services	85	1	1	140	1	1	155	3	3
Commercial – other	993	11	10	918	12	11	668	13	12
Total commercial	**1,336**	**15**	**13**	**1,248**	**17**	**16**	**1,001**	**23**	**22**
Private individuals – residential mortgages	63	–	–	76	–	–	54	–	–
Private individuals – other	89	18	3	91	8	7	83	8	7
Total public – activity in Israel	**1,488**	**33**	**16**	**1,415**	**25**	**23**	**1,138**	**31**	**29**
Banks in Israel	–	–	–	–	–	–	–	–	–
Government of Israel	–	–	–	–	–	–	–	–	–
Total activity in Israel	**1,488**	**33**	**16**	**1,415**	**25**	**23**	**1,138**	**31**	**29**
Borrower activity overseas									
Public – commercial									
Construction and real estate	–	–	–	–	–	–	6	–	–
Commercial – other	39	–	–	54	–	–	8	–	–
Total commercial	**39**	**–**	**–**	**54**	**–**	**–**	**14**	**–**	**–**
Private individuals	–	–	–	–	–	–	–	–	–
Total public – activity overseas	**39**	**–**	**–**	**54**	**–**	**–**	**14**	**–**	**–**
Overseas banks	–	–	–	–	–	–	–	–	–
Overseas governments	1	–	–	–	–	–	–	–	–
Total activity overseas	**40**	**–**	**–**	**54**	**–**	**–**	**14**	**–**	**–**
Total public	1,527	33	16	1,469	25	23	1,152	31	29
Total banks	–	–	–	–	–	–	–	–	–
Total governments	1	–	–	–	–	–	–	–	–
Total(4)	**1,528**	**33**	**16**	**1,469**	**25**	**23**	**1,152**	**31**	**29**

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.
(2) Average recorded debt balance of impaired debts during reported period.
(3) Interest revenues recorded in the reported period with respect to average balance of debts in arrears, in the period in which the debts were classified as impaired.
(4) Had the impaired debt accrued interest at the original terms, the Bank would have recognized interest revenues amounting to NIS 117 million (As of December 31, 2020 – NIS 98 million; as of December 31, 2019 – NIS 64 million).

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Debt[1]

2. Additional information about impaired debts

C. Problematic debts under restructuring

	December 31, 2021				
	Recorded debt balance				
	Not accruing interest revenues	Accruing interest revenues[2] in arrears 90 days or longer	Accruing interest revenues[2], in arrears 30-89 days	Accruing interest revenues [2] not in arrears	Total [3]
Borrower activity in Israel					
Public – commercial					
Construction and real estate – construction	25	–	–	7	32
Construction and real estate – real estate operations	27	–	–	5	32
Financial services	–	–	–	16	16
Commercial – other	230	–	–	100	330
Total commercial	**282**	**–**	**–**	**128**	**410**
Private individuals – residential mortgages	–	–	–	–	–
Private individuals – other	31	–	1	34	66
Total public – activity in Israel	**313**	**–**	**1**	**162**	**476**
Banks in Israel	–	–	–	–	–
Government of Israel	–	–	–	–	–
Total activity in Israel	**313**	**–**	**1**	**162**	**476**
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	313	–	1	162	476
Total banks	–	–	–	–	–
Total governments	–	–	–	–	–
Total	**313**	**–**	**1**	**162**	**476**

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

(2) Accruing interest revenues.

(3) Included under impaired debts.

As of December 31, 2021, the Bank had commitments to provide additional credit amounting to NIS 9 million to debtors subject to problematic debt restructuring, for which credit terms have been revised.

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Debts[(1)]

2. Additional information about impaired debts

C. Problematic debts under restructuring – continued

	December 31, 2020				
	Recorded debt balance				
	Not accruing interest revenues	Accruing interest revenues[(2)] in arrears 90 days or longer	Accruing interest revenues[(2)], in arrears 30-89 days	Accruing interest revenues [(2)] not in arrears	Total(3)
Borrower activity in Israel					
Public – commercial					
Construction and real estate – construction	25	–	–	6	31
Construction and real estate – real estate operations	21	–	–	5	26
Financial services	122	–	–	21	143
Commercial – other	250	–	–	64	314
Total commercial	**418**	**–**	**–**	**96**	**514**
Private individuals – residential mortgages	–	–	–	–	–
Private individuals – other	40	–	1	34	75
Total public – activity in Israel	**458**	**–**	**1**	**130**	**589**
Banks in Israel	–	–	–	–	–
Government of Israel	–	–	–	–	–
Total activity in Israel	**458**	**–**	**1**	**130**	**589**
Borrower activity overseas					
Public – commercial					
Construction and real estate	–	–	–	–	–
Commercial – other	–	–	–	–	–
Total commercial	**–**	**–**	**–**	**–**	**–**
Private individuals	–	–	–	–	–
Total public – activity overseas	**–**	**–**	**–**	**–**	**–**
Overseas banks	–	–	–	–	–
Overseas governments	–	–	–	–	–
Total activity overseas	**–**	**–**	**–**	**–**	**–**
Total public	458	–	1	130	589
Total banks	–	–	–	–	–
Total governments	–	–	–	–	–
Total	**458**	**–**	**1**	**130**	**589**

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.
(2) Accruing interest revenues.
(3) Included under impaired debts.

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Debt[1]

2. Additional information about impaired debts

C. Problematic debts under restructuring – continued

	December 31, 2021			December 31, 2020			December 31, 2019		
							Restructurings made[2]		
	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring
Borrower activity in Israel									
Public – commercial									
Construction and real estate – construction	46	8	8	63	15	15	45	5	5
Construction and real estate – real estate operations	9	17	17	17	10	10	–	–	–
Financial services	5	–	–	9	2	2	5	3	3
Commercial – other	262	133	133	493	186	172	361	70	69
Total commercial	**322**	**158**	**158**	**582**	**213**	**199**	**411**	**78**	**77**
Private individuals – residential mortgages	–	–	–	–	–	–	–	–	–
Private individuals – other	934	27	27	1,027	39	38	947	45	45
Total public – activity in Israel	**1,256**	**185**	**185**	**1,609**	**252**	**237**	**1,358**	**123**	**122**
Banks in Israel	–	–	–	–	–	–	–	–	–
Government of Israel	–	–	–	–	–	–	–	–	–
Total activity in Israel	**1,256**	**185**	**185**	**1,609**	**252**	**237**	**1,358**	**123**	**122**
Borrower activity overseas									
Public – commercial									
Construction and real estate	–	–	–	–	–	–	–	–	–
Commercial – other	–	–	–	–	–	–	–	–	–
Total commercial	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Private individuals	–	–	–	–	–	–	–	–	–
Total public – activity overseas	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Overseas banks	–	–	–	–	–	–	–	–	–
Overseas governments	–	–	–	–	–	–	–	–	–
Total activity overseas	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total public	1,256	185	185	1,609	252	237	1,358	123	122
Total banks	–	–	–	–	–	–	–	–	–
Total governments	–	–	–	–	–	–	–	–	–
Total	**1,256**	**185**	**185**	**1,609**	**252**	**237**	**1,358**	**123**	**122**

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

(2) Included under impaired debts.

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Debt[(1)]

2. Additional information about impaired debts

C. Problematic debts under restructuring – continued

	December 31, 2021		December 31, 2020		December 31, 2019	
	Restructurings made which are in default[(2)]					
	Number of contracts	Recorded debt balance	Number of contracts	Recorded debt balance	Number of contracts	Recorded debt balance
Borrower activity in Israel						
Public – commercial						
Construction and real estate – construction	15	2	4	–	6	–
Construction and real estate – real estate operations	4	8	–	–	2	–
Financial services	2	–	–	–	11	–
Commercial – other	75	3	70	5	49	9
Total commercial	**96**	**13**	**74**	**5**	**68**	**9**
Private individuals – residential mortgages	–	–	–	–	–	–
Private individuals – other	298	2	203	4	104	2
Total public – activity in Israel	**394**	**15**	**277**	**9**	**172**	**11**
Banks in Israel	–	–	–	–	–	–
Government of Israel	–	–	–	–	–	–
Total activity in Israel	**394**	**15**	**277**	**9**	**172**	**11**
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	394	15	277	9	172	11
Total banks	–	–	–	–	–	–
Total governments	–	–	–	–	–	–
Total	**394**	**15**	**277**	**9**	**172**	**11**

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

(2) Debts which became, in the reported period, debts in arrears of 30 days or longer, which were restructured under problematic debt restructuring in the 12 months prior to the date on which they became debts in arrears

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Debts

3. Additional information about residential mortgages

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

		As of December 31, 2021 (audited)			
		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%	112,939	3,315	71,720	3,798
	Over 60%	62,491	767	39,313	3,859
Junior lien or no lien		328	2	232	12,112
Total		**175,758**	**4,084**	**111,265**	**19,769**

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

Reported amounts (NIS in millions)

C. Balances of loans to the public and off-balance sheet credit risk according to extent of borrower credit risk:

Loan ceiling and credit risk (NIS in thousands)		December 31, 2021 Number of Borrowers[1]	Credit[2]	Off balance sheet credit risk[3]
	Up to 10	282,689	393	524
Above 10	Up to 20	124,338	792	1,094
Above 20	Up to 40	169,577	2,458	2,594
Above 40	Up to 80	184,135	6,364	4,309
Above 80	Up to 150	133,830	11,200	3,654
Above 150	Up to 300	116,153	21,828	3,268
Above 300	Up to 600	104,313	41,667	4,255
Above 600	Up to 1,200	104,776	77,777	11,618
Above 1,200	Up to 2,000	29,133	35,293	7,895
Above 2,000	Up to 4,000	8,977	19,056	4,625
Above 4,000	Up to 8,000	2,022	8,398	2,425
Above 8,000	Up to 20,000	961	8,587	3,156
Above 20,000	Up to 40,000	371	6,815	3,742
Above 40,000	Up to 200,000	369	16,254	13,995
Above 200,000	Up to 400,000	65	8,995	8,900
Above 400,000	Up to 800,000	20	3,835	7,158
Above 800,000	Up to 1,200,000	4	2,406	1,262
Above 1,200,000	Up to 1,441,000	2	1,413	1,239
Total		**1,261,735**	**273,531**	**85,713**

		December 31, 2020		
	Up to 10	282,738	413	498
Above 10	Up to 20	126,835	793	1,028
Above 20	Up to 40	173,737	2,454	2,458
Above 40	Up to 80	188,442	6,354	4,024
Above 80	Up to 150	136,018	11,235	3,442
Above 150	Up to 300	112,916	21,079	3,170
Above 300	Up to 600	102,199	40,564	4,255
Above 600	Up to 1,200	97,171	70,906	10,698
Above 1,200	Up to 2,000	23,238	28,210	6,146
Above 2,000	Up to 4,000	6,959	14,953	3,501
Above 4,000	Up to 8,000	1,770	7,211	2,286
Above 8,000	Up to 20,000	966	8,453	3,531
Above 20,000	Up to 40,000	327	5,671	3,302
Above 40,000	Up to 200,000	396	18,691	14,326
Above 200,000	Up to 400,000	56	5,641	7,008
Above 400,000	Up to 800,000	24	3,779	5,861
Above 800,000	Up to 1,200,000	6	1,332	4,593
Above 1,200,000	Up to 1,318,000	1	219	1,099
Total		**1,253,799**	**247,958**	**81,226**

(1) Number of borrowers is based on total loans and off-balance sheet credit risk.

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

(3) Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower indebtedness limitation. Data is in conformity with the definition of indebtedness in Proper Conduct of Banking Business Directive 313.

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

D. Sale, purchase and syndication of loans to the public during the year

1. Sale and purchase of loans to the public

December 31, 2021	Sold risk with respect to loans to the public					Purchased risk with respect to loans to the public[1]		
	Loans to the public sold during the year	Off-balance sheet credit risk sold during the year	Of which: Problematic credit	Total gain (loss) with respect to credit sold	Balance at end of year of credit sold, which is serviced by the Bank	Loans to the public purchased during the year[2]	Off-balance sheet credit risk purchased during the year	Of which: Problematic credit
Commercial	234	–	–	–	–	–	–	–
Private individuals – residential mortgages	–	–	–	–	4,998	–	–	–
Private individuals – other	–	–	–	–	–	1,778	–	–
Total credit risk to public	**234**	**–**	**–**	**–**	**4,998**	**1,778**	**–**	**–**

December 31, 2020	Sold risk with respect to loans to the public					Purchased risk with respect to loans to the public[1]		
	Loans to the public sold during the year	Off-balance sheet credit risk sold during the year	Of which: Problematic credit	Total gain (loss) with respect to credit sold	Balance at end of year of credit sold, which is serviced by the Bank	Loans to the public purchased during the year[2]	Off-balance sheet credit risk purchased during the year	Of which: Problematic credit
Commercial	233	451	16	–	–	157	–	–
Private individuals – residential mortgages	–	–	–	–	5,131	–	–	–
Private individuals – other	–	–	–	–	–	576	–	–
Total credit risk to public	**233**	**451**	**16**	**–**	**5,131**	**733**	**–**	**–**

(1) Excluding short-term factoring transactions.
(2) Includes: Loans backed (credit risk) by the seller – NIS 165 million in 2021 (in 2020: NIS 58 million).

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

D. Sale, purchase and syndication of loans to the public during the year – Continued

2. Loan syndication and participation in syndication

December 31, 2021	Syndication transactions initiated by the Bank				Syndication transactions initiated by others	
	Bank's share		Others' share		Bank's share	
	Loans to the public	Off-balance sheet credit risk	Loans to the public	Off-balance sheet credit risk	Loans to the public[(1)]	Off-balance sheet credit risk
Construction and real estate	342	2	726	29	–	–
Commercial – other	2,103	935	5,767	1,190	824	466
Total credit risk to public	**2,445**	**937**	**6,493**	**1,219**	**824**	**466**

December 31, 2020	Syndication transactions initiated by the Bank				Syndication transactions initiated by others	
	Bank's share		Others' share		Bank's share	
	Loans to the public	Off-balance sheet credit risk	Loans to the public	Off-balance sheet credit risk	Loans to the public[(1)]	Off balance sheet credit risk[(2)]
Construction and real estate	7	–	142	–	344	–
Commercial – other	2,060	232	4,791	192	1,354	285
Total credit risk to public	**2,067**	**232**	**4,933**	**192**	**1,698**	**285**

(1) Excludes syndication transactions initiated by others to extend credit to foreign governments, amounting to NIS 308 million in 2021 (in 2020: NIS 464 million).

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

E. Off-balance sheet financial instruments

Contractual balances or their denominated amounts at the end of the year

	As of December 31,			
	2021	2020	2021	2020
	Balance(1)	Balance(1)	Provision for credit losses	Provision for credit losses
Transactions in which the balance represents a credit risk:				
Unutilized debitory account and other credit facilities in accounts available on demand	21,168	20,964	39	47
Guarantees to home buyers	16,582	11,903	8	8
Irrevocable commitments for loans approved but not yet granted	32,963	31,334	46	54
Unutilized revolving credit card facilities	10,643	10,191	9	13
Commitments to issue guarantees	9,351	11,400	3	5
Guarantees and other liabilities(2)	10,571	9,260	65	60
Loan guarantees	3,321	2,880	38	43
Documentary credit	430	311	3	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 85 million. (As of December 31, 2020: NIS 71 million). For more information see Notes 26.C.2 and 27.A. to the financial statements.

Note 31 – Assets and Liabilities by Linkage Basis

As of December 31, 2021

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	87,091	-	7,471	518	187	-	95,267
Securities	6,728	1,469	5,676	434	-	726	15,033
Securities borrowed or bought in conjunction with resale agreements	1,110	222	-	-	-	-	1,332
Loans to the public, net[3]	190,455	69,534	6,395	3,123	1,921	-	271,428
Loans to Governments	74	-	273	130	-	-	477
Investments in associated companies	35	-	-	-	-	34	69
Buildings and equipment	-	-	-	-	-	1,734	1,734
Intangible assets and goodwill	-	-	-	-	-	208	208
Assets with respect to derivatives	2,910	51	549	111	28	3	3,652
Other assets	1,698	523	172	1	21	656	3,071
Total assets	**290,101**	**71,799**	**20,536**	**4,317**	**2,157**	**3,361**	**392,271**
Liabilities							
Deposits from the public	233,149	21,503	44,961	5,574	2,737	-	307,924
Deposits from banks	5,116	-	1,629	224	23	-	6,992
Deposits from the Government	21	2	58	-	-	-	81
Debentures and subordinated notes	6,989	29,177	1,880	-	-	-	38,046
Liabilities with respect to derivatives	2,977	111	534	104	24	3	3,753
Other liabilities	8,880	3,268	212	6	38	1,342	13,746
Total liabilities	**257,132**	**54,061**	**49,274**	**5,908**	**2,822**	**1,345**	**370,542**
Difference	**32,969**	**17,738**	**(28,738)**	**(1,591)**	**(665)**	**2,016**	**21,729**
Impact of hedging derivatives:							
Derivatives (other than options)	2,294	(2,294)	-	-	-	-	-
Non-hedging derivatives:							
Derivatives (other than options)	(30,482)	(732)	29,070	1,533	611	-	-
Net in-the-money options (in terms of underlying asset)	258	-	(271)	39	(26)	-	-
Net out-of-the-money options (in terms of underlying asset)	(124)	-	104	27	(7)	-	-
Grand total	**4,915**	**14,712**	**165**	**8**	**(87)**	**2,016**	**21,729**
Net in-the-money options (capitalized par value)	(281)	-	132	150	(1)	-	-
Net out-of-the-money options (capitalized par value)	520	-	(403)	(109)	(8)	-	-

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

Note 31 – Assets and Liabilities by Linkage Basis – Continued

As of December 31, 2020

Reported amounts (NIS in millions)

	Israeli currency		In foreign currency(1)				
	Non-linked	CPI-linked	USD	EUR	Other currencies	Non-monetary items(2)	Total
Assets							
Cash and deposits with banks	73,975	1	11,753	576	265	–	86,570
Securities	10,937	1,674	3,685	548	–	446	17,290
Securities borrowed or bought in conjunction with resale agreements	181	19	–	–	–	–	200
Loans to the public, net(3)	168,787	64,524	6,370	3,987	1,759	98	245,525
Loans to Governments	60	–	372	181	–	–	613
Investments in associated companies	36	–	–	–	–	(5)	31
Buildings and equipment	–	–	–	–	–	1,743	1,743
Intangible assets and goodwill	–	–	–	–	–	239	239
Assets with respect to derivatives	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 derivatives	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 derivatives:							
Derivatives (other than options)	2,441	(2,441)	–	–	–	–	–
Non-hedging derivatives:							
Derivatives (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 derivatives whose base relates to a non-monetary item.
(3) Where the provision for credit losses may not be attributed to any specific linkage basis, such provision was deducted *pro-rata* from the different linkage bases.

Note 32 – Assets and liabilities by currency and by term to maturity[1]

Reported amounts (NIS in millions)

	Expected contractual future cash flows					
	On-call to 1 month	1 to 3 months	3 months to 1 year	1 to 2 years	2 to 3 years	3 to 4 years
As of December 31, 2021						
Israeli currency (including linked to foreign currency)						
Assets	[3]101,118	12,691	35,731	32,243	25,939	19,027
Liabilities	193,587	48,061	42,784	8,514	10,932	7,097
Difference	**(92,469)**	**(35,370)**	**(7,053)**	**23,729**	**15,007**	**11,930**
Futures transactions	(22,312)	(6,870)	529	(1,473)	158	(25)
Options	100	25	42	20	21	18
Difference after effect of derivative instruments	**(114,681)**	**(42,215)**	**(6,482)**	**22,276**	**15,186**	**11,923**
Foreign currency						
Assets	10,342	1,013	2,420	2,313	2,065	792
Liabilities	12,222	8,073	12,784	1,067	157	124
Difference	**(1,880)**	**(7,060)**	**(10,364)**	**1,246**	**1,908**	**668**
Of which: Difference in USD	(11,847)	(5,178)	(9,563)	(681)	27	173
Of which: Difference with respect to foreign operations	5,133	(971)	(315)	623	304	392
Futures transactions	22,312	6,870	(529)	1,473	(158)	25
Options	(72)	(53)	(42)	(20)	(21)	(18)
Difference after effect of derivative instruments	**20,360**	**(243)**	**(10,935)**	**2,699**	**1,729**	**675**
Total						
Assets	111,460	13,704	38,151	34,556	28,004	19,819
Liabilities	205,809	56,134	55,568	9,581	11,089	7,221
Difference	**(94,349)**	**(42,430)**	**(17,417)**	**24,975**	**16,915**	**12,598**
Of which: Loans to the public	18,412	11,503	34,090	31,862	23,038	18,934
Of which: Deposits from the public	198,330	53,061	40,294	5,067	2,988	3,709
As of December 31, 2020						
Assets	[3]111,400	12,800	39,422	28,653	25,485	18,183
Liabilities	194,201	45,305	44,273	21,745	6,923	5,728
Difference	**(82,801)**	**(32,505)**	**(4,851)**	**6,908**	**18,562**	**12,455**

(1) Presented in this note are expected contractual future cash flows with respect to assets and liabilities, according to linkage basis, according to the remaining contractual period to maturity of each flow. The data is stated net of provisions for doubtful debts.

(2) Includes assets amounting to NIS 1,001 million and NIS 988 million as of December 31, 2021 and 2020, respectively, which are past due.

(3) Includes loans at debitory account terms amounting to NIS 4,169 million and NIS 3,401 million as of December 31, 2021 and 2020, respectively and amounts exceeding limits in debitory account facilities amounting to NIS 230 million and NIS 91 million as of December 31, 2021 and 2020, respectively.

(4) Contractual rate of return is the interest rate which discounts the expected contractual future cash flows, as presented in this Note, for the monetary item to its balance sheet balance.

						Balance sheet balance		
	4-5 years	5-10 years	10-20 years	Over 20 years	Total cash flows	Without maturity	Total	Contractual rate of return[4]
-								
-								
	17,946	64,005	80,841	29,942	419,483	[2]2,665	365,443	2.56%
	5,302	17,109	3,311	559	337,256	229	333,357	1.40%
	12,644	**46,896**	**77,530**	**29,383**	**82,227**	**2,436**	**32,086**	
	(628)	51	(36)	-	(30,606)	-	(30,997)	
	8	-	-	-	234	-	266	
	12,024	**46,947**	**77,494**	**29,383**	**51,855**	**2,436**	**1,355**	
-								
	276	1,950	3,484	70	24,725	[2]75	23,467	1.99%
	1,935	100	72	55	36,589	10	35,840	1.89%
	(1,659)	**1,850**	**3,412**	**15**	**(11,864)**	**65**	**(12,373)**	
	(1,751)	308	778	19	(27,715)	18	(28,738)	
	66	713	376	-	6,321	-	6,322	
	628	(51)	36	-	30,606	-	30,998	
	(8)	-	-	-	(234)	-	(266)	
	(1,039)	**1,799**	**3,448**	**15**	**18,508**	**65**	**18,359**	
-								
	18,222	65,955	84,325	30,012	444,208	2,740	388,910	2.53%
	7,237	17,209	3,383	614	373,845	239	369,197	1.43%
	10,985	**48,746**	**80,942**	**29,398**	**70,363**	**2,501**	**19,713**	
	15,557	63,130	80,097	29,452	326,075	1,847	271,428	2.57%
	984	4,207	1,717	-	310,357	70	307,924	1.34%
-								
-								
	16,539	67,243	74,541	25,620	419,886	[2]2,831	356,829	2.84%
	6,312	16,347	4,741	647	346,222	79	338,580	1.66%
	10,227	**50,896**	**69,800**	**24,973**	**73,664**	**2,752**	**18,249**	

Note 33 – Balances and estimates of fair value of financial instruments

1) Fair value of financial instruments

For most of the Bank's financial instruments, a "market price" cannot be quoted, because there is no active market in which they are traded. Therefore, the fair value is estimated using acceptable pricing models, such as present value of future cash flows, discounted at an interest rate that reflects the level of risk inherent in the instrument.
The estimate of fair value using future cash flows and determination of a discount rate is subjective. Therefore, for most financial instruments, the estimation of fair value is not necessarily an indication of the realization value of the financial instrument on the balance sheet date. The fair value valuation uses interest rates prevailing at the balance sheet date, and does not take into account fluctuations in interest rates. The assumption of different interest rates will result in fair values that could be substantially different. Essentially, this relates to financial instruments that bear fixed interest or are interest-free, or to CPI-linked financial instruments with shorter maturities than those in which similar transactions are actually effected. In addition, in determining the fair value, the commissions to be received or paid as a result of the business activity are not taken into account, nor does it include the tax effect. Moreover, the difference between the carrying value and the fair value balances may not be realized, because, in most cases, the Bank will hold the financial instrument to maturity. Consequently, it should be emphasized that the data included in this note do not indicate the value of the Bank as a going concern. In addition, because of the broad range of valuation techniques and the possible estimates to be applied during the valuation of the fair value, one must be cautious when comparing the fair values between different banks.

2) The principal methods and assumptions for estimating fair value of financial instruments:

A. Fair value was calculated taking into account the possibility of early repayment based on empirical analysis.

The early repayment assumptions in mortgages are based on empirical testing and on a borrower behavior model with regard to early repayment rate out of all mortgages. These assumptions are verified from time to time against actual early repayment, in each linkage segment and interest type, separately short and long original loan terms.

Early repayment assumptions for deposits and savings plans with early withdrawal options (bearing fixed or variable interest, CPI-linked or non-linked), where interest terms are known in advance, are based on empirical analysis and are reviewed and revised from time to time.

The early repayment assumptions resulted in a NIS 2,542 million decrease in total fair value of assets, and in a NIS 491 million decrease in total fair value of liabilities.

B. Deposits from the public, deposits with banks and loans to Governments, as well as debentures and non-negotiable subordinated notes – the discounted future cash flow method, using interest rates at which, according to the Bank, similar transactions could have been executed on the balance sheet date. For transactions which bear variable interest, the difference between the spread over the variable interest base for the transaction, and the spread for similar transactions upon the balance sheet date is separated. In calculating fair value, this difference is treated as a fixed interest component. For debentures and subordinated notes traded as an asset on an active market, fair value is based on quoted market prices or on trader quotes for identical liabilities traded on an active market.

C. Negotiable securities, see Note 1. F.16 to the financial statements.

D .Investments in corporations for which a market value cannot be quoted As well as options with shares of such corporations being their underlying assets are not included in this Note at their fair value but rather at cost, (net of impairment) adjusted for observed price changes in standard transactions in similar or identical investments for the same issuer. The cost, in the estimation of management, is not lower than the fair value of the investment.

E. Loans to the public – The fair value of loans to the public is estimated by the present value of future cash flows method, using an appropriate discount rate. For loans which bear variable interest, the difference between the spread over the variable interest base for the transaction, and the spread for similar loans upon the reporting date is separated. In calculating fair value, this difference is treated as a fixed interest component. The balance of the loans was broken down according to the risk level of the individual borrower at the balance sheet date, for which the flows of future receipts (principal and interest) were calculated.

These receipts were discounted at the interest rates at which the Bank estimates it will be possible to execute similar transactions on the balance sheet date, and which reflects the risk level inherent in the loans for a similar client (for residential mortgages – a rate which reflects the risk associated with the category).

Note 33 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

F. Impaired debt – fair value is calculated using discount rates that reflects the high credit risk inherent therein. In no case were these discount rates lower than the highest interest rate used by the members of the Bank Group in providing loans on the balance sheet date. The future cash flows of problematic debts were calculated after deducting the provisions for credit losses and after deducting accounting write-offs.

a decrease by 1% in the discount rate affects the fair value of the problematic debts of the Group by NIS 12 million.

G. Off-balance sheet financial instruments in which the balance represents credit risk and contingent liabilities and special commitments – the balance in the financial statements as of the balance sheet date approximates the fair value.

H. Derivative instruments – see Note 1. F.16 to the financial statements.

I. Financial instruments with original maturity of three months or shorter (other than derivative instruments and negotiable financial instruments) – the balance on the balance on the financial statements as of the balance sheet date approximates the fair value, subject to changes in credit risk and in Bank margin.

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

A. Fair value balances

	December 31, 2021				
		Fair value			
	Book balance	Level 1(1)	Level 2(1)	Level 3(1)	Total
Financial assets					
Cash and deposits with banks	95,267	16,662	71,514	7,093	95,269
Securities(3)	15,033	10,553	4,117	424	15,094
Securities loaned or acquired in resale agreements	1,332	1,332	-	-	1,332
Loans to the public, net	271,428	1,641	9,423	(5)263,092	274,156
Loans to Governments	477	-	-	477	477
Investments in associated companies	69	-	-	69	69
Assets with respect to derivative instruments	3,652	320	2,072	(2)1,260	3,652
Other financial assets	1,130	7	-	1,123	1,130
Total financial assets	**(4)388,388**	**30,515**	**87,126**	**273,538**	**391,179**
Financial liabilities					
Deposits from the public	307,924	1,588	107,921	200,501	310,010
Deposits from banks	6,992	-	443	6,549	6,992
Deposits from the Government	82	-	-	81	81
Debentures and subordinated notes	38,046	35,956	3	3,661	39,620
Liabilities with respect to derivative instruments	3,753	320	2,593	(2)840	3,753
Other financial liabilities	10,193	2,444	1,844	5,905	10,193
Total financial liabilities	**(4)366,990**	**40,308**	**112,804**	**217,537**	**370,649**

(1) Level 1 – Fair value measurements using quoted prices on an active market.
Level 2 – Fair value measurements using other significant observed data.
Level 3 – Fair value measurements using significant non-observed data.

(2) Fair value measurement is primarily based on use of observed data (market interest rate curves), except for credit quality of counter party.

(3) For more information about the carrying amount and fair value of securities, see Note 12 to the financial statements.

(4) Includes assets and liabilities amounting to NIS __ million and NIS __ 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 __ million.

Note 33 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

A. Fair value balances – continued

	December 31, 2020				
		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 acquired in 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	1,755(2)	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 measurement using other significant observed data; Level 3 – Fair value measurement using significant non-observed data.

(2) Fair value measurement is primarily based on use of observed data (market interest rate curves), except for credit quality of counter party.

(3) For more information about the carrying amount and fair value of securities, see Note 12 to the financial statements.

(4) Includes assets and liabilities amounting to NIS 108,334 million and NIS 122,620 million, respectively, whose carrying amount equals their fair value (instruments presented at fair value on the balance sheet). For more information on instruments measured at fair value on recurring basis and on non-recurring basis, see B.-D. below.

(5) Of which embedded derivatives in loans to the public, net amounting to NIS 9 million.

Note 33 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

B. Items measured at fair value:

1. On recurring basis

	December 31, 2021			
	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	3,638	3,676	-	7,314
Of foreign governments	2,035	-	-	2,035
Of banks and financial institutions in Israel	292	34	-	326
Of banks and financial institutions overseas	9	142	26	177
Asset-backed (ABS)	-	6	-	6
Of others in Israel	518	175	19	712
Of others overseas	221	20	12	253
Shares not held for trading	277	64	15	356
Securities held for trading:				-
Debentures of the Government of Israel	473	-	-	473
Debentures of financial institutions in Israel	4	-	-	4
Debentures of others in Israel	24	-	-	24
Debentures of foreign others	49	-	-	49
Shares held for trading	20	-	-	20
Securities loaned or acquired in resale agreements	1,332	-	-	1,332
Credit with respect to loans to clients	1,641	-	-	1,641
Assets with respect to derivative instruments(1)				-
Interest contracts:				-
NIS / CPI	-	34	39	73
Other	-	450	78	528
Currency contracts	73	1,552	718	2,343
Contracts for shares	247	36	423	706
Commodities and other contracts	-	-	2	2
Other financial assets	7	-	-	7
Other	-	-	7	7
Total assets	**10,860**	**6,189**	**1,339**	**18,388**
Liabilities				
Deposits with respect to borrowing from clients	1,588	-	-	1,588
Liabilities with respect to derivative instruments(1)				
Interest contracts:				
NIS / CPI	-	71	46	117
Other	-	563	117	680
Currency contracts	73	1,954	665	2,692
Contracts for shares	247	-	12	259
Commodities and other contracts	-	5	-	5
Other financial liabilities	2,444	-	-	2,444
Other	-	-	-	-
Total liabilities	**4,352**	**2,593**	**840**	**7,785**

(1) Fair value measurement of derivative instruments classified under Level 3 is primarily based on use of observed data (market interest rate curves), except for credit quality of counter party.

Note 33 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

B. Items measured at fair value – continued:

1. On recurring basis

	December 31, 2020			
	Prices quoted on active market (level 1)	Other significant observed data (level 2)	Non-observed significant data (level 3)	Total fair value
Assets				
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 33 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

B. Items measured at fair value – continued:

2. On non-recurring basis

	As of December 31, 2021 (audited)				For the year ended December 31, 2021
	Fair value				
	Level 1[(1)]	Level 2[(1)]	Level 3[(1)]	Total	Gains (losses)
Impaired credit backed by collateral	–	6	161	167	29
Investments in shares for which no fair value is available	–	–	350	350	42

	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 measurements using quoted prices on an active market.
Level 2 – Fair value measurements using other significant observed data.
Level 3 – Fair value measurements using significant non-observed data.

Note 33 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

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

	For the year ended December 31, 2021 (audited)									
		Realized / unrealized gains (losses) included, net[1]								
	Fair value as of December 31, 2020	In statement of profit and loss	In statement of other comprehensive income under Equity	Acquisitions	Sales	Dispositions	Transfer to level 3[3]	Transfers from Level 3[3]	Fair value as of December 31, 2021	Unrealized gains (losses) with respect to instruments held as of December 31, 2021
Assets										
Securities available for sale										
Debentures:										
Of foreign financial institutions	5	(1)	-	-	-	(2)	24	-	26	(1)
Of others in Israel	19	-	(1)	-	-	(10)	11	-	19	(2)
	-	-	1	-	-	-	11	-	12	-
Securities held for trading										
Of others in Israel	3	-	-	-	-	(3)	-	-	-	-
Shares not held for trading	16	(1)	-	-	-	-	-	-	15	(1)
Assets with respect to derivative instruments[2]										
Interest contracts:										
NIS / CPI	59	(27)	-	10	-	(46)	43	-	39	21
Other	162	(86)	-	8	-	(6)	-	-	78	74
Currency contracts	1,337	23	-	1,431	-	(2,073)	-	-	718	549
Contracts for shares	189	492	-	107	-	(365)	-	-	423	-
Commodities and other contracts	8	3	-	-	-	(9)	-	-	2	-
Other	9	(2)	-	-	-	-	-	-	7	-
Total assets	**1,807**	**401**	**-**	**1,556**	**-**	**(2,514)**	**89**	**-**	**1,339**	**640**
Liabilities										
Liabilities with respect to derivative instruments[2]										
Interest contracts:										
NIS / CPI	48	(10)	-	10	-	(41)	39	-	46	-
Other	215	(53)	-	4	-	(49)	-	-	117	(64)
Currency contracts	1,287	99	-	1,123	-	(1,844)	-	-	665	(315)
Contracts for shares	93	8	-	32	-	(121)	-	-	12	-
Commodities and other contracts	9	(8)	-	-	-	(1)	-	-	-	-
Other	6	(6)	-	-	-	-	-	-	-	-
Total liabilities	**1,658**	**30**	**-**	**1,169**	**-**	**(2,056)**	**39**	**-**	**840**	**(379)**

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

Reported amounts (NIS in millions)

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

	For the year ended December 31, 2020 (audited)									
		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.

Note 33 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

D. Additional information about non-observed significant data and valuation techniques used in fair value measurement of items classified at Level 3:

	Fair value as of December 31, 2021	Valuation technique	Non-observed data	Range	Weighted average
Shares not held for trading	15	Quote from counter-party to the transaction			
Securities available for sale					
Debentures of others in Israel	1	Cash flows discounting	Price	5.60-56.33	28.43
	8	NAV (Net Asset Value) model	Price	47.81	47.81
Debentures of foreign others	12	Cash flows discounting	Price	19.00-96.00	61.57
Assets with respect to derivative instruments:					
NIS / CPI	21	Cash flows discounting	Inflationary expectations	2.20%-5.20%	2.30%
Foreign currency	30	Cash flows discounting	Counter-party credit quality	0.13%-16.87%	0.57%
Contracts for shares	31	Options pricing model	Standard deviation per share	42.41% – 34.26%	40.31%
Other	1,185	Cash flows discounting	Counter-party credit quality	0.30%-3.60%	1.77%
Liabilities with respect to derivative instruments:					
Interest contracts – NIS CPI	36	Cash flows discounting	Inflationary expectations	1.56%-2.31%	2.25%
Other	691	Cash flows discounting	Counter-party credit quality	0.30%-2.60%	1.67%

	Fair value as of December 31, 2020	Valuation technique	Non-observed data	Range	Weighted average
Shares not held for trading	16	Quote from counter-party to the transaction			
Securities available for sale					
Debentures of others in Israel	14	Cash flows discounting	Price	5.60-101.08	59.42
	5	NAV (Net Asset Value) model	Price	33.87	33.87
Debentures of foreign others	3	Cash flows discounting	Price	39.37-101.08	88.36
Assets with respect to derivative instruments:					
NIS / CPI	53	Cash flows discounting	Inflationary expectations	0.30% – 0.12%	0.28%
Foreign currency	55	Cash flows discounting	Counter-party credit quality	16.87% – 0.13%	0.35%
Contracts for shares	383	Options pricing model	Standard deviation per share	47.13% – 29.94%	37.41%
Commodities and other contracts	1	Cash flows discounting	Counter-party credit quality	0.17% – 0.13%	0.16%
Other	1,330	Cash flows discounting	Counter-party credit quality	3.30% – 0.30%	1.74%
Liabilities with respect to derivative instruments:					
Interest contracts – NIS CPI	39	Cash flows discounting	Inflationary expectations	0.55% – 0.20%	0.28%
Other	1,628	Cash flows discounting	Counter-party credit quality	2.85% – 0.30%	1.80%

Note 33 – 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 flows 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 December 31, 2021 and December 31, 2020, the Bank did not elect the fair value option.

For more information see Notes 2D, 3A.2, 3B And 12(4).

Note 34 – Interested and Related Parties

Reported amounts (NIS in millions)

A. Balances

	As of December 31, 2021									
	Interested parties								Related parties owned by the banking corporation	
	Controlling shareholders		Officers[4]		Others[5]		Interested parties upon the transaction date		Jointly-controlled associated companies or investee companies	
	Balance as of balance sheet date	Highest balance during the year[1]	Balance as of balance sheet date	Highest balance during the year[1]	Balance as of balance sheet date	Highest balance during the year[1]	Balance as of balance sheet date	Highest balance during the year[1]	Balance as of balance sheet date	Highest balance during the year[1]
Assets										
Securities	-	-	-	-	58	140	-	-	-	-
Loans to the public	38	69	20	21	242	372	-	-	23	35
Provision for credit losses	1	1	-	-	1	4	-	-	-	-
Loans to the public, net	37	68	20	21	241	368	-	-	23	35
Investments in associated companies	-	-	-	-	-	-	-	-	69	69
Liabilities										
Deposits from the public	587	618	52	77	943	2,150	-	-	75	118
Shares (included in shareholders' equity)[2]	8,659	8,687	-	-	-	-	-	-	-	-
Credit risk in off-balance sheet financial instruments[3]	2	2	10	13	198	448	-	-	171	232

(1) Based on balances at the end of each month.

(2) The share of interested and related parties in the Bank's shareholders' equity.
(3) Credit risk in off-balance sheet financial instruments, as calculated for the purposes of per-borrower limitations.
(4) Officers of the Bank (including the President & CEO) and including Board members along with their close family members.
(5) Any corporation in which a person or corporation included in one of these interested party groups has a controlling interest or owns 25% or more of their issued share capital or voting rights, or may appoint 25% or more of their Board members.

	As of December 31, 2020									
	Interested parties								Related parties owned by the banking corporation	
	Controlling shareholders		Officers[4]		Others[5]		Interested parties upon the t ransaction date		Jointly-controlled associated companies or investee companies	
	Balance as of balance sheet date	Highest balance during the year[1]	Balance as of balance sheet date	Highest balance during the year[1]	Balance as of balance sheet date	Highest balance during the year[1]	Balance as of balance sheet date	Highest balance during the year[1]	Balance as of balance sheet date	Highest balance during the year[1]
-	-	-	-	-	66	77	-	-	-	-
-	67	153	19	20	448	453	-	-	-	1
-	1	1	-	-	4	4	-	-	-	-
-	66	152	19	20	444	449	-	-	-	1
-	-	-	-	-	-	-	-	-	31	31
-										
-	53	81	82	95	1,942	2,860	-	-	41	56
-	7,883	7,883	-	-	-	-	-	-	-	-
-	2	3	8	9	139	154	-	-	5	5

Note 34 – Interested and Related Parties – Continued

Reported amounts (NIS in millions)

B. Summary of business results with interested and related parties

	For the year ended December 31,			
	2021			
	Interested parties			Related parties owned by the banking corporation
	Controlling shareholders	Officers[1]	Others[2]	Jointly-controlled associated companies or investee companies
Net interest revenues from loans to the public	1	1	16	–
Interest expenses for deposits from the public	(1)	(1)	(1)	–
Total interest revenues (expenses), net	**–**	**–**	**15**	**–**
Net non-interest financing revenues	–	–	38	–
Operating and other expenses	–	(43)	–	–
Total	**–**	**(43)**	**53**	**–**

C. Remuneration and other benefits to interested parties (by the banking corporation and its investees)

	For the year ended December 31,			
	2021			
	Officers[1]		Others[2]	
	Total benefits	Total number of benefit recipients	Total benefits	Total number of benefit recipients
Interested party employed by or on behalf of the corporation	37	14	–	–
Board member not employed by or on behalf of the corporation	6	11	–	–
Other interested party not employed by or on behalf of the corporation	–	–	–	–

(1) Officers of the Bank (including the President & CEO) and including Board members along with their close family members.

(2) Any corporation in which a person or corporation included in one of these interested party groups has a controlling interest or owns 25% or more of their issued share capital or voting rights, or may appoint 25% or more of their Board members.

-								
-	2020				2019			
-	Interested parties			Related parties owned by the banking corporation	Interested parties			Related parties owned by the banking corporation
-	Controlling shareholders	Officers(1)	Others(2)	Jointly-controlled associated companies or investee companies	Controlling shareholders	Officers(1)	Others(2)	Jointly-controlled associated companies or investee companies
-	–	–	6	–	2	–	2	–
-	–	–	(8)	–	(1)	(1)	–	–
-	**–**	**–**	**(2)**	**–**	**1**	**(1)**	**2**	**–**
-	–	–	16	–	–	–	4	–
-	–	(43)	–	–	–	(44)	(2)	–
-	**–**	**(43)**	**14**	**–**	**1**	**(45)**	**4**	**–**

-								
-	2020				2019			
-	Officers(1)		Others(2)		Officers(1)		Others(2)	
-	Total benefits	Total number of benefit recipients	Total benefits	Total number of benefit recipients	Total benefits	Total number of benefit recipients	Total benefits	Total number of benefit recipients
	37	16	–	–	38	14	–	–
-	6	10	–	–	6	16	–	–
-	–	–	–	–	–	–	2	1

Note 35 – Events after the balance sheet date

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 year ended December 31,		
	2021	2020	2019
Excluding Union Bank:			
Reported revenues for the Bank[(1)]	7,302	5,807	5,697
Reported net profit for the Bank	2,804	1,544	1,842
Union Bank:			
Reported revenues for Union Bank[(1)]	953	729	872
Reported net profit (loss) for Union Bank	90	(60)	162

	For the year ended December 31,	
	2020	2019
Pro-forma revenues[(1)]	6,860	6,775
Pro-forma net profit	1,777	2,218
Pro-forma earnings per share:		
Basic	6.95	8.71
Diluted	6.94	8.68

(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 35 - Events after the balance sheet date – Cont.

On February 28, 2022, the Bank's Board of Directors resolved to distribute dividends amounting to NIS 271.6 million, or 40% of earnings in the fourth quarter of 2021, in conformity with the Bank's dividend policy and in view of the Supervisor of Banks' announcement dated December 27, 2021, whereby as from January 1, 2022, the interim directive expired (Proper Conduct of Banking Business Directive 250 "Adjustments to Proper Conduct of Banking Business Directives for addressing the Corona Virus")

- , except for specific provisions for which a later expiration date was specified in the interim directive. In the explanation, the Supervisor of Banks noted that with regard to dividend distribution, banking corporations should be careful and should consider that some uncertainty still exists in the markets.
  The dividends are 1058.9% of issued share capital, i.e. NIS 1.0589 per NIS 0.1 par value share. The effective date for dividends payment is March 08, 2022 and the payment date is March 15, 2022. The final dividends per share is subject to changes due to realized convertible securities of the Bank.
- Sale of properties owned by the Bank Group
  On January 30, 2022, after the balance sheet date, the Bank and Bank subsidiaries (hereinafter: "the sellers") signed agreements to sell their entire interest in 24 rental properties across Israel designated for different uses (hereinafter: "the properties"), office and commerce, including: Union Bank management building on Ahuzat Bayit Street, Tel Aviv-Yafo; office building on Lincoln Street, Tel Aviv-Yafo; Union Bank's main Tel Aviv branch on Ahad HaAm Street, Tel Aviv-Yafo; and multiple properties at Mitcham HaBursa in Ramat Gan. The consideration for sale of the interest in the properties amounts to NIS 531.6 million plus VAT (hereinafter: "the consideration" and "the transaction", respectively).
  On February 9, 2022, the Anti-Trust Supervisor granted their approval, thereby the suspensive condition in the transaction was fulfilled and the the transaction closed.
  Most of the properties would be leased to the sellers for variable terms as from February 2022, in conformity with provisions of the leases signed by the sellers and the buyer.

  The Bank would recognize net profit amounting to NIS 179 million with respect to sale of the properties.
- On January 26, 2022, after the balance sheet date, an agreement by Union Bank to sell their entire holding stake (14.66%) in Hof HaTchelet Development Company Ltd. (hereinafter: "Hof HaTchelet") was signed, and for sale of owners' loans provided by Union Bank to Hof HaTchelet for NIS 190 million plus VAT. The Bank would recognize net profit amounting to NIS 100 million in the first quarter of 2022 with respect to this sale.

Note 36 – Condensed financial statements of the Bank(1)

A. Statement of profit and loss

Reported amounts (NIS in millions)

	2021	2020	2019
Interest revenues	9,216	6,803	7,196
Interest expenses	3,014	1,936	2,633
Interest revenues, net	6,202	4,867	4,563
Expenses with respect to credit losses	(207)	1,038	338
Interest revenues, net after expenses with respect to credit losses	**6,409**	**3,829**	**4,225**
Non-interest revenues			
Non-interest financing revenues	184	169	370
Commissions	1,437	1,334	1,258
Other revenues	284	208	59
Total non-interest revenues	**1,905**	**1,711**	**1,687**
Operating and other expenses			
Payroll and associated expenses	2,748	2,203	2,242
Maintenance and depreciation of buildings and equipment	738	704	642
Other expenses	449	432	451
Total operating and other expenses	**3,935**	**3,339**	**3,335**
Pre-tax profit	4,379	2,201	2,577
Provision for taxes on profit	1,517	775	910
After-tax profit	**2,862**	**1,426**	**1,667**
Share in profits of investee companies, after tax	326	184	175
Net profit	**3,188**	**1,610**	**1,842**

(1) Complete data for the Bank solo is available on the Bank website: www.mizrahi-tefahot.co.il about the bank > investor relations > financial statements.

Note 36 – Condensed financial statements of the Bank – Continued

B. Balance sheet

Reported amounts (NIS in millions)

	2021	2020
Assets		
Cash and deposits with banks	85,590	69,174
Securities(1)	8,091	5,068
Securities loaned or purchased under resale agreements	412	194
Loans to the public	243,670	212,421
Provision for credit losses	(2,000)	(2,337)
Loans to the public, net	241,670	210,084
Loans to Governments	477	613
Investments in investees	6,214	5,952
Buildings and equipment	1,265	1,218
Assets with respect to derivative instruments	3,312	3,688
Other assets	2,172	2,401
Total assets	**349,203**	**298,392**
Liabilities and Equity		
Deposits from the public	285,659	243,134
Deposits from banks	24,773	19,235
Deposits from the Government	72	67
Debentures and subordinated notes	5,329	3,355
Liabilities with respect to derivative instruments	3,247	4,319
Other liabilities (2)	9,353	9,478
Total liabilities	**328,433**	**279,588**
Capital	**20,770**	**18,804**
Total liabilities and equity	**349,203**	**298,392**

(1) Of which: NIS 6,868 million recognized on the financial statements at fair value (on December 31, 2020: NIS 4,626 million).

(2) Of which: Provision for credit losses with respect to off balance sheet credit instruments amounting to NIS 181 million (on December 31, 2020: NIS 183 million).

Note 36 – Condensed financial statements of the Bank – Continued

C. Statement of cash flows

Reported amounts (NIS in millions)

	2021	2020	2019
Cash flows provided by current operations			
Net profit	3,188	1,610	1,842
Adjustments			
Share of the Bank in undistributed earnings of associated companies	(326)	(362)	(175)
Depreciation of buildings and equipment (including impairment)	220	206	185
Expenses with respect to credit losses	(207)	1,038	338
Gain from sale of securities available for sale	(27)	(94)	(35)
Realized and unrealized loss (gain) from adjustment to fair value of securities held for trading	17	(34)	(11)
Realized and unrealized loss (gain) from adjustments to fair value of shares not held for trading	(38)	-	(2)
Gain from sale of buildings and equipment	(18)	(41)	(26)
Impairment of shares not held for trading	9	-	6
Expenses arising from share-based payment transactions	41	23	57
Deferred taxes, net	58	(182)	189
Change in employees' provisions and liabilities	30	(12)	12
Adjustments with respect to exchange rate differentials	32	296	234
Gain from sale of loan portfolios	-	-	-
Accrual differences included with investment and financing operations	285	7	577
Net change in current assets			
Assets with respect to derivative instruments	343	(1,108)	669
Securities held for trading	80	456	(469)
Other assets, net	197	(692)	(135)
Net change in current liabilities			
Liabilities with respect to derivative instruments	(1,072)	1,634	(976)
Other liabilities	(202)	1,636	243
Net cash provided by current operations	**2,610**	**4,381**	**2,523**

Note 36 – Condensed financial statements of the Bank – Continued

C. Statement of cash flows – Continued

Reported amounts (NIS in millions)

	2021	2020	2019
Cash flows provided by investment activities			
Net change in deposits with banks	2	12	46
Net change in loans to the public	(31,613)	(16,944)	(9,854)
Net change in loans to Governments	136	43	12
Net change in securities loaned or acquired in resale agreements	(218)	(74)	(94)
Acquisition of debentures held to maturity	(634)	-	(158)
Proceeds from redemption of securities held to maturity	-	649	1,422
Acquisition of securities available for sale	(8,531)	(3,406)	(5,491)
Proceeds from sale of securities available for sale	2,873	3,495	3,509
Proceeds from redemption of securities available for sale	3,106	944	3,265
Proceeds from sale of loan portfolios	234	40	577
Purchase of loan portfolios – public	-	(576)	(782)
Purchase of loan portfolios – Government	-	-	(38)
Acquisition of buildings and equipment	(285)	(251)	(266)
Proceeds from sale of buildings and equipment	35	73	58
Proceeds from redemption of securities – associated companies	(49)	(516)	-
Proceeds from realized investment in associated companies	-	31	33
Net cash used in investment activities	**(34,944)**	**(16,480)**	**(7,761)**
Cash flows provided by financing operations			
Net change in deposits from the public	42,525	25,936	12,060
Net change in deposits from banks	5,538	6,453	644
Net change in deposits from Government	5	44	(2)
Issuance of debentures and subordinated notes	1,955	-	(4)
Redemption of debentures and subordinated notes	(3)	(3)	-
Dividends paid to shareholders	(1,236)	(176)	(561)
Net cash provided by financing operations	**48,784**	**32,254**	**12,137**
Increase (decrease) in cash	16,450	20,155	6,899
Cash balance at beginning of the period	69,168	49,309	42,644
Effect of changes in exchange rate on cash balances	(32)	(296)	(234)
Cash balance at end of the period	**85,586**	**69,168**	**49,309**
Interest and taxes paid / received			
Interest received	9,822	6,810	5,997
Interest paid	2,244	2,145	2,162
Dividends received	5	3	17
Income taxes received	-	52	177
Income taxes paid	1,445	994	1,007
Appendix A – Non-cash Investment and Financing Transactions			
Acquisition of buildings and equipment	-	-	-
Sales of buildings and equipment	1	-	-
Shares issued in conjunction with acquisition of Union Bank	-	(1,207)	-

Bank Mizrahi Tefahot

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

Table of Contents

Corporate governance and audit

Board of Directors and management

Board of Directors

During 2021, the Bank's Board of Directors held 26 plenary meetings. During this period there were also 71 meetings of Board committees and 8 Board member workshops.

The permanent Board committees are: Audit, Credit, Risks Management, IT and Technology Innovation, Remuneration and Union Bank Integration Committees.

Presented below are changes during 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, Ms. Estheri Giloz-Ran started their term in office 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.
- On August 23, 2021, Ms. Hannah Feuer was re-appointed as External Board member of the Bank, as this term is defined in the Corporate Act (hereinafter: "External Board member pursuant to the Corporate Act"), for a further term of three (3) years (second term in office), as from August 30, 2021.
- On December 21, 2021, Mr. Gilad Rabinobich was re-appointed as External Board member pursuant to the Corporate Act, for a further term of three (3) years (second term in office), as from March 12, 2022.
- On December 21, 2021, Mr. Joav Asher Nachshon concluded their term in office as member of the Bank's Board of Directors.
- On December 21, 2021, Mr. Jonathan Kaplan became member of the IT and Technology Innovation Committee.
- On December 21, Mr. Ron Gazit started their term in office as member of the Credit Committee.

Members of the Bank's Board of Directors and their membership of Board committees, as of the publication date of these financial statements:

Moshe Vidman, Chairman of the Board of Directors	Credit Committee – Chairman; Risks Management Committee – Chairman; IT and Technology Innovation Committee, Union Bank Integration Committee
Eli Alroy	IT and Technology Innovation Committee; Union Bank Integration Committee
Ron Gazit	IT and Technology Innovation Committee, Credit Committee
Estheri Giloz-Ran	Audit Committee, IT and Technology Innovation Committee, Remuneration Committee
Avraham Zeldman	Union Bank Integration Committee – Chair, Audit Committee, Risks Management Committee
Hannah Feuer	Remuneration Committee – Chair, Audit Committee, Credit Committee
Joseph Fellus	Audit Committee – Chair, Credit Committee, Risks Management Committee; Remuneration Committee; Union Bank Integration Committee
Jonathan Kaplan	Credit Committee, Risks Management Committee, Union Bank Integration Committee, IT and Technology Innovation Committee
Ilan Kremer	Risks Management Committee
Gilad Rabinobich	IT and Technology Innovation Committee – Chair, Audit Committee, Risks Management Committee, Remuneration Committee, Union Bank Integration Committee

Board members with accounting and financial expertise – The Bank's Board of Directors prescribed that at least three directors should have accounting and finance qualifications. In the Board's opinion, this number enables it to meet all of the obligations imposed on it, especially with respect to its responsibility to examine the financial position of the corporation and to prepare and approve financial statements. The Board has also determined that the Audit Committee would have as members at least 2 Board members having accounting and financial qualifications. The Audit Committee includes 5 Board members having accounting and financial qualifications.

Based on their skills, education, experience and knowledge, the Bank's Board of Directors includes, as of the publication date of these financial statements, 8 Board members having accounting and financial qualifications: Messrs. Moshe Vidman, Estheri Giloz-Ran, Avraham Zeldman, Hannah Feuer, Joseph Fellus, Jonathan Kaplan, Ilan Kremer and Gilad Rabinobich.

For more information about members of the Bank's Board of Directors, including: qualifications, education and experience and other information about their office, as well as other information about Board members with accounting and financial expertise and professional qualifications, as required pursuant to the Public Reporting Directives and the Securities Regulations, see Regulation 26 on the Bank's 2021 Annual Report on the ISA MAGNA website.

The Bank's Board of Directors thanks the Bank President & CEO, management and employees for their efforts to promote the Bank, to expand its business and client base.

Executive Management

In 2021, the Mizrahi-Tefahot Board of Directors, chaired by Moshe Vidman, approved the recommendation made by the Bank President & CEO, Moshe Lary, to make the following appointments to Bank management:

Ms. Terry Yaskil was appointed VP, Manager of the Marketing, Promotion and Business Development Division of the Bank, as from November 1, 2021, replacing Ms. Dina Navot, who concluded her term in office.

Ms. Shevy Shemer, CEO of Union Bank in the past three years, was appointed VP, Manager of the Retail Division of the Bank as from April 1, 2022, replacing Mr. Israel Engel.

The following are Executive Management Forum members as of December 31, 2021 with their title and position:

Moshe Lari	President & CEO
Menahem Aviv	Vice President, Manager, Financial Information & Reporting Division and Chief Accountant
Israel Engel	Vice President and Manager, Retail Division
Ayala Hakim	Manager, Mizrahi Tefahot Technology Division Ltd. and CIO
Terry Yaskil	Vice President and Manager, Marketing, Promotion and Business Development Division
Nissan Levy	Vice President and Manager, Human Capital, Resources and Operations Division
Ofir Morad	Vice President and Manager, Business Banking Division
Rachel Friedman	Vice President, Manager, Legal Division, Chief Legal Counsel
Doron Klauzner	Vice President, Manager, Risks Control Division and Chief risks officer (CRO)
Adi Shachaf	Vice President, Manager, Finance Division and Chief Financial Officer (CFO)

Ofer Horvitz	Bank Secretary and Manager, Bank Headquarters
Galit Weizer	Chief Internal Auditor; Manager, Internal Audit Division
Benny Shoukroun	Bank Spokesman

For more information about senior officers of the Bank, including: education and experience and other information about their office, as required pursuant to the Public Reporting Directives and the Securities Regulations, see Regulation 26A on the Bank's 2021 Annual Report on the ISA MAGNA website.

Internal Auditor

The following is information about the Chief Internal Auditor of the Bank Group, who started in office on July 7, 2011:

Name:	Galit Weizer
Start of term in office:	July 2011
Education:	CPA; undergraduate degree in Accounting and Economics (Hebrew University); graduate degree in Business Administration (Hebrew University).
Experience:	Deputy Chief Internal Auditor at Bank Mizrahi Tefahot; previously, Chief Internal Auditor of Bank Tefahot.

Pursuant to provisions of Section 146(B) of the Companies Law, 1999 – the Internal Auditor is not an interested party of the corporation, an officer or relative of it.

Pursuant to provisions of Section 8 of the Internal Audit Act, 1992, the Internal Auditor holds no other position in addition to her position as Chief Internal Auditor, other than as Ombudsman, Internal Auditor of Israeli subsidiaries of Bank Mizrahi Tefahot, including Bank Yahav and Union Bank. The Bank's Internal Auditor holds no position outside of the Bank which creates or may create conflict of interest with her position as Internal Auditor. Other than the foregoing, the Internal Auditor has no material business relationships or other material relationships with the Bank or with any related entity thereof.

In conformity with Proper Conduct of Banking Business Directive 307, audit staff are only appointed subject to consent of the Internal Auditor. Audit staff act on behalf of the Internal Auditor for the purpose of internal audit, and are only instructed on audit-related matters by the Internal Auditor. Internal Audit staff do not hold other positions with the banking corporation in addition to internal audit, other than handling public complaints. Internal Audit staff may only sign on behalf of the banking corporation documents related to audit work or to inquiries from the public. Internal Audit employees are terminated with due process and consent of the Internal Auditor.

As of December 31, 2021, the Internal Auditor is entitled to 24,397 and 36,891 options to purchase Mizrahi Tefahot ordinary shares of NIS 0.1 par value, in conformity with the 2019 and 2020 Allotment Programs, respectively, as approved by the Mizrahi Tefahot Board of Directors.

The Internal Auditor is also entitled to up to 36,043 options to purchase such ordinary shares, in conformity with the 2021 Allotment Program approved by the Mizrahi Tefahot Board of Directors. For further details about this allotment, see Note 23 to the financial statements.

The Board of Directors assumes that the extent of Bank securities owned by the Internal Auditor does not impact the quality of her work.

The Internal Auditor is a full-time employee of the Bank.

Appointment process – Roles and responsibilities

In June 2011, appointment of the Internal Auditor was confirmed by the Audit Committee and the Board of Directors, based on the Auditor's experience and educational qualifications.

The roles and responsibilities of Internal Audit are listed in the Appointment Letter, which has been discussed and approved by the Bank's Board of Directors, including:

- The authority and ability to initiate audits of all units and existing operations of the Bank, in Israel or overseas, and to demand and receive any document and any information required for discharging their office.
- Employees of the Internal Audit function shall have direct access – for discharging their office – to all records, to any regular or computer-based repository, to any database and work files and to any program of automated data processing, including managerial information and meeting minutes of decision making entities, related to the audit subject.
- Employees of the Audit function may enter any property owned or used by the Bank and to examine it.
- With regard to confidential information by law, the Internal Auditor, their staff and anyone acting on behalf thereof shall be subject to statutory limitations. The Internal Auditor, their staff and anyone acting on behalf thereof must not disclose any document or information obtained in the course of discharging their office – unless such disclosure is required for lawfully discharging their office or if such disclosure is required by any law.

Identity of the Internal Auditor's Supervisor

The Internal Auditor reports to the Chairman of the Board of Directors.

Internal Audit work plan

In 2021, Internal Audit work was based on a multi-annual audit plan focused on risk for a 3-year period from which an annual work plan was derived. Note that checking of material operations and transactions, including checking of transactions with related parties, are incorporated into the multi-annual work plan of Internal Audit.

Due to the Corona Virus pandemic, Internal Audit continued to adapt its operations in 2021, while preserving the capacity to review major risks by the third line of control.

Considerations in determining the multi-annual audit plan

Mapping of activities carried out by different Bank departments according to organizational structure, assignment of potential risk to each activity and setting audit frequency accordingly.

- Risks surveys conducted at the Bank.
- Regulatory requirements arising from directives of the Supervisor of Banks.
- Basel directives and the ICAAP process.
- Current audit reports of the Bank of Israel.
- Findings in audit reports of the Audit Division.
- Decisions of the Audit Committee and the Chairman of the Board of Directors, as well as requests from the Bank President & CEO.

The multi-annual work plan prepared by the Internal Auditor, is brought up for discussion by the Board of Directors' Audit Committee and sent to the Chairman of the Board of Directors and to the Bank President & CEO. After discussion and recommendation by the Audit Committee, the plan is submitted for approval by the Board of Directors.

Consequently, the multi-annual internal audit work plan for 2021-2023 was approved by the Bank Board of Directors on January 25, 2021.

Considerations in determining the annual audit plan

In addition to the aforementioned considerations, used as a basis for determining the multi-annual audit plan from which the annual audit plan is derived, the annual work plan includes additional special tests required of Internal Audit by request of the Supervisor of Banks, the Chairman of the Board of Directors and the Audit Committee. The Audit also refers to issues as requested by Bank management. The annual work plan also included reference to the Union Bank merger.

Any material changes are brought for approval by the Audit Committee. In case of non-material changes, the Audit Committee is informed after the fact.

Similar to the multi-annual audit plan, the annual audit plan is also prepared by the Internal Auditor and brought for discussion by the Board's Audit Committee. The plan is also submitted to the Chairman of the Board of Directors and to the Bank President & CEO. After the Board's Audit Committee recommends approval of the plan, the plan is submitted for approval by the Board of Directors.

Accordingly, on January 25, 2021, the Board of Directors approved the annual Internal Audit work plan for 2021.

Overseas audits or audits of held corporations

The Bank's Internal Auditor includes in the annual and multi-annual audit program the active corporations held by the Bank, during her tenure as their internal auditor, except for Union Bank and Bank Yahav, for which a separate audit plan is submitted to their Boards of Directors.

In conformity with Proper Conduct of Banking Business Directives 306 and 307, in 2020 local Internal Auditor firms were appointed at Bank branches in London and Los Angeles. In conformity with Proper Conduct of Banking Business Directive 307, the Internal Auditor ensures that proper Internal Audit is conducted at these branches. The work plans of local Internal Auditors are included in the work plan of the Internal Audit Division, discussed by the Audit Committee and approved by the Bank Board of directors.

Scope of employment of the Internal Auditor and their staff

The Internal Auditor is a full-time employee of the Bank.

The average number of positions reporting to the Internal Auditor is derived from Internal Audit needs, which arise from the multi-annual work plan and from the annual work plan of Internal Audit. The average number of positions in 2021, including internal auditors of subsidiaries and overseas branches is as follows:

In Israel		Outside of Israel
Employees engaged in internal audit	Employees engaged in role of Ombudsman	Employees engaged in internal audit
(1)53	6	(2)3

(1) Includes 9 full-time positions for audit at Bank Yahav, including outsourcing at Bank Yahav. In addition, Internal Audit at Bank Mizrahi-Tefahot used outsourced services equivalent to 6 full time positions, which are also included.

(2) Includes use of external service providers overseas.

Conducting audits

The Internal Auditor performs the audit based on the generally accepted professional standards.

- Various legal requirements, including provisions of the Internal Audit Act, 1992, Banking Regulations (Internal Audit), 1992 and regulatory authorities' instructions relevant to the audited area, including guidelines and directives of the Supervisor of Banks, including Proper Conduct of Banking Business Directive 307 concerning "Internal Audit function".
- Standards for Professional Engagement in Internal Audit of the Global Institute of Internal Auditors.

The Board of Directors and the Audit Committee believe that audit is conducted in accordance with the aforementioned professional standards so as to achieve the objectives of the internal audit. This is done, inter alia, based on annual reporting, semi-annual reporting and work plans of Internal Audit, which include reference to these issues. Furthermore, as needed, an independent external survey is conducted, once every 5 years, of the quality of work of Internal Audit, which is reported to the Audit Committee.

Access to information

The Internal Auditor regularly has complete access to all the information he needed, in conformity with Proper Conduct of Banking Business Directive 307, as stated in Section 9 of the Internal Audit Law, 1992, including constant and direct access to the Bank's IT systems, including financial data. Note that in conducting audits at investees and operations outside of Israel, too, Internal Audit has full access, as noted above, through visits to operation hubs outside of Israel or through receiving material on demand.

Submitting report of Audit findings

The Auditor regularly sends every audit report to the Chairman of the Board of Directors, the chairman of the Audit Committee, the Bank President & CEO and head of the internal audit unit. A copy of each report is also sent to the CRO, Compliance Officer and AML Supervisor, Manager, Risk Control Division and to the Chief Accountant. Audit reports are submitted in writing. Summaries of all audit reports issued in the previous period are submitted to Audit Committee members once every quarter and to the Board of Directors plenum – once every six months. All of the reports are discussed in a forum including the division manager and/or official in-charge of the audited unit or activity. The material reports are discussed by a forum headed by the Bank President & CEO. The Chairman of the Audit Committee, in consultation with the Internal Auditor, determines the material audit reports to be discussed by the Audit Committee.

In July 2021, a report about the performance of the Internal Audit work plan for the first half of 2021 was distributed and was discussed by the Audit Committee on August 04, 2021. The summary report of Internal Audit in 2021 was distributed on February 10, 2022 and discussed at the Audit Committee meeting held on February 14, 2022. Other major reports were discussed during the year at regular meetings of the Audit Committee.

Assessment of Internal Auditor's activities

The Board of Directors and the Audit Committee believe that the scope, nature, continuity of the activity and the work plan of the Internal Auditor are reasonable under the circumstances and would realize the objectives of internal audit.

Remuneration of the Internal Auditor

Below is information about the salary, benefits, employer contributions and provisions paid or provided for to the Chief Internal Auditor in 2021: Salary amounting to NIS 1,176 thousand, bonuses amounting to NIS 625 thousand (from that retention bonus amounting to NIS 179 thousand), social benefits amounting to NIS 323 thousand, share-based payment amounting to NIS 430 thousand and other benefits valued at NIS 99 thousand. Total remuneration paid or provided for, to the Internal Auditor in 2021 amounted to NIS 2,653 thousand. The outstanding balance of loans at standard terms, as of the end of 2021, amounted to NIS 43 thousand. For more information about the officer remuneration policy, see Note 22.A.3 to the financial statements.

The Board of Directors assumes that the size of remuneration provided to the Internal Auditor should not influence her judgment with respect to his work.

Independent Auditors' Fees for the Group(1)(2)(3)(4)

(NIS in thousands)

	Consolidated		The Bank	
	2021	2020(5)	2021	2020
For audit activities(6):				
Independent auditors(7)	7,900	8,953	6,684	6,955
Other independent auditors	1,344	1,344	447	426
Total	**9,244**	**10,297**	**7,131**	**7,381**
For audit-related services:				
Independent auditors	411	608	411	580
Other independent auditors	–	–	–	–
For tax services(8):				
Independent auditors	18	–	–	–
Other independent auditors	392	232	211	152
For other services(7)(9):				
Independent auditors	3,495	2,168	3,275	1,799
Other independent auditors	265	268	–	–
Total	**4,581**	**3,276**	**3,897**	**2,531**
Total fees to independent auditors	**13,825**	**13,573**	**11,028**	**9,912**

(1) Board of Directors' report to the annual general meeting on auditors' fees for audit activities and for other services in addition to the audit, in accordance with Sections 165 and 167 of the Companies Law, 1999.

(2) Independent auditors' fees include payments to partnerships and corporations under their control, as well as payments under the VAT Law.

(3) Includes fees paid and accrued.

(4) The Independent Auditors, from 1995 to date, have been Brightman Almagor Zohar & Co.

(5) Includes Independent Auditor's fees for audit work and for other services for the fourth quarter at Union Bank.

(6) Audit of annual financial statements, review of interim financial statements and audit of report adjusted for income tax purposes.

(7) Includes other independent auditors in overseas branches.

(8) Includes payments for preparation of reports adjusted for income tax purposes and reports to tax authorities.

(9) Includes mainly payments for consulting and various services.

Details of senior officer remuneration

(NIS in thousands)

Details of remunerated party[1]		2021								
		Remuneration for services rendered[2]						Loans granted at beneficial terms[3]		
Name	Role	Salary	Bonuses	Social benefit contri-butions[4]	Share-based payment[5]	Value of additional benefits[6]	Total [7]	Balance as of December 31, 2021	Average term to repayment (in years)	Loans granted at standard terms
Moshe Vidman[8]	Chairman of the Board of Directors	2,888	--	589	--	102	3,579	98	0.8	13
Moshe Lari[9]	President & CEO	2,888	105	713	217	131	4,054	827	10.0	23
Israel Engel	Vice President and Manager, Retail Division	1,181	622	259	600	104	2,766	--	--	183
Ofir Morad	Vice President and Manager, Business Banking Division	1,177	590	297	600	102	2,766	2,042	4.9	775
Adi Shachaf[10]		1,146	519	454	586	61	2,766	683	6.5	15
Shevy Shemer	CEO of Union Bank	2,047	966	880	--	--	3,893	--	--	1,256
Shaul Gelbard	CEO of Bank Yahav	1,425	822	669	--	--	2,916	--	--	33

Details of remunerated party[1]		2020								
		Remuneration for services rendered[2]						Loans granted at beneficial terms[3]		
Name	Role	Salary	Bonuses	Social benefit contri-butions[4]	Share-based payment[5]	Value of additional benefits[6]	Total [7]	Balance as of December 31, 2020	Average term to repayment (in years)	Loans granted at standard terms
Moshe Vidman[8]	Chairman of the Board of Directors	2,871	–	586	–	146	3,603	157	1.3	9
Eldad Fresher[9]	Former President & CEO	2,960	–	855	–	141	3,956	–	–	46
Moshe Lari[10]	President & CEO	1,665	380	461	348	95	2,949	847	10.5	17
Ofir Morad[11]	Vice President and Manager, Business Banking Division	1,173	467	337	491	107	2,575	2,146	7.5	421
Israel Engel[11]	Vice President and Manager, Retail Division	1,181	467	319	491	101	2,559	–	–	50

Remarks:

(1) Remuneration recipients are employed in a full-time position and do not hold Bank equity.

(2) The amounts are included under "salaries and related expenses" in the statement of profit and loss.

(3) The benefit is under the same terms and conditions granted to all Bank employees.

(4) Includes severance pay, study fund, acclimation bonus, paid leave and social security.

(5) For details of share-based payment to the President and to officers, see Note 23 to the financial statements.

(6) Interest relates to loans granted at beneficial terms compared to market terms. There is no interest benefit with respect to deposits. In other banking transactions, the benefits apply to all Bank employees and the amount there of is immaterial.

(7) Excluding payroll tax.

(8) Mr. Moshe Vidman – Mr. Vidman's employment start date was December 1, 2012 for three years, ended November 30, 2015 and extended from December 1, 2015 through December 31, 2017 and would automatically renew annually for one additional year, subject to provisions of the employment agreement. For more information about Mr. Vidman's employment terms, see Appendix II to report dated January 9, 2017 (reference: 2017-01-003457) as well as Note 22.A.1 to the financial statements.

(9) Mr. Moshe Lari – On June 8, 2020, the Bank's Board of Directors approved the appointment of Mr. Moshe Lari as Bank President & CEO. Mr. Lari started their term in office as full-time Bank President & CEO on September 16, 2020. For more information about Mr. Lari's employment terms, see Appendix D to report dated August 27, 2020 (reference: 2020-01-085165) as well as Note 22.A.2 to the financial statements.

(10) Officers employed pursuant to an individual employment agreement for an unspecified term:

- Mr. Ofir Morad – as from January 1, 2014
- Mr. Israel Engel – as from June 15, 1999
- Mr. Adi Shachaf – as from September 16, 2020
- For more information about employment terms, see Note 22.A.3 to the financial statements.

(11) Mr. Eldad Fresher – On June 17, 2013, the Bank's Board of Directors approved the appointment of Mr. Eldad Fresher as Bank President & CEO, whose term in office was concluded on September 15, 2020. Mr. Fresher started in his office as full-time Bank President on August 16, 2013. For more information about Mr. Fresher's employment terms, see Appendix III to report dated January 9, 2017 (reference: 2017-01-003457) as well as Note 22.A.2 to the financial statements.

Transactions with controlling shareholders and related parties

Pursuant to Securities Regulations (Periodic and Immediate Reports), 1970 (hereinafter: "the Amendment"), the Audit Committee of the Board of Directors has previously approved criteria for unusual and immaterial transactions, which the Committee ratified on December 20, 2021, as follows:

Transaction other than a banking transaction

Definition of "immaterial transaction":

A transaction other than a banking transaction, conducted in the normal course of business at market terms and conditions, and which meets one or more of the criteria specified by the Audit Committee, is an immaterial transaction.

Banking transaction

Definition of "unusual transaction" – a transaction other than at market conditions or not in the normal course of business or a material transaction.

A banking transaction which meets one of the criteria specified by the Audit Committee shall be deemed to be, for this matter, a "material transaction":

"Market terms" – terms which are not preferable to those at which similar transactions are made by the Bank with individuals or corporations which are not controlling shareholders of the Bank, or in transactions in which the controlling shareholder has no personal interest . Market terms with regard to banking transactions are compared to terms of similar transactions of similar volume at the Bank, as used for review of transactions with affiliated persons in accordance with Proper Conduct of Banking Business Directive 312, with Bank clients who are not affiliated persons, or are not entities where the controlling shareholder has a personal interest in transactions with it; market conditions with regard to transactions other than banking transactions are compared to conditions of similar transactions made by the Bank with suppliers and/or with regard to offers from other suppliers reviewed prior to deciding to make the commitment. In cases where the Bank has no similar transactions, market conditions are to be compared with regard to similar transactions made in the market, provided that such transactions are made in the normal course of business and that such transactions have a market in which similar transactions are made.

Indebtedness transactions to which Proper Conduct of Banking Business Directive 312 does not apply – as for Indebtedness transactions to which Proper Conduct of Banking Business Directive 312 does not apply, should the Bank become aware of any such transaction, the Bank commits to bring any such transaction for approval pursuant to Proper Conduct of Banking Business Directive 312 and to provide disclosure of it in the Bank's annual financial statements. The definition of "immaterial transaction" and "unusual transaction" with regard to these transactions would be similar to the aforementioned definitions by the Bank.

Below is summary data with regard to banking transactions with controlling shareholders (NIS in millions):

A. Indebtedness transactions

	December 31, 2021					
Group of controlling shareholders[2]	**Loan balance on balance sheet**	**Unutilized facility**	**Risk assets due to derivatives activity**	**Guarantees provided by the Bank to secure credit of controlling shareholder or affiliated party there to**	**Investment in securities**	**Total indebtedness[1]**
Wertheim Group and private companies it controls	38	2	–	–	–	40
Relatives of Wertheim Group and private companies they control	–	–	–	–	–	–
Total – Wertheim Group	**38**	**2**	**–**	**–**	**–**	**40**
Ofer Group and private companies it controls	11	–	–	–	–	11
Relatives of Ofer Group and private companies it controls	7	4	–	–	–	11
Reporting entities controlled by relatives of Ofer Group						
OPC Energy Ltd.	–	100	–	–	2	102
Oil Refineries Ltd.	222	68	–	–	6	296
Israel Chemicals Ltd.	–	25	–	–	50	75
Rotem Amfert Negev Ltd.	–	1	–	–	–	1
Total – Ofer Group	**240**	**198**	**–**	**–**	**58**	**496**

	December 31, 2020					
Group of controlling shareholders	**Loan balance on balance sheet**	**Unutilized facility**	**Risk assets due to derivatives activity**	**Guarantees provided by the Bank to secure credit of controlling shareholder or affiliated party there to**	**Investment in securities**	**Total indebtedness[1]**
Wertheim Group and private companies it controls	66	2	–	–	–	68
Relatives of Wertheim Group and private companies they control	–	–	–	–	–	–
Total – Wertheim Group	**66**	**2**	**–**	**–**	**–**	**68**
Ofer Group and private companies it controls	13	–	–	–	–	13
Relatives of Ofer Group and private companies it controls	6	11	–	–	3	20
Reporting entities controlled by relatives of Ofer Group						
OPC Energy Ltd.	–	–	–	50	–	50
Oil Refineries Ltd.	425	71	–	–	3	499
Israel Chemicals Ltd.	–	4	1	–	57	62
Israel Corporation Ltd.	–	–	–	–	3	3
Total – Ofer Group	**444**	**86**	**1**	**50**	**66**	**647**

(1) Indebtedness as defined in Proper Conduct of Banking Business Directive 312, after set off of allowed deductions.
(2) Information about controlling shareholders is current as of the control structure of the Bank as of December 31, 2021.

B. Deposits

Group of controlling shareholders	Balance as of December 31, 2021	Highest balance in 2021
Wertheim Group and private companies it controls	538	568
Relatives of Wertheim Group and private companies it controls	–	–
Quick Super Online Ltd.	50	50
Total – Wertheim Group	**588**	**618**
Ofer Group and private companies it controls	4	4
Relatives of Ofer Group and private companies it controls	96	130
Reporting entities controlled by relatives of Ofer Group		
OPC Energy Ltd.	279	1,084
Oil Refineries Ltd.	62	367
Israel Corporation Ltd.	385	447
Israel Chemicals Ltd.	116	117
Gadiv Petrochemical Industries Ltd.	–	1
Total – Ofer Group	**942**	**2,150**

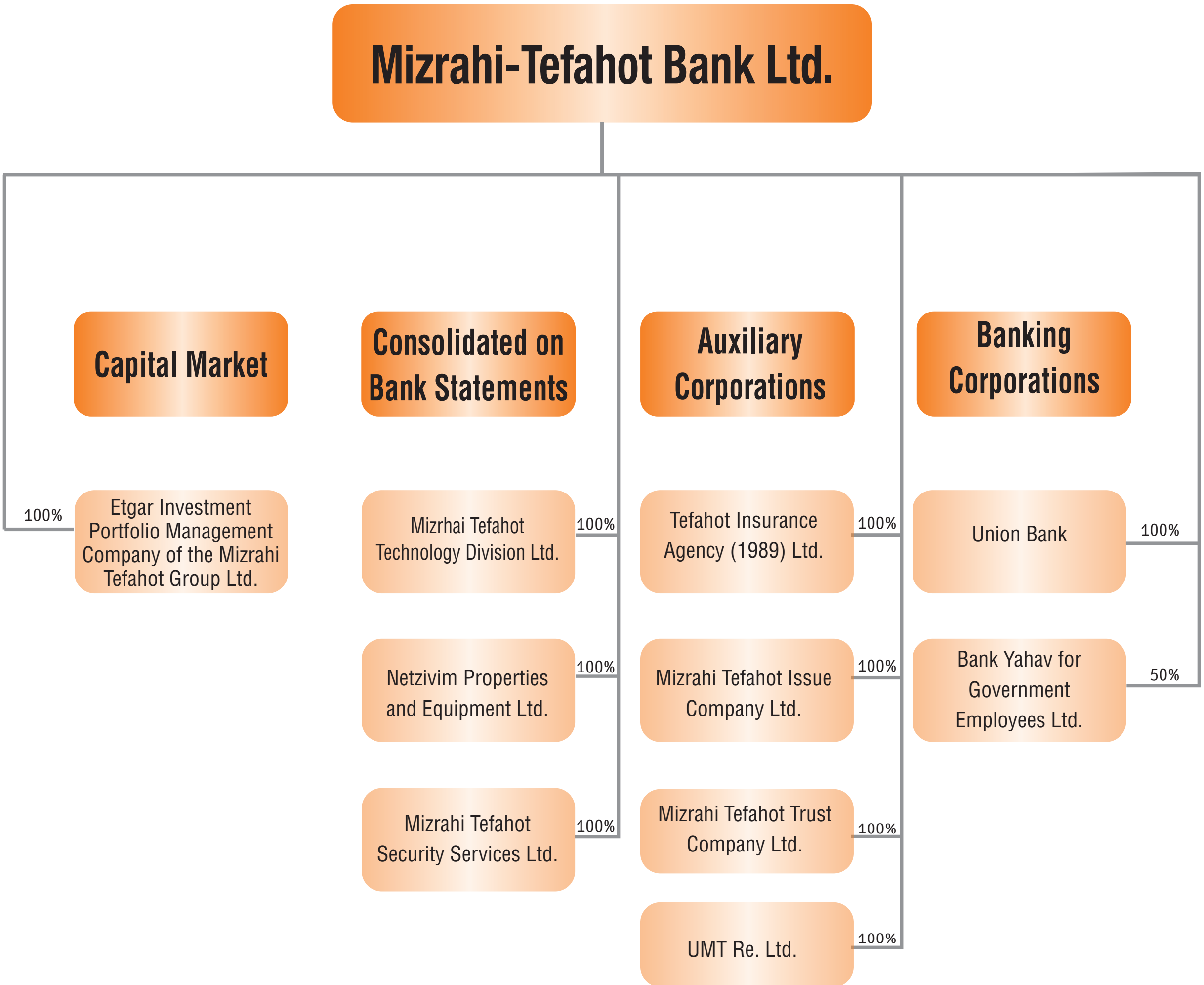
Group of controlling shareholders	Balance as of December 31, 2020	Highest balance in 2020
Wertheim Group and private companies it controls	52	79
Relatives of Wertheim Group and private companies it controls	–	–
Total – Wertheim Group	**52**	**79**
Ofer Group and private companies it controls	2	4
Relatives of Ofer Group and private companies it controls	115	153
Reporting entities controlled by relatives of Ofer Group		
OPC Energy Ltd.	1,134	1,138
Oil Refineries Ltd.	403	844
Israel Corporation Ltd.	185	616
Israel Chemicals Ltd.	104	104
Gadiv Petrochemical Industries Ltd.	–	2
Total – Ofer Group	**1,943**	**2,861**

To the best of the Bank's knowledge, transactions with affiliated persons were executed in the ordinary course of business, at market terms and under terms similar to those of transactions effected with unrelated entities.

On 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).

Other information about the Bank and its management

Key holding structure of the Bank



See Note 15 to the financial statements for details.

Controlling shareholders

The Controlling Shareholders of the Bank as of December 31, 2021 are Wertheim Group and Ofer Group.

Holdings of Wertheim Group are through M. W. Z. (Holdings) Ltd. And F&W (Registered Partnership) holding, as of December 31, 2021, 7.54% and 13.02%, respectively of capital and voting rights.

Holdings of Ofer Group are through L.I.N (Holdings) Ltd., which holds, directly and through L.A.B.M. (Holdings) Ltd. (a wholly-owned subsidiary thereof) as of December 31, 2021 21.36% of capital and voting rights in the Bank.

Wertheim Group

On July 8, 2021 and on September 19, 2021, M. W. Z. (Holdings) Ltd. transferred 100,000 shares and 200,000 shares it owned, respectively, to F&W (Registered partnership) in a transaction off the Stock Exchange for no consideration. For more information see Immediate Reports dated July 13, 2021, reference: 2021-01-116364, and report dated September 24, 2021, reference: 2021-01-149079).

Shareholder agreements

L.A.B.M. (Holdings) Ltd. Of Ofer Group and Feinberg-Wertheim (Registered Partnership) of Wertheim Group are party to a cooperation agreement for exercising rights associated with Bank shares, dated October 6, 1994 (hereinafter: ("voting agreement"). The aforementioned voting agreement sets forth, inter alia, rules for joint voting of controlling shareholders at General Meetings, for each party's right of refusal upon sale of controlling shares by the other parties, for rights to appoint Board members and rights to appoint the Chairman of the Board of Directors.

Fixed assets and installations

The amortized cost of buildings and real estate for the Bank Group (including installations and leasehold improvements), net of provision for impairment, as of December 31, 2021 amounts to NIS 852 million, compared to NIS 845 million at the end of 2020.

In conformity with the resolution by the Bank's Board of Directors to relocate all units of Bank management to a single central site in Lod, in 2019 a project was approved for construction of this site, at a total cost of NIS 322 million (including acquisition of the land, approved and carried out in 2017). This project would last for several years.

In 2021, planning of the building continued (after approval of the project scope and budget by the Bank Board of Directors) and most of the excavation work has been completed. In 2022, frame construction work should begin after the prime contractor for this project will have been selected. Furthermore, the construction permit for above-ground areas is expected to be received sometime this year.

Other than the foregoing, in 2022, no unusual investments are expected in fixed assets and in plant (buildings, land, equipment, furniture and automobiles). In order to integrate Union Bank branches, if approved by all relevant entities, adjustments will be made in 2022 to receiving Mizrahi Tefahot branches of non-exceptional scope.

For more information about fixed assets for the Group, see Note 16 "Buildings and equipment" on the financial statements.

This information constitutes forward-looking information, based inter alia on various assumptions and forecasts with regard to the state of the economy, legislation, directives of supervisory entities, technological developments, developments in the real estate and construction market and human resource issues. This information may not materialize, or materialize in part, to the extent and on dates to be determined by Bank management or due to changes that could occur in various influencing factors that are not under sole control of the Bank.

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

Intangible assets

The Bank Group has data base entries of clients and employees. The Bank also owns the rights to the trademarks "Mizrahi-Tefahot", including with the infinity symbol and the words "Team", "Live", "Tefahot", "Tefahot – No. 1 in Mortgages", "Retirement portfolio Based on a Nobel Prize Winning Model", "Mizrahi Bank" with the image of the sun and variations of these marks. The Bank owns the rights to trademarks associated with the Bank's name in the USA, Canada, Switzerland and in the European Union as well.

The Bank has acted extensively to develop its technological capabilities, in response to evolution of its business and in order to achieve the strategic plan.

The balance of discounted software development cost is included on the financial statements under "Buildings and equipment".

For more information about treatment of software development costs on the financial statements, including their useful life, see Note 1.F. 8. to the financial statements.

For more information about investments and expenses with respect to IT, see chapter "Explanation and analysis of results and business standing" of the Report of the Board of Directors and Management.

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

Human Resources

Bank organizational structure

The Bank organizational structure is intended to support achievement of Bank objectives and realization of its business plan. The organizational structure is based on divisions and other departments, reporting to the Bank President & CEO (except for the Internal Audit Division, which reports to the Chairman of the Board of Directors).

Early in 2021, responsibility for international operations and overseas affiliates was re-assigned from the Finance Division to the Corporate Division. Furthermore, responsibility for private banking operations was re-assigned to the Retail Division.

The current organizational structure of the Bank is as follows:

Retail Division – This division consolidates most of the banking activity of private customers and small business customers. Division operations include: The retail sector, primarily responsible for operations of the Household segment and of the Small Business segment; and the mortgage sector, responsible for mortgage operations. Bank branches and business centers operate under this division in six geographic regions and the LIVE sector, which is operates by personal bankers via a range of communication channels (Internet, telephone, SMS, fax and video chat). The division also includes the departments which provide financial and retirement advisory services offered to clients. The Division is also responsible for the subsidiary, Etgar Investment Portfolio Management Company of the Mizrahi Tefahot Group Ltd. Since early 2021, the Division is also responsible for private banking operations through, *inter alia*, the private banking units in Israel.

Business Banking Division – this division consolidates most of the banking activity of the large corporations and of business customers. This division includes the corporate sector, in charge of operations of the business banking segment, and the **business sector**, in charge of operations of the commercial banking segment, operating three geographically-distributed business centers. The division also includes other units providing specialized services for clients in specific sectors: Construction and real estate sector, foreign trade sector and international operations, which as from early 2021 includes responsibility for international operations of the Group, as well as responsibility for overseas affiliates and the diamonds business center. The division also operates the special client sector, in charge of arrangement and collection of troubled debt.

Finance Division – The division includes the financial management sector – which is responsible for management of the Bank's financial assets and liabilities – and the trading sector, which operates an integrated trading room active in all financial markets, in trading currencies, interest rates and Israeli and overseas securities, and the Information & Client Service Sector which supports all financial market operations, providing Back Office services and provident fund operations. This division is also in charge of the capital market subsidiary, Mizrahi Tefahot Trust Company Ltd.

Technology Division – in charge of information technology, including pursuant to requirements of Proper Conduct of Banking Business Directive 357, through the Mizrahi-Tefahot Technology Division Ltd., a wholly-owned subsidiary of the Bank.

Risks Control Division – this division includes the various risks control departments at the Bank (including: market, interest, liquidity, credit and derivatives risk), which also manages the operational risk at the Bank. This division is in charge of information security issues. The Division includes the Bank's Chief Compliance Officer as well as the Analysis Department, tasked with formulating independent recommendations with regard to extending credit as well as opinions with regard to associated risk.

Human Capital, Resources and Operations Division – this division includes management of human resources, training, logistics (including properties, construction and procurement) as well as security (including the cash and courier center), community outreach and corporate social responsibility. This division includes an engineering and operations branch, including the Process Engineering Department, in charge of back-office banking operations, bank insurance (including: banking insurance as well as officer and director insurance), insurance incidental to mortgages and the clearinghouse.

Marketing, Advertising and Corporate Development Division – This division consolidates activities relating to advertising, marketing, and development of financial products that the Bank markets to customers.

Financial Information and Reporting Division – in charge of preparing the Bank's public financial statements, reporting to statutory authorities and to management, taxation, main ledger, accounting, treasury and payroll department. The Division is also responsible for credit classification and for determining the provision for credit losses, as well as for challenging the discovery and reporting processes of problematic debt. This division includes the Information, Analysis and Planning Department, which is responsible, *inter alia*, for supervision and control over subsidiaries.

Legal Division – this division is responsible for providing legal services for all of the Bank's units, for creating the legal infrastructure for the Bank's activities, for management of exposure to legal risk and to handle claims against the Bank.

Internal Audit Division – the division is responsible for conducting internal audits of Bank business and operating units. The division is also responsible for handling the public inquiries and complaints against the Bank.

Human Resource Division Policy

Bank management regards all Bank employees and managers as a key component for achieving its business strategy and business growth targets. This commitment is reflected by implementation of three key principles in Bank operations:

- Creating a respectful work environment – The Bank regards its employees and managers as partners in the Bank's success and therefore strives to promote them and to create a supportive work environment.
- Caring for employees' rights – The Bank ensures the rights of all employees, as well as their right to join a labor union. The Bank offers its employees better working conditions than required by labor laws.
- Caring for employees' welfare – Employees' welfare is managed as follows: Creating welfare support for Bank employees and their families, an extensive health care plan for employees, an organizational culture which supports recognition and allows for optional leisure activities – based on the understanding that such balance generates value for both the employee and the Bank.

The Bank regularly promotes equal opportunity in the work place. This is based on recognizing the ultimate importance of the value of equality. The Bank does not discriminate against any employee by religion, ethnicity, race, gender nor any other attributes.

Staff – general information

Provided below is information on the number of employees whose pay was reported under "Payroll and associated expenses", in terms of full-time positions (including impact of overtime) in the Bank and in subsidiaries. The number of Bank employees provided below also includes employees who are not employed by the Bank but by companies related to the Bank, including employees of Mizrahi-Tefahot Technology Division Ltd. and Mizrahi-Tefahot Security Services Ltd. – service companies wholly-owned and controlled by the Bank, that provide computerization, security and protection services to the Bank:

	2021					
	At the Bank	Overseas branches	Total for the Bank	Subsidiaries In Israel	Subsidiaries Overseas	Total for the Group
Number of full-time equivalent positions as of December 31, 2021	5,619	79	5,698	1,934	–	7,632
Number of full-time employees based on monthly average	5,367	76	5,443	1,977	–	7,420

	2020					
	At the Bank	Overseas branches	Total for the Bank	Subsidiaries In Israel	Subsidiaries Overseas	Total for the Group
Number of full-time equivalent positions as of December 31, 2020	5,393	73	5,466	2,032	14	7,512
Number of full-time employees based on monthly average	5,367	72	5,439	1,231	14	6,684

Below is the distribution of number of positions in the Group by operating segment(1)(2):

	As of December 31,	
Operating segment	**2021**	**2020**
Households	4,490	4,488
Private banking	108	117
Small businesses	1,612	1,551
Commercial banking	311	302
Business banking	776	710
Financial management	335	344
Total	**7,632**	**7,512**

(1) Composition is by operating segments based on management approach. For more information see Note 29 to the financial statements.
(2) Including Head Office employees that are allocated pro-rata to the various segments.

Cost and salary per employee position in 2021

	Excluding variable remuneration components	Including variable remune-ration components
Salary per employee position	286	342
Cost of salary per employee position	414	475

Human resource management

Bank management regards all Bank employees and managers as a significant component for achieving its business strategy and growth objectives for operations and profitability. Human resources at the Bank are managed on two levels:

- Caring for the individual includes: recruitment, on-boarding and during the employee's service life time, through retirement.
- Human resources are developed during regular work, through individual and group training and development processes.

The Bank invests in development of Bank staff and management, by training for skills related to banking, regulatory affairs, new behavioral and managerial skills, as well as by preservation of existing knowledge and skills. This is done through training activities throughout the employee's time with the organization, from starting in their new role, through training, mentoring and promotion tracks, completing and expanding academic education and enrichment through external seminars.

In 2021, the Training Center took part in strategic enterprise-wide campaigns *inter alia* through reinforcement and deployment of business skills among bankers and continued deployment of the Bank's human service concept. The new realities of work and learning due to the Corona Virus crisis resulted in increased use of digital tools and in an expanded mix of training methods – in-person or online training, in-person studying in groups, interactive aids, professional and managerial mentoring, movies, games and so forth. The Training Center continues to deploy the "Learning organization" concept – whereby managers and employees regard learning as an on-going task carried out at their workstation as well. Unit managers, jointly with and assisted by the Training Center, lead organizational change and are responsible for employees' professional skills through mentoring and training.

The Training Center acts to develop Bank managers through managerial training, offered to them throughout their term in office, as well as management cadre tracks in preparation for their next managerial roles. In 2021, managerial training took place remotely as well, with expansion of training methods – remote training and simulation, online presentations and podcasts. The Organizational Development and Training Division is applying diverse measures to develop intra-organizational communication channels. As well as conducting evaluation and feedback processes, with each employee given personal feedback for their performance over the past year, as well as development targets for the coming year.

The Training Center conducts training for onboarding Union Bank employees, by creating a detailed training program for each incoming employee, and by preparing for change management and deployment of a uniform organizational culture across the merged Bank.

Training expenses in 2021 amounted to NIS 8 million, compared to NIS 7 million in 2020.

In 2021, all Group employees attended training (in-person and online), for a total of 42,960 training days, compared to 31,094 training days in 2020. The increase in training hours in 2021, compared to the previous year, is primarily due to the following reasons: Less strict crowd gathering restrictions during several months in 2021, which allowed the Bank to provide for current training needs under the current restrictions. Another significant reason is the improved capacity for online training, both in terms of technology and in terms of content development and adaptation for online training and learning. Use of the online training platform has allowed the Training Center to expand the volume of training topics and the number of employees trained on each topic. This was achieved regardless of any restrictions on training room size or on the required duration for employee travel to the Training Center.

For more information about human resource management, see also the 2020 Corporate Governance Report on the Bank website.

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

Collective labor relations

The labor relations in the Bank are collective (except for a limited group of senior employees,), which are expressed in two employee organizations:

A. **The Association of Bank Mizrahi-Tefahot Employees Ltd.** is a long-standing organization, which was authorized, by virtue of an inter-organization agreement signed by the Association and the HaPoel HaMizrahi Union, by that Union to act as the representative organization of Bank employees for the purpose of signing collective bargaining agreements and of representing Bank employees (hereinafter: ("Employees' Association").

B. **The Association of Managers and Authorized Signatories at Bank Mizrahi-Tefahot Ltd.** was founded by branch- and **department** managers in 2005 (hereinafter: ("Manager Council"). This organization has been recognized by the Bank and by the Employees' Association as a "bargaining unit" for negotiation and signing agreements.

C. **Bank Mizrahi Tefahot Ltd. Technology Division Employees' Committee** – the organization authorized to sign, together with the MAOF trade union, on behalf of Bank Mizrahi Tefahot Ltd. Technology Division employees (a subsidiary wholly owned and controlled by the Bank), any collective bargaining agreements applicable to company employees (except for Technology Division employees employed under individual employment contracts).

D. **Bank Yahav** – Bank Yahav employee representatives empowered to sign on behalf of Bank Yahav employees any collective bargaining agreements applicable to Bank Yahav employees.

E. Union Bank

- Employee Union of Union Bank Le-Israel Ltd. – empowered to sign on behalf of Union Bank employees (clerks) collective bargaining agreements applicable to Union Bank employees (clerks).
- Manager and Authorized Signatory Association of Union Bank Le-Israel Ltd. – empowered to sign on behalf of managers and authorized signatories at Union Bank collective bargaining agreements applicable to managers and authorized signatories at Union Bank.
- Employee Union of Union Bank Systems Ltd. – empowered to sign on behalf of employees of Union Bank Systems Ltd. collective bargaining agreements applicable to employees of Union Bank Systems Ltd.

Employment terms of employees represented by the Bank's Employees' Union

Overview

The employment terms are anchored in a series of collective agreements, together called "labor constitution". The labor constitution presents the general framework of the undertaking between the employees and the Bank, and arranges the basic employment terms. In addition, wage agreements are signed from time to time, within the framework of the constitution.

Collective bargaining agreement

On December 3, 2017, a new collective bargaining agreement was signed by management and by the Employee Union. For details see Note 22 to the financial statements.

Salary update method

Salaries of most Bank employees (except for a small number of employees employed under individual contracts signed by them and by the Bank – see chapter Individual Employment Contracts below) are updated based on three key components:

- Components which are updated regularly at rates and in the manner prescribed from time to time, in negotiations of labor agreements The major component is the basic salary. In addition, other increments derived from the basic salary are updated, primarily the seniority increment, which is updated at the start of each year by an increasing percentage, as employee seniority increases. The seniority increment reaches 4% per year (of the basic salary), for an employee with over 26 years' service with the Bank. The seniority pay increase for employees hired by the Bank as from August 17, 2017 would be revised at the start of each year, to a pay increase of up to 3% per year (of their base pay) for employees with over 22 years of service with the Bank.
- Components updated in accordance with changes in the Consumer Price Index.
- Components linked to changes in external tariffs.

All of the above components apply uniformly to all the employees, the employment terms of whom are subject to the labor constitution and to the labor agreements signed between the Bank and the Employees' Union. Updates to part of the salary based on criteria not linked to the CPI, as well as payment of automatic Seniority Bonus as stated above, result in a situation where the real rate of salary increase at the Bank is higher the lower the inflation rate.

Special payments

In addition to the regular salary elements, the Bank pays to its employees, as stipulated in the labor constitution, a one-time grant upon reaching seniority of thirteen years and eighteen years. The Bank's financial statements include a provision for these obligations, according to an actuarial calculation that is based on past experience and the probability that on the date of record, the employee will still be employed by the Bank.

During the term of the payroll agreement for 2016-2021 and subject to achievement of return on equity targets, the Bank would pay to employees a return bonus.

The Bank also provides individual compensation tools, through which the personal compensation of each and every employee is carried out. These compensation tools are selective and are based on specific assessments of the direct managers of the Bank's employees in the different segments regarding the performance of every employee. Personal promotion is achieved primarily via promotion in rank and in the bonus component, about which Bank management decides each year and these decisions are approved by the Board of Directors. Decisions relating to the extent of personal promotion and bonus or grant are not derived from provisions of labor agreements, but are influenced by the assessment of the employee performance, the Bank's situation and profitability in the relevant period.

Employment terms for employees represented by the Council of Managers and Authorized Signatories

Overview – Wage Agreements

On December 20, 2018, a collective bargaining agreement was concluded with the Managers' Council, with respect to wages and work conditions for 2018-2022. This agreement includes a new pay structure, consisting of base pay, additional seniority pay, additional management pay, global over-time and expense reimbursement for car expenses, education and studies. This agreement also includes a voluntary retirement program, increase in the number of individual employment contracts, as well as calm labor relations throughout the term of the agreement.

Individual employment contracts

The labor agreements signed by the Bank in the years 1995, 1998, 2003, 2006 and 2018, stipulated that the Bank will be permitted to enter into individual employment contracts with senior employees, as defined in the agreements, as well as several individual employment contracts with certain officers. Some of the senior employees employed under individual employment contracts are eligible, in the event of termination by the Bank, to severance bonuses based on their period of service with the Bank, in addition to other amounts and benefits accrued to their credit in various funds. The financial statements include a provision for the severance bonuses accrued through the balance sheet date. See Note 22 to the financial statements for additional information.

Employment terms of employees of Mizrahi-Tefahot Technology Division Ltd.

Employment terms of employees of Mizrahi Tefahot Technology Division Ltd. (hereinafter: "the Technology Division" or "the Company") are arranged in the labor constitution that was signed in 1989 and in a series of agreements signed by the Technology Division Employees' Council, the Labor Union and the Technology Division over the years.

Employees of the Technology Division have their pay linked to the pay for Bank employees.

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

Labor and payroll agreements at Bank Yahav

On January 17, 2019, Bank Yahav signed a new collective bargaining agreement with employee representation which governs labor and remuneration at Bank Yahav for 2018-2022.

Labor and payroll agreements at Union Bank

On August 9, 2017, Union Bank signed a new collective bargaining agreement with the clerks employee union at Union Bank, which governs labor and remuneration at Union Bank in 2014-2018.

On January 13, 2020, Union Bank signed a new collective bargaining agreement with the Manager and Authorized Signatory Association of Union Bank, which governs labor and remuneration at Union Bank in 2019-2022.

On October 1, 2017, Union Bank signed a new collective bargaining agreement with Employee Union of Union Bank Systems Ltd. which governs labor and remuneration at Union Bank, for 2.5 years from the signing date and pending any different notice, is renewed annually for a further 12 months.

On March 25, 2021, a special collective bargaining agreement was signed by Union Bank and two of its subsidiaries, 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 following the merger of Union Bank with and into the Bank. See Note 22 to the financial statements for additional information.

Significant Agreements

A. Employment agreements signed with the Employees' Council, the Manager and Authorized Signatory Association and the Technology Division Employees' Committee. For more information see chapter "Human Resources" above.

B. Indemnification letters. For more information see Note 26.C. 4-9) to the financial statements.

C. Agreements for co-issuing debit cards with the following: ICC Ltd., Diners Club Israel Ltd. (hereinafter: "ICC Group"), Isracard Ltd. and/or Europay (Eurocard) Israel Ltd., Poalim Express Ltd. of Isracard Group and Leumi Card Ltd. For more information see Note 26.C.14 to the financial statements.

D. Agreement between the Government of Israel and the Bank, for provision of loans from bank sources to eligible Ministry of Construction and Housing recipients and framework agreement between the Government of Israel and the Bank with regard to provision of loans to eligible recipients from State funds. For more information see chapter "Household segment" above.

E. Agreement for merger of Union Bank with and into the Bank, such that as from the date when the Registrar of Companies shall provide to the Bank a certificate evidencing the merger, and subject to fulfillment of all suspensive conditions for the merger, as set forth in the merger agreement ("the Closing Date"), the Bank shall receive all assets, rights and liabilities of Union Bank as-is, retroactively as from December 31, 2020. For more information see chapter "Significant developments in management of business operations" in the Report of the Board of Directors and Management.

F. 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 and also governs the employment terms and conditions of Igud Systems employees upon onboarding in the Technology Division. See Note 22 to the financial statements for additional information.

G. Agreement between the Bank and subsidiaries thereof and Mivne Real Estate (K.D.) Ltd. for sale of properties owned by the Bank Group. For more information see Note 36 to the financial statements.

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. The Act became effective on September 22, 2021.

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.

Revision of the Law has no 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, has acted to contract with counter parties and has set up the legal and operational infrastructure for transfer of collateral when this would be required. Application of this legislation has no 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.

These regulations became effective upon their issue date, except for several revisions which became 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, effective as from 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.

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

AML Ordinance (Mandatory identification, reporting and records maintenance by service providers in financial assets and credit service providers to avoid money laundering and terrorism financing), 2018

On November 14, 2021, the amendments to this ordinance became effective and, consequently, the ordinance would also apply, as from said date, to service providers in financial assets who would be subject to mandatory identification with regard to AML and terrorism financing.

The mandatory identification and Know Your Client provisions are designed to reduce AML risk in transfers and payments, by eliminating the anonymity of funds transfers, which is a risk factor for money laundering, in particular when trading virtual currencies.

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

Supervisor of Banks

Circulars and Public Reporting Directives

Transition from LIBOR interest rates

In conformity with the issue of ICE notice of discontinuation of publication of LIBOR interest rates for all currencies other than USD at the end of 2021, and issue of the Bank of Israel directive (Proper Conduct of Banking Business Directive 250A) dated September 30, 2021, the Bank established a steering committee to address this issue (revise contracts, process existing contracts, proper disclosure to clients, conversion mechanisms, adoption of new anchors and so forth).

The discontinuation of the use of LIBOR and transition to alternative interest rate benchmarks has wide-ranging implications for all bank clients who hold instruments denominated in or linked to foreign currency and bearing variable interest. There are, naturally, also direct implications for the Bank, such as economic, operating and accounting implications. Note that application of the directive is not expected to have any material impact on the Bank's financial statements.

The Bank has implemented the Bank of Israel directives on this matter and specified alternative underlying interest rates and has informed the clients of this, both through individual contact with relevant clients and through publications on the Bank website.

See Note 1.F to the Bank's financial statements for additional information.

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.

On January 17, 2022, the Bank of Israel issued a circular regarding "Implementation of open banking standard in Israel", which updates the effective start dates of mandatory provision of access to information about client activity in debit cards, and mandatory provision of access to the client's checking account for payment initiation, as stipulated in the directive. The schedules for providing access to information about credit and deposits were adapted to those stipulated in the Act. The effective start date for information about debit cards and payment initiation was revised to March 31, 2022, and the effective start date for information about credit, savings and deposits was revised to October 31, 2022.

Adjustments to Proper Conduct of Banking Business Directives for addressing the Corona Virus (Interim Directive)

On March 19, 2020, the Bank of Israel issued a circular regarding Proper Conduct of Banking Business Directive 250 "Adjustments to Proper Conduct of Banking Business Directives for addressing the Corona Virus". The circular lists a range of relief measures incorporated in the interim directive due to development of the Corona Virus pandemic and its economic implications globally and in Israel. The adjustments to the directive are intended to provide banks with the business flexibility required at this time. Further adjustments to the directive were issued in circulars dated March 31, 2020, April 1, 2020, April 7, 2020, April 27, 2020, May 5, 2020, May 20, 2020, June 1, 2020, June 23, 2020, September 16, 2020, September 22, 2020, November 15, 2020, December 3, 2020, December 17, 2020, January 7, 2021, March 22, 2021, July 19, 2021, July 26, 2021, August 9, 2021, September 30, 2021, December 27, 2021 and January 18, 2022. 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). A circular dated January 18, 2022 due to a renewed outbreak of the virus included revised directives with regard to limited branch opening and service provision to clients.
- Relief for restrictions on extending housing loans (relief concluded) and on dates for issue of letter of intent and settlement confirmation (elimination of interim directive which allowed the Bank to approve general purpose loans with LTV up to 70%, rather than LTV up to 50%).
- A circular dated December 27, 2021 noted that as from January 1, 2022, the interim directive would expire, except for specific provisions, including revision of Directive 329 with regard to "Restrictions on extending residential mortgages" with respect to calculation of capital requirement.
- 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.

On November 24, 2021, the Bank of Israel issued a circular with regard to "Reporting of Technology Failure Events and Cyber Events" (amendment of Proper Conduct of Banking Business Directive 366). The revisions in the directive include adaptations of definitions of event types which are subject to reporting, including an event at an entity controlled by a banking corporation, which is not itself a banking corporation and has material impact on the controlling corporation thereof. The effective start date of the revisions to this directive is one month after the publication date thereof. The Bank is applying this directive. Application of this circular 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.

A circular dated December 27, 2021 ("Adjustments to Proper Conduct of Banking Business Directives for addressing the Corona Virus") revised Directive 329 with regard to "Restrictions on extending residential mortgages" with respect to calculation of capital requirement, such that for calculating the capital requirement as set forth in Proper Conduct of Banking Business Directive 201, banking corporations should increase their Tier I equity target by a percentage which reflects 1% of outstanding residential mortgages used to finance interest in real estate. The circular also stipulates that re-financing of a general purpose loan for which capital had been allocated at 1% would require a capital allocation at 1%.

In 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.

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 implementing this directive, which is effective as from December 31, 2021. Application of this directive has no material impact on the Bank's financial statements.

Online transfer of client financial operations between banks

On August 17, 2021, the Bank of Israel issued a circular regarding online transfer of client financial activity between banks (Proper Conduct of Banking Business Directive 448), which includes stipulations that banks must implement in conformity with the Act and the Governor's Rules, in handling a client application to transfer their financial activity online between banks. This directive is effective as from the effective start date of Section 5B1 of the Banking Act (Customer Service). The Bank is preparing to implement this directive on time. Application of the circular is not expected to have any material impact on the Bank's financial statements.

On August 19, 2021, the Bank of Israel issued Reporting Directive 844 "Reporting of transfer between banks (quarterly)"; this directive applies to banking corporations in conformity with Proper Conduct of Banking Business Directive 448, with quarterly reporting frequency, within 30 days after the end of the quarter. This reporting directive is effective as from December 31, 2021. The Bank is applying this directive.

Management of debt restructuring and collection processes of material distressed debt

On September 30, 2021, the Bank of Israel issued a circular with regard to management of debt restructuring and collection processes of material distressed debt (Proper Conduct of Banking Business Directive 314A). This directive stipulates that the optimal way of addressing material distressed debt is by referring the handling thereof from the business unit to a specialized dedicated unit. The directive allows this function to be within the Business Division, subject to compensatory controls designed to reduce the potential for conflict of interests. The directive addresses the involvement of the Chief Risk Officer, risk identification and mitigation processes and the process for transfer of debt handling to the dedicated unit. This reporting directive is effective as from April 1, 2022.

The Bank is preparing to implement this directive. Application of the directive is not expected to have any material impact on the Bank's financial statements.

AML and terror financing risk management

On October 24, 2021, the Bank of Israel issued a circular with regard to AML and terror financing risk management (amendment of Proper Conduct of Banking Business Directive 411). The amendments to the Directive include alignments with definitions in the Payment Services Act, which became effective on October 20, 2019, as well as alignment with the FATF international standard. The amendments to the directive are effective as from the publication date thereof, except for some sections which are effective as from December 15, 2021. The Bank is applying this directive. Application of this circular has no material impact on the Bank's financial statements.

Public disclosure of environmental, social and governance (ESG) aspects

On December 2, 2021, the Bank of Israel issued a circular with regard to "Public disclosure of environmental, social and governance (ESG) aspects" (an amendment to Public Reporting Directives). The amendments to Public Reporting Directives revise the disclosure requirements with regard to environmental, social and governance aspects in operations of the banking corporation, including preparation of an annual environmental, social and governance report, *in lieu* of the current requirement to publish a biennial Corporate social responsibility report. The report issue date was brought forward, to no later than four months after the end of the reporting year, and clarifications were provided for guidance as to the purpose and content of this report, and for the banking corporation to consider the need to update disclosure in this area, based on leading disclosure standards and practices of banks world-wide, with disclosure of the relevant standards applied by the banking corporation in this area. The amendments also include more extensive guidance on public disclosure of environmental risk. The effective start date of amendments to this directive is as from the 2021 reports. A banking corporation may issue the 2021 environmental, social and governance report by June 30, 2022, and may include in the 2021 Report of the Board of Directors and Management a summary of key quantitative environmental, social and governance benchmarks, based on information available upon the report issue date. The Bank is applying the amendments to the Reporting Directives. Application of this circular has no material impact on the Bank's financial statements.

On January 18, 2022, the Bank of Israel issued a circular regarding the Board of Directors (Proper Conduct of Banking Business Directive 301). The amendment is part of the Supervisor of Banks' policy designed to reinforce aspects of environmental, social responsibility and corporate governance contribution aspects of the banking system, and stipulates that without derogating from provisions of the Directive, composition of the Board of Directors should include proper representation of both genders, based on the gender diversity policy set by the Board of Directors, including the time frame and milestones for achieving the target. The effective start date of the amendment with regard to setting policy is six months after the circular issue date, and the target should be achieved within three years after approval of the policy. The Bank is preparing to apply this regulation. Application of this circular has no effect on the Bank's financial statements.

Provisions with regard to capital allocation with respect to financial derivatives

On December 1, 2021, the Bank of Israel issued a circular with regard to capital allocation with respect to financial derivatives (Proper Conduct of Banking Business Directives 203, 203A, 204A, 208A). Following publications by the Basel Committee on Bank Supervision with regard to counter-party credit risk, Directive 203 was revised and the following Proper Conduct of Banking Business Directives were issued: Directive 203A (with regard to handling of counter-party credit risk), Directive 204A (IRB approach and risk components) and Directive 208A (value adjustment with respect to credit risk (CVA)). The effective start date of Directive 203A is July 1, 2022, and the effective start date of Directive 208A is January 1, 2023. The Bank is preparing to implement these directives. Application of the directives is not expected to have any material impact on the Bank's financial statements.

On December 23, 2021, the Bank of Israel issued a circular regarding revision of directives (amendment to Proper Conduct of Banking Business Directive 203, 208A). The amendments in this directive include, *inter alia*, reduced risk weighting attributed to insurers, provident funds and mutual funds, which now would be equal to the risk weighting attributed to banking corporations. The effective start date of the amendment to Directive 203 is the circular issue date, and the effective start date of the amendment to Directive 208A is January 1, 2023. Application of this circular has no material impact on the Bank's financial statements.

Presentation of data regarding activity in securities deposit

On December 23, 2021, the Bank of Israel issued a circular regarding presentation of data regarding activity in securities (Proper Conduct of Banking Business Directive 460). The directive stipulates a uniform format for presentation of information and data to clients, including return of a securities deposit, assets included therein, activity in the deposit and commissions paid by the client. The effective start date of this directive would be no later than January 1, 2023; the initial reporting would be for the first quarter ending March 31, 2023, with no comparative figures. The Bank is preparing to implement this directive. Application of the directive is not expected to have any material impact on the Bank's financial statements.

Supervision of the work of the Independent Auditor

On December 26, 2021, the Bank of Israel issued a circular regarding supervision of the work of the Independent Auditor (Proper Conduct of Banking Business Directive 301). This directive stipulates, *inter alia*, that the Audit Committee of a banking corporation is responsible for supervision of the Independent Auditor's work. The Board of Directors of the banking corporation must ensure that qualifications of Audit Committee members match the Committee's roles and responsibilities, and that the Committee has ample resources so as to allow the Committee to properly supervise the Independent Auditor's work.

This directive is effective as from January 1, 2023. The Bank is preparing to implement this directive. Application of the directive is not expected to have any material impact on the Bank's financial statements.

Procedures for extending residential mortgages

On January 31, 2022, the Bank of Israel issued a circular regarding procedures for extending residential mortgages (Proper Conduct of Banking Business Directive 451). The directive stipulates uniform baskets which banking corporations are required to offer to clients. The directive stipulates that the approval in principle would also include 3 uniform baskets, which differ in risk level and frequency. The amendments to the directive include an instruction to banking corporations to provide to the public an online calculator which allows for simulation of various loan mixes over various time frames, including the uniform tracks stipulated in the directive, so as to obtain an estimate of the impact of changes to the loan mix on the monthly payment and total amount payable throughout the loan term.

The effective start date of amendments to this directive is August 31, 2022; A banking corporation may operate pursuant to this directive, or part thereof, prior to the effective start date of the amendment. The Bank is preparing to implement this directive. Application of this circular has no material impact on the Bank's financial statements.

Bank's credit rating

On January 23, 2022, 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 rating takes into consideration our assessment, whereby Mizrahi-Tefahot would maintain in the coming years strong capital base and revenues, high asset quality and good operating efficiency".

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 August 22, 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.

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 January 20, 2022, rating agency S&P Global Ratings (hereinafter: "S&P") confirmed the long-term issuer credit rating of A- and the short-term issuer credit rating of A-2. The rating outlook is Positive. Moreover, the agency confirmed the BBB- rating 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.

On January 12, 2022, rating agency Fitch Ratings (hereinafter: "Fitch") confirmed the Bank's long-term IDR rating of A with Stable outlook, and the Bank's short-term rating of F1+, and also confirmed the BBB rating of subordinated notes with loss-absorption provisions.

Operating segments – Additional information

On November 3, 2014, the Supervisor of Banks issued an update to the Public Reporting Directives concerning supervisory operating segments. According to the directive, the Bank is required to provide, on its financial statements, disclosure with regard to supervisory operating segments in conformity with a uniform, comparable layout specified by the Supervisor of Banks; attribution to supervisory operating segments is typically determined by the client's turnover (annual sales or annual revenues).

The disclosure outline for supervisory operating segments includes the following segments: Individuals, micro and small businesses, medium businesses, large businesses, institutional entities and financial management. The Bank's overseas operations should be presented separately.

Supervisory operating segments

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

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

Below is brief description of supervisory operating segments:

Households – individuals, other than private banking clients, as noted below.

Private banking – individuals who manage a financial asset portfolio in excess of NIS 3 million.

Small and micro businesses – businesses with turnover amounting up to NIS 50 million.

Medium businesses – businesses with turnover higher than NIS 50 million and lower than NIS 250 million.

Large businesses – businesses with turnover higher than NIS 250 million

Institutional investors – the segment primarily includes provident funds, pension funds, study funds, mutual funds, ETFs, insurance companies and stock exchange members who manage client portfolios, as defined by the Supervisor of Banks.

Financial management – includes trading operations, asset and liability management and non-banking investments.

Overseas operations – the aforementioned operating segments are divided into operations in Israel and operations overseas; operations overseas are presented separately and are divided into operations of individuals and business operations only.

Financial information in the Report by the Board of Directors and Management is included in conformity with definitions of supervisory operating segments.

In addition, the financial statements include – in Note 29 to the financial statements – disclosure with regard to "Operating segments in conformity with the management approach".

An operating segment in conformity with the management approach is a Bank component with operations which may derive revenues and incur expenses which meet the following criteria:

- Its operating results are regularly reviewed for the purpose of decision making about resource allocation and for performance evaluation.
- Separate financial information is available with regard to it.

In fact, the supervisory operating segments and "Operating segments in conformity with the management approach" are correlated. However, there are some differences in client attribution to segments and in how decisions are made. Therefore, at this stage, the financial statements also include reporting of operating results in conformity with "the management approach", as noted above.

A summary of these differences are as follows:

- The Bank's operating segments by the "management approach" are based on client attribution to the organizational structure responsible in the past period. However, client attribution to supervisory operating segments is based on uniform definitions specified by the Supervisor of Banks, as noted above.
- There is a strong correlation between attributes specified by management for client attribution to the responsible division and the supervisory definitions.
- However, according to "the management approach", in some cases the final client attribution may be based on other parameters, such as: specialization of a certain unit in activity types of clients or past experience working with the client, which result in business and service-related advantages to client attribution to the specific division or being part of the same borrower group.
- Other differences are reflected in the Bank's definition of Private Banking, how institutional investors are handled, business operations attributed to the Financial Management Division and other differences arising from the aforementioned definitions.
  - The difference in definitions is reflected in particular in these segments:
  - Individual clients with a financial asset portfolio at the Bank of less than NIS 3 million, classified to the private banking segment in the disclosure about operating segments in conformity with the management approach, were classified to the household segment in the disclosure about supervisory operating segments.
  - Micro and small businesses, classified to the private banking segment in the disclosure about operating segments in conformity with the management approach, based on their attribution to the organizational unit in charge, were classified to the business segment in the disclosure about supervisory operating segments, in conformity with the aforementioned definitions.
  - Business clients, classified to the business segment or to the commercial segment in the disclosure about operating segments in conformity with the management approach, based on their attribution to the organizational unit in charge, were classified to the micro and small businesses segment in the disclosure about supervisory operating segments, in conformity with the aforementioned definitions.
  - Institutional investors classified to the business segment or to the financial management segment in the disclosure about operating segments in conformity with the management approach, were classified to the institutional investor segment in the disclosure about supervisory operating segments.
  - Business and individual clients at overseas branches classified into the various operating segments in conformity with the management approach, are classified into the overseas operations segment in the disclosure of supervisory operating segments.

Exceptions for classification of business clients by turnover

According to the Bank of Israel Q&A File, the Bank classified business clients to operating segments other than by turnover, in the following cases:

- When the Bank has no information about the revenues of a business client, the client is classified to the appropriate supervisory operating segment based on the client's total financial assets with the Bank. Such classification would be in accordance with the aforementioned categories for revenues, with total financial assets multiplied by 10 for the purpose of such classification.
- When the Bank is of the opinion that the volume of revenues of a business client are not indicative of their total operations and the client's total assets on the balance sheet exceed NIS 100 million, the Bank classifies such client to the Large Businesses segment. Such classification is used, for example, in the real estate sector. When total assets on the balance sheet amount to less than NIS 100 million and the revenues are not indicative, as noted above, the client is typically classified as follows:

Small and micro businesses – total assets on client balance sheet amount up to NIS 50 million.

Medium businesses – businesses where total assets on the client balance sheet amount to between NIS 50 million and NIS 215 million.

Large business es– businesses where total assets on the client balance sheet exceeds NIS 215 million.

The principles used in assigning balances, revenues and expenses to clients in the system are as follows:

- Credit interest revenues and deposit interest expenses are directly attributed to the client. For credit, expense set at original cost of capital raised (transfer cost) is attributed to clients, against an inter-segment credit to the Financial Management segment. Each segment is also charged any excess premium inherent in the cost of raising qualified capital instruments for capital adequacy. This is based on the capital attributed for segment operations. For deposits, revenue set at the original cost of capital raised is attributed to clients, against an inter-segment debit to the Financial Management segment. Transfer prices for loans and deposits are similar. Each of the segments is credited for capital attributed to its operations against a debit to the Financial Management segment. Capital consumption is measured by the average risk-free assets managed by the segment.
- When calculating risk assets attributed to each segment, any off-balance sheet credit exposures are "converted" to credit equivalent using coefficients specified in directives on measurement of capital adequacy.
- For derivative instrument operations, profits are attributed to the client at the spread incorporated in the price of the derivative instrument quoted to the client. Gains arising from changes to fair value of derivatives is attributed to Financial Management.
- Gains and losses from Bank investment in securities and from strategic positions are attributed to Financial Management.
- Expenses with respect to credit losses are directly attributed to clients for whom these expenses were recorded.
- Commissions and other revenues are specifically attributed to clients.
- Payroll expenses, building maintenance and other expenses specifically attributed to Bank branches are attributed to branch clients using loading factors which reflect the client operations and the number of transactions in their account. Later on, an additional (inter-segment) settlement takes place, which attributes some of the direct expenses of the branch to clients in non-retail operating segments.
  Intersegment settlement reflects the fact that branches also serve non-retail clients. This settlement is presented under inter-segment expenses / revenues in the Note.
- Payroll expenses of headquarters staff, maintenance and other expenses not specifically related to branches, are loaded on clients based on appropriate load bases which take into account the ratio of the expense for the segment.
- Certain headquarters expenses may sometimes be attributed to a specific operating segment and may sometimes be attributed based on the current estimate of resources allocated to each operating segment.
- When headquarters expenses may not be attributed, they are assigned by weighted business and IT transactions, as noted above In this regard, IT expenses directly associated with specific operating segments are attributed to these segments and other IT expenses are assigned to operating segments based on headcount.
- Provision for tax on operating profit is attributed to clients, is pro-rated in accordance with the effective tax rate and accounting for tax impact referring to specific segments and not to all Bank operations.
- Return on equity is calculated as the ratio of net profit to attributed equity. Equity is attributed based on the average risk assets of the customers.
- Balance sheet and assets-under-management balances are specifically attributed to clients.
- Fixed assets are attributed based on appropriate ratios.

Household segment

For more information about the supervisory definition, concise description of segment attributes (under the management approach) and differences between the management approach and the supervisory definition, see chapter "Supervisory operating segments" of the Report of the Board of Directors and Management.

Products and services

Below is a description of the notable products in the household segment and the primary services offered within the scope of these products.

Banking and finance

Most of the services are provided within this framework

- **Credit and debitory accounts:** The credit limits for debitory account activity are determined according to the client's needs, his income level and Bank judgment, based on factors including economic models. In accordance with Proper Conduct of Banking Business Directive 325, clients are not allowed to exceed their determined credit limit.
- **Investments:** Providing investment-related services to customers, such as: Various deposits for different terms.
- **Loans:** General-purpose loans which include, inter alia, loans not intended for home purchase secured by pledging a lien on a residential property, and other loans for various terms and under different conditions.
- **Financing automobile purchasing:** Operations providing loans for purchasing new automobiles from importers, where the Bank cooperates with multiple auto importers.

Mortgages

Major services related to mortgages:

Loans out of Bank funds – Loans out of Bank funds and at its risk, are extended for purchase / construction / expansion / renovation of real estate, as well as general-purpose loans secured by a lien on a residential apartment. The loans are issued for long terms of up to 30 years, considering the loan type and borrower repayment capacity.

The Bank extends credit in different linkage segments and offers a "combined mortgage" – a loan composition that combines various linkage segments and interest types. The combined mortgage enables the Bank to manage risk while maintaining profitability and allowing clients to diversify risk.

In view of the downward trend in Bank of Israel interest and the low interest rate, the share of loans bearing fixed interest in the CPI-linked and non-linked track increased.

Services in conjunction with the Ministry of Construction and Housing Assistance Program – Beyond the banking activity of granting credit, the Bank acts as an extension of the State in servicing eligible Ministry of Construction and Housing recipients. These services include loans within the Ministry of Construction and Housing's assistance program, including location-based loans and contingent grants. In this area, the Bank is involved, in addition to the ordinary banking services, in the array of administrative aspects required for services to Ministry of Construction and Housing eligible participants, such as issuance of eligibility certificates. The decision as to which bank to apply for their eligibility is up to clients who take out a mortgage. Interest on loans extended as part of assistance programs is set by the residential mortgage Act.

In addition to ordinary loans in conjunction with the Assistance Program, there is an arrangement for providing loans, the objective of which is to encourage the purchase of new homes in certain communities that the State has an interest in populating ("location-based loans") as well as special assistance provided to those buying an apartment under the "Buyer price" program.
Contracting by the Bank and the State for extending loans as part of assistance programs, including the consideration payable to the Bank, is governed by two agreements dated 2004 and 2008. These agreements are extended annually.
Bank revenues from all loans to eligible borrowers under State responsibility in 2020 amounted to NIS 23 million, compared to NIS 28 million in 2019 and to NIS 33 million in 2018.

Insurance marketing (insurance incidental to mortgages)

The vast majority of borrowers are insured by life insurance policies related to the loan, and the properties serving as collateral are insured by property insurance.

In accordance with directives of the Supervisor of Insurance and of the Supervisor of Banks, life insurance and home insurance incidental to residential mortgages are marketed by an insurance agency wholly-owned by the Bank (Tefahot Insurance Agency (1989) Ltd.), whose operations are separate from those of the Bank, and is restricted to exclusively engage in home insurance, including water damage, and in life insurance incidental to loans granted by the Bank.

Some borrowers choose to obtain insurance coverage through the Bank's insurance agency while others make other insurance arrangements.

In order to maintain the required separation between mortgage and insurance operations, clients are required, in order to purchase insurance from the Bank's insurance agency, to directly contact the insurance agency, also by using special phones connected directly to the insurance agency, which have been placed in Bank branches.

Bank revenues from insurance incidental to mortgages (in NIS millions):

	2021	2020	2019
Life insurance	109	100	107
Property insurance	13	15	17
Total revenues from sale of insurance	**122**	**115**	**124**

Capital market

This product includes client activities in the capital market, including buying, selling and custody of various securities and services provided for such securities held by clients (receiving interest, dividends, bonuses etc.) The Bank also provides mutual fund distribution services and provident fund operating services. The Bank also has a subsidiary, Etgar Investment Portfolio Management Company of Mizrahi Tefahot Group Ltd., engaged in management of securities investment portfolios and providing investment advice to Bank clients and to clients of other banks.

Credit cards

Credit cards are one of the key means of payment in the economy. As part of the activities with clients in the household segment, the clients a range of credit cards are offered. The Bank offers its clients a range of credit cards, acting in this area with credit card companies Isracard, CAL and MAX. The Bank offers its clients credit cards that are issued by these companies, according to the client's request. The Bank also allows clients to make payments using terminals that support EMV technology using various payment apps. The Bank also allows clients to make payments to merchants using the payment apps Apple Pay, Google Pay and payment apps of credit card companies. The Bank also has several products in the credit card sector:

"**The Card**": A Mizrahi-Tefahot credit card which also serves as the Bank's own client loyalty club. The Card provides unique promotions and activity focused on consumer and banking benefits.

For more information about the agreement with CAL group, *inter alia*, with regard to issuance of the branded credit card, see Note 26.C.14 to the financial statements.

"**Tefahot Credit Card**": The product is aimed at assisting mortgage sales as well as opening of current accounts. The product enables the allocation of a credit facility, based on the client’s repayment ability and the asset already pledged to the Bank, through which the client can finance additional expenses involved in purchasing a home (furniture, renovations, etc.), or for any other reason.

Unique services provided by the Bank to Arab segment clients

The key unique service offered by the Bank is Hybrid Banking, which allows clients a multi-channel environment, spearheaded by easy, direct access to a personal banker using a range of readily available technologies. As part of the Hybrid Banking campaign, the call center became a banking center, composed of 11 clusters and a team handling business clients. Later on, branch teams have been formed – each of which is assigned to 8-9 branches in various regions. These teams are an integral part of the branches to which they are assigned. Accordingly, Bank clients can reach their banker at the branch, or one of the branch team members, by using various communication channels during 12 hours of business, from 8am to 8pm. Thereafter, service is available by phone, 24 hours a day. Moreover, under the household segment, the Bank offers its clients services which express the advantages of the combination of products offered by the Bank to its clients as described above. The Bank offers various benefits in current accounts and credit of clients who take out mortgages, in order to encourage the mortgage clients to maintain their current account in the Bank. The Bank also offers mortgage-related benefits to clients with current accounts in the Bank, in order to encourage these clients to take out mortgages through the Bank. The applicable benefits have also been applied to Bank Yahav clients, based on their activity and attributes.

The unique services that the Bank offers its clients in the household segment include retail banking products and mortgage products, as provided below:

"Priority Account": Personalized banking assistance.

"Executive Account": The unique "Executive Account" brand offers premium service to individuals on account management, banking value propositions, financial benefits and non-banking services. Clients may use professional advisors for financial, pension and mortgage advisory services.

"Interest-free Overdraft": Set-off of debit and credit balances of a customer during the month; this service is provided to select clients.

Benefits to mortgage holders: Unique benefits offered to specific groups of clients who have a mortgage account with the Bank. The benefits included an interest-free credit facility in the current account, as well as interest on the credit balance up to the level of the monthly mortgage payment. The benefit is given every month, subject to the client's meeting other prescribed conditions during that month.

Retirement advisory service: The Bank offers a retirement advisory service to Bank clients and to clients of other banks, both salaried and self-employed, based on an advisory model supported by a computer system developed by the Bank. This advisory service is provided by qualified pension advisors, providing an objective advisory service.

Major markets and distribution channels

Generally, marketing and distribution of the products and services of this segment are carried out through the network of Bank branches and through direct and digital channels.

The Bank has mortgage marketers operating across Israel, based on geography. The role of these marketers is to identify target customers in their geographic territory, to increase the exposure of such audiences to Bank products and services and to maximize the marketing potential of such audiences. Marketers give the Bank a comparative advantage in the market while making the client the focal point, in line with the Bank's strategy in recent years.

Marketers operate in four major areas:

- Direct activity with real estate players – to obtain potential clients.
- Activity with end clients – proactive contact with potential mortgage and checking account clients.
- Synergetic activity with individual clients – to realize the potential synergy of mortgage clients.
- Synergetic activity with business clients and MM clients – businesses, plants, Employee Unions etc.

Bank branches – the Group operates 225 business centers, branches across the country, including 52 Yahav branches (of which 4 branches offer partial service) and 29 Union Bank branches. In conformity with Bank strategy, the expansion of the branch network is being reviewed, primarily with regard to improvement of locations in major cities with emphasis placed on business-rich environments and in towns of two distinct demographics where the Bank seeks growth – the Arab segment and the Jewish Orthodox segment.

Direct channels: In conformity with the Bank's unique Hybrid Banking concept, which links direct channels and the client's personal banker, the Bank operates these main direct channels:

- Banking center: The branch team at the banking center provides backup to branch bankers, assisting with transactions and providing information to Bank clients, as part of the integrated Hybrid service offered to clients. This service is provided during extended hours, from 8am to 8pm.
- The banking center provides sale of instant loan services and credit cards as well as client preservation for non-bank credit cards.
- Mortgage center: This center is at the core of the mortgage segment, providing clients with a range of activities related to mortgages, including filing applications and providing advice on residential mortgages, receiving payments for existing loans and making arrangements and payments for loans in arrears.
- The Hybrid Banking service for mortgages is provided at all Bank branches.
- Sales center: Intended to support the selling capabilities of Bank branches, as part of marketing campaigns to recruit clients, who are referred directly to the sales center, or by means of outgoing sales calls to potential clients. The sales center also handles sales of Mizrahi Tefahot credit cards, general-purpose loans, refinancing of mortgages from other banks for Bank clients, reinforcing client loyalty and client preservation.
- Investment center: This center provides rapid, professional response to capital market clients for investment transactions and advice, from 7am to midnight, along with training of investment advisors to be assigned to branches. The center also recruits new clients for savings, expanding savings activity for existing clients, while focusing on maximizing performance of investment campaigns. The center operates an affiliate of the trading room, providing Bank clients with service concerning foreign currency and foreign and Israeli securities.
- On line service – allows clients to receive banking information and execute transactions in your account for a range of banking products available to Bank clients at a reduced cost. This service is available 24 hours a day.
- Bank clients can write directly to their banker through digital channels, including convenient transfer of documents between client and banker at the branch.
- Account management app – an advanced app featuring login using fingerprint or facial recognition, allowing the client to view information and to conduct various transactions, at any time and from anywhere. The new app features new, advanced transactions and a new, user-friendly interface.
- Tefahot Touch app – the mortgage app launched this year is used by clients, together with the Bank's mortgage experts, from the mortgage application stage through loan origination. The complex process of obtaining a mortgage is made simpler and more convenient by this app, without losing the human touch. Some of the actions required for taking out a mortgage, which previously required clients to go to the branch in order to conduct them, can now be easily completed using Tefahot Touch. Moreover, this is yet another channel for clients to contact the Bank's mortgage experts.
- Chat service: The Bank allows current and potential clients with regard to investments to chat online with bankers at the Bank.

- WhatsApp service: The Bank allows clients who so wish to use WhatsApp for correspondence with bankers at the Bank.
- **Notification Box service**: Receiving Bank notifications of account activity in a personal notification box via the Bank's website.
- **Cell phone service:** Disseminating banking and financial information through cell phones.
- **IVR service**: This service, available 24 hours a day, is provided to clients who authenticate using their personal password to obtain computer-based information in response to frequently-asked queries.
- Automated machines – the Bank provides various direct services to clients through service stations and ATMs. These services primarily include cash withdrawal and deposit, check book ordering and check deposit, loan origination and obtaining information.

Business Strategy

Service strategy at the Bank is based on the understanding that personal, human contact with a banker offering a high level of professional service is at the core of client's needs. The Bank's branch network is a key component in creating that personal contact with the banker – and must be supported by a current, efficient digital technology environment.

The Bank sees the importance of further development of the household segment and intends to maintain and establish its leadership position in the retail sector. The key goals in the household segment and the resultant business strategy are presented below:

- Increasing household market share by broadening the client base, mainly among mortgage clients, as a platform for achieving growth in market share and revenues.
- Retaining a market leadership position in the mortgage market, while focusing on areas with high profitability, by providing valuable proposals to clients, based on the synergy between the mortgage, commercial and financial activities.
- Expanding activity in the branch network and converting all the branches into sales units in the household segment, for traditional banking activity and mortgage activity, and for cross-selling to clients.
- Continued development of products aimed at focused population groups, in order to increase volumes of activity.
- Leveraging the ties between the business banking segment in the construction and real estate industry and between the mortgages segment. In this area, emphasis is placed on maximizing the marketing of mortgages to the buyers of homes in projects built by the real estate segment's clients.
- Increasing the Bank's market share in the Arab segment, the Jewish Orthodox segment and among retirees.

Competition in the segment and changes to it

Banking and Finance, credit cards and the capital market

The number of competitors in the household segment is the number of banks operating in the economy, with the focus on the five commercial bank groups. In recent years, the retail banking market sees strong competition among banks. Generally, one can state that the retail banking products offered by the different banks are similar, and therefore, competition focuses on the quality of service, the rates of the margins and commissions paid by the clients.

In 2021, branch closures and elimination of teller positions at branches of some banks continued, although more moderately than in previous years, with clients referred to digital solutions.

In addition to the inter-bank competition, intensified efforts are discerned by non-banking entities (mainly insurance companies, credit card companies) that also approach this population segment with offers to provide credit. The credit card companies, together with retail chains and other entities, are also taking measures to issue credit cards directly to clients, not through a bank – This trend accelerated in recent years, due to several significant agreements signed by credit card companies and major retail chains.

In the capital market sector, the competitors also include private investment houses, in addition to insurance companies.

Along with the Increased Competition and Reduced Concentration in Israeli Banking Act, enacted in January 2017, there are several legislative and regulatory efforts under way, which should result in increased competition in this segment, including operation of the credit information database, launched in April 2019, the project for arranging account relocation between banks, which went live in September 2021, and a project for arranging a system for sharing banking information by definition of a standard Open Banking API, with the first stage going live in 2021, is gradually being implemented based on the specified milestones.

Mortgages

Most of the mortgage activity in Israel is conducted through ten banks operating in this competitive environment.

Mortgage operations are subject to Bank of Israel directives, primarily Proper Conduct of Banking Business Directive 451 "Procedures for extending residential mortgages", with the following highlights:

- Definition of "residential mortgage" consisting of two major groups:
  - Loans designated for purchase / lease / construction / expansion / refurbishment of a residential apartment, or purchase of land for construction of a residential apartment / rights in a residential apartment (DMEY MAFTEACH).
  - Loans for other purposes, secured by a mortgage on a residential apartment.
- Guidelines for providing principle approval and closing an interest rate.
- Rules for property appraisal by an appraiser.
- Rules for obtaining property insurance and life insurance.
- Provision of information for review of feasibility of early repayment / confirmation with respect to early repayment.
- Determining an interest rate for non-fixed interest rate.
- Loan execution date for determination of the repayment schedule.
- Determination of the base index in a loan.

Extending residential mortgages is also subject to Proper Conduct of Banking Business Directive 329 "Restrictions on extending residential mortgages", with the following highlights:

- LTV cap – up to 75% for a single apartment, up to 70% for an alternate apartment and up to 50% for an investment property.
- Cap on loan payments as percentage of income – up to 50% (above 40%, the weighting of risk assets allocated by the Bank increases to 100%).
- Interest type restriction – up to 2/3 of the loan may be subject to adjustable interest.
- Term restriction – loan term may not exceed 30 years.

For dozens of years, the Bank has been the leader in the mortgage sector, in terms of the volume of loans issued and the balance of the residential mortgages portfolio, subject to appropriate risk management.
The Bank has adopted different means to deal with the competitive environment in which the mortgages sector operates, including extensive advertising, use of marketers in the field, development and institution of new products, maintaining a presence in the new-homes market, by financing residential construction projects, etc. Another facet of the Bank's dealing with the competition in the mortgage sector is investing resources in constant improvement of its professional standard and the service it provides to clients, emphasizing a personal connection and multiple channels.
This information constitutes forward-looking information, as defined in the Securities Law, 1968, based on assumptions, facts and data (hereinafter jointly: "assumptions") brought before the Bank’s Board of Directors. These assumptions may not materialize due to factors which are not under the Bank's control.

Private Banking Segment

For more information about the supervisory definition, concise description of segment attributes (under the management approach) and differences between the management approach and the supervisory definition, see chapter "Supervisory operating segments" of the Report of the Board of Directors and Management.

Products and services

The private banking center offers its clients full banking services to their clients, primarily private banking. The products and services offered to clients of this segment are as follows:

- **Banking and finance** – A wide range of banking and finance products are offered to this segment’s clients, in addition to ordinary banking services, while formulating an investment strategy suitable for each client, tailored to his character and special needs, as well as an array of advanced investment products.
- **Capital market** - this product includes client operations in the capital market, including buying, selling and custodial services of various securities, and provision of services with respect to securities (receipt of interest, dividends, bonus etc.) This also includes mutual fund distribution services.
- **Credit cards** – the Bank offers to segment clients a range of exclusive credit cards issued by Israeli credit card companies, including special loyalty clubs for businesses.

Major markets and distribution channels

The markets addressed by this segment are clients with high financial wealth (both Israelis and foreign residents).

Competition in the segment and changes to it

The concept of the unique services defined by the Bank as "private banking" prevails throughout the global and international banking system, and also in Israel. However, it should be noted that the criteria that determine whether one belongs to this segment, the service approach and its specific nature change, and do not rest on identical principles in all the banks. Also, accordingly, the volume of the Bank's activities in this segment relative to its competitors is not known, and public information is not available about the proportionate share in the private banking system of the different banks.

In addition to local banks, there is competition in this segment from foreign banks and non-banking entities, such as investment houses, types of funds (from Israel and overseas) and insurance companies.

In order to deal with current competition in this segment, the Bank invests substantial resources in the professional training of its employees, in providing high quality service and in maintaining strong ties with the client, in the organization of professional conferences for the segment's select clients, in introduction of specialized and unique products to the segment's clients, and in efforts to identify and attract new clients on a regular basis.

Micro and Small Business Segment

For more information about the supervisory definition, concise description of segment attributes (under the management approach) and differences between the management approach and the supervisory definition, see chapter "Supervisory operating segments" of the Report of the Board of Directors and Management.

Products and services

Below is a description of the notable products in the small business segment and the primary services offered within the scope of these products.

Banking and finance

Within the scope of this product, the Bank provides the following services:

Management of checking account facilities: The facilities are determined according to the client's needs, turnover and judgment of the Bank.

Loans for various purposes: Business loans, loans against the discounting of checking, credit vouchers etc.

Import / export activities: Foreign currency operations, adaptation of credit facilities to the nature of the client's activities using technological means, such as: EDI (Electronic Data Inter-charge) online.

Investments: Diverse operations related to investments, such as deposits of various types and for various terms.

Capital market

This product includes client activities in the capital market, including buying, selling and custody of various securities and services provided for such securities (receiving interest, dividends, bonuses etc.) This also includes mutual fund distribution services and provident fund operating services.

Credit cards

The Bank offers to segment clients a range of credit cards issued by Israeli credit card companies.

Loans for small businesses, guaranteed by the State

In May 2016, Bank Mizrahi Tefahot launched its financial partnership with HaPhoenix and with Altshuler Shacham, selected as one of the winning bidders in a tender to provide loans to small and medium businesses, guaranteed by the State, by providing loans in a range of tracks under this heading. The Bank may also provide loans guaranteed by the State in conjunction with a custom fund for improved energy efficiency.

In April 2020, due to the Corona Virus crisis, the Bank joined a fund established by the Ministry of Finance to extend State-guaranteed loans to small and medium businesses, to help address the Corona Virus crisis. As part of this fund, the Bank provides loans in two tracks – the general track and the enhanced track.

Major markets and distribution channels

The main marketing and distribution factors in the segment are the Bank's branches and direct channels. There is no dependence on outside marketing channels. For details of these marketing and distribution factors, see description of the household segment.

Business Strategy

Increasing focus and expanding operations in business segments, including the micro and small business segment is at the heart of the Bank's business strategy. This is done while constantly assessing risk and controls at the client, segment and economy levels.

Below are the key goals in the small business segment and the business strategy deriving from these goals:

- Increasing marketing activity vis-à-vis clients, while segmenting the clients by occupation, size of operation and individual needs.
- Maximize potential profitability for each client by adopting a comprehensive view of client activity, creating a comprehensive relationship based on credit products and marketing of other products – depending on client attributes.
- Expand operations in State-guaranteed foundations.
- Expand geographic deployment of services provided to segment clients.

Competition in the segment and changes to it

Competition in the small business segment is primarily within the banking system. However, over the past years, public action was taken to reinforce the market share of non-bank credit providers (such as institutional investors, non-bank credit cards and other financing companies) in this area. The Bank's principal methods for dealing with the competition are active marketing, personal ties with the client, providing personal service and comprehensive professional solutions for the full range of client financial needs.

Medium business segment

For more information about the supervisory definition and differences between the management approach and the supervisory definition, see chapter "Supervisory operating segments" of the Report of the Board of Directors and Management.

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

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

This segment operates across all economic sectors, primarily industry, commerce and services, construction and real estate.

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

Clients in this segment are primarily served by the Bank's Corporate Division, primarily by the Business Sector, operating three business centers nation-wide, with additional service provided by the Bank's business centers, business branches and extensive branch network.

Each center has the professional resources required to address all client needs. These centers operate in coordination with the Bank's branch network, which handles operating aspects of client activity. Thus, clients enjoy personal, professional service which provides a response to all their banking needs, as well as benefit from the extensive branch network.

Segment clients primarily operating in the real estate sector are served by the Construction and Real Estate sector of the Corporate Division, which specializes in provision of dedicated services to this sector. These clients enjoy service at specialized real estate branches, with regard to operating aspects as well as the specialized, professional service of the construction and real estate sector.

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

Clients are mostly active on the local market. However, clients also conduct foreign trade transactions (import / export) of significant volume.

Products and services

Segment clients are offered customized products and services, in the banking and finance sector. Within this framework, the Bank issues different kinds of credit, both loans and current credit for working capital purposes: foreign trade services – importing, exporting, documentary credit; bank guarantees, etc.; transactions in foreign currency, including trading in derivative instruments, factoring services and investment in deposits and in securities.

Major markets and distribution channels

The segment primarily engages in marketing and distribution using three business hubs operating under the Corporate Division, as well as business centers and Bank branches throughout Israel. Client relations management is conducted by special professionals at the business centers, who are in charge of this and are in constant contact with clients. New client recruitment is carried out in close co-operation with Bank business centers and branches operating in the Retail Division.

Operations in this segment include development of marketing and business operations based on understanding client needs and customizing comprehensive banking solutions to these needs; providing professional, rapid and efficient service; offering a range of products and solutions customized for client needs with controlled management of risk arising from segment operations, including by specifying financial covenants to monitor clients' financial robustness.

Clients may also use the direct banking channels and customary banking channels.

Business Strategy

The Bank's business strategy emphasizes the significant expansion of the client base and growth in the activities of the medium business segment.

The Bank intends to continue significantly expanding operations in this segment, primarily by recruiting new clients and expanding banking services to current clients and to clients for which the Bank is a secondary bank.

Competition in the segment and changes to it

Segment clients conduct their financial activity primarily within the banking system, so that competition for this client segment is significant, since all banks and non-bank financing companies compete for this target audience.

There is also non-material competition in factoring and by credit card companies.

The Bank considers expansion of this segment's business to be an important major objective and therefore invests resources in handling these companies by providing comprehensive, professional solutions for client needs, maintaining a personal relationship and providing fast, efficient service.

Large business segment

For more information about the supervisory definition and differences between the management approach and the supervisory definition, see chapter "Supervisory operating segments" of the Report of the Board of Directors and Management.

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

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

In recent years, new clients are classified in conformity with the supervisory approach – those with annual turnover over NIS 250 million.

The major sectors served are: industry, commerce, construction and real estate.

This segment includes market-leading clients with large-scale operations, some of which are multi-nationals or companies with local operations which address overseas markets.

Segment clients are served under responsibility of the Bank's Corporate Division, primarily by the Large Corporation Sector.

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

All clients receive additional (operating) service from the Bank's extensive branch network in Israel and overseas.

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

Products and services

Segment clients are offered a range of banking and finance products, including: Different types of credit – on call, loans for various terms, different types of guarantees; financing through leading and organizing or participating in syndications, financing of infrastructure projects, mergers and acquisitions; trading in derivative instruments; foreign trade activity (financing for credit insurance, importing, exporting and documentary credit) and factoring. These services are supported by a specialized sector at the Bank, which can customize for each client the relevant product for their business and operating attributes.

Below is a description of the notable products in the business banking segment and the primary services offered within the scope of these products.

Credit to large corporations in Israel and overseas

The Bank provides banking services to multi-national clients based in Israel.

In this context, the Bank provides foreign currency, foreign trade and factoring services as well as service at the Bank's overseas affiliates.

Products related to real estate

In this sector, the Bank offers loans to finance the purchase and construction of real estate, mainly residential construction products in areas of high demand, while insisting on the applications of tests prescribed in order to maintain the quality of the loan portfolio, and these include ties with customers having financial strength and stability, transactions characterized by favorable safety cushions for the Bank, and management using methods that reduce the risk.

The main services provided to clients of the real estate sector are:

- **Credit for construction** – in this sector, the Bank provides credit, in particular short- and medium-term loans, used to finance land acquisition and investment in construction, as well as various types of bank guarantees.
- **Financing for construction projects** - construction project financing is a unique service, provided by the Bank exclusively to clients in this sector. Within this framework, the client is offered a package of financial and banking services, suited to the specific needs of each project and based on its characteristics. This includes allotment of credit facilities for land acquisition, construction loans, financial guarantees, performance guarantees and guarantees to home buyers in projects. The Bank issues construction financing mainly by the closed financial support method, in which the Bank channels the financing sources, including the buyers' monies deposited with it, in a manner that advances completion of the project.
- **Purchase groups** – a purchase group is a collection of individuals, gathered for the purpose of jointly acquiring land and buying construction services on said land. Alternatively, existing land owners join forces to jointly construct, by ordering construction services.

The Bank provides dedicated financing for projects of this type, and assists them from preliminary stages of forming the group, through completion of construction.

Arranging and leading syndications – The Bank sees an objective in expansion of its business in initiating, leading, organizing and managing syndication transactions – as part of the Bank being a major player in the business credit market. These operations are led by officers who specialize in this area. By leading and organizing syndication transactions, the Bank provides a solution for businesses requiring significant credit while maintaining risk within the Bank's risk appetite.

Major markets and distribution channels

The main marketing and distribution parties in this segment are the managers and client managers in the Business Banking Division, supported by the Bank's branches and business centers in Israel and at overseas affiliates.

In order to provide an optimal response to segment client needs, the servicing of major business banking clients in this segment was placed under the Corporate Sector of the Bank's Corporate Division, divided into departments and teams having specific industry specialization. The teams work in cooperation with professional Bank departments involved in syndication, factoring, foreign trade, capital market, trading room operations etc. – in order to provide a comprehensive solution for client needs.

Operations in this segment include providing fast and effective professional services that offers a comprehensive solution adapted for all of the client's banking needs. This is done while by a variety of innovative financial products and solutions.

These operations are backed by a strong capacity for analysis of client needs and their financial standing, as well as identifying risk associated with client relationships due, *inter alia*, to anticipated changes in the economy and in the client sector.

Business Strategy

The Bank's business strategy for the large business segment is designed to increase the number of clients and to expand business with existing clients and to finance large projects. This is to be done while maximizing the economic potential of the capital by focusing on activities having high profitability relative to the capital needed for them, through, inter alia, the following activities:

- Implement an approach based on total outlook on the business client, leveraging credit products and offering other products to establish a comprehensive client relationship.
- Segmentation of business clients, economic sector and other attributes that require specialization, such as legal complexity, *inter alia*, in combination projects and in urban renewal projects (eviction-construction schemes and National Zoning Plan 38), in infrastructure projects as well as unique operating attributes in the high-tech sector. This is designed to optimally specify their business needs and to provide them with an appropriate professional solution.
- Emphasis on profitability and return on uses.

The risk in realizing the strategy stated above is mainly a reduction in the volume of activity with certain clients, from which the Bank's profit does not reflect the required return, or a relatively high risk associated with doing business with these clients..

Note that macro-economic change poses significant challenges to credit management, at the Bank in general and in the Business Banking segment in particular, with some segment clients exposed, directly or indirectly, to extensive financial and economic operations in Israel and overseas, as well as to capital raising capacity on financial markets. Therefore, the Bank allocates significant resources to enhancing means for testing and control of exposure, aimed at tightening supervision of the credit portfolio.

Competition in the segment and changes to it

Competition in the business banking segment is with large and mid-sized banks in Israel, and occasionally with overseas banks, and for some services – the entire capital market. In recent years, institutional investors and insurance companies have expanded their business with such clients, by focusing on providing significant long-term credit.

Alternatives for the products and services offered by the Bank to clients of the Business Banking segment include raising capital and debt through public and private offerings. The Bank's key asset for dealing with the competition is the existing human infrastructure and the experience gained in providing professional service and adapting banking solutions to the client's needs, occasionally in co-operation within consortia with other institutions.

The Bank's main methods for dealing with the competition are to provide professional service that is fast and effective, while offering optimal solutions for the customer's needs in a diverse array of its financial activities. As well as customizing complex financial solutions in response to client needs.

As part of its operations in this segment, the Bank places emphasis on the best possible personal service to the business client and adapting it to the client's needs according to his unique characteristics, while focusing on industry expertise and providing specific professional advice in specialty areas.

Similar to competition for corporate financing, the competition for providing banking services to construction and real estate clients has seen non-banking entities enter into this area, as well. These entities provide assistance to projects on their own, without cooperation with any banks.

The Bank's primary methods for dealing with the competition in the area of construction and real estate services are based on providing comprehensive professional solutions for the clients' needs, readily available and fast service, and maintaining close and personal ties with clients. This is achieved mainly via dedicated business departments specializing in the construction and real estate sector.

Institutional investor segment

For more information about the supervisory definition, concise description of segment attributes (under the management approach) and differences between the management approach and the supervisory definition, see chapter "Supervisory operating segments" of the Report of the Board of Directors and Management.

Products and services

The Bank has agreements in place to provide operating services to provident fund management companies, some of which are associated with the sale of provident funds previously owned by the Bank. As for mutual funds, the Bank has agreements in place to provide services to mutual fund management companies.

The segment also provides comprehensive service to management companies of provident funds and mutual funds.

Banking services also include credit of various types and transactions involving derivative instruments.

Major markets and distribution channels

The key marketing and distribution agents for this segment are managers and account managers at the Business Banking Division, the Finance Division and the Planning and Operations Division. In order to provide an optimal response to segment client needs, the servicing of major clients in this segment was placed under the Corporation Sector of the Bank's Corporate Division, the Commercial Sector of the Finance Division and the Provident Fund Operations Sector of the Planning and Operations Division, teams work in cooperation with professional Bank departments involved in capital market, trading room operations etc. – in order to provide a comprehensive solution for client needs.

Business Strategy

The Bank's business strategy for this segment is designed to increase the number of clients and to expand business with existing clients. This is to be done while maximizing the economic potential of the capital by focusing on activities having high profitability relative to the capital needed for them,

The risk in realizing the strategy stated above is mainly a reduction in the volume of activity with certain clients, from which the Bank's profit does not reflect the required return, or a relatively high risk associated with doing business with these clients.. In contrast, the overall profitability of the Bank could rise, as it focuses on profitable clients and expansion of activity with them, while utilizing the Bank's capital resources.

Competition in the segment and changes to it

With regard to providing execution services on the Tel Aviv Stock Exchange to institutional investors, there is significant competition between local banks and stock exchange members.

As for transactions involving derivatives, there is also competition with foreign banks with which some institutional investors have opened direct accounts.

Financial Management Segment

For more information about the supervisory definition, concise description of segment attributes (under the management approach) and differences between the management approach and the supervisory definition, see chapter "Supervisory operating segments" of the Report of the Board of Directors and Management.

Products and services

The trading room provides trading services to Bank clients in OTC (mostly: foreign currency, interest, options) and in brokerage of foreign and local securities, with local and overseas entities as counter-parties.

OTC trading – the transactions which may be conducted through the trading room: buy / sell foreign currency, options and interest derivatives. The Bank is licensed for market making in USD/NIS and in Israeli Government debentures.

Securities trading – trading securities to provide a solution for Bank clients' activity on the local market and on various world markets. The Trading Department consists of two parts – trading of Israeli securities and trading of foreign securities; both provide execution services for equities, debentures, options and negotiable futures and mutual funds.

Major markets and distribution channels

The trading room provides services for global currencies and securities, primarily in developed economies. The trading room includes a Client Marketing Unit, which provides distribution services for trading room products.

Business Strategy

Asset and liability management operations have the key objective of active management of exposure to market risk and of the debenture portfolio, aimed at optimal management of financing profitability, while maintaining appropriate, controlled exposure to market- and liquidity risk, which reflects the Bank's risk appetite, subject to limits specified by decisions of the Board of Directors and management.

At the Bank, the main activity in the debenture portfolio is efficient management of excess Bank liquidity in NIS and in foreign currency, compared to an alternative, risk-free investment. The policy on excess liquidity management is based on requirements for liquidity risk management, in conformity with Proper Conduct of Banking Business Directive 342, Proper Conduct of Banking Business Directive 221 – liquidity coverage ratio and Proper Conduct of Banking Business Directive 222 – Net stable funding ratio (For more information about the liquidity model and restrictions imposed by management and by the Board of Directors, see chapter "Risks overview" of the Report of the Board of Directors and Management and the Detailed Risks Management Report on the Bank website). Threshold criteria were also prescribed for nostro debenture activity, based on the credit risk inherent in the portfolio's activity, to diversify investments and to increase their liquidity . Debenture operations are subject to compliance with credit limits specified by the Bank for countries, banks and companies – with the bulk of these operations involving risk exposure to the State of Israel.

As for management of market risk exposure, the Bank actively manages the trading portfolio in order to generate gain at the specified risk level. The bank portfolio is regularly managed and monitored in order to improve interest revenues, subject to the risk appetite. The volume of activity and risk must meet the market risk exposure limits prescribed by the Board of Directors and management. For more information about risk limitations and management of market risk exposure, see the Detailed Risks Management Report on the Bank website.

The segment also acts to raise financial sources as needed for Bank operations, while complying with liquidity and financing ratio targets and capital ratio targets, as per decisions of the Board of Directors. This would be achieved by raising deposits with different linkage bases and for different terms, and by issuing subordinated notes and contingent subordinated notes (Tier II capital). For more information see chapter "Developments in financing sources" and chapter "Developments in capital structure" of the Report of the Board of Directors and Management.

One of the tools used by the segment in managing liquidity and exposure to market risk is the issuance of subordinated notes, inter alia, through the subsidiary, Mizrahi-Tefahot Issuance Company Ltd., as provided below in the chapter "Developments in capital structure" of the Report of the Board of Directors and Management.

The segment includes the Bank's trading room operations in financial and capital markets. These operations include market making in all standard derivative instruments trading over-the-counter in Israel and back-to-back trading in complex derivatives. The trading room also serves major local and foreign clients trading in securities in stock exchanges in Israel and overseas. The Bank strives to position itself as a leader in the OTC market in Israel, while maintaining the risk level specified in Bank policy and adapting operations to local and global regulation. Furthermore, the Bank constantly strives to expand its operations by expanding the client base and intensifying business activity and client relationships, inter alia, by improving cooperation between Bank departments operating within the trading room, development of new transaction types and investing in acquiring professional knowledge.

A critical success factor in this operating segment is the Bank's ability to understand the macro and micro factors affecting the market trends and conditions, for correctly identifying the market conditions and the ability to act quickly in opening and closing positions. In addition, professionalism of staff in this area and technology systems in support of the various activities, identification of needs of other units as well as co-operation on between different Bank units.

Management of the financial segment and its various components requires highly professional skills, supported by appropriate IT systems and by advanced models for management of transactions and risk. These are all guided by the policies which includes clear restrictions and rules, and are controlled using advanced means of control. In particular, with regard to Bank exposure to other financial institutions in Israel and overseas, in exposure to different financial products and in exposure to clients whose financial robustness may be particularly sensitive. For more details of Bank exposure to foreign financial institutions, see chapter "Risks Overview" of the Report of the Board of Directors and Management and the chapter "Credit risk" in the detailed Risks Report on the Bank website.

Competition in the segment and changes to it

The financial management segment includes operations of the trading room. This area faces a high level of competition with the primary competitors: Israel's top four bank groups, as well as foreign banks.

Operating results of overseas operations

For more information about the supervisory definition, concise description of segment attributes (under the management approach) and differences between the management approach and the supervisory definition, see chapter "Supervisory operating segments" of the Report of the Board of Directors and Management.

Products and services

Details of the affiliates and their business are as follows:

Bank's overseas branches – Overseas branches offer their customers banking services, in accordance with the local laws and regulations. The branches are subject to the local and Israeli regulation.

- **Los Angeles Branch** – The branch is primarily engaged in commercial banking, participating in syndicated loans and receiving deposits. Deposits with this branch are insured by the Federal Deposit Insurance Corporation(FDIC). The branch's clients are local, Israeli and international clients.
- **London Branch** – The branch is engaged mainly in business banking, including participation in loan syndicates, financing of foreign trade, credit, receiving deposits, foreign currency trade and providing personal banking services, excluding advisory service on securities. The branch's clients are local, Israeli and international clients.

International private banking branches in Israel – The Bank operates four special branches, located in Jerusalem, Tel Aviv, Netanya and Ashdod, serving foreign resident and new immigrant clients. These branches provide full banking services to their clients, primarily private banking. The branches are under supervision by supervisory entities and relevant authorities in Israel and report to the Private Banking and International Operations sector.

Major markets and distribution channels

The major markets are local clients, mostly from the Jewish community, located in countries where the Bank's overseas affiliates do business, as well as clients resident in Israel whose financial and business needs include banking services provided overseas.
Major distribution channels include participation in professional conferences in countries where the affiliates are located, and advertising in the local Jewish community.

Business Strategy

The Bank's overseas affiliates operate in a competitive environment of local and international banks operating in the same country, but are focused on providing banking services on a more limited scale, compared to local and international banks. Competition is focused on service quality, response time and maximizing the client-Bank relationship. Each international operations affiliate has a unique target audience. Critical success factors are based on providing fast, personal service at an international level. Service provided to clients is based on understanding their personal needs and providing individual solutions based on intensive knowledge of local markets in order to find the appropriate range of products.

In order to compete with current competition in this segment, extensive resources are dedicated to recruiting high-quality staff with extensive experience, in professional training of staff, and in offering a high-quality range of products compared

to global competition. The Bank is also focused on providing high-quality service and maintaining strong client relationships, organizing professional events for select clients and efforts to locate and recruit new clients on a day-to-day basis.
The Bank strives to develop business by existing affiliates and to create strategic alliances with leading financial institutions in international banking and jointly work with them. The Bank also reviews options for offering services appropriate for each affiliate, which respond to varying needs in each market along with technology, business and regulatory changes.

International operations involve several unique risks factors:

- Operation under specific statutory and regulatory regimes of each country.
- Risk associated with challenges to controlling remote affiliates from **the head office.**
- Business risk (credit and market risk) are impacted by local factors, which may differ from the environment and factors in Israel.

Each overseas affiliate operates subject to local laws and regulations, and is regularly assisted by local legal counsel who specialize in banking operations applicable for each affiliate. The Bank has also established and maintains a supervisory and control process over operations of its affiliates, through relevant Risk Owners at the Bank in Israel, as well as using external professional consultants on behalf of the Bank in Israel.

Competition in the segment and changes to it

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

Bank Mizrahi Tefahot

Appendixes to annual financial statements

2021

Table of Contents

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

For the year ended December 31,

Reported amounts (NIS in millions)

A. Average balances and interest rates – assets

	2021			2020			2019		
	Average balance[(2)]	Interest revenues	Revenue rate	Average balance[(2)]	Interest revenues	Revenue rate	Average balance[(2)]	Interest revenues	Revenue rate
			In %			In %			In %
Interest-bearing assets									
Loans to the public[(3)]									
In Israel	247,531	[(7)]10,052	4.06	212,769	[(7)]7,113	3.34	193,048	[(7)]7,063	3.66
Outside of Israel	3,552	190	5.35	3,300	186	5.64	3,228	230	7.13
Total	**251,083**	**10,242**	**4.08**	**216,069**	**7,299**	**3.38**	**196,276**	**7,293**	**3.72**
Loans to the Government									
In Israel	311	1	0.32	212	1	0.47	142	2	1.41
Outside of Israel	223	10	4.48	426	21	4.93	399	31	7.77
Total	**534**	**11**	**2.06**	**638**	**22**	**3.45**	**541**	**33**	**6.10**
Deposits with banks									
In Israel	1,504	7	0.47	1,271	9	0.71	899	12	1.33
Outside of Israel	204	–	–	182	2	1.10	231	4	1.73
Total	**1,708**	**7**	**0.41**	**1,453**	**11**	**0.76**	**1,130**	**16**	**1.42**
Deposits with central banks									
In Israel	79,726	66	0.08	52,831	61	0.12	38,137	79	0.21
Outside of Israel	10,536	13	0.12	10,289	29	0.28	4,892	124	2.53
Total	**90,262**	**79**	**0.09**	**63,120**	**90**	**0.14**	**43,029**	**203**	**0.47**
Securities loaned or purchase under resale agreements									
In Israel	369	–	–	85	–	–	74	–	–
Outside of Israel	–	–	–	–	–	–	–	–	–
Total	**369**	**–**	**–**	**85**	**–**	**–**	**74**	**–**	**–**
Debentures held to maturity a available for sale[(4)]									
In Israel	15,476	201	1.30	9,908	90	0.91	8,779	148	1.69
Outside of Israel	849	7	0.82	651	10	1.54	576	17	2.95
Total	**16,325**	**208**	**1.27**	**10,559**	**100**	**0.95**	**9,355**	**165**	**1.76**
Debentures held for trading[(5)]									
In Israel	363	10	2.75	376	6	1.60	277	1	0.36
Outside of Israel	–	–	–	–	–	–	–	–	–
Total	**363**	**10**	**2.75**	**376**	**6**	**1.60**	**277**	**1**	**0.36**
Total interest-bearing assets	**360,644**	**10,557**	**2.93**	**292,300**	**7,528**	**2.58**	**250,682**	**7,711**	**3.08**
Receivables for credit card operations	4,305			3,708			3,765		
Other non-interest bearing asse	6,427			5,531			6,034		
Total assets	**371,376**			**301,539**			**260,481**		
Total interest-bearing assets attributable to operations out of Israel	**15,364**	**220**	**1.43**	**14,848**	**248**	**1.67**	**9,326**	**406**	**4.35**

See remarks below.

Addendum 1 – Revenue and Expense Rates – of the Bank and its Subsidiaries(1) – continued

For the year ended December 31,
Reported amounts (NIS in millions)

B. Average balances and interest rates – liabilities and equity

			2021			2020			2019
	Average balance(2)	Interest expenses	Revenue rate	Average balance(2)	Interest expenses	Revenue rate	Average balance(2)	Interest expenses	Revenue rate
			In %			In %			In %
Interest-bearing liabilities									
Deposits from the public									
In Israel									
On-call	45,249	104	0.23	32,679	13	0.04	25,910	42	0.16
Term deposits	146,126	1,605	1.10	133,409	1,267	0.95	121,309	1,653	1.36
Outside of Israel									
On-call	640	–	–	723	–	–	520	–	–
Term deposits	3,420	7	0.20	4,019	36	0.90	4,753	92	1.94
Total	**195,435**	**1,716**	**0.88**	**170,830**	**1,316**	**0.77**	**152,492**	**1,787**	**1.17**
Deposits from the Government									
In Israel	64	4	6.25	52	4	7.69	37	1	2.70
Outside of Israel	–	–	–	–	–	–	–	–	–
Total	**64**	**4**	**6.25**	**52**	**4**	**7.69**	**37**	**1**	**2.70**
Deposits from banks									
In Israel	5,687	4	0.07	1,728	7	0.41	987	8	0.81
Outside of Israel	34	–	–	2	–	–	2	–	–
Total	**5,721**	**4**	**0.07**	**1,730**	**7**	**0.40**	**989**	**8**	**0.81**
Securities loaned or sold in conjunction with repurchase agreements									
In Israel	–	–	–	–	–	–	–	–	–
Outside of Israel	–	–	–	–	–	–	–	–	–
Total	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Debentures and subordinated notes									
In Israel	34,238	1,142	3.34	31,062	380	1.22	30,114	573	1.90
Outside of Israel	–	–	–	–	–	–	–	–	–
Total	**34,238**	**1,142**	**3.34**	**31,062**	**380**	**1.22**	**30,114**	**573**	**1.90**
Other liabilities									
In Israel	695	6	0.86	485	1	0.21	256	2	0.78
Outside of Israel	–	–	–	–	–	–	–	–	–
Total	**695**	**6**	**0.86**	**485**	**1**	**0.21**	**256**	**2**	**0.78**
Total interest-bearing liabilities	**236,153**	**2,872**	**1.22**	**204,159**	**1,708**	**0.84**	**183,888**	**2,371**	**1.29**
Non-interest bearing deposits from the public	98,833			68,110			50,835		
Payables for credit card transactions	4,305			3,709			3,765		
Other non-interest bearing liabilities(8)	11,055			7,782			5,700		
Total liabilities	**350,346**			**283,760**			**244,188**		
Total equity resources	**21,030**			**17,779**			**16,293**		
Total liabilities and equity resources	**371,376**			**301,539**			**260,481**		
Interest margin			**1.71**			**1.74**			**1.79**
Net return(9) on interest-bearing assets									
In Israel	345,280	7,472	2.16	277,452	5,608	2.02	241,356	5,026	2.08
Outside of Israel	15,364	213	1.39	14,848	212	1.43	9,326	314	3.37
Total	**360,644**	**7,685**	**2.13**	**292,300**	**5,820**	**1.99**	**250,682**	**5,340**	**2.13**
Total interest-bearing liabilities attributable to operations outside of Israel	**4,094**	**7**	**0.17**	**4,744**	**36**	**0.76**	**5,275**	**92**	**1.74**

See remarks below.

Addendum 1 – Revenue and Expense Rates – of the Bank and its Subsidiaries(1) – continued

For the year ended December 31,

Reported amounts (NIS in millions)

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

	2021			2020			2019		
	Average balance(2)	Revenues (expenses)	Revenue (expense) rate	Average balance(2)	Revenues (expenses)	Revenue (expense) rate	Average balance(2)	Revenues (expenses)	(Revenue) rate
			In %			In %			In %
Israeli currency – non-linked									
Total interest-bearing assets	256,660	6,290	2.45	204,346	5,423	2.65	171,451	5,036	2.94
Total interest-bearing liabilities	156,406	(824)	(0.53)	140,760	(963)	(0.68)	121,477	(1,054)	(0.87)
Interest margin			**1.92**			**1.97**			**2.07**
Israeli currency – linked to the CPI									
Total interest-bearing assets	73,138	3,715	5.08	61,359	1,532	2.50	56,522	1,822	3.22
Total interest-bearing liabilities	50,294	(1,835)	(3.65)	39,480	(400)	(1.01)	37,324	(715)	(1.92)
Interest margin			**1.43**			**1.49**			**1.30**
Foreign currency (including Israeli currency linked to foreign currency)									
Total interest-bearing assets	15,482	332	2.14	11,747	325	2.77	13,383	447	3.34
Total interest-bearing liabilities	25,359	(206)	(0.81)	19,175	(309)	(1.61)	19,812	(510)	(2.57)
Interest margin			**1.33**			**1.16**			**0.77**
Total – operations in Israel									
Total interest-bearing assets	345,280	10,337	2.99	277,452	7,280	2.62	241,356	7,305	3.03
Total interest-bearing liabilities	232,059	(2,865)	(1.23)	199,415	(1,672)	(0.84)	178,613	(2,279)	(1.28)
Interest margin			**1.76**			**1.78**			**1.75**

See remarks below.

Addendum 1 – Revenue and expense rates of the Bank and of its subsidiaries(1)

For the year ended December 31,

Reported amounts (NIS in millions)

D. Analysis of changes in interest revenues and expenses

	2021 compared to 2020			2020 compared to 2019		
	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	1,412	1,527	2,939	659	(609)	50
Outside of Israel	13	(9)	4	4	(48)	(44)
Total	**1,425**	**1,518**	**2,943**	**663**	**(657)**	**6**
Other interest-bearing assets						
In Israel	96	22	118	42	(117)	(75)
Outside of Israel	1	(33)	(32)	29	(143)	(114)
Total	**97**	**(11)**	**86**	**71**	**(260)**	**(189)**
Total interest revenues	**1,522**	**1,507**	**3,029**	**734**	**(917)**	**(183)**
Interest-bearing liabilities						
Deposits from the public						
In Israel	226	203	429	145	(560)	(415)
Outside of Israel	(1)	(28)	(29)	(4)	(52)	(56)
Total	**225**	**175**	**400**	**141**	**(612)**	**(471)**
Other interest-bearing liabilities						
In Israel	209	555	764	23	(215)	(192)
Outside of Israel	–	–	–	–	–	–
Total	**209**	**555**	**764**	**23**	**(215)**	**(192)**
Total interest expenses	**434**	**730**	**1,164**	**164**	**(827)**	**(663)**

(1) Information in these tables is after effect of hedging I derivative instruments.

(2) Based on balances at start of the months (in Israeli currency, non-linked segment – based on daily balances).

(3) Before deduction of average balance sheet balance of provisions for credit losses. Includes impaired debt not accruing interest revenues.

(4) From the average balance of debentures available for sale, for the one-year periods ended December 31, 2021, 2020 and 2019, we (deducted) added the average balance of unrealized (losses) gains from adjustment to fair value of debentures available for sale, included in equity under Other Comprehensive Income, under "Adjustments with respect to presentation of securities available for sale at fair value", amounting to NIS (27) million, NIS 20 million and NIS 8 million, respectively.

(5) From the average balance of debentures held for trading, for the one-year periods ended December 31, 2021, 2020 and 2019, we (deducted) added the average balance of unrealized (losses) gains from adjustment to fair value of debentures held for trading, amounting to NIS (3) million, NIS 9 million and NIS 6 million, respectively.

(6) Includes derivative instruments, other non-interest bearing assets, net of provision for credit losses.

(7) Commissions amounting to NIS 711, 452 and 339 million were included in interest revenues for the one year periods ended December 31, 2021, 2020 and -2019, 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.

Addendum 2 – Multi-period information

Consolidated Statement of Profit and Loss – Multi-period information

For the years ended December 31, 2017-2021

Reported amounts (NIS in millions)

	2021	2020	2019	2018	2017
Interest revenues	10,557	7,528	7,711	7,359	6,222
Interest expenses	2,872	1,708	2,371	2,437	1,875
Interest revenues, net	7,685	5,820	5,340	4,922	4,347
Expenses with respect to credit losses	(278)	1,050	364	310	192
Interest revenues, net after expenses with respect to credit losses	**7,963**	**4,770**	**4,976**	**4,612**	**4,155**
Non-interest revenues					
Non-interest financing revenues	401	221	357	445	136
Commissions	1,947	1,671	1,535	1,475	1,423
Other revenues	287	221	74	47	94
Total non-interest revenues	**2,635**	**2,113**	**1,966**	**1,967**	**1,653**
Operating and other expenses					
Payroll and associated expenses	3,536	2,644	2,562	2,407	2,271
Maintenance and depreciation of buildings and equipment	1,002	871	770	747	742
Other expenses	1,030	764	656	1,230	598
Total operating and other expenses	**5,568**	**4,279**	**3,988**	**4,384**	**3,611**
Pre-tax profit	5,030	2,604	2,954	2,195	2,197
Provision for taxes on profit	1,730	903	1,029	922	806
After-tax profit	**3,300**	**1,701**	**1,925**	**1,273**	**1,391**
Share in profit (loss) of associate companies, after tax	(10)	1	–	1	–
Net profit:					
Before attribution to non-controlling interests	3,290	1,702	1,925	1,274	1,391
Attributable to non-controlling interests	(102)	(92)	(83)	(68)	(44)
Attributable to shareholders of the Bank	**3,188**	**1,610**	**1,842**	**1,206**	**1,347**
Earnings per share[2] (in NIS)					
Basic earnings per share:					
Total net profit attributable to shareholders of the Bank	**12.47**	**6.70**	**7.86**	**5.17**	**5.80**
Diluted earnings per share:					
Total net profit attributable to shareholders of the Bank	**12.35**	**6.69**	**7.83**	**5.15**	**5.76**

(1) As from September 30, 2020 the Bank consolidates the financial statements of Union Bank. The consolidated statement of profit and loss for 2021 includes the financial results of Union Bank.

(2) Share of NIS 0.1 par value.

Addendum 2 – Multi-period information – Continued

Consolidated Balance Sheet – Multi-period information

As of December 31, 2017 – 2021

Reported amounts (NIS in millions)

	2021	2020	2019	2018	2017
Assets					
Cash and deposits with banks	95,267	86,570	51,672	45,162	41,130
Securities	15,033	17,290	10,113	11,081	10,133
Securities loaned or purchased under resale agreements	1,332	200	120	26	76
Loans to the public	273,531	247,958	206,401	195,956	182,602
Provision for credit losses	(2,103)	(2,433)	(1,693)	(1,575)	(1,484)
Loans to the public, net	271,428	245,525	204,708	194,381	181,118
Loans to Governments	477	613	656	630	456
Investments in associated companies	69	31	32	32	32
Buildings and equipment	1,734	1,743	1,457	1,424	1,403
Intangible assets and goodwill	208	239	87	87	87
Assets with respect to derivative instruments	3,652	4,543	2,578	3,240	3,421
Other assets	3,071	3,386	1,821	1,810	1,716
Total assets	**392,271**	**360,140**	**273,244**	**257,873**	**239,572**
Liabilities and Equity					
Deposits from the public	307,924	284,224	210,984	199,492	183,573
Deposits from banks	6,992	3,779	714	625	1,125
Deposits from the Government	81	70	29	42	51
Debentures and subordinated notes	38,046	33,446	33,460	30,616	29,923
Liabilities with respect to derivative instruments	3,753	5,506	2,686	3,661	3,082
Other liabilities	13,746	13,446	8,566	8,047	7,491
Total liabilities	**370,542**	**340,471**	**256,439**	**242,483**	**225,245**
Shareholders' equity attributable to shareholders of the Bank	20,770	18,804	16,033	14,681	13,685
Non-controlling interests	959	865	772	709	642
Total equity	**21,729**	**19,669**	**16,805**	**15,390**	**14,327**
Total liabilities and equity	**392,271**	**360,140**	**273,244**	**257,873**	**239,572**

Addendum 3 – Multi-quarter information

Consolidated Statement of Profit and Loss by Quarter – for 2021

Reported amounts (NIS in millions)

	Fourth Quarter	Third Quarter	Second quarter	First Quarter
Interest revenues	2,464	2,800	3,085	2,208
Interest expenses	506	799	1,050	517
Interest revenues, net	1,958	2,001	2,035	1,691
Expenses with respect to credit losses	(15)	(36)	(240)	13
Interest revenues, net after expenses with respect to credit losses	**1,973**	**2,037**	**2,275**	**1,678**
Non-interest revenues		–		
Non-interest financing revenues	83	63	66	189
Commissions	528	473	469	477
Other revenues	68	78	75	66
Total non-interest revenues	**679**	**614**	**610**	**732**
Operating and other expenses		–		
Payroll and associated expenses	960	863	843	870
Maintenance and depreciation of buildings and equipment	267	250	245	240
Other expenses	328	226	245	231
Total operating and other expenses	**1,555**	**1,339**	**1,333**	**1,341**
Pre-tax profit	1,097	1,312	1,552	1,069
Provision for taxes on profit	390	442	540	358
After-tax profit	**707**	**870**	**1,012**	**711**
Share in net profits of associated companies, after tax	–	1	1	(12)
Net profit:		–		
Before attribution to non-controlling interests	707	871	1,013	699
Attributable to non-controlling interests	(28)	(26)	(25)	(23)
Attributable to shareholders of the Bank	**679**	**845**	**988**	**676**
Earnings per share[2] (in NIS)				
Basic earnings per share				
Total net profit attributable to shareholders of the Bank	**2.65**	**3.30**	**3.87**	**2.65**
Diluted earnings per share				
Total net profit attributable to shareholders of the Bank	**2.62**	**3.24**	**3.85**	**2.64**

(1) Share of NIS 0.1 par value.

Addendum 3 – Multi-quarter information – Continued

Consolidated Statement of Profit and Loss by Quarter – for 2020

Reported amounts (NIS in millions)

	Fourth quarter[(1)]	Third Quarter	Second quarter	First Quarter
Interest revenues	2,150	1,952	1,740	1,686
Interest expenses	464	488	417	339
Interest revenues, net	1,686	1,464	1,323	1,347
Expenses with respect to credit losses	118	317	270	345
Interest revenues, net after expenses with respect to credit losses	**1,568**	**1,147**	**1,053**	**1,002**
Non-interest revenues				
Non-interest financing revenues	27	54	76	64
Commissions	472	399	376	424
Other revenues	85	8	23	105
Total non-interest revenues	**584**	**461**	**475**	**593**
Operating and other expenses				
Payroll and associated expenses	785	619	596	644
Maintenance and depreciation of buildings and equipment	250	208	208	205
Other expenses	300	150	146	168
Total operating and other expenses	**1,335**	**977**	**950**	**1,017**
Pre-tax profit	817	631	578	578
Provision for taxes on profit	285	222	196	200
After-tax profit	**532**	**409**	**382**	**378**
Share in net profit (loss) of associated companies, after tax	1	–	–	–
Net profit:				
Before attribution to non-controlling interests	533	409	382	378
Attributable to non-controlling interests	(27)	(22)	(22)	(21)
Attributable to shareholders of the Bank	**506**	**387**	**360**	**357**
Earnings per share[(2)] (in NIS)				
Basic earnings per share				
Total net profit attributable to shareholders of the Bank	**2.13**	**1.65**	**1.53**	**1.52**
Diluted earnings per share				
Total net profit attributable to shareholders of the Bank	**2.13**	**1.65**	**1.53**	**1.51**

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

(2) Share of NIS 0.1 par value.

Addendum 3 – Multi-quarter information – Continued

Consolidated balance sheet as of the end of each quarter in 2021

Reported amounts (NIS in millions)

	Fourth Quarter	Third Quarter	Second quarter	First Quarter
Assets				
Cash and deposits with banks	95,267	96,365	94,337	91,392
Securities	15,033	14,749	17,539	19,529
Securities loaned or purchased under resale agreements	1,332	383	187	139
Loans to the public	273,531	261,905	256,441	251,957
Provision for credit losses	(2,103)	(2,163)	(2,205)	(2,418)
Loans to the public, net	271,428	259,742	254,236	249,539
Loans to the Government	477	479	578	582
Investments in associated companies	69	28	19	18
Buildings and equipment	1,734	1,667	1,678	1,702
Intangible assets and goodwill	208	216	223	231
Assets with respect to derivative instruments	3,652	2,769	2,426	3,643
Other assets	3,071	3,165	3,147	3,635
Total assets	**392,271**	**379,563**	**374,370**	**370,410**
Liabilities and Equity				
Deposits from the public	307,924	303,921	294,391	293,766
Deposits from banks	6,992	6,801	5,945	4,293
Deposits from the Government	81	102	43	44
Debentures and subordinated notes	38,046	32,664	35,594	33,335
Liabilities with respect to derivative instruments	3,753	2,626	2,412	3,172
Other liabilities	13,746	11,688	14,622	15,489
Total liabilities	**370,542**	**357,802**	**353,007**	**350,099**
Equity attributable to equity holders of the Bank	20,770	20,831	20,444	19,422
Non-controlling interests	959	930	919	889
Total equity	**21,729**	**21,761**	**21,363**	**20,311**
Total liabilities and equity	**392,271**	**379,563**	**374,370**	**370,410**

Addendum 3 – Multi-quarter information – Continued

Consolidated balance sheet as of the end of each quarter in 2020

Reported amounts (NIS in millions)

	Fourth Quarter	Third Quarter	Second quarter	First Quarter
Assets				
Cash and deposits with banks	86,570	77,738	61,532	56,385
Securities	17,290	18,258	8,440	8,709
Securities loaned or purchased under resale agreements	200	172	51	36
Loans to the public	247,958	244,092	216,538	212,163
Provision for credit losses	(2,433)	(2,327)	(2,088)	(1,933)
Loans to the public, net	245,525	241,765	214,450	210,230
Loans to the Government	613	616	629	831
Investments in associated companies	31	30	30	30
Buildings and equipment	1,743	1,646	1,433	1,437
Intangible assets and goodwill	239	87	87	87
Assets with respect to derivative instruments	4,543	3,238	2,200	4,369
Other assets	3,386	3,500	2,708	2,617
Total assets	**360,140**	**347,050**	**291,560**	**284,731**
Liabilities and Equity				
Deposits from the public	284,224	276,156	231,784	223,189
Deposits from banks	3,779	2,786	946	924
Deposits from the Government	70	41	34	69
Debentures and subordinated notes	33,446	32,995	29,689	30,237
Liabilities with respect to derivative instruments	5,506	3,545	2,898	4,181
Other liabilities	13,446	12,416	8,739	8,957
Total liabilities	**340,471**	**327,939**	**274,090**	**267,557**
Equity attributable to equity holders of the Bank	18,804	18,272	16,653	16,371
Non-controlling interests	865	839	817	803
Total equity	**19,669**	**19,111**	**17,470**	**17,174**
Total liabilities and equity	**360,140**	**347,050**	**291,560**	**284,731**

Addendum 4 – Additional information

Subsidiaries in which the Bank holds less than 50% of means of control

Had the Bank not consolidated the financial statements of Bank Yahav, the consolidated financial statements (excluding Bank Yahav) would have been similar to the Bank's (solo) financial statements as presented in Note 36 to the financial statements, except for the following material changes:

Balance sheet highlights (as of December 31, 2021)
- The balance of investment in associated companies would have been lower by NIS 5.1 billion.
- The balance of deposits from the public would have been higher by NIS 7.7 billion.
- The balance of debentures and subordinated notes would have been higher by NIS 32.3 billion.

Profit and loss highlights (for 2021)
- Total non-interest revenues would have been higher by NIS 562 million.
- The share of net profit of associated companies, after tax effect, would have been lower by NIS 234 million.

Balance sheet highlights (as of December 31, 2020)
- The balance of investment in associated companies would have been lower by NIS 5.1 billion.
- The balance of deposits from the public would have been higher by NIS 11.8 billion.
- The balance of debentures and subordinated notes would have been higher by NIS 29.6 billion.

Profit and loss highlights (for 2020)
- Total non-interest revenues would have been higher by NIS 253 million.
- The share of net profit of associated companies, after tax effect, would have been lower by NIS 91 million.

Glossary and index of terms included on the annual financial statements

Below is a summary of terms included on the financial statements and index for these terms

Terms with regard to risks management at the Bank and to capital adequacy

ABC	**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.
	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.
	SOFR (Secured Overnight Financing Rate) – Interest rate used by banks for pricing of derivatives and loans linked to USD. This interest rate is based on transactions where investors offer to banks loans secured by their debenture assets. The Federal Reserve started publishing this rate in April 2018, as part of the effort to replace LIBOR rates.
B	**Basel – Basel II / Basel III** – Framework for assessment of capital adequacy and risk management, issued by the Basel Committee on Bank Supervision.
C	**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.
E	**Standard approach –** An approach used to calculate the required capital with respect to credit risk, market risk or operational risk. Calculation of capital allocation is based on a formula, which is based on supervisory assessment components which have been specified by the Supervisor of Banks.
	Supervisory capital (total capital) – Supervisory capital consists of two tiers: Tier I capital, which includes Tier I shareholders' equity and additional Tier I capital. Tier II equity: As defined in Proper Conduct of Banking Business Directive 202 "Measurement and capital adequacy – supervisory capital".
J	**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.
K	**Subordinated notes** – Notes whose rights are subordinated to claims by other Bank creditors, except for other obligations of the same type.
M	**Stress tests** – A title for various methods used to assess the financial standing of a banking corporation under a n extreme scenario.
	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.
N	**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.
	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.
O	**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.
S	**Loan To Value Ratio (LTV)** – The ratio between the approved facility when extended and the asset value.

Glossary and index of terms included on the annual financial statements

As of December 31, 2021

Terms with regard to banking and finance

ABC	**OTC – Over the Counter** – Transaction involving financial instruments which is conducted over the counter and not on a stock exchange.
A	**Off-balance sheet credit** – Contracting for providing credit and guarantees (excluding derivative instruments).
	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.
	Indebtedness – On- and off-balance sheet credit, as defined in Proper Conduct of Banking Business Directive 313.
	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.
	Inferior debt – Inferior debt is debt insufficiently secured by collateral or by debtor repayment capacity, and for which the Bank may incur a loss if faults are not corrected, including debt over NIS 700 thousand which is 60-89 days in arrears.
	Impaired debt – Debt is classified as impaired when its principal or interest is in arrears over 90 days, unless the debt is well secured and is in collection proceedings. Further, any debt whose terms and conditions have been changed in conjunction with restructuring of problematic debt would be classified as impaired debt, unless prior to and following such restructuring, a provision for credit losses by extent of arrears was made with respect to the debt pursuant to the appendix to Proper Conduct of Banking Business Directive 314 on problematic debt in residential mortgages.
	Problematic debt – Debt classified under one of the following negative classifications: special supervision, inferior or impaired.
J	**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.
M	**Financial instrument** – A contract that creates a financial asset for one entity and a financial liability or capital instrument for another entity.
	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.
N	**Derivatives** – A financial instrument or contract whose value changes in response to changes in the price of the underlying asset (a financial instrument, physical asset, index, credit rating or other underlying asset), requires a small or minimal initial investment, compared to other contract types, and is expected to be settled on a future date.
O	**Syndication** – A loan extended jointly by a group of lenders.
S	**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.

Terms with regard to regulatory directives

ABC	**EMIR - European Market Infrastructure Regulation** – EU regulations adopted in order to increase stability, transparency and efficiency of derivative markets.
	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).
	LCR – Liquidity Coverage Ratio – Defined as the ratio of High Quality Liquid Assets and net cash outflow for the next 30 days, under a stress scenario. This ratio is a benchmark for the Bank's capacity to fulfill its liquidity needs for the coming month.

Index

MIZRAHI TEFAHOT

www.mizrahi-tefahot.co.il

HEAD OFFICE

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

Trading in Financial Markets Sector

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

Marketing & Business Development Division

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

Trade Finance& International Activity

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

Tel -Aviv Principal Business Center

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

BRANCHES ABROAD

London Branch:
Mizrahi Tefahot Bank Ltd.

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

Los Angeles Branch:
Mizrahi Tefahot Bank Ltd.

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

SUBSIDIARY COMPANIES IN ISRAEL

ETGAR Portfolio Management of Mizrahi Tefahot Bank Ltd.

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

Technology Division of Mizrahi Tefahot Ltd.

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

Mizrahi Tefahot Trust Company Ltd.

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

INTERNATIONAL PRIVATE BANKING CENTERS

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

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

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

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

SUBSIDIARIES ABROAD

United Mizrahi Overseas Holding Company B.V.

Van Heuven Goedhartlaan 935A
Ld Amsterdam 1181
The Netherlands

2.2022

Bank Mizrahi Tefahot

Periodic report

2021

Table of Contents

Periodic report
As of December 31, 2021

To:
Israel Securities Authority
22 Kanfey Nesharim Street
Jerusalem 95464

Dear Sir/Madam,

Re: 2021 Periodic Report

Pursuant to the Securities Regulations (Periodic and immediate reports), 1970, we hereby present the Bank's 2021 periodic report.

Corporate information

Name of Corporation: Bank Mizrahi Tefahot Ltd.
Company ID with Registrar 520000522
Corporation's address of record: 7 Jabotinsky Street, Ramat Gan
Corporation's telephone: 03-7559219 fax: 03-7559923
Balance Sheet Date: December 31, 2021
Report date: February 28, 2022
Reported period: 2021

Regulation 9 – Financial statements

This periodic report includes the Report of the Board of Directors and Management, Description of Bank Group Business and the opinion of the Bank's Independent Auditor dated February 28, 2022.

Regulation 10c – Use of proceeds from securities pursuant to prospectus

No securities were issued pursuant to a prospectus in the reported period.

Regulation 11 – List of investments in subsidiaries and key affiliates as of December 31, 2021

	Share ID on the Stock Exchange	Shares held by the Bank		
		Share class	Number of shares	Total par value (in NIS / foreign currency)
–				
Bank Yahav for Government Employees Ltd.	Non-negotiable	Ordinary NIS 0.01	243,899	2,439
		Base NIS 0.01 par value	1	-(1)
		Ordinary NIS 0.01 par value	1	-(1)
Union Bank Le-Israel Ltd.	Non-negotiable	Ordinary NIS 0.01	81,583,024	81,583
Tefahot Insurance Agency (1989) Ltd.	Non-negotiable	Ordinary NIS 1	201	201
Netzivim Assets and Equipment Ltd.	Non-negotiable	Ordinary NIS 0.0001	1,508,696,157	150,870
Union Leasing Ltd.	Non-negotiable	Ordinary NIS 1	1,000	1,000

(1) Less than NIS 1.

				Capital investments and other investments			
	Cost of share purchase	Adjusted carrying amount	Loan balance	(Obligatory notes / debentures)			Holding stake
–	NIS / foreign currency in thousands		NIS in millions		Of capital	Of voting rights (in %)	of right to appoint Board members
	419,184	952	–	–	50.0	50.0	50.0
	1,223,000	3,229	–	–	100.0	100.0	100.0
	1	1,195	–	–	100.0	100.0	100.0
	333,171	1,047	–	–	100.0	100.0	100.0
	701	801	–	–	100.0	100.0	100.0

Regulation 13 – Revenues of subsidiaries and key affiliates and Bank revenues there from(1)

NIS in millions

	For the year ended December 31, 2021				
Company name	**Net profit (loss)(2)**	**Pre-tax profit (loss)(2)**	**Interest**	**Management fee**	**Dividends**
Union Bank Le-Israel Ltd.			–	–	–
Bank Yahav for Government Employees Ltd.	203	309	–	–	–
Tefahot Insurance Agency (1989) Ltd.	70	90	2	–	–
Netzivim Assets and Equipment Ltd.	33	24	–	–	–
Union Leasing Ltd.	34	44	6	–	–

(1) Only results of subsidiaries and affiliates with significant information are presented.
(2) As reported by the companies.

Regulation 14 – List of loan balance groups as of the balance sheet date

See Note 30.C to the financial statements.

Regulation 20 - Trading on stock exchange – securities listed for trading – dates and reasons for trading halts

During the reported period, 143,267 ordinary shares of NIS 0.1 par value each were listed for trading due to options exercise by Bank managers pursuant to an option plan. For more information see Note 23 to the financial statements.

During the reported period, there were no trading halts on the stock exchange.

Regulation 21 – Remuneration of interested parties and senior officers

For more information about remuneration of interested parties and senior officers in 2021, see "Details of senior officer remuneration" in chapter "Corporate Governance" of the financial statements, as well as chapter "Remuneration" on the Risks Report available on the Bank website.

Payments to members of the Bank Board of Directors, including VAT (except for payments to the Chairman of the Board of Directors) in 2021 amounted to NIS 7 million. Total pay and associated expenses for the Chairman of the Board of Directors and for the Bank President & CEO amounted to NIS 8 million (for more information see Notes 22.A, 23.B and 34.C to the financial statements, as well as the section "Details of senior officer remuneration" in chapter "Corporate governance" of the financial statements).

Regulation 21a – Names of controlling shareholders of the corporation

For details of the names of controlling shareholders of the corporation, see "Controlling shareholders" in chapter "Corporate governance" of the financial statements.

Regulation 22 – Transactions with controlling shareholder

For more information about transactions with controlling shareholders in 2021, see "Transactions with controlling shareholders and related parties" in chapter "Corporate governance" of the financial statements.

Regulation 24 – Shares and securities held by interested parties in the corporation

As of February 20, 2022

Ordinary shares NIS 0.1 par value and other securities of the Bank held by interested parties (security ID on the stock exchange – 0695437):

Name of interested party[5]	Company ID with Registrar / ID	Number of Shares	Holding stake in %	Number of options	Holding stake, fully diluted[4]
L.A.B.M. (Holdings) Ltd.[1]	51-2008442	33,399,930	13.02	-	9.32
L.I.N (Holdings) Ltd.[1]	51-1349896	21,086,277	8.22	-	5.88
F & W (Registered Partnership)[2]	54-0183118	33,512,844	13.07	-	9.35
M.W.Z. Holdings Ltd.[2]	51-2024225	18,930,468	7.38	-	5.28
HaPhoenix Excellence Group	-ו 520041989 520017450	14,984,290	5.84	-	4.18
Harel Group	520033986	12,976,856	5.06	-	3.62
Meitav Dash Group	520043795	12,825,207	5.00	-	3.58
Moshe Lari	28405934	-	-	87,362	0.02
Israel Engel	50402866	-	-	133,508	0.04
Ayala Hakim	56593767	-	-	128,827	0.04
Ofir Morad	24607806	-	-	133,508	0.04
Nissan Levy	59857946	-	-	129,201	0.04
Galit Weizer	23878341	-	-	97,331	0.03
Doron Klauzner	51277556	-	-	96,843	0.03
Menahem Aviv	12390175	-	-	96,111	0.03
Rachel Friedman	57222200	-	-	97,331	0.03
Adi Shachaf	25735598	-	-	69,681	0.02
Ofer Horvitz	40573743	-	-	52,930	0.01
The Public		108,778,694	42.41	[3]6,328,695	58.46
Total		**256,494,566**	**100.00**		**100.00**

(1) Ofer Group company.

(2) Wertheim Group company.

(3) Includes option plan approved for Bank employees, other than interested parties, pursuant to Regulation 24 of the Securities Regulations (Periodic and Immediate Reports), 1970.

(4) Data as of December 31, 2021. Changes subsequent to this date are reflected under "Public".

(5) Data as of December 31, 2021. Changes subsequent to this date are reflected under "Public".

(6) For more information about holdings of interested parties and agreements between controlling shareholders, see section "Controlling shareholders" in chapter "Corporate governance" of the financial statements.

Regulation 24a –Registered capital, issued capital and convertible securities(1)

Pursuant to Section 24a of the Securities Regulations, below is information about registered capital, issued capital and convertible securities (in NIS):

	Registered		Issued and paid-in	
	December 31,		December 31,	
	2021	2020	2021	2020
Ordinary shares, NIS 0.1 par value(2)	400,000,000	400,000,000	256,486,472	255,056,522

(1) For allotment of stock options – see Note 23 to the financial statements.
(2) The shares are listed for trading on the Tel Aviv Stock Exchange.

During the reported period, the issued and paid-in share capital increased by NIS 15,579 due to options exercised for shares by Bank managers.
All shares confer identical voting rights.

Regulation 24b – Shareholder registry as of February 20, 2022

	Number of Shares	Holding stake
Wertheim Group		
MWZ (Holdings) Ltd.	53	-
F & W Registered Partnership	29,275,441	11.41
Total – Wertheim Group	**29,275,494**	**11.41**
Ofer Group		
L.A.B.M. (Holdings) Ltd.	29,512,972	11.51
Total – Ofer Group	**29,512,972**	**11.51**
Mizrahi Tefahot Registration Company Ltd.	**197,706,097**	**77.08**
Fishman Mordechai	**3**	**-**
Grand total	**256,494,566**	**100.00**

	Number of options
Registry of option holders	
Option warrants to employees MizTef F 2017	9,765
Option warrants to employees MizTef F 2019	664,378
Option warrants to employees MizTef F 2020 outline	2,310,229
Option warrants to employees MizTef F 2021	3,337,933
Total	**6,322,305**

Registry of holders of subordinated capital notes

	Number of capital notes
Registry of holders of subordinated capital notes – Series A (Holder: Registration Company)	**600,000,000**

Regulation 26 – Board members of the Bank

Below is information about Board members of the Bank as of the report issue date:

Moshe Vidman, Chairman[(1)(2)]	
ID	690875
Year of birth	1943
Formal Address	9 Katzenelson Street, Tel Aviv
Citizenship	Israeli
Membership of Board of Directors' committees	Credit Committee – Chairman; IT and Technology, Ad-hoc Union Bank Integration Committee
Start date in office as member of the Bank's Board of Directors	August 02, 2010
Education	Undergraduate degree – Economics and Political Science, Hebrew University, Jerusalem. MBA (Financing), Hebrew University, Jerusalem.
Current occupation	Chairman, Board of Directors of Bank Mizrahi-Tefahot, serves on volunteer basis as: Member, Executive Board of the Jerusalem Foundation (since 2000); Member, Board of Trustees of the Hebrew University in Jerusalem (since 1995).
Previous occupation (in past 5 years, other than current occupation)	Chairman, Hebrew University Assets Ltd., Member, Executive Board of Magnes Book Publishers.
External Board member as defined in Proper Conduct of Banking Business Directive 301	No
External Board member as defined in the Companies Law	No
Independent Board member	No
Has accounting and financial expertise?	Yes
Has professional qualifications?	Yes
Expert Board member[(3)]	Yes
Employed by the corporation, subsidiary, affiliate or an interested party?	No
Family member of another interested party in the corporation?	No
Board member regarded by the corporation as having accounting and financial expertise for meeting the minimum number specified by the Board?	Yes

(1) Has "banking experience", pursuant to directives of the Supervisor of Banks.
(2) Serves as Chairman of the Board of Directors as from December 1, 2012.
(3) As this term is defined in the Companies Regulations (Rules for remuneration and expense reimbursement for external board members), 2000.

Regulation 26 – Board members of the Bank – Continued

Eli Alroy	
ID	050606318
Year of birth	1951
Formal Address	24 Amirim, Savyon
Citizenship	Israeli
Membership of Board of Directors' committees	IT and Technology; Ad-hoc Union Bank Integration Committee
Start date in office as member of the Bank's Board of Directors	June 25, 2019
Education	B.Sc. In Sciences, specialized in civil engineering, Technion Israeli Technology Institute, 1974. M.Sc. in Sciences, Stanford University, California, USA, 1982.
Current occupation	Board member of Bank Mizrahi Tefahot Ltd., Member of O.G. Advisory committee; Board member of L.I.N (Holdings Ltd.); CEO and Board member of AIRAD Investments Ltd.; and Board member of the following: L.I.N Innovation Ltd., L.A.B.M. (Holdings) Ltd., OG Tech Holdings 2017 Ltd.; OG Tech Ventures Ltd., L.I.N – L.A.B.M (Holdings) Ltd., Amkiri Ltd.
Previous occupation (in past 5 years, other than current occupation)	Board member of: Ofer Investments Ltd., Ofer Bros. Holdings (1989) Ltd., Abir Haber Ltd., Bizaboo Ltd., Shachal Telemedicine Ltd., A.F.A Real Estate Investments Ltd. (in dissolution), Cloud 9 Wellness and Fitness Ltd., AIADR Ltd., Quick Check Ltd., OG Tech Partners Ltd., Globalworth Real Estate Investment Limited.
External Board member as defined in Proper Conduct of Banking Business Directive 301	No
External Board member as defined in the Companies Law	No
Independent Board member[1]	No
Has accounting and financial expertise?	No
Has professional qualifications?	Yes
Expert Board member[1]	Yes
Employed by the corporation, subsidiary, affiliate or an interested party?	No
Family member of another interested party in the corporation?	No
Board member regarded by the corporation as having accounting and financial expertise for meeting the minimum number specified by the Board?	No

(1) As this term is defined in the Companies Regulations (Rules for remuneration and expense reimbursement for external board members), 2000.

Regulation 26 – Board members of the Bank – Continued

Ron Gazit[1]	
ID	050688605
Year of birth	1951
Formal Address	8 Herzel Rosenblum Street, Tel Aviv
Citizenship	Israeli
Membership of Board of Directors' committees	IT and Technology, Credit Committee
Start date in office as member of the Bank's Board of Directors	December 14, 2003
Education	Undergraduate degree (LLB) Law degree, Attorney – Tel Aviv University
Current occupation	Board member of Bank Mizrahi Tefahot Ltd., Consultant to Tanzanite Capital Ltd.
Previous occupation (in past 5 years, other than current occupation)	
External Board member as defined in Proper Conduct of Banking Business Directive 301	No
External Board member as defined in the Companies Law	No
Independent Board member	No
Has accounting and financial expertise?	No
Has professional qualifications?	Yes
Expert Board member[2]	Yes
Employed by the corporation, subsidiary, affiliate or an interested party?	No
Family member of another interested party in the corporation?	No
Board member regarded by the corporation as having accounting and financial expertise for meeting the minimum number specified by the Board?	No

(1) Has "banking experience", pursuant to directives of the Supervisor of Banks.
(2) As this term is defined in the Companies Regulations (Rules for remuneration and expense reimbursement for external board members), 2000.

Regulation 26 – Board members of the Bank – Continued

Estheri Giloz-Ran	
ID	025682154
Year of birth	1974
Formal Address	1 Yefe Nof, Givatayim
Citizenship	Israeli
Membership of Board of Directors' committees	Audit, Remuneration, IT and Technology
Start date in office as member of the Bank's Board of Directors	February 27, 2021
Education	BA in Humanities – Management (Open University); CPA (Management College); MBA in Business Administration (Ben Gurion University); PhD in Accounting and Taxes (Ben Gurion University).
Current occupation	Board member of Bank Mizrahi Tefahot Ltd., Board member of: Overseas Commerce Ltd., Orda Print Industries Ltd., M. Yohananof and Sons (1988) Ltd., Netanel Group Ltd., Aran Research and Development (1982) Ltd., Aminach Industries Furniture and Mattresses Ltd., ImageSat Internationsl (ISI) Ltd. Lecturer at Bar Ilan University, author of professional opinions for use in Court.
Previous occupation (in past 5 years, other than current occupation)	Head of Accounting Department and lecturer at the Business Administration Department at Peres Academic Center. Member, Professional Board of the Institute of Certified Public Accountants in Israel. Member, Testing Board of the Institute of Certified Public Accountants in Israel. Board member of the following: Tamir Fishman & Co. Ltd., Investment House (Chair), ExposeBox Ltd., Sanny Electronics Ltd., Kamada Ltd., Medipower Public Co. Ltd., Blue Square Real Estate Ltd.
External Board member as defined in Proper Conduct of Banking Business Directive 301	Yes
External Board member as defined in the Companies Law	Yes
Independent Board member	Yes
Has accounting and financial expertise?	Yes
Has professional qualifications?	Yes
Expert Board member(1)	Yes
Employed by the corporation, subsidiary, affiliate or an interested party?	No
Family member of another interested party in the corporation?	No
Board member regarded by the corporation as having accounting and financial expertise for meeting the minimum number specified by the Board?	Yes

(1) As this term is defined in the Companies Regulations (Rules for remuneration and expense reimbursement for external board members), 2000.

Regulation 26 – Board members of the Bank – Continued

Avraham Zeldman[1]	
ID	05795919
Year of birth	1948
Formal Address	6 Shivtey Israel Street, Ra'anana
Citizenship	Israeli
Membership of Board of Directors' committees	Ad-hoc Union Bank Integration Committee – Chair, Audit Committee, Risks Management Committee
Start date in office as member of the Bank's Board of Directors	February 26, 2015
Education	Studied statistics and economics, no degree award (Haifa University), certificate studies in business administration (Haifa University).
Current occupation	Board member of Bank Mizrahi Tefahot Ltd., Chairman of the Board of Directors of Fox Wiezel Ltd., Board member of A. Zeldman Management Ltd., Consultant to Polyeurethane Ltd.; Executive Board member, MATI Raanana; Executive Board member, Dualis Fund for Social Investments.
Previous occupation (in past 5 years, other than current occupation)	Board member of: Liliot Group Ltd.; Liliot Baker Ltd.
External Board member as defined in Proper Conduct of Banking Business Directive 301	No
External Board member as defined in the Companies Law	No
Independent Board member	No
Has accounting and financial expertise?	Yes
Has professional qualifications?	Yes
Expert Board member[2]	Yes
Employed by the corporation, subsidiary, affiliate or an interested party?	No
Family member of another interested party in the corporation?	No
Board member regarded by the corporation as having accounting and financial expertise for meeting the minimum number specified by the Board?	Yes

(1) Has "banking experience", pursuant to directives of the Supervisor of Banks.
(2) As this term is defined in the Companies Regulations (Rules for remuneration and expense reimbursement for external board members), 2000.

Regulation 26 – Board members of the Bank – Continued

Hannah Feuer [1]	
ID	053549523
Year of birth	1955
Formal Address	13 HaChermesh Street, Savyon
Citizenship	Israeli
Membership of Board of Directors' committees	Remuneration – Chair, Audit, Credit
Start date in office as member of the Bank's Board of Directors	August 30, 2018
Education	Degree in Sociology, Tel Aviv University Undergraduate degree in Sociology (Tel Aviv University) and additional accounting studies with no academic degree awarded (California State University Northridge (CSUN)).
Current occupation	Board member of Bank Mizrahi Tefahot Ltd.
Previous occupation (in past 5 years, other than current occupation)	Poalim Capital Markets Ltd. – CFO and executive in all Poalim Capital Markets Ltd. Group companies; Board member of: Poalim Real Estate Fund (Israel) Ltd., Poalim Real Estate Fund Ltd.; External Board member of the following: Discount Capital Ltd., OWC – Pharmaceutical Research Corp .
External Board member as defined in Proper Conduct of Banking Business Directive 301	Yes
External Board member as defined in the Companies Law	Yes
Independent Board member	Yes
Has accounting and financial expertise?	Yes
Has professional qualifications?	Yes
Expert Board member [2]	Yes
Employed by the corporation, subsidiary, affiliate or an interested party?	No
Family member of another interested party in the corporation?	No
Board member regarded by the corporation as having accounting and financial expertise for meeting the minimum number specified by the Board?	Yes

(1) Has "banking experience", pursuant to directives of the Supervisor of Banks.
(2) As this term is defined in the Companies Regulations (Rules for remuneration and expense reimbursement for external board members), 2000.

Regulation 26 – Board members of the Bank – Continued

Joseph Fellus	
ID	**051641025**
Year of birth	1953
Formal Address	11 Yehuda HaLevi, Raanana
Citizenship	Israeli
Membership of Board of Directors' committees	Audit – Chair, Credit; Risks Management; Remuneration; Ad-hoc Union Bank Integration Committee
Start date in office as member of the Bank's Board of Directors	August 20, 2019
Education	BA in Accounting (Tel Aviv University), Practical Engineer in Electronics (Technicum Yad Singalovski).
Current occupation	Board member of Bank Mizrahi Tefahot Ltd., Board member of: Kaitz BeYafo Ltd., Massa Kaitz Ltd., Hayde Yafo Ltd., Meitav HaTene Holdings (1977) Ltd., Meitav HaTene Land Holdings Ltd. Chairman of the Board of Directors and CEO of Joseph Fellus Accountants Ltd.
Previous occupation (in past 5 years, other than current occupation)	Partner in accounting firm; providing Consulting and CFO service provider (as CFO) to a private company and to three subsidiaries thereof; Bar Pal Foreign Investments Ltd.
External Board member as defined in Proper Conduct of Banking Business Directive 301	Yes
External Board member as defined in the Companies Law	Yes
Independent Board member	Yes
Has accounting and financial expertise?	Yes
Has professional qualifications?	Yes
Expert Board member(1)	Yes
Employed by the corporation, subsidiary, affiliate or an interested party?	No
Family member of another interested party in the corporation?	No
Board member regarded by the corporation as having accounting and financial expertise for meeting the minimum number specified by the Board?	Yes

(1) As this term is defined in the Companies Regulations (Rules for remuneration and expense reimbursement for external board members), 2000.

Regulation 26 – Board members of the Bank – Continued

Jonathan Kaplan	
ID	055251391
Year of birth	1958
Formal Address	2 Haim Zakay Street, Petach Tikva
Citizenship	Israeli
Membership of Board of Directors' committees	Credit, Risk Management, Ad-hoc committee for integration of Union Bank, IT and Technology
Start date in office as member of the Bank's Board of Directors	May 12, 2011
Education	Undergraduate degree in Economics and Accounting (Tel Aviv University); CPA; graduate degree in Political Science and National Security (Haifa University; National Security College, Tel Aviv).
Current occupation	Board member of Bank Mizrahi Tefahot Ltd., Economic Advisor. Board member of: Central Bottling Company Ltd.; International Breweries Ltd.; Novolog PharmUp Marketing (1966) Ltd.; Vilar International Ltd.
Previous occupation (in past 5 years, other than current occupation)	Board member of Amir Agricultural Marketing and Investments Ltd.
External Board member as defined in Proper Conduct of Banking Business Directive 301	No
External Board member as defined in the Companies Law	No
Independent Board member	No
Has accounting and financial expertise?	Yes
Has professional qualifications?	Yes
Expert Board member(1)	Yes
Employed by the corporation, subsidiary, affiliate or an interested party?	No
Family member of another interested party in the corporation?	No
Board member regarded by the corporation as having accounting and financial expertise for meeting the minimum number specified by the Board?	Yes

(1) As this term is defined in the Companies Regulations (Rules for remuneration and expense reimbursement for external board members), 2000.

Regulation 26 – Board members of the Bank – Continued

Ilan Kremer	
ID	059841742
Year of birth	1967
Formal Address	7 HaDror, Mevaseret Zion
Citizenship	Israeli
Membership of Board of Directors' committees	Risk Management
Start date in office as member of the Bank's Board of Directors	March 27, 2019
Education	Undergraduate degree in Physics and Computer Science (Hebrew University in Jerusalem), graduate degree in Computer Science (Hebrew University in Jerusalem), PhD in Financing (Northwestern University, Evanston Illinois).
Current occupation	Board member of Bank Mizrahi Tefahot Ltd.; Professor of Economics and Financing at Hebrew University, 2011 to date. Professor of Economics at Warwick University, 2012-date.
Previous occupation (in past 5 years, other than current occupation)	External consultant to Research Department of the Bank of Israel, August 2014 to March 2019.
External Board member as defined in Proper Conduct of Banking Business Directive 301	No
External Board member as defined in the Companies Law	No
Independent Board member	No
Has accounting and financial expertise?	Yes
Has professional qualifications?	Yes
Expert Board member(1)	Yes
Employed by the corporation, subsidiary, affiliate or an interested party?	No
Family member of another interested party in the corporation?	No
Board member regarded by the corporation as having accounting and financial expertise for meeting the minimum number specified by the Board?	Yes

(1) As this term is defined in the Companies Regulations (Rules for remuneration and expense reimbursement for external board members), 2000.

Regulation 26 – Board members of the Bank – Continued

Gilad Rabinobich	
ID	057153603
Year of birth	1961
Formal Address	7 Mitzpeh Street, Shoham
Citizenship	Israeli
Membership of Board of Directors' committees	IT and Technology– Chair; Audit, Risk Management, Remuneration, Ad-hoc Union Bank Integration Committee
Start date in office as member of the Bank's Board of Directors	March 12, 2019
Education	Undergraduate degree in Economics (Bar Ilan University), Graduate degree in Israeli Studies (Haifa University), Programming course (IDF) and system analysis course (IDF).
Current occupation	Board member of Bank Mizrahi Tefahot Ltd.; Owner and CEO of A.T. Strategy Pillars Ltd., guest lecturer in business administration, technology and entrepreneurship, Ono Academic campus, owner and CEO of Gilad Rabinobich Ltd., Board member (volunteer) of Tzofen – High Tech Centers Ltd., Chairman of Executive Board of Be'eri Pre-Military School.
Previous occupation (in past 5 years, other than current occupation)	CEO if SQLink, Director General of Labor Party, Deputy Head of Council, Shoham and holder of Education Portfolio on Shoham Council (volunteer), Board member (volunteer) of Bet Arlozorov Ltd., CEO of A.T. Strategy Ltd., CEO of R.G.I.H.G Ltd.
External Board member as defined in Proper Conduct of Banking Business Directive 301	Yes
External Board member as defined in the Companies Law	Yes
Independent Board member	Yes
Has accounting and financial expertise?	Yes
Has professional qualifications?	Yes
Expert Board member[1]	Yes
Employed by the corporation, subsidiary, affiliate or an interested party?	No
Family member of another interested party in the corporation?	No
Board member regarded by the corporation as having accounting and financial expertise for meeting the minimum number specified by the Board?	Yes

(1) As this term is defined in the Companies Regulations (Rules for remuneration and expense reimbursement for external board members), 2000.

Regulation 26 – Board members of the Bank – Continued

Below is additional information about Board members with accounting and financial qualifications

Moshe Vidman

Undergraduate degree in Economics and Political Science and graduate degree in Business Administration (Financing).

Mr. Vidman has served as Board member of the Bank since August 2010 and serves as Chairman of the Bank Board of Directors as from December 2012. Mr. Vidman has also served as member of the Bank Board of Directors' Audit Committee prior to his appointment as Chairman of the Board of Directors.

Previously, Mr. Vidman has served, *inter alia*, as Member of the Board of Directors of Bank Leumi Le-Israel Ltd. (2004-2010) and as member of the Audit Committee of Bank Leumi Le-Israel Ltd. (For 3 years); as Board member and member of the Audit Committe and Finance Committee of the Israel Corporation Ltd.; as Board member and Chairman of the Audit Committee of Partner Communications Ltd.; and as Board member of other public companies with significant business volumes, including ICL Ltd. and Melisron Ltd.

Estheri Giloz-Ran

BA in Social Sciences – Management, CPA, MBA in Business Administration and PhD in Accounting and Taxes.

Ms. Giloz-Ran serves as external Board member of the Bank and member of the Audit Committee as from February 2021.

Ms. Giloz-Ran serves as lecturer at Bar Ilan University (since 2017) and has served as Head of the Accounting Department and as lecturer in the Business Administration Department at Peres Academic Center (2011-2017); Ms. Giloz-Ran has also served as member of the Professional Council of the Institute of Certified Public Accountants in Israel (2018-2020) and has served as member of the Testing Committee of the Institute of Certified Public Accountants in Israel (2018-2020).

Ms. Giloz-Ran also serves, *inter alia*, as external Board member and member of the Audit Committee of public companies with significant business volume (for some also serves as Chair of the Audit Committee) and provides opinions for use in Court (significant volume) on business and accounting matters and on matters related to financial statements (since 2015).

Avraham Zeldman

Studied Statistics and Economics, certificate studies in Business Administration (not eligible for degree).

Mr. Zeldman has served as Board member of the Bank since February 2015 and serves as Chairman of the Bank Board of Directors' Audit Committee since December 2017.

Mr. Zeldman has held senior positions at Bank Leumi Group, as follows: Executive with Bank Leumi (1987-1999), CEO of Leumi Partners Ltd. (1999-2010) and Chairman of the Board of Directors of Bank Leumi Leumi LeMashkantaot Ltd. (1987-2010).

Mr. Zeldman has also been serving as Board member of other public companies.

Hannah Feuer

Undergraduate degree in Sociology and additional accounting studies with no academic degree awarded (California State University Northridge (CSUN)) (two years of studies).

Ms. Feuer serves as external Board member of the Bank and member of the Audit Committee as from August 2018.

Ms. Feuer has served as CFO and executive of Poalim Capital Markets Ltd. (2003-2017) and as CFO of Shrem Podim Kelner Group (1993-2002).

Ms. Feuer has professional experience in audit management with accounting firms (1985-1988 and 1989-1993).

Joseph Fellus

Undergraduate degree in Accounting, licensed CPA, undergraduate degree in Economics.

Mr. Fellus serves as external Board member of the Bank and member of the Audit Committee as from August 2019. In January 2020, Mr. Fellus was appointed Chairman of the Audit Committee.

Mr. Fellus has served (through March 31, 2019) as Parner of an accounting firm and has served (2014-2019) as Partner in Charge of Audit, High-Tech and Consulting. Mr. Fellus was with this accounting firm for 35 years, of which 25 years as Partner engaged, *inter alia*, in audit management for public and private companies with significant business volumes.

Jonathan Kaplan

Undergraduate degree in Economics and Accounting, licensed CPA, graduate degree in Political Science and National Security.

Has been serving as Board member of the Bank since May 2011.

Mr. Kaplan has served (1999-2001) as Director General of the Tax Authority; Previously he has worked (since 1982) at the Tax Authority and has served (since 1993) as Deputy Director General for Tax Assessment; Mr. Kaplan has also been serving for 20 years as economic consultant to public and private companies engaged, *inter alia*, in consulting on issues of management and taxation.

Mr. Kaplan has also been serving as Board member of other public companies.

Ilan Kremer

Undergraduate degree in Physics and Computer Science, Graduate degree in Computer Science, PhD in Financing.

Mr. Kremer has been serving as Board member of the Bank since March 2019.

Mr. Kremer has been Professor of Economics and Financing at the Hebrew University (2011 to date) and Professor of Economics at Warwick University, UK (2012 to date). Mr. Kremer was also (2000-2012) Professor of Financing at Stanford University, USA; Mr. Kremer has been serving, *inter alia*, as lecturer on business and accounting matters and on matters related to financial statements.

Gilad Rabinobich

Undergraduate degree in Economics and graduate degree in Israel Studies.

Mr. Rabinobich serves as Board member of the Bank and member of the Audit Committee as from March 2019.

Mr. Rabinobich has served as CEO of Malam Systems Ltd. (Public company) from December 2001 to June 2006.

The Bank's Board of Directors thanks the Bank President & CEO, management and employees for their efforts to promote the Bank, to expand its business and client base.

Regulation 26a – List of senior Bank executives[1]

Below is information about senior Bank officers as of the issue date of the financial statements:

Moshe Lari[2]	
ID	28405934
Birth date	1971
Title	President & CEO
Start of term in office	November 8, 2009 (since September 16, 2020 – as Bank President & CEO)
Position held with the banking corporation	President & CEO
Position held with the subsidiary	Chairman, Union Bank Le-Israel Ltd.; Chairman, Mizrahi Tefahot Technology Division Ltd.
Family member of another senior officer or of an interested party in the banking corporation	No
Education	Undergraduate degree in Economics and Accounting, Hebrew University, Jerusalem. Graduate degree in Business Administration from Tel Aviv University; CPA
Business experience (in past 5 years)	Manager, Financial Division – CFO at Bank Mizrahi Tefahot Ltd. Chairman, Mizrahi Tefahot Issuance Company Ltd.; Chairman, Mizrahi Tefahot Trust Company Ltd.; Board member of Bank Yahav; Chairman, Mizrahi Bank Switzerland

Menahem Aviv	
ID	012390175
Birth date	1959
Start of term in office	April 13, 2005
Title	Vice-President
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Manager, Financial Information and Reporting Division and Chief Accountant Board member, Union Bank Le-Israel Ltd.
Family member of another senior officer or of an interested party in the banking corporation	No
Education	Undergraduate degree in Accounting and Economics – Tel Aviv University Graduate degree in Business Administration (MBA) Tel Aviv University, CPA
Business experience (in past 5 years)	Chief Accountant, Bank Mizrahi Tefahot Ltd.

Israel Engel	
ID	50402866
Birth date	1950
Start of term in office	January 01, 2005
Title	Vice-President
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	VP, Retail Division Chairman of the Board of Bank Yahav; Board member of Tefahot Insurance[3]
Family member of another senior officer or of an interested party in the banking corporation	No
Education	Undergraduate degree in Economics and Accounting from Bar Ilan University. Graduate degree in Business Administration (Financing) from Bar Ilan University, CPA
Business experience (in past 5 years)	Manager, Retail Division at Bank Mizrahi Tefahot Ltd.

(1) Senior officers include no family members of another senior officer or interested party.
(2) Mr. Moshe Lari is an interested party due to his office as President & CEO of the Bank.
(3) Tefahot insurance – Tefahot Insurance Agency (1989) Ltd.

Regulation 26a – List of senior Bank executives[1] – Continued

Galit Weiser[2]	
ID	023878341
Birth date	1968
Start of term in office	July 07, 2011
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Chief Internal Auditor; Manager, Internal Audit Division Chief Internal Auditor, Union Bank; Chief Internal Auditor, Bank Yahav and: Etgar, Ne'emanut, Mizrahi Tefahot Issuance, Netzivim, Tefahot Insurance[3].
Family member of another senior officer or of an interested party in the banking corporation	No
Education	Undergraduate degree in Accounting and Statistics from the Hebrew University, Jerusalem. Graduate degree in Business Administration from the Hebrew University, Jerusalem; CPA
Business experience (in past 5 years)	Chief Internal Auditor; Manager, Internal Audit Division, Bank Mizrahi Tefahot Ltd.

Ayala Hakim	
ID	056593767
Birth date	1960
Start of term in office	July 01, 2013
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Manager, Mizrahi Tefahot Technology Division Ltd.; CIO of Bank Mizrahi Tefahot Ltd.; Board member of Union Bank Le-Israel Ltd.
Family member of another senior officer or of an interested party in the banking corporation	No
Education	Undergraduate degree in Accounting and Political Science – Bar Ilan University; Graduate degree in Business Administration – Bar Ilan University;
Business experience (in past 5 years)	Manager, Mizrahi Tefahot Technology Division Ltd.; CIO of Bank Mizrahi Tefahot Ltd.

Nissan Levy	
ID	59857946
Birth date	1967
Start of term in office	February 02, 2014
Title	Vice-President
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Manager, Human Capital, Resources and Operations Division. Chair, Tefahot Insurance[2], Chair, Mizrahi-Tefahot Security Services Ltd.; Chair, Netzivim Assets and Equipment Ltd.
Family member of another senior officer or of an interested party in the banking corporation	No
Education	Undergraduate degree in Economics and Accounting, Hebrew University, Jerusalem. Graduate degree in Business Administration from the Hebrew University, Jerusalem; CPA
Business experience (in past 5 years)	Manager, Planning, Operations and Customer Asset Division at Bank Mizrahi Tefahot Ltd.; Chair, Mizrahi Tefahot Technology Division Ltd.

(1) Senior officers include no family members of another senior officer or interested party.
(2) Pursuant to provisions of Section 146(B) of the Corporations Act, 1999 – the Internal Auditor is not an interested party of the corporation, an officer or relative there of.
(3) Etgar – Etgar Investment Portfolio Management Company of the Mizrahi Tefahot Group Ltd.
Ne'emanut – Mizrahi Tefahot Trust Company Ltd.
Mizrahi Tefahot Issuance – Mizrahi Tefahot Issue Company Ltd.
Netzivim – Netzivim Assets and Equipment Ltd.
Tefahot insurance – Tefahot Insurance Agency (1989) Ltd.

Regulation 26a – List of senior Bank executives[1] – Continued

Ofir Morad	
ID	24607806
Birth date	1969
Start of term in office	January 01, 2014
Title	Vice-President
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Manager, Business Banking Division Board member of Bank Yahav for Government Employees Ltd.
Family member of another senior officer or of an interested party in the banking corporation	No
Education	Undergraduate degree in Economics and Business Administration – Bar Ilan University Graduate degree in Industrial Engineering – Ben Gurion University
Business experience (in past 5 years)	Manager, Business Banking Division at Bank Mizrahi Tefahot Ltd.

Terry Yaskil	
ID	016834145
Birth date	1973
Start of term in office	
Title	Vice-President
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Manager, Marketing, Promotion and Business Development Division
Family member of another senior officer or of an interested party in the banking corporation	No
Education	Undergraduate degree in Psychology, Ben Gurion University; Studies towards graduate degree in Psychology, Ben Gurion University
Business experience (in past 5 years)	VP, Marketing, Partner; Deputy CEO, ZAP

Rachel Friedman	
ID	057222200
Birth date	1961
Start of term in office	January 01, 2015
Title	Vice-President
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Chief Legal Counsel; Manager, Legal Division
Family member of another senior officer or of an interested party in the banking corporation	No
Education	Undergraduate Law degree (LL. B) – Tel Aviv University Graduate Law degree (LL. M) – Tel Aviv University.
Business experience (in past 5 years)	Chief Legal Counsel; Manager, Legal Division of Bank Mizrahi Tefahot Ltd.

(1) Senior officers include no family members of another senior officer or interested party.

Regulation 26a – List of senior Bank executives[1] – Continued

Doron Klauzner	
ID	51277556
Birth date	1952
Start of term in office	November 8, 2009 (since January 01, 2014 – in their current office)
Title	Vice-President
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Manager, Risks Control Division, CRO.
Family member of another senior officer or of an interested party in the banking corporation	No
Education	Undergraduate degree in Economics and Business Administration – Bar Ilan University
Business experience (in past 5 years)	Manager, Risks Control Division – CRO at Bank Mizrahi Tefahot Ltd.

Adi Shachaf	
ID	025735598
Birth date	1974
Start of term in office	September 16, 2020
Title	Vice-President
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Manager, Financial Division – CFO Chairman, Mizrahi Tefahot Issuance Company Ltd., Chairman of Mizrahi Tefahot Trust Company Ltd., Board member of Union Bank Le-Israel Ltd.
Family member of another senior officer or of an interested party in the banking corporation	No
Education	Undergraduate degree in Psychology – Hebrew University, Jerusalem. Graduate degree in Business Administration – Hebrew University, Jerusalem.
Business experience (in past 5 years)	Deputy Manager, Finance Division at Bank Mizrahi Tefahot Ltd.

Ofer Horvitz	
ID	040573743
Birth date	1980
Start of term in office	March 01, 2020
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Bank Secretary and HQ Chief of Staff
Family member of another senior officer or of an interested party in the banking corporation	No
Education	Combined undergraduate degrees in: Philosophy, Economics and Political Science – Hebrew University, Jerusalem.
Business experience (in past 5 years)	Personal assistant to President & CEO of Bank Mizrahi-Tefahot Ltd.

(1) Senior officers include no family members of another senior officer or interested party.

Reg. 26b – Authorized signatories of the Bank

The Bank has no sole authorized signatory.

Regulation 27 – Independent Auditor of the Bank

Brightman Almagor Zohar & Co., CPAs, 1 Azrieli Center, Tel Aviv.

Reg. 28 - Changes to Articles of Incorporation or to Bylaws

In the reported period, no changes were made to Articles of Incorporation nor to Bylaws of the Bank.

Regulation 29 - Recommendations and decisions by Board members

A. Recommendations by Board members to the General Meeting and resolutions not requiring approval by the General Meeting, with regard to matters listed in the Bylaws:

In conformity with resolution by the Bank Board of Directors dated February 26, 2018, it is the Bank's dividends 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 dividends 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 dividends amount to be distributed by the Bank pursuant to the dividends policy. "Distribution" pursuant to the dividends policy (both dividends 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 dividends 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 dividends distribution in excess of 30% of net income for 2020 would not be deemed careful, conservative capital planning. Consequently, the Bank Board of Directors approved on August 16, 2021 a dividends distribution amounting to NIS 483 million, or 30% of 2020 earnings.

On September 30, 2021, the Supervisor of Banks extended the interim directives (in addition to certain adjustments) by a further 3 months, through December 31, 2021, and announced that dividends distribution is allowed also with respect to 2021 earnings (even when the interim directive is in effect), and that distribution of dividends in excess of 30% of net earnings in 2021 would not be deemed careful, conservative capital planning. Consequently, the Bank Board of Directors approved on November 15, 2021 a dividends distribution amounting to NIS 752.7 million, or 30% of earnings in the first nine months of 2021, as stated below.

On December 27, 2021, the Supervisor of Banks announced that as from January 1, 2022, the interim directive expired, except for specific provisions for which a later expiration date was specified in the interim directive. In the explanation, the Supervisor of Banks noted that with regard to dividend distribution, banking corporations should be careful and should consider that some uncertainty still exists in the markets.

The Bank intends to continue acting in conformity with the Bank's dividends policy, subject to statutory provisions and the foregoing, and to approval by the Supervisor of Banks of the 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 dividends 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 equity 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 dividends 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.

Below are details of dividend distributions by the Bank in the reported period:

- On August 31, 2021: NIS 483.0 million.
- On November 30, 2021: NIS 752.7 million.

For more information about the resolution by the Bank's Board of Directors, dated February 28, 2022, to distribute dividends amounting to NIS 271.6 million, or 40% of earnings in the fourth quarter of 2021, in conformity with the Bank's dividend policy and in view of the Supervisor of Banks' announcement dated December 27, 2021, whereby as from January 1, 2022, the interim directive (Proper Conduct of Banking Business Directive 250 regarding "Adjustments to Proper Conduct of Banking Business Directives for addressing the Corona Virus Crisis") expired, except for specific provisions for which a later expiration date was specified in the interim directive, see Note 36 to the financial statements

B. Resolutions by the General Meeting made other than in accordance with recommendations made by Board members on issues set forth in sub-section (a): None

C. Resolutions by an extraordinary General Meeting:

On March 22, 2021, the General Meeting approved contracting of a Board member and officer liability insurance policy, including the Bank's Chief Internal Auditor. For more information see Immediate Report by the Bank dated March 22, 2021 (reference: 2021-01-041076).

An extraordinary General Meeting of Company Shareholders convened on July 6, 2021 resolved to approve the revised remuneration policy for Bank officers, as enclosed in Appendix A to the immediate report convening the extraordinary General Meeting, issued by the Bank on May 31, 2021 (reference: 2021-01-093369), to be in effect through December 31, 2023.

The General Meeting held on August 24, 2021 resolved as follows:

- Approve the appointment of Ms. Hannah Feuer as External Board member of the Bank, pursuant to the Corporate Act (also compliant with qualifications for External Board member pursuant to Directive 301) for a further term of three (3) years as from August 30, 2021.
- Approve the Bank's revised waiver and commitment to indemnification.

For more information, see Immediate Report by the Bank dated October 15, 2020, reference 2020-01-103756.

The annual General Meeting held on December 21, 2021 resolved to:

a. Re-appoint Brightman Almagor Zohar & Co. as the Bank's Independent Auditor through the next annual General Meeting of Bank shareholders.
b. Approve re-appointment of Mr. Gilad Rabinobich as External Board member of the Bank, pursuant to the Corporate Act (also compliant with qualifications for External Board member pursuant to Directive 301) for a further term of three (3) years as from March 12, 2022.

Regulation 29a(4) – Corporate resolutions

See Note 26.C.(5-9) to the financial statements.

Ramat Gan, February 28, 2022.

Names of signatories:

Menahem Aviv	**Ofer Horvitz**
Vice-president,	Bank Secretary
Chief Accountant	

CORPORATE GOVERNANCE SURVEY[1]

BOARD INDEPENDENCE

			True	False
1.		Throughout the reported period, two or more external Board members served the Corporation. This question may be answered True if the period in which no two external Board members served the Corporation does not exceed 90 days, as per Section 363a.(b)(10) of the Corporate Act; however, for any answer, indicate the period during the reported period(in days) in which no two external Board members served the Corporation (including any term of office approved retroactively, separately for the individual external Board members): Board member A: **Ms. Hannah Feuer** Board member B: **Mr. Gilad Rabinobich** Board member C: **Mr. Joseph Fellus** Board member D: **Estheri Giloz-Ran** (start date in office as Board member of the Bank: February 27, 2021) Number of independent Board members who serve the Corporation as of the publication date of this survey: **4**.	✔	

[1] Published in conjunction with proposed legislation for improvement of reports on March 16, 2014.

2.		Percentage[2] of independent Board members[3] who serve the Corporation as of the publication date of this survey: **<u>4/10</u>**. The percentage of Independent Board Members stipulated in the bylaws[4] of the Corporation[5]: **<u>In conformity with Proper Conduct of Banking Business Directive with regard to the Board of Directors, issued by the Supervisor of Banks, at least one third of Board members of a banking corporation must be external Board members, as this term is defined in the aforementioned directive ("External Board members pursuant to the Supervisor's directive"). As of the publication date of this survey, the Bank has four (4) external Board members, as this term is defined in the Corporate Act, 1999, also compliant with qualifications for External Board member pursuant to directive issued by the Supervisor of Banks. All external Board members are also independent Board members.</u>** ☐ N/A (no provisions included in the bylaws).		
3.		In the reported period, the external (and independent) Board members were verified to be in compliance, during the reported period, with provisions of Sections 240(b) and (f) of the Corporate Act with regard to absence of affinity for external (or independent) Board members serving the Corporation - and verified to fulfill the requirements for the office of an external (or independent) Board member. **<u>Each of the external Board members (who is also an independent Board member) has provided a statement to the Bank, whereby they are in compliance with provisions of Section 240(b) and (f) of</u>**	✔	

---

2 In this survey, "**percentage**" means a ratio out of the total number. Thus, for example: 3/8.

3 Including "External Board Members" as defined in the Corporate Act.

4 For this matter, "Bylaws" including pursuant to specific statutory provisions applicable to the Corporation (for example, for a banking corporation – directives of the Supervisor of Banks).

5 A debenture company is not required to answer this item.

		<u>the Corporate Act with regard to absence of affinity, and that they meet the required conditions for serving as external Board Member (or independent Board member), as noted above.</u>		
4.		All Board members who served the Corporation during the reported period do <u>not</u> report[6] to the CEO, directly or indirectly (except for any Board member who is an employee representative - if employees are represented at this Corporation). If you answered False (i.e. a Board member reports to the CEO) - please indicate the percentage of Board members who did <u>not</u> comply with the aforementioned restriction: _____.	✔	
5.		All Board members who disclosed their personal interest in approval of a transaction on the agenda for the meeting, did not take part in the aforementioned discussion and/or voting (except for any discussion and/or voting conducted under circumstances pursuant to Section 278(b) of the Corporate Act): If you answered False – Was this for the purpose of presenting a certain matter thereby, in conformity with provisions of the end of section 278(a): ☐ Yes ☐ No (Mark X in the appropriate box) Indicate the percentage of meetings attended by such Board members during discussion and/or voting, other than under circumstances listed in sub-section A: _____.	✔	

[6] With regard to this question – merely holding the office of Board member with a corporation owned and controlled by the Corporation shall not constitute "reporting"; conversely, holding the office of Board member with a corporation that is an officer (other than Board member) and/or employee of a corporation owned and controlled by the Corporation shall constitute "reporting" for the purpose of this question.

6.		The controlling shareholder (including any relative thereof and/or anyone on behalf thereof), other than a Board member or other senior officer of the Corporation, did not attend the Board meetings held during the reported period. If you answered False (i.e. the controlling shareholder and/or any relative thereof and/or anyone on behalf thereof, other than a Board member and/or other senior officer of the Corporation, did attend the Board meetings) – please indicate the following information with regard to attendance by any other person at the aforementioned Board meetings: ID: _____. Position with the Corporation (if any): _____. Affinity with the controlling shareholder (if the person present is not the controlling shareholder themselves): _____. Was this for the purpose of presenting a certain matter thereby: ☐ Yes ☐ No (Mark X in the appropriate box) Their attendance percentage[7] of Board meetings held during the reported period for the purpose of presenting a certain matter thereby: _____, Other attendance: _____ ☐ Not applicable (the Corporation does not have a controlling shareholder).	✔	

[7] Separating the controlling shareholder, any relative thereof and/or anyone on behalf thereof.

BOARD MEMBER QUALIFICATION AND COMPETENCE					
				True	**False**
7.		The Corporation Bylaws do not include a provision which restricts the option to immediately terminate the office of all Board members of the Corporation, other than external Board members (for this matter – a vote passed by simple majority does **not** constitute a restriction)[8]. If you answered False (i.e. such limitation exists) indicate –		✔	
		A.	The time stipulated in the Bylaws for term of office of Board member: _____.		
		B.	Required majority stipulated in Bylaws for removal from office of Board members: _____.		
		C.	Legal quorum stipulated in Bylaws for the General Meeting for removal from office of Board members: _____.		
		D.	Majority required to change these provisions of the Bylaws: _____.		

[8] A debenture company is not required to answer this item.

8.		The Corporation has prepared a training program for new Board members, covering the Corporation's business and the laws applicable to the Corporation and to Board members, and has prepared a further training program for incumbent Board members aligned, *inter alia*, with the Board member's role within the Corporation. If you answered True – please indicate if the program was offered during the reported period: X Yes ☐ ~~No~~ (Mark X in the appropriate box)		✔	
9.		A.	The corporation has specified the minimum number of Board members to have accounting and financial expertise. If you answered True – indicate the minimum number stipulated: **At least three (3) Board members (pursuant to a resolution by the Board of Directors) and at least one fifth ($^1/_5$) of all Board members (in conformity with Proper Conduct of Banking Business Directive with regard to the Board of Directors, issued by the Supervisor of Banks).**	✔	

		B.	Number of Board members who served the Corporation during the reported year: Have accounting and financial expertise[9]: **<u>9</u>** Have professional qualifications[10]: **<u>11</u>**. In case there was a change to the number of such Board members during the reported period, please provide the lowest number (other than within 60 days from such a change) of Board members of each category who served during the reported period. **<u>As of the issue date of this survey, all Board members at the Bank are classified as "Expert" Board members with respect to Corporate Regulations (Rules for remuneration and expense reimbursement for external board members), 2000.</u>**		
10.		A.	Throughout the reported period, the Board was composed of members of both genders. If you answered False - please indicate the duration (in days) in which the aforementioned was false: _____. This question may be answered True if the period in which no Board members of both genders served the Corporation does not exceed 60 days; however, for any answer, please indicate the period during the reported period (in days) in which no Board members of both genders served the Corporation: _____.	✔	

9 After assessment by the Board of Directors, in conformity with Corporate Regulations (Requirements and tests for Board members with accounting and financial skills and for Board members with professional skills), 2005.

10 See footnote 9.

		B.	Number of Board members who serve on the Corporation's Board of Directors as of the publication date of this survey: Men: **8**, Women: **2**.	_____	_____

BOARD MEETINGS (AND CONVENING OF A GENERAL MEETING)					
11.		A.	Number of Board meetings held in each quarter of the reported period: First quarter (2021): 7. Second quarter: 5. Third quarter: 4. Fourth Quarter: 10.	_____	_____

		B.	Next to the name of each Board member who served the Corporation during the reported period, please indicate their attendance rate[11] at Board meetings (in this sub-Section - including meetings of Board committees they are members of, as noted below) held during the reported period (with reference to their term in office):							
			Board member name	Their attendance rate at Board meetings of the **Board of Directors**	Their attendance rate at Board meetings of the **Audit Committee**[12]	Their attendance rate at Board meetings of the **Financial Statements Review Committee**[13]	Their attendance rate at Board meetings of the **Remuneration Committee**[14]	Their attendance rate at meetings of **other Board committees of which they are a member** (please indicate the committee name)	_____	_____

[11] See footnote 2.

[12] For any Board member who is a member of this Committee.

[13] For any Board member who is a member of this Committee.

[14] For any Board member who is a member of this Committee.

					The Audit Committee also serves as the Financial Statement Review Committee. Details of attendance rate at meetings of the Audit Committee (as set forth in the third column of this table) refer to meetings of the Audit Committee, other than meetings involving the financial statements. Furthermore, details of attendance rate at meetings of the Financial Statements Review Committee (as set forth in the fourth column of this table) refer to meetings of the Audit Committee involving the financial statements.		**Credit Committee**	**Risk Management Committee**	**IT and Technology Innovation Committee**	**Ad-hoc committee for integration of Union Bank**		

			Board member name	Attendance rate at **Board of Directors**	Attendance rate at **Audit Committee**	Attendance rate at **Financial Statements Review Committee**	Attendance rate at **Remuneration Committee**	Attendance rate at **Credit Committee**	Attendance rate at **Risk Management Committee**	Attendance rate at **IT and Technology Innovation Committee**	Attendance rate at **Ad-hoc committee for integration of Union Bank**	
			Moshe Vidman[15]	100%	–	–	–	100%	100%	100%	100%	
			Ron Gazit	96%	–	–	–	The Committee was not convened in the relevant period	–	71%	–	Ron Gazit started their term in office as member of the Credit Committee on December 21, 2021

[15] Moshe Vidman (who serves as Chairman of the Board of Directors) is not member of the Audit Committee but attends as observer the meetings of the Audit Committee in conjunction with the approval process of financial statements. This is in conformity with the position of the Supervisor of Banks, as provided in "Q&A regarding implementation of Proper Conduct of Banking Business Directive 301 with regard to the Board of Directors".

			Jonathan Kaplan	100%	–	–	–	100%	100%	The Committee was not convened in the relevant period	100%	Jonathan Kaplan started their term in office as member of the IT and Technology Innovation Committee on December 21, 2021
			Sabina Biran	100%	100%	The Committee was not convened in the relevant period	100%	100%	The Committee was not convened in the relevant period	100%	–	On February 27, 2021, Sabina Biran concluded their term in office as Board member of the Bank
			Avraham Zeldman	96%	96%	100%	–	–	91%	–	100%	
				Attendance rate at **Board of Directors**	Attendance rate at **Audit Committee**	Attendance rate at **Financial Statements Review Committee**	Attendance rate at **Remuneration Committee**	Attendance rate at **Credit Committee**	Attendance rate at **Risk Management Committee**	Attendance rate at **IT and Technology Innovation Committee**	Attendance rate at **Ad-hoc committee for integration of Union Bank**	

			Hannah Feuer	100%	100%	100%	100%	100%	–	–	–	
			Gilad Rabinobich	100%	100%	100%	100%	–	100%	100%	100%	
			Ilan Kremer	96%	–	–	–	–	100%	–	–	
			Eli Alroy	100%	–	–	–	–	–	86%	83%	
			Joseph Fellus	100%	100%	100%	100%	100%	100%	–	100%	
			Joav Asher Nachshon	85%	–	–	–	90%	–	86%	–	On December 21, 2021, Mr. Nachshon concluded their term in office as Board member of the Bank

			Estheri Giloz-Ran	100%	100%	100%	100%	–	–	100%	–	On February 27, 2021, Ms. Giloz-Ran started their term in office as Board member of the Bank

			True	**False**
12.		During the reported period, the Board of Directors conducted at least one discussion concerning the management of the Corporation's business by the CEO and officers reporting there to, without the latter being present, after allowing them an opportunity to express their views.	✔	

SEPARATION OF ROLES OF THE CEO AND OF THE CHAIRMAN OF THE BOARD OF DIRECTORS				
			True	**False**
13.		Throughout the reported period, a Chairman of the Board of Directors has served the Corporation. This question may be answered True if the period in which no Chairman of the Board of Directors served the Corporation does not exceed 60 days, as per Section 363a(2) of the Corporate Act; however, for any answer, please indicate the period during the reported period (in days) in which no Chairman of the Board of Directors served the Corporation: _____.	✔	
14.		Throughout the reported period, a CEO has served the Corporation. This question may be answered True if the period in which no CEO served the Corporation does not exceed 90 days, as per Section 363a(6) of the Corporate Act; however, for any answer, please indicate the period during the reported period (in days) in which no CEO served the Corporation: _____.	✔	
15.		For a corporation where the Chairman of the Board of Directors also serves as the CEO and/or exercises the authority thereof - this dual office was approved in conformity with provisions of Section 121(c) of the Corporate Act[16]. ☑ Not applicable (as there is no such dual office at the Corporation).		

[16] For a debenture company – approval pursuant to Section 121(d) of the Corporate Act.

16.		The CEO is <u>not</u> related to the Chairman of the Board of Directors. If you answered False (i.e. the CEO is related to the Chairman of the Board of Directors) –		✔	
		A.	Indicate the family relationship between the parties: _____.	_____	_____
		B.	The appointment was approved in conformity with Section 121(c) of the Corporate Act[17]: ▯ Yes ▯ No *(Mark X in the appropriate box)*	_____	_____
17.		A controlling shareholder and/or any relative thereof do <u>not</u> serve as CEO or senior officer of the corporation, other than as Board member. ▯ Not applicable (the Corporation does not have a controlling shareholder).		✔	

[17] For a debenture company – approval pursuant to Section 121(d) of the Corporate Act.

AUDIT COMMITTEE

				True	False
18.		During the reported period, the Audit Committee did <u>not</u> include as member -		———	———
	A.	The controlling shareholder or relative thereof. ☐ Not applicable (the Corporation does not have a controlling shareholder).		✔	
	B.	Chairman of the Board of Directors.		✔	
	C.	A Board member employed by the Corporation or by the controlling shareholder of the Corporation or by a corporation controlled there by.		✔	
	D.	A Board member regularly providing services to the Corporation or to the controlling shareholder of the Corporation or to a corporation controlled there by.		✔	
	E.	Board member primarily making a living from the controlling shareholder. ☐ Not applicable (the Corporation does not have a controlling shareholder).		✔	
19.		During the reported period, any person not eligible to be a member of the Audit Committee, including a controlling shareholder or relative thereof, did not attend meetings of the Audit Committee, other than in conformity with provisions of Section 115(e) of the Corporate Act.		✔	

20.	The legal quorum for discussion and passing resolutions at all Audit Committee meetings held during the reported period was a majority of Committee members, with a majority of those present being independent Board members and at least one of them was an external Board member. If you answered False – indicate the percentage of meetings when this requirement was not fulfilled: _____.	✔	
21.	During the reported period, the Audit Committee held one or more meetings attended by the Internal Auditor and by the Independent Auditor, with no officers of the Company, other than Committee members, attending - concerning faults in business management of the Corporation.	✔	
22.	At all meetings of the Audit Committee attended by anyone not permitted to be member of this Committee, this was approved by the Committee Chair and/or requested by the Committee (with regard to Legal Counsel and Corporate Secretary who is not a controlling shareholder or relative thereof).	✔	
23.	During the reported period, there were valid arrangements specified by the Audit Committee with regard to handling complaints by employees of the Corporation with regard to faults in management of corporate business and with regard to protection to be extended to employees who made such complaints.	✔	
24.	The Audit Committee (and/or the Financial Statements Review Committee) was satisfied that the scope of work of the Independent Auditor and their fee with regard to the financial statements in the reported period, were appropriate for carrying out proper audit and review work.	✔	

ROLES OF THE FINANCIAL STATEMENTS REVIEW COMMITTEE (HEREINAFTER: "THE COMMITTEE") IN ITS PRELIMINARY WORK ON APPROVAL OF THE FINANCIAL STATEMENTS				
			True	**False**
25.	A.	Please indicate the duration (in days) determined by the Board of Directors to be a reasonable time for providing recommendations of the committee prior to a Board meeting convened to approve the financial statements: **3 days – however, in conformity with a resolution by the Board of Directors, the Chairman of the Board of Directors may direct, at their discretion, that the recommendations be provided to Board members even sooner or later than the foregoing, provided that this is reasonable under the circumstances.**		____
	B.	The number of days actually elapsed between the date on which recommendations were submitted to the Board and the discussion by the Board of Directors for approval date of the financial statements: Report for the first quarter (2021): 9. Report for the second quarter (2021): 5. Report for the third quarter (2021): 7. Annual report (2021): 4.	____	____

	C.	The number of days elapsed between the date on which the draft financial statements were provided to Board members and the date of discussion by the Board of Directors for approval date of the financial statements: Report for the first quarter (2021): 13. Report for the second quarter (2021): 11. Report for the third quarter (2021): 11. Annual report (2021): 11.		
26.		The Corporation's Independent Auditor attended all meetings of the Committee and of the Board of Directors convened to discuss the Corporation's financial statements for periods within the reported period. If you answered False, please indicate their attendance rate: _______	✔	
27.		Throughout the reported period and through publication of the annual report, the Committee was in compliance with all of the following conditions:	_____	_____
	A.	Committee members counted no fewer than three (as of the date of discussion by the Committee and approval of the financial statements).	✔	
	B.	All conditions stipulated in Section 115(b) and (c) of the Corporate Act were fulfilled (with regard to office of Audit Committee members).	✔	
	C.	The Committee Chair is an external Board member.	✔	

	D.	All Committee members are Board members and most Committee members are independent Board members.	✔	
	E.	All Committee members can read and understand financial statements, and at least one independent Board member has accounting and financial expertise.	✔	
	F.	Committee members have provided certification prior to being appointed.	✔	
	G.	Legal quorum for discussion and passing resolutions at the Committee was a majority of Committee members, provided that a majority of those present are independent Board members and at least one of them was an external Board member.	✔	
	If you answered False to any sub-items in this question, indicate for which report (periodic / quarterly) the condition was not fulfilled, and which condition was not fulfilled: _____.		_____	_____

REMUNERATION COMMITTEE

				True	False
28.			During the reported period, the Committee included at least three members and external Board members constituted a majority of Committee members (on the date of discussion by the Committee). ☐ Not applicable. (No discussions took place).	✔	
29.			Terms of office and employment of all members of the Remuneration Committee in the reported period are in conformity with Corporate Regulations (Rules for remuneration and expense reimbursement for external board members), 2000.	✔	
30.			During the reported period, the Remuneration Committee did <u>not</u> include as member -	_____	_____
		A.	The controlling shareholder or relative thereof. ☐ Not applicable (the Corporation does not have a controlling shareholder).	✔	
		B.	Chairman of the Board of Directors.	✔	

		C.	A Board member employed by the Corporation or by the controlling shareholder of the Corporation or by a corporation controlled there by.	✔	
		D.	A Board member regularly providing services to the Corporation or to the controlling shareholder of the Corporation or to a corporation controlled there by.	✔	
		E.	Board member primarily making a living from the controlling shareholder. ☐ Not applicable (the Corporation does not have a controlling shareholder).	✔	
31.		During the reported period, a controlling shareholder, or relative thereof, did not attend meetings of the Remuneration Committee, unless the Committee Chair has ruled that they are required to attend for presentation of any particular matter.		✔	
32.	The Remuneration Committee and the Board of Directors have not exercised their authority pursuant to Sections 267a(c), 272(c)(3) and 272(c1)(1)(c) to approve any transaction or remuneration policy despite objection by the General Meeting of Shareholders. If you answered False, please indicate - The type of transaction thus approved: _______ The number of times they exercised their authority during the reported period: _______			✔	

INTERNAL AUDITOR			
		True	**False**
33.	The Chairman of the Board of Directors or the CEO of the Corporation is the organizational supervisor of the Internal Auditor of the Corporation.	✔	
34.	The Chairman of the Board of Directors or of the Audit Committee have approved the work plan during the reported period. Also elaborate the audit topics addressed by the Internal Auditor in the reported period: 2021 (Mark X in the appropriate box). **The Internal Auditor operates based on a risk-based audit plan. In 2021, the Internal Auditor addressed, *inter alia*, topics related to credit risk, financial risk, compliance risk, operating risk, AML etc. In 2021, the Internal Auditor continued to make required adjustments with regard to implementation of the work plan during the Corona Virus period. For more information see disclosure with regard to the Internal Auditor of the Corporation in chapter "Corporate governance and audit" in the Bank's 2021 annual report.**	✔	
35.	Scope of work by the Internal Auditor for the Corporation in the reported period (in hours)[18]: **Full-time** **For more information see disclosure with regard to the Internal Auditor of the Corporation in chapter "Corporate governance and audit" in the Bank's 2021 annual report.**		
	In the reported year, the Audit Committee or the Board of Directors discussed the Internal Auditor's findings.	✔	

[18] Including work with regard to investees and audit work outside of Israel, as the case may be.

36.	The Internal Auditor is not an interested party in the Corporation, relative thereof, Independent Auditor or anyone on behalf thereof and has no material business relationship with the Corporation, the controlling shareholder thereof or corporations controlled thereby.	✔	

TRANSACTIONS WITH INTERESTED PARTIES

		True	False
37.	The controlling shareholder or relative thereof (including a company controlled there by) is <u>not</u> employed by the Corporation nor provides management services to the Corporation. If you answered False (i.e. the controlling shareholder or relative thereof are employed by the Corporation or provide management services to the Corporation), indicate – – The number of relatives (including the controlling shareholder) employed by the Corporation (including companies controlled thereby and/or through management companies): _____. – Were said employment agreements and/or management services agreements approved by the organs stipulated by law? ☐ Yes ☐ No (Mark X in the appropriate box) ☐ Not applicable (the Corporation does not have a controlling shareholder). _____.	✔	

38.	To the best of the Corporation's knowledge, the controlling shareholder has <u>no</u> other business in the Corporation's field of business (in one or more segments). If you answered False – please indicate if an arrangement has been agreed to separate the operations of the Corporation from those of the controlling shareholder: ☐ Yes ☐ No (Mark X in the appropriate box) ☐ Not applicable (the Corporation does not have a controlling shareholder).	✔	

Chairman of the Board of Directors: Mr. Moshe Vidman

Chairman of the Audit Committee (also serves as the Financial Statement Review Committee): Mr. Joseph Fellus