FIBI FIRST INTERNATIONAL BANK OF ISRAEL

ANNUAL REPORT

2021

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STATEMENT BY THE CHAIRMAN OF THE BOARD

Dear stakeholders,

The year 2021 was typified by the continuing global health crisis and by the waves of the pandemic. The scientific, social and economic worlds continue to face the wave of the pandemic, while at the same time; the economies of the world, including that of Israel reverted to a growth trend. The First International Bank maintained business continuity and offered optimal service to its customers, while protecting the health of its employees, this, thanks to the quality of management, digital progress, financial stability and the measured risk appetite.

The Bank Group continued to grow in all its strategic focal areas, while emphasizing innovation and efficiency. We believe that the combination of customized banking with leading digital capabilities enables us to become an excellent home for our customers and employees.

The rating of the Bank by the local rating agencies remained at the highest possible level of "AAA". Moody's, the international rating agency, rates the Bank at "A2", expressing trust in the stability of the Bank and in the strategic actions led by Management.

The geopolitical situation in Europe, the rising inflation and the anticipated rise in interest rate in the world lead, at this time, to increased uncertainty.

The risk map regarding data protection is undergoing a revision due to the growth in the basic risk and the increase in the number and quality of cyber attacks around the world. The continued transition to cloud computing applications, the introduction of additional digital services and the open banking challenges, all lead us to analyze and face these risks, as well as invest many resources in this matter.

We spend a great deal of time on preparing for the future of banking and for new directions that would enable us to grow, while creating value for stakeholders.

The Group continues to operate in accordance with the strategic plan formed and approved in 2019, while reviewing and validating it – growth through digital transformation and continuing modernization of the systems of the Bank, strengthening the leadership in the investments and capital market fields, and fortifying our presence among households and small and middle market businesses.

We continue investing in digital means for our customers, some of which are pioneering, and making the services layout accessible to them at the time and place most suitable for them. Such means, with agile management, allow us to cope with the competitive banking arena, into which many new players enter, both domestic and international, including off-banking players.

The Bank is attentive to all stakeholders, while strictly maintaining a high credit rating. In this respect, the Bank has resumed the implementation of its dividend distribution policy of 50% of earnings. It is emphasized that the Bank is operating with a significant surplus regarding the Tier 1 equity capital, as compared to the regulatory requirement.

Activity of the Bank with respect to corporate governance continues to accelerate. As a leading bank in the banking system with regards to engagement of female employees in senior positions, we welcome the joining of an additional lady Director to the Board of Directors.

The Bank is active in reducing the carbon footprint and, inter alia, examines the expansion of use of solar electricity and of investments in these fields, this in continuation of the line implemented by the Bank, with a focus on business activity alongside environmental, social and governance (ESG) considerations.

We see in the contribution to the community an important element in which we act by means of programs based on the triangle: community, employees and managers of the Bank and the Bank itself, in order to create value multipliers for effective contributions to the community. We have also expanded the housing project for lone soldiers, made a considerable contribution through the Open University, for scholarships to soldiers, veterans and others, coming from low socioeconomic populations, this in order to improve their ability to integrate into society.

We consider the employees of the Group and its managers an essential and singular component in the process of creating value for our customers, shareholders and other stakeholders.

The Board of Directors wishes to thank Bank employees at the branches and Head Office, the Bank's Management, which leads the Bank Group securely and successfully and both private and business customers of the Group who put their trust in us.

Ron Levkovich
Chairman of the Board

Tel-Aviv, March 7, 2022

REPORT OF THE BOARD OF DIRECTORS AND MANAGEMENT

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REPORT OF THE BOARD OF DIRECTORS AND MANAGEMENT

The meeting of the Board of Directors held on March 7, 2022, resolved to approve and publish the audited consolidated financial statements of the First International Bank of Israel Ltd. (hereinafter - "the Bank") and its consolidated subsidiaries (hereinafter - "the Bank Group"), at December 31, 2021.

GENERAL OVERVIEW, OBJECTIVES AND STRATEGY

Description of operation of the Bank Group

The business operations of the Bank Group focus on several principal areas:

- Financial brokerage between depositors and borrowers, which is the basis for commercial banking. Income from such operation is reflected in net interest income comprising the main source of profit of the Group.
- Financial and banking services producing commission income in a variety of operations in the foreign currency, international trade, securities, information services, credit cards, derivative financial instruments, etc.
- Investment and pension consulting.
- The "nostro" investments of the Bank and market and liquidity risk management.
- Operational banking services for the capital market.
- Trusteeship services for institutional customers through the Bank's trust company.

The Bank operates through three principal business divisions:

- The corporate division, which conducts all operations relating to corporate and middle-market customers, as well as business and institutional customers active on the capital market.
- The banking division, which through the branches provides banking and mortgages services to all customers segments-households, private banking and small businesses. In this framework operate Ubank branches specializing in private banking and capital market operations and Otsar Hahayal branches, specializing in providing services to retail and commercial customers with emphasis on the employees and retirees of the defence forces. In addition, the PAGI sub-division branches specialize in the religious and orthodox segment.
- The customer asset division centralizing the whole operation in the capital market, money market and foreign currency operation with private customers, business customers, institutional customers and capital market professionals. Within the division operating dealing rooms of securities, foreign currency and deposits as well as investment and pension advisement settings, investment center and the trust company and portfolio management company.

In addition to the Bank, the Group includes Massad Bank specializing in providing services to the teachers population in Israel.

The Bank's auditors KPMG Somekh Chaikin serve as the external auditors of the Bank since 1972.

RATIFICATION OF THE BANK'S RATING BY RATING AGENCIES

On August 1, 2021, Midrug ratified the evaluation of the Bank's internal financial stability at aa2.il/stable outlook, the Bank's short-term deposits at the rating of P-1.il, the Bank's long-term deposits and the senior debt at Aaa.il/stable outlook rating, its subordinate debt notes to Aa1.il/stable outlook, its subordinate capital notes to Aa2.il(hyb)/stable outlook rating, and its subordinate debt notes with a loss absorption mechanism at Aa3.il (hyb)/stable outlook rating.
On November 16, 2021, the international rating agency Moody's ratified the rating of foreign-currency and local currency long-term deposits with the Bank at A2, and the short-term deposits at "Prime-1", and the rating outlook at "stable".
On January 4, 2022, S&P Maalot ratified the issuer rating of the Bank at ilAAA/Stable and the rating of the subordinate debt notes with a loss absorption mechanism at ilAA-.

FORWARD-LOOKING INFORMATION

Part of the information detailed in these reports which does not refer to historical facts comprises forward-looking information as defined in the Securities Law, 1968. Actual results are likely to be substantially different from those included in the context of forward-looking information, including, inter alia, due to the results of changes in capital markets in Israel and around the world, macro-economic changes, regulatory changes, accounting changes, as well as other changes that might lead to the nonrealization of the assessments. In this respect, see also the reservation in the chapter on major risks to which the Bank is exposed - the effect of the Corona crisis.

Forward-looking information is notable for such words or expressions as: "goal", "forecast," "assessment", "scenario", "predicted", "anticipated", "expected," "in the Bank's estimation" and "the Bank intends," as well as similar expressions, in addition to adjectives such as "will be able," "might be" and "will be." These forward-looking expressions involve risks and uncertainty because they are based on the Management's assessments regarding future events that may not occur or that may occur in a different manner than expected as the result, inter alia, of the aforementioned factors or as the result of the materialization of one or more of the risk factors detailed in the Chapter on risk review presented in this report.

The information in this report is based, among other, on publications of different entities, such as: the Central Bureau of Statistics, the Treasury department and the data from the Bank of Israel, as well as on public information given by different factors operating and connected with the capital and money markets, or those having an influence on these markets.

CONDENSED PRINCIPAL FINANCIAL INFORMATION AND PRINCIPAL EXECUTION INDICES

Principal financial ratios	2021	2020	2019	2018	2017
					percent
Execution indices					
Return on equity attributed to shareholders of the Bank	**14.7%**	8.6%	10.5%	9.3%	9.1%
Return on average assets	**0.82%**	0.49%	0.63%	0.54%	0.52%
Ratio of equity capital tier 1	**11.46%**	11.18%	10.81%	10.51%	10.38%
Leverage ratio	**5.34%**	5.29%	5.81%	5.76%	5.50%
Liquidity coverage ratio(1)	**128%**	150%	128%	122%	123%
Net stable funding ratio(2)	**147%**				
Ratio of total income to average assets	**2.6%**	2.7%	3.0%	3.0%	2.9%
Ratio of interest income, net to average assets	**1.6%**	1.7%	1.9%	1.8%	1.8%
Ratio of fees to average assets	**0.8%**	0.9%	0.9%	1.0%	1.0%
Efficiency ratio	**58.3%**	61.8%	64.4%	68.4%	69.5%
Credit quality indices					
Ratio of provision for credit losses to credit to the public	**1.05%**	1.38%	1.05%	1.02%	1.03%
Ratio of impaired debts or in arrears of 90 days or more to credit to the public	**0.73%**	0.86%	1.08%	0.83%	0.92%
Ratio of provision for credit losses to total impaired credit to the public	**197%**	221%	131%	186%	155%
Ratio of net write-offs to average total credit to the public	**(0.01%)**	0.10%	0.10%	0.16%	0.18%
Ratio of expenses (income) for credit losses to average total credit to the public	**(0.23%)**	0.52%	0.16%	0.20%	0.15%

Principal data from the statement of income	2021	2020	2019	2018	2017
					NIS million
Net profit attributed to shareholders of the Bank	**1,405**	750	865	733	678
Interest Income, net	**2,794**	2,637	2,602	2,486	2,302
Expenses (income) from credit losses	**(216)**	464	138	166	121
Total non-interest income	**1,756**	1,523	1,520	1,637	1,450
Of which: Fees	**1,444**	1,371	1,286	1,325	1,305
Total operating and other expenses	**2,652**	2,569	2,654	2,819	2,607
Of which: Salaries and related expenses	**1,601**	1,532	1,601	1,696	1,579
Dismissal expenses	**36**	26	48	35	16
Primary net profit per share of NIS 0.05 par value (NIS)	**14.00**	7.48	8.62	7.31	6.76

Principal data from the balance sheet	2021	2020	2019	2018	2017
					NIS million
Total assets	**180,470**	167,778	141,110	134,120	135,717
of which: Cash and deposits with banks	**57,370**	57,802	37,530	31,303	39,186
Securities	**15,091**	13,105	10,995	12,595	10,238
Credit to the public, net	**101,164**	90,970	87,899	84,292	80,378
Total liabilities	**170,033**	158,243	132,186	125,707	127,333
of which: Deposits from the public	**153,447**	141,677	120,052	111,697	113,511
Deposits from banks	**5,144**	2,992	1,137	1,150	1,133
Bonds and subordinated capital notes	**3,356**	4,394	3,674	4,989	5,249
Capital attributed to the shareholders of the Bank	**10,003**	9,141	8,568	8,093	7,756

Additional data	2021	2020	2019	2018	2017
Share price (0.01 NIS)	**12,950**	8,514	9,989	7,860	7,202
Dividend per share (0.01 NIS)	**543**	125	410	355	310
Average number of positions (3)	**3,715**	3,895	4,086	4,285	4,429

(1) The ratio is computed in respect of the three months ended at the end of the reporting period.
(2) According to instructions of the Bank of Israel the Net stable funding ratio was calculated since 2021, Therefor no comparative data is stated.
(3) The number of positions includes conversion of overtime in terms of positions.

Principal Environmental, Social and Governance indices

	2021	2020
Social		
Employees		
Number of employees	**3,663**	3,787
Rate of unionized employees	**96%**	95%
Rate of female employees at the Bank	**66%**	66%
Suppliers		
Rate of local suppliers	**97%**	97%
Social credit		
Balance of credit to tiny, small and middle market businesses (in NIS millions)	**27,145**	24,261
Of which: credit to tiny, small and middle market businesses guaranteed by the Government (in NIS millions)	**1,937**	2,135
Environmental		
Consumption of resources		
Consumption of electricity (in kw/h)	**22,513,076**	23,581,193
Consumption of kw/h per square meter (energetic intensity)	**227.76**	227.99
Rate of petrol saving motor vehicles	**70%**	66%
Carbon footprint		
Emission volume (in CO2 eq tons)	**11,101**	11,992
Corporate governance		
Rate of external Directors	**50%**	50%
Rate of Directors with accounting and financial expertise	**100%**	90%
Rate of female Directors	**20%**	10%
Rate of female members of Management	**40%**	40%
Number of Board of Directors Committee meetings	**57**	61
Average period of service as Director (in years)	**6.6**	6.5

Principal Risks To Which the Bank Is Exposed

The Bank group activity involves exposure to risk, the more significant of which are: Credit risk, including credit concentration (borrower and sectorial); Market risks, the principal of which is interest rate risk; Liquidity risks; Operating risks, including cyber and information security and IT risk; Compliance and Money Laundering risks; Strategic risk; Reputation risk; Legal risk and Model risk.

All material risks are managed by and the responsibility of appointed members of Management. A regulatory requirement for capital adequecy exists in respect of credit, market and operating risks, according to the instructions of Pillar I of Basel. Within the framework of the Internal Capital Adequacy Assessment Process ("ICAAP"), the Group performs an intensive process for the identification of additional risk centers and the challenging of identified risk centers, in accordance with Pillar I. Where required, a supplementory allocation of capital is made in respect of Pillar I risks, and an additional allocation of capital in respect of other risks and sub-risks.

Developing risks

Developing risks are risks that may arise in new areas, or new risk focals in existing risks, deriving, among other things, from changes in the environment effecting the banking operations, including regulatory environment, competition, digital, etc.

Following are details regarding the principal developing risks:

1. **Macro-economic risk** - The business results of the banking sector in Israel and of the Bank being a part thereof, are directly affected by economic conditions in Israel and globally. Deterioration in economic conditions, (including changes in interest rates, currency exchange rates and inflation rates), and in political and defense conditions, including developments in the defense situation between Russia and the Ukraine (for details, see the Chapter Principal Economic developments, "The global environment", below), or the spreading of global morbidity, might lead to a recession in the economy or to a material economic slowdown. Recession may result in a significant rise in the rate of unemployment, decline in the standard of living in Israel, changes in consumption habits, which, inter alia, may be reflected in a decline in volume of credit card activity, or impact demand by households and businesses for other banking services, cause changes in capital market activity turnovers, and more. These factors might lead to impairment in income of the Group, increase the volume of problematic debts and adversely affect the results of the Group.

   The Bank follows the anticipated changes in the different macro-economic developments, such as the continuation of the inflationary trend, anticipated rise in interest rates in Israel and globally, and more.

   In the course of recent months, exposure of the banking system to credit to the construction and real estate sector, partly accompanied by an increase in the risk appetite, by mitigation in underwriting terms, as well as by a decline in credit margins of new transactions. On this background, The Supervisor of Banks ordered, inter alia, modification of the collective credit loss provision in respect of the commercial credit portfolio, so as to properly reflect the growth in the risk level of the portfolio. The Bank has a specific policy regarding the different lines of operation in the construction and real estate segment. The Bank adopts a measured and careful credit policy in this field, which is being updated on a current basis, in accordance with changes in this sector and with regulatory requirements. For additional information, see the Chapter on Risk Review – Risks in the construction and real estate sector, below.

   The outbreak of the Coronavirus has created a significant change in the macro-economic environment, which may have a continuous impact on the economy, and as a result, on the activity of the banking sector generally, and on the bank as a part thereof, the force of this impact being dependent on the force of the pandemic waves and their scope. For additional information, see "Effect of the Coronavirus" crisis, below.

2. **Strategic/business model risk** - Changes in the operating environment of the Bank and the material growth in the force of competition had been examined and reflected when forming the strategic plan of the group for the coming year. The strategic plan is being reviewed on an ongoing basis considering the changes in the competitive environment and the different challenges, including those generated by the Corona epidemic in Israel and globally.

   Changes affecting the business environment changing the force of competition:

- Changes in regulation - the regulatory environment continues intensively to promote moves that raise the level of competition in different fields, such as payment services, changes in the credit card and payments market, including the outline for the reduction in the cross commission, consumer credit, credit database, implementation of the open banking Standard intended to allow the sharing of financial information of customers with third parties, the reform for the movement of customers between banks, promoting the establishment of a banking computerization services bureau, regulation which promotes the transformation to digital banking, and more.
- Changes in customer needs - risks relating to social and consumer trends, including changes in customer needs that followed the outbreak of the Coronavirus.
- Changes in classes of competitors – in recent years, competition regarding financial services and products has widened over and above the traditional competition between banks, with the entry and entrenchment of new and existing players in traditional financial activities, such as: digital banks, off-banking competitors, insurance companies, credit card companies, retail companies, as well as startup and fintech companies, which develop innovative products in this field, and global big-tech corporations expected to expand their activity in the financial field in the coming years.
- Changes in the banking business model – The many developments occurring concurrently in the different competitive areas in the banking and off-banking financial sector, in the progress made in the technology and in the changes in customer need and preferences, may lead in the future to changes in the banking model.
- Technological changes – the transition to digital banking and the entry into financial activity of technological competitors create new technological risks and challenges as well as new information protection and cyber risks, to which the Bank is preparing.
- Demand for greater efficiency in the banking sector - The growing competition in the financial markets and the low interest environment, on background of demand for higher efficiency of the banking sector on the part of the Supervisor of Banks, have led to the promotion of efficiency measures, within the framework of which different steps were taken, efficiency in expenditure, followed by improvement in the efficiency ratio. In continuation of the efficiency measures, which the Bank adopts in recent years, the Bank institutes efficiency measures as part of its strategic plan, which inter alia include, continuing expansion of operations by digital means, reduction in the number of branches and improvement in work procedures at the branches and at Head Office.

3. **Regulatory risk** - This risk stems from the trend of increasing regulatory requirements in recent years in Israel and the world. The said regulatory changes and the implementation of regulatory reforms increase uncertainty and competition in the financial sector and creates risks to the income and equity of the Group, including by way of preventing or imposing restrictions on business activity. These changes also require preparation, implementation and integration of regulatory requirements involving heavy costs and investments (such as investment in computer systems) for the Bank. Furthermore, noncompliance with the provisions of the law and regulations applying to the Bank and to the Group exposes them to sanctions, including monetary sanctions, claims by customers, including class action suits, subjecting the banking corporation and its officers to criminal responsibility, as well as impairment of the public image of the Bank. The regulatory risk is managed by the Bank as part of the legal risk, of compliance risk and of strategy risk.

   The compliance policy of the Bank establishes, inter alia, the compliance values promoted by the Bank, serves as a guiding line for the activity of all functions at the Bank and at the Group for the purpose of forming an appropriate infrastructure for the implementation of the duties applying to the Bank and the Group as regards compliance and their regulation in procedures and processes. The regulatory-legal aspects are supervised and managed by the legal counseling group within the framework of the policy for the management of legal risk, as approved by Management and the Board of Directors. The policy regularizes the manner of identifying, mapping and minimizing the legal risk, including by way of the current monitoring of developments in legislation, regulations and Court decisions, providing current legal advice and support, inter alia, on basis of such developments.

   From the strategic aspect - the strategic program and the work plan relate to the possible implications mentioned above, and take into consideration the said changes. For details regarding material regulatory initiatives with effect on the Bank's operations in the reported period see "Legislation and regulatory initiatives" in the chapter on corporate governance, additional information.

4. **Cyber and data protection risks (as part of the operational risk)** - cyber risk is defined as potential for damage stemming from a cyber event, considering its probability level and the seriousness of its implications. Cyber risks, leakage of information and data protection risks have a high potential for causing damage upon the happening of a significant event involving high recovery costs. Innovation in banking and in communication, the use of new technologies, open systems and cloud computing applications, entail operational risks with an emphasis on cyber and data protection risks. Consequently, for the purpose of the proper management of cyber risk, the existing framework of information technology and data protection risk management at the Bank has been broadened and adapted from the aspects of the dimension of the threat and the required defense capabilities. The Bank manages the cyber risk, including the definition of strategy, policy, the appointment of a cyber protection manager responsible for the implementation of the policy and the structuring of a methodology for the management of the risk. Furthermore, the Bank adopts many preventative actions designed to reduce the risk, including promoting awareness in cyber and data protection areas and conducting exercises.

   The Corona crisis had led to a significant increase in cyber-attacks on financial institutions around the world, on organizations in Israel and on the supply chain operations of such organizations. Furthermore, a growth trend is noticed in cyber-attacks by state factors, in ransomware attacks that have grown significantly, and in phishing and social engineering trials. Exposure to the realization of cyber events has increased, inter alia as a result of the increased use by customers of digital channels and the continuation of distance work by employees and suppliers. The Bank currently adopts measures for minimizing risks, including distant access solutions accompanied by the data protection department, increasing monitoring and application of controls and diverse means, in accordance with the development of threats.

   The Bank has insurance policies providing insurance coverage to the Bank Group in respect of different damage events as a result of computer failure and/or cyber event.

5. **Information technology risk (as part of operational risk)** - in recent years the technological environment is developing with an ever-growing dependence on it, and need has arisen for increasing business and technical flexibility as well as need for the increasing use of new technologies. The Bank Group has computer infrastructure plans providing technological response for the purpose of realizing the business strategy of the Bank.

6. **Cross-border risks (as part of compliance risk)** - the Bank Group conducts business in different banking fields. Among its customers, the Bank Group provides services also to customers who are foreign residents. On background of the increased efforts made by different countries to discover funds of their residents held outside their country of residence as well as the growing trend of international cooperation in the campaign against tax evasion, the Bank's operations with foreign residents may increase exposure of the Bank to compliance risk stemming from cross-border activity as well as to reputation risk. The Bank Group has a designated policy covering this subject. Work procedures have been established and a line of operational measures is being conducted for the management and reduction of the risk.

   In addition to the above, developments in legislation and banking regulation had taken place in recent years in Europe and in the world in general, which may impact the level of risk and exposure to compliance risks, stemming from banking services provided to customers who are foreign residents. As a general rule, the Bank does not initiate marketing, promotion and advertising activity and does not distinctly offer or direct its services to foreign resident customers, whether directly or online. The Bank has no extensions or representative offices outside Israel and the staff of the Bank does not operate outside Israel. With respect to accounts of foreign residents held with the Bank, the Bank adopts a risk-based approach regarding all procedures for the opening of such accounts and the management thereof, in order to minimize and hedge, to the extent possible, the feasibility or possibility of violation by the Bank of foreign law while providing banking services to foreign resident customers. All this, by prohibiting active marketing operations, limitation and adaptation of the type and manner of providing the services, including restricting or avoiding the granting of services to foreign residents when staying outside Israel, and reference to the question of who is the initiator of the service.

- FATCA instructions – constituting US legislation established in an inter-state treaty with the State of Israel, by way of local legislation. In accordance with the FATCA rules, the Bank conducts internal procedures for the identification and documentation of US customers, and in September of each year, in respect of the preceding tax year, submits a report in their respect to the US tax authorities, via the Israeli Tax Authority. In accordance with the said rules, since their effective date, the Bank allows the opening of a new account, subject to the signing of a declaration by the customer regarding his tax residency.
- CRS instructions – A Standard developed by the OECD, the aim of which is the collection of information regarding the tax residency of customers of a bank and reporting them to the tax authorities of the member countries by means of the Israeli Tax Authority. The Standard, which had been integrated by local legislation, is being implemented by the Bank, which submits reports in September of each year regarding customers who had declared foreign tax residency, or customers whose accounts show indications of such tax residency.

7. **Conduct risk (as part of compliance risk)** - the Bank Group has integrated values of fairness and transparency in its operation with customers, and is reinforcing these principles in its current conduct. As a general rule, the Bank group is required to verify that the offers made to customers are adapted to their needs and that services are provided without discrimination of any kind. Non-compliance with the proper conduct standard exposes the Group to different risks such as: compliance, legal, reputation and such like risks. The Bank approved a policy in the matter of proper business conduct, being part of the compliance policy, and one of the targets of the compliance officer is to integrate the said principles into the different divisions of the Bank.
8. **Environmental, Social and Governance (ESG) risks** - Growth in importance has been attributed in recent years, by the business and regulatory environment to environmental, social, and governance (ESG) issues. These issues are diverse, and the growth in their importance corresponds to the global trend of combination of these aspects in current business activity. Among these issues may be mentioned:
   - Environment - environmental risk is the risk of loss due both to the effect of costs originating in exposure to potential direct damage (damage of fire, flood, etc.) and to costs originating in transitional instructions relating to issues of quality of the environment and the enforcement thereof. Environmental risk has a direct or indirect impact regarding a number of aspects: credit risk, market risk, operating risk, compliance risk and reputation risk.

     Direct effect - stemming from the cost of environmental hazards that the Bank has to bear, including in respect of direct damage related to climate changes, or monetary loss that might be caused due to adoption of rules regarding climate and environmental policy, technological developments and changes in market preferences.

     Indirect effect - such as effect on credit risk, which may stem from a deterioration in the financial condition of a borrower, following environmental effects and climate changes, inter alia, following non-compliance with the relevant environmental provisions of the law, due to heavy expenses required in order to comply with environmental regulation requirements, or due to a high penalty that may be imposed in respect of an environmental hazard as well as the materialization of other risks related to environmental risks, such as reputation risk.

     The Bank takes action to identify and manage the environmental risk, with a focus on credit risk, while striving to reduce or prevent the risk stemming from environmental effects having a hazard potential. The Bank attributes great value to the financing of projects/entities contributing to environmental development, such as the financing of projects in the field of renewable energy.
   - Society - social risk is the risk of damage to the Bank due to potential harm caused by the Bank to the different communities in which it operates, such as: customers, employees and partners. Social risk has a direct effect upon the Bank following, for instance, the feasibility or possibility of lack, of appropriate relations with customers, making it difficult to attract and maintain customers, or lead to legal actions involving discrimination or infringement of rights, lack of financial knowledge on the part of customers making it difficult for them to fulfill their commitments, difficulty in recruiting and maintaining of staff. In addition, an indirect financial risk for the Bank also exists, such as: credit risk

following the financing of and investment in companies, the financial condition of which might be impaired because of different social effects and trends (such as: a company that produces unhealthy products, a company not maintaining safety of its employees, etc.)

- Governance - governance risk is the risk that the organization would not be managed in an effective and appropriate manner, in a way that might impair the attainment of short- and long-term goals for the benefit of all stakeholders. This risk includes, inter alia, aspects of business ethics and fairness, leadership, compensation of executives, audits, internal controls, intellectual property and shareholders' rights.

The lack of effective management of these issues in the business and operating activity of the Bank, in accordance with expectations of stakeholders and with the business goals of the Bank, may lead to a wide array of financial, operating and strategic risks. Among such risks may be mentioned: legal risks, regulation risks, credit risks, reputation risks, and more. The Bank continues to study the regulatory requirements and the developing business trends, integrating them into the current risk management.

For additional information, see the Chapter on risk review below and the risk report on the Internet website of the Bank.

Impact of the Coronavirus crisis

The outbreak around the world of the "Omicron" variant of the Coronavirus started towards the end of the fourth quarter of the year, when during January 2022, the level of morbidity in Israel reached tens of thousands of infected poersons per day. Confrontation of the Government with the spreading of contamination did not include shutdown and significant restrictions on economic activity. Likewise, no significant measures have been adopted regarding the economic field of supporting the population affected by the outbreak. Concurrently, the trend of expansion in economic activity is continuing in most sectors of activity in the economy (excluding the sectors that were more heavily affected by the crisis, like tourism, air travel and social entertainment events), and so does the decline in the rate of unemployment. In accordance with an assessment of the Central Bureau of Statistics (CBS) published in February 2022, the GDP for 2021 rose by 8.1%. A forecast of the research Division of Bank of Israel published in January states that the GDP is expected to rise in 2022 by 5.5% and by 5% in 2023.
Notwithstanding the continuing improvement in economic activity, a measure of uncertainty exists with respect to the risks involved in the spreading of the virus, the risk of further outbreak of the pandemic waves in the future, discovery of new variants of the virus, and concern regarding significant restrictions that might adversely affect economic activity.
The Bank continues the monitoring and follow-up of the different risks, including those the probability of their materialization has increased following the crisis, the implications and impact of which on the Bank, inter alia,credit risks, cyber and data protection risks, business continuity risk, money laundering risks, startegic risks, and more.
The Bank strictly continues the implementation of the directives of the Ministry of Health and of Bank of Israel, and adopts a line of measures within the framework of maintaining business continuity, with a strict risk management and maintenance of controls. All along the pandemic waves the Bank continues to offer customers its services through the different channels, by direct means and at the branches.
Within the framework of Proper Conduct of Banking Business Directive No. 250, Bank of Israel eliminated on December 27, 2021, most of the mitigating instructions granted to banks in respect of different matters, assisting in the confrontation against the Coronavirus, except for a part of the reliefs, the effect of which had been extended, including those relating to capital and leverage ratio requirements. However, on January 18, 2022, on background of the high level of morbidity, Bank of Israel granted additional relief regarding business continuity, which ended on February 28, 2022.
As from the beginning of the year, the significant decrease in the volume of "frozen" credit at the Bank is continuing, and the balance of credit, repayment of which had been deferred due to the Corona crisis, totals low and immaterial amounts. The balance of deferred repayments of loans (principal and interest) as of December 31, 2021, amounted to NIS 9 million, comprising 0.01% of the balance of credit to the public, as compared with the balance of deferred loan repayments at December 31, 2020, of NIS 125 million, which comprised 0.14% of the balance of credit to the public. The rates of debts the repayment of which had been deferred at December 31, 2021, comprised 0.8% of total credit to the public, as compared with 1.9% at December 31, 2020.

With the outbreak of the Corona crisis, in view of the high uncertainty created, and in order to reflect the possible growth in the specific provisions in respect of borrowers affected by the crisis but not yet identified, the Bank significantly increased during 2020 the collective provision for credit losses. All along the crisis, the Bank reviews developments in the economy and the relevant information for the purpose of determining the provisions for credit losses and the adjustment of the collective provision, in order to reflect a possible growth in the specific provisions regarding borrowers affected by the crisis but not yet identified.

Within the framework of the considerations for determining the level of the collective provision as of December 31, 2021, the Bank has taken into account the rise in economic activity in relation to that prevailing in the course of 2020, and estimated that, despite the risk of a future rise in the rate of morbidity, the risk of impairment to economic activity was reduced, due to the policy of the Government for modification of the economy for continuation of activity in the period of growing morbidity, and the management of the Corona crisis with minimal impairment caused to the economy. In view of the above stated, the Bank recorded reduction in the balance of the credit loss provision in the last quarters of 2021.

The balance of the provision for credit loss as of December 31, 2021, amounted to NIS 1,076 million, as compared to NIS 1,277 million, at December 31, 2020. The ratio of the provision for credit loss to the balance of credit to the public at December 31, 2021, amounted to 1.05%, as compared to 1.38% at the end of 2020, and to 1.05% at the end of 2019.

Assessments by the Bank regarding possible implications of the spreading of the Coronavirus and its impact upon the markets comprise forward looking information, as defined by the Securities Act, 1968, based, inter alia, on information, third party publications and estimates at the hands of the Bank at this date. Such assessments are uncertain and may materialize in a manner significantly different than that stated above.

For additional details regarding the spreading of the Corona crisis, see Note 1F. to the financial statements and the risks report on the Internet website of the Bank.

Objectives and Strategy

The Bank operates according to a multi-annual startegic plan validated smi-annually by the Board of Directors. In November 2019, The Board of Directors approved an updated corporate strategy for the years 2020-2022.

Management of the Bank is guided and directed by the Board of Directors and its committees, with respect to the strategy and business policy of the Bank. In this framework, the Board of Directors approves the quantitative and qualitative targets and goals as well as the lines of operation of the Bank.

The Board of Directors and its committees supervise and control the work of Management in everything relating to the implementation of the strategy and business policy, as approved by them. The Board of Directors approves also the comprehensive risk management policy, including the determination of different limitations to exposure regarding credit risk and market and liquidity risks. The various units of the Bank, of the branch layout and of the Head Office, operate within the framework of written procedures and circular letters, guiding them in their current operations. These procedures define, among other things, the authority of the different units of the Bank and the manner of operation which they have to adopt.

The Bank acts to strengthen its position among its customers, and is directed to provide updated and customized banking services adapted to their needs, in an efficient, professional and secured way, agreeing with the changing banking environment and maintaining a measured level of risk.

Business focal points had been determined in the strategic plan, the aim of which is to lead forward the Bank in a competitive environment and subject to conditions of uncertainty. The plan contains super targets in terms of return on capital and efficiency ratios, and concurrently with an educated risk management, the bank emphasizes the following matters:

- Providing added value to its customers in accordance with the needs of each of them, including in the digital and technological response fields;
- Focusing by the subsidiary company Massad and the brand names UBANK, PAGI and Otzar Hachayal on their unique niches of operation;
- Maintaining its leadership in the capital market;
- Segment focused growth in the business sector;
- Leading efficiency moves in expenditure, while making the manpower strength more efficient, improving processes, continuation of efficiency measures at the branches and continuing the transition to the digital banking channels;
- Structuring and strengthening of the critical core abilities, such as: data management and business development.

Additional strategic processes conducted by the Bank in recent years included the infrastructure and computer strategy, a strategy for digital operations, the aim of which is to provide an advanced technological response to customers and a data strategy leveraging the multitude of information in the organization for the creation of a significant value to the Bank.

The strategic plan had been tested and found as relevant and suitable to the Bank, even in view of the spreading of the Coronavirus and its economic implications in Israel and globaly. The Bank continues to follow the implications of the Coronavirus and its effects on the operations of the Bank and its strategy, and where required, makes adjustments to the work plan of the Bank.

Principal environmental, social, and governance aspects (ESG)

The Bank attributes great importance to the promotion of environmental, social and governance (ESG) aspects, in its business operations and invests relevant resources in this respect, in accordance with its business strategy.

Presently, the bank is engaged in the process of forming a comprehensive ESG strategy that would enhance the integration of such aspects in the current operations of the Bank. The comprehensive strategy would be published in continuation, accompanied by a full list of long-term ESG targets.

In this framework, in accordance with the business strategy, the Bank chooses to focus on three central areas regarding the ESG:

- Integration of ESG aspects in the capital market area – within the framework of the Bank's leadership in the capital market, the Bank has decided to integrate ESG considerations in investment advisory services, and make information on the subject accessible to its customers, through the Bank investment consultants and trading systems. In this framework, the Bank acts to make accessible ESG information regarding different securities by way of the trading systems, and examines the possibility to integrate ESG scoring in the analysis methodology of the Bank for securities. Concurrently, the Bank prepares, presently, a training layout in the matter, directed at bank investment consultants, with a view of assisting them in integrating the ESG area in consultation processes, in accordance with customer needs.
- Environmental and climate risk management regarding business credit – The Bank studies regularly, the processes of environmental risks with respect to material credit transactions, and strictly considers environmental risk aspects upon making credit granting decisions, to the extent that the matter is relevant to the transaction. On background of the significant developments in recent years regarding practices for the management of environmental risks, the Bank plans to conduct a renewed examination of the processes regarding evaluation and management of the environmental risk, while modifying them, to the extent possible, to accepted practices in the world. In this framework, the Bank shall examine its risk appetite, including determination of goals and limitations.
- Promotion of financial understanding of Bank customers, with a focus on the capital market – the Bank is continuously acting to promote the financial understanding of its various customers, through digital means, such as study courses and video clips. The contents would be presented on the Internet website of the Bank and published to customers, with the aim of expanding the scope of exposure to such content, and increase the financial knowledge of customers and assist them in making more educated financial decisions. Some of the contents would be modified to the unique needs of customers belonging to specific sectors, such as small businesses and self-employed. Over and above the plentiful social value of this move, the Bank recognizes the importance of the financial knowledge of its customers, also as part of its risk management tools.
- Promotion of diversity in employment – Within the strategic focusing of the Bank Group on customers coming from different groups of population, through the different banking brands, the Bank sees great importance in attracting employees from divers' groups of the Israeli society.

Additional goals will be published in continuation, and performance indices for 2021 would be published as part of the Annual ESG report by the Bank.

EXPLENATION AND ANALYSIS OF RESULTS AND BUSINESS POSITION

TRENDS, EVENTS, DEVELOPMENTS AND MATERIAL CHANGES

PRINCIPAL ECONOMIC DEVELOPMENTS

Following are the principal economic development in 2021, which affected the economic environment in which the banking sector in Israel operates.

The Israeli economy is recovering from the Corona crisis at a fast pace, and is now open almost completely, with no material restrictions on economic activity, except for significant restrictions on incoming tourism.

At the same time, since the middle of June 2021 and until November, the number of verified persons infected by the Coronavirus has increased, as a result of the spreading of the "Delta" mutation. Also at the end of November, the Omicron variant started to spread, inter alia, at a higher level of contamination than that of the Delta vatiant, becoming the dominent Corona variant in the fifth wave of the pandemic in Israel.

Testimony of the ability to conduct continuous economic activity may also be seen in the encouraging growth data of the economy. Notwithstanding this, Bank of Israel estimates that considerable uncertainty still exists with respect to economic activity in the middle-term, mostly in view of the risk of recurrence of additional morbidity waves.

Alongside the growth in economic activity, the manpower survey data indicate encouraging reduction in the rate of the wide unemployment to a level of approximately 5.8% in January of 2022, and 6% in December of 2021, compared to 13% at the beginning of 2021. The continuous decrease in the rate of unemployment occurred on background of the opening of the economy and the removal of most restrictions, as well as the termination of the sweeping "unpaid leave" model financed by the State, within the framework of which, unemployment benefits had been promised to every Israeli citizen who was made redundant during the Corona period.

On background of the Corona crisis, Bank of Israel has introduced designated policy tools for the support of the proper operation of the markets, the strengthening of the transmission of the monetary policy and the increase offering loans to small and minute businesses. Among these measures may be mentioned, the outline for the deferral of repayment of bank loans granted to households and businesses, the reduction in capital and leverage ratio required from banks, the plan for loans to banks for the purpose of extending credit to small businesses, the purchase of bonds by Bank of Israel, and more.

On December 27, 2021, Bank of Israel, within the framework of Proper Conduct of Banking Business Directive No. 250, removed most of the mitigating measures approved to banks regarding different matters intended to assist in confronting the Corona crisis, excluding a part of the mitigating measures, the validity of which had been extended, including those relating to the capital requirements and to the leverage ratio. Notwithstanding the above, on January 18, 2022, and in view of the high level of the morbidity, Bank of Israel announced additional mitigating measures regarding business continuity.

Growth

The Research Division of Bank of Israel updated on January 3, 2022, its forecasts, according to which the GDP is expected to grow in 2021 at the rate of 6.5%, a lower growth rate in relation to the previous forecast of October (7.0%), and in 2022, a growth of 5.5% is expected (no change from the October forecast). In 2023, the GDP is expected to grow by a rate of 5.0%. As compared to the previous forecast of October, the private consumption and imports forecasts for 2022 have been updated upwards to an identical rate of 8.0%, in view of the estimate that the volume of outgoing tourism will grow already in 2022, while the incoming tourism will recover only in 2023. On the other hand, forecasts for exports and investments for 2022 have been updated downwards to rates of 3% and 6%, respectively, due to estimates that delays in the chain of supply would continue until the second half of 2022.

Credit risk of the economy

The risk level of the Israeli economy, as reflected by ratings of the rating agencies and by the capital market, is relatively low. The "Fitch" global rating agency ratified in July 2021, the credit rating of the State of Israel at a level of "A+" leaving it with a stable outlook.

The "Moody's" global rating agency ratified in November 2021, the credit rating outlook of the State of Israel at the level of "A1" leaving it a stable outlook.

The S&P global rating agency stated on May 14, 2021 (During the "Guardian of the Walls" operation) that it ratifies again the credit rating of the State of Israel regarding the foreign currency debt, at the level of "AA-" with a stable outlook.

State budget

In October 2021, the Knesset approved the State budget and the economic plan (the Arrangements Act) for the years 2021-2022. The State budget for 2021 amounts to NIS 432.3 billion, and for 2022 amounts to NIS 452.5 billion. In 2022, the education budget amounts to NIS 70 billion, the Ministry of Defense budget amounts to NIS 60 billion and the health budget amounts to 45 billion.

According to preliminary assessments for the execution of the budget, made by the Accountant General at the Ministry of Finance, published in January 2022, the cumulative Government deficit for 2021 amounts to NIS 68.7 billion, (as compared to NIS 160.3 billion in 2020) comprising 4.5% of the GDP, a reduction of 6.9 percentage points in relation to 2020. The decline in the deficit in Israel, stands out positively when compared to rate in the developed countries (amounting to 0.9%). This stems mainly from the steep rise in State revenues of approx. 4.4 percent of GDP (27.1% in 2021, in comparison with 22.7% in the preceding year), and from a reduction in the volume of expenditure of approx. 2.4 percent of GDP (31.7 percent of GDP in 2021 as compared to approx. 34.1 percentage of GDP in the preceding year). At the same time, the Accountant General notes that it should be remembered that in relation to the years prior to the Corona crisis, this reflects a high rate of deficit.

The forecast by Bank of Israel published in January 2022, stated that the passing of the State budget and the increase in tax revenues had supported the downward forecasts that the weight of the deficit and of the State debt in the GDP is expected to decline, reaching at the end of 2021 approx. 4.5 percent of GDP (6.4% according to the forecast of October), in 2022, 3.6% of GDP (4.0% according to the forecast of October), and in 2023, approx. 3.4% of GDP as against 11.4% of GDP in 2020. Stability is expected in the years 2021 to 2023, at a rate of 69% in the ratio of debt to GDP .

Inflation

The rate of inflation rose in 2021. The CPI "for the month" rose by 2.8%, as compared to the decrease of 0.7% in the corresponding period last year, whereas the "known" CPI rose by 2.4%, in comparison to a decline of 0.6% in the corresponding period last year.

In accordance with an update by the Research Department of Bank of Israel of January 2022, the rate of inflation expected for the years 2022 and 2023 amounts to 1.6% and 2.0%, respectively.

In accordance with the monetary policy report by bank of Israel of January 2022, despite the rise in inflation in Israel in 2021, it is still significantly lower than in the United States and in the other principal economic zones, remaining within the bounderies of the targeted inflation range, and so are the inflationary anticipations in all ranges. Members of the Committee have accordingly stressed that there is no fear of an inflationary outbreak in Israel

In accordance with an updated forecast of the International Monetary Fund, dated October 2021, the rates of inflation expected in Israel for the years 2022 and 2023, amount to 1.8% and 1.6%, respectively.

Housing market

In accordance with the apartment price index of the CBS, published in January 2022, an increase of 10.6% was recorded in prices of apartments in general and an increase of 11.5% in the prices of new apartments, for transactions effected in the period October-November 2021, as compared with transactions effected in the months of October-November 2020. This annual increase in prices reached the highest level for the last decade.

New Government plans intended to moderate the steep increase in housing prices, took effect in November 2021, among which, an increase in acquisition tax applicable to apartments purchased as an investment.

Labor market

The Corona crisis has seriously affected the labor market, which until the outbreak of the crisis demonstrated power. According to the manpower surveys published by the CBS, a reduction in the wide unemployment rate was recorded to a level of 5.8% in January 2022, and of 6% in December 2021, in comparison to a rate of 6.5% in November, 8% in September, 9% in June, 12% in March and 13% in December 2020. The decline in the rate of unemployment occurred on background of the opening of the economy and the removal of most of the Corona restrictions, except for significant restrictions of incoming tourism as well as the termination of the "unpaid leave" model provided by the State, according to which, unemployment benefits were paid to any Israeli citizen who had been made redundant during the Corona period.

According to the update of forecasts by the Research Division of Bank of Israel January 3, 2022, a decrease in the rate of wide range unemployment is anticipated from 16.1% in the last quarter of 2020 to 6.7% in the last quarter of 2021 (7.1% according to the forecast of October), and to 4.8% in the last quarter of 2022 (5.2% according to the forecast of October), a level still higher than that prevailing prior to the crisis (3.8%). The recovery in the GDP level to its position prior to the crisis is expected to be accompanied by a decline in the wide range of unemployment.

According to an open positions survey published by the CBS in December 2021, the number of open positions in the economy (net of seasonality) amounted to approximately 141 thousand positions, with no significant change as compared with the previous month, but over twice their number in December 2020. The rate of open positions for December amounted to 4.9%, with no significant change as compared with the previous month, but as compared with 2.6% in December 2020.

Exchange rate

During the year 2021, the rate of exchange of the shekel as against the US dollar declined by 3.3%, most of the reduction (3.7%) occurred in the last quarter of 2021, while as against the Euro, the exchange rate of the shekel dropped by 10.8%. Most of the reduction (9.2%) occurred in the second half of the year.

As of February 25, 2022, the Shekel depreciated sharply as against the US dollar, at a rate of 4.8%, as compared with the end of 2021.

In January 2021, Bank of Israel announced that in order to support reaching the goals of Bank of Israel, and support the recovery of the economy from the Corona crisis, and in particular in order to support the export sectors and import alternatives that had suffered from the adverse effect of the decline in the exchange rate of the shekel as against the dollar, Bank of Israel intends to purchase in 2021 an amount of US$30 billion (in continuation to purchases of US$21 billion in 2020).

At the beginning of July 2021, Bank of Israel announced that it is not limited to the maximum involvement of up to US$30 billion in 2021, and that at the completion of the plan, it would act in the foreign currency market in accordance with requirements and considering economic activity in the economy. In the course of 2021, Bank of Israel purchased an amount of approximately US$35 billion.

In a report published by the State Auditor on October 19, 2021, the Auditor notes that the considerable growth during the past decade in the level of foreign currency balances held by Bank of Israel on background of the global economic developments, has led to a deviation of approximately US$75 billion (as of February 2021) from the upper limit of the advisable level as determined by the Governor, thus increasing the risk of the investment and creating large liabilities in the balance sheet of Bank of Israel, which are mainly attributed to the accumulation of these balances. In order to revert to the advisable level, the State Auditor recommends the preparation of a contingency plan, according to which, the Monetary Committee would examine the realization of the excessive balances in an efficient manner and under appropriate circumstances.

Bank of Israel interest rate

In 2021, Bank of Israel left the interest rate unchanged, at a level of 0.1%. According to an updated assessment of the Research Division of Bank of Israel of January 2022, the interest rate is expected to continue remaining at the level of 0.1% to 0.25% in the coming year, similarly to the previous forecast of October 2021.

The global environment

The growth in the rate of vaccination around the world and the efficiency of vaccination assist in the recovery of the global economy. Nevertheless, it seems that the Purchase Managers Index of the developed countries has slowed down, though it continues to indicate economic expansion. The volume of international trade has also slowed down, though it continues operating at high levels of activity.

The global inflationary environment continues to grow in most countries, with inflationary indices being higher than the targets of the central banks. In certain countries, the core inflation is also higher than the target.

The US economy grew in 2021 by an annual rate of 5.7%, the highest in the US since 1984, following regression at the rate of 3.4% in 2020. The growth in the GDP in 2021 was affected by the rise in demand, mostly due to growth in consumption and private investments. Alongside this, delays in the chains of supply around the world, burdened the expansion in economic activity. With a view of supporting the US economy, the Federal Bank (FED) left the interest rate in 2021 unchanged at its low level, and towards the end of 2021 reduced the plan for the purchase of bonds. In December 2021, the FED announced that three raises of the interest rate are expected in 2022.

In the Eurozone, the European Central Bank (ECB) left the interest unchanged. In Britain, on background of the significant rise in the inflation, the Central Bank (BOE) has raised the interest rate in December 2021, from 0.1% to 0.25%, and in the beginning of February 2022, raised it once more to 0.50%.

In the report by Bank of Israel on monetary policy, dated January 2022, the members of the Committee noted that up until now, raises in the interest rate had been recorded only in countries in which a considerable deviation from the inflation target had occurred, while in Israel, market expectations remain within the inflationary target range.

In the forecast published by the International Monetary Fund on October 12, 2021, the Fund updated its forecasts for global growth to 5.9% in 2021 (as compares to 6.0% in the forcast published in July) and left unchanged the forecasted growth for 2022 at 4.9%. The growth forecast for 2021 for the developed countries was updated downwards to 5.2% (in comparison with 5.6% in the forecast published in July). This, on background of the growing risk of outbreak of the "Delta" mutation and the increasing disruption in the global supply chains with respect to inputs and raw materials. For 2022, the Fund foresees growth of 4.5% (in comparison with 4.4% in the forecast published in July).

Recently, significant developments have taken place in the field of international relations in the world, in view of the invasion into the Ukraine by the Russian Army on February 24, 2022. As part of the possible reaction to this situation by the international community, economic sanctions had been imposed, and it is also intended to disconnect certain of the Banks in Russia from the international payments system (SWIFT). These developments increase uncertainty and may have an adverse effect on the condition of the markets and the economy in Israel and around the world.

The Bank closely follows these developments, studying the steps necessary to reduce to the minimum their effect on its operations.

Capital market

Trading on the capital markets around the world, during the year 2021, reflected a rise in quotations on most leading indices. The NASDAQ and S&P Indices recorded an average rise of 27%, and the Dow Jones Index recorded a rise of 19%. Also the leading Stock Exchanges in Europe presented fair increases in the leading indices.

On the local market, rising quotations were recorded in all leading share indices. The TA-125 Index closed the year 2021 with a rise of 31%, and the TA- SME60 Index rose by 30%.

Also the segmental indices have also recorded fair increases since the beginning of the year, headed by the TA Bank-5 that rose by 68% and the TA-Oil and Gas Index, which rose by 62% on background of the growth in volume of the productive activity in the world and of the energy crisis, which together had contributed to the sharp rise in prices of commodities, headed by gas and oil. The TA-Real Estate rose by 53%, on background of the reversal to a high demand environment by the different industries, as a result of the gradual return to routine economic and business activity, and of the continuing increase in demand for residential property, that was grossed up in the rise of 75% in the construction Index, due to the high leap in demand for residential property.

The income producing real estate indices have also recorded a significant rise of 47%, influenced by the return of workers to work at their workplace.

Trading on the bond market was characterized in 2021 by rising prices in all of the leading indices. Positively outstanding were the CPI linked corporate and government bonds rising by 7.0%- 9.0% due to anticipated growth in inflation in Israel.

Prices of foreign currency linked corporate bonds rose by 5.7% due to anticipation for devaluation in the shekel exchange rate against the US dollar, inter alia, due to the plan for the purchase of dollars, announced by Bank of Israel, and anticipation for an early increase in the FED interest rate.

Trading on the local market was characterized in January 2022, by high fluctuations, concluded by a mixed trend regarding the leading share indices. The first half of January was characterized by rising prices and record high indices, in continuation of the trend of the preceding year. In the second half of January , the trend was reversed following price declines in the capital markets of the world, affected by anticipation for an early increase in the FED interest rate in the US.

Following long weeks of suspence, the invasion of the Ukraine by the Russian Army on February 24, 2022, led to convulsions on the markets, in view of the fact that Russia is one of the three largest oil producers in the world and is the main gas sources of Europe. Oil prices have increased to over US$100 per barrel, the highest price since 2014.

MATERIAL DEVELOPMENTS IN REVENUES, EXPENSES AND OTHER COMPREHENSIVE INCOME

PROFIT AND PROFITABILLITY

Net profit attributed to the shareholders of the Bank amounted to NIS 1,405 million, as compared to NIS 750 million in 2020, a decrease of 87.3%.

The return of net profit to the capital attributed to the shareholders of the Bank amounted to 14.7%, as compared to 8.6% in 2020.

Net profit attributed to the shareholders of the Bank, in the fourth quarter of 2021, amounted to NIS 333 million, compared with NIS 210 million in the fourth quarter of 2020, an increase of 58.6%.

The return of net profit to the capital attributed to the shareholders of the Bank in the fourth quarter of the year amounted to 14.0% compared with 9.6% in the corresponding quarter last year.

Condensed statement of income

	Year ended December 31		
	2021	**2020**	**change**
		NIS million	in %
Net financing earnings (1)	**3,097**	2,785	11.2
Expenses (income) from credit losses	**(216)**	464	(146.6)
Net financing earnings after expenses from credit losses	**3,313**	2,321	42.7
Fees and other income	**1,453**	1,375	5.7
Operating and other expenses	**2,652**	2,569	3.2
Profit before taxes	**2,114**	1,127	87.6
Provision for taxes on profit	**728**	368	97.8
The bank's share in profit of equity-basis investee, after taxes	**69**	29	137.9
Net profit:			
Before attribution to non-controlling interests	**1,455**	788	84.6
Attributed to non-controlling interests	**(50)**	(38)	31.6
Attributed to shareholders of the Bank	**1,405**	750	87.3
Net return of equity attributed to the Bank's shareholders	**14.7%**	8.6%	

(1) The items of profit and loss above were presented in a different format then the condensed statement of income. The change is expressed by sorting of net interest income and non-interest income to the net financing earnings.

DEVELOPMENT IN INCOME AND EXPENSES

The Net Financing earnings

In order to analyze profit from financing activity, in addition to interest income and expenses, non-interest financing income and expenses must also be included in profit. This income includes financing income in respect of derivative instruments which serve as an integral element of the Bank's exposure management. Income from derivatives includes, among other things, the effect of the time value in the fair value of derivatives, which is integral part of interest rate risk management and the effect of the rate of rise in the known CPI on derivatives, which is an integral part of the management of the exposure to the CPI risk.

Set out below is the composition of net financing earnings:

	Year ended December 31	
	2021	2020
		NIS million
Interest income	**3,150**	2,878
Interest expenses	**356**	241
Net interest income	**2,794**	2,637
Non-interest financing income	**303**	148
Net financing earnings	**3,097**	2,785
Elimination of non-current activities:		
Reconciliations to fair value of derivative instruments	**(1)**	(3)
Income from realization and reconciliations to fair value of bonds	**21**	28
Earnings (losses) from investments in shares	**233**	(2)
Total non-current activities	**253**	23
Financing earnings from current activity (1)	**2,844**	2,762

(1) Of which: in respect of changes in the CPI- an income in the amount of NIS 98 million in the year 2021, compared with an expense of NIS 20 million in the year 2020.

The financing earnings from current activity amounted to NIS 2,844 million, as compared to NIS 2,762 million in 2020, an increase of 3.0%. The increase stemmed from the effect of the changes in the CPI and fro the effect of the increase in the volume of the business activity. This increase was partially offset by the erosion of the spreads as a result of the decrease in the Bank of Israel interest rate and the decrease in the Dollar interest rate compared with last year.

Set out below are principal data in respect of income and expenses rates:

	Year ended December 31	
	2021	2020
		Percent
Income rate on assets bearing interest	**2.08**	2.13
Expense rate on liabilities bearing interest	**0.43**	0.32
Total interest spread	**1.65**	1.81
Ratio of net interest income to balance of assets bearing interest	**1.84**	1.95

For additional information in respect of rate of income and expenses of the Bank and its consolidated companies and analysis of the changes in interest income and expenses, see appendix 1 to the chapter on corporate governance, appendices.

Expenses from credit losses totaled to NIS 216 million in 2021 compared with NIS 464 million in 2020.

The income in respect of credit losses, which were recorded in 2021, derived mainly from the reduction in the collective provision, explained by an improvement in the macro-economic indices and indicators indicating the level of risk embedded in the credit portfolio of the Bank and from the continuance decline in the volume of loans under deferral of payments.

In 2020, the expenses in respect of credit losses derived mainly from an increase in the collective expense for cresit losses, due to changes in the macro-economic environment as a result of the spreading of the corona virus and the uncertianty, as to its effect, on the position of borrowers and in an increase in the volume of problematic debts, as a result. For further details, see the chapter of "accounting policy and critical accounting estimates**."**

Set out below are details of Expense (income) from credit losses in respect of debts and off-balance sheet credit instruments:

	Year ended December 31	
	2021	**2020**
		NIS million
Individual expense from credit losses	**102**	156
Decrease in individual expense in respect of credit losses and collection of debts written off in accounting	**(142)**	(156)
Net individual income from credit losses	**(40)**	-
Collective expense (income) from credit losses	**(176)**	464
Total Expense (income) from credit losses	**(216)**	464
Of which:		
Expense (income) in respect of commercial credit	**(212)**	346
Expense (income) in respect of housing credit	**(6)**	41
Expense in respect of other private credit	**2**	77
Ratio of individual expense (income) from credit losses to average total credit to the public	**(0.04%)**	-
Ratio of collective expense (income) from credit losses to average total credit to the public	**(0.19%)**	0.52%
Ratio of total expense (income) from credit losses to average total credit to the public	**(0.23%)**	0.52%

For additional information regarding expenses for credit loss, see Chapter "Review of Risks" below.

Fees income totaled NIS 1,444 million in 2021, compared with NIS 1,371 million in 2020, an increase of 5.3%. Most of the increase derives from a rise in income from the activity in the capital market, explained by an increase in the volume of securities portfolios held by the Bank's customers.

Set out below are details of fees income:

	Year ended December 31	
	2021	**2020**
		NIS million
Account management	**206**	208
Credit cards	**119**	101
Transactions in securities	**760**	708
Conversion differentials	**168**	173
Fees from financing transactions	**82**	79
Other Fees	**109**	102
Total Fees	**1,444**	1,371

Operating and other expenses totaled NIS 2,652 million in 2021 compared with NIS 2,569 million in 2020, an increase of 3.2%.

Set out below are details of operating and other expenses:

	Year ended December 31	
	2021	2020
		NIS million
Salaries and related expenses	**1,601**	1,532
Maintenance and depreciation of premises and equipment	**340**	344
Amortization of intangible assets	**105**	96
Other expenses	**606**	597
Of which: dismissals and reductions	**36**	26
Total operating and other expenses	**2,652**	2,569

Salaries and related expenses totaled NIS 1,601 million in 2021 compared with NIS 1,532 million in 2020, an increase of 4.5%. The increase explained mainly by adjustment of variable compensation components to the return and profit of the Bank.

Maintenance and depreciation of buildings and equipment expenses amounted to NIS 340 million in comparison to NIS 344 million in 2020, a decrease of 1.2%, stemming from reduction in the volume of the real estate assets in the Group due to the efficiency measures.

Amortization of intangible assets amounted to NIS 105 million in 2021, compared with NIS 96 million in 2020, an increase of 9.4%, stemming from an increase in the volume of investment in software assets.

Other expenses totaled NIS 606 million in 2021 compared with NIS 597 million in the same period last year, an increase of 1.6%, stemming mainly from an increase in dismissal expenses amounting to NIS 36 million compared with NIS 26 million in 2020. The increase in the dismissal expenses was recorded mainly in the fourth quarter of the year due to early retirement of employees with preferred terms, as part of early retirement plan (part of the efficiency measures).

The provision for taxes on operating earnings amounted to NIS 728 million in 2021 compared with NIS 368 million in 2020. The effective tax rate as a proportion of earnings before taxes amounted to 34.4%, compared with 32.7% in 2020, compared with statutory tax rate of 34.2%. The increase in the effective tax rate compared to 2020, derives from tax income in respect of previous years, in the amount of NIS 40 million reccorded in 2020, compared to NIS 10 million in 2021.

The Bank's share in the operating earnings of investee company after the tax effect amounted in 2021 to NIS 69 million, compared to NIS 29 million in 2020. The increase in the Bank's share in the operating earnings of investee company stems fron the raise in the earnings of Israel Credit Card Ltd., affected mainly from the decrease in provision for credit losses and from an increase in the volume of activity.

The total comprehensive profit attributed to the shareholders of the Bank amounted to NIS 1,407 million. This amount was affected by the net profit for the period attributed to the shareholders of the Bank of NIS 1,405 million, by other comprehensive income in respect of adjustments of available-for-sale bonds in an amount of NIS 17 million and by other comprehensive loss in respect of employees' benefits in an amount of NIS 15 million.

For details of income and expenses by quarters for the years 2020 and 2021 see appendix 3 of corporate governance section, appendices.

INFORMATION AND COMPUTER SYSTEMS

MATAF - Computing and Financial Operation Ltd. (hereinafter: "MATAF") is a subsidiary of the bank and supplies IT to the bank and to other companies in the group.

MATAF manages and operates entire computerization infrastrcture, systems, software products and cyber defense needed to the Bank and the Group including interfaces and channels connected to this infrastructure.

Investments and expenses in respect of the IT network

Software purchased by the Group is measured by cost, usualy including transaction costs less accrued depreciation and losses from impairement.

Costs relating to the development of software for the purpose of own use were only discounted if: the initial phase in the project is completed; and Management, which has the appropriate authority, approved and has the liability to finance, directly or indirectly, a project of developing software and it is expected that the development will be completed and if future economic benefits are expected from it. Costs that were recognized as intangible assets include direct costs of services and direct labor costs for employees. Other costs in respect of development activity and expenses in the initial phase are recognized as an expense as they arise.

Details of expenses and investments in information systems carried out:

Additions to assets in respect of the information technology system not charged as an expense:

	Year 2021				Year 2020			
	Software	Hardware	Other	Total	Software	Hardware	Other	Total
				NIS million				NIS million
Costs in respect of wages and related expenses	**36**	**-**	**-**	**36**	33	-	-	33
Outsourcing costs	**6**	**-**	**-**	**6**	8	-	-	8
Costs of acquisitions or usage licenses	**91**	**-**	**-**	**91**	79	-	-	79
Costs of equipment, buildings and land	**-**	**18**	**-**	**18**	-	16	-	16
Total	**133**	**18**	**-**	**151**	120	16	-	136

Balances of assets in respect of the information technology system:

	As of December 31, 2021				As of December 31, 2020			
	Software	Hardware	Other	Total	Software	Hardware	Other	Total
				NIS million				NIS million
Total depreciated cost	**294**	**65**	**2**	**361**	264	70	3	337
Of which: in respect of wages and related expenses	**105**	**-**	**-**	**105**	105	-	-	105

Expenses in respect of the information technology system as included in the statement of profit and loss:

	Year 2021				Year 2020			
	Software	Hardware	Other	Total	Software	Hardware	Other	Total
				NIS million				NIS million
Expenses in respect of wages and related expenses	**206**	**3**	**-**	**209**	180	4	-	184
Expenses in respect of acquisitions or usage licenses not discounted to assets	**65**	**-**	**-**	**65**	65	-	-	65
Outsourcing expenses	**21**	**18**	**-**	**39**	19	18	-	37
Depreciation expenses	**103**	**24**	**-**	**127**	94	25	-	119
Other expenses	**-**	**1**	**31**	**32**	-	2	28	30
Total	**395**	**46**	**31**	**472**	358	49	28	435

For additional information regarding technological changes and innovation, see chapter corporate governance, additional information.

COMPOSITION AND DEVELOPMENT OF ASSETS, LIABILITIES, CAPITAL AND CAPITAL ADEQUACY

The consolidated balance sheet as of December 31, 2021 amounted to NIS 180,470 million compared with NIS 167,778 million as of December 31, 2020, an increase of 7.6%.

A. Set out below are developments in the principal balance sheet items:

	As of December, 31		
	2021	2020	Change
		NIS million	%
Credit to the public, net	**101,164**	90,970	11.2
Securities	**15,091**	13,105	15.2
Cash and deposits with banks	**57,370**	57,802	(0.7)
Deposits from the public	**153,447**	141,677	8.3
Bonds and subordinated capital notes	**3,356**	4,394	(23.6)
Capital attributed to the shareholders of the Bank	**10,003**	9,141	9.4

B. Set out below are developments in the principal off-balance sheet financial instruments:

	As of December, 31		
	2021	2020	Change
		NIS million	%
Off-balance sheet financial instruments excluding derivatives:			
Documentary credit	**179**	177	1.1
Guarantees and other liabilities	**9,136**	7,163	27.5
Unutilized credit lines for derivatives instruments	**2,715**	2,364	14.8
Unutilized revolving credit and other on-call credit facilities	**11,738**	10,683	9.9
Unutilized credit lines for credit card facilities and facilities for the lending of securities	**9,198**	8,718	5.5
Irrevocable commitments to grant credit, not yet executed and commitments to issue guarantees	**8,832**	7,797	13.3
Total	**41,798**	36,902	13.3

Derivative financial instruments:

	December 31, 2021			December 31, 2020		
	Positive fair value	Negative fair value	Face value	Positive fair value	Negative fair value	Face value
						NIS million
Interest contracts	**157**	**256**	**18,215**	221	453	18,914
Currency contracts	**555**	**785**	**73,326**	885	1,071	73,814
Contracts in respect of shares	**951**	**951**	**72,711**	789	789	55,159
Commodities and other contracts	**46**	**46**	**1,117**	2	2	171
Total	**1,709**	**2,038**	**165,369**	1,897	2,315	148,058

Credit to the public as of December 31, 2021 amounted to NIS 102,240 million compared with NIS 92,247 million as of December 31, 2020, an increase of 10.8%.

Credit to the public, net as of December 31, 2021 amounted to NIS 101,164 million compared with NIS 90,970 million as of December 31, 2020, an increase of 11.2%.

The following is information on credit to the public by linkage segment:

	As of December, 31				Segment's share of credit to the public on December, 31	
	2021	2020		Change	2021	2020
		NIS million	NIS million	%	%	%
Local currency						
- Non-linked	**84,013**	75,077	8,936	11.9	**83.0**	82.5
- CPI-linked	**12,634**	11,185	1,449	13.0	**12.5**	12.3
Foreign currency (including f-c linked)	**3,819**	4,143	(324)	(7.8)	**3.8**	4.6
Non-monetary items	**698**	565	133	23.5	**0.7**	0.6
Total	**101,164**	90,970	10,194	11.2	**100.0**	100.0

Gross Credit to the public, before provision for credit losses, by segment of activity

	As of December, 31		
	2021	2020	Change
		NIS million	%
Large business segment	**18,571**	16,724	11.0
Medium business segment	**6,101**	5,385	13.3
Small and minute business segment	**21,044**	18,876	11.5
Household segment excluding housing loans	**22,622**	21,351	6.0
Housing loans	**32,260**	28,336	13.8
Private banking segment	**95**	70	35.7
Institutional entities	**1,547**	1,505	2.8
Total	**102,240**	92,247	10.8
Of which: consumer credit excluding housing loans and credit cards			
Household segment	**18,754**	17,889	4.8
Private banking segment	**52**	39	33.3
Total	**18,806**	17,928	4.9

Total credit risk to the public is comprised of balance-sheet credit risk, which includes credit to the public, investments in bonds of the public and assets deriving from financial derivative instruments purchased by the public, and from off-balance-sheet credit, which includes transactions in off-balance-sheet financial instruments, unutilized credit lines and liabilities for the granting of credit.

Total credit risk to the public amounted to NIS 143,872 million on December 31, 2021 compared with NIS 129,440 million on December 31, 2020, an increase of 11.1%.

Set out below is information on the distribution of total credit risk to the public by sectors of the economy.

Sector	As of December 31, 2021		As of December 31, 2020		
	Total credit risk	Sector's share in total credit risk	Total credit risk	Sector's share in total credit risk	change
	NIS million	%	NIS million	%	%
Financial services (including holding companies)	**19,307**	**13.4**	15,591	12.0	23.8
Construction and real estate	**20,409**	**14.2**	17,062	13.2	19.6
Industry	**10,738**	**7.5**	10,263	7.9	4.6
Commerce	**7,608**	**5.3**	7,368	5.7	3.3
Private customer, including housing loans	**71,433**	**49.6**	65,820	50.9	8.5
Others	**14,377**	**10.0**	13,336	10.3	7.8
Total	**143,872**	**100.0**	129,440	100.0	11.1

Set out below is the sector-specific distribution of the six largest borrowers at the Group (by size of gross indebtedness before deduction of collateral whose deduction is permissible for the purpose of limiting the indebtedness of a borrower and group of borrowers):

		As of December 31, 2021			
Borrower no.	Sector of the economy	Balance-sheet credit risk (*)	Off-balance-sheet credit risk	Total credit risk	Total credit risk after permitted deductions
					NIS million
1.	Financial services	**1,177**	**334**	**1,511**	**625**
2.	Construction and Real estate - construction	**800**	**254**	**1,054**	**997**
3.	Financial services	**1**	**1,000**	**1,001**	**1,001**
4.	Industry	**18**	**863**	**881**	**881**
5.	Financial services	**674**	**64**	**738**	**368**
6.	Financial services	**578**	**4**	**582**	**28**

		As of December 31, 2020			
Borrower no.	Sector of the economy	Balance-sheet credit risk (*)	Off-balance-sheet credit risk	Total credit risk	Total credit risk after permitted deductions
					NIS million
1.	Financial services	500	500	1,000	1,000
2.	Industry	298	609	907	907
3.	Electricity and water supply	586	191	777	777
4.	Financial services	422	290	712	557
5.	Financial services	501	5	506	506
6.	Construction and Real estate - construction	94	401	495	396

* Including credit to the public, investment in bonds and other assets in respect of derivative instruments.

On the basis of the distribution of credit by size of borrower indebtedness on December 31, 2021, as stated in Note 29.c to the financial statements, 47% of the Group's total credit risk was granted to borrowers whose total credit reached an amount of up to NIS 1.2 million per borrower. Credit amounts of between NIS 1.2 million and NIS 20 million accounted for 22% of total credit risk, and credit amounts of over NIS 20 million accounted for 31% of the Group's total credit risk.

Set out below are balances of the total credit risk of the borrowers included in the upper brackets in Note 29.c to the financial statements, exclusive of collateral whose deduction is permissible for the purpose of calculating the restriction on single-borrower indebtedness, in the consolidated and at the Bank:

						Consolidated and The Bank
						December 31, 2021
Credit range for borrowers	**Balance-sheet credit risk**	**Off-balance-sheet credit risk**	**Total**	**Permitted deductions**	**Net indebtedness**	**No. of borrowers**
NIS thousand					NIS million	
From 400,000 to 800,000	**2,450**	**1,400**	**3,850**	**1,032**	**2,818**	**7**
From 800,000 to 1,200,000	**819**	**2,117**	**2,936**	**57**	**2,879**	**3**
From 1,200,000 to 1,600,000	**1,177**	**334**	**1,511**	**886**	**625**	**1**
Total	**4,446**	**3,851**	**8,297**	**1,975**	**6,322**	**11**

						Consolidated and The Bank
						December 31, 2020
Credit range for borrowers	**Balance-sheet credit risk**	**Off-balance-sheet credit risk**	**Total**	**Permitted deductions**	**Net indebtedness**	**No. of borrowers**
NIS thousand					NIS million	
From 400,000 to 800,000	2,343	1,044	3,387	591	2,796	6
From 800,000 to 1,200,000	798	1,109	1,907	-	1,907	2
Total	3,141	2,153	5,294	591	4,703	8

For detailed information regarding credit risk, see chapter of risks review below, additional supervisory disclosures and risk report at the Bank's internet site.

The investment in securities totaled NIS 15,091 million compared with NIS 13,105 million at the end of 2020, an increase of 15.2%.

Set out below is the composition of the securities portfolio:

	As of December 31,		**Share of total securities**	
	2021	**2020**	**2021**	**2020**
		NIS million		%
Government bonds	**13,542**	11,831	**89.7**	90.3
Banks' bonds (1)	**359**	321	**2.4**	2.5
Other bonds (corporate)	**447**	634	**3.0**	4.8
Other bonds (corporate guaranteed by governments)	**11**	12	**0.1**	0.1
Shares (2)	**732**	307	**4.8**	2.3
Total	**15,091**	13,105	**100.0**	100.0

(1) The balance includes bonds that were issued by banks' issuing companies.
31.12.20: Banks' foreign-currency bonds guaranteed and owned by foreign governments in the amount of NIS 32 million.

(2) Investment in shares includes inter alia investment in private equity funds, investment in foreign currency shares and ETF, investment in hedging funds and investment in shares and ETF traded on the Tel Aviv Stock Exchange.

Set out below is the distribution of the securities portfolio by linkage segments:

	As of December, 31				Segment's share of total securities	
	2021	2020		Change	2021	2020
		NIS million	NIS million	%	%	%
Local currency						
- Non-linked	**8,323**	6,719	1,604	23.9	**55.2**	51.3
- CPI-linked	**241**	285	(44)	(15.4)	**1.6**	2.2
Foreign currency denominated & linked	**5,795**	5,794	1	-	**38.4**	44.2
Non-monetary items	**732**	307	425	138.4	**4.8**	2.3
Total	**15,091**	13,105	1,986	15.2	**100.0**	100.0

Set out below are the sources for the price quotations which the Bank used for determining the fair value of securities on December 31, 2021:

	Price quoted in active market	Indicative price*	Counter-party price**	Total
				NIS million
Shares and private investment funds	**567**	**87**	**78**	**732**
Local currency government bonds	**8,119**	**-**	**-**	**8,119**
Local currency corporate bonds	**287**	**158**	**-**	**445**
Foreign-currency and f-c linked bonds	**58**	**5,737**	**-**	**5,795**
Total	**9,031**	**5,982**	**78**	**15,091**
% of portfolio	**59.8**	**39.7**	**0.5**	**100.0**

* Indicative price- An indication determined by the Bank and which is based mainly on price quotations obtained from an external entity or entities specializing in the matter, and the remainder is based on internal models determined by the Bank.

** Counter-party price- Price quotation obtained from the entity with which the transaction is conducted.

Below are additional details of bonds denominated in and linked to foreign currency, which are not asset-backed, by country/continent:

	As of December, 31	
	2021	2020
		NIS million
Israel (incl. Israel Government - NIS 4,079 million, 31.12.20 - NIS 4,051 million)	**4,137**	4,150
USA (incl. US Government - NIS 1,342 million, 31.12.20 - NIS 1,312 million)	**1,396**	1,352
France	**26**	29
Canada	**26**	28
Germany	**47**	50
Far East, Australia and others (3 countries; 31.12.20 - 4 countries)	**67**	84
Europe - others (3 countries; 31.12.20 - 3 countries)	**96**	101
Total	**5,795**	5,794

It should be noted that there is no issuer (except the Israel and US Governments) whose bond balance exceeds 0.4% of the shareholders' equity of the Bank.

Set out below are additional details on local currency corporate bonds by economic sectors:

	As of December, 31	
	2021	2020
		NIS million
Electricity and water	**88**	125
Construction and real estate	**138**	169
Financial services	**24**	60
Banks	**115**	82
Industry	**21**	30
Commerce	**14**	15
Transportation	**45**	51
Public and community services	**-**	4
Total	**445**	536

Set out below is the composition of the foreign-currency bond portfolio at the Bank Group:

- **Bonds denominated in or linked to foreign currency** - amounting to NIS 5,795 million (Dollar 1,864 million) (includes foreign corporations and leading financial institutions in OECD countries in an amount of NIS 224 million and other foreign corporations in an amount of NIS 72 million, foreign currency denominated Israel Government bonds amounting to NIS 4,079 million, foreign currency denominated bonds of Israeli corporations, mostly traded abroad, amounting to NIS 58 million and bonds of foreign governments amounting to NIS 1,342 million). All of the foreign bonds are investment grade and of which 98% is rated A or higher. This portfolio is diversified, in a manner whereby exposure to any single issuer (excluding Israel and US governments) does not exceed 0.7% of the total foreign currency bond portfolio. The duration (average term-to-maturity) of the foreign currency bond portfolio is 2.8 years. The balance of unrealized gross earnings (included in shareholders' equity under reconciliations to fair value in respect of the presentation of bonds available for sale) as of the report date in respect of this portfolio amounted to NIS 53 million (Dollar 17 million) compared with NIS 42 million (Dollar 13 million) on December 31, 2020.

The balance of gains, net (before tax effect) included in other comprehensive profit, in respect of the difference between fair value of available for sale bonds and their amortized cost, as of December 31, 2021 amounted to NIS 105 millions.
As of February 25, 2022, the balance of gross losses amounted to NIS 33 million.

Cash and deposits at banks on December 31, 2021 totaled NIS 57,370 million compared with NIS 57,802 million at the end of 2020, a decrease of 0.7%.

Deposits from the public on December 31, 2021 totaled NIS 153,447 million compared with NIS 141,677 million at the end of 2020, an increase of 8.3%.

Set out below is the distribution of deposits from the public by linkage segments:

	As of December, 31				Segment's share of total deposits from the public on December, 31	
	2021	2020		Change	2021	2020
		NIS million	NIS million	%	%	%
Local currency						
- Non-linked	**120,343**	112,861	7,482	6.6	**78.4**	79.7
- CPI-linked	**6,298**	5,365	933	17.4	**4.1**	3.8
Foreign currency denominated & linked	**26,108**	22,885	3,223	14.1	**17.0**	16.1
Non-monetary items	**698**	566	132	23.3	**0.5**	0.4
Total	**153,447**	141,677	11,770	8.3	**100.0**	100.0

Deposits from the public by segment of activity

	As of December, 31		
	2021	2020	Change
		NIS million	%
Large business	**15,553**	12,867	20.9
Medium business	**7,028**	5,707	23.1
Small and minute business	**25,949**	24,358	6.5
Household	**63,792**	63,338	0.7
Private banking	**9,253**	9,097	1.7
Institutional entities	**31,872**	26,310	21.1
Total	**153,447**	141,677	8.3

Securities portfolios belonging to customers of the Bank Group

The total of the securities portfolios of customers of the Bank Group as of December 31, 2021, amounted to NIS 448 billion, as compared to NIS 388 billion at the end of 2020, an increase of 15.4%.

Bonds and deferred debt notes amounted at the end of the year to NIS 3,356 million, as compared with NIS 4,394 million at December 31, 2020, a decrease of 23.6%.

On December 7, 2021, First international issuance Ltd. a wholly owned subsidiary of the Bank, issued on public placement bond the face value of which amounted to NIS 467 million, in consideration of NIS 500 million. The consideration of the placement was deposited with the Bank. The Bank is obligated to fullfil the terms of the bonds which were issued.

For details regarding assets and liabilities according to quarters in the years 2020 and 2021, see Appendix 5 to the Chapter "Corporate governance", appendices.

CAPITAL AND CAPITAL ADEQUACY

The capital attributed to the shareholders of the Bank amounted on December 31, 2021 to NIS 10,003 million, as compared with NIS 9,141 million on December 31, 2020, an increase of 9.4%.
For detailes regarding the development of the other comprehensive profit, see the Chapter "Material developments in income, expenditure and in other comprehensive profit".

CAPITAL ADEQUACY

Minimum capital ratios

The Bank implement Proper Conduct of Banking Business Directives Nos. 201-211 in the metter of "Measurement and capital adequacy" as were amended in order to reconcile them with the Basel guidelines. In accordance with Proper Conduct of Banking Business Directives regarding minimum capital ratios, the Bank is required to maintain a minimum Tier I equity capital ratio of 9% and a comprehensive capital ratio of 12.5%, being a banking corporations, the total consolidated stated assets of which does not exceeds 24% of total stated assets of the banking sector.
To these minimal capital ratios an additional capital requirement was added at a rate reflecting 1% of the outstanding balance of housing loans at the reporting date. In accordance with a clarification by the Supervisor of Banks dated October 6, 2021, the additional capital requirement regarding housing loans shall be added only to the Tier I equity capital ratio.
On the background of the spreading of the Coronavirus and as part of the adjustment to Proper Conduct of Banking Business directives, the Supervisor of Banks published, Proper Conduct of Banking Business Directive No.250, which, inter alia, contained the Provisional Instruction concerning the update of Directive 201, which includes a reduction of 1% of the capital requirements applying to banks and an update to Directive 329, which cancels the demand of additional 1% applying to housing loans for the purpose of the purchase of a residential apartment granted in the period from March 19, 2020 to September 30, 2021, and to housing loans, secured by a mortgage on an apartment, not for the purpose of purchasing rights in real estate (hereinafter – "loans for any purpose"), granted since March 19, 2020.
All along the crisis period, the Supervisor of Banks published updates extending the effect of the provisional instruction, whereas, in the matter of reduction in the capital requiorements, it has been determined that the relief shall apply until the end of 24 months from date of expiration of the instructions, on condition that the capital ratios of the banking corporation shall not be lower than those at date of expiration of the instructions or lower than the minimal capital ratios applying to the banking corporation prior to the date of the Provisional Instruction, whichever is lower. Notwithstanding this, the letter states that a reduction in the capital ratio of up to 0.3%, in the period of six months following the date of expiration of the Instruction, shall not be considered as violation of the above stated.
On December 27, 2021, the Supervisor of Banks issued a letter, according to which, the effect of the Provisional Instruction expires as from January 1, 2022. Likewise, the letter amends Proper Conduct of Banking Business Directive No. 329 regarding limitations on housing loans, according to which, the additional capital requirement of 1% shall apply to loans for residential purposes only and not to loans for any other purpose.

In addition to the above, the process of setting the capital goals was based on the following main parameters:

- The findings of the ICAAP based on the risk profile of the Group, taking into consideration the business goals of the Group and the planned growth.
- The result of the stress tests as detailed below.
- The capital goals comprise the higher of the capital requirement according to the findings of the ICAAP and that required by the stress tests.
- Conservativeness coefficient and confidence cushion combining estimates and forcasts in respect of the risk profile and capital base.

For detailed information, see the risk report for 2021 on the Bank's website.

The internal capital goals as were set by the Board of Directors are as follows:

- In a regular business situation - Tier I equity capital will be no less than 9.25%, and the ratio of the comprehensive capital will be no less than 12.50%. Given the relief period granted by the Bank of Israel, Tier I equity capital will be no less than 8.25% and the ratio of the comprehensive capital will be no less than 11.50%. These ratios may change in accordance with the amount of mortgage loans granted in the relevant quarter.
- In stress situations - the ratio of Tier I equity capital shall not be less than 6.50%, and the ratio of comprehensive capital shall not be less than 9.00%.

The capital goals take into consideration the risks to which the Bank is exposued to, the main of which are: credit risks, financial risks (including interest risk), operational risks including cyber and data protection, information technology risk, compliance risk and anti money laundering risk, strategy risk, legal risk, reputation risk and model risk. All of this is carried out in congruence with the dialog with the Bank of Israel. Estimation of the risk, also considers the aspects of the corona crisis and its possible implications on the Bank.

Stress tests

The Bank implements infrastructure of stress tests in order to examine the capital propriety and examines the capital ratios according to the triennial capital planning. The outline includes, inter alia, holistic stress tests, "rolling" over three years, in respect of credit risks, financial risks, operational risks including cyber, AML, compliance, strategy, reputation, operational etc. The outline of the stress tests also includes extreme effects of the corona crisis.

For detailed information, see the risk report on the Bank's website.

Basel 3 guidelines

According to the transitional instructions, the capital instruments no longer qualified as regulatory capital shall be recognized up to a maximum of 80% on January 1, 2014, this maximum level being reduced by an additional 10% in each following year until January 1, 2022. Accordingly, as from January 1, 2021 the maximum rate of instruments qualified as regulatory capital amounts to 10%.

Operational Efficiency

On January 12, 2016, Bank of Israel issued a letter, in the matter of "operational efficiency of the banking sector in Israel". In accordance with the letter, the board of directors of banking corporation has to outline a multi-annual program for the improvement of efficiency.

A banking corporation that conforms with the terms of the letter would be entitled to a relief, whereby it may spread, by the "straight line" method, over a period of five years, the effect of the cost of the program. On December 16, 2019 the Supervisor of Banks published a letter that extends the effectiveness of these guidelines, until December 31, 2021.

- A decision was taken in the third quarter of 2018, for the merger of Otsar Hachayal, and accordingly, on January 1, 2019, Otsar Hachayal merged with and into the Bank. In respect of this move, the Group has recorded an enlarged allowance for severance compensation in the amount of NIS 82 million. (NIS 53 million after the tax effect). Save for the said relief, the implementation of efficiency measures as of December 31, 2021, would have led to an additional reduction of 0.02% in the capital adequacy ratios.
- On July 28, 2020 and on November 3, 2020, the Board of Directors approved an efficiency plan, according to which 60 regular employees of the Bank, belonging to the defined target population, will be allowed to opt for early retirement under preferred conditions.

  The plan increased other comprehensive loss (gross) in an amount of NIS 48 million in respect of severance compensation liability and post retirements benefits.

  In addition, in the fourth quarter of the year 2020, an additional provision for enlarged severance compensation was recorded, in an amount of NIS 50 million, in respect of another early retirement anticipated in the coming years. Total net effect, after tax in respect of these actions amounted to NIS 65 million. Save for the said relief, the implementation of efficiency measures as of December 31, 2021, would have led to a reduction of 0.07% in the capital adequacy ratios.

Implementation of the instructions

Within the framework of Pillar I, the Bank is implementing the standard approach in accordance with Bank of Israel instructions regarding credit, market and operational risks.

Within the framework of Pillar II - the Bank is required to conduct an internal process for the assessment of capital adequacy (the ICAAP process). This process is designed to ensure the maintenance of an adequate level of capital means supporting the overall risks inherent in the operations of the Bank. The ICAAP document relating to the data as of June 30, 2021, has been dulły submitted to Bank of Israel. The infrastructure for the capital adequacy, as approved by the Bank, serves as a basis for the internal process conducted at the banking subsidiary, subject to required adjustments, and on the basis of its specific risk profile.

		December 31,	
		2021	2020
1.	**Capital for calculation of capital ratio, after deduction and supervisory adjustments (in NIS millions)**		
	Tier 1 capital, after deductions and supervisory adjustments	**10,199**	9,369
	Tier 2 capital after deductions	**1,891**	2,749
	Total capital	**12,090**	12,118
2.	**Weighted balances of risk assets (in NIS millions)**		
	Credit risk	**81,660**	76,203
	Market risk	**683**	883
	Operational risk	**6,645**	6,729
	Total weighted balances of risk assets	**88,988**	83,815
3.	**Ratio of capital to risk assets (in %)**		
	Raito of Tier 1 equity capital to risk assets	**11.46%**	11.18%
	Total ratio of comprehensive capital to risk assets	**13.59%**	14.46%
	Minimal ratio of equity capital Tier 1 required by the Supervisor of banks	**8.25%**	8.29%
	Minimal ratio of comprehensive capital required by the Supervisor of Banks	**11.50%**	*11.50%

* Updated in view of the clarification by the Supervisor of Banks that the additional capital requirement in respect of housing loans would be added to the Tier I equity capital ratio only

The Tier I equity capital ratio as of December 31, 2021, amounted to 11.46%, in comparison with 11.18% on December 31, 2020. The ratio of comprehensive capital to risk components as of December 31, 2021, amounted to 13.59%, in comparison with 14.46% on December 31, 2020.

The comprehensive capital as of December 31, 2021 amounted to NIS 12,090 million, in comparison with NIS 12,118 million on December 31, 2020.

The capital base was affected on the one hand, by profits of NIS 1,405 million, and by other comprehensive profit of NIS 17 million, in respect of stating available-for-sale bonds at market value. On the other hand, this increase was offset by a dividend distribution of NIS 545 million, and by other comprehensive loss of NIS 15 million, in respect of employee benefits. The risk assets as of December 31, 2021 amounted to NIS 88,988 million as compared with NIS 83,815 million on December 31, 2020.

The comprehensive capital ratios and the Tier I equity capital ratios of the significant subsidiary, in accordance with the "framework for measurement and capital adequacy" of Basel, are:

	December 31,	
	2021	2020
		In percent
Bank Massad Ltd.		
Ratio of Tier 1 capital to risk assets	**14.71%**	14.03%
Ratio of overall capital to risk assets	**15.72%**	15.19%

Leverage ratio - The Bank implements the Proper Conduct of Banking Business Directive No. 218 in the matter of leverage ratio (hereinafter – "the Directive"). The leverage ratio is expressed in percentages and is defined as the ratio between capital measurement and exposure measurement. Capital for the purpose of measuring the leverage ratio is the Tier I equity capital, as defined in Proper Conduct of Banking Business Directive No. 202. In accordance with the Directive, a banking corporation should attain a leverage ratio of no less than 5% on a consolidated basis, applying to a banking corporation, the total consolidated stated assets of which do not exceed 24% of total stated assets of the banking sector as a whole (including the Bank). On November 15, 2020 the Bank of Israel published an update to Proper Conduct of Banking Business Directive No. 250 – Adjustments to Proper Conduct of Banking Business Directives in order to cope with the Coronavirus crisis (Provisional Instruction), within its framework was updated Proper Conduct of Banking Business directive No. 218 in the matter of Leverage Ratio. The update mitigates the requirement of the leverage ratio by 0.5 percent point, so the Bank has to comply with leverage ratio of no less than 4.5% (instead of 5%) on a consolidated basis, being a banking corporation, the total consolidated stated assets of which does not exceed 24% of total stated assets of the banking sector as a whole, in accordance with the Provisional Instruction (as recently updated on September 30, 2021). The relief will be valid until December 31, 2023, provided that the leverage ratio will not be less than the leverage ratio at June 30, 2022, or the minimal leverage ratio applying to the Bank prior to the Provisional Instruction, whichever is lower.
The leverage ratio of the Bank as of December 31, 2021, amounts to 5.34%, compared to 5.29% as of December 31, 2020.

DIVIDEND DISTRIBUTION POLICY

According to the profit distribution policy adopted by the Board of Directors of the Bank (as was updated from time to time), the Bank will distribute annual dividends of up to 50% of its distributable net earnings in the current year, subject to the Bank's ratio of capital to risk elements being no less than the regulatory targets and the targets specified or which would be specified by the Bank's Board of Directors from time to time. Such distributions will be made subject to legislative provisions and to Proper Conduct of Banking Business Regulations, providing that no adverse changes occur in the Bank's earnings and/or business and/or financial position and/or the overall state of the economy and/or in the legal environment.
This resolution is not to be construed as detracting from the Board of Directors' authority to review policy from time to time and to resolve at any time, after taking due account of business considerations and of the legislative provisions applying to the Bank, changes in policy or the rate of dividend to be distributed for a specific period, or to resolve not to distribute any dividend at all.
It is clarified that any dividend distribution shall be subject to specific approval by the Board of Directors and to all the restrictions applying to the Bank regarding dividend distribution, and shall be made public in accordance with the provisions of the law, together with all required details.

It should be noted that in addition to the provisions of the Companies Law, dividend distribution by the Bank is subject to additional restrictions that are detailed in Note 24A.b. to the financial statements.

Following are details regarding dividends distributed by the Bank, as from the year 2019:

Declaration date	**Payment date**	**Total dividend paid**	**Dividend per share**
		NIS million	NIS
12 March 2019	20 March 2019	105	1.05
28 May 2019	17 June 2019	85	0.85
13 August 2019	29 August 2019	110	1.10
26 November 2019	12 December 2019	110	1.10
15 March 2020	31 March 2020	125	1.25
17 August 2021	1 September 2021	225	2.25
23 November 2021	13 December 2021	320	3.20
6 January 2022	24 January 2022	215	2.15

On the background of the letter of the Supervisor of Banks, dated March 29, 2020, addressed to all the commercial banks and with respect to the Provisional Instruction dated March 31, 2020, [Proper Conduct of Banking Business Directive No. 250 (modifications to Proper Conduct of Banking Business Directives for coping with the Corona crisis) ("Provisionsl Instruction")], amending Proper Conduct of Banking Business Directive 201, in which boards of directors of banks are requested, inter alia, to re-examine their dividend policies, on the background of the Coronavirus crisis and the uncertainty deriving from it. The Board of Directors of the Bank held discussions from time to time, regarding implementation of the dividend policy discussed above, taking into consideration the period of the Provisional Instruction, as extended from time to time, and on the background of the anticipation of the Supervisor of Banks in respect of the banking system in this matter, based on the continuance of the economic uncertainty and the possible impact of the continued impairement of the economy.

On July 26, 2021, the Supervisor of Banks published an update to the Provisional Instruction. According to the explanatory notes to the said update, the level of uncertainty, which is still high due to the Corona crisis, and the risk that credit losses stemming from this crisis have not yet materialized in full, requires the continuation of careful and conservative capital planning, as well as a careful and conservative approach to the distribution of dividends. The Supervisor clarified that in view of the improved economic activity, the growing trend of the gradual return to the pre-crisis level and the reaccumulation of a capital cushion by banking corporations, he permits the banking system to distribute dividends, though in a limited fashion applying a careful and conservative approach. In addition, the position of the Supervisor of Banks at that time was, that a distribution of an amount higher than 30% of earnings in 2020, shall not be considered as careful and conservative capital planning. In view of this position of the Supervisor and on background of the continued uncertainty and risk, as stated, at that stage, the Board of Directors approved on August 17, 2021, a dividend distribution in cash to the Bank's shareholders of a total amount of NIS 225 million (gross), comprising 30% of net earnings according to the financial statements of the Bank for 2020.

On September 30, 2021, the Supervisor of Banks published an additional update to the Provisional Instruction. This updates extended the effective period of the Provisional Instruction until December 31, 2021. The explanatory notes to the update stated that despite the growing process of exit from the Corona crisis, the level of uncertainty is still high, affecting the ability of banks to predict their capital requirements for the medium-term, and therefore, they have to continue a careful and conservative capital planning. The Supervisor encourages banks to take a careful and conservative approach to the distribution of dividends or to the acquisition of own shares, clarifying that his position is that a distribution in an amount higher than 30% of earnings of a bank (in the years 2020 and 2021) shall not be considered as a careful and conservative capital planning. Accordingly, the Board of Directors of the Bank approved on November 23, 2021, a dividend distribution in cash to the Bank's shareholders of a total amount of NIS 320 million (gross), comprising 30% of net earnings according to the financial statements of the Bank for the nine months ended September 30, 2021.

The said guideline by the Supervisor of Banks was cancelled on December 31, 2021. Concurrently, on December 27, 2021, the Supervisor of Banks stated his position that banking corporations should continue using care in everything relating to resolving the distribution of dividends, and take into account that a certain level of uncertainty still exists in the markets. In consideration of the above, that Board of Directors of the Bank resolved on January 6, 2022, to approve an additional distribution of dividends, in an amount of NIS 215 million, reflecting 20% of net earnings according to the financial statements of the Bank for the nine months ended on September 30, 2021, in accordance with the dividend policy approved by the Board of Directors.

In view of the above and in accordance with the dividend distribution policy of the Bank regarding an annual distribution of dividends of 50% of net earnings, as stated above, the Board of Directors of the Bank resolved on March 7, 2022, to approve a dividend distribution in cash to the Bank's shareholders of a total amount of NIS 165 million (gross), comprising 50% of net earnings according to the financial statements of the Bank for the fourth quarter of 2021.

The ex-dividend date was fixed for March 15, 2022, and payment of the dividend shall be made on March 24, 2022. The amount of the dividend is before any tax, including tax which the Bank has to withhold according to the law.

SUPERVISORY SEGMENTS OF ACTIVITY

The reporting on segments of activity is in accordance with the format and classification set in the Directive of the Reporting to the Public of the Supervisor of Banks. This reporting is materialy different from the segments of activity used by the Bank according to Management approach, which are detailed in Note 28A to the financial statements. The supervisory segements of activity are reported in a uniform format that was set by the Supervision of Banks to the entire banking system, and they are based on the customers characteristics, such as: the volume of assets portfolio for private customers, or the business turnover- for business customers.

For the definitions of the supervisory segements of activity and for details regarding main instructions, estimates and principals of reporting, see Note 28 to the financial statements.

For details regarding segments of activity according to management approach see Note 28A to the financial statements.

The following is a summary of the results of activity by segments:

a. Total income*

	For the year ended December 31,			Segment's share of total income December 31,	
	2021	**2020**	**Change**	**2021**	**2020**
		NIS million	%		%
Large business segment	**400**	404	(1.0)	**8.8**	9.7
Medium business segment	**214**	226	(5.3)	**4.7**	5.4
Small and minute business segment	**967**	967	-	**21.2**	23.3
Household segment	**1,846**	1,804	2.3	**40.6**	43.4
Private banking segment	**108**	101	6.9	**2.4**	2.4
Institutional entities	**234**	251	(6.8)	**5.1**	6.0
Financial management segment	**781**	407	91.9	**17.2**	9.8
Total	**4,550**	4,160	9.4	**100.0**	100.0

b. Net earnings attributed to the shareholders of the bank

	For the year ended December 31,	
	2021	**2020**
		NIS million
Large business segment	**201**	109
Medium business segment	**85**	29
Small and minute business segment	**285**	122
Household segment	**249**	161
Private banking segment	**22**	22
Institutional entities	**54**	49
Financial management segment	**509**	258
Total	**1,405**	750

* Including net interest income and non-interest income.

c. Average balance sheet balances*

	Credit to the public			Segment's share of credit to the public	
	For the year ended December 31,			For the year ended December 31,	
	2021	2020	Change	2021	2020
		NIS million	%	%	%
Large business segment	**16,978**	17,425	(2.6)	**18.0**	19.4
Medium business segment	**5,623**	5,592	0.6	**6.0**	6.2
Small and minute business segment	**19,325**	17,827	8.4	**20.4**	19.8
Household segment	**51,325**	47,443	8.2	**54.3**	52.9
Private banking segment	**68**	50	36.0	**0.1**	0.1
Institutional entities	**1,139**	1,405	(18.9)	**1.2**	1.6
Total	**94,458**	89,742	5.3	**100.0**	100.0

	Deposits from the public			Segment's share of deposits from the public	
	For the year ended December 31,			For the year ended December 31,	
	2021	2020	Change	2021	2020
		NIS million	ב-%		%
Large business segment	**12,830**	12,317	4.2	**8.8**	9.5
Medium business segment	**5,813**	5,413	7.4	**4.0**	4.2
Small and minute business segment	**24,374**	21,759	12.0	**16.7**	16.7
Household segment	**63,497**	59,151	7.3	**43.5**	45.5
Private banking segment	**9,033**	8,666	4.2	**6.2**	6.7
Institutional entities	**30,401**	22,553	34.8	**20.8**	17.4
Total	**145,948**	129,859	12.4	**100.0**	100.0

* Average balances are calculated on the basis of balances at the beginning of quarter or the beginning of month.

BUSINESS SEGMENTS - SMALL AND MINUTE BUSINESS SEGMENT, MEDIUM BUSINESS SEGMENT AND LARGE BUSINESS SEGMENT

Following are main data concerning Business segments - Small and minute, medium and large business - activity in Israel

	For the year ended December 31, 2021				For the year ended December 31, 2020			
	Small and minute business segment	Medium business segment	Large business segment	Total	Small and minute business segment	Medium business segment	Large business segment	Total
								NIS million
Net interest income	**609**	**150**	**291**	**1,050**	623	155	304	1,082
Non-interest income	**358**	**64**	**109**	**531**	344	71	100	515
Total income	**967**	**214**	**400**	**1,581**	967	226	404	1,597
Expenses (income) from credit losses	**(115)**	**(21)**	**(73)**	**(209)**	162	84	98	344
Operating and other expenses	**640**	**100**	**167**	**907**	621	100	152	873
Net profit attributed to the shareholders of the Bank	**285**	**85**	**201**	**571**	122	29	109	260
Average balance of credit to the public	**19,325**	**5,623**	**16,978**	**41,926**	17,827	5,592	17,425	40,844
Balance of credit to the public at the end of the reported period	**21,044**	**6,101**	**18,571**	**45,716**	18,876	5,385	16,724	40,985
Average balance of deposits from the public	**24,374**	**5,813**	**12,830**	**43,017**	21,759	5,413	12,317	39,489
Balance of deposits from the public at the end of the reported period	**25,949**	**7,028**	**15,553**	**48,530**	24,358	5,707	12,867	42,932

Main changes in the result of activity in the year 2021 compared with the year 2020

Total net interest income amounted to NIS 1,050 million, compared with NIS 1,082 million in 2020, a decrease of 3.0%. This decrease is explained by the decrease in the financial spread in deposit taking activity due to the decline in the Bank of Israel interest and the decline in the Dollar interest. This decrease was partially offset by an increase in the interest income due to a raise in the volume of activity.

Non-interest income amounted to NIS 531 million, compared with NIS 515 million in 2020, an increase of 3.1%, derived mainly from an increase in income from the capital market due to an increase in the volume of securities' portfolios feld by the Bank group's custormers.

Income in respect of credit losses amounted to NIS 209 million, compared with an expense of NIS 344 million in 2020. The income in respect of credit losses is explained by a decrease in the collective provision for credit losses, due to the improvement in the macro-economic indices and parameters indicating the risk level embedded in the credit portfolio of the Bank. In 2020, the expenses in respect of credit losses stemmed mainly from an increase in the collective provision, due to changes in the macro-economic environment, as a result of the spreading of the corona virus, and in-light of the uncertainty as to its effect on the position of the borrowers and the increase in the volume of problematic debts.

Operating and other expenses amounted to NIS 907 million, compared with NIS 873 million in 2020, an increase of 3.9%, derived mainly from an adjustment of variable compensation components to the return and profit of the Bank and from an increase in dismissal expenses, due to early retirement of employees in preferred terms, as part of the efficiency measures.

The net profit attributed to the shareholders of the Bank in respect of the business segments, amounted to NIS 571 million, in comparison with NIS 260 million in 2020, an increase explained mainly from a decline in the expenses in respect of credit losses, as detailed above.

Average balance of credit to the public amounted to NIS 41,926 million, in comparison with NIS 40,844 million in 2020, an increase of 2.6%.

Credit to the public as of December 31, 2021 amounted to NIS 45,716 million, in comparison with NIS 40,985 million on December 31, 2020, an increase of 11.5%.

Average balance of deposits from the public amounted to NIS 43,017 million, in comparison with NIS 39,489 million in 2020, an increase of 8.9%.

Deposits from the public as of December 31, 2021 amounted to NIS 48,530 million, in comparison with NIS 42,932 million on December 31, 2020, an increase of 13.0%.

PRIVATE INDIVIDUALS SEGMENTS - HOUSEHOLD AND PRIVATE BANKING

Following are main data concerning Private individuals segments - household and private banking - activity in Israel

	For the year ended December 31, 2021			For the year ended December 31, 2020		
	household segment	private banking segment	Total	household segment	private banking segment	Total
						NIS million
Net interest income	**1,211**	**16**	**1,227**	1,218	24	1,242
Non-interest income	**635**	**92**	**727**	586	77	663
Total income	**1,846**	**108**	**1,954**	1,804	101	1,905
Expenses (income) from credit losses	**(5)**	**1**	**(4)**	117	1	118
Operating and other expenses	**1,422**	**72**	**1,494**	1,395	67	1,462
Net profit attributed to the shareholders of the Bank	**249**	**22**	**271**	161	22	183
Average balance of credit to the public	**51,325**	**68**	**51,393**	47,443	50	47,493
Balance of credit to the public at the end of the reported period	**54,882**	**95**	**54,977**	49,687	70	49,757
Average balance of deposits from the public	**63,497**	**9,033**	**72,530**	59,151	8,666	67,817
Balance of deposits from the public at the end of the reported period	**63,792**	**9,253**	**73,045**	63,338	9,097	72,435

Main changes in the result of activity in the year 2021 compared with the year 2020

Total net interest income amounted to NIS 1,227 million, as compared with NIS 1,242 million in 2020, a decrease of 1.2%. This decrease is explained by the decrease in the financial spread in deposit taking activity due to the decline in the Bank of Israel interest and the decline in the Dollar interest. This decrease was partialy offset by an increase in the housing loans activity.

Non-interest income amounted to NIS 727 million, compared with NIS 663 million in 2020, an increase of 9.7%, derived mainly from an increase in the income from the capital market activity. The increase in the income from the capital market activity is explained by the increase in the volume of securities' portfolios of the Bank group's customers and from an increase of income from credit cards.

Income in respect of credit losses amounted to NIS 4 million, compared with an expense of NIS 118 million in 2020. The income in respect of credit losses is explained by a decrease in the collective provision for credit losses, due to the improvement in the macro-economic indices and parameters indicating the risk level embedded in the credit portfolio of the Bank. In 2020, the expenses in respect of credit losses stemmed mainly from an increase in the collective provision, due to changes in the macro-economic environment, as a result of the spreading of the corona virus, and in-light of the uncertainty as to its effect on the position of the borrowers and the increase in the volume of problematic debts.

Operating and other expenses amounted to NIS 1,494 million, as compared to NIS 1,462 million in 2020, an increase of 2.2%, derived mainly from an adjustment of variable compensation components to the return and profit of the Bank and from an increase in dismissal expenses, due to early retirement of employees in preferred terms, as part of the efficiency measures.

The net profit attributed to the shareholders of the Bank in respect of the private individuals segment, which includes household and private banking, amounted to NIS 271 million, compared with NIS 183 million in 2020, an increase explained mainly from a decline in the expenses in respect of credit losses, as detailed above.

Average balance of credit to the public amounted to NIS 51,393 million, in comparison with NIS 47,493 million in 2020, an increase of 8.2%.

Credit to the public as of December 31, 2021 amounted to NIS 54,977 million, in comparison with NIS 49,757 million on December 31, 2020, an increase of 10.5%.

Average balance of deposits from the public amounted to NIS 72,530 million, in comparison with NIS 67,817 million in 2020, an increase of 6.9%.

Deposits from the public as of December 31, 2021 amounted to NIS 73,045 million, in comparison with NIS 72,435 million on December 31, 2020, an increase of 0.8%.

FINANCIAL MANAGEMENT SEGMENT

Total income attributed to this segment amounted to NIS 781 million compared with NIS 407 million in 2020, an increase stemming mainly from an increase amounting to NIS 235 million in gain from investment in shares and from an increase amounting to NIS 118 million from income from linkage differences, due to the raise in the CPI and the position in the CPI segement.

The net profit of the Financial Management Segment amounted to NIS 509 million compared with NIS 258 million in 2020. The increase is explained by the increase in income, as mentioned above and from the increase in the Bank's share in ICC earnings, which amounted to NIS 69 million compared with NIS 29 million in 2020.

Total income from trading activity attributed to this segment mounted to NIS 37 million.

Total interest income (Note 2 to the financial statements) and non-interest income (Note 3 to the financial statements) in respect of trading activity amounted to NIS 45 million.

The difference in the amount of NIS 8 million, derives from income from activity in derivatives for trading, which does not attributed to this segment.

PRINCIPAL INVESTEE COMPANIES

Bank Massad Ltd. (hereinafter - "Massad") - in which the Bank owns 51.0% of the share capital and voting rights, is a commercial bank which specializes in providing services to the teachers population in Israel.

The Bank's investment in Massad amounted to NIS 452 million on December 31, 2021.

Total assets of Massad on December 31, 2021 amounted to NIS 10,835 million compared with NIS 10,349 million on December 31, 2020, an increase of 4.7%.

Shareholders' equity of Massad on December 31, 2021, totaled NIS 886 million compared with NIS 804 million on December 31, 2020, an increase of 10.2%.

Net earnings of Massad totaled NIS 101.7 million in 2021, compared with NIS 77.0 million in 2020, an increase of 32.1%. The increase in the earnings of Massad mainly explained by the decrease in the collective provision for credit losses, due to the improvement in the indicators indicating the risk level inherent in the credit portfolio of Massad and from the continued decline in the volume of debts currently at deferral of payments.

The Bank's share in Massad's operating results for 2021 amounted to NIS 51.9 million compared with NIS 39.3 million in 2020.

During 2021, Massad distributed dividends in the amount of NIS 20 million. The Bank's share in the dividend amounted to NIS 10 million.

Net return on equity (annualized) amounted to 11.9% in 2021, compared with 10.1% in 2020. The ratio of comprehensive capital to risk assets amounted to 15.72%, compared with 15.19% at the end of 2020. The Tier 1 equity capital ratio amounted to 14.71% compared with 14.03% at the end of 2020.

In the framework of the ICAAP process for the data of June 30, 2021 the minimal capital targets were set as follows: tier 1 equity capital ratio will not be less than 10.5% until December 31, 2022 and the comprehensive capital ratio will be no less than 12.65% until December 31, 2022.

In June 2021, Massad won again the tender of the accountant general to grant loans to the teaching personnel and conditional grants to students in institutions for training teaching personnel. The agreement period according to the tender is five years, starting with July 2021, with an option to the accountant general to extend it by another three years.

Israel Credit Cards Ltd. ("ICC") - The Bank holds 28.2% of equity and 21.0% of voting rights in ICC.

ICC markets and issues credit cards and settles credit card transactions of the international Visa and MasterCard brand, markets and operates Diners credit cards on an exclusive basis in Israel, and also settles credit cards of Isracard brand.

The Bank's investment in ICC amounted to NIS 713 million on December 31, 2021.

The ratio of comprehensive capital to risk assets amounted to 16.3%, compare with 14.8% at the end of 2020.

The Bank's share in the net earnings of ICC before the tax effect amounted in 2021 to NIS 78.6 million compared with NIS 33.5 in 2020.The increase in the earnings of ICC is mainly explained by a decrease in the provision for credit losses and from an increase in the volume of activity.

See note 25 to the financial statements regarding motions for approval of class actions against ICC and regarding assessments issued to ICC by the Director of Value Added Tax.

REVIEW OF RISKS

Additional information about the risks can be found in the report on risks and additional supervisory reporting in the Bank's internet website.

General

a. The Group's activity is accompanied by exposure to risks, the most significant of which are: credit risk (including concentration of economy segments and borrowers), market risk, for which the main risk is the interest risk, liquidity risk, operational risk including cyber and information protection risk and information technology risk, compliance risk and AML risk, strategy risk, legal risk and reputation risk. Members of the Board of Management are responsible for management of these risks. With respect to credit risk, market risk and operational risk, a regulatory requirement for capital adequacy in accordance with the Pillar 1 Basel directives exists. Within the ICAAP process, the Group performs an in-depth process of identifying additional risks focal and challenging the risks focal identified in the first pillar. If needed the Group makes an additional capital allocation in respect of Pillar 1 risks and other risks.

b. The Group's risk management policy is directed at achieving the strategic and business objectives defined by the Group and at increasing its earnings expectancy by developing areas of specialization at the Group, exploiting economies of diversity and scale, keeping to the levels of risk which have been approved, and by operating suitable management, control and reporting mechanisms.

c. Risk management is carried on Group level, the overall risk perceptive of the Group is in line with the regulatory framework set by the Supervisor of Banks and in line with the Sound Practices of the Basel Committee, based on the principal that every banking activity involving risk, the following will be defined and characterized: risk policy and appetite, limitations for bordering and defining the volume of exposure, control and auditing circles, reporting arrangement and earnings estimation mechanism, its measurement and reporting according to acceptable standard.

d. Risk management and control at the Group are implemented by means of a suitable infrastructure of control, supervision, review and auditing mechanisms, and are applied via three lines of defense: The first line of defense consists of those responsible for the creation and management of risk. The second line is maintained by units of the Risk Management Division and Chief Accountant and legal department by means of independent control. The third line consists of the internal and external auditing functions.

e. The Chief Risk Manager is a member of Management responsible for the risk management function and for the cross organizational risk management infrastructure.

f. Those responsible for risk management at the Group are:

   Mr. Eli Cohen, CPA - serves as the Head of Risk Management Division and as Chief Risk Officer (CRO), as operational risk manager, supervisor of the internal enforcement regarding securities and manager of business continuity.

   Mr. Bentzi Adiri CPA, Head of the Corporate Division - serves as Credit Risk Manager.

   The Strategic risk and financial risks are managed by Mrs. Ella Golan, head of Resources Division and Financial Management.

   Mr. Amir Birenboim – manages compliance risk, and as Chief Compliance Officer manages Money Laundering risk, Finance of Terror risks, cross border risks, the internal enforcement unit regarding the Securities Law and is in-charge of the internal enforcement unit regarding the Economic Competition Law. He also acts as Responsible Officer in-charge of implementation of the FATCA and CRS directives and QI agreement, and is also responsible for the privacy protection area.

   As from April 6, 2021, the IT risks are managed by Mr. Ofir Kadosh, the CEO of MATAF - Computing and Financial Operation Ltd. Since the beginning of the year and until the above date, the IT risk had been managed by Mrs. Iris Levanon, deputy CEO of MATAF and acting in his stead.

   Mr. Yehoshua Peleg, manager of cyber defense and information protection manages the cyber risks.

   Adv. Haviva Dahan, head of the legal consulting department, manages the legal risks.

Mr. Nachman Nitzan, CPA- head of the chief accounting division, manages reputation risks.

g. Additional risks to which the Bank is exposed- regulatory and legislative risks - are managed and supervised as part of overall business management, by members of the Board of Management and by department heads in the areas for which they are responsible.

h. Risk management at the Bank Group is carried out separately by each subsidiary company engaged in business activity, in accordance with the policy determined by the subsidiary's board of directors on the basis of Group policy, and on the basis of Group risk management methodology with an emphasis on the special nature of the subsidiary's activity. A Chief Risk Manager officiates at the banking subsidiary, subordinate to the subsidiary's CEO and guided professionally by the Bank's Chief Risk Manager.

i. Every quarter, the Risk Management Division, which is independent of the risk-taking units, compiles a risks document which is presented to the Management of the Bank, the Risk Management Committee and the Board of Directors of the Bank.

j. The risks document contains a review of all the risks to which the Bank Group is exposed in the course of its activity, with details of the findings at the specific risk level, compliance with supreme goals, risk mapping as well as the results of stress tests that were conducted.

   Presented in the risk document is the Chief Risk Manager's review of the risk management situation at the group and of the effectiveness and the quality of the risk management. Also reviewed in the document are compliance with the risk appetite regarding the different risks, evaluation of risk, and the measures taken by the division with respect to the main process involved with the different types of risks and special action which the Bank took during the relevant quarter.

k. The Bank and the Group have diverse stress tests for the unique risks, as embedded in the various policy documents.

   The Bank applies stress tests for reviewing capital adequacy and the capital ratio according to the triennial capital planning. The stress tests combine the realization of a number of risk centers at the same time. The stress tests used by the Bank are based on sensitivity analysis, historical scenarios, hypothetical scenarios and macro-economic scenarios. The stress tests were updated during 2021, reflecting also the possible effects of the Corona crisis, while identifying and mapping the relevant risk centers, in accordance with the nature and developments taking place in the crisis.

   The stress tests comprise a complementary tool for the mapping and managing the risks embedded in the overall activities of the Bank and the risks derived from them. The scenarios and their results are tool for identifying weakness points and taking decisions. The Bank has management plans for coping with the stress scenarios, by taking different measures. In addition, according to the Bank of Israel requirement, the Bank calculates stress test on the basis of parameters which are uniform to the banking system. The uniform stress tests are tool for the Bank of Israel, in order to receive an updated holistic image of the Israeli economy and the ability of the banking system to continue and grant credit to the public while maintaining its stability. At the beginning of 2022, a uniform scenario based on the data for June 2021, was submitted at the request of Bank of Israel. The scenario was structured in accordance with two level of severity - basic (representing the anticipated path of the economy) and stressed. The capital ratios in all scenarios exceed the relevant limitations.

For discussion of the risk appetite and risk management principles, see reference in the description of principal risks, presented below.

For detailed information regarding risk, provided in accordance with the disclosure requirements of Pillar III of Basel, and addtional information regarding risks - see the report on risks and addtional supervisory disclosure on the Internet website of the Bank.

CREDIT RISK

General
Credit risk is the risk of borrowers' inability or counterparty's inability to fulfill their obligations to the Bank in accordance with the credit agreement.
Within the framework of the implementation of the Basel Rules, the Group applies the standard approach in respect of exposure to credit risk. Pillar II of Basel challenges the capital allocation in accordance with Pillar I, and where required, a complementary capital allocation in respect of credit risks is being made.

Effect of the crisis of the Coronavirus
The rate of the pandemic, which reached a record high in Israel during the first quarter of 2022, due to the outbreak of the Omicron variant of the Coronavirus, started to wane lately, though uncertainty still exists with respect to the possible impact on business activity.
The Bank continues to monitor the risk centers in the credit portfolio, and those customers who may be affected by the continuing crisis, and applies means to minimize credit risks.
For additional information regarding the actions taken during the crisis period, see the Risk Report on the Internet website of the Bank.

Risk policy and risk appetite

Credit policy
The risk management division leads the process of the formulation of the credit risk policy, with the participation of the employees in charge of the credit extension in the Bank. The credit policy document is discussed and approved at least once a year by the Management, the Loan and the Risk Management Committees and by the Board of Directors of the Bank and is revised according to changes in the financial markets in Israel and globally, changes in regulation and in requirements of the business, as detailed below. The Bank's procedures in the area of credit and credit risk management support and express this policy in practice.
The Board of Directors of the Bank has outlined a strategy for reducing undesirable exposure to credit risk by defining risk appetite. In this respect were defined areas of activity which are not in the marketing focus of the Bank, as well as areas where credit is not granted, to the extent that the risk level imbedded in them is high or if the level of management and control over them is not high enough, even though the potential income from them is expected to be high.

Risk appetite
The Bank's credit risk appetite reflects measured willingness of taking credit risks, corresponding with cautious banking activity, corresponding with the supervisory requirements and corresponding with the volume of the Bank's activity and its character. Accordingly, the Bank's policy includes an extensive and detailed discussion of objectives and the manner of business credit development in different sectors and areas of activity, while defining detailed principles for each sector and area, including individual restrictions at the sub-sector level and the activities areas that are notable for a high level of risk.

Credit risk measurement, estimation and management systems
The Bank employs internal models for rating the credit risk inherent in the customer’s activity. The models are based mostly on objective criteria relating to the borrower’s position (the customer’s characteristics, the composition of his collateral, the financial resilience apparent in the customer’s financial reports, sector-specific data and other financial data).

Collaterals management policy

The Bank has a clearly defined policy regarding the acceptance of assets as collateral for credit, the manner in which collateral is pledged and the rates of reliance on each type of collateral.

Collateral reliance policy is conservative and based on the updated fair value of the collaterals, their liquidity and the speed at which they can be realized if necessary.

Problematic debt policy and the provision for credit losses

- The Bank maintains structured working procedures facilitating the early detection of problematic borrowers. The Bank determined procedures for identification of problematic debts and classification of debts as problematic. In addition, the Bank determined a policy for the measurement of the provision for credit losses in order to maintain provision at an appropriate level to cover anticipated credit losses.
- Operating within the Bank are specialist units that process problematic loans.
- As stated in the section on accounting policy and accounting estimates in critical matters, under a directive of the Supervisor of Banks concerning the measurement and disclosure of impaired debts, credit risk and the allowance for credit losses, the Bank applies since January 1, 2011, the US accounting standards in the matter (ASC 310) and the positions adopted by the US banking supervision authorities, and by the US Securities and Exchange Commission (SEC), as adopted in the public reporting instructions.

Supervision and control of the management of credit risk exposure

The Bank maintains suitable mechanisms for the control, management, supervision and audit of the credit risk management process. The Bank's managerial and control concept is to identify, quantify and estimate the exposure to credit risks on a current basis, and to control the adherence to the prescribed restrictions.

Credit risk exposure management is examined and reviewed constantly, within the review of all risks, by specialist committees and forums at the level of the Board of Directors, Management and the middle-management grades, as detailed in the risk report in the internet.

The Bank has a system for documenting the legal documents creating the liens on the assets pledged as colateral in the customers files and a system that controls the value of the assets, enabaling current daily supervision.

Reporting on exposure to credit risks

Management and the Board of Directors of the Bank receive from management, supervision and control functions a range of reports on exposure to credit risks in various cross-sections among which is the quarterly Risk Document. This document contains, inter alia, review of the credit portfolio development, credit risk evaluation reports by economic sectors in various cross-sections, adherence to regulatory limitations and to limitations prescribed by the Board of Directors and Management, and a review of the balance of problematic debts and the provision for credit losses, as required in Proper Conduct of Banking Business Directives 310 and 311.

Significant exposures to borrower groups

As of December 31, 2021, there is no borrower group which its indebtness on consolidated basis, after deductions of permissible deduction according to section 5 of Directive 313, exceeds 15% of the bank's capital, calculated according to Proper Conduct of Banking Business Directive concerning measurement and capital adequacy.

Changes in terms of debts within the framework of confrontation with the Corona crisis

With the beginning of the crisis, and in view of its possible implications on the condition of the economy and of borrowers, and with the aim of encouraging banking corporations to act towards the stabilization of borrowers who are not able, or who may not be able to honor their contractual repayment commitments due to the Corona crisis, Bank of Israel has published letters containing focal points for the treatment of debts the terms of which had been changed. These letters state, inter alia, that changes in terms of loans, among which are defferal of repayment dates, waiver of interest on arrears and extension of repayment periods, do not automatically lead to the classification of such loans as restructured problematic debts. Bank of Israel encouraged the banks to perform carefull changes in the terms of loans, which are based on the understanding of the credit risk of the borrower and which are consistant with laws, regulations and relevant directives and can assist to the repayment of the debt.

In view of the continuing crisis and the outbreak of the fifth wave of the pandemic, leading again to uncertainty regarding the condition of customers, the Bank continues to apply considerable care upon considering the extension of credit or renewal thereof, and the need to reclassifiy borrowers as problematic debtors.

For details regarding the guidelines of the Supervisor of Banks within the framework of the confrontation with the effects of the Coronavirus event, see Note 1F to the financial statements.

Additional information regarding debts, the terms of which had been changed within the framework of facing the Coronavirus events, and which are not classified as a restructure of a problematic debt:

												December 31, 2021
	Debts, repayment of which is deferred as of the reporting date (1)			Additional details of the stated debt balance repayment of which is deferred					Additional details of debts, repayment of which is deferred, according to length of the deferment period (3)		Debts, the deferred period of repayment of which expired as of the reporting date	
					Performing debts				Debts, repayment thereof was deferred			
	Stated debt balance	Number of loans	Amount of deferred payments	Problematic debts	Debts not having a credit granting rating	Debts having a credit granting rating in arrears for 30 days or more	Debts not in arrears having a credit granting rating	Total performing debts	more than 3 and up to 6 months	for over 6 months	Stated balance of debt	Of which: in arrears for 30 days or more
Borrowers' activity in Israel												NIS million
Large business	**4**	**1**	**1**	**-**	**-**	**-**	**4**	**4**	**-**	**4**	**-**	**-**
Medium business	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**16**	**7**
Small and minute business	**26**	**27**	**4**	**3**	**9**	**-**	**14**	**23**	**-**	**23**	**651**	**38**
Private individuals - housing loans	**50**	**59**	**4**	**45**	**4**	**-**	**1**	**5**	**-**	**5**	**4,909**	**120**
Private individuals - others	**-**	**4**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**383**	**16**
Total as of 31.12.2021	**80**	**91**	**9**	(2)**48**	**13**	**-**	**19**	**32**	**-**	**32**	**5,959**	**181**
Total as of 30.9.2021	90	120	10	58	9	-	23	32	-	32	6,238	192
Total as of 30.6.2021	207	291	19	104	23	-	80	103	3	100	6,704	176
Total as of 31.3.2021	467	1,464	44	121	70	-	276	346	148	195	6,722	175
Total as of 31.12.2020	1,754	5,778	125	202	228	19	1,305	1,552	778	621	6,078	103

(1) Of which: Deferrals granted outside the wide range framework totaling NIS 26 million.

(2) Of which: Classified as impaired debts not accumulating interest income in the amount of NIS 45 million.

(3) The repayment deferral period is the cumulative periods of deferral granted to a debt since the beginning of confrontation with the Coronavirus, and does not include deferral to which the debtor is entitled under any law.

With the outbreak of the corona crisis, the Bank adopted the regulatory reliefs given by Bank of Israel and allowed its customers to defer repayments of loans, as well as arrange a mitigated repayment schedule in respect of the loan.

As of December 31, 2021, a significant decline exists in the volume of loans, which were deferred. The ratio of debts, the repayment of which had been deferred, to total credit to the public, amounted to 0.08%, as compared with a ratio of 1.9% at December 31, 2020.

Concurrently with the outbreak of the Corona crisis, the Bank, together with additional banks and others, signed an agreement with the Accountant General at the Treasury for the extension of loans guaranteed by the State, intended to assist businesses in Israel to cope with cash flow difficulties created as a result of the spreading of the Coronavirus. For this purpose, designated Funds have been established – "Fund for Small and Middle-market Businesses Affected by the Corona" and "Fund for Large Businesses for Coping with the Spreading of the Coronavirus".

The Bank continues to extend loans to its business customers within the framework of the State guaranteed Funds, enabling them to cope with the continuing crisis and its implications

Credit granted guaranteed by the State in the framework of facing with the Corona crisis

	December 31, 2021	December 31, 2022
Borrowers' activity in Israel		NIS million
Small and minute business	**1,326**	1,308
Middle-market business	**321**	431
Large business	**146**	165
Total	**1,793**	1,904

Credit quality and problematic credit risk

At December 31, 2021, problematic credit risk with all its different components, including off-balance-sheet components, totaled NIS 1,936 million compared with NIS 2,295 million at the end of 2020, a decrease of 15.6%.

The ratio of problematic credit risk to total credit risk at the Group amounted to 1.4% at the end of 2021, compared with 1.8% at the end of 2020.

19.0% of problematic credit risk at the Group are attributed to the industrial sector, 13.2% to the real estate sector, 13.0% to the commercial sector and 28.7% to the private customers sector including housing loans.

The ratio of the stated problematic credit risk to total credit to the public amounted to 1.7%, compared to 2.2% at the end of 2020.

For additional information regarding credit quality see note 29.b.(1) to the financial statements.

Analysis of credit quality, problematic credit risk and non-performing assets of the public

	December 31, 2021				December 31, 2020			
	Commercial	Housing	Private	Total	Commercial	Housing	Private	Total
								NIS million
Credit risk in credit granting rating[1]								
Stated credit risk	**46,468**	**31,647**	**21,607**	**99,722**	41,529	27,721	20,438	89,688
Off-balance sheet credit risk	**22,813**	**3,575**	**12,778**	**39,166**	18,696	2,946	13,068	34,710
Total credit risk in credit granting rating	**69,281**	**35,222**	**34,385**	**138,888**	60,225	30,667	33,506	124,398
credit risk not in credit granting rating:								
Non problematic	**1,444**	**338**	**759**	**2,541**	1,449	329	569	2,347
Problematic[2]	**1,174**	**275**	**269**	**1,718**	1,421	286	329	2,036
-Special supervision[3]	**749**	**224**	**67**	**1,040**	932	250	119	1,301
-Inferior	**66**	**-**	**64**	**130**	54	-	57	111
-Impaired	**359**	**51**	**138**	**548**	435	36	153	624
Total stated credit risk	**2,618**	**613**	**1,028**	**4,259**	2,870	615	898	4,383
Off-balance sheet credit risk	**540**	**3**	**182**	**725**	525	3	131	659
Total credit risk not in credit granting rating	**3,158**	**616**	**1,210**	**4,984**	3,395	618	1,029	5,042
Of which: performing debts in arrears of 90 days or more	**18**	**161**	**22**	**201**	43	156	18	217
Total overall credit risk of the public	**72,439**	**35,838**	**35,595**	**143,872**	63,620	31,285	34,535	129,440
Non-performing assets								
Impaired debts - not accruing interest income.	**332**	**51**	**105**	**488**	368	36	120	524

(1) Credit risk, the credit rating thereof at date of reporting matches the credit rating for the granting of new credit in accordance with the Bank's policy.
(2) Impaired, inferior or special supervision credit risk.
(3) Including in respect of housing loans, in respect of which an allowance is made according to the extent of arrears, and housing loans in respect of which no allowance is made according to the extent of arrears and are in arrears of 90 days of more.

Changes in impaired debts in respect of credit to the public

	For the year ended December 31, 2021			For the year ended December 31, 2020		
	Commercial	Private	Total	Commercial	Private	Total
			NIS million			NIS million
Balance of impaired debts at beginning of the year	**387**	**190**	**577**	553	156	709
Classified as impaired during the period	**171**	**193**	**364**	179	99	278
Removed from impaired classification	**-**	**(130)**	**(130)**	(44)	(1)	(45)
Accounting write-offs of impaired debts	**(62)**	**(19)**	**(81)**	(69)	(20)	(89)
Collection of debts	**(140)**	**(45)**	**(185)**	(232)	(44)	(276)
Balance of impaired debts at end of the year	**356**	**189**	**545**	387	190	577
Of which: movement in problematic restructured debts						
Balance of restructured debts at beginning of the the year	**114**	**113**	**227**	140	108	248
Debts restructured during the period	**43**	**44**	**87**	96	60	156
Accounting write-offs of restructured debts	**(13)**	**(15)**	**(28)**	(33)	(20)	(53)
Collection of restructured debts	**(53)**	**(40)**	**(93)**	(89)	(35)	(124)
Balance of problematic restructured debts at end the year	**91**	**102**	**193**	114	113	227
Changes in provision for credit losses in respect of impaired debts						
Balance of provision for credit losses at the beginning of the the year	**144**	**37**	**181**	169	35	204
Increase in provisions	**64**	**20**	**84**	96	22	118
Collection and write-offs	**(79)**	**(24)**	**(103)**	(121)	(20)	(141)
Balance of provision for credit losses at the end of the the year	**129**	**33**	**162**	144	37	181

Risk Indices

	2021	2020
Ratio of impaired debts or debts in arrears for 90 days or over to total credit to the public	**0.73%**	0.86%
Of which:		
Ratio of impaired credit to the public to total credit to the public	**0.53%**	0.63%
Ratio of performing credit to the public in arrears of 90 days or over to total credit to the public	**0.20%**	0.23%
Ratio of problematic credit risk in respect of the public to overall credit risk in respect of the public	**1.35%**	1.77%
Ratio of expenses (income) for credit losses to average total credit to the public	**(0.23%)**	0.52%
Ratio of net write-offs in respect of credit to the public to average total credit to the public	**(0.01%)**	0.10%
Ratio of provision for credit losses in respect of credit to the public to credit to the public	**1.05%**	1.38%
Ratio of provision for credit losses in respect of credit to the public to total impaired credit to the public	**197.4%**	221.3%
Ratio of provision for credit losses in respect of credit to the public to impaired credit to the public plus credit to the public in arrears of 90 days or more	**144.2%**	160.8%
Ratio of net write-offs in respect of credit to the public to provision for credit losses in respect of credit to the public	**(0.7%)**	6.9%

Total credit risk according to economic sectors

(NIS million)

	as at December 31, 2021						
					Credit losses (2)		
	Total credit risk(1)	Of which: having credit granting rating (3)	Of which: problematic credit risk (4)	Of which: Impaired credit risk	Expenses (income) for credit losses	Net accounting write-offs	Provision for Credit losses
In respect of borrowers in Israel							
Public-Commercial:							
Industry	**10,585**	**10,031**	**366**	**130**	**(28)**	**14**	**191**
Construction and Real estate - construction (5)	**13,840**	**13,381**	**143**	**60**	**(1)**	**(2)**	**92**
Construction and Real estate - real estate activities	**6,549**	**6,144**	**113**	**103**	**(16)**	**1**	**25**
Commerce	**7,520**	**6,933**	**252**	**52**	**(58)**	**(8)**	**166**
Financial services	**18,602**	**18,486**	**10**	**6**	**(15)**	**(8)**	**22**
Other business services	**14,233**	**13,215**	**495**	**119**	**(88)**	**3**	**171**
Total commercial (6)	**71,329**	**68,190**	**1,379**	**470**	**(206)**	**-**	**667**
Private individuals - housing loans	**35,838**	**35,222**	**275**	**51**	**(6)**	**(1)**	**159**
Private individuals - others	**35,595**	**34,385**	**280**	**140**	**2**	**(6)**	**326**
Total public - activity in Israel	**142,762**	**137,797**	**1,934**	**661**	**(210)**	**(7)**	**1,152**
Banks in Israel and Israeli government	**14,875**	**14,875**	**-**	**-**	**-**	**-**	**-**
Total activity in Israel	**157,637**	**152,672**	**1,934**	**661**	**(210)**	**(7)**	**1,152**
In respect of borrowers abroad							
Total public - activity abroad	**1,110**	**1,091**	**2**	**-**	**(6)**	**(1)**	**3**
Banks abroad and foreign governments	**4,070**	**4,070**	**-**	**-**	**-**	**-**	**-**
Total activity abroad	**5,180**	**5,161**	**2**	**-**	**(6)**	**(1)**	**3**
Total	**162,817**	**157,833**	**1,936**	**661**	**(216)**	**(8)**	**1,155**

NOTES:
(1) Balance sheet credit risk and off-balance sheet credit risk, including in respect of derivative instruments. Includes debts, bonds, securities borrowed, assets in respect of derivative instruments and credit risk in off balance sheet financial instruments as was calculated for debt limitation of a borrower, in the amount of NIS 105,661 million, NIS 14,359 million, NIS 845 million, NIS 1,709 million and NIS 40,243 million, respectively.
(2) Including in respect of off-balance sheet credit instruments (presented in the balance sheet under the item "other liabilities").
(3) Credit risk wherein the credit rating at the date of the report, congruent with the credit rating for the execution of new credit, according to the policy of the Bank.
(4) Balance sheet and off-balance sheet credit risk that is impaired, inferior, or under special supervision, including in respect of housing loans for which a provision based on the extent of arrears exists, and housing loans for which a provision based on the extent of arrears does not exist, which are in arrears of 90 days or more.
(5) Including balance sheet credit risk amounting to NIS 84 million and off-balance sheet credit risk amounting to NIS 80 million in respect of housing loans extended to certain purchasing groups currently in the process of construction.
(6) The balance of commercial debts includes housing loans in the amount of NIS 2,964 million, combined in the transaction and collateral position of commercial borrowers or those extended to certain purchasing groups currently in the process of constructions.

Total credit risk according to economic sectors (Cont'd)

(NIS million)

	as at December 31, 2020						
					Credit losses (2)		
	Total credit risk(1)	Of which: Having Credit granting rating (3)	Of which: problematic credit risk (4)	Of which: Impaired credit risk	Expenses for credit losses	Net accounting write-offs	Provision for Credit losses
In respect of borrowers in Israel							
Public-Commercial:							
Industry	10,038	9,376	460	157	73	29	237
Construction and Real estate - construction (5)	10,997	10,618	139	59	18	(2)	90
Construction and Real estate - real estate activities	6,037	5,647	145	96	8	(8)	36
Commerce	7,266	6,591	245	44	83	23	214
Financial services	14,727	14,669	14	7	9	-	31
Other business services	13,221	12,018	636	166	149	14	267
Total commercial (6)	62,286	58,919	1,639	529	340	56	875
Private individuals - housing loans	31,285	30,667	287	36	41	(2)	164
Private individuals - others	34,535	33,506	348	156	77	34	318
Total public - activity in Israel	128,106	123,092	2,274	721	458	88	1,357
Banks in Israel and Israeli government	12,740	12,740	-	-	-	-	-
Total activity in Israel	140,846	135,832	2,274	721	458	88	1,357
In respect of borrowers abroad							
Total public - activity abroad	1,334	1,306	21	21	6	-	6
Banks abroad and foreign governments	4,120	4,120	-	-	-	-	-
Total activity abroad	5,454	5,426	21	21	6	-	6
Total	146,300	141,258	2,295	742	464	88	1,363

NOTES:

(1) Balance sheet credit risk and off-balance sheet credit risk, including in respect of derivative instruments. Includes debts, bonds, securities borrowed, assets in respect of derivative instruments and credit risk in off balance sheet financial instruments as was calculated for debt limitation of a borrower, in the amount of NIS 95,870 million, NIS 12,798 million, NIS 11 million, NIS 1,897 million and NIS 35,724 million, respectively.

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

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

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

(5) Including balance sheet credit risk amounting to NIS 88 million and off-balance sheet credit risk of NIS 101 million in respect of housing loans extended to certain purchasing groups currently in the process of construction.

(6) The balance of commercial debts includes housing loans in the amount of NIS 3,001 million, combined in the transaction and collateral position of commercial borrowers or those extended to certain purchasing groups currently in the process of constructions.

Counter-party credit risk management

a. General

Counter-party credit risk is the risk that the counter-party to a transaction will become insolvent before the final settlement date for the payments in respect of the transaction. An economic loss will be caused if transactions with the counter-party have a positive economic value at the time when the counter-party becomes insolvent. Counter-party credit risk in the Bank is expressed in activity in derivatives against financial institutions.

In contrast to credit exposure, in which the exposure is unilateral and the Bank alone bears the risk of a loss, counter-party risk creates a bilateral risk of a loss, dependent on the existence of a positive or negative transaction value for each of the parties to the transaction. Exposure to counter-party risk is also apparent in the transactions' market value. The market value of the transactions may change over the lifetime of the transaction, due to changes in the relevant parameters in the market.

b. Policy and risk appetite

The Bank has risk policy and risk appetite at the Group level for activity with financial institutions, both at the overall risk appetite level and at the level of exposure to the single counter-party in a particular type of exposure and single transaction, taking due account of the Bank's equity capital and proportion of positions in it and based on parameters derived from the financial resilience of the counter-party.

The Group manages positions in respect of counter-parties by means of netting agreements which significantly reduce the risks to the Group's capital in situations of counter-party repayment default.

As part of its current counter-party risk management, the Bank monitors daily the adherence to the credit line restrictions allocated for activity with banks and financial institutions.

c. Present credit exposure to counter-parties that are foreign financial institutions

Most of the Bank Group's credit exposure to foreign financial institutions is to banks, mainly the banking systems in Western Europe and North America.

Present credit exposure to foreign financial institutions (1)

External credit rating (5)	As of December 31, 2021			As of December 31, 2020		
	Balance-sheet credit risk(2)	Current Off-balance-sheet credit risk(3)	Aggregate credit risk	Balance-sheet credit risk(2)	Current Off-balance-sheet credit risk(3)	Aggregate credit risk
			NIS million			NIS million
AAA to AA-	**85**	**2**	**87**	107	2	109
A+ to A-	**2,717**	**33**	**2,750**	3,027	35	3,062
BBB+ to BBB-	**119**	**2**	**121**	142	7	149
BB+ to B-	**194**	**-**	**194**	75	-	75
Total credit exposure to foreign financial institutions	**3,115**	**37**	**3,152**	3,351	44	3,395
Of which: Balance of problematic loans (4)	**-**	**-**	**-**	-	-	-

NOTES:
(1) Foreign financial institutions include: banks, investment banks, brokers/dealers, insurance companies, institutional investors and entities under their control.
(2) Deposits at banks, credit to the public, investments in bonds, securities that have been lent and other assets in respect of derivative instruments.
(3) Mainly guarantees and liabilities for the granting of credit, including guarantees for securing third-party indebtedness.
(4) Credit risk that is impaired, inferior or under special supervision.
(5) For the purpose of rating the financial institutions, the Bank used the ratings that were determined for the purpose of applying the Basel standardized approach. The Bank uses the rating of S&P for rating the foreign financial institutions to which credit exposure exists. When no S&P rating is available, the Bank uses the ratings of other rating agencies.

GENERAL NOTES:
a. Credit positions and problematic loans balances are presented after deduction of the provision for credit losses.
b. The credit positions do not include exposures to financial institutions that have an explicit and full government guarantee.
c. For further information regarding the composition of credit positions in respect of derivative instruments against banks and (local and foreign) dealers/brokers, see Note 27.B to the financial statements. Off-balance-sheet credit risk in respect of transactions in derivative financial instruments which were conducted with foreign financial institutions as calculated for the purpose of borrower indebtedness restrictions totaled NIS 299 million on December 31, 2021 (December 31, 2020 - NIS 227 million).

Most of the exposure is to foreign financial institutions with high financial resilience, most of which are included in investment grade A- and above. During 2021, the credit exposure of the Bank to foreign financial institutions remained basically unchanged, and these financial institutions did not lose their external grading.
The conservative risk appetite defined by the Board of Directors of the Bank is reflected by the distribution of the exposure of credit to financial institutions that are almost entirely graded at high ratings.

Most of the Group's present credit exposure (90%) is attributed to leading financial institutions in OECD countries, which are graded AAA to A-, and 3% of the total exposure is rated in the range between AAA to AA-.

The Group's balance-sheet credit exposure to foreign financial institutions includes an NIS 244 million investment in foreign currency bonds. The bond portfolio included in exposure to foreign financial institutions is spread out and totally consists of investment grade bonds, of which 53% are rated A- or higher. The average duration of the portfolio is 3 years.
In addition, balance-sheet credit risk includes NIS 2.2 billion of deposits placed with foreign banks, mainly for a short period of a day to a week.

As of December 31, 2021 there is no country for which the Group has credit exposure to foreign financial institution exceeding 15% of the Bank's equity capital, which amounted to NIS 1,814 million (as defined in Proper Conduct of Banking Business Directive No. 202 concerning capital components).

d. Reporting of exposure to counter-party credit risks

Management and the Board of Directors of the Bank and its committees, receive from management, supervision and control functions, a range of reports on the exposure to counter-party credit risks in various cross-sections.

Exposure to foreign countries

Balance-sheet exposure to foreign countries consists of deposits, bonds, credit to the public and the fair value of financial instruments.

Off-balance-sheet exposure consists of guarantees, off-balance-sheet credit risk with respect to financial derivatives and unutilized facilities.

Main exposures to foreign countries*(1) (NIS million)

	As at December 31, 2021			As at December 31, 2020		
	Balance sheet exposure(2)	Off Balance sheet exposure(2)(3)	Total	Balance sheet exposure(2)	Off Balance sheet exposure(2)(3)	Total
United States	**3,122**	**65**	**3,187**	3,067	33	3,100
Other countries	**2,738**	**386**	**3,124**	2,525	349	2,874
Total exposure to foreign countries	**5,860**	**451**	**6,311**	5,592	382	5,974
Off which: Total exposure to PIGS countries (Portugal, Italy, Greece and Spain)	**21**	**1**	**22**	23	2	25
Off which: Total exposure to LDC countries	**219**	**39**	**258**	168	41	209
Off which: Total exposure to countries with liquidity problems	**17**	**2**	**19**	5	2	7

* Including countries, the exposure to which exceeds 1% of total assets of the Bank on consolidated basis or 20% of capital, the lower of them.

(1) On the basis of final risk, after effect of guarantees, liquid collateral and credit derivatives.

(2) Balance sheet and off-balance sheet credit risk are presented before the effect of provision for credit losses and before the effect of deductible collateral for the purpose of indebtedness of borrower and group of borrowers.

(3) Off-balance sheet credit risk as calculated for the purpose of the limits on indebtedness of borrower.

Risks in the housing loans portfolio

Credit policy at the Bank Group regarding mortgages

The Bank adopts a conservative credit policy that is approved by the Board of Directors of the Bank and that is examined yearly, and is updated in accordance with changes and transformations taking place in Israel, changes in regulation, etc. As part of this policy, the Bank currently follows developments in the mortgages portfolio and adopts different measures for the management of the risk inherent therein.

Risks are examined in accordance with the policy adopted in respect of risk appetite in the mortgage field, both at the level of the single transaction and at the level of the whole mortgage portfolio of the Group. The Bank manages the risks, inter alia, by imposing restrictions regarding certain parameters, such as the financing ratio (LTV), ratio of repayment to income, the rate of loans carrying variable interest, the rate of loans for long periods (exceeding 25 years), and more.

Upon the granting of a mortgage loan, the Bank examines the probability of default by using a statistical model, as well as examines the repayment ability of the borrower in possible scenarios of changes in interest rates. The Bank takes extra care in cases of assets the registration position of which is complex, while giving greater consideration to the quality of the borrower and to the financing ratio.

The Bank performs monthly control on the development of risk characteristic of the mortgage portfolio, in accordance with restrictions according to parameters of the credit policy. In addition, the Bank monitors changes in the volume of problematic debts in the mortgage portfolio, as well as the rate of arrears thereof, comparing the data with that of the whole banking sector.

Volume of housing loans

	For year ended December 31,		
	2021	**2020**	**Change**
		NIS million	%
Housing loans extensions			
Loans from bank funds	**8,005**	5,915	35.3
Loans from Treasury funds	**26**	29	(10.3)
Grants from Treasury funds	**13**	16	(18.8)
Total new loans	**8,044**	5,960	35.0
Refinanced loans from bank funds	**929**	825	12.6
Total extensions	**8,973**	6,785	32.2

	As at December 31,		
	2021	**2020**	**Change**
		NIS million	%
Balance of housing loans, net			
Loans from bank funds	**32,185**	28,259	13.9
Loans from Treasury funds*	**263**	285	(7.7)
Grants from Treasury funds*	**55**	46	19.6
Total balance of housing loans	**32,503**	28,590	13.7

* These amounts are not included in the stated sheet balances of housing loans.

Loan to value

One of the main parameters used by the Bank in examining the risk in the housing loan portfolio is the loan to value ratio (LTV). The LTV is calculated in accordance with Banking Supervision Division's Directive No. 876 - "Report on housing loans," and is the ratio between the amount of credit and the value of the assets serving as collateral on the date at the time the loan is approved. It should be noted that in itself, a rise in the value of the property does not constitute an event for the purpose of re-calculating the LTV. However, when additional credit secured by the same property is granted, the LTV can be calculated on the basis of a revised value appraisal.

The portfolio of housing loans extended from the Bank's sources on December 31, 2021 included 69% of credit granted at an LTV of up to 60%, as compared to 70% at December 31, 2020. 98% of total loans were granted at an LTV of up to 75%, compared with 97% on December 31, 2020.

Housing loan extensions from the Bank's sources in 2021 included 65% of credit granted at an LTV of up to 60%, compared with 67% in 2020. All loan extensions were granted at an LTV of up to 75%, similar to 2020.

The calculation of the LTV does not include loans which are not secured by an asset.

Debt-income ratio

Another key parameter used by the Bank in examining the risk in the housing loan portfolio is the debt-income ratio. This ratio enables the Bank to assess a borrower's ability to maintain current loan repayments in an orderly manner from the borrower's regular income at the date of the extension of the loan.

The portfolio of housing loans extended from the Bank's sources as of December 31, 2021 included 90% of credit granted at a debt-income ratio of up to 35% compared with 89% on December 31, 2020. 99% of the credit was extended to borrowers on the basis of a debt-income ratio of up to 50%, in comparison to 98% on December 31, 2020.

Housing loan extensions from the Bank's sources in 2021 included 92% of credit granted at a debt-income ratio of up to 35% as compared to 93% in 2020. All of the credit was extended to borrowers on the basis of a debt-income ratio of up to 50% similar to 2020.

The calculation of the ratio does not include loans which are bullet and balloon.

Floating-rate loans

The portfolio of housing loans from the Bank's sources as of December 31, 2021 includes 60% of credit that was granted at floating-rate interest and amounts to NIS 19,309 million.

Housing loan extensions from the Bank's sources in 2021 include NIS 3,455 million of credit granted at floating-rate interest of up to five years constituting 43% of extentions. An amount of NIS 1,191 million is at floating-rate interest changing every five years and over, constituting 15% of extentions .

Long-term loans

The portfolio of housing loans from the Bank's sources as of December 31, 2021 includes 79% of credit whose redemption period as of the report date is up to 25 years and amounts to NIS 25,522 million.

Housing loan extensions from the Bank's sources in 2021 include 65% of credit whose redemption period as of the report date is up to 25 years and amounts to NIS 5,241 million.

Set out below are data on the development of the housing loan portfolio at the Bank alone by linkage segments (excluding credit from Treasury funds and after deduction of the allowance for credit losses)

	For residential purposes											Secured by a residential apartment	Total
	Unlinked segment				CPI-linked segment				Foreign-currency linked segment		Total		
	Fixed-rate		Floating rate		Fixed-rate		Floating rate		Floating rate				
	Balance	Rate	Balance	Rate	Balance	Rate	Balance	Rate	Balance	Rate	Balance	Balance	Balance
	NIS million	%	NIS million	%	NIS million	%	NIS million	%	NIS million	%	NIS million	NIS million	NIS million
31.12.21	**9,100**	**29.1**	**13,686**	**43.7**	**3,568**	**11.4**	**4,951**	**15.8**	**8**	**-**	**31,313**	**872**	**32,185**
31.12.20	7,671	28.0	11,818	43.1	3,362	12.3	4,532	16.6	13	-	27,396	863	28,259

Set out below are data on the development of housing loan extensions at the Bank alone (excluding credit from Treasury funds)

	2021	2020	2019	2018	2017
Total housing loan extensions (NIS million)	**8,005**	5,915	4,374	4,149	3,756
Rate of change in housing loan extensions compared with previous year	**35.3%**	35.2%	5.4%	10.5%	(13.4%)
Rate of expense (income) on credit losses relative to mortgages at the Bank's risk	**(0.02%)**	0.14%	0.01%	-	(0.01%)
Cumulative rate of allowance for credit losses relative to mortgages at the Bank's risk	**0.50%**	0.59%	0.49%	0.50%	0.51%

Effect of the spreading of the Coronavirus on housing credit

As from March 2020, the Bank allowed borrowers to defer the monthly payment of the housing loans and arrange for a mitigated schedule for the repayment of the debt. As of December 31, 2021, deferred loan repayments amounted to approx. NIS 4 million, this in accordance with that stated in Note 1F. to the financial statements.

On September 30, 2021, Bank of Israel published an update to the regulatory relief related to Proper Conduct of Banking Business Directive No. 329 in the matter of "restrictions on the granting of housing loans", within the framework of Proper Conduct of Banking Business Directive No. 250 in the matter of "confrontation with the Corona crisis". The update contains the cancellation of the relief permitting banks to approve a housing loan that is not intended to finance the purchase of a right in real estate and secured by a mortgage on residential property ("loan for any purpose") up to a financing level of 70%, in contrast to the limit of 50%.

Furthermore, with respect to to the relief applying until now regarding the additional capital requirement of 1%, the relief in respect of housing loans had been cancelled, and only the relief regarding loans for any purpose remained so that as from the effective date of the amendment to the Directive (as from October 1, 2021), the additional capital requirement of 1% applies to housing loans only and not to loans for any purpose. Namely, an additional capital requirement of 1% does not apply to housing loans extended in the period from March 19, 2020 to September 30, 2021.

As from January 2022, the capital requirement of 1% continues to apply to housing loans by power of Proper Conduct of Banking Business Directive No. 329, and does not apply to loans for any purpose.

Update of the limitation in respect of housing loans

On December 27, 2020, an amendment to Proper Conduct of Banking Business Directive No. 329 in the matter of "restrictions on the granting of housing loans" was published, which canceled the Prime interest limitation (according to which, the ratio between the part of the loan which bears floating interest rate that can be changed during a period of less than five years from the date of approving the loan, or from the date on which the previous rate was determined, the total amount of the loan, does not exceed 33%) and to be satisfied with the limit of the floating rate, which rules that at least a third of the loan is to be granted at fix interest rate and the remaining two thirds are to be granted at floating rates.

The amendments to the Directive applied as from January 17, 2021. In respect of a housing loan designated for the premature repayment of a loan at the Bank, or at another bank, the amendment applies from February 28, 2021.

On October 6, 2021, Bank of Israel published an update to the FAQ file relating to Proper Conduct of Banking Business Directive No. 329 in the matter of "restrictions on the granting of housing loans", according to which, a banking corporation is not permitted to extend an additional loan intended to finance personal capital required for the purchase of residential property. In order to allow a bridging loan to those changing a residential property, banks nare allowed to extend a bridging loan, subject to adherence with certain conditions as stated in the FAQ file. It is clarified that the said update does not apply to agreements signed prior to the publication date of the update (purchase agreements, loan agreements and an agreement in principle to the extension of a loan).

Also updated was the answer to an additional question clarifying that assistance to a third party financing personal capital by way of a loan, is limited to family members of the first degree. Also added are questions clarifying reference regarding the classification of a loan as a "loan for any purpose", and regarding a refinancing loan, as well as the addition of reference regarding the computation of the addition to the capital target as a function of the balance of housing loans.

Update of Proper Conduct of Banking Business Directive No. 451 – "procedures for extension of housing loans"

On January 31, 2022, Bank of Israel published an update to Proper Conduct of Banking Business Directive No. 451 – "procedures for extension of housing loans". The purpose of the update is to facilitate the procedures regarding a mortgage loan application with respect to three aspects: transparency and comparability of loan terms, simplicity and easy understanding of the terms and efficiency in the processing of the loan.

The amendment to the Directive contains, inter alia, changes in procedures for the granting of an approval in principle, including formation of a uniform structure for the approval in principle, setting out three uniform mortgage options with the possibility of customizing an option in accordance with the needs of the borrower, presentation of the total anticipated interest and the total anticipated repayments, determining a defined time-schedule for replying to the application for an approval in principle, the possibility of submitting an application and obtaining approval also online or by telephone, providing the public with an online calculator allowing simulation of different loan structures at different time ranges, including the uniform options, as well as information that a bank has to present on the Internet Application offered to customers, regarding the advisabilty of premature repayment of the loan.

The amendments to the Directive take effect on August 31, 2022, however, a banking corporation may act in accordance with the updated Directive, or a part thereof, even prior to the effective date of the amendments.

The Bank is preparing for the application of the amendment.

Private individuals credit risk (excluding housing loans and derivative instruments)

General

The banks in the Group grant consumer credit to a variety of households, made up mainly of individuals in employee positions, part of whom in the education system and part in the defense system.

The credit policy for private individuals reflects the risk apetite of the Bank and its intensions as to the risk levels it wants to take as well as the wanted profile for the private individuals credit portfolio and its volume in respect to the overall credit portfolio.

The policy is based on an internal system for the rating of credit risk relating to private individuals according to statistical models being currently updated, and to business rules and principles for the granting of credit, which take into account the repayment ability of the customer at the individual level as well as the analysis and evaluation by a range of additional parameters, which have an effect upon the financial stability of the customer.

This perception is well reflected in the credit policy of the Bank through quantitative and qualitative restrictions for the granting of credit at the level of the single customer and at the level of the Bank, as well as in control procedures and structured work procedures, in the different control lines.

Models of credit rating used by the banks in the Group both in the underwriting process of credit at the branches, and for the direct granting of credit via the Internet, the cellular application and via "International Bank Call". The credit recommendations derived from the statistical models together with procedures of the Bank based on the credit policy of the Bank and the qualitative and quantitative limitations included therein - shape the measured risk appetite of the Group as regards the consumer credit field.

In the retail credit field, the Bank focuses on credit typified by a high level of distribution and a low level of risk. Taking into account the fact that the subsidiary Massad Bank is also engaged in the credit field, the Bank operates from a Group viewpoint and acts for the implementation of an orderly work format of the Group, which defines, inter alia, a business focused format for each population in the Group. The targeted population is mostly a population having stable sources of income, which requires finance in the consumer field and has credit repayment ability, inter alia, designated populations having a joint connection on a country-wide level (such as: teaching personel, Ministry of Defense personnel, etc.) having repayment ability or realizable collateral.

Teaching personnel loan tender are loans repaid by the direct withholding from salary. Most of the customers in the households segments in Otsar Hahayal branches are salaried employees, large part of them are former employees of the defense forces. Part of the loans to Ministry of Defense personnel are granted within the framework of different tenders, reflect the capitalization of rights for interim periods and are characterized by relatively large amounts and long periods. Moreover, within the framework of the terms of the tender, the responsibility of the Ministry of Defense for the repayment of the credit in default cases is determined, thus reducing to a minimum the risk of credit granted to Ministry of Defense personnel within this framework.

These loan repayments and additional loans to the defense personnel population as well as loans granted in the framework of collective agreements, are being withheld directly from salaries.

81% of the balance of the credit risk to private individuals is in respect of customers with fixed income credited to their accounts in an amount exceeding NIS 10 thousands.

Effect of the spreading of the Coronavirus on credit to private individuals

Data collected by the Bank indicate that the rate of problematic credit of private individuals, even in view of the continuing Corona crisis, has not materially changed. The major part of customers, whose repayments had been deferred during the crisis period, resumed the regular repayment of their loans. The Bank strictly monitors market data on a current basis, and in consequence thereof bases credit underwriting and the updated repayment ability of its customers.

Set out below is the distribution of Private individuals credit risk (excluding housing loans) in Israel:

	As of December 31		
	2021	2020	change
		NIS million	%
Current account and utilized balances of credit cards	**5,449**	4,865	12.0
Other loans	**17,184**	16,468	4.3
Total stated credit risk	**22,633**	21,333	6.1
Unutilized current account credit lines	**4,686**	4,693	(0.1)
Unutilized credit lines in credit cards	**7,346**	7,287	0.8
Other off-balance credit risks	**910**	1,204	(24.4)
Total off-balance credit risk	**12,942**	13,184	(1.8)
Total credit risk	**35,575**	34,517	3.1
Average volume of credit, including overdrafts, credit cards and loans	**21,254**	20,529	3.5

Set out below is the distribution of Private individuals credit risk of total debts (excluding housing loans) in Israel:

	As of December 31		
	2021	2020	change
		NIS million	%
Impaired credit risks	**140**	156	(10.3)
Unimpaired problematic credit risk	**140**	192	(27.1)
Performing credit risk	**35,295**	34,169	3.3
Total credit risk	**35,575**	34,517	3.1
Of which: performing debts in arrears of 90 days or more	**22**	18	33.3
Balance of restructured debts out of the problematic credit	**102**	113	(9.7)
Ratio of credit loss expense to total credit to the public	**0.01%**	0.36%	

Following is the distribution of credit risk relating to private individuals in Israel by fixed income credited to their accounts

				December 31, 2021
Fixed income credited to the account*	**Total financial assets** lower than NIS 50 K**	**Total financial assets** higher than NIS 50 K**	**Stated Credit risk**	**Off-balance sheet credit risk**
NIS thousands				NIS million
No fixed income	**323**	**39**	**362**	**213**
Up to 10	**3,458**	**491**	**3,949**	**2,196**
From 10 to 20	**4,897**	**1,505**	**6,402**	**3,508**
Over 20	**6,411**	**5,509**	**11,920**	**7,025**
Total	**15,089**	**7,544**	**22,633**	**12,942**

				December 31, 2020
Fixed income credited to the account*	**Total financial assets** lower than NIS 50 K**	**Total financial assets** higher than NIS 50 K**	**Balance sheet Credit risk**	**Off-balance sheet credit risk**
NIS thousands				NIS million
No fixed income	401	45	446	219
Up to 10	3,640	475	4,115	2,360
From 10 to 20	4,910	1,510	6,420	3,717
Over 20	5,413	4,939	10,352	6,888
Total	14,364	6,969	21,333	13,184

* Fixed income credited to the account as defined in the reporting instruction to the Supervisor of Banks No.836 (which includes actual salary on an average of the last 12 months, total annuities, cash deposits and check deposits).

** The financial assets portfolio related to the account, such as: monetary deposits (including current account balances), securities portfolios and other financial assets.

Distribution by average period to redemption (according to the last repayment date of the loan)

	December 31, 2021	December 31, 2020
	Balance sheet credit risk	
Period		NIS million
Up to one year	**5,953**	5,347
From one to three years	**3,203**	2,959
From three to five years	**4,752**	4,762
From five to seven years	**2,925**	2,864
Over seven years	**5,800**	5,401
Total	**22,633**	21,333

Distribution by size of credit to the borrower*

	December 31, 2021			December 31, 2020		
Credit range to the borrower	**Stated credit risk**	**Off-balance sheet credit risk**	**Total credit risk****	**Stated credit risk**	**Off-balance sheet credit risk**	**Total credit risk****
NIS thousands			NIS million			NIS million
Up to 10	**213**	**456**	**669**	197	470	667
From 10 to 20	**421**	**866**	**1,287**	383	873	1,256
From 20 to 40	**1,180**	**2,015**	**3,195**	1,096	2,040	3,136
From 40 to 80	**2,944**	**3,382**	**6,326**	2,848	3,432	6,280
From 80 to 150	**5,772**	**3,267**	**9,039**	5,656	3,391	9,047
From 150 to 300	**6,875**	**2,181**	**9,056**	6,633	2,262	8,895
Over 300	**5,228**	**775**	**6,003**	4,520	716	5,236
Total	**22,633**	**12,942**	**35,575**	21,333	13,184	34,517

* Definition of borrower - in accordance with the definition included in Proper Conduct of Banking Business Directive No. 313.

** Total credit risk - excluding indebtedness in respect of derivatives and excluding housing loans.

Distribution by type and extent of exposure to a significant growth in payments

	Balance sheet credit risk	
	December 31, 2021	December 31, 2020
Type of credit		NIS million
Current account	**1,538**	1,372
Credit card	**3,911**	3,493
Credit carrying variable interest	**16,559**	15,862
Credit carrying fixed interest	**625**	606
Total	**22,633**	21,333

Collateral

	December 31, 2021			December 31, 2020		
	Stated credit risk	**Off-balance sheet credit risk**	**Total credit risk**	**Stated credit risk**	**Off-balance sheet credit risk**	**Total credit risk**
			NIS million			NIS million
Total credit secured by collateral*	**4,467**	**638**	**5,105**	4,096	880	4,976
* Of which:						
Non-liquid collateral	**4,048**	**612**	**4,660**	3,705	853	4,558
Liquid collateral	**419**	**26**	**445**	391	27	418

Description of operations

A. The underwriting of credit to private individuals

The underwriting of consumer credit is conducted taking into consideration of personal parameters of the customer and reflects readiness for measured acceptance of credit risk. This concept is well reflected in quantitative and qualitative limitations, as well as by means of a wide array of structured work procedures and close control processes in the different control lines.

The banks in the Group offer credit to their customers on the basis of comprehension of the customer's needs, identification and the monitoring of his risk characteristics. As part of the underwriting process, several criteria that form a decision supporting tool are examined, inter alia, general information regarding the customer (his identity, financial stability, conduct of his account and any additional information which might assist in the underwriting process), the object of the credit, the volume of activity of the customer with the Bank in relation to the pricing of the transaction, repayment ability, the total credit mix in the account and the modification thereof to the customer's needs. This process is based upon values of fairness and transparency towards the customer.

B. The manner of supervising and monitoring risk characteristics

The banks in the Group have a high level of skill and expertise in the field of retail credit due to many years of experience in household credit.

The Group trains its employees at a high level of professional skill in the credit field, having decision supporting computer systems and control and monitoring systems for the early discovery of borrowers in default or of negative symptoms.

The Group hedges acceptance of credit risks, inter alia, by means of the distribution of risk among customers.

Risk management and the control thereof are conducted by means of an appropriate infrastructure of inspection, supervision, control and audit mechanisms. Control in the matter of consumer credit is conducted by means of three defense lines.

Controls conducted within the framework of the first line of defense include: the monitoring of deviation from current account and revolving debit account credit facilities, examination of problematic credit in arrears and follow-up of developments in the problematic consumer credit at the branches.

The second line of defense includes a range of controls, the essence of which is intended to test the financial management of accounts and to identify signs for deterioration in the debt situation. Deterioration signs may stem from a decline in the volume of operations, deviation from approved credit facilities, etc. In addition, the Bank uses supporting computer systems, such as a system for the identification and treatment of debts showing trouble symptoms and a statistical system forecasting credit default.

The third line of defense is the internal audit division, which is responsible for performing independent audits of risk management, work framework and controls over consumer credit risks, including the work of the first and second lines of defense in monitoring of this risk.

Construction and real estate sector risks

The Bank adopts a measured and careful credit policy, approved by the Board of Directors of the Bank, which is examined every year and is revised in accordance with changes in conditions in the country, both in the real estate sector in general, and in the credit field in particular, changes in regulation (such as: directives of the Supervisor of Banks and government regulations) etc. The said policy is expressed in the examination of the financing ratio, determination of different limitations, conducting sensitivity analysis with respect to financing of construction projects, examination of the ratio of the borrower's equity and requirement for early sales in order to reduce the risk to the extent possible.

Moreover, The Bank has adopted a specific policy in respect of the different lines of operation in the real estate and construction field, including the financing of housing construction, financing of income producing property construction, as well as financing of construction of income producing offices, commercial and industrial properties.

The processing by the Bank of new applications for the finance of real estate is characterized by different parameters, inter alia, the location of the property, geographic dispersal, designation of the property (residential/office premises/commercial/

industrial), type of transaction (National Outline Plan/ Price to the Purchaser Plan/ Targeted Price Plan etc.). Also examined are the level of risk arising in any financing mode in relation to the ratio of finance, the financing period and the quality of the borrower and his financial stability. In relation to all that stated above as well as to other parameters, the level of pricing and the profitability of the transaction are determined.

Over and above examination performed on a current basis, the Bank conducts periodic discussions with respect of all credit portfolios in the construction and real estate segment and examines the condition of the projects as well as the level of risk inherent in each, and reduces exposure accordingly. As a general rule, examination of the projects is performed on a monthly basis, based on construction progress reports by the supervisor of the project, where the examined risks are both at the level of market risk and at the level of execution risk.

The Bank strictly prices each transaction in accordance with the risk involved and with the required allocation of capital, using tools for the calculation of the return.

The provision for credit losses is computed in accordance with directives of the Supervisor of Banks, and is being determined also in respect of the construction and real estate segment in accordance with its characteristics. It is noted, that in addition to such quantitative measurement, the Bank reviews subjectively in each quarter, the need for an additional increase in the coefficients for the provision for credit losses in respect of the construction and real estate segment, taking into account developments in the business environment and additional indicators relevant to the level of risk inherent in the credit portfolio, and where required, increases the coefficients for the collective provision. An additional review is being performed also in respect of specific borrowers, and where required, a specific provision is also recorded.

The Corona crisis has led to uncertainty regarding the continuation of demand in the income producing real estate field, where differences exist between different classes of income producing properties. To the extent that this field would be impaired, it is the older properties that are not located in demand areas that would be mostly affected. The Bank examines on a current basis the extent of impairment in properties of this class.

Since the beginning of the crisis, the Bank has performed an in-depth examination of all customers in the credit portfolio of the Bank, analyzing the possible impact upon their activity, with reference to the financing of land and active construction projects, segmented by the designation of the land or project (residential/office premises/commercial/industrial), with the intention of mapping and uncovering possible risks in the real estate credit portfolio.

At the reporting date, the real estate market in Israel is found in an accelerated development and growth trend, with an emphasis on the residential segment, but also on the office premises and commercial segments. This trend, together with the measured policy of the Bank, resulted in an estimate by the Bank that the quality of the credit portfolio had not been materially affected.

Following are data of credit to the public risk in the construction and real estate sector:

	December 31	
	2021	**2020**
		NIS million
Overall credit risk[(1)(3)]		
Projects not yet completed		
Of which: Open land	**3,630**	2,296
Property under construction	**4,893**	4,613
Completed building projects	**5,185**	4,494
Other[(2)]	**6,681**	5,631
Total	**20,389**	17,034

(1) Of which: credit secured by residential property in the amount of NIS 7,522 million (a stated balance of NIS 4,402 million and off-balance sheet amount of NIS 3,102 million), credit secured by industrial property in the amount of NIS 800 million (a stated balance of NIS 717 million and off-balance sheet amount of NIS 83 million), and credit secured by commercial property in the amount of 5,386 million (a stated balance of NIS 4,993 million and off-balance sheet amount of NIS 393 million) (31.12.20 - NIS 5,348 million, NIS 770 million and NIS 5,285 million, respectively).

(2) Includes credit to borrowers in the construction and real estate field in Israel, the collateral provided by them does not include real estate, such as and mostly - infrastructure projects, credit to income producing property companies and borrowers where the value of their property for prompt realization purposes secures less than 50% of the credit risk of the borrower.

(3) The average financing ratio (weighted) with respect to open land is 87%, to projects under construction 77% and to completed building projects 75%.

The ratio of credit not having a credit granting rating, to total credit risk in the construction and real estate sector as of December 31, 2021, amounts to 4.2%, as compared to 4.5% at December 31, 2020.
The ratio of problematic credit to total credit risk in the construction and real estate sector as of December 21, 2021, amounts to 1.3%, as compared to 1.4% at December 31, 2020.

Leveraged Finance

Leveraged finance is defined as credit granted for financing capital transaction by corporations (as defined in the Bank of Israel directive 323) that meets certain criteria, and credit granted to debtors characterized with high finance leverage levels.
The Bank considers leveraged finance as credit included in one of the following five classes:

A. Credit for the purpose of a capital transaction, as defined in Bank of Israel directive 323 (acquisition of shares in another corporation, acquisition of operations, purchase of own shares and distribution of capital), which meets certain tests regarding the volume of credit, the relating ratio of finance, and the volume of tangible collateral as determined by the Bank.
B. Credit for different business purposes, which meets certain tests indicating weak financial data, as determined by the Bank.
C. Credit provided for the finance of income producing real estate, which meets certain tests in respect of the volume of credit, the relating ratio of finance, the volume of tangible collateral and the financial data of the borrower as determined by the Bank.
D. Credit for rolling construction projects purposes, which meets certain tests in respect to the volume of credit, the volume of tangible collateral, and the risk to which the project might expose the Bank, as determined by the Bank.
E. Credit financing the purchase of open land, which meets certain tests relating to the volume of credit, the relating financing ratio, the volume of tangible collateral and the financial data of the borrower as determined by the Bank.

In view of the high risk characteristics of the leveraged finance, the policy of the Bank states stringent guidelines for underwriting and restrictions on the scope of exposure to leveraged finance.
The criteria according to which the Bank considers credit as leveraged finance were determined conservatively.
As of December 31, 2021, total aggregate balances (balance sheet credit and off-balance sheet credit net of provisions for credit losses and deductible collateral) considered as leveraged finance, amounted to NIS 489 million, as compared to NIS 576 million at the end of 2020.

MARKET RISK

General

Market risk (financial risk) is the actual or future existence of a risk of loss or impairment stemming from a change in the economic value of a financial instrument, a certain credit portfolio or a group of portfolios, and on a general level, due to changes in prices, currency exchange rates, margins and other parameters in the markets, including: interest risk, currency risk, inflation risk, share prices risk and volatility risk.

Following the speedy recovery from the Corona crisis and the growing demand around the world for commodities, a rise in the Consumer Price Index is anticipated, with following market anticipations that central banks around the world would raise the domestic interest rates. Since the beginning of 2022, share indices presented a reduction in prices in contrast to 2021, which was characterized by share indices in Israel and the world over showing a significant rise in prices.

Policy and risk appetite

The Bank has a detailed policy for the management of exposure to financial risks. The policy document outlines and details inter alia, overall financial risk appetite and risk appetite segmented by single risks and operating principles.

The risk appetite of the Bank reflect measured readiness to accept financial risks corresponding to careful and measured banking activity, and corresponding to regulatory requirements and to the volume and nature of the Bank. As a general rule, the Bank endeavors to minimize financial exposures accepted by it, and acts towards creating appropriate profitability while accepting measured financial risks.

This concept is well reflected in the policy of the Bank by means of a very wide range of quantitative and measured risk/loss limitations in relation to the equity of the Bank. It is also reflected in close control procedures and work procedures structured within the different control lines.

Supervision and control of market risk exposure management

The Bank employs a suitable network of control, management, supervision, independent control and audit mechanisms with respect to the market risk management process. The managerial and review concept employed by the Bank is to detect, quantify and estimate exposure to market risks and to control the adherence to the restrictions prescribed.

Market risk management is examined and controlled on a current basis by special committees and forums at the Board of Directors, Management and middle-management grades (as detailed in the risk report in the internet website of the Bank).

Reporting of market risk exposures

The Management and the Board of Directors of the Bank receive a variety of reports on exposure to market risks in various cross-sections, containing, inter alia, developments in the risk and in the financial environment and adherence to restrictions. These reports are submitted by management, supervisory and control functions.

Methodology for the estimation of exposure to market risk

The Bank manages and controls exposure to market risks by means of a number of generally accepted models and tools which include VaR calculations and the operation of stress tests, interest exposure management and control tools, such as: duration, fair value, analyses of sensitivity to changes in the interest-rate curve.

Interest exposure

General

Interest risk is the risk to earnings or equity stemming from fluctuations in interest rates, which affect the Bank's earnings by a change in net income, as well as affect the value of the Bank's assets, liabilities and off-balance sheet instruments, due to changes in the present value of future cash flows (and in certain cases, the cash flows themselves) following a change in interest rates. The main forms of the interest risk to which the Bank is exposued to are: risk of repricing, yield curve risk, basis risk and option risk. Interest risk in respect of the entire portfolio is one of the dominant risks to which the Bank is exposed in all matters relating to their effect on the fair value of assets and liabilities and its effect on earnings. The Bank manages the interest risks in accordance with the Bank of Israel directive 333 in the matter of interest risk management, with emphasis on interest risk relating to the banking portfolio. The Bank determined a policy for the management of interest risk, in accordance with the regulations.

Exposure management

Interest risk exposure is managed by means of examining the average duration of sources and uses and reducing exposure to erosion in fair value as the result of unexpected changes in interest rates, subject to the limits determined by the Board of Directors. In each segment the exposure for unpredicted change in the interest rate for all periods and different interest senarios is measured, as well as its effect on the potential erosion of the economic value and the accounting profit for 12 months forward. The effect is measured in each of the segments seperately, and in all segments together. The Bank's principal exposure to interest risks is attributed to financing activity in the non-linked shekel segment and in the CPI linked segment, stemming from the characteristics of the investment in those segments, which derive from the range of uses and sources in these segments.

In order to minimize the interest risk in the banking portfolio and as part of its assets and liabilities management, the Bank uses tools including the issue of bonds and activity in derivative financial instruments.

Risk appetite

- The interest risk appetite is conservative, as reflects in the restrictions, and the utilization of the exposure limits is conducted according to the Bank's estimates regarding expected interest rates and the structure of the interest curve in different time horizons and subject to the restrictions defined in the financial risks policy.
- The Bank has series of restrictions on changes in the interest curve and specific restrictions on the extent of interest exposure at the level of the dealing rooms and the interest-risk generating units and restrictions on the maximum erosion in fair value in stress scenario.

Actual exposure on the report date

Interest risk is measured on the basis of assumptions regarding the redemption periods of assets and liabilities. The effect of the early repayment of housing loans and of time deposits having early exit points is also taken into account in risk management.

Non-interest bearing current accounts have credit balances at a stable amount over time. The Bank bases on specific model and determined that the redemption period of the stable current accounts will be for several years.

Sensitivity analysis to the effect of the exposure in changes in interest based on the fair value of financial instruments

Following are the details on assets and liabilities which are exposed to changes in interest according to their fair value, including sensitivity analysis as to the effect of potential changes in interest rates on the fair value of financial instruments of the Bank and its consolidated subsidiaries, excluding non-financial items, according to accounting rules:

Following are the details of the effect of changes in the interest rate on the fair value of the asset

1. Fair value of financial instruments of the Bank and consolidated subsidiaries, excluding non-financial items (before the effect of potential changes in the interest rates):

	December 31, 2021			December 31, 2020		
	NIS[7]	Foreign currency[8]	Total	NIS	Foreign currency	Total
			NIS million			NIS million
Adjusted fair value, net [1]	**8,165**	**4**	**8,169**	8,092	(223)	7,869
Of which: banking portfolio	**8,301**	**(166)**	**8,135**	8,096	(297)	7,799

Additional details as to the assumptions used to calculate the adjusted fair value of the financial instruments, see note 32A to the financial statements.

2. Effect of scenarios of changes in interest rate on the adjusted fair value[1] of the Bank and its consolidated subsidiaries:

	December 31, 2021			December 31, 2020		
	NIS[5][7]	Foreign currency[8]	Total	NIS[5]	Foreign currency[5]	Total
			NIS million			NIS million
Parallel changes						
Parallel increase of 1%	**(27)**	**17**	**(10)**	(41)	(45)	(86)
Of which: banking portfolio	**(14)**	**18**	**4**	(39)	(38)	(77)
Parallel decrease of 1%	**105**	**(14)**	**91**	200	47	247
Of which: banking portfolio	**95**	**(15)**	**80**	207	42	249
Non-parallel changes						
Steeping [2]	**(132)**	**5**	**(127)**	(165)	(11)	(176)
Flattening [3]	**167**	**(10)**	**157**	214	(8)	206
Interest increase in short term	**134**	**(1)**	**133**	170	(25)	145
Interest decrease in short term	**(26)**	**3**	**(23)**	(41)	63	22

The table presents the adjusted net fair value of all financial instruments, with the assumption that the change in interest occurred in all interest rate and in all linkage segments.

3. Effect of scenarios of changes in interest rate on interest income, net and non-interest financing income:

	December 31, 2021			December 31, 2020		
	Interest income	Non-interest income	Total(4)	Interest income	Non-interest income	Total(4)
			NIS million			NIS million
Parallel changes						
Parallel increase of 1%	**529**	**5**	**534**	418	1	419
Of which: banking portfolio	**528**	**-**	**528**	417	-	417
Parallel decrease of 1%	**(646)**	**(6)**	**(652)**	(724)	(1)	(725)
Of which: banking portfolio	**(646)**	**-**	**(646)**	(724)	-	(724)

(1) Fair value of financial instruments, excluding non-financial items and after the effect of liability in respect to employees' rights and attribution of demand deposits to periods. Additional details as to the assumptions used to calculate the adjusted fair value of the financial instruments, see note 32A to the financial statements.
(2) Steeping- decline of interest in the short term and increase in interest in the long term.
(3) Flattening- Increase in interest in short term and decline in interest in the long term.
(4) After offsetting effects.
(5) In interest decline scenarios in the CPI linked and foreign currency linked segments, a negative interest environment was depicted.
(6) In interest decline scenarios reflecting negative interest, the effect of the scenario on interest income, net was calculated according to deferent assumptions.
(7) An update of the premature repayment of housing loans model was made during the fourth quarter leading to an increase of NIS 11 million in the fair value, to an increase in fair value of NIS 49 million in a scenario of a 1% increase in interest and to a decrease in fair value of NIS 35 million in a scenario of a 1% decrease in interest. Corresponding data were not restated.
(8) An update of the demand deposits model was made during the fourth quarter leading to an increase of NIS 112 million in the fair value, to an increase in fair value of NIS 51 million in a scenario of a 1% increase in interest and to a decrease in fair value of NIS 51 million in a scenario of a 1% decrease in interest. Corresponding data were not restated.

Disclosure regarding preparations for the discontinuation of use of the LIBOR

The publication of the LIBOR interest rates for Pounds Sterling, Euro, Swiss Francs and the Japanese YEN was discontinued as from December 31, 2021. In addition, the publication of the LIBOR interest rate for the US dollar for periods of one week and two months was also discontinued. Publication of the LIBOR interest rate for the US dollar for the remaining periods, is expected to be discontinued on June 30, 2023.

Bank of Israel published on September 30, 2021, Proper Conduct of Banking Business Directive No. 250A in the matter of the transition from the LIBOR interest, containing guidelines regarding the manner of performing the transition from the LIBOR interest to alternative interest bases, in respect of the following aspects: the way of choosing the alternative interest bases, establishing the manner of transition in a policy and in procedures, providing information to customers, modification of existing contracts, the discontinuation in engagement of LIBOR based new contracts, risk management, and more.

Until the end of 2021, the Bank had made preparations for the replacement of the LIBOR interest by alternative interest bases, as regards both the business and the operating aspects, including considerations of fairness to customers, aspects of compliance and risk management, while adhering to Bank of Israel requirements.

In addition, the bank considered the anticipated financial implications of the transition to use of the new reference interest rates.

As of the reporting date, the Bank had chosen alternative reference interest rates in respect of all currencies, in accordance with recommendations of international bodies and the guidelines of Bank of Israel in the matter, and on January 1, 2022, the Bank discontinued the use of the LIBOR interest, including the LIBOR interest for the US dollar, and started using the new reference interest rates: the SOFR rate (Secured Overnight Financing Rate) and the Term SOFR for the US dollar, determined by the CME Exchange (Chicago Mercantile Exchange); the SONIA rate (Sterling Overnight Index Average) and the Term Sonia for the Pound Sterling, determined by Refinitiv; the ESTR (Euro Short-Term Rate) and the EURIBOR (Euro Inter Bank Offered Rate) for the Euro; the SARON (Swiss Average Rate Over Night) and the average SARON interest for the Swiss Franc; and the TONA (Tokyo Over Night Average Rate) and the Term Interest for the Japanese YEN, determined by Quick.

Exposure to the LIBOR rate within the framework of derivative operations established under ISDA arrangements and under other arrangements is not material. In addition, in order to minimize the legal risks involved in the discontinuation of LIBOR interest rate in respect of the activity in derivative instruments, the Bank signed on the new ISDA protocol regulating the method of settling accounts in respect of old contracts signed in LIBOR, the validity thereof does not terminate prior to the discountinuation date of the publication of the LIBOR.

As of the reporting date, and in accordance with estimates made by the Bank, no material balance sheet exposure exists for the Bank with respect to LIBOR interest based contracts that continue in effect until after the year 2021.

Set out below are LIBOR interst based contracts signed by the Bank, remaining in effect until after 2021:

	Volume of transactions
	December 31, 2021
	NIS million
Derivatives (face value)	**3,308**

Principal risks and preparations made by the Bank in respect thereof

The discontinuation of use of the LIBOR and transition to alternative interest bases, may create different risks for the Bank, such as: financial risk, model risk, legal risk, regulation and supervision risk, technological risk and business risk. The Bank has identified these risks, inter alia, by means of mapping relevant contracts and exposure.

As of date of this Report, the Bank continues to manage identified risks related to the discontinuation of use of the LIBOR, including the actual use of the new interest bases.

Furthermore, the Bank sent massages to relevant customers in respect of the transition process from the LIBOR interest to the new interest bases, and the possible significances of these changes, and relevant information on this subject is also presented on the Bank' Internet website.

The following principal risks had been identified:

- Financial risk - decline in profitability and/or increase in costs stemming, inter alia, from: recognition of loss on financial instruments held by the bank, decline in the number and turnover of customer transactions; opening of positions exposed to interest and the need for modification of the Bank's asset and liability management process. Moreover, the basis risk created as a result of the change in the fallback mechanisms between the different financial instruments (such as: deposits against derivatives). The Bank has no significant excess financial risk stemming from the exchange of reference interests and in any case the exposures are managed on a current basis.
- Model risk - structuring a transfer price methodology modified to the transition to alternative interest bases; determining new pricing for products.
- Legal risk – updates and changes to existing contracts and the drafting of new contracts agreeing with the discontinuation of use of the LIBOR and the new economic environment.
  A material part of the potential risk, following objection by customers as to the determination of their interest payments, has been reduced by the adoption of alternative interest rates accepted by the international financial system and mostly by making beneficial offers to customers.
  Moreover, in certain of the cases, the change had been coordinated with the customers after obtaining their consent to the change.
- Regulation and supervision risk – a policy approved by Management and the Board of Directors of the Bank is being implemented and procedures had been updated in agreement with the provisions of Proper Conduct of Banking Business Directives.
- Technological risk - introducing modification for use of the old and new financial instruments.

Accounting implications

The discontinuation of use of the LIBOR and transition to alternative interest indices, have different accounting implications in a number of areas, which, inter alia, are as follows:

- Hedge accounting – the main effects anticipated as regards hedge accounting are, inter alia, the need for a significant updating of hedge documentation, in order to reflect the changes in the transaction terms. It is considered that the principal effects would relate to the hedging of interest rate risk.
- Debt modification – Debt modification, which do not include a fallback clause, may require modification. The Bank would be required to consider whether such modifications should be treated as the cancellation of existing agreements and initial recognition of new agreements, with the difference taken to profit and loss, or alternatively, be treated as continuation of existing agreements, by way of updating the effective interest rate.
- Discounting rates – the transition to alternative interest indices might lead to changes in discounting rates used as input in different models for the valuation of assets and liabilities, such as: financial instruments, leases, derivatives and impairment of non-financial assets.
- Fair value level – a number of the alternative interest indices (such as the SOFR rate) have only recently been published, and therefore no active market exists in their respect. It is therefore anticipated that contracts related to such alternative interest indices would be classified at level 2 or 3 in the fair value level.

In this respect, it is emphasized that in October 2019, the US Financial Accounting Standard Board (FASB) published Standard update ASU 2019-16 regarding the addition of the SOFR rate to the list of benchmark interest rates in the US, qualified for accounting hedge purposes. Furthermore, during 2020, the FSAB published Standard update ASU 2020-4 of the Codification regarding mitigations with respect to the effect of the reference interest reform on financial reporting. These include, inter alia, mitigations relating to changes in contract terms and to hedge accounting.

The Bank continues to follow international publications as well as Bank of Israel guidelines, and will endeavor to reduce the risks stemming from the replacement of the interest bases.

Basis exposure

General

Basis exposure is created as a result of unmatching in timing, in the basis of measurement and the investment amount with or without hedging activities.

Since capital is defined as a non-linked shekel source under accounting principles, the investment of capital in a segment other than the non-linked shekel segment is defined as basis risk exposure.

Exposure management

- Management of the basis risks and the investment of capital in the different linkage segments is based on current assessments and forecasts by various management entities at the Finance Department of the Resources Division regarding anticipated developments in the money and capital markets.
- The composition of the investment of capital in the different linkage segments is managed on a current basis subject to the restrictions, and on the basis of forecasts regarding the relevant market variables, while exploiting price differences between the cost of sources and the yield on uses in the different linkage segments and the feasibility of long or short positions in each and every segment of activity.
- In its linkage base management, the Bank uses, inter alia, derivative financial instruments as a means of neutralizing the exposure to linkage basis and interest risks.

Risk appetite

- The Board of Directors of the Bank has determined restrictions on the permitted positions (surplus or deficit) in assets and liabilities in the different linkage segments.
- In addition, Management of the Bank has prescribed individual restrictions on the extent of basis risk exposure at the level of the dealing rooms and the units that generate basis risks.

Actual basis exposure

Set out below is a description of the actual basis exposure by linkage segments (NIS millions):

	Actual basis exposure		% of active capital	
	As of December 31,		As of December 31,	
	2021	**2020**	**2021**	**2020**
Non-linked local currency	**3,906**	5,027	**37**	53
CPI-linked local currency	**3,654**	2,223	**35**	23
Foreign currency and foreign currency linked	**(103)**	(239)	**(1)**	(3)

Sensitivity of capital to changes in the exchange rate

The Bank operates in the currency markets by means of spot transactions, forward transactions and options on its own behalf and on behalf of its customers. The Bank operates using global negotiable currencies, and the total net currency exposure for the Group is low.

Most of the activity in derivative financial instruments is carried in the currency derivatives Shekel/Dollar for the Bank's customers. The Bank is not exposued in its derivative activity to material currency risks.

Set out below is the sensitivity of the Bank's capital to theoretical changes in the exchange rates of the principal currencies as of December 31, 2021 (NIS millions).

The measurement refers to the effect of changes on capital and includes activity in balance-sheet and off-balance-sheet instruments:

	Dollar	Euro
5% decrease	**(2)**	**-**
10% decrease	**(9)**	**1**
5% increase	**(1)**	**-**
10% increase	**-**	**-**

NOTES:

(1) This effect is calculated in accordance with the expected change in the economic positions managed in different currencies, given the scenarios that were determined by the Supervisor of Banks.

(2) An increase implies a strengthening of the currency in question against the shekel.

(3) The data express the effects of changes in exchange rates on fair value after the tax effect.

(4) Changes in the exchange rates of other currencies have a negligible effect on the Bank's earnings.

Sensitivity of capital to changes in the CPI

The Bank operates in the CPI market by extending uses such as loans, mortgages and the purchase of bonds and by raising CPI linked funds. In addition, the Bank performs CPI forward transactions on behalf of its customers and itself.
The Bank is not exposed in its forward activity to material CPI risks.

Set out below is the sensitivity of the Bank's capital to theoretical changes in the CPI as of December 31, 2021 (NIS millions). The measurement refers to the effect of changes on capital and includes activity in balance-sheet and off-balance-sheet instruments:

Percentage change in CPI	
3% decrease	**(66)**
3% increase	**78**

Option risk

General

Option risk is the risk of a loss deriving from changes in the parameters that affect the value of options, including standard deviations.

Risk appetite

- The Bank's foreign currency dealing room trades in a variety of financial products, including options. Apart from the restrictions set on the amount of basis and interest-rate exposure, and in view of the sensitivity of options' economic value to changes in linkage bases, interest rates and specially to changes in the volatility of the underlying assets, Management has determined additional restrictions for the dealing room's activity in options.
- Restrictions have been determined with respect to activity permitted in options in terms of maximum loss under defined scenarios. The scenarios refer to simultaneous changes in the exchange rate and in the volatility of the underlying assets. Restrictions have also been determined on the maximum changes in the value of the options portfolio in terms of sensitivity indices (GREEKS), and the maximum erosion in the fair value in extreme situations.

Exposure management

Tools for the management of exposure to options risks include a Vol-Spot sensitivity matrix, which presents the exposure deriving from a combination of scenarios on the exchange rate and volatility. Also used is an RHO interest-rate curve risk exposure scenario, which examines the change in the value of the position in the event of 1% fluctuations in the interest curve. In addition, the Bank uses a Weighted Vega model for the management of exposure to volatility risk.

Management of risks in derivative financial instruments

General

The Bank operates in a variety of derivative financial instruments as part of risk management policy (base, currency and interest exposures), and as a service to its customers. These instruments include options (including option tracks), which is the area of activity with the higher element of market risk. In this respect, the Bank is mainly active in options on the exchange rates of a number of foreign currencies against the shekel.

Rist appetite

The Bank has a policy for the management of risks in derivative instruments, including restrictions on activity volumes of option tracks containing "implied" options, and the level of the maximum loss under certain scenarios in respect of the options in which the Bank acts as a market maker.

Investment in various derivative instrument is carried out after the measurement of each instrument and its adjustments to the financial needs of the Bank and its ability to operate in an optimal manner, as well as its ability to monitor the risk attached to it, both in the market risk and in the credit risk for transactions were the Bank acts on behafe of its customers.

Foreign currency dealing room

The foreign currency dealing room trades in a wide variety of foreign currency financial instruments. In addition it was appointed by the Treasury as a chief market maker in local currency government bonds. The foreign currency dealing room is one of the most active dealing rooms in the banking system, operating in the currency market through spot transactions, interest transactions, OTC options and FX/NIS options traded on the Tel Aviv Stock Exchange.

The foreign currency dealing room acts in the main currencies however the main activity is in Dollar/Shekel.

The exposure created in the base and in the interest rate as a result of this activity is included within the restrictions approved by the Board of Directors for base and interest exposures.

Set out below is the volume of activity in derivative financial instruments (nominal value in NIS millions):

	December 31, 2021			December 31, 2020		
	Derivatives not for trading	Derivatives for trading	Total	Derivatives not for trading	Derivatives for trading	Total
Hedge transactions:						
Interest rate contracts	**3,245**	**-**	**3,245**	3,527	-	3,527
Other transactions:						
Interest rate contracts	**1,499**	**13,471**	**14,970**	1,317	14,070	15,387
Foreign currency contracts	**22,552**	**50,774**	**73,326**	15,410	58,404	73,814
Contracts on shares, share indices, commodities and other contracts	**39**	**73,789**	**73,828**	-	55,330	55,330
Total derivative financial instruments	**27,335**	**138,034**	**165,369**	20,254	127,804	148,058

Supervision and control of derivative instrument risk management

The Bank's activity in derivative financial instruments on its own behalf is controlled and supervised by the lines of defense and the exposures are reported in the risk report document.

Share price risk

Risk review and the way of managing it

The investment in shares and instruments reflecting share risk, is designated to improve the risks diversification and to vary the sources of income for the medium-long range in investing the free capital. The investment is carried out as a rule in Israeli shares traded in the TA 125 and leading share indices abroad, while performing due diligence on the worthwhileness of the investment prior to the acquisition.

Risk appetite

In addition to the regulatory restrictions regarding the volume of investment permitted to banking corporation in non-financial entities, the Board of Directors defined risk appetite for activity in shares. The Board of Directors established restrictions on the amount of investment, the mix of the investment- including restriction on the currency exposure and economic segments restrictions.

LIQUIDITY RISK

General

Liquidity risk is the risk that the Bank will have difficulty in honoring its liabilities due to unexpected withdrawals of deposits from the public, unexpected demand for credit, uncertainty regarding the availability of sources and other unexpected liabilities, including sharp decline in the value of liquid assets available to the Bank. Materialization of the risk might cause the Bank shortage in liquid means, that will force the Bank to realize assets in prices lower than the market prices and/or raise funds in a price higher than market prices and in extreme situations might endanger the stability of the Bank.

Effect of the of the Coronavirus crisis

The Coronavirus crisis has led in reaction, to the short-term lowering of interest rates by central banks and to the adoption of different monetary expansion measures and the provision of liquidity to the markets. These moves may be reduced in 2022, in view of the recovery of the economy and in view of the growth data in Israel.

Starting with the identification stage of the Coronavirus crisis, the Bank has maintained high liquidity balances, both in foreign and local currencies, in comparison with balances maintained in the ordinary course of business. Furthermore, a high liquidity coverage ratio has been maintained, exceeding the regulatory and internal levels in respect of all segments.

The liquidity coverage ratio of the Bank group for the three months ended December 31, 2021, amounted to 128%, in comparison to 150% in the three months period ended on December 31, 2020. The minimum liquidity coverage ratio required by the Supervisor of Banks amounts to 100%.

For additional information regarding the liquidity coverage ratio, see Note 24B to the financial statements.

Net stable financing ratio – NSFR

On June 21, 2021, the Supervisor of Banks published Proper Conduct of Banking Business Directive No.222 in the matter of Net stable financing ratio – NSFR. The Directive states the manner of computing the ratio, as stated in the Basel 3 Reform of the Basel Committee (BCBS). The ratio is intended to improve the long-term durability of the liquidity risk profile of banking corporations, by requiring banking corporation to maintain a stable financing ratio, in accordance with the composition of their stated assets and of their off-balance sheet operations. The ratio limits over reliance by banking corporations on short-term wholesale finance.

The NSFR contains two components: available stable financing items and required stable financing items.

Available stable financing is defined as part of the capital and liabilities that can be relied on over the time range taken into account in the NSFR, covering a period of one year. The amount of the required stable financing is a function of the nature of liquidity and the outstanding periods to redemption of the different assets held by the Bank, as well as the off-balance sheet exposures.

As from December 31, 2021 (the effective date of the Directive), the Bank is required to maintain on a current basis a NSFR equal to or higher than 100%.

The Bank holds a considerable rate of retail deposits, which in accordance with the Directive are considered as available stable finance.

Set out below is the net stable financing ratio (in percentages):

	December 31,
	2021
	percent
Net stable financing ratio (consolidated)	**147%**
Minimal net stable financing ratio required by the Supervisor of Banks	**100%**

Risk management policy

The Bank applies a comprehensive policy for the management of liquidity risk in Israeli currency and in foreign currency, at the level of the Group, the Bank and the banking subsidiary, in accordance with the requirements of Proper Conduct of Banking Business Directives Nos. 342 and 221.

The policy includes, inter alia, restrictions of the liquidity coverage ratios, minimal liquidity ratios in ordinary scenarios and in stress scenarios, and reference to measurement, supervision and control tools and the reporting mechanisms that have to be maintained as part of the current liquidity risk management.

Furthermore, the Bank has established a methodology assisting the identification of a liquidity crisis at the Bank, this in order to ensure the ability of the Bank to withstand the challenges arising from current business management, and those which might arise in case of pressure situations in the financial markets.

Risk appetite

The Bank and the Group endeavors to sustain appropriate inventory of liquid assets, concurrect with the management of uses that will produce income to the Bank.

The Bank attributes great importance to the conservative though active liquidity management of the Bank. The Bank's and the Group's risk appetite in this aspect is conservative and is expressed in the structure of assets and liabilities, in the maintenance of management, control and supervision tools allotted to this matter, and in the management and control layouts incharge of management of this risk.

Liquidity coverage ratio in accordance with Proper Conduct of Banking Business Directive No. 221

The Bank calculates the LCR (Liquidity Coverage Ratio) in accordance with Proper Conduct of Banking Business Directive No. 221, which is based on the Basel Committee recommendations.

The liquidity coverage ratio is a Standard intended to improve the short term resilience of the liquidity risk profile of the banking corporations, ensuring it by way of a requirement that banking corporations should maintain an adequate and non-pledged amount of high quality liquid assets (HQLA), which may be converted into cash in a fast and easy manner on private markets, so as to provide response to liquidity requirements in stress situations, which continues for thirty calendar days.

The Standard states a specific framework for the computation of the liquidity coverage ratio with the aim of creating uniformity on an international level.

The liquidity coverage ratio (LCR) contains two components:

(a) The value of high quality liquid assets (HQLA) under stress scenario.

(b) Total net cash outflows during the next thirty calendar days, computed according to the parameters of the stress scenario.

The ratio is computed as a proportion of the high quality liquid assets to the total net cash outflow during the next thirty calendar days. Starting from January 1, 2017 the minimal regulatory requirement for the LCR, both at the Bank level and at the Group level, is 100%. However, in times of financial stress, a banking corporation can deviate below this level, but it has to report the deviation immediately to Bank of Israel, and in certain cases, with a plan to close this deviation.

The Bank adheres to all the regulatory liquidity risk restrictions for 2021.

As part of the policy of management of financial risks, the Board of Directors adopted an internal restriction, which is stringent than the regulatory restriction for LCR, both for the banking entity solo and consolidated.

Set out below is the liquidity coverage ratio consolidated and the Bank:

	For the three months ended December 31	
	2021	**2020**
		percent
Liquidity coverage ratio consolidated data	**128%**	150%
Liquidity coverage ratio Bank data	**128%**	150%
Minimal liquidity coverage ratio as per the Supervisor of Bank	**100%**	100%

Supervision and control of Liquidity risk exposure management

The control concept applied by the Bank is that of identification, quantification and assessment of risk and control of adherence to restrictions currently prescribed by the procedures, both by exposure managers and by independent control and audit functions, with a view of ensuring the ability to face also exceptional demand and supply situations in the financial markets.

Liquidity risk exposure management is being tested and controlled on a current basis by designated committees and forums at the levels of the Board of Directors and Management in the first, second and third lines of defense.

Reporting on exposure to liquidity risks

- A daily liquidity risk report in shekels and in foreign currency is produced.
- Reporting on shekel and foreign currency liquidity risk positions in comparison with the activity frameworks and restrictions determined by the Board of Directors and authorities for their management are reported three times a week at the Current Matters Committee, which is headed by the CEO or by the financial risks manager.
- Reporting on positions is collated in the quarterly "risks document," and current brief on the exposure to liquidity risks as necessary.

Management of liquidity risk on a Group basis

The banking subsidiary is responsible for maintaining an independent policy of short term and long term liquidity management, while complying with the directives of the regulatory authorities and in conformity with its nature of operations and its liquidity needs.

In addition, the banking subsidiary adhere to its own liquidity ratio.

There are no material restriction or limitations on transfering funds within the group over and above the restrictions applying to performing transactions of any kind.

Liquidity position and the composition of assets and liabilities

The main liquid assets of the Group, which include: cash, deposits at Bank of Israel (current and monetary deposits), deposits with banks and marketable securities, amounted to NIS 71.3 billion on December 31, 2021, compared with NIS 70.0 billion at the end of 2020. Of this amount, the balance of cash, deposits with Bank of Israel and deposits with banks accounted for NIS 57.4 billion, and NIS 13.9 billion were invested in securities, principally Israel government bonds.

The ratio of deposits from the public to credit to the public, net, on December 31, 2021 amounted to 151.7% compared with 155.7% on December 31, 2020.

At the end of December 2021, deposits from the public, bonds and subordinated notes totaled NIS 156.8 billion, compared with NIS 146.1 billion at the end of 2020.

The composition of the assets and liabilities of the Bank shows high liquidity. This, as a result of the policy to raise deversified and stable funds, while emphasizing on raising sources for medium and long periods from deversified customers sectors and in different currencies.

The Bank has sources in a contractual duration for a short-medium terms, which the Bank anticipate that they will be stable for a long period of time. The uses are both for short term and medium-long term.

For information regarding details of assets and liabilities according to currency and maturity date - see note 31 to the financial statements.

Balance of deposits by the three largest depositors groups:

	As of December 31	As of December 31
	2021	**2020**
		NIS million
1	**4,436**	3,176
2	**2,689**	1,488
3	**2,275**	1,247

FINANCING RISK

General

Financing risk is the risk of shortage in financing sources and might be deriving from an unstable structure of sources in the long run to cover the anticipated uses.

The Bank has diversified stable financing sources, mainly from deposits from private and business customers, long term deposits from financial institutions, as well as issuance of bonds and subordinated capital notes.

The financing risk at the Bank is managed as part of the liquidity risk management, by imposing limitations and targeting the concentration of the financing sources, and reducing the dependence on material counter parties.

Part of the monitoring of this risk is carried out by monitoring of indicators in respect of the structure and concentration of the sources on a current basis.

OPERATIONAL RISK

General

According to the definition of Proper Conduct of Banking Business Regulations No. 350, operational risk is the risk of loss resulting from the impropriety or failure of internal processes, from individuals (including labor relation risk) or systems or resulting from external events. The definition includes legal risk, fraud and embezzlement risks, information technology, data protection and cyber risks and business continuity, but does not include strategic risk or reputation risk. (The various aspects of legal risk exposure and management are discussed extensively in a separate section).

Operational risks comprise an integral part of the overall risk layout relating to the processes of the Bank, since operational risks are structured within all types of business operations, and work procedures at the Bank, and in the cross-processes and supporting systems.

Risk management is conducted with a view of evaluating and monitoring the operational risks relating to the processes of the Bank, including embezzlement, fraud and unethical behaviour, minimizing such risks and reducing the respecting monetary damage, while considering the cost against risk reduction.

The corona crisis has intensified the operations by digital channels and as a result the Bank continues to adopt steps in order to minimize the risks derived from the growth in these operations. Also, in order to enable business continuity of units in the Bank during the fifth wave of the pandemic, some of the units were split into working capsules, and part of the activity has been transferred to remote working. Accordingly, adjustments to the working and controling processes have been made, which were examinated by all the relevant factors, including, business, risk management, data protection and cyber, compliance and legal counceling factors.

Policy

The Board of Directors of the Bank has prescribed an overall and comprehensive policy for the management of operational risks, in accordance with Proper Conduct of Banking Business Regulations 310 and 350, setting the risk appetite and outlining the control environment, the corporate frameworks and the managerial functions that will be operated for the purpose of managing and minimizing exposure to operational risks at the Bank. The policy also includes reference to a line of risk management processes, from the level of risk identification, assessment, and measurement, reduction and monitoring of the risks.

Exposure management

1. Systems and work procedures

One of the central tools for the mapping and identification of the operational risks and for controlling and supervising these risks is the operational risk survey. The survey includes the mapping and documentation of the business processes and the operational risks and controls regarding these processes, including fraud, embezzelements and unethical behaviour, also with respect to the database concerning failure events and audit findings, assessment of risks and their mitigation by implementation of new controls, reinforcement of controls, etc.

Following the findings of the risk surveys performed, the findings of the internal audit and the drawing of conclusion in respect of failure events, mechanized and other controls are combined in the different activities in the Bank, and improvement and upgrading of work processes is made.

In addition and as part of the monitoring and control infrastructure, key risk indicators (KRI) for operational risks regarding selected processes have been defined for the early detection of changes in the risk map.

2. Failure event collation

The Bank collates and documents loss events (events that caused or nearly caused a loss/profit, provision for lawsuit) for the purpose of data base for quarterly and annual analysis of trends and risk centers, for presentation to Management and the Board of Directors, for estimating the operational risks in business processes, for verifying estimates made by contents experts, for the drawing of conclusions, for a reexamination and improvement of existing controls, and for updating the risk map and for keeping a history of shortcomings.

The Group also conducts a lesson learning process also in respect of significant external events reported in the media.

3. System for measurement, estimation and management of operational risks

The Bank manages the risks map by means of a joint system for the management of operational risks and compliance risk management, which supports the methodology of management of the operational risks. The centeral data base of the system includes the mapping and documentation of the risk surveys performed in respect of the processes at the Bank, the recommended controls and the failure events.

Business continuity planning

Bank of Israel directives require the banks to take action in order to assure business continuity in an emergency. In accordance with the Proper Conduct of Banking Business Directive 355 on the subject, the Bank has made the appropriate preparations for disaster recovery and business continuity in the event of emergencies. The Bank makes preparations that are comprised of several layers: formulation of a comprehensive policy document on business continuity, a working framework in respect of business continuity detailing suitable technological infrastructures, compilation and assimilation of comprehensive plans of action and a supporting system of procedures, and exercises simulating emergency situations. The Bank has a group emergency situation room and a group emergency assessment forum under the authority of the Head of the Risk Management Division, who collates this activity at the entire Group. The forum is responsible for applying policy and procedures, and for monitoring the Group's preparations for emergencies, and convenes at least once a quarter. Management and the Board of Directors hold quarterly discussions on business continuity and preparations for emergencies. The Bank upgrades its business continuity planning on an ongoing basis. In this respect, revisions are made of all critical activities and resources required in an emergency, and the emergency scenarios and policy document are updated accordingly.

The Bank was defined by The Israeli Government as a provider of essential services, and operates, as from the end of the first quarter of 2020 according to the guidance of the health department and the Supervisor of Banks directives. In the period that the Bank operated in emergency format, the manpower that came to the bank's premises was reduced, part of the employees were split into capsules and part were working in a fromat of remote working. During the whole period, the Bank was operating in order to ensure the continuation of providing service to its customers in the different channels of operation, while adhering to the regulations and directives of the Bank of Israel. During the whole period, the emergency plans of the Bank were implemented in order to minimize the probability of contagion, including, the split of units to capsules and the improvement of the ability of remote working. The working format is updated from time to time, in accordance with the morbidity in Isreal and in accordance with the regulation and guidelines as stated above.

Information technologies risk

The risk of failure in information and/or in information and operational systems of the Bank, as well as inappropriate and insufficient support of the business services and processes required by the Bank in order to realize its business goals. In view of the fact that in recent years the technological environment is developing and dependence on it is even increasing, need has been created for enlarged business and technological flexibility and the need for increasing the use of new technologies.

The risk is being managed according to the information technology management policy and in accordance with Proper Conduct of Banking Business directive No. 357. Likewise, in accordance with Proper Conduct of Banking Business Directive No. 301, a Technologies, Innovation and Administration Committee of the Board of Directors is in operation.

Moreover, The Bank acts in accordance with the policy regarding management of new products risk, and in this framework, risk management processes are performed upon the introduction of new systems/technologies.

Risk management in an iCloud environment

The Bank applies a policy using iCloud computing within the framework of its information technology management policy, as approved by Management and the Board of Directors. The Bank acts in accordance with Directive 362 in the matter, which determines guidelines and terms required for the use by a banking corporation of the iCloud computing technology, and which emphasizes the need for risk management in respect of each of the uses of iCloud computing technology.

Data protection

Management and Board of Directors of the Bank have prescribed a detailed policy on the matter of data protection policy in accordance with Proper Conduct of Banking Business Directive 357- "Management of Data Protection" and appointed a data protection manager who is incharge of data protection risks management. The Bank performs all the reviews and mapping required to adhere to the Directive. The Bank implements Bank of Israel directives concerning the social media and implements the guidelines of the privacy protection regulations.

Data protection risks and cyber defense

In accordance with Proper Conduct of Banking Business Directive 361 concerning management of cyber defense, Management and Board of Directors of each entity in the Group defined the strategy of defending cybernetic attacks and the policy for cyber defense.

The manager of data protection of the Group was also appointed as the cyber defense manager of the Group, in accordance with a permit by the Bank of Israel.

Cyber attacks are carried out with the aim of causing large-scale damage by harming strategic services. The damage expected from such attacks could adversely affect the credibility, propriety and confidentiality of the Bank's data and/or the operative readiness of its systems. This damage could harm the business activity of the Bank and have a direct impact on the activity of its customers.

In order to cope with cyber attacks, in addition to overall data protection activity, the Bank maintains a specialized, comprehensive network for protecting against such attacks. This defense network includes human aspects, technical devices and processes for reducing the vulnerability of the Bank's infrastructures and the impact on its customers, on the basis of special attack scenarios defined by the Cyber Defense Manager.

Following the corona crisis, the exposure to possible materialization of a cyber event is growing, inter alia, due to the intensified use by customers of the digital channels and the transition to remote working of employees and suppliers. The Bank implements, on a current basis, steps to minimize the risks, including examination of solution for distant access by data protection factors, intensifying the monitoring and updating the remote-working procedure etc.

The cyber defense unit identified attack attempts, but the Group did not experience cyber attacks having a material effect on the functioning of the Group.

The Bank implements the guidelines of Proper Conduct of Banking Business Directives 363 - "Management of cyber risks in chain of supply" and 359A - "Outsourcing", which were issued by Bank of Israel, and which relate to the activity of the Bank with its service providers. In addition, the Bank complies with the control requirements of the global SWIFT Company.

Supervision, control and reporting of operational risk management

The Bank maintains a suitable system of mechanisms for the control, management, supervision and audit of the operational risk management process. Operational risk management is examined and reviewed by the Board of Directors, Management and the middle-management grades, as detailed in the risks report at the internet website of the Bank.

ENVIRONMENTAL RISK

General

Environmental risk is the risk of loss, due to both costs stemming from exposure to direct potential damage (fire, flood damage etc.) and costs stemming from transitional instructions relating to environmental matters and their enforcement. The environmental risk has implications in a number of aspects, either directly or indirectly: credit risk, market risk, compliance risk and reputation risk.

Direct effect – as a result of costs of environmental hazards, which the Bank may have to bear in respect of direct damage related to climate changes, or a monetary loss that might be caused as a result of the adoption of instructions regarding climate and environment policy, technological developments and changes in market preferences.

Indirect effect – such as on credit risk, which may stem from deterioration in the financial condition of a borrower, following environmental effects and climate changes, inter alia, following noncompliance with relevant statutory environmental requirements, due to the considerable expenditure required for compliance with environmental regulations, or due to a high monetary penalty that may be imposed regarding environmental damage, as well as the materialization of other risks related to environmental risk, such as reputation risk.

The Bank takes action for the identification and management of the environmental risk, emphasizing credit risk, while endeavoring to minimize or avoid risk stemming from environmental effects, which have a potential of damage. The Bank attributes great importance to the financing of projects/entities contributing to environmental development, such as the financing of renewable energy projects.

Risk management, policy and risk appetite

The Bank has a detailed environmental risk management policy, being part of its credit risk policy, which defines the methodology and work procedures for the monitoring of environmental risks related to the granting of credit. The Bank takes the subject into account in its decisions for extension of credit to customers belonging to economic sectors that the Bank monitors as having an especially high environmental risk, and considers the potential credit risks of these customers. Exposure of the customer to these risks affect the relevant credit decisions, and is taken into account in the overall considerations for the granting of credit. Furthermore, direct physical risks are embedded in the framework of operational risks management and business continuity. Likewise, the Risk Management Division maintains control over compliance of the Bank with environmental statutes.

The Bank takes action to identify the material environmental risks relevant to its operations, and to examine the need for setting out a line of key risk indices (KRI's) for each of these risks, while examining the integration of such risk in its general risk appetite.

Likewise, the Bank acts towards expanding the monitoring of environmental risks to which it is exposed, in order to ensure that it is integrated into all frameworks of its operations and in its risk evaluation processes, including frameworks for the management of market, liquidity, operational and reputation risks.

The Bank intends to examine the addition of physical risks and transition to stress event risks existing in its different areas of operation.

The Bank is in the midst of the process for determining specific targets and indices in relation to environmental risk.

OTHER RISKS

LEGAL RISK

General

Legal risk is included in operational risk as defined in the Proper Conduct of Banking Business Directive 350 ("Operational risk management") and includes, but is not limited to, "exposure to fines and punitive damages as the result of supervisory activity as well as private settlements." The Bank adopts an expanding approach to this definition and includes under legal risk the risk deriving from failure to observe legal directives, including regulatory directives, the risk of a loss resulting from the inability to legally enforce an agreement, risks deriving from activity without legal backing/legal advice vis-à-vis the customer, suppliers and/or other parties, risks involved in legal proceedings, and other risks that could expose the Bank to lawsuits, as well as fines and sanctions.

Risk appetite

The Bank adopts a conservative policy of a low risk appetite with respect to the conclusion of legal agreements and commitments, and carries out its business activity with suitable legal assistance and support, with strict insistence on compliance to all legislative and regulatory directives and the restrictions and obligations derived from them. Without detracting from the aforesaid, the Bank adopts a policy denying any conscious action the result of which may lead to a criminal charges or to criminal or administrative sanctions against the Bank or against any of its Officers, and also adopts a policy of zero tolerance in all matters concerning risk resulting from the violations of the provisions of law which constitute a criminal offense or an administrative offense.

Policy and exposure management

The Bank operates in accordance with a legal risk management policy, detailed in this respect are legal risk and ways of identifying, mapping and minimizing it.

The Bank's Legal Department itself, or through external legal counselors, monitors on a current basis developments in legislation, regulation and in court rulings which could affect the current activity of the Bank, and provides consultation, back-up and legal support to the Bank and its different units. The Bank endeavors to minimize risks on the basis of these developments and their implications.

In addition, the legal department conducts, as needed, updates in the legal documents used by the Bank, in framework agreements to which the Bank is a party and legal opinions, which are the basis for contracts and/or guidelines to different activities.

The legal department also acts to identify legal risks in advance, including by means of examination of any new product or activity, compiling all of the documents associated with that product/service or activity in order to minimize the legal risk involved as far as possible.

Furthermore, procedures for the operation of head office and branches were set, and instruction for their implementation are made, on a current basis, with emphasis on the legal matters involved in the operation of the Bank.

The periodic review of operational risks includes an examination of the activities of the Legal Department. Risks identified are assessed, measures for mitigating them are stipulated and lessons are learned to prevent any recurrences.

Reporting on legal risk exposure

- Exposures to legal risks are collated and reported in the quarterly Risks Document, which is discussed once every quarter by Management, by the Risk Management Committee of the Board of Director and by the Board of Directors.
- On the occurrence of a material event of a legal nature, an immediate report on the event, the extent of its impact and the manner of its impact on the Bank is submitted to the Legal Risks Manager.

The Legal Risks Manager advises on the measures that should be taken in order to minimize the level of exposure to the legal risk, and is assisted by the employees of the legal department and/or external legal counselors, the internal audit, the compliance officer and the officers in charge of the internal enforcement in securities laws and competition laws and the officer in charge of privacy protection, where required. Material events are reported immediately to the officers in charge of the internal enforcement in securities laws and competition laws.

Group management of legal risk

The Legal Department operates as a head office unit of the Group for the management of legal risks, and is responsible for defining group legal risk management policy.

Material legal risks at the Group are reported to the Manager of the Legal Department, in both immediate and periodic reports. The Group also maintains mechanisms for coordination regarding relevant legal issues and the current periodic updating of information.

RISK MANAGEMENT IN THE NIS AND FOREIGN-CURRENCY SECURITIES PORTFOLIO-MARKET AND INDEBTEDNESS RISKS

a. The Board of Directors of the Bank have determined in the financial risk policy document detailed policy and risk appetite with respect to the Bank's activity in the foreign-currency and Shekel securities portfolio, and have also determined investment restrictions and guidelines from the credit aspects and from the aspect of exposure to counter-party risks and to market risks, interest and liquidity. This policy is examined by the Board of Directors and its committees at least once a year, and in a more dynamic manner on the basis of developments in the financial markets that may affect the Bank's exposures.

b. The Bank invests only in the bonds of companies that have, as of the purchase date, a minimal investment rating as set in the policy of management of financial risks, and this after examining the quality of the issuer's credit, the market risks inherent in the investment and the bonds' liquidity.

c. Once an investment is made and as part of the management of the risks in the foreign currency and Shekel securities portfolio, the Bank monitors the macroeconomic and sector-specific developments relevant to its investments.

d. As part of the risk management supervision and control mechanisms, the Bank has devised a format for reporting on the nature and the extent of the positions in the securities portfolio managed. Reports are sent to the decision-making entities and to the control entities. The main elements of the Bank’s reporting format are:
   - Immediate reporting on discovery of a deviation from restrictions and procedures.
   - An immediate report on the opening of margins, a change in rating and any other exceptional event in the portfolio, and as necessary.
   - A weekly report to the two-days Current Matters Committee chaired by the CEO or the financial risk manager on the opening of margins, new purchases, sales and exceptional events.
   - Every second week investment meeting, chaired by the financial risk manager.
   - At least once a quarter discussion headed by the CEO, on the composition of the portfolio, developments in exposure and trends in the financial markets.
   - A report six times a year to the Board of Directors’ Risk Management Committee.
   - A quarterly report within the framework of the overall risks document.
   - A report every second month to Management's Assets and Liabilities Management Committee, which is chaired by the CEO and with the participation of the Chief Risk Officer.

   For details of the securities portfolio, see the section above on the composition and development of assets, liabilities, capital and capital adequacy, and Note 12 to the financial statements.

COMPLIANCE RISK

General

- Compliance risk is the risk of imposition of legal or regulatory sanctions, of a material financial loss or damage to image which a bank may sustain as a result of violation of compliance rules.
- Proper Conduct of Banking Business Directive No. 308 of the Supervisor of Banks requires banks to act in order to maintain all statutes and rules of conduct applying to the different banking operations of a bank. An update to the Directive published in December 2019, added the duty of studying also significant changes occurring outside of Israel regarding compliance rules enforcement policy applied outside of Israel and which apply to a banking corporation, including activity of customers. Identification and assessment processes found at the basis of the update, are to include also conclusions drawn from significant compliance events, and shall be established in the procedures of the banking corporation, or in another documented manner that would ensure their absorption in the process.
  The Bank acts for an initiated and organized gathering of foreign regulation updates relating to the main countries relevant to the cross-border operation of Bank customers.
- The compliance rules, as defined in the amendment to Directive 308 mentioned above, comprise a set of laws, regulations, regulatory instructions (for this matter also positions taken by the Supervisor of Banks in dealing with public complaints), binding legal precedence, internal procedures and the ethical code applying to the banking activity of the Bank.
- The duties applying to the Bank are cross-organization duties relating to a large variety of operations, procedures and products, conducted by the Bank on a daily basis.
- The Bank has adopted an internal enforcement program for the securities laws which is based on a comprehensive mapping of the relevant law orders and the Bank's procedures and processes, and prescribes procedures and guidelines for the continuing application of the program. This is in accordance with the criteria which the Securities Authority issued on the subject. The Bank appointed the Head of the Risk Management Division and CRO of the Bank as the supervisor on the internal enforcement program of the securities law. The Bank conducts a follow-up on the application of the internal enforcement program for the securities law, among others, by executing controls and audits in the securities laws area.
- The Bank has adopted an internal enforcement program regarding economic competition legislation. The Bank has established procedures and different processes for the continuing implementation of the program. The Bank has appointed the Chief Compliance Officer of the Bank as the function in charge of internal enforcement at the Bank of economic competition legislation. The bank performs monitoring of the execution of the enforcement program with respect to economic competition legislation, inter alia, by means of performing controls and also by taking action to absorb information in this field.
- The Bank acts for the implementation of the statutory rules regarding privacy protection. An officer in charge of privacy protection has been appointed, serving directly under the Chief Compliance Officer, and who is responsible for the implementation of an up to date control programs and for the implementation of knowledge in this area.

Policy

The Board of Directors prescribed and approved a Group compliance policy. The policy determined, inter alia, the structure of the compliance function, the various factors involved in the implementation of the policy, allocation of responsibilities for the control in the second line of defense of the various compliance requirements, in accordance with the rules prescribed in the Directive, etc.

Risk appetite

The Bank and the Group have adopted a policy of scrupulous insistence on matters relating to compliance risk. With respect to infringement of the provisions of the law and the Bank's procedures relating to the provisions of the law, the Group will monitor the compliance directives applying to it and will ensure that all of the Group's employees act in accordance with them. All of the Group's transactions will be conducted in accordance with the Bank's procedures, the ethical code and all laws and regulations. The Group endeavors to assimilate an organizational culture of honesty and ethical standards as an essential basis for the existence of a compliance culture at all levels of the organization.

Exposure management

- In order to abide by the Directive, the Bank has established a Compliance Department (hereinafter - "compliance function" or the "the function"), which is subject to the Chief Compliance Officer and serves as an independent function responsible for compliance risk management at the Bank. Moreover, the Chief Compliance Officer was also appointed as Regulation Officer ("RO") in charge of the implementation of legislation rules and instructions regarding FATCA, the aim of which is to enforce reporting mechanisms with respect to bank accounts of American citizens held outside the US, as RO in charge of verifying the implementation of the Qualified Intermediary ("QI") rules, which apply the reporting requirements and the withholding of tax from certain payments not only to accounts of American foreign residents but also to other accounts recording income from US sources, as well as officer in charge of verifying the implementation of the common reporting standards (CRS) rules, which similarly to the FATCA rules, are aimed at regularizing the manner of the automatic exchange of information between countries signing this agreement, with respect to financial accounts of foreign residents.
- The function is responsible for collating control at the Bank over adherence to the compliance rules under its responsibility, in accordance with the compliance policy and the annual work program, and for reporting on deficiencies and gaps to all echelons of authority at the Bank.
- Working alongside the Chief Compliance Office are:
    - Compliance supervisors at each of the Bank's branches and the head-office.
    - A forum for monitoring the application of statutory directives that monitors the implementation of the new compliance directives as well as discusses proposed drafts of directives, Bills, Bill Memorandums, etc.

Exposure reporting

- Quarterly report within the quarterly risk document, which includes a summary of the function's activity, recommendations, details on violations of compliance directives which were identified in the course of the period reported, recommendations regarding the measures that need to be taken with respect to preparations for applying a new compliance directive, as well as an annual detailed report summarizing his activity in the previous year.
- In addition, the compliance policy prescribed by the Board of Directors, defines immediate reports to Management and Board of Directors.

Management of compliance risk on a Group basis

The Chief Compliance Officer acts as the Head Office unit of the Group in the matter of management of compliance risks, and it is his responsibility to verify the implementation of the policy of the Group in the matter of compliance by the banking subsidiary, providing guidance and assistance to the subsidiary company in developing systems, the writing of procedures, training of staff and integration of the instructions.

Conduct risk management

Conduct risk is cross-organization risk, which extracts its normative framework from a long list of laws and regulations and which is based on fundamental values such as fairness, transparency, in the way the Bank conducts with different stakeholders.

The Group implemented the values of fairness and transparency in its activity with its customers, strengthening these values in its daily operations. In general, the Bank Group is requested to ensure that the proposals that are given to customers are customized to their needs and the services provided to the customer are without discrimination of any kind. Failing to meet the conduct risk exposes the group to different risks, among others, compliance risks, legal risk, reputation risk etc. The Bank implemented a policy regarding proper business conduct (conduct risk) as part of the compliance policy.

MONEY LAUNDERING AND TERROR FINANCING PROHIBITION RISK

General

- Money laundering and terrorism financing prohibition risk (hereinafter: “money laundering/AML“) is the risk of significant financial sanctions being imposed on the Bank due to failure to adhere to the provisions of the law in the matter of money laundering prevention and prohibition of the financing of terrorism, and the risk of the corporation and its employees being subject to criminal liability. In addition, the realization of an offence under the provisions of the law in the area of money laundering and terrorism financing prohibition could result in the materialization of reputation risk.
- The banking sector is subject to directives concerning the prevention of money laundering and the financing of terrorism which include inter alia the Money Laundering Prohibition Act, the Financing of Terrorism Prohibition Act, the Money Laundering Prohibition Order, the Financing of Terrorism Prohibition Regulations, Proper Conduct of Banking Business Directive 411 and various circulars.

Policy

The Group has an orderly policy regarding money-laundering and terrorism financing prohibition, which is approved once a year by the Board of Directors of the Bank.

Risk apetite

- The Bank operates "zero tolerence" policy concerning money laundering risks including cross border tax offences, which in its framework all the Bank's managers and employees, without any exception, including all the subsidiaries in the Group, must comply to the Law's directives and regulations applicable to the Bank and to all the Bank's procedures derived from these directives.
- The Bank group applies stringent policy to assure precise application of the law and suitable acquaintance with the customer with whom the Bank conduct its business, including understanding of his business conducted with the Bank or by the Bank, imparative for money laundering prevention and terror finance by the Bank and for the proper management of the Bank.
- The policy in the area of money laundering prevention includes clear definition of prohibitions in relation to activity with entities and countries against which there are restrictions.

Exposure management

A unit for prevention of money laundering and finance of terrorism operates within the Bank, and is responsible for the application of the law directives in this subject and their implementation.

The unit is part of the compliance unit and is subordinated to the chief compliance officer, which also serves as the officer in charge of Anti Money Laundering. The compliance department is subordinated to the Chief Risk Officer.

The roles of the person in charge of AML and finance of terror include, inter alia:

- Policy and procedures compilation and updates in accordance with changes in legislation and the provisions of the law, development and conduct of controls to ensure that the Bank is implementing the law and reports the necessary reports, sending reports on unusual transactions to the Money Laundering Prohibition Authority, and examining the application of the Bank's policy at all the auxiliary corporations in the Group and conducting and/or reviewing the existence of instructional sessions to money laundering prohibition officers and all employees, which increase the awareness to the subject.
- In order to apply the law and assiduously assimilate its provisions, the Bank has appointed compliance supervisors who also serve as money laundering prohibition supervisors at the branches responsible for current money laundering prohibition and terrorism financing prohibition activity in accordance with policy and procedures, and who are professionally subordinate to the Money Laundering Prohibition Officer.

- The Bank inspects data quality and currently adopts measures to improve it by means of control reports. The Bank also invests considerable resources in developing and upgrading computerized control systems, and allocates personnel to the unit in order to increase the efficiency of the controls.
- The Legal Department monitors legislative changes and ensures that they are sent to the Money Laundering Prohibition Officer, and provides legal support as requested by this official for the purpose of carrying out his duties with respect to the activity of the unit and the Bank as a whole.
- An advisory committee was established for the purpose of assisting the Money Laundering Prohibition Officer in his function, the main elements of which include: discussion of unusual transactions when doubts exist as to whether their details should to be sent to the Money Laundering Prohibition Authority.

In the framework of strengthening the management and supervision of AML and finance of terror risks on the background of the corona crisis, the Bank examines the layout of tools and methods used in this area and the possibility and implications of adopting "smart technologies" compatible to the standard applied in leading countries, including their adherence to the definition of "models" and accordingly will manage the model risk deriving from their use.

Exposure reporting

- Once a quarter, in the quarterly risk document, the Money Laundering Prohibition Officer reports to the Management of the Bank on his activity during the past quarter. The detailed report includes reference to the risk centers which he has identified and methods for dealing with them.
- At least once a year, the Money Laundering Prohibition Officer submits a detailed report to Management and the Board of Directors of the Bank.
- In addition, the policy prescribed by the Board of Directors defines immediate reports to Management, the Board of Directors and to the Bank of Israel.

Group management of money laundering and terrorism financing risk

The Money Laundering Prohibition Officer, the official responsible for fulfilling the requirements imposed on the Bank by the Money Laundering Prohibition Act, operates as the head office unit of the Group in connection with money laundering and terrorism financing prohibition risks. The Money Laundering Prohibition Officer is responsible for ensuring that Group policy is applied in the area of money laundering and terrorism financing prohibition at the subsidiaries, as required in Proper Conduct of Banking Business Directive 411, by guiding and assisting the subsidiaries in the construction of systems, the compilation of procedures, instructional activities and in assimilating regulations.

Cross-border risk management

The Bank Group operates in different banking fields. Among the customers served by the Bank Group, are also foreign resident customers. On background of increased efforts made by foreign countries to discover funds held by their residents outside their country of residence, and the trend for international cooperation in the combat against tax evasion, the Bank's transactions with such foreign residents, as stated, may increase exposure to compliance risk stemming from cross-border activities as well as to reputation risk.

The Bank has determined a designated policy regarding this issue, work procedures have been instituted, and decision has been taken regarding a series of operational steps for the management and reduction of risk. With respect to accounts being of a high risk from the aspect of cross-border risks, customers showing indications regarding foreign tax residency were identified and marked, and all new customers are required to sign declarations regarding their tax residency and waiver of confidentiality regarding all their accounts.

Income Tax Regulations (Application of a uniform standard for reporting and examining the appropriateness of information regarding financial accounts), 2019, which were published on February 6, 2019, integrate into the Israeli tax laws the commitments accepted by the State of Israel for the adoption of the international standard regarding the exchange of information ("the CRS standard") which was developed by the Organization of Economic Cooperation (OECD), in order to automaticly exchange information on annual basis, in order to provide mutual assistance in tax enforcement between countries.

The FATCA rules – compliance with the provisions of the local legislation enacting the rules prescribed by US Law and which are embedded into the bilateral agreement between the United States and Israel. Within the framework of the provisions of this Directive, the Bank conducts internal processes for the identification and documentation of accounts belonging to US residents, including the reporting thereon at each September, in respect of the previous tax year, to the US Tax Authorities. The reporting is made by way of the Israeli Tax Authority, as required by the Directive. In this respect, and in accordance with the legislative rules, since the entry into effect of the Regulations, the Bank allows the opening of a new account on condition of the signing by the customer of a declaration regarding his tax residency.

REPUTATION RISK

General

Reputation risk is the risk stemming from a negative perception on the part of customers, counterparties, shareholders, investors, bondholders, analysts, and relevant regulatory or other factors, which may adversely affect the ability of a banking corporation to maintain existing business relations, or establish new relations, or to enjoy continuous access to financial resources.

Risk appetite

The group has low tolerance to reputation risk, that might have an impact on its stability, including threats deriving from the perception of the Bank. Furthermore, the Bank sees a positive perception as a major asset, therefore it will act to prevent the materialization of the reputation risk that might reach a crisis scenario and will try to minimize the materialization of reputation risks, as much as possible.

Policy and exposure management

The Bank has a policy for the management of the risk that includes: identifying and monitoring after the risk factors and compilation of prevention activity, early identification of potential reputation events, continuous monitoring of the risk and its management.

Exposure reporting

The Bank has a detailed layout of reporting requirement concerning the reputation risk including immediate reports. The reporting layout defines, inter alia, who is responsible to report, its frequency and its recipients.

The Bank's spokesperson is envolved in publication of notices and material reports to the Stock Exchange, with emphasis on notifications with a potential threat or an impact on the Bank's reputation, such as profit warning, material appointments, material transactions, etc.

In the quarterly risk document, major matters which concern the reputation risk, are being reported.

Management on a Group basis

Subsidiary companies in the Group, including nonbanking subsidiaries, adopt the above stated policy with required modifications. Each subsidiary or marketing brand, is responsible for putting a special emphsis on its core populations. Each subsidiary of marketing brand, has appointed a Reputation Risk Manager, who is responsible for the reputation risk management as prescribed in the policy document. The spokesperson of the Bank serves also as spokesperson for the Group, and accordingly, every material contact with the media regarding the operations of the Group and/or the banks, is reported and coordinated in advance with the spokesperson.

STRATEGY RISK

General

Strategy risk is the risk of present or future implications on earnings, capital and reputation or position resulting from erroneous business decisions, from the improper implementation of decisions or from the failure to respond to sector-specific, regulatory, economic or technological developments. The risk is a function of correlation between the Bank's strategic objectives, the business strategies that were developed for achieving these objectives, the resources that were allocated to these objectives and the quality of their implementation.

Policy and exposure management

The goals of the strategy risk management policy are:

- To assure the correlation between the Bank's strategic objectives to: annual work plans; the resources that were allocated to these objectives (among others, capital resources as part of the capital planning of the Bank); implementation of strategic decisions.
- The ability to monitor the strategy risk, which allow early identification of the gaps in materialization of strategy planning: erroneous decisions/business plans; inappropriate implementation of strategic decisions; sector, economic, technology and regulatory changes.

Risk appetite

The group has low tolerance to strategic risk, due to the critical impact it might have on the Bank's stability and business achievements. The Group embrace business strategy characterized by high level of cautious and conservativity.
The Group implements control procedures in order to minimize the exposure to exceptional risks.

Exposure reporting

The Bank has a detailed layout of reporting requirement concerning the strategy risk along the different lines of defense.
In the framework of the quarterly risk document, major matters in respect of the strategy risk are being reported.

Group management of strategy risk

The banking subsidiary adopts the Bank's policy, with emphasis to its unique characteristics, in the process of the strategy planning.

Regulatory risk

This risk stems from the trend of increasing regulatory requirements in recent years in Israel and over the world. The said regulatory changes and the implementation of regulatory reforms increase uncertainty and competition in the financial sector and creates risks to the income and equity of the Group, including by way of preventing or imposing restrictions on business activity and loss of income. The changes also require preparation, implementation and integration, which may result in heavy costs and investments (such as investment in computer systems) for the Bank. Furthermore, noncompliance with the provisions of the law and regulations applying to the Bank and to the Group exposes them to sanctions, including monetary sanctions, claims by customers, including class action suits, subjecting the banking corporation and its officers to criminal responsibility, as well as impairment of the public image of the Bank. The regulatory risk is managed by the Bank as part of the legal risk, the compliance risk and the strategy risk.
The compliance policy of the Bank establishes, inter alia, the compliance values promoted by the Bank, serves as a guiding line for the activity of all functions at the Bank in the management of compliance risks in general and in complying with all regulatory instructions in particular, outlining principles and basic concepts and establishing the authority and areas of responsibility of the different functions at the Bank and at the Group, for the purpose of forming an appropriate infrastructure for the implementation of the duties applying to the Bank and the Group as regards compliance and their regulation in

procedures and processes. The regulatory-legal aspects are supervised and managed by the legal counseling group within the framework of the policy for the management of legal risk, as approved by Management and the Board of Directors. The policy regularizes the manner of identifying, mapping and reducing the legal risk, including by way of the current monitoring of developments in legislation, regulations and Court decisions, providing current legal advice and support on basis of such developments.

From the strategic aspect - the strategic program and the work plan relate to the possible implications mentioned above, and take into consideration the said changes.

For details regarding material regulatory initiatives having an impact on the operations of the Bank in the reported period, see the Chapter "Legislation and regulatory " in the "Corporate Governance - Additional Details" part.

MODEL RISK

General

Model risk is defined as the potential for negative implications stemming from decisions that had been made based on erroneous model products, or the wrong use made of model products. The model risk may lead to financial loss, erroneous business decisions or damage to the reputation of the Bank.

Risk management policy

The Bank has a model risk management policy (MRM) that details and defines a comprehensive model validation framework, which includes different tools aimed at reducing model risk, preventing incorrect use of the model and preventing model results risks.

Risk appetite

The Bank has low tolerance to model risk and to the extent possible, the Bank acts to minimize the model risks, while considering costs as against the reduction of the risk. Tolerance to risk at the Bank is measured in accordance with the methodology for the assessment of model risk, which relates to the origin of the risk, the mutual relations between models, as well as according to the quality of the tools for validation of the models.

DISCUSSION OF RISK FACTORS

The degree of impact of the risk factors was determined in line with the Bank's methodology in the ICAAP process and in the risk document. The methodology takes into account the risk level and any development in the Bank's risk profile vis-à-vis the specified risk appetite and the risk management quality.

Each risk factor appearing in the table was examined, on its own, and on the assumption of non-dependence between one risk factor and other risk factors appearing in the table.

	Risk	Effect	Risk level
1.	**Market risks**	Market risk is the actual or future existence of a risk to a loss or impairment deriving from a change in the economic value of a financial instrument, specific portfolio or group of portfolios and on comprehensive level, due to changes in prices, rates, spreads and other parameters in the markets.	Low-Medium
1.1	**Interest risk**	Interest risk is the risk to earnings or to capital stemming from fluctuations in interest rates. Changes in interest rates, affect the earnings of the Bank by changes in net income, and the value of the assets of the Bank, its liabilities and off-balance sheet instruments, due to changes in the present value of future cash flows (or even the cash flows themselves) following changes in interest rates. Interest rate risk to which the Bank is exposed to include: the risk of repricing, yield curve risk, base (spread) risk and option risk. Interest ate in the portfolio is the dominant risk to which the Bank is exposed in respect to the effect on the fair value of the assets and liabilities and on the profit.	Low-Medium
1.2	**Inflation risk**	Risk to a loss that could materialize as the result of unexpected changes in the consumer price index.	Low
1.3	**Exchange rate risk**	Exchange rate risk is the actual or future risk to a loss that could materialize as the result of unexpected changes in exchange rates.	Low
1.4	**Share/Option risk**	Share price risk is a risk to a loss as a result of changes in the shares' price or shares' index. Option risk is the actual or future risk to a loss that could materialize as the result of changes in the parameters affecting the value of options, including standard deviation. The level of risk in the third quarter was raised from "low" to "low-medium" on background of the continuing growth trend in exposure of the Bank to investment in shares channel.	Low-Medium
2.	**Liquidity risk**	Liquidity risk is the actual or future risk that the Bank will have difficulty in supplying liquidity requirements in exceptional demand and supply situations, including unexpected liabilities, including a steep decline in value of assets available to the Bank, unexpected withdrawals, unexpected demand for credit and uncertainty regarding the availability of sources.	Low
3.	**Credit risk**	Credit risk is the risk of borrowers or counterparty will not fulfil their obligations to the Bank. In the framework of the overall credit risk assessment, weighing of all factors affecting the risk level is carried out, amongst them, the volume of exposure, effect of quality of borrowers and collateral and effect of sector concentration, including the risk embedded in the credit to construction and real estate sector, which is raising in Israel in recent years, in light of the increase in the volume of exposures.	Medium
3.1	**Quality of borrowers and collateral**	The actual or future risk of erosion in the value of Group assets, income and equity that could materialize as the result of a decrease in the quality of borrowers against the background of a deterioration in their repayment ability, and/or in the value and quality of the collateral which they provided as security for credit.	Medium
3.2	**Sector concentration**	Actual or future risk of impact to the value of Group assets, income and equity resulting from a high volume of credit granted to borrowers in a certain sector and/or investment in instruments sensitive to the sector. Deterioration in the business activity of such a sector, due to changes in supply or demand, changes in raw material prices, geopolitical developments and regulatory developments may impact the repayment ability and/or value of collateral provided by part of the borrowers in that sector, and may therefore adversely affect the value of the Group's assets and profitability.	Low

	Risk	Effect	Risk level
3.3	**Borrower and borrower group concentration**	Actual or future risk of impact to the value of the Group's assets, income and capital due to deterioration in the position of a large borrower/large group of borrowers relative to the credit portfolio, which could adversely affect the chance of collecting the credit, and therefore also the value of the Group's assets and profitability. The effect of the risk is a function inter alia of the borrower groups' internal composition, the extent to which the companies comprising them are connected from the business or sector-specific aspect, their diversification, and the extent to which problems at one of them will affect the others.	Low
4.	**Operational risk**	Operational risk is risk to a loss due to the impropriety or failure of internal processes, persons (including labor relations) and systems, or due to external events. The definition includes fraud and embezzlement risks, information security risks, cyber and business continuity and legal risks, but does not include strategic risk or reputation risk.	Medium
4.1	**Cyber and data protection risk**	This risk (being part of operating risk) is separately assessed in view of increasing events around the world and in the financial system in particular, and in view of the expanding digital activity. The risk is defined as a potential for the damage stemming from a cyber event, considering the level of likelihood and severity of its implications. In the fourth quarter of 2021, the risk level was raised from "medium" to "medium- high" on the background of the increase in cybernetic events in Israel and around the world, in light of the use of new technologies, open systems and cloud computing and in light of the identification of the risk as evolving risk and as a derivative of the increase in the risk environment. The level of the operational risk was unchanged	Medium-high
4.2	**Information technology risk**	This risk (being part of operating risk) is separately assessed because the technological environment is complex and variable and dependence on it is increasing. In recent years the risk has intensified in view of the need to increase business and technological flexibility as well as increasing the use of new technologies.	Medium
5.	**Legal risk**	Legal risk is included under operational risk as this is defined in Proper Conduct of Banking Business Directive 350 ("Operational risk management") and includes, but not only, "exposure to fines, penalties or punitive damages as the result of supervisory activity as well as private settlements". The level of risk was raised in the second quarter of the year from "low" to "low-medium", on background of the many legislation and regulation proceedings in the field of banking, and the increase in the number of new motions for approval of class action suits submitted against banks in Israel.	Low-medium
6.	**Reputation risk**	Reputation risk is the risk stemming from a negative perception on the part of customers, counterparties, shareholders, investors, bondholders, analysts, and relevant regulatory or other factors, which may adversely affect the ability of a banking corporation to maintain existing business relations, or establish new relations, or to enjoy continuous access to financial resources. Reputation risk is materially affected from the materialization of interfacing risks such as operational risk, credit risk, compliance risk, anti-money laundering and finance of terror risks and more, the publication of which might cause the materialization of the reputation risk (for example: theft & embezzlement event, money laundering events, cyber event, high financial loss, etc.).	Low-medium
7.	**Legislative and regulatory risk**	Legislative and regulatory risk is the actual or future existence of a risk to the Group's income and capital that could arise from changes in regulation or legislation which could affect the Group's business activity. The Bank, as a banking corporation, and the companies held by it are subject to numerous regulatory provisions that are reflected in legislation, secondary legislation and the policy of supervisory and enforcement authorities, such as the Supervisor of Banks at the Bank of Israel, the Capital Market and Savings Division at the Ministry of Finance, the Securities Authority, the Antitrust Commission, and statutory bodies in the area of consumer protection. The computerization field is also sensitive to changes in legislation and regulation, in view of the frequent upgrades and modifications that are required in respect of computer systems. Frequent changes and/or innovations in legislation and the authorities' policy occur in these areas. Such changes in legislation and in the policy of the supervisory and enforcement authorities could affect the Group's business activity, and usually require investments and the expenditure of resources in order to adapt activity to these changes. The investments need to be made in systems and in the training of personnel.	Medium

	Risk	Effect	Risk level
8.	**Compliance, money laundering and terrorism financing prohibition risks**	Compliance risk is the risk for a legal or regulatory sanction, a material financial loss or damage to the Bank's image, as a result of failing to comply with the compliance provisions. Compliance risk includes the risk of failure to meet the consumer provisions specified in the Proper Banking Business Conduct Directive 308, the risk of failure to meet the provisions of the Money Laundering and Terrorist Financing Prohibition Law, the risk of failure to comply with the provisions of the Internal Enforcement Plan in securities laws, the risk of failure to comply with the provisions of the Internal Enforcement Plan in competition legislation, the risk of failure to comply with the provisions of privacy protection legislation and the risks arising from activity vis-à-vis foreign residents. This risk also includes conduct risk, which is a cross organization risk that draws its normative outline from a long list of legislation and regulation directives and based on basic values such as fairness and transparency in the manner the Bank operates with different stakeholders. Stricter regulations and enforcement by the tax authorities in different countries, designed to locate offshore accounts of residents could impact clients' behaviour patterns and expose the Bank to compliance risk, reputation risk and cross-border compliance risks. Money laundering and terrorism financing prohibition risk (hereinafter: "money laundering/AML ") is the risk of significant financial sanctions being imposed on the Bank due to failure to adhere to the provisions of the law in the matter of money laundering prevention and prohibition of the financing of terrorism, and the risk of the corporation and its employees being subject to criminal liability. In addition, the commitment of an offence under the provisions of the law in the area of money laundering and terrorism financing prohibition could result in the materialization of reputation risk. The degree of impact of compliance, money laundering and terror funding risks affects all areas of operation of the Bank, including administrative enforcement and international regulation in tax matters, including FATCA and CRS.	Medium
9.	**Strategy risk**	Strategy risk is the risk of present or future implications on earnings, capital and reputation or position resulting from erroneous business decisions, from the improper implementation of decisions or from the failure to respond to sector-specific, economic or technological developments. The risk is a function of correlation between the Bank's strategic objectives, the business strategies that were developed for achieving these objectives, the resources that were allocated to these objectives and the quality of their implementation. The strategy risk includes also competition risk, stemming from exposure of the Bank Group to competition in Israel in all segments of the Group's operations. In the course of its current operations, the Bank Group faces competitive factors, which include banking corporations and other financial bodies that provide alternative financial products to those provided by it. The competition risk reflects the risk of erosion in profitability and in equity, on background of the competitive pressure to lower the level of commissions and margins.	Medium
10.	**Model risk**	Defined as a potential for negative implications of decisions made in the basis of erroneous model products, or incorrect use made of model products. Model risk may lead to financial loss, making erroneous business decisions, or damage to the reputation of the Bank.	Low

The Bank takes specific measures to minimize the risks described above. In addition, a detailed policy was determined for the management of the exposures and risks, that include inter alia, definition of specific risk appetite, limitations on the exposure, different control mechanisms, reporting outlines, etc. Furthermore, also existing is a layout of procedures implemented by the Bank , as well as supporting computer systems.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

GENERAL

The financial statements of the Bank are prepared in accordance with accounting principles and accounting regulations, the main elements of which are detailed in Note 1 to the financial statements.

The financial statements include the results of calculations, assumptions and estimates relating to activities, events and developments that affect the profitability of the Bank. The Bank's Management bases its estimates on subjective assumptions and estimates compiled by employees and external professional entities with proficiency and expertise in the areas in which the estimates are required.

The external professionals and the employees engaged in the supervision, control and preparation of the estimates and assumptions regarding matters that are defined as having a critical effect on the financial results of the Bank do not, to the extent possible, have any involvement and current business relations with the entity or the matter that is the subject of the estimate.

The Management and the Board of Directors of the Bank believe that the estimates and assessments regarding critical accounting policy matters were made in accordance with the best knowledge and judgment of the professional entities engaged in their preparation, and that they were applied in an appropriate manner in the financial statements of the Bank.

The following is a condensed review of the areas in which the Management of the Bank is required to make accounting assessments and estimates regarding matters whose impact on earnings and loss is likely to be critical and material. Changes in assessments and estimates regarding the matters described below, including actual results of an event that may differ from the estimate made in respect of it, could have a material effect on the financial results of the Bank and on the structure of its assets and liabilities (including contingent liabilities).

a. Provision for credit losses

The process of evaluating the loss inherent in the credit portfolio, is based on significant assessments involving uncertainty and on subjective assumptions, and changes in assessments or in assumptions that may have a material effect on the provision for credit losses.

The provision for credit losses is assessed using one of two alternatives: specific provision or collective provision.

The specific provision, which is relevant for problematic debts under the classification of "impaired," is made on the basis of the Management's assessments regarding the losses inherent in the balance-sheet and off-balance-sheet credit portfolio. This provision is estimated by means of the difference between the recorded balance of the debt and the present value of the receipts expected on repayment of the debt, or the fair value of the collateral.

Estimation of the receipts expected on repayment of the debt is based upon the diverse relevant sources of repayment, including the borrower's business activity, the value of the collateral provided by the borrower, and the realization value of the guarantees provided by the borrower or by third parties, and requires the use of discretion and estimates which the Management of the Bank regards as reasonable when assessed, although there is naturally no certainty that the amounts actually received will be the same as the estimates that were determined.

The collective provision is computed in order to reflect provisions for impairment in respect of unidentified specific credit losses inherent in large groups of small debts having similar risk characteristics, as well as in respect of debts specifically examined and found unimpaired.

The collective provision is computed in accordance with directives of the Supervisor of Banks, by multiplying the determined rate of the provision by the balance of debts, including off-balance sheet financial instruments, which are multiplied by conversion coefficients into relevant credit.

The rates for the collective provision are determined at the level of the economic sector, differentiating between the provision coefficient relating to performing credit and the provision coefficient relating to problematic credit, credit classified as "under special supervision" or "substandard" credit.

The rates of the collective provision include the totals of two components:

The first component is computed on the basis of the average rates of the net historical accounting write-offs, over the period beginning on January 1, 2011 and ending on the date of reporting, or an average providing excess weight to the rate of the net accounting write-offs in the last year, the higher of the two.

The second component is a "qualitative adjustment", the purpose of which is to adjust the rates of the collective provision, in a conservative and careful manner, to environmental factors, which have an effect on the risk inherent in the credit portfolio of the Bank. In order to determine the "qualitative adjustment", the Bank bases itself on designated models developed by it, which assess the risk at the economic sector level. The environmental factors relate to different aspects, including changes in the scope of credit, changes in the volume of problematic debts, the quality of controls, the concentration of credit, regional, countrywide and sector trends and more.

Each environmental factor contains indicators relevant to the quantifying of the risk belonging to it, and based on a consistent system which determines the weight alloted to each indicator, whether the indicator is expected to increase or reduce the required adjustment, and whether it is relevant to the total credit portfolio or to a certain group of debts.

In addition to the quantitative measurement according to the models, as stated, the Bank examines in each quarter, in a subjective manner, the need for a further increase in the collective provision coefficients, taking into consideration developments in the business environment and additional indicators relevant to the level of risk inherent in the credit portfolio, and to the extent required, updates accordingly, the collective provision coefficients.

During 2020, in view of the high uncertainty created by the Coronavirus crisis, the Bank has increased by significant rates the qualitative adjustment produced by the quantitative models.

Starting with the second quarter of 2021, in view of the possitive developments in the economy, reflected in the ability to manage the pandemic without imposing severe restriction on the economic activity, in adaptation to conduct continuous economic activity alongside the existence of the pandemic, in positive macro-economic parameters, such as: encouraging growth data and reduction in unemployment, the Bank has reduced in part the subjective increased imposed during the crisis. However, within the framework of the considerations for determining the level of provision as of December 31, 2021, the uncertainty and lack of clarity that still exists with respect to the impact of the Corona crisis on the level of credit risk of the borrowers, were taken into account.

As stated, within the framework of the process for the determination of the provision for credit losses, reference is made by the Bank to a wide range of data, part of which is internal to the Bank and another part includes, inter alia, macro-economic indicators. From the aspect of the macro-economic indicators, the Bank based its assumptions as of December 31, 2021, on the forecast of the Research Division of Bank of Israel, published on January 3, 2022, according to which it was estimated, inter alia, that the growth is anticipated to amount to a positive annual rate of 5.5% in 2022, and that the wide average rate of unemployment is expected to decline to a level of 5.4% in 2022.

It should be remembered that the macro values, as stated, form a part of the wide set of parameters, assessments and subjective estimates used in the process of determining the provision for credit losses, and that changes in assessments and subjective estimates might significantly tilt the balance of the collective provision for credit losses.

For the purpose of testing the sensitivity of the provision for credit losses to assumptions and assessments that are different than those mentioned in the forecast of the Research Department of Bank of Israel, as stated, and which had been used in determining the provision for credit losses at December 31, 2021, the Bank has examined additional scenarios. Within the framework of the additional scenarios which had been examined for the purpose of analysing the said sensitivity, as stated, the Bank had on the one hand assumed stricter scenarios, which include higher levels of unemployment and lower GDP growth rates than those used in the actual calculation of the collective provision, while on the other hand, mitigating scenarios, which include lower rates of unemployment and higher growth rates than those used in the actual calculation of the collective provision. Within the framework of the sensitivity analysis, as stated, the results of which are based on highly subjective assessments, it became apparent that the credit loss provision as of December 31, 2021, might have increased under the stricter senarios by up to an amount of NIS 35 million, and under the mitigated scenarios it might have been reduced by an amount of up to NIS 30 million.

It is emphasized that the credit loss expense depends on a wide range of factors in respect of which uncertainty exists, where on the one hand, the slower rate of recovery of the economy may result in a higher provision for losses, and on the other hand, existence of moderating factors, such as a higher rate of recovery of the economy, as well as internal factors at the Bank, such as the quality of the credit underwriting process, the quality of the collateral and of control mechanisms, may result in a reduction in the level of expense.

Assessment of the provision for credit losses requires Management to use assessments and estimates, which are generally based upon economic forecasts, estimates regarding the markets and assessment of their effect of credit risk and on the future realization of credit losses. Use of assessments and estimates requires the use of discretion, which Management believes to be reasonable at date of signing the financial statements. Notwithstanding that, and in the nature of things, there is no certainty that the credit losses that might arise in the future with respect to the existing credit portfolio, would be identical to the assessments and estimates made.

Estimates made by the Bank are considered forward-looking information, as defined by the Securities Act, 1968, which is based, inter alia, on information, publications by third parties and assessments existing in the hands of the Bank at this date. Such assessments are uncertain and might be realized in a materially different form than that described above, inter alia, depending on additional variants of the virus, that might develop, the danger it presents, the effectiveness of vaccination, conduct and approch of policy makers and on many additional parameters.

With respect to the adoption as from January 1, 2022, of updates to accounting principles accepted by US banks in the matter of the provision for anticipated credit losses (CECL), see Note 1E to the financial statements.

b. Lawsuits and contingent liabilities

Risk assessment and accounting procedures reflecting lawsuits and contingent liabilities are carried out at the best judgment of the lawyer dealing with the matter, based on his proficiency in and knowledge of the law and court rulings, his experience in legal work, acquaintance with banking activity and, in cases of clear uncertainty, review of the factual basis. The process of risk assessment is monitored by the Head of the Litigation Section in the Legal Department. When large amounts are involved, the process is also reviewed by a committee chaired by the Manager of the Bank's Legal Department.

In order to achieve this objective, the Legal Department acts in several areas:

1. Knowledge of the general law.
   The Legal Department diligently updates itself on current legislation and court rulings, a matter that is reflected in the internal procedures of the Department. Special attention is paid to matters that may have implications for the diverse activities of the Bank, including the drawing of conclusions and recommendations for action following relevant events that have occurred at other banks.
2. The processing of claims and complaints against the Bank.
   Lawsuits in various matters are pending against the Bank (including requests for approval of several of them as class actions), including: capital market, bank-customer relations, lack of representation, etc.

The Legal Department deals with all of the claims against the Bank, by itself and via external lawyers who are assisted and supervised by the Legal Department as needed. A risk assessment is carried in respect of every lawsuit in an amount exceeding Dollar 10,000, and in respect of every legal action (without a minimum amount). A committee headed by the Bank's Chief Legal Counsel periodically reviews the assessment of the risk in complaints and claims whose overall amount exceeds NIS 5 million. Estimates of the Bank's exposure to claims and contingent liabilities, in respect of which a provision has to be made, or where disclosure is required with respect to the extent of exposure inherent in them, are made in cooperation with the relevant professional entities at the Bank. The CEO receives in the case of material claim an immediate report, a monthly report on updates and material changes that have occurred in the claims and complaints filed against the Bank when these exceed a certain amount, as well as a quarterly report on revisions and changes as stated in all of the claims and complaints filed against the Bank.

Regarding the majority of claims and contingent liabilities, estimates exist on the extent of the Bank's risk, and provisions are made accordingly.

As to the disclosure format of legal claims see Note 1.d.(16) to the financial statements.

c. Employee rights

Employees at some companies in the Group, including the Bank, are entitled to certain benefits in the course of their employment, after leaving their employment and on retirement. These benefits include, among other:

- Post retirement and employment defined benefits schemes - Severance compensation, pension, retiree benefits and other.
- Other benefits (for some companies in the Group) - seniority awards and benefits in respect of unutilized sick leave.

Liabilities in respect of such benefits are computed on an actuarial basis. The actuarial calculations are based on a number of parameters, including the probability that all the conditions for payment will be fulfilled - life expectancy, retirement age, employees rate of resignation from the Bank before formal retirement age, the expected rate of increase in salary, and the discount rate. The discount rate is determined on the basis of the return on Israeli government bonds, with the addition of a margin that equals the difference between the rate of return to redemption on US corporate bonds rated "AA" and above and the rates of return to redemption on US government bonds.

The following is a sensitivity analysis of the effect of a change in the principal parameters on the calculation of the actuarial provisions:

	December 31, 2021	
	Increase of 1%	Decrease of 1%
		NIS million
Effect of change in Salary on:		
Actuarial liabilities for pension and severance payments	**87**	**(72)**
Other post-employment and retirement benefits	**2**	**(1)**
Benefit in respect of nonutilized sick leave	**4**	**(3)**
Effect of change in discount rate on:		
Actuarial liabilities for pension and severance payments	**(74)**	**90**
Other post-employment and retirement benefits	**(41)**	**55**
Benefit in respect of nonutilized sick leave	**(3)**	**4**
Staff long service awards	**(1)**	**1**
Effect of change in rate of employees leaving on:		
Actuarial liabilities for pension and severance payments	**121**	**(102)**
Other post-employment and retirement benefits	**(1)**	**2**
Benefit in respect of nonutilized sick leave	**(6)**	**4**
Staff long service awards	**(3)**	**1**

The effect of the change in the principal parameters on the post-retirement and employment defined benefits schemes - severance compensation, pension, benefits to retirees and other, are recognized in other comprehensive profit.

The effect of the change in the principal parameters on benefits - seniority awards and benefits in respect of unutilized sick leave, are recognized in profit and loss.

The Opinion of the actuary is available for review on the MAGNA website of the Securities Authority, and on the MAYA website of the Tel Aviv Stock Exchange.

d. Assessment of the fair value of derivative financial instruments

The Bank conducts large-scale activity in derivative financial instruments, which are presented in the financial statements on the basis of fair value as distinct from value on the basis of the accrual principle.

Since 2012, the Bank has applied ASC 820 principles for the measurement of the fair value of derivative financial instruments.

ASC 820 defines fair value as the price that would have been obtained from the sale of an asset or that would have been paid in order to discharge a liability in a transaction between a voluntary seller and a voluntary buyer at the date of measurement. For the purpose of fair value assessment, the accounting standard requires the maximum possible use of observed data and the minimum possible use of unobserved data. Observed data represent market information data that are obtained from independent sources, while unobserved data reflect the banking corporation's assumptions.

The use of these data types create the following scale of fair value:

- Level 1 data - prices quoted from an active market.
- Level 2 data - prices derived from estimation models in which the significant data are observed in the market or are supported by observed market data.
- Level 3 data - prices derived from estimation models in which one or more of the data are unobserved.

Derivative financial instruments that have a main market were assessed on the basis of market value as set in the main market and in the absence of a main market, on the basis of the market price quoted in the most effective market. Derivative financial instruments that are not traded were estimated on the basis of models which the Bank uses in its current activity and which take into account the risks inherent in the derivative financial instrument (such as market risk and credit risk). Calculations of the fair value of derivative financial instruments in respect of their foreign-currency component are based on data prevailing in the international money markets and in the local market, and in respect of the local currency component, on unlinked interest rates and CPI-linked interest rates, taking into account the market prices, liquidity and tradability in the local market for the type of instrument in question and the period of the transaction. Interest rates under ASC 820 are uniform, whether the value of the instruments constitutes an asset at the Bank or if it constitutes a liability. (There is no spread between the buy/sell interest rates.) The credit risk implied in derivative financial instruments is expressed by the fair value by the inclusion of a risk premium in the calculation of the value.

A risk premium is included in the calculation of all transactions. In transactions whose fair value constitutes an asset, the credit risk premium of the counter-party to the transaction is included; and in transactions whose fair value constitutes a liability, the Bank's risk premium is included.

The credit risk premium of the local banks and foreign banks was accepted from external entities which rely on debt instruments and credit derivatives that are traded on an active market.

As for the rest of the customers, the risk premium was determined on the basis of an internal model for grading the quality of the customers and their credit risk.

The fair value of options is for the most part based on a Black and Scholes model, and is affected by the volatility implied in exchange rates, the interest rate and the indexes relevant to the option which the Bank purchased or wrote. Foreign currency-shekel exchange rate volatility data and foreign currency-foreign currency exchange rate volatility data are determined by an external company that specializes in the revaluation of options on the basis of data derived from the money markets in Israel and abroad. With respect to complex derivative financial instruments that do not have a tradable market, fair value quotations are usually obtained from entities abroad, and their reasonability is examined by the Bank's dealing rooms.

For additional details regarding fair value of derivative financial instruments, see Notes 27(a), 27(b) and 32B.

e. Fair value of securities

The Bank’s activity in not for trading shares which have available fair value, bonds in the portfolio available for sale and in the securities portfolio for trading is measured in the balance sheet on the basis of their fair value.

See Note 1.d.(8) and Note 1.d.(9) to the financial statements regarding the determination of fair value of securities and other than temporary impairment.

Determination of the fair value of the foreign-currency bond nostro portfolio

The fair value is determined in the middle office of the Financial division of the Bank. In its pricing of Eurobonds and MBS bonds, the Bank relies on a quotation from an independent external source that provides quotations to numerous large financial institutions worldwide.

The Eurobonds portfolio

The external quotation supplier provides the Bank with daily data on credit margins with respect to all the securities existing in the portfolio. The middle office carries out a reasonability test of the credit margins, by such means as examining the reasonability of a quotation from the Bloomberg system with respect to transactions that were conducted in an amount of securities approximating to the Bank's total investment in a security, examining the correlation with the margins inherent in relevant credit default swaps (CDS), and examining the reasonability with respect to the same issuer's bonds with redemption dates approximating to the redemption date of the held bond. In cases where no such indications exist, a quotation is requested from an external broker.

Sensitivity analysis

According to the Bank's calculations, an increase (decrease) of 0.05% in the interest margin deriving from the bond issuers' credit risk, with respect to the Bank's foreign-currency portfolio, which is based on quotations obtained from an external price supplier, will have the effect of reducing (increasing) the bonds' revaluation by NIS 8 million.

As regards securities whose fair value is determined on the basis of stock exchange prices, these do not necessarily reflect the price obtained from the sale of securities at large amounts.

For additional details regarding fair value of securities, See Nores 12 and 32B.

CONTROLS AND PROCEDURES

ASSESSMENT OF CONTROLS AND PROCEDURES CONCERNING DISCLOSURE IN THE FINANCIAL REPORT

In accordance with the Supervisor of Banks' directives for reporting to the public and the guidelines of Proper Conduct of Banking Business Regulation 309 that was issued in September 2008, the Bank has maintained controls and procedures regarding disclosure, and has deployed an internal control network for financial reporting.

The directives, which concern Management's responsibility on the internal control of financial reporting and the external auditor's statement of opinion regarding the audit of the internal control of financial reporting, were compiled in accordance with the provisions of Sections 302 and 404 of the law known as the Sarbanes-Oxley Act of 2002 that was enacted in the USA, and directives and guidelines that were determined in the USA, including those determined by the PCAOB.

Enclosed with the financial statements are report of Management and the Board of Directors in respect of internal control over financial reporting as well as declarations by the CEO of the Bank and the Chief Accountant, each one separately, concerning the assessment of controls and procedures in the matter of disclosure.

The Management of the Bank, in cooperation with the CEO of the Bank and the Chief Accountant, assessed for December 31, 2021 the effectiveness of the controls and procedures in the matter of disclosure by the Bank. On the basis of this assessment, the CEO of the Bank and the Chief Accountant concluded that as at the end of this report period, the controls and procedures in the matter of disclosure by the Bank were effective for the purpose of recording, processing, summarizing and reporting the information which the Bank is required to disclose in the report in accordance with the Supervisor of Banks' directives for reporting to the public, and at the time determined in those directives.

During the fourth quarter of 2021, no change occurred in the Bank's internal control over financial reporting which exerted a material effect, or which can reasonably be expected to exert a material effect on the Bank's internal control over financial reporting.

Tel Aviv, March 7, 2022	**Ron Levkovich** Chairman of the Board	**Smadar Barber-Zadik** CEO

CERTIFICATION

I, Smadar Barber-Tsadik, declare that:

1. I have reviewed the annual report of the First International Bank of Israel Ltd. (hereinafter: “the Bank”) for the year 2021 (hereinafter: “the Report”).
2. Based on my knowledge, the Report contains no incorrect presentation of a material fact, and there is no presentation of a material fact missing from the Report that is necessary so that the presentations included therein, in light of the circumstances under which such presentations were included, are not misleading with regard to the period covered by the Report.
3. Based on my knowledge, the financial statements and other financial information included on the Report correctly reflect the financial condition, results of operations, changes in shareholders' equity, and cash flows of the Bank, in all material aspects, for the dates and periods covered in the Report.
4. I, and others at the Bank making this declaration, are responsible for the establishment and application of controls and procedures with regard to the Bank's disclosure[1] and internal control of financial reporting[1]. furthermore:
   A. We have established such controls and procedures, or caused such controls and procedures to be established under our supervision, aimed at ensuring that material information pertaining to the Bank, including its consolidated corporations, is brought to our knowledge by others at the Bank and at such corporations, in particular during the preparation of the Report.
   B. We have established such internal controls of financial reporting or caused such internal control of financial reporting to be established under our supervision, intended to provide a reasonable degree of confidence with regard to the reliability of the financial reporting, and that the financial reports for external purposes are prepared in accordance with generally accepted accounting principles and with the directives and guidelines of the Supervisor of Banks.
   C. We have assessed the effectiveness of the controls and procedures concerning disclosure at the Bank, and we have presented our findings with regard to the effectiveness of the controls and procedures concerning disclosure, as at the end of the period covered in the Report, based on our assessment; and
   D. We have disclosed in the Report any change in the internal control of financial reporting at the Bank that occurred during the fourth quarter, and that had a material effect, or could reasonably be expected to have a material effect, on the internal control of financial reporting at the Bank; and
5. I, and others at the Bank making this declaration, have disclosed to the auditor, to the Board of Directors, and to the Audit Committee of the Board of Directors of the Bank, based on our most current assessment of the internal control of financial reporting;
   A. Any significant deficiencies or material weaknesses in the establishment or application of internal control of financial reporting that can reasonably be expected to impair the Bank's ability to record, process, summarize, or report financial information; and
   B. Any fraud, whether material or immaterial, in which the Board of Management was involved, or in which other employees were involved who have significant role in the internal control of financial reporting at the Bank.

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

Tel-Aviv, March 7, 2022

Smadar Barber-Tsadik
Chief Executive Officer

CERTIFICATION

I, Nachman Nitzan, declare that:

1. I have reviewed the annual report of the First International Bank of Israel Ltd. (hereinafter: “the Bank”) for the year 2021 (hereinafter: “the Report”).
2. Based on my knowledge, the Report contains no incorrect presentation of a material fact, and there is no presentation of a material fact missing from the Report that is necessary so that the presentations included therein, in light of the circumstances under which such presentations were included, are not misleading with regard to the period covered by the Report.
3. Based on my knowledge, the financial statements and other financial information included on the Report correctly reflect the financial condition, results of operations, changes in shareholders' equity, and cash flows of the Bank, in all material aspects, for the dates and periods covered in the Report.
4. I, and others at the Bank making this declaration, are responsible for the establishment and application of controls and procedures with regard to the Bank's disclosure(1) and internal control of financial reporting(1). furthermore:
   A. We have established such controls and procedures, or caused such controls and procedures to be established under our supervision, aimed at ensuring that material information pertaining to the Bank, including its consolidated corporations, is brought to our knowledge by others at the Bank and at such corporations, in particular during the preparation of the Report.
   B. We have established such internal controls of financial reporting or caused such internal control of financial reporting to be established under our supervision, intended to provide a reasonable degree of confidence with regard to the reliability of the financial reporting, and that the financial reports for external purposes are prepared in accordance with generally accepted accounting principles and with the directives and guidelines of the Supervisor of Banks.
   C. We have assessed the effectiveness of the controls and procedures concerning disclosure at the Bank, and we have presented our findings with regard to the effectiveness of the controls and procedures concerning disclosure, as at the end of the period covered in the Report, based on our assessment; and
   D. We have disclosed in the Report any change in the internal control of financial reporting at the Bank that occurred during the fourth quarter, and that had a material effect, or could reasonably be expected to have a material effect, on the internal control of financial reporting at the Bank; and
5. I, and others at the Bank making this declaration, have disclosed to the auditor, to the Board of Directors, and to the Audit Committee of the Board of Directors of the Bank, based on our most current assessment of the internal control of financial reporting;
   A. Any significant deficiencies or material weaknesses in the establishment or application of internal control of financial reporting that can reasonably be expected to impair the Bank's ability to record, process, summarize, or report financial information; and
   B. Any fraud, whether material or immaterial, in which the Board of Management was involved, or in which other employees were involved who have significant role in the internal control of financial reporting at the Bank.

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

Tel-Aviv, March 7, 2022

Nachman Nitzan
Executive Vice President,
Chief Accountant

REPORT OF THE BOARD OF DIRECTORS AND MANAGEMENT ON THE INTERNAL CONTROL OF FINANCIAL REPORTING

The Board of Directors and Management of the First International Bank of Israel Ltd. (hereinafter: the "Bank") are responsible for the establishment and application of adequate internal control of financial reporting (as defined in the Public Reporting Directives concerning the "Board of Directors' Report"). The system of internal control at the Bank was designed to provide a reasonable degree of confidence to the Board of Directors and Management with regard to the adequate preparation and presentation of the financial reports, which are published in accordance with generally acceptance accounting principles and the directives and guidelines of the Supervisor of Banks. Regardless of the quality of planning of the internal control systems, any such system has inherent limitations. Thus, even if we determine that these systems are effective, such systems can provide only a reasonable degree of confidence with regard to the preparation and presentation of the financial reports.

The Management, under the supervision of the Board of Directors, maintains a comprehensive system of controls aimed at ensuring that transactions are executed in accordance with the Management's authorizations, that assets are protected, and that accounting records are reliable. In addition, the Management, under the supervision of the Board of Directors, applies measures to ensure that information and communication channels are effective and monitor performance, including the performance of internal control procedures.

The Management of the Bank, under the supervision of the Board of Directors, assessed the effectiveness of the Bank's internal control of financial reporting as at December 31, 2021, based on the criteria established in the internal control model of the Committee of Sponsoring Organizations of the Treadway Commission (COSO 1992). Based on the assessment, the Management believes that as at December 31, 2021, the Bank's internal control of financial reporting is effective.

The effectiveness of the Bank's internal control of financial reporting as at December 31, 2021 was audited by the Bank's external auditors, Somekh Chaikin Certified Public Accountants (Isr.), as noted in their report .The auditors' report includes an unqualified opinion with regard to the effectiveness of the Bank's internal control of financial reporting as at December 31, 2021.

Ron Levkovich
Chairman of the Board

Smadar Barber-Tsadik
Chief Executive Officer

Nachman Nitzan
Executive Vice President,
Chief Accountant

Tel-Aviv, March 7, 2022

AUDITED ANNUAL FINANCIAL STATMENTS

Somekh Chaikin
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REPORT OF THE INDEPENDENT AUDITORS TO THE SHAREHOLDERS OF THE FIRST INTERNATIONAL BANK OF ISRAEL LTD. IN ACCORDANCE WITH THE PUBLIC REPORTING DIRECTIVES OF THE SUPERVISOR OF BANKS REGARDING INTERNAL CONTROL OVER FINANCIAL REPORTING

We have audited the internal control over financial reporting of The First International Bank of Israel Ltd. and subsidiaries (hereinafter together "the Bank") as at December 31, 2021, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO 1992"). The Bank's Board of Directors and Management are responsible for maintaining effective internal control over financial reporting and for their assessment of the effectiveness of internal control over financial reporting, included in the accompanying Directors' and Management's reports on internal control over financial reporting. Our responsibility is to express an opinion on the Bank's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (PCAOB) in the United States regarding audit of internal control over financial reporting, as adopted by the Institute of Certified Public Accountants in Israel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary under the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A bank's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in Israel (Israeli GAAP) and in accordance with directives and guidelines of the Supervisor of Banks. The internal control over financial reporting of a bank includes those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the Bank's assets (including disposal thereof); (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles in Israel (Israeli GAAP) and in accordance with directives and guidelines of the Supervisor of Banks, and that money receipts and expenditures of the Bank are being made only in accordance with the authorizations of the Bank's Management and Directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition (including disposal) of the Bank's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Bank maintained, in all material respects, effective internal control over financial reporting as at December 31, 2021, based on criteria established in Internal Control - Integrated Framework issued by COSO (COSO 1992).

We also have audited, in accordance with accepted auditing standards in Israel and certain auditing standards applied in the audit of banking corporations as determined by directives and guidelines of the Supervisor of Banks, the balance sheets – of the Bank and consolidated – as at December 31, 2021 and 2020 and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows – of the Bank and consolidated – for each of the three years in the period ended December 31, 2021, and our report, dated March 7, 2022, expressed an unqualified opinion on those financial statements.

Somekh Chaikin
Certified Public Accountants (Isr.)

March 7, 2022

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REPORT OF THE INDEPENDENT AUDITORS TO THE SHAREHOLDERS OF THE FIRST INTERNATIONAL BANK OF ISRAEL LTD. - ANNUAL FINANCIAL STATEMENTS

We have audited the attached balance sheets of The First International Bank of Israel Ltd. ("the Bank") as at December 31, 2021 and 2020 and the consolidated balance sheets as at the same dates and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows - of the Bank and consolidated - for each of the three years in the period ended December 31, 2021. These financial statements are the responsibility of the Bank's Board of Directors and Management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Israel, including standards prescribed by the Israeli Auditors' Regulations (Auditor's Mode of Performance), 1973 and certain auditing standards applied in the audit of banking corporations as determined by directives and guidelines of the Supervisor of Banks. Those standards 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 Bank's Board of Directors and Management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the financial position - of the Bank and consolidated - as at December 31, 2021 and 2020, and the results of operations, the changes in equity and cash flows - of the Bank and consolidated - for each of the three years in the period ended December 31, 2021, in conformity with generally accepted accounting principles in Israel (Israeli GAAP). Furthermore, in our opinion, the abovementioned financial statements have been prepared in accordance with the directives and guidelines of the Supervisor of Banks.

We have also audited, in accordance with standards prescribed by the Public Company Accounting Oversight Board (PCAOB) in the United States regarding audit of internal control over financial reporting, as adopted by the Institute of Certified Public Accountants in Israel, the internal control over financial reporting of the Bank as at December 31, 2021, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report, dated March 7, 2022, included an unqualified opinion on the effectiveness of internal control over financial reporting of the Bank.

Key audit matters

The key audit matters described hereunder are matters that were communicated or were required to be communicated to the Bank's Board of Directors and which, according to our professional judgement, were very material to the current period audit of the consolidated financial statements. These matters include, inter alia, any matter that: (1) Relates to accounts or disclosures that are material to the financial statements; and (2) Involved especially challenging, subjective, or complex auditor judgment according to the guidelines and directives of the Supervisor of Banks. A response to these matters is provided in the framework of our audit and the preparation of our opinion on the consolidated financial statements as a whole. Communication of the matters indicated hereunder does not change our opinion on the consolidated financial statements as a whole and does not constitute a separate opinion on these matters or on the accounts or disclosures to which they relate.

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Allowance for credit losses

As described in Notes 1, 13 and 29 to the consolidated financial statements, the balance of the allowance for credit losses as at December 31, 2021, less the allowance for credit losses in respect of housing loans, is NIS 996 million and includes a specific allowance and a collective allowance.

The process of estimating the loss inherent in the credit portfolio is based on significant estimates that involve uncertainty and on subjective assessments at both the stage of identifying and classifying the debts as impaired or unimpaired and also at the stage of measuring the specific and collective allowance. A change in these estimates or assessments might have a significant impact on the allowance for credit losses presented in the Bank's financial statements.

The principal estimates that are the basis for calculating the allowance for credit losses:

- At the time of identifying and classifying the debts, judgement is exercised for detecting impaired debts on the basis of defined criteria that may indicate that the debt has become impaired, an estimate of the possible or existing damage to the borrowers' initial source of repayment (meaning a current and stable source of cash flows for repayment that is controlled by the borrower), the existence of expected cash flows of the borrower for repaying the debt in a full and timely manner, and an assessment of other financial data of the borrower that can indicate the existence of weaknesses or potential weaknesses of the borrower.
- In the calculation of the specific allowance, judgement is exercised regarding the future cash flows for debt service that are expected from the borrower's activity and from realizing collateral and guarantees.
- In the calculation of the collective allowance, judgement is exercised in order to estimate the loss inherent in the credit portfolio on the basis of average past losses in the various economic sectors and the adjustments that are needed on the basis of parameters that were defined by the Bank and are supposed to reflect the changes in the credit portfolio due to macroeconomic factors and internal factors.

The estimates that are the basis for calculating the allowance for credit losses were identified by us as a key audit matter.

An audit of the allowance for credit losses requires judgement of the auditor as well as knowledge and experience for examining reasonableness of the assumptions and data used by management when measuring the allowance.

The procedures that were performed for addressing the key audit matter

The following are the main procedures we performed for addressing this key audit matter in the framework of our audit:

- We examined the work processes for calculating the allowance and the design, implementation and operating effectiveness of certain internal controls related to measurement of the allowance, including controls related to the following matters:
- Examination of adequacy of the methodology used for determining the allowance
- Adequacy of the basic data used to calculate the allowance
- Detection of debts with negative indications
- Classification of debts according to the Bank's procedures
- Analysis of the allowance's reasonableness as a whole

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We performed substantive procedures for testing the allowance for credit losses on the basis of internal and external representations we received.
These procedures included, inter alia:

- Reviewing the methodology for determining the allowance for credit losses and checking that it is consistent with the accounting principles that apply to the Bank and with the impacts of its economic and regulatory environment
- Examining the completeness and accuracy of the information and data used in the models for calculating the collective allowance for credit losses
- Examining adequacy of the classification and estimate of the allowance for a sample of debts (unimpaired and impaired)
- Examining adequacy of the allowance for credit losses as a whole.

The accounting firm of Somekh Chaikin began serving as the Bank's auditor in 1972.

The accompanying financial statements represent a translation into English from the original financial statements in Hebrew.

Somekh Chaikin
Certified Public Accountants (Isr.)

March 7, 2022

STATEMENT OF INCOME FOR THE YEAR ENDED DECEMBER 31

(NIS million)

		Consolidated			The Bank		
	Note	2021	2020	2019	2021	2020	2019
Interest Income	2	**3,150**	2,878	3,085	**2,907**	2,647	2,847
Interest Expenses	2	**356**	241	483	**358**	253	491
Interest Income, net	2	**2,794**	2,637	2,602	**2,549**	2,394	2,356
Expenses (income) from credit losses	13,29	**(216)**	464	138	**(213)**	443	127
Net Interest Income after expenses from credit losses		**3,010**	2,173	2,464	**2,762**	1,951	2,229
Non-Interest Income							
Non-Interest Financing income	3	**303**	148	225	**301**	148	233
Fees	4A,4B	**1,444**	1,371	1,286	**1,285**	1,234	1,144
Other income	5	**9**	4	9	**49**	45	54
Total non-Interest income		**1,756**	1,523	1,520	**1,635**	1,427	1,431
Operating and other expenses							
Salaries and related expenses	6	**1,601**	1,532	1,601	**1,491**	1,429	1,487
Maintenance and depreciation of premises and equipment		**340**	344	353	**313**	316	326
Amortizations and impairment of intangible assets	17	**105**	96	92	**103**	94	89
Other expenses	7	**606**	597	608	**584**	570	583
Total operating and other expenses		**2,652**	2,569	2,654	**2,491**	2,409	2,485
Profit before taxes		**2,114**	1,127	1,330	**1,906**	969	1,175
Provision for taxes on profit	8	**728**	368	478	**656**	315	418
Profit after taxes		**1,386**	759	852	**1,250**	654	757
The bank's share in profit of equity-basis investee, after taxes	15	**69**	29	51	**155**	96	108
Net profit:							
Before attribution to non-controlling interests		**1,455**	788	903	**1,405**	750	865
Attributed to non-controlling interests		**(50)**	(38)	(38)	**-**	-	-
Attributed to shareholders of the Bank		**1,405**	750	865	**1,405**	750	865

Consolidated and The Bank	Note	2021	2020	2019
Primary profit per share attributed to the shareholders of the Bank	9			NIS
Net profit per share of NIS 0.05 par value		**14.00**	7.48	8.62

The notes to the financial statements are an integral part thereof.

Ron Levkovich
Chairman of the Board

Smadar Barber-Tsadik
Chief Executive Officer

Nachman Nitzan
Executive Vice President,
Chief Accountant

Tel-Aviv, March 7, 2022

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31[1]

(NIS million)

			Consolidated
	2021	2020	2019
Net profit before attribution to non-controlling interests	**1,455**	788	903
Net profit attributed to non-controlling interests	**(50)**	(38)	(38)
Net profit attributed to the shareholders of the Bank	**1,405**	750	865
Other comprehensive income (loss) before taxes:			
Adjustments of available for sale bonds to fair value, net	**27**	(4)	101
Adjustments of liabilities in respect of employee benefits[2]	**(24)**	(74)	(74)
Other comprehensive income (loss) before taxes	**3**	(78)	27
Related tax effect	**(1)**	26	(9)
Other comprehensive income (loss) before attribution to non-controlling interests, after taxes	**2**	(52)	18
Less other comprehensive loss attributed to non-controlling interests	**-**	-	(2)
Other comprehensive income (loss) attributed to the shareholders of the Bank, after taxes	**2**	(52)	20
Comprehensive income before attribution to non-controlling interests	**1,457**	736	921
Comprehensive income attributed to non-controlling interests	**(50)**	(38)	(36)
Comprehensive income attributed to the shareholders of the Bank	**1,407**	698	885

(1) See Note 10.

(2) Mostly reflects adjustments in respect of actuarial assessments as of the end of the period regarding defined benefits pension plans, of amounts recorded in the past in other comprehensive profit.

The notes to the financial statements are an integral part thereof.

BALANCE SHEET AS AT DECEMBER 31

(NIS million)

		Consolidated		The Bank	
	Note	2021	2020	2021	2020
Assets					
Cash and deposits with banks	11	**57,370**	57,802	**56,601**	56,757
Securities(4)	12, 26	**15,091**	13,105	**14,348**	12,480
Securities which were borrowed		**845**	11	**845**	11
Credit to the public	13, 29	**102,240**	92,247	**96,599**	87,009
Provision for Credit losses		**(1,076)**	(1,277)	**(1,010)**	(1,204)
Credit to the public, net		**101,164**	90,970	**95,589**	85,805
Credit to the government	14	**811**	656	**48**	35
Investment in equity-basis investees	15	**713**	636	**1,351**	1,198
Premises and equipment	16	**931**	965	**906**	936
Intangible assets	17	**300**	272	**294**	264
Assets in respect of derivative instruments	27A, 27B	**1,709**	1,897	**1,712**	1,904
Other assets(2)	18	**1,536**	1,464	**1,460**	1,389
Total assets		**180,470**	167,778	**173,154**	160,779
Liabilities and Shareholders' Equity					
Deposits from the public	19	**153,447**	141,677	**147,012**	135,527
Deposits from banks	20	**5,144**	2,992	**7,578**	5,511
Deposits from the Government		**960**	459	**960**	459
Bonds and subordinated capital notes	21	**3,356**	4,394	**962**	2,086
Liabilities in respect of derivative instruments	27A, 27B	**2,038**	2,314	**2,038**	2,314
Other liabilities(1)(3)	22	**5,088**	6,407	**4,601**	5,741
Total liabilities		**170,033**	158,243	**163,151**	151,638
Capital attributed to the shareholders of the Bank		**10,003**	9,141	**10,003**	9,141
Non-controlling interests		**434**	394	**-**	-
Total equity		**10,437**	9,535	**10,003**	9,141
Total liabilities and shareholders' equity		**180,470**	167,778	**173,154**	160,779

(1) Of which: provisions for credit losses in respect of off-balance sheet credit instruments in the amount of NIS 79 million and NIS 86 million (consolidated) and NIS 76 million and NIS 83 million (the Bank) as of December 31, 2021 and 2020, respectively.

(2) Of which: other assets measured at fair value in the amount of NIS 333 million consolidated and the Bank (31.12.20 - NIS 247 million consolidated and the Bank).

(3) Of which: other liabilities measured at fair value in the amount of NIS 641 million consolidated and the Bank (31.12.20 - NIS 258 million consolidated and the Bank).

(4) Regarding amounts measured at fair value, see note 32B.

The notes to the financial statements are an integral part thereof.

STATEMENT OF CHANGES IN EQUITY

(NIS million)

	Share capital and premium (1)	Accumulated other comprehensive income (loss)	Retained earnings(2)	Total share-holders' equity	Non-controlling interests	Total equity
Balance as at January 1, 2019	927	(151)	7,317	8,093	320	8,413
Changes during 2019						
Net profit for the year	-	-	865	865	38	903
Dividend	-	-	(410)	(410)	-	(410)
Other comprehensive income (loss), after tax effect	-	20	-	20	(2)	18
Balance as at December 31, 2019	927	(131)	7,772	8,568	356	8,924
Changes during 2020						
Net profit for the year	-	-	750	750	38	788
Dividend	-	-	(125)	(125)	-	(125)
Other comprehensive loss, after tax effect	-	(52)	-	(52)	-	(52)
Balance as at December 31, 2020	927	(183)	8,397	9,141	394	9,535
Changes during 2021						
Net profit for the year	**-**	**-**	**1,405**	**1,405**	**50**	**1,455**
Dividend	**-**	**-**	**(545)**	**(545)**	**(10)**	**(555)**
Other comprehensive income, after tax effect	**-**	**2**	**-**	**2**	**-**	**2**
Balance as at December 31, 2021	**927**	**(181)**	**9,257**	**10,003**	**434**	**10,437**

(1) Including share premium of NIS 313 million (as from 1992 onwards).
(2) Including an amount of NIS 2,391 million which cannot be distributed as dividend - see note 24A.B.

The notes to the financial statements are an integral part thereof.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31

(NIS million)

	Consolidated			The Bank		
	2021	2020	2019	2021	2020	2019
Cash flows from operating activities:						
Net profit for the year	**1,455**	788	903	**1,405**	750	865
Adjustments to reconcile cash provided by operating activities:						
The Bank's share in profit of equity-basis investee	**(69)**	(29)	(51)	**(155)**	(96)	(108)
Depreciation of premises and equipment	**66**	71	69	**63**	66	65
Amortization of intangible assets	**105**	96	92	**103**	94	89
Gain on sale of premises and equipment	**(7)**	-	(3)	**(2)**	-	(3)
Expenses (income) from credit losses	**(216)**	464	138	**(213)**	443	127
Gain from sale of available for sale bonds and not for trading shares and provision for impairment of available for sale bonds and not for trading shares	**(89)**	(20)	(28)	**(86)**	(20)	(24)
Realized and non-realized loss (gain) from adjustment to fair value of trading securities	**-**	(1)	14	**-**	(1)	14
Realized and non-realized loss (gain) from adjustment to fair value of not for trading shares	**(125)**	11	(59)	**(125)**	11	(59)
Deferred taxes, net	**63**	(144)	(25)	**61**	(144)	(25)
Defined benefit of pension and severance pay plans	**81**	68	91	**77**	62	85
Adjustments of exchange rate differences	**(489)**	(794)	(561)	**(490)**	(794)	(572)
Dividend received from equity-basis investee	**-**	-	56	**10**	-	78
Net change in current assets:						
Trading securities	**(25)**	(100)	418	**(25)**	(100)	418
Other assets	**(155)**	(207)	446	**(506)**	(205)	416
Assets in respect of derivative instruments	**318**	(908)	198	**322**	(910)	219
Net change in current liabilities:						
Other liabilities	**(1,562)**	316	(861)	**(1,026)**	352	(905)
Liabilities in respect of derivative instruments	**(276)**	1,067	(47)	**(276)**	1,067	(71)
Accumulation differences included in investing and financing activities	**(176)**	(53)	(18)	**31**	(37)	(55)
Net cash from operating activity	**(1,101)**	625	772	**(832)**	538	554
Cash flows for investing activity						
Change in Deposits with banks	**262**	(219)	(78)	**67**	(124)	43
Change in Securities borrowed	**(834)**	(2)	854	**(834)**	(2)	854
Change in Credit to the public	**(7,583)**	(3,902)	(5,001)	**(7,176)**	(3,773)	(4,572)
Change in Credit to the government	**(155)**	378	(339)	**(13)**	374	(338)
Purchase of available for sale bonds and not for trading shares	**(6,003)**	(8,210)	(6,380)	**(5,636)**	(7,746)	(6,232)
Proceeds from redemption of bonds held to maturity	**207**	236	193	**207**	236	193
Proceeds from sale of available for sale bonds and not for trading shares	**2,123**	3,220	2,678	**1,645**	3,131	2,165
Redemption of available for sale bonds	**1,459**	2,620	4,526	**1,459**	2,615	4,517
Acquisition of premises and equipment	**(39)**	(40)	(49)	**(36)**	(38)	(49)
Proceeds from sale of premises, equipment and other assets	**14**	-	9	**5**	-	9
Investment in intangible assets	**(133)**	(120)	(101)	**(133)**	(120)	(101)
Merger of a subsidiary company	**-**	-	-	**-**	-	(180)
Proceeds from liquidation of a subsidiary	**-**	-	-	**-**	178	-
Cash flows for investing activity	**(10,682)**	(6,039)	(3,688)	**(10,445)**	(5,269)	(3,691)

The notes to the financial statements are an integral part thereof.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31 (CONT'D)

(NIS million)

	Consolidated			The Bank		
	2021	**2020**	**2019**	**2021**	**2020**	**2019**
Cash flows from financing activity						
Change in Deposits from the public	**11,158**	23,641	10,251	**10,963**	22,689	10,191
Change in Deposits from banks	**2,315**	1,914	39	**2,108**	2,930	26
Change in Deposits from the government	**(34)**	(540)	696	**(34)**	(540)	696
Proceeds from the issue of bonds and subordinate debt notes	**500**	1,458	711	**-**	300	-
Redemption of bonds and subordinate debt notes	**(1,588)**	(701)	(2,053)	**(1,141)**	(254)	(1,556)
Dividend paid to shareholders	**(545)**	(125)	(410)	**(545)**	(125)	(410)
Dividend paid to non-controlling shareholders in consolidated subsidiary	**(10)**	-	-	**-**	-	-
Net cash from financing activity	**11,796**	25,647	9,234	**11,351**	25,000	8,947
Increase in cash	**13**	20,233	6,318	**74**	20,269	5,810
Cash balances at beginning of year	**57,328**	37,275	31,126	**56,071**	35,964	30,299
Effect of changes in exchange rates on cash balances	**(183)**	(180)	(169)	**(164)**	(162)	(145)
Cash balances at end of year	**57,158**	57,328	37,275	**55,981**	56,071	35,964
Interest, dividend and taxes paid and/or received:						
Interest received	**3,269**	3,203	3,185	**2,991**	2,942	2,974
Interest paid	**(433)**	(540)	(781)	**(351)**	(470)	(662)
Dividends received	**43**	20	15	**43**	20	15
Income tax paid	**(771)**	(542)	(547)	**(687)**	(467)	(480)
Income tax received	**54**	61	56	**50**	60	50

The notes to the financial statements are an integral part thereof.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - PRINCIPAL ACCOUNTING POLICIES

A. General

(1) The first International bank of Israel Ltd. (hereinafter - "the Bank") is an Israeli corporation. The consolidated financial statements as of December 31, 2021 include those of the Bank, of its consolidated companies and of an equity basis investee (hereinafter - "the Group").

The notes to the financial statements relate to the financial statements of the Bank and to the consolidated financial statements of the Bank and its consolidated subsidiaries, unless the note specifically states that it relates to the Bank alone or to the consolidated statements alone.

The Bank is a direct subsidiary of FIBI Holdings Ltd. (hereinafter - "Fibi Holdings"), which is controlled by Binohon Ltd. Dolphin Energies Ltd. (controlled by Messrs. Barry Lieberman, Cassy Lieberman-Harris, Lee Lieberman and Joshua Lieberman from Australia) and Instanz No. 2 Ltd. (controlled by Messrs. Michael and Helen Abeles from Australia). All the above controlling shareholders are party to a voting and cooperation agreement.

The financial statements were approved for publication by the Board of Directors on March 7, 2022.

The accompanying financial statements represent a translation into English from the original financial statements in Hebrew.

(2) **Definitions**

In these financial statements:

International financial reporting standards ("IFRS") - standards and interpretations adopted by the International Financial Accounting Standards Board ("IASB"), which include international financial reporting standards ("IFRS") and international accounting standards ("IAS") as well as interpretations of these standards proclaimed by the Interpretation of International Financial Reporting Standards Committee ("IFRIC"), or interpretations proclaimed by the Permanent Interpretation Committee ("SIC"), respectively.

Accepted accounting principles by US banks - Accounting principles, which US banks traded in the US are required to apply. These principles are being determined by the supervisory authorities in the US, by the US Securities and Exchange Commission, by the US Financial Accounting Standards Board ("FASB") and other US entities, and are applied according to the hierarchy determined by US Accounting Standard FAS 168 (ASC 105-10), the codification of accounting standards by the US FASB and the hierarchy of accepted accounting principles. Furthermore, in accordance with a decision of the Supervisor of Banks, despite the hierarchy determined in FAS 168, it has been clarified that any position made public by the bank supervisory authorities in the US or by teams of the bank supervisory authorities in the US regarding the mode of application of generally accepted accounting principles in the US, is considered an accepted accounting principle by banks in the US.

Consolidated subsidiaries - Companies the financial statements of which have been, directly or indirectly, consolidated with those of the Bank.

Equity basis investees - Companies, excluding consolidated subsidiaries and including partnerships or joint ventures, the investment of the Bank in which is accounted for in the financial statements, directly or indirectly, on equity basis.

Investee companies - Consolidated companies or equity-based investees.

Functional currency - The currency prevailing in the principal economic environment in which the Bank operates; generally, the currency of the environment in which the Bank generates and expends most of its cash.

Stated currency - The currency in which the financial statements are stated.

Related parties - In terms of Section 80 of the public reporting instructions.

Interested parties - In terms of Section 80 of the public reporting instructions.

CPI or Index - the Consumer Price Index in Israel published by the Central Bureau of Statistics.

Adjusted amount - An amount in nominal historical terms as adjusted on the basis of the CPI for December 2003, in accordance with guidelines prescribed in Opinions 23 and 36 of the Institute of Certified Public Accountants in Israel.

Financial reporting in adjusted terms - Financial reporting in adjusted values on the basis of changes in the general purchasing power of the Israeli currency, in accordance with guidelines prescribed by Opinions of the Institute of Certified Public Accountants in Israel.

Reported amount - An adjusted amount on the transition date (December 31, 2003), together with amounts in nominal historical terms added to it subsequently to the transition date, and less amounts deducted subsequently to that date.

Cost - Cost in reported amount.

B. Basis of preparation of the financial statements

(1) Reporting principles

The financial statements of the Bank are prepared in accordance with Israeli accepted accounting principles (Israeli GAAP) and in accordance with the public reporting instructions and guidelines of the Supervisor of Banks.

In most matters, these directives are based on US generally accepted accounting principles. In other matters, which are less material, the directives are based on international financial reporting standards (IFRS) and on accepted accounting principles in Israel (Israeli GAAP). Where the international financial reporting standards (IFRS) allow several alternatives, or do not include specific reference to certain situations, these instructions set specific implementation guidelines, based mainly on accounting principles accepted by US banks.

(2) Functional currency and stated currency

The New Israeli Shekel (NIS) is the currency representing the principal economic environment in which the Bank operates. The consolidated financial statements are presented in NIS, rounded off to the nearest million, unless otherwise stated. For information regarding the functional currency of a banking extension operating abroad, see Note 1.D.(1).

(3) Basis of measurement

The financial statements are prepared on the basis of historical cost, except for the following assets and liabilities:

- Derivative and other financial instruments that are measured according to fair value through profit and loss (such as: investment in securities included in the trading portfolio);
- Financial instruments classified as available-for-sale;
- Non-current assets held for sale and a group of assets held for sale;
- Deferred tax assets and liabilities;
- Provisions;
- Assets and liabilities relating to employee benefits;
- Investments in investee companies stated by the equity method of accounting.

The value of non-monetary assets and of capital items measured on the basis of historical cost has been adjusted to changes in the CPI until December 31, 2003, due to the fact that until that date the economy of Israel had been considered a hyper-inflationary economy. As from January 1, 2004, the Bank presents its financial statements in reported amounts.

(4) Use of estimates

Preparation of financial statements requires Management to use judgment, make estimates and assumptions which affect the implementation of the accounting policy and the reported amounts of assets and liabilities and the amounts of income and expenses. It should be noted that actual results may differ from these estimates.

Upon the formation of accounting estimates used in the preparation of the financial statements of the Bank, Management is required to make assumptions as to circumstances and events which involve significant uncertainty. When using judgment in determining the assessments, Management of the Bank relies upon past experience, various facts, outside factors and upon reasonable assumptions in accordance with the circumstances applying to each assessment.

The assessments as well as the assumptions supporting them are being reviewed on a current basis. Changes in accounting assessments are recognized in the period in which these changes occur as well as in all future periods affected by them.

C. Initial implementation of accounting standards, updates of accounting standards and instructions of the Supervisor of Banks

(1) Update of Standard 14-2018 of the Codification regarding changes in disclosure requirements relating to defined benefit plans

The US Financial Accounting Standards Board (FASB) published ASU 2018-14 on August 28, 2018, regarding the disclosure framework - changes in disclosure requirements relating to defined benefits plans, comprising an update of Item 715-20 of the Codification in the matter of compensation - retirment benefits - defined benefits plans - general (hereinafter - "the update"). The update is intended to improve the effectiveness of disclosure in notes to the financial statements and reduce the costs involved in the preparation of the required notes.

The principal changes are, inter alia: cancellation of the requirement to present an estimate of the cumulative amounts included in other comprehensive income, expected to be removed from other comprehensive income and charged as an expense to profit and loss in the consecutive year; cancellation of the requirement to present the amount of future annual benefits covered by insurance contracts, including annuity contracts, as well as any significant transactions between the entity or related parties and the plan; addition of a requirement for the presentation of details regarding the reasons for material profits or losses during the period, relating to the change in commitments regarding a defined benefit; also clarified are disclosure requirements applying to entities having two or more plans.

In accordance with the letter of the Supervisor of Banks regarding "improving useability of reports to the public by banking corporations for the years 2019 and 2020", which had been formed on the basis of updated Standard 2018-14 of the Codification, the instructions of the updated Standard apply starting with the reports to the public as of January 1, 2021 and thereafter.

Application of the instructions had no material effect on the financial statements.

(2) Update of Standard 2018-13 of the Codification regarding changes in disclosure requirements relating to measurement of fair value

The US Financial Accounting Standards Board (FASB) published ASU 2018-13 on August 28, 2018, regarding the disclosure framework - changes in disclosure requirements relating to measurement of fair value, comprising an update of Item 820 of the Codification in the matter of measurement of fair value (hereinafter - "the update"). The update is intended to improve the effectiveness of disclosure in notes to the financial statements and reduce the costs involved in the preparation of the required notes.

The principal changes are, inter alia: cancellation of the requirement to present the amounts and reasons for transfers between levels 1 and 2 of the fair value hierarchy; cancellation of the requirerment to provide information regarding the policy of the entity with respect to determining when transfers between levels are considered such that had taken effect; cancellation of the requirement to describe the process of evaluating the fair value measurment at level 3; within the framework of the requirement for a verbal description of the sensitivity to changes in unobservable data for recurring measurements of fair value classified at level 3 of the fair value hierarchy, the term "sensitivity" has been changed to "uncertainty" in order to emphasize that the required information relates to the uncertainty; a requirement has been added, according to which, nonrealized changes during the period have to be presented in other comprehensive income (OCI) in respect of assets held at the end of the period.

In accordance with the letter of the Supervisor of Banks regarding "improving useability of reports to the public by banking corporations for the years 2019 and 2020", which had been formed on the basis of updated Standard 2018-13 of the Codification, the instructions of the updated Standard apply starting with the reports to the public as of January 1, 2021 and thereafter.
Application of the instructions had no material effect on the financial statements.

(3) Update of Standard 12-2019 of the Codification regarding the simplification of the accounting treatment of taxes on income

The US Financial Accounting Standards Board (FASB) published ASU 12-2019 on December 18, 2019, regarding the simplification of the accounting treatment of taxes on income, comprising an update of Item 740 of the Codification in the matter of taxes on income (hereinafter "the update"). The update is intended to reduce the complexity of US generally accepted accounting principles, while maintaining the usability of the information provided to users of financial statements. The principal matters dealt with within the framework of the update are, inter alia: the allocation of the income tax expense or of income tax benefits between continuing operations, discontinued operations, other comprehensive income and items taken directly to equity; the computation of the tax income recorded on accumulated losses in interim financial statements; the manner of recognizing the effect of changes in tax laws or in tax rates in interim financial statements.
The above instructions are being applied as from January 1, 2021, by way of "from now onwards" application. Application of the instructions had no effect on the financial statements.

D. Accounting policy applied in the preparation of the financial statements

(1) Foreign Currency and Linkage

Transactions in foreign currency

On date of initial recognition of a transaction in foreign currency, any asset, liability, income, expense, profit or loss produced by the transaction are translated into the functional currency of the Bank in accordance with the exchange rate prevailing on date of the transaction.
At any reporting date, monetary assets and liabilities denominated in foreign currency at date of the report are translated into the functional currency according to the exchange rate in effect on that date.
Non-monetary assets and liabilities denominated in foreign currency and measured according to fair value are translated into the functional currency according to the exchange rate in effect on the date on which fair value was determined.
Non-monetary items denominated in foreign currency and measured according to historical cost, are translated at the exchange rate in effect at date of the transaction.
Gains or losses on translation of transactions in foreign currency stemming from fluctuation in currency between the date of transactions and date of settlement/balance sheet date, including exchange differences on available-for-sale debt instruments, which in accordance with the public reporting instructions continue to be recognized in the statement of profit and loss until January 1, 2023 (as stated in the transitional instructions), are recognized in the statement of profit and loss as gains or losses on translation differences (non-interest financing income).

CPI-linked assets and liabilities not measured according to fair value

CPI-linked assets and liabilities are stated according to the linkage terms determined for each item.

Following are details of representative exchange rates and of the consumer price index including the rates of change therein:

	December 31			Rate of change during		
	2021	2020	2019	**2021**	2020	2019
				%	%	%
Rate of exchange of the U.S. dollar (in NIS)	**3.110**	3.215	3.456	**(3.3)**	(7.0)	(7.8)
Rate of exchange of the Euro (in NIS)	**3.520**	3.944	3.878	**(10.8)**	1.7	(9.6)
Rate of exchange of the SFR (in NIS)	**3.405**	3.650	3.575	**(6.7)**	2.1	(6.1)
Consumer Price Index -						
November (in points)	**102.3**	99.9	100.5	**2.4**	(0.6)	0.3
December (in points)	**102.6**	99.8	100.5	**2.8**	(0.7)	0.6

(2) Basis of consolidation

Consolidated subsidiaries

Consolidated subsidiaries are entities controlled by the Group. The financial statements of consolidated subsidiaries are included in the consolidated financial statements since the date on which control of these entities was acquired and until the date on which control ceased to exist. The accounting policy of consolidated subsidiaries has been changed, where required, in order to modify it to the accounting policy adopted by the Group.

Non-controlling interest

Non-controlling interest comprises the capital of a consolidated subsidiary, which may not be, directly or indirectly, attributed to the parent company.

Measurement of non-controlling interests at date of a business combination - non-controlling interests are measured at fair value at date of the business combination.

Allocation of the comprehensive income among the shareholders - Profit or loss and any other component of other comprehensive income are attributed to the owners of the Bank and to the non-controlling interest. The total profit, loss and other comprehensive income are attributed to the owners of the Bank and to the non-controlling interests, even if this results in a negative balance of the non-controlling interests.

Transactions eliminated upon consolidation

Intercompany balances as well as income and expenses not yet realized, derived from intercompany transactions, are eliminated in the preparation of the consolidated financial statements.

(3) Investments in equity based investees

Equity basis investees are entities in which the Group has a material influence over their financial and operating policies, but no actual control. The assumption is that an interest of between 20% and 50% in the investee confers a significant influence.

Investment in equity basis investees is treated by the equity method of accounting, and initially is recognized at cost. The cost of the investment includes transaction costs.

The investment in an equity basis investee is tested for impairment as a whole, when events or changes in circumstances indicate that the book value of the investment is not recoverable. Impairment is recognized when it is considered to be of a nature other than temporary.

The consolidated financial statements include the Group's share in the income and expenses, in the profit and loss and in the other comprehensive profit of entities treated by the equity method of accounting, from the date on which the significant influence first existed and until the date on which it ceased to exist.

(4) Basis of Recognition of Income and Expenses

- Interest income and expenses are recognized on an accrual basis, except for:
  interest accrued on problematic debts classified as non-performing loans, which is recognized on a cash basis where no doubt exists as to the collection of the remaining stated balance of the impaired debt. In such cases, an amount collected on account of interest to be recognized as interest income is limited to the amount that would have accrued during the reported period on the remaining stated balance of the debt according to the contractual interest rate. Cash basis interest income is classified in profit and loss as interest income in the relevant item. Where doubt exists as to the collection of the remaining stated balance of the debt, all amounts collected are used to reduce the principal amount of the loan. Furthermore, interest on housing loans in arrear is recognized in profit and loss upon actual collection.
- Commission income in respect of services provided (such as: securities and derivative instruments operations, credit cards, ledger fees, the granting of credit, currency conversion and foreign trade activity) are recognized in profit and loss upon accrual of the right thereto.
- Certain commission income, such as commission in respect of guarantees, and certain commissions regarding the finance of building projects, is recognized proportionally over the period of the transaction.
- Credit formation commissions and direct credit formation expenses are recognized over the period of the loan as adjustment of return on the loan, except in cases of restructure of a problematic loan. Where the commitment to grant the loan expires without materializing, commissions are recognized at date of expiry.
- Credit allocation commission is treated in accordance with the probability of materialization of the commitment to grant credit. Where the probability is remote, the commission is recognized by the straight-line method over the period of commitment. Otherwise, the Bank defers the recognition of income from such commission until the commitment materializes or until it expires, whichever is earlier. Upon realization of the commitment, the commission is recognized by way of adjustment of the return over the period of the loan, as stated above. Where the commitment expires without being materialized, the commission is recognized at date of expiry.
- Change in terms of a debt - in the event of refinancing or the restructure of performing debts, the Bank examines whether the terms of the loan had been changed materially. Accordingly, the Bank examines whether the present value of future cash flows in accordance with the new terms of the loan has changed by at least 10% from the present value of the remaining cash flows according to the present terms (with the addition of a premature redemption commission). In such cases, all yet unamortized commissions and premature redemption commissions charged to the borrower in respect of the change in credit terms are recognized in profit and loss. Otherwise, these commissions are included as part of the net investment in the new loan and recognized as adjustment of return, as stated above.
- Premature redemption commission - Premature redemption commissions are immediately recognized as part of interest income, except for commissions, as stated, which are included as part of the net investment in the new loan and recognized as adjustment of return.
- Securities - see Item (6) below.
- Derivative financial instruments - see Item (7) below.
- Other income and expenses - recognized on an accrual basis.

(5) Impaired debts, credit risk and provision for credit losses

In accordance with the Directive of the Supervisor of Banks in the matter of the "measurement and disclosure of impaired debts, credit risk and the provision for credit losses", the Bank implements as from January 1, 2011, the US accounting standards in this matter (ASC 310) and the statements of position of the US bank supervisory bodies and the US

Securities and Exchange Commission, as adopted in the public reporting directives and in positions and guidelines of the Supervisor of Banks. In addition, as from that date, the Bank implements the guidelines of the Supervisor of Banks in the matter of the treatment of impaired debts. Moreover, starting on January 1, 2012, the Bank implements the instructions of the Supervisor of Banks in the matter of the update of disclosure of credit quality of debts and the provision for credit losses.

Furthermore, from time to time, the Supervisor of Banks revises the public reporting instructions and the guiding FAQ file regarding the manner of application of the instructions in the matter of impaired debts and the provision for credit losses, this with the view of integrating therein the rules applying to US banks, including guidelines of the Regulatory authorities in the United States. As from 2016, the guidelines relating to the treatment of the restructure of a problematic debt, the guidelines relating to the manner of classification of debts based on the primary repayment source and certain guidelines regarding the manner of examination of the debts have, inter alia, been revised.

Credit to the public and other debt balances

The guideline is implemented with respect to all debt balances, such as: deposits with banks, bonds, securities on loan or acquired within the framework of "buy-back" agreements, credit to the public, credit to government, etc. Credit to the public and other debt balances, in respect of which the public reporting directives do not contain specific principles regarding the measurement of the provision for credit losses (such as: credit to government, deposits with banks, etc.) are reported in the books of the Bank at the stated balance of the debt. The stated balance of the debt is defined as the outstanding balance of the debt, net of accounting write-offs, but before provision for credit loss in respect of such debt. The stated balance of the debt does not include non-recognized accrued interest, or interest which had been recognized in the past but cancelled later. As regards other debt balances, in respect of which specific principles exist regarding measurement and the recognition of provisions for impairment (such as: bonds) the Bank continues to apply the same measurement principles, see Item (9) below.

Identification and classification of impaired debts

The Bank has determined procedures for the identification of problematic credit and for the classification of debts as impaired. According to these procedures, the Bank classifies all its problematic debts as well as the off-balance sheet credit items under the following classifications: "special supervision", "inferior" or "impaired".

A debt is classified as impaired when, based on information and current events, it is anticipated that the Bank would not be able to collect all the amounts due to it under the contractual terms of the loan agreement. The decision regarding the classification of the debt is based, among other things, on the default situation of the debt, evaluation of the financial position and repayment ability of the borrower, evaluation of the primary repayment source of the debt, the existence and condition of collateral, the financial position of guarantors, where these exist, and their obligation to support the debt, as well as the ability of the borrower to obtain third party finance.

In any event, a debt is classified as an impaired debt if the principal amount or the interest thereon is in arrear for ninety days or more. For this purpose, the Bank monitors the period of arrears in relation to the contractual repayment terms of the debt. Debts (including bonds and other assets) are considered in arrear when payments on account of principal or interest have not been made on their due dates. In addition, revolving debit accounts or current accounts are reported as debts in arrear for thirty days or more, when these accounts deviate continuously from the approved credit facility for over thirty days or more, or where within the framework of the credit facility, no amounts have been credited to such account covering the amount of the debt within a period of 180 days. Starting with the date of classification of a debt as impaired, it is treated as a debt not accruing interest income ("nonperforming debt").

Moreover, any debt the terms of which have been changed as part of a restructuring of a problematic debt, shall be classified as an impaired debt, unless prior to the restructuring and thereafter, a minimum provision has been recorded in respect of which in accordance with the extent of arears, in accordance with the Appendix to Proper Management of Banking Business Directive 314 in the matter of "proper assessment of credit losses and proper measurement of debts".

Definition of a primary repayment source upon classification of a problematic debt

As from July 1, 2017, the Bank applies the update of the FAQ file of the Supervisor of Banks in the matter of "application of the public reporting instructions regarding impaired debts, credit risk and provision for credit losses".

The update principally refers to the classification of a debt, the definition of an impaired debt and the measurement of a specific provision for credit loss. Determination of the proper classification of a debt until it becomes totally non-performing or until such an event becomes highly probable, is based upon the repayment ability of the debtor, namely, the expected financial stability of the primary repayment source, notwithstanding the support of secondary and thirdly repayment sources (such as: collateral, guarantor support, refinancing by a third party).

Among other things, the FAQ file included a question relating to the definition of the primary repayment source.

Primary repayment source - a sustainable source of cash over a period, which must be under the control of the debtor and must be explicitly or in substance set apart for the repayment of the debt. The FAQ file clarifies that as a general rule, in order for the source to be considered as a primary repayment source, the Bank must demonstrate that high probability exists that the debtor is expected to produce, within a reasonable period of time, an appropriate cash flow from continuing business operations, which would serve in full all required repayments and on their due dates as stated in the loan agreement.

The policy regarding the identification and classification of problematic debts includes the testing of the existence of a primary repayment source as an additional tool for the identification of problematic debts.

Reinstatement of an impaired debt as non-impaired

An impaired debt reverts to the classification of a non-impaired debt if one of the following two situations exists:

- No principal or interest components of the debt, which are due for payment, remain unpaid, and the Bank expects the payment in full of the remaining principal sum and interest in accordance with the terms of the loan agreement (including amounts written off accounting wise or provided for).
- When the debt becomes well collateralized and collection proceeding are in effect.

The said rules for the reversal of an impaired debt classification shall not apply to debts classified as impaired following the restructuring of a problematic debt.

Reinstatement of an impaired debt as impaired and accruing

A debt, which has formally been restructured, so that following the restructuring thereof reasonable assurance exists that the debt would be repaid and would perform in accordance with its new terms, is reinstated as a debt that accrues interest income, on condition that the restructuring and any accounting write off made in respect of the debt are supported by an updated and well documented credit evaluation of the financial position of the borrower and of the repayment forecast according to the new terms. The evaluation is based on the consistent historical repayments of the borrower in cash and cash equivalents during a reasonable period of at least six months, and only after the receipt of payments that significantly reduced the stated balance of the debt, as determined after the restructuring.

Debt arrangement policy and the treatment of a restructured problematic debt

With a view of improving the management of credit and its collection, as well as with a view of preventing failure situations and the seizure of pledged assets, the Bank has adopted and is implementing a policy for arriving at arrangements in respect of problematic debts and for making changes in the terms of debts not identified as problematic. Methods for the changing of terms of debts may include, among other, the deferment of repayment dates, reducing the rate of interest payable or the amount of the periodic repayments, changing the terms of the debt in order to match them to the financing structure of the borrower, consolidation of the borrower's debts, transfer of the debts to other borrowers belonging to a borrower group under joint control, review of the financial covenants applying to the borrower, and more.

The Bank's policy is based upon criteria that enable the Management of the Bank to apply judgment as to whether the repayment of the debt is expected, and which is applied only if the borrower shows proven ability and intention to repay the debt and is expected to comply with the terms of the new arrangement.

A debt that has formally been restructured as a problematic debt, is defined as a debt in respect of which, due to economic or legal grounds related to the financial difficulties of the borrower, the Bank granted a waiver by way of a change in the terms of the debt with a view of alleviating the burden of cash payments by the borrower in the near future (a reduction or deferral of cash payments demanded from the borrower) or by way of accepting other assets in settlement of the debt (in whole or in part).

In order to establish whether a debt arrangement made by the Bank constitutes a restructuring of a problematic debt, the Bank conducts a qualitative examination of all terms of the arrangement and the circumstances in the framework of which it had been made, this with a view of determining whether: (1) the borrower has financial difficulties and (2) as part of the arrangement the Bank has granted a waiver to the borrower.

In order to establish that the borrower has financial difficulties, the Bank looks for signs indicating financial difficulties of the borrower at date of the arrangement, or a reasonable probability that the borrower will encounter financial difficulties if not for the arrangement. Among other things, the Bank examines the existence of one or more of the following circumstances:

- The borrower is at present in default regarding the repayment of any of his debts. Moreover, the banking corporation has to assess whether it is expected that the borrower will be in default in the foreseeable future regarding the repayment of any of his debts, unless a change is made. Namely, the banking corporation may reach the conclusion that the debtor is in financial difficulties even though he is not in default at the present time.
- The borrower informed that he is in a bankrupt or is under another type of receivership, or that he is under bankruptcy proceedings or under other receivership proceedings.
- Material doubt exists as to the ability of the borrower to continue as a going concern.
- Securities issued by the borrower had been delisted, are under delisting proceedings, or are under threat of being delisted from trade on the Stock exchange.
- According to assessments and forecasts that include only the present financial capabilities of the borrower, the banking corporation expects that the cash flows specific to the entity of the borrower in the foreseeable future, would not be sufficient to serve any debt of the borrower's debts (principal and interest) in accordance with the contractual terms of the existing agreement.
- Were it not for the existing change, the borrower would not be able to obtain finance from sources other than the existing lenders at an effective rate of interest equal to the market interest rate applying to a similar debt of a non-problematic borrower.

The Bank concludes that within the framework of the arrangement the borrower had been granted a waiver, even if the arrangement specified a rise in the contractual interest rate, if one or more of the following situations exist:

- As a result of the restructuring, the Bank does not anticipate to collect all amounts of the debt (including accrued interest according to the contractual terms);
- The updated fair value of the collateral in the case of a secured debt does not cover the contractual balance of the debt and indicates the inability to collect the full amount of the debt;
- The borrower does not have the possibility of raising funds at accepted market rates in respect of a debt having terms and characteristics such as those of the debt subject to the arrangement.
- Where a banking corporation does not perform an additional underwriting procedure, as stated, upon the renewal of an inferior debt, or where there is no change in the pricing of the debt or that the pricing had not been modified so as to match the risk prior to the renewal, or where the borrower does not provide additional means in order to compensate the increase in the risk stemming from his financial difficulties, it is strongly considered that the renewal constitutes a restructure of problematic debt.

The Bank does not classify a debt as a restructured problematic debt, if within the framework of the arrangement, the borrower had been granted a payment deferral that is not material in relation to the frequency of the payments, in the contractual repayment period and during the anticipated average maturity of the original debt. In this respect, where several arrangements had been made involving changes in the terms of the debt, the Bank takes into account the cumulative effect of prior arrangements in order to establish whether the payments deferral is not material.

Treatment of restructured debts and following restructuring

Restructured debts, the terms of which had been changed in the restructuring of an impaired debt, including debts, which prior to their restructuring were assessed on a collective basis, are classified as impaired debts, which will be assessed on a specific basis for the purpose of the provision for credit losses. As a general rule, a restructured problematic debt shall continue to be measured and classified as an impaired debt until fully repaid. Nevertheless, under certain circumstances, when a debt had been restructured as a problematic debt and at a later date, the banking corporation and the borrower entered into an additional agreement for the restructure of the debt, the banking corporation is no longer required to treat the debt as a restructured problematic debt, if the following two conditions exist:

(a) The borrower no longer has financial difficulties at date of the following restructure;

(b) In accordance with the terms of the following restructure, the banking corporation had not granted the borrower a waiver (including a waiver regarding the principal amount on a cumulative basis since the original date of the loan).

A debt as above, which had undergone a following restructure and the classification thereof as an impaired debt has been removed, is assessed on a collective basis for the purpose of quantifying of the provision for credit losses and the stated balance of the debt will not change upon the following restructure (except if cash has been received or paid).

If in following periods the said debt is specifically examined and found impaired or if it is restructured as a problematic debt, then the Bank reclassifies it as an impaired debt and treats it as a restructure of a problematic debt.

Provision for credit losses

The Bank has determined procedures for the classification of credit and for the measuring of the provision for credit losses in order to maintain a provision at a proper level to cover anticipated credit losses in relation to the Bank's credit portfolio. In addition, the Bank has determined procedures required for the maintenance of a provision at a proper level to cover anticipated credit losses related to off-balance sheet credit instruments as a separate liability account (such as: commitments to grant credit, non-utilized credit facilities and guarantees).

The provision covering anticipated credit losses in relation to the credit portfolio is assessed according to one of the two ways: "specific provision" and "collective provision".

The said assessment of the debts for the purpose of determining the provision and the treatment of the debts is applied consistently to all debts, in accordance with their quantitative minimum and the credit management policy of the Bank, and no changes are made in the assessment classification of the debt as "specific" or "on a collective basis" during the life of the debt, unless a restructure of a problematic debt has been in respect of the debt, as stated above.

Specific provision for credit losses

For the purpose of the specific examination, the Bank elected to identify debts, the total contractual balances of which exceed NIS 1 million. A specific provision for credit losses shall be recognized in respect of any debt examined on a specific basis and classified as impaired. Moreover, any debt the terms of which have been changed as a result of a restructuring of a problematic debt, shall be classified as an impaired debt, unless if prior to the restructuring and thereafter, a minimum provision for credit losses had been created in respect of which by the extent of arrears period method, in accordance with the Annex to Proper Conduct of Banking Business Directive No. 314 regarding proper assessment of credit risk and the proper measurement of debts.

The specific provision for loan losses is assessed based upon the estimated future cash flows discounted by the original effective interest rate of the debt. Where the loan is collateralized or where the Bank expects a foreclosure of an asset,

the specific provision is assessed based on the fair value of the collateral pledged as security for that loan, taking into consideration conservative and consistent coefficients, which among other things reflect the volatility in the fair value of the collateral, the period until actual realization of the collateral and the costs involved in its sale.
In this respect, the Bank defines a collateral conditioned debt as a debt the repayment of which is expected to depend exclusively upon the collateral pledged in favor of the Bank, or where the Bank is expected to be repaid from the proceeds of an asset owned by the borrower even if it is not specifically pledged in favor of the Bank, all this when the borrower has no other available and reliable material sources for the repayment of the debt.

Provision for credit losses on a collective basis

Housing loans

The minimum provision in respect of housing loans is computed based on a formula determined by the Supervisor of Banks, taking into consideration the length of the default period, so that the rate of the provision increases in accordance with the length of the period of default. On the date of the initial implementation of the new directive, an amendment of the Appendix to Proper Conduct of Banking business Directive No. 314 "Proper assessment of credit risk and proper measurement of debts" entered into effect. This amendment extends the application of computing the provision based on the extent of the default period to all housing loans, with the exclusion of loans that are not repayable in periodic installments and loans which finance operations of a business nature.
In addition, the Bank implements the provisions of Proper Conduct of Banking Business Directive No. 329 in the mater of "Limitations on the granting of housing loans".
The Bank has formed a policy designed to ensure that it complies with the new requirements and that the balance of the collective provision for credit losses arising on housing loans shall not fall below a rate of 0.35% of the total outstanding balance of these loans at the reporting date.

Other credit

The collective provision for credit losses - this provision is assessed in order to reflect provisions for impairment in respect of credit losses not specifically identified, inherent in large groups of small debts having similar risk characteristics, as well as in respect of debts examined on a specific basis and found to be not impaired. The provision for credit losses in respect of debts assessed on a group basis is computed in accordance with the rules determined in FAS 5 (ASC 450), "accounting for contingencies" and in accordance with instructions of the Supervisor of Banks, based on historical loss rates in various economic sectors, divided between problematic and non-problematic credit within a range of years during the period beginning on January 1, 2011 and ending at the date of the report.
In addition to the computation of the range of the historical loss rates in the various economic sectors, as stated above, for the purpose of determining of the proper rate of provision, the Bank takes into consideration relevant environmental factors, including trends in the volume of credit in each sector and sector conditions, macro-economic data, a general assessment of the quality of credit granted to the sector, changes in volume and trend of balances in arrears and impaired balances, as well as the effect of changes in the concentration of credit.
On February 20, 2017, the Supervisor of Banks issued a letter regarding provisions for credit losses. The letter states that banking corporations are required to continue and include the year 2011 in the "range of years" item presented in their reports to the public, such item being a component in determining the collective provision for credit losses (as defined in Section 29.B(3.2), page 632-18 of the public reporting instructions).
In accordance with instructions of the Supervisor of Banks, the Bank has formed a method for the measurement of the collective provision, which takes into consideration both past loss rates as well as adjustments in respect of the relevant environmental factors. As regards credit to private individuals, the rate of adjustment in respect of environmental factors shall not be lower than 0.75% of the non-problematic balance of credit at each reporting date. Excluded from the above is non-interest-bearing credit stemming from transactions by bank credit card holders. It was further determined in the directives of the Supervision that banks which their annual loss rate is lower than 0.3%, in each of the five years ended at the report date may consider using the rate of adjustment in respect of environmental factors which will not be lower

than 0.5%. In respect of credit to private individuals who are customers of a former consolidated company, which had been merged with and into the Bank, the Bank is acting in accordance with the approval received from the Bank of Israel in the framework allowed for banks with the loss rate as above.
The Supervisor of Banks issued a letter on July 10, 2017, amending Proper Conduct of Banking Business Directives No. 314 and 315, applied as from January 1, 2018, which, inter alia, are intended to remove the mechanism for the additional provision in respect of restriction on concentration of credit, the absence of up-to-date financial information and other characteristics contained in other directives. Upon the cancellation of the additional provision, the Bank is required to take into account risk characteristics pertaining to the absence of up-to-date financial statements, when forming the method of determining the provision for credit losses.

Off-balance sheet credit

The required provision in respect of off-balance sheet credit instruments is assessed in accordance with the rules determined in Item 450 of the Codification. The provision assessed on a collective basis in respect of off-balance sheet credit instruments is based on the rates of the provision determined for the balance sheet credit (as explained above) taking into account the anticipated rate of realization into credit of the off-balance sheet credit risk. The rate of realization into credit is computed by the Bank based on conversion into credit coefficients as detailed in Proper Conduct of Banking Business Directive No. 203, measurement and capital adequacy - credit risk - the standard approach.
In addition, the Bank examines the overall propriety of the provision for credit losses. The said evaluation is based on the judgment of Management, which takes into consideration the risks inherent in the credit portfolio and the methods of valuation applied by the Bank for assessment of the provision.

Modifications regarding the Coronavirus crisis

In the course of the Corona crisis, the Bank has made modifications to the collective provision coefficients, with a view of reflecting the negative impact of the crisis and the uncertainty created by it regarding the repayment ability of borrowers.
The additional modifications had been examined and updated all along the crisis period, based on assessments of the prevailing level of uncertainty, on considerations regarding developments in the economy, the manner of management of the risk by those who determine the policy, the scope of restrictions imposed on economic activity, macro-economic parameters being created, and more.
During the year 2020, in view of the high uncertainty, the Bank increased significantly, the modifications in respect of the collective provision coefficients, and as from the second quarter of 2021, in view of the positive developments in the economy and the decline in the level of uncertainty, the Bank partially reduced the said modifications.

Modifications in respect of the growth in credit risk in the construction and real estate sector

In view of the letters of the Supervisor of Banks issued to the banking system as a whole in the matter of "the growth in credit risk in the construction and real estate sector", and following the requirement of the Supervisor of Banks for the modification of the collective provision in respect of the commercial credit portfolio, in a way that would properly reflect the rise in the risk level of the portfolio, the Bank has determined criteria for defining credit in the construction and real estate sector as "increased risk" credit, and has reviewed the credit in this sector for the purpose of monitoring credits agreeing with the defined increased risk tests. The increased risk credit population is being updated on a quarterly basis in accordance with the updated credit characteristics.
Furthermore, the Bank has determined principles for the recording of the additional collective provision, based on the scope of the population identified as having increased risk and agrees with additional tests, and has accordingly increased the collective provision. As of December 31, 2021, the balance of the collective provision in respect of the construction and real estate sector amounts to NIS 100 million, comprising 0.5% of the credit risk balance of this sector.

Accounting write-off

The Bank writes-off accounting wise any debt or part thereof assessed on specific basis, which is not considered collectible and of a low value so that its remaining as an asset is not justified, or a debt in respect of which the Bank is conducting long-term collection efforts (defined in most cases as a period exceeding two years). Regarding debts the collection of which depends on collateral, the Bank immediately performs an accounting write-off against the balance of the provision for credit losses, of that part of the stated balance of the debt exceeding the fair value of the collateral.

Regarding debts assessed on a collective basis, write-off principles have been determined based on their period of default (in most cases over 150 consecutive default days) and on other problem parameters. In respect of housing loans, where the minimal provision is based on the extent of the default period, the Bank writes-off accounting wise balances of debts remaining after the realization of the collateral where no other sources for the repayment of the debt are available, or in cases of difficulty in the realization of the collateral, or in cases where a collateral covering all or a part of the debt exists but has not been realized during a period of five years for humane reasons.

It should be clarified that accounting write-offs do not involve legal waiver and they reduce the reported debt balance for accounting purposes only, creating a new cost basis for the debt in the books of the Bank.

Notwithstanding the above, concerning debts assessed on a collective basis and classified as impaired due to the restructure of a problematic debt, the need for an immediate write-off is being examined. In any event, such debts are being written-off accounting wise no later than the date on which the debt has become a debt in arrears of sixty days or over, in relation to the terms of the restructure.

Income recognition

At date of classification of the debt as impaired, the Bank defines the debt as nonperforming and ceases to accrue interest income in respect thereof, except as stated below regarding certain restructured debts. Furthermore, at date of classification of the debt as impaired, the Bank cancels all interest income accrued and not yet collected, which had been recognized in profit and loss. The debt continues to be classified as nonperforming so long as its classification as impaired has not been removed. A debt which has formally been restructured as a problematic debt and following such restructuring reasonable assurance exists that the debt will be repaid and will perform according to its new terms, is treated as a performing impaired debt. See Item (4) above for details regarding the recognition of income on a cash basis in respect of debts classified as impaired.

The Bank does not cease to accrue interest income on debts that are assessed and provided for on a collective basis, which are in arrear for ninety days or over. Such debts are subject to assessment methods for the provision for credit losses which ensure that the profit of the Bank is not inclined upwards. Charges in respect of arrears regarding such debts are recognized as income when the right to such charges is established on condition that collection thereof is reasonably assured.

Disclosure requirements

The Bank implements the disclosure requirements regarding credit quality of debts and provision for credit losses as determined in the updated accounting standard ASU 2010-20. These require the Bank to provide a wider disclosure of outstanding debts, movement in the balance of provision for credit losses, indication as to the credit quality, any material purchase or sale of debt portfolios during the reported period.

Furthermore, in accordance with the instructions of the Supervisor of Banks regarding the change in the format of the financial statements, the Bank presents condensed principal information regarding credit risk, credit to the public and the provision for credit losses (see Note 13) and additional information regarding credit risk, as stated (see Note 29).

(6) Securities

- The bank's investments in securities are classified, into three portfolios, as follows:
  - Held to Maturity Bonds - bonds, which the Bank has the intention and ability to hold until their redemption date, excluding bonds which may be prematurely redeemed or settled in another way so that the Bank might not cover

substantially all of its recorded investment therein. Held to maturity bonds are stated at cost together with exchange or linkage increments and interest accrued, as well as the unamortized amount of discount or premium and less a loss on impairment considered to be of a nature other than temporary.

- Available-for-Sale Bonds - bonds not classified as bonds held to maturity or as trading securities. Available for sale bonds are stated in the balance sheet at their fair value on the reporting date. Unrealized gains or losses from adjustment to fair value are not reflected in profit and loss but are stated net of an appropriate tax provision, in a separate item of shareholders' equity, as part of other cumulative comprehensive profits, except for losses in respect of impairment considered to be of a nature other than temporary.
- Trading Securities - securities purchased and held for sale in the near future or securities which the Bank elects to measure at fair value through profit and loss, according to the fair value alternative, excluding shares in respect of which fair value is not readily available. Trading securities are stated at their fair value on the reporting date. Unrealized gains or losses on adjustment to fair value are reflected in the statement of income.
- Shares not held for trading
    - Shares in respect of which fair value is readily available, are stated in the balance sheet at fair value as of the reporting date. Unrealized gains or losses on adjustment to fair value are reflected in the statement of income.
    - Shares in respect of which no readily available fair value exists, are stated in the balance sheet at cost, net of impairment and with the addition or deduction of changes in observable prices of regular transactions in similar or identical investments of that same issuer. Unrealized gains or losses on adjustment to changes in observable prices, as stated, are reflected in the statement of income.

- Dividend income, accrued interest, exchange and linkage increments, amortization of premium or discount (according to the effective interest method) as well as losses on impairment of a nature other than temporary are reflected in profit and loss.
- Interest income in respect of purchased beneficiary rights, as well as beneficiary rights continued to be held by the Bank as part of securitization of financial instruments, excluding beneficiary rights of a high credit quality, are recognized by the prospective interest method, while adjusting the rate of interest used for the recognition of interest income to changes in assessment of future cash flows. In this respect, high credit quality of beneficiary rights are beneficiary rights issued under guarantee of the US Government or by US Government agencies, as well as asset backed securities the international credit rating of which is at least "AA".
- The bank's investments in private equity funds are stated at cost less losses on impairment of a nature other than temporary. Gain on investments in venture capital funds is recognized in profit and loss upon realization of the investment.
- The cost of realized securities is based on the "first in first out" method.
- See Item (7) hereunder regarding the computation of fair value.
- See Item (9) hereunder regarding the treatment of impairment of a nature other than temporary.

(7) Derivative Financial Instruments including hedge accounting

The Bank holds derivative financial instruments for the purpose of hedging exposure to certain risks (such as: interest risk, foreign currency risk) as well as derivatives not used as hedge, including separated embedded derivatives. As a general rule, derivatives are initially recognized at fair value. Following initial recognition, the derivatives are measured at fair value, changes in fair value being treated as described hereunder:

Hedge accounting

The Bank is exposed to interest risk stemming from its investments in fixed interest bonds. As part of the general strategy of the Bank for the management of exposure level to this risk, the Bank designates certain financial instruments as fair value hedge.

At date of beginning the hedge relations, the Bank formally documents the hedge relations and the purpose of its risk management and strategy for conducting the hedge. Documentation includes identification of each of the following: the hedge instrument, the hedged item or transaction, the substance of the hedged risk, and the method to be used by the Bank for the assessment of the effectiveness of the hedge relations, offsetting exposure to changes in fair value of the hedged item (in a fair value hedge) attributed to the hedged risk.

Fair value hedge

The Bank designates derivative instruments as hedge for exposure to changes in fair value of an asset or liability, or an identified part thereof, which may be attributed to a certain risk.

Where a derivative instrument is used as a hedge instrument for fair value, the changes in its fair value included in the assessment of the effectiveness of the hedge, are recognized on a current basis in profit and loss and are presented in the same item in which the effect of the hedged item is presented. The profit or loss (namely, the changes in fair value) in respect of the hedged item that is attributed to the hedged risk, is treated as adjustment to the book value of the hedged item, and is recognized on a current basis in profit and loss. The adjustment to the book value of the hedged item shall be treated in a similar manner to other components of its book value.

The Bank ceases to apply hedge accounting when: the criteria for the application of hedge accounting no longer exist, the derivative instrument expires, is sold, cancelled or is realized, or when the Bank cancels the designation of the hedge relations.

Economic hedge

Hedge accounting is not applied in the case of derivative instruments used as part of the asset and liability management layout of the Bank (ALM). Changes in fair value of such instruments are reflected in profit and loss as they occur and are presented in the item "non-interest financing income".

Derivative instruments not used for hedge standing on their own

Derivative instruments not used for hedge purposes and which are standing on their own, are measured at fair value and presented in the balance sheet in items of assets or liabilities in respect of derivative instruments. Changes in their fair value are recognized on a current basis in profit and loss and presented in the item "non-interest financing income".

Embedded derivative instruments that were separated and not used for hedge

Embedded derivative instruments are separated from the host contract and treated separately as derivative instruments in accordance with sub-item 815-10 of the Codification, when: (1) the economic characteristics and the risks of the embedded derivative instrument are not clearly and closely connected to the economic characteristics and risks of the host contract; (2) the instrument involved is not remeasured on the basis of its fair value in accordance with other suitable accepted accounting principles, together with the recognition of changes in fair value in profit and loss as they occur; and (3) a different instrument having the same terms of the embedded derivative instrument agrees with the definition of a derivative.

In certain cases (such as cases where the Bank is unable to separate the embedded derivative from the host contract), the Bank elects to measure the hybrid financial instrument as a whole at fair value, while reporting changes in fair value in profit and loss. The said election is made upon acquisition of the hybrid instrument or when certain events occur in which the instrument is subject to remeasurement (a remeasurement event), such as a business combination or material changes taking place in the debt instrument. Election of measurement according to fair value, as stated, is irrevocable and is made in respect of each instrument separately.

(8) Fair value determination of financial instruments

Fair value is defined as the amount/price which would be received from the sale of an asset or paid in settlement of a liability in a regular transaction between willing parties at date of measurement. Among other things, for the purpose of assessing fair value, the Standard requires that, as far as possible, maximum use should be made of observable inputs, while reducing the use of unobservable inputs. Observable inputs reflect information available on the market received from independent sources, while unobservable inputs reflect the assumptions of the banking corporation. Sub-item 820-10 of the Codification details the hierarchy of measurement techniques, based on the question whether inputs used for the determination of fair value are observable or unobservable. These classes of inputs create a fair value grading as detailed below:

- Level 1 inputs: quoted prices (non-adjusted) on active markets for identical assets and liabilities, to which the Bank has access at measurement date.
- Level 2 inputs: observable data, directly or indirectly, for the asset or liability, which are not quoted prices included in Level 1.
- Level 3 inputs: unobservable inputs for the asset or liability.

Securities

The fair value of trading securities, available-for-sale bonds and of shares not held for trading is determined on the basis of quoted market prices on the principal market. Where several markets on which the security is traded exist, the assessment is made according to the quoted price on the most useful market. In such cases, the Bank's fair value of the investment in securities is the multiplication of the number of units by that same quoted market price. The quoted price used for the determination of fair value is not adjusted for the size of the position of the Bank relatively to the volume of trading (the block holding factor). Where no quoted market price is available, the assessment of fair value is based on the best available information, while making maximum use of observable inputs, taking into consideration the risk inherent in the financial instrument (market risk, credit risk, non-trading and such like). Excluding shares not held for trading that have no readily available fair value and are measured as detailed in item (6) above.

Derivative financial instruments

Derivative financial instruments that have an active market are assessed at market value determined on the principal market, and in the absence of a principal market, according to the price quoted on the most useful market. Nonmarketable derivative financial instruments are assessed on the basis of models that take into account the risk inherent in the derivative instrument (market risk, credit risk, etc.). For further details, see below for assessment methodologies of credit risk and non-performance risk.

Additional non-derivative financial instruments

No "market price" is available for most of the financial instruments in this category (such as: credit granted to the public, credit to the government, deposits from the public, deposits with banks, subordinate debt notes and non-tradable securities) because these are not traded on any active market. Accordingly, fair value is assessed using accepted pricing models, such as the present value of future cash flows discounted at a discount rate reflecting the level of risk inherent in the financial instrument. For this purpose, future cash flows in respect of impaired debts and other debts have been computed after the netting of the effect of accounting write-offs and provisions for credit losses in respect of the debts.

Evaluation of credit risk and of nonperformance risk

FAS 157 (ASC 820) requires a banking corporation to reflect credit risk and nonperformance risk in measuring the fair value of a debt, including derivative instruments that were issued by it and measured according to fair value. Nonperformance risk includes the credit risk of the banking corporation but is not limited to that risk only. For a more extensive discussion as regards the principal methods and assumptions used for assessment of fair value of the financial instruments, see Note 32A "Balances and fair value assessments of financial instruments".

(9) Impairment of financial instruments

Securities - bonds available for sale or which are held to maturity

As of each reporting date, the Bank examines whether impairment of a nature other than temporary has occurred with respect to the fair value of bonds classified to the available-for-sale portfolio and to the held to redemption portfolio.

During a reporting period, the Bank recognizes impairment of a nature other than temporary, at least regarding any bond to which one or more of the following conditions apply:

- A bond that had been sold prior to date of publication of the report for the relevant period;
- A bond, which proximate to the date of publication of the report for the relevant period, the Bank intends to sell within a short period of time;
- A bond, the rating in respect of which was significantly lowered from its level at date of purchase by the Bank to its rating level at date of publication of the report for the relevant period. For this purpose, a material downgrade will be considered if the security's rating was lowered below investment rating;
- A bond, which subsequent to its purchase has been classified by the Bank as "problematic";
- A bond, in respect of which a default in payment occurred subsequent to its purchase;
- A bond, the fair value of which at the end of the reporting period and at a date proximate to the publication of the financial report was lower at the rate of over 40% than its cost (in case of a bond - its written-down cost), and the period in which the fair value of the bond was lower than its cost exceeds three consecutive quarters. This, unless the Bank has objective and solid evidence as well as a careful analysis of all relevant factors, which indicate at a high level of assurance, that the decrease in value is of a temporary nature.

Furthermore, the examination as to whether the impairment is of a nature other than temporary is based on the following considerations:

- Deterioration in the condition of the issuer or in market condition as a whole;
- The intention and ability of the Bank to hold the bond for a long enough period allowing the recovery of fair value of the bond or until maturity;
- The rate of return to maturity;

When impairment of a nature other than temporary occurs, the written down cost of the bond is written-down to its fair value, which serves as a new cost basis. The cumulative loss pertaining to a bond classified as available-for-sale, which in the past was reflected in a separate item of shareholders' equity within the framework of other comprehensive profit, is recorded in profit and loss when in respect of which, impairment that is not of a nature other than temporary is recognized. Increases in value in subsequent periods are recognized as a separate item of shareholders' equity within the framework of other cumulative comprehensive profit and are not reflected in profit and loss (new cost basis).

Securities - shares that have no readily available fair value

In each reporting period, the Bank performs a qualitative assessment, which takes into account impairment indicators in order to estimate whether impairment has occurred regarding the investment in shares that have no readily available fair value. Where, according to such assessment, impairment of the investment in shares has occurred, the Bank assesses the fair value of the investment for the purpose of determining the amount of loss on impairment.

Credit to the public and outstanding debt

See Item (5) above.

(10) Offsetting of financial assets and liabilities

The Bank sets-off assets and liabilities deriving from the same counterparty, stating their net balance in the balance sheet, if the following cumulative conditions exist:

a. In respect of such liabilities, a legally enforceable right of setoff of liabilities against assets exists;
b. Intention exists to settle the liabilities and realize the assets either on a net basis or concurrently.
c. Both the Bank and the counterparty owe one another determinable amounts.

The Bank offsets assets and liabilities with two different counterparties and states in the balance sheet the net amount if all the above cumulative conditions exist and on condition that an agreement exists between the three parties which clearly establishes the right of the Bank for set-off of the said liabilities.

The Bank offsets deposits, the repayment of which to the depositor is conditional upon the extent of collection of the loans granted out of such deposits, and where the Bank has no risk of loss from such loans.

(11) Transfers and service of financial assets and the settlement of liabilities

The Bank applies the measurement and disclosure rules determined within the framework of the instructions of Sub-Item 860-10 of the Codification in the matter of transfer and service of financial assets for the purpose of treatment of transfers of financial assets and settlement of liabilities.

According to the said rules, the transfer of a financial asset shall be treated accounting wise as a sale, if and only if all the following conditions exist: the transfer of a financial asset in entirety, of a group of financial assets in entirety, or of a participating interest in a financial asset in entirety, by which the transferor bank waives control over the said financial assets, is recorded as a sale, if and only if, all the following conditions exist: (1) the transferred financial assets had been isolated from the transferor and are beyond the reach of the transferor and his creditors also in the case of bankruptcy or other type of receivership; (2) any transferee of the asset has the right to pledge or exchange the asset (or the beneficiary rights) received by him, and no conditions exist which also restrict the transferee from using his right to pledge or exchange the asset and which also grants the transferor a larger than just a trivial benefit; and (3) the transferor does not retain effective control over the transferred financial assets.

In the event that the Bank performs a transfer of a part of an entire financial asset, the Bank examines as to whether such transfer conforms to the definition of a participating interest. A participating interest has all the following characteristics: (a) from date of transfer onwards, it represents a pro-rata ownership right in the entire asset; (b) from date of transfer onwards, all cash flows received from the entire financial asset are divided proportionately among holders of the participating interest, in amounts equal to their share in ownership; (c) the rights of all holders of participating interests (including the transferor in his role as a holder of a participating interest) have identical priority, and no right of any holder of a participating interest is inferior to the right of another holder of a participating interest; and (d) no party has the right to pledge or change the entire financial asset, unless all holders of participating interest agree to pledge or exchange the entire financial asset.

To the extent that the transfer fulfills the conditions for recording it as a sale, the Bank removes the transferred financial assets and recognizes at fair value the assets received and the liabilities created as a result of the sale (assets received and liabilities created). The difference between the fair value of the net receipt and the book value of the financial assets sold is recognized in the statement of profit and loss.

In the event that the transfer does not conform to the terms of a sale, as stated above, or if a transfer of a part of an entire financial asset does not conform to the definition of a participating interest, then the said transfer is treated as a secured borrowing with a pledge of collateral. The Bank continues to record in the balance sheet the financial assets transferred, with no change in the measurement thereof.

Furthermore, in accordance with an update to Bank of Israel instructions regarding the improved use of financial statements for the years 2017 and 2018, the disclosure requirements regarding syndication transactions were updated. See Note 29 regarding "Additional information regarding credit risk, credit to the public and provision for credit losses".

Settlement of liabilities

The Bank deletes a liability if, and only if, that liability had been settled, namely, one of the following conditions exist: (a) the Bank has paid the lender and is released from his commitment with respect to the liability, or (b) the Bank has been legally released, either by legal proceedings or with the consent of the lender, from being the principal debtor in respect of the liability.

Transactions regarding the lending of securities managed as credit transactions

The Bank applies specific instructions determined in the public reporting instructions for the treatment of securities lending or borrowing transactions, in which the lending is made against the general credit quality and the general collateral of the borrower, where the borrower does not transfer to the lender as collateral liquid instruments that specifically relate to the securities lending transaction, and which the lender is permitted to sell or pledge them.

Treatment of non-secured lending of securities held in the available-for-sale portfolio or in the trading portfolio.

On the day that the Bank lends securities to cover short sales by the borrower, the Bank deletes the securities on loan, recognizing credit granted in the amount of the market value of the securities on the lending day. In following periods, the Bank measures the credit granted in the same manner in which the securities had been measured prior to the lending thereof. The credit is measured at market value. Income on an accrual basis in respect of such securities is recognized as interest income from credit and changes in market value (over and above the changes in the accrual basis) are recognized as part of non-interest financing income, when the securities in question are included in the trading portfolio, or as part of other comprehensive profit, in the case of available-for-sale bonds. Upon the termination of lending, the Bank recognizes again the securities and deletes the credit.

Treatment of non-secured borrowing of securities

The non-secured borrowing of securities by the Bank is recorded on the borrowing date as a deposit, at the fair value of the securities received on the borrowing day. The securities received are recognized in the "Securities" item and are classified to the trading portfolio. So long as the Bank does not short sell the security borrowed, the Bank records at each reporting period the difference, whether positive or negative, between the market value of the security at the reporting date and the balance recorded as a deposit from the public (or other deposit if the borrowing was not from the public). Changes in this item in the reported period stemming from changes in market value of the security are recorded as "non-interest financing income" (these changes offset the gains or losses recorded in profit and loss in respect of the security which was not as yet short sold).

When the Bank short sells a borrowed security, the Bank examines at any reporting date, whether the difference between the market value of the short sold security at the reporting date and the balance in respect of the non-secured borrowing transaction included in deposits from the public (or in other deposits if the borrowing was not from the public) is positive. In the case that the said difference is positive, it is recognized and reported as "non-interest financing income" in profit and loss.

(12) Fixed assets (buildings and equipment)

Recognition and measurement

Fixed asset items, including investment real estate, are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditure directly attributable to the purchase of the asset. The cost of self-constructed assets

includes the cost of materials and direct labor, as well as any other costs that may be directly attributable to bringing the asset to the place and condition required for it to operate in the manner planned by Management.
Cost of acquired software, which forms part of the operation of related equipment, is recognized as part of the cost of the said equipment.
Gain or loss on disposal of a fixed asset are determined by comparing the consideration received on disposal to the stated value of the asset and are recognized, net, in the item “Other income” in the statement of profit and loss.

Depreciation

Depreciation is charged to profit and loss by the straight-line method over the estimated useful life of each part of the fixed asset items, as this method reflects in the best manner, the anticipated consumption format of the future economic benefits inherent in the asset. Assets on lease are depreciated over the shorter of the lease period or the useful lives of the assets. Land owned by the Bank is not depreciated.
An asset is being depreciated when it is available for use, namely, when it reached the place and condition required for it to operate in the manner planned by Management.
Assessment of the useful lives of assets for the reported and comparative periods is as follows:

- Buildings and land	- 25-50	years
- Furniture and equipment	- 7-17	years
- Motor vehicles	- 5	years
- Leasehold improvements	- 7-18	years
- Information technology equipment	- 3-8	years

The assessments regarding the depreciation method, the useful lives and the residual value of assets are re-examined when events or changes in circumstances indicate that the present assessments are no longer applicable, and are modified, where required.

Impairment

The Bank tests noncurrent assets (or group of assets) for impairment when events or changes in circumstances indicate that the written down cost may not be recoverable.
For the purpose of examination and measurement of impairment, the Bank groups together an asset (or a group of assets) with other assets and liabilities at the lowest level possible which produces cash flows that are not dependent on cash flows produced by other groups of assets and liabilities. Recognized losses on impairment are taken only to the asset (or group of assets) to which Item 360 of the Codification applies.
Losses on impairment are recognized only if the book value of a noncurrent asset (or group of assets) is not recoverable and exceeds its fair value.
Book value is considered irrecoverable if it exceeds the total noncapitalized cash flow expected to be derived from use of the noncurrent asset (group of assets) and its disposal.
Loss on impairment amounts to the difference between the book value of the noncurrent asset (or group of assets) and its fair value, and is reflected in the statement of profit and loss.
When a loss on impairment is recognized, the adjusted book value of the noncurrent asset (or group of assets) comprises a new cost basis. The loss recognized on impairment is not reversed in following periods, even if an increase in value of the noncurrent asset occurs.

(13) Leasing

Contracts which grant the Bank control over the use of an asset within the framework of a lease for a period of time in return for consideration are treated as leases. Upon initial recognition, a liability is recorded in the amount equal to the present value of the future lease payments over the lease period (these payments do not include variable lease payments), and in parallel, a right of use asset is recognized in the amount of the liability in respect of the lease, adjusted for lease payments paid in advance or accrued, and net of lease incentives, with the addition of accrued direct expenses in respect of the lease.

The lease period is determined as the period in which the lease may not be terminated, together with periods covered by an option for extension or for termination of the lease, where it is reasonably certain that the lessee would exercise or not exercise the option, respectively, and together with periods covered by an option to extend or not to terminate the lease, where the right to exercise the option is controlled by the lessor.

The Bank has elected to apply the practical mitigation according to which short-term leases of up to one year are treated in a way that the lease fees are recognized in profit and loss by the "straight line" method, over the period of the lease, with no recognition of a right of use asset and/or a liability in respect of the lease in the financial condition report.

In the case of lease of land and buildings, the land and buildings components are tested separately for the purpose of classification and measurement, where a significant consideration in classifying the land component is the fact that generally land has an indeterminate lifespan.

The Bank has elected to apply the practical mitigation of not separating from the lease components, those components that do not comprise a lease, such as services or maintenance, treating them as one lease component.

Consecutive measurement

Following the initial recognition, a liability in respect of an operating lease is measured at amortized cost in accordance with the effective interest method. Likewise, the Bank tests a right of use asset (in respect of both operating and financial leases) for the purpose of impairment in accordance with sub-item 360-10-35 of the Codification regarding impairment of fixed assets.

Operating lease payments

The lease payments, excluding variable lease payments, are recognized in profit and loss according to the "straight line" method, over the period of the lease. Lease incentives received are recognized as an integral part of total lease expenses according to the "straight line" method, over the period of the lease. Variable lease payments dependent on the CPI or on the interest rate, are recognized in profit and loss in the lease period. Variable lease payments not dependent on the CPI or on the interest rate, are recognized in profit and loss in the period in which it is expected that the specific target leading to changes in the lease payments would be reached, and these would be cancelled in the period in which it is no longer expected that the specific target would be reached.

At each consecutive reporting date, the right of use asset is recognized in the amount of the amortized cost of the liability in respect of the lease, adjusted for lease payments paid in advance or which had accrued, net of lease incentives and with the addition of not yet amortized direct costs, net of losses on impairment accrued in respect of the right of use asset.

(14) Intangible assets

Costs of software for own use

Software purchased by the Group is measured at cost, which generally includes the cost of the transaction, less accumulated amortization and losses on impairment.

The Bank capitalizes costs related to software development for internal use only when: (1) the preliminary stage of the project had been completed; and (2) Management, having the appropriate authority, has approved and has committed to finance, directly or indirectly, the project for the development of software and it is expected that the development would be completed.

Upon development or obtaining software for own use, the Bank capitalizes the following costs: direct costs of materials and services consumed, cost of payroll for employees directly connected with the development or obtaining the software. Other costs incurred in respect of development work and costs in the preliminary stage of the project, are recognized in profit and loss as incurred.

Subsequent costs

The cost of upgrading and improvement of software for internal use is capitalized only if it is expected that the incurred costs would lead to additional functionality. Other subsequent costs are recognized as an expense as incurred.

Amortization

Intangible assets created by software projects are amortized to profit and loss by the "straight-line" method over the estimated useful life of the software, beginning with the date on which the software is ready for its intended use. In this respect, software is ready for its intended use when all material examinations thereof have been completed.

Assessment of the useful lives of software costs for the reported and comparative periods is five years.

The assessments regarding the useful lives of intangible assets having a defined lifespan are re-examined on a periodic basis in order to determine whether events or circumstances justify a change in the remaining amortization period, which is accordingly adjusted, where required.

Impairment

The Bank tests for impairment intangible assets having a determinable lifespan, when events or changes in circumstances occur, indicating that the written down cost may not be recoverable. Losses on impairment are recognized only if the book value of the intangible asset is irrecoverable and exceeds its fair value. The book value is considered irrecoverable if it exceeds the total cash flows in noncapitalized values, expected to be derived from the use of the asset and its final disposal.

Loss on impairement amounts to the difference between the book value of the intangible asset and its fair value, and is reflected in the statement of profit and loss.

When a loss on impairment is recognized, the adjusted book value of the intangible asset comprises a new cost basis. The loss recognized on impairment is not reversed in following periods, even if an increase in value of the intangible asset occurs.

Hereunder are examples of events or changes in circumstances indicating impairment of in-house development costs of computer software:

1. It is not anticipated that the software will provide significant potential services;
2. A significant change has occurred in the manner or scope of use of the software or in its anticipated use;
3. A material change in the software was performed or would be performed in the future;
4. The development costs or the cost of conversion of the software intended for internal use, significantly exceed anticipated costs;

When it is no longer expected that development of the software would be completed, the Bank adjusts the book value of the software so that its amount would be the lower of its book value or its fair value, net of sale costs. In this respect, a disputable assumption exists that the fair value of the software in such a case is worthless.

(15) Employee rights

Post-retirement benefits - pension, severance compensation and other benefits (hereinafter -"compensation") - defined benefits plans

Pension benefits comprise a part of the compensation payable to an employee in return for his services. In a defined benefit pension plan, the Bank is committed to provide, in addition to current wages, severance compensation upon retirement or termination of employment. On a general level, the amount of benefit payable is dependent on certain future events included in the benefit formula of the plan, which often includes the number of years of service of the employee and the compensation earned by him in the years immediately prior to his retirement or termination.

The net cost of pension for a period is the amount recognized in the financial statements of the Bank as the cost of the pension plan for a given period. The component of the net cost of pension for the period are the cost of service, the cost of interest, the actual return on assets of the plan, profit or loss, amortization of cost or credit in respect of prior service, and the amortization of an asset or liability in respect of the transition existing at date of initial implementation, in accordance with the public reporting instructions. The term "net pension cost for the period" is used instead of "net pension expense for the period", due to the fact that a part of the recognized cost for the period might be capitalized together with additional costs as part of an asset, for example: software for internal use.

In this respect, profit or loss is the amount of (1) the difference between the actual return on assets of the plan and the forecasted return on the assets of the plan, and of (2) the deduction of the net profit or loss recognized in other cumulative comprehensive earnings.

Pension benefits are generally attributed to periods of service of an employee, based on the benefit formula of the plan, to the extent that the formula states such attribution or that attribution is inferred there from.

The Bank computes the forecasted long-term return on the assets of the plan using historical rates of return over a long period of time relating to a portfolio having a similar composition of assets. For this purpose, the Bank uses available market data as regards each of the significant categories of assets in the portfolio, and averages them in accordance with the composition of the plan's assets.

The commitment in respect of the forecasted benefit reflects the present actuarial value of all benefits attributed to the service of the employee provided prior to balance sheet date. The measurement of this commitment is based on appropriate actuarial assumptions at date of the balance sheet of the Bank (for example: replacement, mortality, discounting rates etc.) as well as population census data as of that date.

In the event that the commitment in respect of the forecasted benefit exceeds the fair value of the plan's assets, the Bank recognizes in the balance sheet a liability equal to the amount of the unfunded commitment in respect of the forecasted benefit. Where the fair value of the assets of the plan exceed the commitment in respect of the forecasted benefit, the Bank recognizes in the balance sheet an asset in an amount equal to the overfunded amount in respect of the forecasted benefit.

The Bank collects together the positions of all overfunded plans and recognizes this amount as an asset in the balance sheet. Similarly, the Bank collects together the positions of all under-funded plans and recognizes this amount as a liability in the balance sheet.

The Bank reviews its assumptions on a quarterly basis and revises such assumptions accordingly.

A change in the value of a commitment in respect of a forecasted benefit or in the value of assets of a plan, stemming from actual experience, which is different from the forecast, or which stems from a change in the actuarial assumptions, constitutes "profit or loss" (hereinafter - "actuarial profit or loss"). Actuarial profits or losses are not recognized as part of the net cost of pension for the period when incurred, but are recognized in other comprehensive earnings. In following periods, such profits or losses are later recognized in profit and loss as a component of the net cost of pension for the period according to the "straight line" method over the remaining average period of service of the employees expected to enjoy the benefits under the plan.

The Bank recognizes losses in respect of settlements effected under its defined benefit programs, when the expected one-time payments related to the program would be higher than the total cost of the service and the cost of the annual interest. The amount of the loss is calculated in accordance with the percentage of the rate in which the actuarial liability declined as a result of the settlement, multiplied by the balance of the actuarial profits and losses accumulated in other comprehensive earnings.

The discounting rate regarding the benefits to employees is computed on the basis of the return on Israeli government bonds with the addition of the average spread on corporate bonds rated AA (international) and above, at reporting date.

For practical considerations, the spread is determined according to the difference between the rates of return to maturity, according to maturity periods, on US corporate bonds rated AA and above, and the rates of return to maturity, for the same maturity periods, on US government bonds, everything at date of reporting.
The Bank follows the guidelines of the Supervisor of Banks regarding internal control over the financial reporting process in the matter of employee rights, including the matter of examining a "commitment in substance" to grant its employees benefits in respect of enlarged severance compensation.

Post-retirement benefits - defined deposit plan

A defined deposit plan is a plan that provides post-retirement benefits in consideration for services provided, maintains a personal account for each participant in the plan, and defines the manner of deposits made to the account of the employee instead of determining the amount of benefits to be paid to the employee. In the post-retirement defined deposit plan, the benefits that the participant in the plan would receive are dependent only on the amount deposited into the account of the participant in the plan, on the return accumulated of the assets of such deposits, and on the forfeiture of benefits of other participants that might be allocated to the account of that participant.
Where it is required that the defined deposits of a plan to the account of a person shall be made for periods in which this person provides services, the net cost of pension or the net cost of other post-retirement benefit for the period, shall be the required deposit for that period.
The commitment of the Bank for the payment of severance compensation in accordance with Section 14 of the Severance Compensation Act is treated as a defined deposit plan.

Other post-retirement benefits

The Bank recognizes the non-discounted amount of the current benefit at the date of granting the service. In addition, the Bank accumulates the liability during the relevant period, which is determined in accordance with the rules applying to other post-retirement benefits.

Paid leave of absence

The Bank accumulates a liability in respect of compensation of employees during future periods of leave of absence, if all the following conditions exist: (a) the commitment of the Bank regarding the right of employees to receive compensation in respect of future periods of leave of absence is attributed to services already provided by the employees; (b) the commitment relates to vesting or accumulated rights; (c) payment of the compensation is expected; (d) the amount may be reasonably estimated.
Vacation - the Bank accumulates the liability over the determined relevant period. For the purpose of computing the liability, actuarial assumptions and discounting rates are not taken into account. All components of the cost of the benefit for the period are immediately recognized in profit and loss.
Sick leave - no liability is being accumulated in respect of paid sick leave.

Award payable at termination of employment in respect of unutilized sick leave

The Bank accumulates this liability as leave of absence entitled to compensation over the determined relevant period. For the purpose of computing the liability, actuarial assumptions and discounting rates are taken into account. All components of the cost of the benefit for the period, including actuarial profits or losses, are immediately recognized in profit and loss. In determining the discounting rate of interest and the manner of allocation to periods of cost of the service, the Bank applies the rules applying to defined benefits pension plans, with the required modifications.

Other long-term benefits to active employees - seniority awards

The liability is accumulated over the period entitling to the benefit. For the purpose of computing the liability in respect of such benefit, actuarial assumptions and discounting rates are taken into account. All components of the cost of the benefit for the period, including actuarial profits or losses, are immediately recognized in profit and loss.

(16) Contingent Liabilities

The financial statements include appropriate provisions for claims, in accordance with assessments of Management based on opinions of its legal advisors. The disclosure format is in accordance with directives of the Supervisor of Banks, which classify claims submitted against the Bank into three groups:

1. Probable - prospects of risk materializing are of over 70%. A provision is included in the financial statements in respect of a claim classified under this group.
2. Reasonably possible - prospects of risk materializing are between 20% and 70%. No provision is included in the financial statements in respect of a claim classified under this group, but only disclosure as stated below.
3. Remote - prospects of risk materializing are below 20%. No provision is included in the financial statements in respect of a claim classified under this group, but only disclosure as stated below.

A claim, in respect of which the Supervisor of Banks determined that the Bank is required to refund amounts, is classified as "probable" and a provision therefore is included in the financial statements in the amount required to be refunded.

In rare cases, where Management, based on opinion of its legal advisors, decides that it is not possible to assess the prospects of a risk exposure materializing with respect to an ordinary law suit and to a suit approved as a class action suit, the Bank does not include a provision in this respect.

Note 25 regarding contingent liabilities and special commitments include a quantitative disclosure regarding all exposures, the probability of their materializing is not remote and in respect of which a provision is not included. Furthermore, disclosure is provided in respect of any claim the amount of which exceeds 1% of the equity of the Bank. Disclosure is also provided in respect of claims, the results of which cannot be estimated at this stage, and which amount exceed 0.5% of the equity of the Bank.

(17) Guaranties

A guaranty constitutes a contract contingently requiring the guarantor to make payments to the guarantee when conditions which require the realization of the guaranty materialize. A liability in respect of a guaranty is recognized in the books in the amount of its fair value, even if it is not expected that the guaranty would be realized in the future. In cases where upon initial recognition, the Bank is required to recognize a provision for a contingent loss in respect of a guaranty, in accordance with Item 450 of the Codification, the liability in respect of the guaranty is measured at date of initial recognition at the higher of the fair value and the amount of the provision according to the rules of Item 450 of the Codification.

The liability is removed from the books at date on which the Bank is released from the risk. The date of release from risk in respect of the guaranty depends on the substance of the guaranty. In general, the Bank removes the liability on date of settlement of the liability. Where the guarantee is measured at date of initial recognition in accordance with the rules of Item 450 of the Codification, the following measurement is also performed in accordance with the rules of Item 450 of the Codification.

The rules with respect to the recognition and measurement at date of initial recognition do not apply to guaranties issued between a parent company and a subsidiary, between two sister companies or between the owner of a company and the company.

(18) Income Tax Expense

The financial statements of the Bank include current and deferred taxes.

The provisions for taxes on the income of the Bank and of its consolidated subsidiaries, which are considered "financial institutions", for value added tax purposes include profit tax levied on income according to the VAT law. Value added tax levied on payroll of financial institutions is included in the item "Salaries and related expenses".

The Bank allocates the tax expense or the tax benefits between continuing operations, discontinued operations, other comprehensive income and other items directly recognized in equity.

Current taxes

Current taxes are the amount of taxes on income paid or payable (or refundable) in respect of the current period, as determined by the tax laws enacted with respect to taxable income. The current tax expense includes also changes in tax payments relating to prior years.

Deferred taxes

Deferred tax liabilities and deferred tax assets represent the future implications on taxes on income stemming from temporary differences and carry forward losses at end of a period.

The Bank recognizes deferred tax liabilities with respect to all taxable temporary differences except for the following temporary difference: retained earnings of a domestic subsidiary, which in substance are for a permanent period of time; and differences stemming from intercompany transactions.

The Bank recognizes deferred tax assets in respect of all tax-deductible temporary differences and carry forward losses, and concurrently recognizes a separate valuation allowance in respect of that amount included in the value of an asset, which more likely than not, would not be realized. The Bank reduces the amount of deferred tax assets by the amount of any tax benefits that are not expected to be realized, based on available evidence - both positive evidence supporting recognition of a deferred tax asset and the negative evidence supporting the creation of a valuation allowance in respect of a deferred tax asset, in order to determine whether a net deferred tax asset should be recognized.

Deferred tax liabilities or deferred tax assets are measured using the enacted legal tax rates expected to apply to sufficient taxable income in the periods in which it is expected that the deferred tax liability would be settled or the deferred tax asset would be realized.

The Bank classifies interest income and expenses with respect to taxes on income and penalties payable to the Tax Authorities to the Item "Taxes on income".

Offsetting deferred tax assets and liabilities

The Bank offsets all deferred tax assets against all deferred tax liabilities as well as all valuation allowances related to a particular taxable component and within the jurisdiction of a particular tax authority.

Uncertain tax positions

The Bank applies the recognition, measurement and disclosure rules stated within the framework of FIN 48. In accordance with these rules, the Bank recognizes the effect of tax positions only if it is more likely than not that the positions would be approved by the tax authorities or the Court. Recognized tax positions are measured according to the maximum amount having realization prospects of over 50%. Changes in recognition or in measurement are reflected in the period in which changes in circumstances have led to changes in judgment.

(19) Earnings per share

The Group presents basic per share data in respect of its ordinary share capital. The amount of basic per share earnings or loss, attributed to the ordinary shareholders of the Bank is computed by dividing the amount of earnings or loss by the weighted average number of ordinary shares outstanding during the reported period.

(20) Segment Reporting

(a) **Regulatory segments of operation**

A regulatory business segment is a component in the banking corporation that engages in certain operations or combines customers in specific classifications, defined by the Supervisor of Banks. The format of reporting on the regulatory segments of operation of the Bank was set in the Public Reporting Directives of the Supervisor of Banks.

A regulatory business segment is generally defined based on the classification of customers. Private customers are classified according to their volume of financial assets to the household segment or to the private banking segment. Customers, other than private individuals, are mostly classified according to the volume of their operations to business segments (differentiating between minute and small businesses, middle market and corporate businesses), institutional bodies and the financial management segment. In addition, the Bank is required to implement the disclosure requirements regarding business segments according to Management's approach, where the business segments according to this approach differ significantly from the regulatory business segments.

(b) **Segments of operation according to Management's approach**

In addition to the uniform reporting in accordance with regulatory segments of operation, the letter requires disclosure on segments of operation according to Management's approach in accordance with accounting principles accepted by US banks in the matter of business segments (included in ASC 280) (see note 28A to the report).

A business segment defined in accordance with Management's approach is a component of a banking corporation engaged in operations that may produce income and incur expenditure; the results of its operations are being reviewed on a regular basis by Management and the Board of Directors in order to evaluate its performance and make decisions as to the allocation of resources to it; and in respect of which separate financial data is available.

The classification of business segments at the Bank is based on the characterization of customer segments. Such segments include also banking products.

(21) Transactions with controlling parties

The bank implements US accepted accounting principles for the accounting treatment of transactions between a banking corporation and its controlling party and between companies under the control of the banking corporation. In cases where the said principles contain no reference to the manner of treatment, the Bank applies the principles determined in Standard 23 of the Israeli Accounting Standards Institute regarding the accounting treatment of transactions between an entity and its controlling party.

Assets and liabilities, being the subject of a transaction with a controlling party, are measured at fair value at date of the transaction. Due to the fact that the transaction in question is made at a capital level, the Group reflects in equity the difference between the fair value and the proceeds of the transaction.

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

Adoption of updates to accounting principles accepted by US banks- provisions for expected credit losses (cecl)

On March 28, 2018, the Supervisor of Banks issued a letter in the matter of "adoption of updates to accounting principles accepted by US banks - allowances for credit losses and additional instructions". In accordance with the letter, it is required to apply the accounting principles accepted by US banks in the matters of: provisions for credit losses; financial instruments, including derivative instruments and hedge operations; as well as leasing. The initial application shall be made in accordance with transitional instructions determined in the US principles.

The letter adopts the US accepted accounting principles in the matter of provisions for expected credit losses, published within the framework of updating the ASU 2016-13 Standard. The aim of the new rules is to improve the reporting quality regarding the financial condition of banking corporations, by means of advancing the recording of provisions for credit losses, in a manner that fortifies the anti-recurrence in the conduct of the provisions for credit losses, supporting a quicker response by the banks to the deterioration in the quality of credit to borrowers, and to strengthen the bond between credit risk management and the manner in which such risks are reflected in the Financial statements, while being based on existing systems and processes.

The principal changes expected in the accounting treatment in financial statements of banking corporations following the application of the above rules, are, inter alia: the provision for credit losses would be computed according to the expected loss over the life of the debt, instead of assessment of the loss incurred but not yet identified; in assessing the provision for credit losses, significant use is to be made of forward looking information reflecting reasonable and supported forecasts of future economic events; disclosure would be expanded regarding the effect of the date on which credit had been granted on the credit quality of the credit portfolio; the way in which impairment of available-for-sale bonds is recorded would be changed; as well as the new rules for the computation of the provision for credit losses would apply to credit (including housing loans), bonds held to maturity, and of certain off-balance sheet credit exposure.

On January 31, 2021, the Supervisor of Banks published an FAQ file regarding the application of the new rules regarding anticipated credit losses. The FAQ file includes, inter alia, clarification regarding the manner of classification and returning of restructured debts to the income accruing class.

On December 1, 2020, the Supervisor of Banks issued a letter in the matter of "supervisory capital - effect of application of accounting principles regarding expected credit losses". The letters stated transitional instructions applying to the effect of initial adoption of the new accounting rules in the matter of expected credit losses, and this, in order to reduce the unexpected impact of the application of the rules upon the supervisory capital, in accordance with guidelines of the Basel Committee for the Supervision of Banks and the supervisory authorities in the US and in other countries around the world.

In addition to the above, the Supervisor of Banks published on February 2, 2021, a letter in the matter of "expected credit losses on financial instruments", within the framework of which, the requirement for a collective provision in respect of housing loans at a minimum rate of 0.35% had, inter alia, been cancelled, as well as the requirement for a minimum provision in accordance with the length of default period. Furthermore, an update was made to Proper Conduct of Banking Business Directive No. 202 in the matter of "supervisory capital", according to which, banking corporations are required to deduct from the Tier I equity capital amounts in respect of housing loans classified over a period of time as non-accruing interest.

Starting on January 1, 2022, the Bank is implementing the new instruction in the matter of provisions for credit losses, recording the cumulative effect thereof in surplus at date of initial application. In addition, the Bank intends to adopt certain mitigations at date of initial application, as permitted in the transitional instructions, including the spreading over three years of the effect of the initial application regarding everything relating to its effect on the Tier 1 equity capital ratio, as stated in the transitional instructions.

Application of the Standard is expected to affect the balance of credit to the public, this in view of the updating of the public reporting instructions, according to which, it is required to classify housing loans in default for ninety days or over, as nonaccruing interest loans, and the updating of the level for the accounting writing off for commercial credit (to be noted if relevant and having an effect at the Bank), the balance of the provision for credit losses and the Tier 1 equity capital, in view of the requirement for a deduction from equity in respect of nonaccruing housing loans.

The Bank estimates that application of the new instructions is expected to create a change of NIS 60 million in the balance of the provision for credit losses. Of which: an increase of NIS 80 million in respect of commercial credit, an increase of nIS 10 million in respect of credit to private individuals and a decrease of NIS 30 million in respect of housing loans.

As stated above, the Bank is to record in surplus the cumulative effect at date of initial application.

Furthermore, application of the new rules is expected to result in a deduction of NIS 5 million from the Tier 1 equity as of date of initial application, this in view of the requirement to deduct from Tier 1 equity capital amounts relating to housing loans classified over a period of time as nonaccruing loans. Such amounts are not subject to the mitigations granted within the framework of the transitional instructions.

In view of the above stated, the Bank estimates that the new rules are expected to result in a reduction in the Tier 1 equity capital and in the comprehensive capital of 0.02%, this in consequence of the effect of the application of the new rules by way of adjustment of the balance of surplus, following adjustment in respect of the transitional instructions prescribed in the matter, deduction from Tier 1 equity capital in respect of nonaccruing housing loans, change in total of risk assets and adjustment of the relating deferred tax balances. In addition, application of the new rules is expected to bring about a decrease in the leverage ratio of the Bank in a rate of 0.01%.

F. Effects of the Coronavirus crisis

The beginning of the outbreak of the "Omicron" variant of the Corona virus occurred around the world at the end of the fourth quarter of the year, with levels of the pandemic in Israel reaching records of tens of thousands of sick persons per day during January 2022. Measures taken by the Government against the spreading of contamination did not include lockdowns and significant restrictions on economic activity. Likewise, no material steps have been taken in the economic field for the support of populations affected by the outbreak. Concurrently, the trend of expanding economic activity continues in most economic sectors (excluding the sectors that had been more severely affected by the crisis, such as tourism, aviation and social and entertainment events), and the decline in the rate of unemployment also continues. In accordance with a forecast of the research division of Bank of Israel, published in January, the GDP is expected to grow by 5.5% in 2022 and by 5.0% in 2023.

Notwithstanding the continuing improvement in economic activity data, a measure of uncertainty exists with respect to the risk involved in the spreading of the virus, in view of the new outbreak, the risk of further outbreaks of morbidity waves in the future and the discovery of additional variants of the virus, as well as concern regarding announcement of material restrictions, which might adversely affect the economic activity in Israel.

On December 27, 2021, within the framework of Proper Management of Banking Business Directive No. 250, Bank of Israel cancelled most of the mitigating rules applying to banks regarding different issues, which helped them in facing the effect of the pandemic, excluding a part of the mitigating rules, the validity of which had been extended, including those relating to capital and leverage ratio requirements. However, on January 18, 2022, on background of the high morbidity level, Bank of Israel granted additional mitigating rules regarding business continuity.

Income in respect of credit loss amounted in 2021 to NIS 216 million deriving mainly from a decrease in the collective provision for credit losses, inlight of the improvement in the macro economic indices and indicators indicating the risk level inherent in the credit portfolio of the Bank.

For additional details regarding instructions by the Supervisor of Banks, capital adequacy and dividends, see Note 24A below.

As stated, at this stage it is not possible to assess in full the impact of the event and its scope on the Bank, due to the uncertainty regarding the duration of the spreading of the virus, potency of measures that would be adopted to stop the spreading, as well as uncertainty with respect to derivative effects on economic activity, trends in the capital markets and different financial measures taken in the matter by governments, central banks and regulators.

NOTE 2 - INTEREST INCOME AND EXPENSES

(NIS million)

Composition:

		Consolidated			The Bank		
		For the year ended December 31			For the year ended December 31		
		2021	**2020**	**2019**	**2021**	**2020**	**2019**
A.	**Interest income (expenses)** (1)						
	From credit to the public	**2,995**	2,702	2,797	**2,764**	2,473	2,565
	From credit to the Government	**13**	(4)	2	**-**	-	-
	From deposits with banks	**-**	5	23	**5**	3	25
	From deposits with Bank of Israel and from cash	**47**	49	68	**46**	48	66
	From securities which were borrowed	**1**	-	1	**1**	-	1
	From bonds	**94**	126	194	**91**	123	190
	Total interest income	**3,150**	2,878	3,085	**2,907**	2,647	2,847
B.	**Interest expenses**						
	On deposits from the public	**237**	202	366	**261**	190	367
	On deposits from the Government	**2**	3	4	**2**	3	4
	On deposits from banks	**1**	1	4	**21**	16	21
	On deposits with Bank of Israel	**2**	1	-	**2**	1	-
	On bonds and subordinated capital notes	**113**	33	106	**71**	42	96
	On other liabilities	**1**	1	3	**1**	1	3
	Total interest expenses	**356**	241	483	**358**	253	491
	Total interest income, net	**2,794**	2,637	2,602	**2,549**	2,394	2,356
C.	**Details on net effect of hedging derivative instruments on interest income and expenses**						
	Interest expenses(2)	**(48)**	(36)	(10)	**(47)**	(35)	(9)
D.	**Details of interest income from bonds on cumulative basis**						
	Held to maturity	**39**	31	33	**39**	31	33
	Available for sale	**54**	95	160	**51**	92	156
	Held for trading	**1**	-	1	**1**	-	1
	Total included in interest income	**94**	126	194	**91**	123	190

(1) Including effect of hedging relations.
(2) Details of effect of hedging derivative instruments on subsection (A).

NOTE 3 - NON-INTEREST FINANCING INCOME

(NIS million)

	Consolidated			The Bank		
	For the year ended December 31			For the year ended December 31		
	2021	**2020**	**2019**	**2021**	**2020**	**2019**
A. Non-interest financing income (expenses) in respect of non-trading activities						
1. From activity in derivative instruments						
Total from activity in derivative instruments(1)	**(485)**	(694)	(421)	**(485)**	(694)	(420)
2. From investments in bonds						
Gains from sale of bonds available for sale(2)	**24**	39	27	**21**	39	23
Losses from sale of bonds available for sale(2)	**(1)**	(12)	-	**(1)**	(12)	-
Provision for impairment of available-for-sale bonds(2)	**-**	(3)	(1)	**-**	(3)	(1)
Total from investment in bonds	**23**	24	26	**20**	24	22
3. Net exchange differences	**489**	794	561	**490**	794	572
4. From investment in shares						
Gains from sale of shares not for trading	**72**	10	2	**72**	10	2
Losses from sale of shares not for trading	**(6)**	(14)	-	**(6)**	(14)	-
Dividend from shares not for trading	**40**	16	10	**40**	16	10
Unrealized gains (losses)(3)	**125**	(11)	59	**125**	(11)	59
Total from investment in shares	**231**	1	71	**231**	1	71
Total non-interest financing income in respect of non-trading activities	**258**	125	237	**256**	125	245

(1) Excluding effect of hedging relations.
(2) Reclassified from other comprehensive income.
(3) Including profits and losses from measurement according to fair value of shares in respect of which fair value exist and adjustment of shares in respect of which fair value does not exist.

NOTE 3 - NON-INTEREST FINANCING INCOME (CONT'D)
(NIS million)

	Consolidated			The Bank		
	For the year ended December 31			For the year ended December 31		
	2021	**2020**	**2019**	**2021**	**2020**	**2019**
B. Net income (expenses) in respect of non-interest financing activity for trading[3]						
Net income in respect of other derivative instruments	**45**	22	2	**45**	22	2
Net realized and unrealized gains (losses) from adjustments to fair value of bonds held for trading[1]	**(2)**	4	(14)	**(2)**	4	(14)
Net realized and unrealized gains (losses) from adjustments to fair value of shares held for trading[2]	**2**	(3)	-	**2**	(3)	-
Total non-interest financing income (expenses) from trading activities[4]	**45**	23	(12)	**45**	23	(12)
Total non-interest financing income	**303**	148	225	**301**	148	233
Details on non-interest financing income (expenses) in respect of trading activities, by risk exposure						
Interest rate exposure	**17**	7	-	**17**	7	-
Foreign currency exposure	**20**	12	(18)	**20**	12	(18)
Exposure to shares	**8**	4	6	**8**	4	6
Total	**45**	23	(12)	**45**	23	(12)

(1) Of which: No gains/losses in respect of trading bonds on hand at balance sheet date (2020 - profit in the amount of NIS 1 million, 2019 - losses in the amount of NIS 1 million).
(2) No gains/losses in respect of trading shares on hand at balance sheet date.
(3) Including exchange differences arising from trading activity.
(4) See Note 2 for details on income from investment in trading bonds.

NOTE 4A - FEES
(NIS million)

Composition:

	Consolidated			The Bank		
	For the year ended December 31			For the year ended December 31		
	2021	**2020**	**2019**	**2021**	**2020**	**2019**
Account management	**206**	208	228	**184**	186	205
Credit cards	**119**	101	102	**106**	90	91
Securities and certain derivative instruments activity	**531**	505	405	**513**	488	388
Financial products distribution commissions(1)	**131**	110	110	**124**	105	105
Management, operation and trust to institutional entities	**98**	93	95	**26**	33	32
Credit handling	**18**	15	19	**16**	14	17
Conversion differences	**168**	173	148	**164**	169	144
Foreign-trade activity	**42**	41	45	**41**	41	44
Commissions from financing activities	**82**	79	86	**79**	75	83
Other fees	**49**	46	48	**32**	33	35
Total Fees	**1,444**	1,371	1,286	**1,285**	1,234	1,144

(1) Mutual and provident funds distribution fees.

Note 4B - INCOME FROM CONTRACTS WITH CUSTOMERS

(NIS million)

Following is the reconciliation of the income divided to segements of activity according to Management approach:

Consolidated					For the year ended December 31, 2021	
	Banking Division	Corporate Division	Customer Asset Division	Subsidiary companies	Adjustments	Total
Account management	**166**	**31**	**5**	**22**	**(18)**	**206**
Credit cards	**103**	**4**	**2**	**14**	**(4)**	**119**
Securities and certain derivative instruments activity	**365**	**114**	**513**	**23**	**(484)**	**531**
Financial products distribution commissions(1)	**123**	**4**	**124**	**6**	**(126)**	**131**
Management, operation and trust to institutional entities	**-**	**-**	**98**	**-**	**-**	**98**
Credit handling	**4**	**13**	**-**	**14**	**(13)**	**18**
Conversion differences	**87**	**64**	**164**	**4**	**(151)**	**168**
Foreign-trade activity	**24**	**27**	**1**	**1**	**(11)**	**42**
Commissions from financing activities	**23**	**66**	**2**	**3**	**(12)**	**82**
Other fees	**37**	**6**	**1**	**7**	**(2)**	**49**
Total Fees from contracts with customers	**932**	**329**	**910**	**94**	**(821)**	**1,444**

Consolidated					For the year ended December 31, 2020	
	Banking Division	Corporate Division	Customer Asset Division	Subsidiary companies	Adjustments	Total
Account management	167	32	6	22	(19)	208
Credit cards	89	4	1	10	(3)	101
Securities and certain derivative instruments activity	345	113	488	21	(462)	505
Financial products distribution commissions(1)	104	3	105	5	(107)	110
Management, operation and trust to institutional entities	-	-	93	-	-	93
Credit handling	2	11	-	11	(9)	15
Conversion differences	77	68	170	4	(146)	173
Foreign-trade activity	24	27	1	1	(12)	41
Commissions from financing activities	23	63	1	3	(11)	79
Other fees	37	6	1	6	(4)	46
Total Fees from contracts with customers	868	327	866	83	(773)	1,371

(1) Mutual and provident funds distribution fees.

NOTE 5 - OTHER INCOME
(NIS million)

Composition:

	Consolidated			The Bank		
	For the year ended December 31			For the year ended December 31		
	2021	**2020**	**2019**	**2021**	**2020**	**2019**
Capital gains from the sale of building and equipment	**7**	-	3	**2**	-	3
Other	**2**	4	6	**47**	45	51
Total other income	**9**	4	9	**49**	45	54

NOTE 6 - SALARIES AND RELATED EXPENSES
(NIS million)

Composition:

	Consolidated			The Bank		
	For the year ended December 31			For the year ended December 31		
	2021	**2020**	**2019**	**2021**	**2020**	**2019**
Salaries	**1,110**	1,027	1,087	**1,034**	956	1,012
Other related expenses including study funds, vacation and sick days	**118**	127	120	**114**	122	115
Long-term benefits	**(6)**	1	11	**(6)**	1	6
National insurance and VAT on salaries	**276**	274	284	**256**	256	265
Pension expenses (including severance pay and allowances)(1):						
Defined benefit - cost of service	**17**	18	17	**13**	15	13
Defined deposit	**70**	71	69	**66**	67	65
Other post-employment benefits and non-pension post-retirement benefits(1)(2)	**16**	14	13	**14**	12	11
Total salaries and related expenses	**1,601**	1,532	1,601	**1,491**	1,429	1,487

(1) See note 23 regarding "employees benefits".

(2) Of which: cost of service in respect of other post-employment benefits and post-retirement benefit, which are not pension in the amount of NIS 5 million and NIS 4 million consolidated and the bank, respectively (2020 - amounted to NIS 5 million and NIS 4 million, consolidated and the Bank, respectively, 2019 - amounted to NIS 4 million and NIS 3 million, consolidated and the Bank, respectively).

NOTE 7 - OTHER EXPENSES
(NIS million)

Composition:

	Consolidated			The Bank		
	For the year ended December 31			For the year ended December 31		
	2021	**2020**	**2019**	**2021**	**2020**	**2019**
Pension expenses (including severance pay and allowances), defined benefit (excluding cost of service)	**28**	24	24	**28**	24	23
Reductions, Dismissals[1]	**36**	26	50	**36**	24	49
Marketing and advertising	**50**	47	63	**43**	41	56
Communications	**58**	63	65	**56**	61	62
Computer	**132**	129	129	**130**	126	126
Office	**8**	10	9	**7**	9	8
Insurance	**13**	8	5	**12**	7	4
Legal, audit and consultancy	**54**	49	56	**40**	39	48
Directors' fees and fees for participation in meetings	**6**	5	6	**4**	4	4
Professional instruction and training	**3**	2	3	**3**	2	3
Commissions	**150**	155	112	**161**	162	118
Other	**68**	79	86	**64**	71	82
Total other expenses	**606**	597	608	**584**	570	583

(1) See note 23 regarding "employees benefits".

NOTE 8 - PROVISION FOR TAXES ON PROFIT

(NIS million)

A. Composition:

	Consolidated			The Bank		
	For the year ended December 31			For the year ended December 31		
	2021	**2020**	**2019**	**2021**	**2020**	**2019**
Current taxes in respect of the current year	**674**	552	508	**604**	497	449
Current taxes in respect of prior years	**(9)**	(40)	(5)	**(9)**	(38)	(6)
Total current taxes	**665**	512	503	**595**	459	443
Addition (deduction):						
Deferred taxes in respect of the current year	**64**	(144)	(4)	**62**	(144)	(4)
Deferred taxes in respect of prior years	**(1)**	-	(21)	**(1)**	-	(21)
Total deferred taxes*	**63**	(144)	(25)	**61**	(144)	(25)
Total provision for taxes	**728**	368	478	**656**	315	418
(*) Deferred taxes						
Expenses (income) of deferred taxes before effect of items detailed below	**63**	(145)	(26)	**61**	(145)	(26)
Decrease from carry forward losses	**-**	1	1	**-**	1	1
Total deferred taxes	**63**	(144)	(25)	**61**	(144)	(25)

NOTE 8 - PROVISION FOR TAXES ON PROFIT (CONT'D)
(NIS million)

B. Reconciliation of provision for taxes to the theoretical tax expense

The following is a reconciliation between the theoretical tax which would have been payable had the operating earnings been chargeable to tax at the statutory rate prevailing on banks in Israel and the adjusted tax provision on ordinary operating earnings as reported in the statement of income:

	Consolidated			The Bank		
	For the year ended December 31			For the year ended December 31		
	2021	**2020**	**2019**	**2021**	**2020**	**2019**
Profit before taxes	**2,114**	1,127	1,330	**1,906**	969	1,175
Prevailing tax rate	**34.2%**	34.2%	34.2%	**34.2%**	34.2%	34.2%
Tax at the prevailing tax rate	**723**	385	455	**651**	331	402
Tax (saving) in respect of:						
Non-deductible expenses	**10**	12	17	**8**	10	15
Adjustment of statutory tax rate to the tax rate applicable on income of consolidated companies	**-**	-	(1)	**1**	1	-
Additional amounts to be paid in respect of impaired debts	**7**	9	24	**7**	9	24
Exempt income for tax purposes	**(1)**	-	-	**(1)**	-	-
Adjustment and differences of depreciation and capital gain	**-**	1	1	**1**	1	1
Taxes in respect of prior years	**(10)**	(40)	(26)	**(10)**	(38)	(27)
Other differences	**(1)**	1	8	**(1)**	1	3
Provision for taxes on profit	**728**	368	478	**656**	315	418

C. Tax assessments and additional matters relating to the provision for taxes

(1) In March 2020, the Bank received final tax assessments for the tax years 2014-2017.

(2) The investee companies have final tax assessments up to and including the tax year 2016.

NOTE 8 - PROVISION FOR TAXES ON PROFIT (CONT'D)

D. Details of deferred tax assets and liabilities - Consolidated

	For the year ended December 31, 2021				
	Balance as at December 31, 2020	**Changes allocated to profit and loss**	**Changes allocated to comprehensive profit**	**Balance as at December 31, 2021**	**Average tax rate 2021**
Deferred tax assets					
Provision for credit losses	**405**	**(70)**	**-**	**335**	**34.2%**
Provision for vacation pay and other benefits to employees	**132**	**(2)**	**-**	**130**	**34.2%**
Excess liabilities in respect of employee benefits over assets of the scheme	**220**	**18**	**8**	**246**	**34.2%**
Carry forward loss for tax purposes	**1**	**(1)**	**-**	**-**	**23.0%**
Other	**1**	**(1)**	**-**	**-**	**34.2%**
Balance of deferred tax assets, gross	**759**	**(56)**	**8**	**711**	
Provision for deferred tax asset	**(1)**	**1**	**-**	**-**	
Balance of deferred tax assets after deduction of provision for deferred taxes	**758**	**(55)**	**8**	**711**	
Balance of available for setoff against deferred tax assets				**(94)**	
				617	
Deferred tax liabilities					
Adjustment of depreciable non-monetary assets	**68**	**3**	**-**	**71**	**34.2%**
Investments in affiliates	**53**	**14**	**-**	**67**	**11.2%**
Balance of deferred tax liability, gross	**121**	**17**	**-**	**138**	
Balance of available for setoff against deferred tax liabilities				**(94)**	
				44	
Balance of deferred tax assets, net	**637**	**(72)**	**8**	**573**	

	For the year ended December 31, 2020				
	Balance as at December 31, 2019	**Changes allocated to profit and loss**	**Changes allocated to comprehensive profit**	**Balance as at December 31, 2020**	**Average tax rate 2020**
Deferred tax assets					
Provision for credit losses	275	130	-	405	34.2%
Provision for vacation pay and other benefits to employees	117	15	-	132	34.2%
Excess liabilities in respect of employee benefits over assets of the scheme	185	10	25	220	34.2%
Carry forward loss for tax purposes	2	(1)	-	1	23.0%
Other	2	(1)	-	1	34.2%
Balance of deferred tax assets, gross	581	153	25	759	
Provision for deferred tax asset	(1)	-	-	(1)	
Balance of deferred tax assets after deduction of provision for deferred taxes	580	153	25	758	
Balance of available for setoff against deferred tax assets				(78)	
				680	
Deferred tax liabilities					
Adjustment of depreciable non-monetary assets	61	7	-	68	34.2%
Investments in affiliates	47	6	-	53	11.2%
Balance of deferred tax liability, gross	108	13	-	121	
Balance of available for setoff against deferred tax liabilities				(78)	
				43	
Balance of deferred tax assets, net	472	140	25	637	

NOTE 8 - PROVISION FOR TAXES ON PROFIT (CONT'D)

D. Details of deferred tax assets and liabilities - The bank

	For the year ended December 31, 2021				
	Balance as at December 31, 2020	**Changes allocated to profit and loss**	**Changes allocated to comprehensive profit**	**Balance as at December 31, 2021**	**Average tax rate 2021**
Deferred tax assets					
Provision for credit losses	**383**	**(69)**	**-**	**314**	**34.2%**
Provision for vacation pay and other benefits to employees	**129**	**(1)**	**-**	**128**	**34.2%**
Excess liabilities in respect of employee benefits over assets of the scheme	**209**	**17**	**7**	**233**	**34.2%**
Carry forward loss for tax purposes	**1**	**(1)**	**-**	**-**	**23.0%**
Balance of deferred tax assets, gross	**722**	**(54)**	**7**	**675**	
Provision for deferred tax asset	**(1)**	**1**	**-**	**-**	
Balance of deferred tax assets after deduction of provision for deferred taxes	**721**	**(53)**	**7**	**675**	
Balance of available for setoff against deferred tax assets				**(94)**	
				581	
Deferred tax liabilities					
Adjustment of depreciable non-monetary assets	**68**	**3**	**-**	**71**	**34.2%**
Investments in affiliates	**53**	**14**	**-**	**67**	**11.2%**
Balance of deferred tax liability, gross	**121**	**17**	**-**	**138**	
Balance of available for setoff against deferred tax liabilities				**(94)**	
				44	
Balance of deferred tax assets, net	**600**	**(70)**	**7**	**537**	

	For the year ended December 31, 2020				
	Balance as at December 31, 2019	**Changes allocated to profit and loss**	**Changes allocated to comprehensive profit**	**Balance as at December 31, 2020**	**Average tax rate 2020**
Deferred tax assets					
Provision for credit losses	256	127	-	383	34.2%
Provision for vacation pay and other benefits to employees	112	17	-	129	34.2%
Excess liabilities in respect of employee benefits over assets of the scheme	174	11	24	209	34.2%
Carry forward loss for tax purposes	2	(1)	-	1	23.0%
Other	1	(1)	-	-	34.2%
Balance of deferred tax assets, gross	545	153	24	722	
Provision for deferred tax asset	(1)	-	-	(1)	
Balance of deferred tax assets after deduction of provision for deferred taxes	544	153	24	721	
Balance of available for setoff against deferred tax assets				(78)	
				643	
Deferred tax liabilities					
Adjustment of depreciable non-monetary assets	61	7	-	68	34.2%
Investments in affiliates	47	6	-	53	11.2%
Balance of deferred tax liability, gross	108	13	-	121	
Balance of available for setoff against deferred tax liabilities				(78)	
				43	
Balance of deferred tax assets, net	436	140	24	600	

E. See Note 10B regarding taxes on income recognized outside profit and loss.

NOTE 9 - PROFIT PER SHARE

The number of par value of shares used to calculate the primary earnings per share:

	Number of shares for the years 2021, 2020 and 2019
Shares of NIS 0.05 par value	**100,330,040**

NOTE 10 - CUMULATIVE OTHER COMPREHENSIVE INCOME (LOSS)

(NIS million)

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

	Other comprehensive income (loss) before attribution to non-controlling interests				
	Adjustment in respect of reporting available for sale securities in fair value(3)	Adjustments in respect of employee benefits	Total	Other comprehensive income (loss) attributed to non-controlling interests	Other comprehensive income (loss) attributed to the Bank's shareholders
Balance as of January 1, 2019	(14)	(150)	(164)	(13)	(151)
Net changes during the year	67	(49)	18	(2)	20
Balance as of January 1, 2020	53	(199)	(146)	(15)	(131)
Net changes during the year	(3)	(49)	(52)	-	(52)
Balance as of January 1, 2021	**50**	**(248)**	**(198)**	**(15)**	**(183)**
Net changes during the year	**18**	**(16)**	**2**	**-**	**2**
Balance as of December 31, 2021	**68**	**(264)**	**(196)**	**(15)**	**(181)**

NOTE 10 - CUMULATIVE OTHER COMPREHENSIVE INCOME (LOSS) (CONT'D)

(NIS million)

B. Changes in the components of cumulative other comprehensive income (loss) before and after tax effect

	For the year ended December 31, 2021			For the year ended December 31, 2020			For the year ended December 31, 2019		
	Before tax	**Tax effect**	**After tax**	**Before tax**	**Tax effect**	**After tax**	**Before tax**	**Tax effect**	**After tax**
Changes in the components of cumulative other comprehensive income (loss) before attribution to non-controlling interests									
Adjustments in respect of available for sale securities presentation according to fair value									
Unrealized net gains (losses) from adjustments to fair value	**(81)**	**28**	**(53)**	122	(42)	80	238	(81)	157
Losses (gains) in respect of available for sale securities reclassified to income statement(1)	**108**	**(37)**	**71**	(126)	43	(83)	(137)	47	(90)
Net changes during the period	**27**	**(9)**	**18**	(4)	1	(3)	101	(34)	67
Employee benefits:									
Net actuarial loss for the period	**(82)**	**28**	**(54)**	(118)	41	(77)	(139)	47	(92)
Net losses reclassified to the statement of profit and loss(2)	**58**	**(20)**	**38**	44	(16)	28	65	(22)	43
Net change during the period	**(24)**	**8**	**(16)**	(74)	25	(49)	(74)	25	(49)
Changes in the components of cumulative other comprehensive loss attributed to non-controlling interests									
Total changes during the period	**-**	**-**	**-**	-	-	-	(4)	2	(2)
Changes in the components of cumulative other comprehensive income (loss) attributed to the Bank's shareholders									
Total changes during the period	**3**	**(1)**	**2**	(78)	26	(52)	31	(11)	20

(1) The amount before tax is reported in the statement of income in the item non-interest financing income. For additional details see note 3.

(2) The amount before tax is reported in the statement of income in the item of expenses in respect of employee benefits, see note 23.

NOTE 11 - CASH AND DEPOSITS WITH BANKS

(NIS million)

Composition:

	Consolidated		The Bank	
	December 31		December 31	
	2021	**2020**	**2021**	**2020**
Cash and deposits with Central banks	**54,760**	54,835	**53,605**	53,611
Deposits with commercial banks	**2,610**	2,967	**2,996**	3,146
Total (1)	**57,370**	57,802	**56,601**	56,757
(1) Includes cash and deposits with banks, the initial period of which does not exceed three months	**57,158**	57,328	**55,981**	56,071

NOTE 12 - SECURITIES

(NIS million)

Composition:

					Consolidated
					December 31, 2021
A. Debentures held to maturity	Book value	Amortized cost	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value (1)
Of Israeli government	2,277	2,277	81	4	2,354
Of financial institutions in Israel	54	54	1	-	55
Of others in Israel	(5)157	157	20	-	177
Total debentures held to maturity	2,488	2,488	102	4	2,586

			Cumulative other comprehensive income		
B. Bonds available for sale	Book value	Amortized cost	Profits	Losses	Fair value (1)
Of Israeli government	9,691	9,589	102	-	9,691
Of foreign governments	1,342	1,345	-	3	1,342
Of financial institutions in Israel	84	84	-	-	84
Of foreign financial institutions	(6)244	244	1	1	244
Of others in Israel	206	200	6	-	206
Of foreign others	72	72	-	-	72
Total bonds available for sale	11,639	11,534	(2)109	(2)4	11,639

C. Investment in not for trading shares	Book value	cost	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value (1) (4)
Not for trading shares	731	591	(3)140	(3)-	731
Of which: shares, the fair value of which is not ready determinable	166	149	(3)17	(3)-	166
Total not for trading securities	14,858	14,613	351	8	14,956

D. Securities held for trading	Book value	Amortized cost	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value (1)
Of Israeli government bonds	232	230	2	-	232
Shares	1	1	-	-	1
Total trading securities	233	231	(3)2	(3)-	233
Total securities	15,091	14,844	353	8	15,189

Notes: Details of results of investment activity in bonds and in shares - see note 2 and note 3. Regarding the pledged securities - see note 26.

(1) The fair value of securities is generally based on market price, which does not necessarily reflect the price obtained in the event of sale of securities in large volumes.

(2) Included in equity in the item "Adjustments in respect of presentation of available-for-sale bonds at fair value".

(3) Recorded in the Statement of Income.

(4) Regarding shares which do not have available fair value, in this column presented cost less impairment adjusted upwards or downwards to observable prices in similar or identical investments of the same issue.

(5) Including impaired bonds accruing interest income in amount of NIS 3 million.

(6) Including securities with embedded derivative measured at fair value while changes in fair value were recognized in the statement of income amounting to NIS 17 million.

NOTE 12 - SECURITIES (CON'T)
(NIS million)

					Consolidated
					December 31, 2020
A. Debentures held to maturity	Book value	Amortized cost	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value (1)
Of Israeli government	2,233	2,233	104	-	2,337
Of financial institutions in Israel	78	78	1	-	79
Of others in Israel	203	203	21	-	224
Total debentures held to maturity	2,514	2,514	126	-	2,640

B. Bonds available for sale	Book value	Amortized cost	Cumulative other comprehensive income: Profits	Cumulative other comprehensive income: Losses	Fair value (1)
Of Israeli government	8,080	8,014	67	1	8,080
Of foreign governments	1,312	1,312	-	-	1,312
Of financial institutions in Israel	80	79	1	-	80
Of foreign financial institutions	(5)(7)239	237	2	-	239
Of others in Israel	(6)274	266	9	1	274
Of foreign others	93	92	1	-	93
Total bonds available for sale	10,078	10,000	(2)80	(2)2	10,078

C. Investment in not for trading shares	Book value	cost	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value (1) (4)
Not for trading shares	307	293	(3)22	(3)8	307
Of which: shares, the fair value of which is not ready determinable	120	113	(3)7	(3)-	120
Total not for trading securities	12,899	12,807	228	10	13,025

D. Bonds held for trading	Book value	Amortized cost	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value (1)
Of Israeli government	206	206	-	-	206
Total trading bonds	206	206	(3)-	(3)-	206
Total securities	13,105	13,013	228	10	13,231

Notes: Details of results of investment activity in bonds and in shares - see note 2 and note 3. Regarding the pledged securities - see note 26.

(1) The fair value of securities is generally based on market price, which does not necessarily reflect the price obtained in the event of sale of securities in large volumes.

(2) Included in equity in the item "Adjustments in respect of presentation of available-for-sale bonds at fair value".

(3) Recorded in the Statement of Income.

(4) Regarding shares which do not have available fair value, in this column presented cost less impairment adjusted upwards or downwards to observable prices in similar or identical investments of the same issue.

(5) Including securities of corporations owned by government in the amount of NIS 32 million.

(6) Including impaired bonds accruing interest income in amount of NIS 47 million.

(7) Including securities with embedded derivative measured at fair value while changes in fair value were recognized in the statement of income amounting to NIS 18 million.

NOTE 12 - SECURITIES (CON'T)

(NIS million)

Composition:

					The Bank
					December 31, 2021
A. Debentures held to maturity	**Book value**	**Amortized cost**	**Unrealized gains from adjustment to fair value**	**Unrealized losses from adjustment to fair value**	**Fair value** (1)
Of Israeli government	**2,133**	**2,133**	**80**	**4**	**2,209**
Of financial institutions in Israel	**54**	**54**	**1**	**-**	**55**
Of others in Israel	(5)**154**	**154**	**20**	**-**	**174**
Total debentures held to maturity	**2,341**	**2,341**	**101**	**4**	**2,438**

B. Bonds available for sale	**Book value**	**Amortized cost**	**Cumulative other comprehensive income**		**Fair value** (1)
			Profits	**Losses**	
Of Israeli government	**9,130**	**9,033**	**97**	**-**	**9,130**
Of foreign governments	**1,342**	**1,345**	**-**	**3**	**1,342**
Of financial institutions in Israel	**49**	**49**	**-**	**-**	**49**
Of foreign financial institutions	(6)**244**	**244**	**1**	**1**	**244**
Of others in Israel	**206**	**200**	**6**	**-**	**206**
Of foreign others	**72**	**72**	**-**	**-**	**72**
Total bonds available for sale	**11,043**	**10,943**	(2)**104**	(2)**4**	**11,043**

C. Investment in not for trading shares	**Book value**	**cost**	**Unrealized gains from adjustment to fair value**	**Unrealized losses from adjustment to fair value**	**Fair value** (1) (4)
Not for trading shares	**731**	**591**	(3)**140**	(3)**-**	**731**
Of which: shares, the fair value of which is not ready determinable	**166**	**149**	(3)**17**	(3)**-**	**166**
Total not for trading securities	**14,115**	**13,875**	**345**	**8**	**14,212**

D. Securities held for trading	**Book value**	**Amortized cost**	**Unrealized gains from adjustment to fair value**	**Unrealized losses from adjustment to fair value**	**Fair value** (1)
Of Israeli government bonds	**232**	**230**	**2**	**-**	**232**
Shares	**1**	**1**	**-**	**-**	**1**
Total trading securities	**233**	**231**	(3)**2**	(3)**-**	**233**
Total securities	**14,348**	**14,106**	**347**	**8**	**14,445**

Notes: Details of results of investment activity in bonds and in shares - see note 2 and note 3. Regarding the pledged securities - see note 26.

(1) The fair value of securities is generally based on market price, which does not necessarily reflect the price obtained in the event of sale of securities in large volumes.

(2) Included in equity in the item "Adjustments in respect of presentation of available-for-sale bonds at fair value".

(3) Recorded in the Statement of Income.

(4) Regarding shares which do not have available fair value, in this column presented cost less impairment adjusted upwards or downwards to observable prices in similar or identical investments of the same issue.

(5) Including impaired bonds accruing interest income in amount of NIS 3 million.

(6) Including securities with embedded derivative measured at fair value while changes in fair value were recognized in the statement of income amounting to NIS 17 million.

NOTE 12 - SECURITIES (CON'T)

(NIS million)

Composition:

					The Bank
					December 31, 2020
A. Debentures held to maturity	**Book value**	**Amortized cost**	**Unrealized gains from adjustment to fair value**	**Unrealized losses from adjustment to fair value**	**Fair value (1)**
Of Israeli government	2,233	2,233	104	-	2,337
Of financial institutions in Israel	78	78	1	-	79
Of others in Israel	199	199	21	-	220
Total debentures held to maturity	2,510	2,510	126	-	2,636

			Cumulative other comprehensive income		
B. Bonds available for sale	**Book value**	**Amortized cost**	**Profits**	**Losses**	**Fair value (1)**
Of Israeli government	7,460	7,398	62	-	7,460
Of foreign governments	1,312	1,312	-	-	1,312
Of financial institutions in Israel	79	78	1	-	79
Of foreign financial institutions	(5)(7)239	237	2	-	239
Of others in Israel	(6)274	266	9	1	274
Of foreign others	93	92	1	-	93
Total bonds available for sale	9,457	9,383	(2)75	(2)1	9,457

C. Investment in not for trading shares	**Book value**	**cost**	**Unrealized gains from adjustment to fair value**	**Unrealized losses from adjustment to fair value**	**Fair value (1) (4)**
Not for trading shares	307	293	(3)22	(3)8	307
Of which: shares, the fair value of which is not ready determinable	120	113	(3)7	(3)-	120
Total not for trading securities	12,274	12,186	223	9	12,400

D. Bonds held for trading	**Book value**	**Amortized cost**	**Unrealized gains from adjustment to fair value**	**Unrealized losses from adjustment to fair value**	**Fair value (1)**
Of Israeli government	206	206	-	-	206
Total trading debentures and bonds	206	206	(3)-	(3)-	206
Total securities	12,480	13,392	223	9	12,606

Notes: Details of results of investment activity in bonds and in shares - see note 2 and note 3. Regarding the pledged securities - see note 26.

(1) The fair value of securities is generally based on market price, which does not necessarily reflect the price obtained in the event of sale of securities in large volumes.

(2) Included in equity in the item "Adjustments in respect of presentation of available-for-sale bonds at fair value".

(3) Recorded in the Statement of Income.

(4) Regarding shares which do not have available fair value, in this column presented cost less impairment adjusted upwards or downwards to observable prices in similar or identical investments of the same issue.

(5) Including securities of corporations owned by government in the amount of NIS 32 million.

(6) Including impaired bonds accruing interest income in amount of NIS 47 million.

(7) Including securities with embedded derivative measured at fair value while changes in fair value were recognized in the statement of income amounting to NIS 18 million.

NOTE 12 - SECURITIES (CONT'D)
(NIS million)

E. Fair value and unrealized losses, according to period and rate of impairment of available-for-sale bonds being in an unrealized loss position

Consolidated								As of December 31, 2021
	Less than 12 months [1]				12 months and above [2]			
		Unrealized losses				Unrealized losses		
	Fair Value	[3]0-20%	[4]20-40%	Total	Fair Value	[3]0-20%	[4]20-40%	Total
								(NIS million)
Held to maturity debentures of Israel Government [5]	**184**	**4**	**-**	**4**	**-**	**-**	**-**	**-**
Bonds available for sale								
Of foreign government	**1,342**	**3**	**-**	**3**	**-**	**-**	**-**	**-**
Of foreign financial institutions	**136**	**1**	**-**	**1**	**-**	**-**	**-**	**-**
Total bonds available for sale	**1,478**	**4**	**-**	**4**	**-**	**-**	**-**	**-**

Consolidated								As of December 31, 2020
	Less than 12 months [1]				12 months and above [2]			
		Unrealized losses				Unrealized losses		
	Fair Value	[3]0-20%	[4]20-40%	Total	Fair Value	[3]0-20%	[4]20-40%	Total
								(NIS million)
Bonds available for sale								
Of Israel Government	123	1	-	1	-	-	-	-
Of others in Israel	28	1	-	1	-	-	-	-
Total bonds available for sale	151	2	-	2	-	-	-	-

(1) Investments in an unrealized loss position less than 12 months.
(2) Investments in an unrealized loss position more than 12 months.
(3) Investments which their unrealized loss constitutes up to 20% of their amortized cost.
(4) Investments which their unrealized loss constitutes between 20% to 40% of their amortized cost.
(5) The amortized cost of the debentures held to maturity amounted to NIS 188 million.

NOTE 13 - CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES
(NIS million)

1. Debts[1], credit to the public and provision for credit losses

Consolidated						December 31, 2021
			Credit to the public			
	Commercial[3]	Housing	Other private	Total	Banks and Governments	Total
Recorded balance:						
Debts examined on an individual basis	**41,141**	**-**	**491**	**41,632**	**3,421**	**45,053**
Debts examined on an collective basis	**6,206**	**32,260**	**22,142**	**60,608**	**-**	**60,608**
Of which: according to the extent of arrears	**84**	**32,255**	**-**	**32,339**	**-**	**32,339**
Total	**47,347**	**32,260**	**22,633**	**102,240**	**3,421**	**105,661**
Of which:						
Debts restructuring	**91**	**-**	**102**	**193**	**-**	**193**
Other impaired debts	**265**	**51**	**36**	**352**	**-**	**352**
Total impaired debts	**356**	**51**	**138**	**545**	**-**	**545**
Debts in arrears of 90 days or more	**18**	**161**	**22**	**201**	**-**	**201**
Other problematic debts	**797**	**63**	**109**	**969**	**-**	**969**
Total problematic debts	**1,171**	**275**	**269**	**1,715**	**-**	**1,715**
Provision for credit losses:						
In respect of debts examined on an individual basis	**530**	**-**	**38**	**568**	**-**	**568**
In respect of debts examined on an collective basis	**72**	**159**	**277**	**508**	**-**	**508**
Of which: according to the extent of arrears	**-**	[2]**159**	**-**	**159**	**-**	**159**
Total	**602**	**159**	**315**	**1,076**	**-**	**1,076**
Of which: in respect of impaired debts	**129**	**-**	**33**	**162**	**-**	**162**

Consolidated						December 31, 2020
			Credit to the public			
	Commercial[3]	Housing	Other private	Total	Banks and Governments	Total
Recorded balance:						
Debts examined on an individual basis	36,595	-	390	36,985	3,623	40,608
Debts examined on an collective basis	5,983	28,336	20,943	55,262	-	55,262
Of which: according to the extent of arrears	88	28,320	-	28,408	-	28,408
Total	42,578	28,336	21,333	92,247	3,623	95,870
Of which:						
Debts restructuring	114	-	113	227	-	227
Other impaired debts	273	36	41	350	-	350
Total impaired debts	387	36	154	577	-	577
Debts in arrears of 90 days or more	43	156	18	217	-	217
Other problematic debts	943	95	157	1,195	-	1,195
Total problematic debts	1,373	287	329	1,989	-	1,989
Provision for credit losses:						
In respect of debts examined on an individual basis	693	-	40	733	-	733
In respect of debts examined on an collective basis	116	164	264	544	-	544
Of which: according to the extent of arrears	1	[2]164	-	165	-	165
Total	809	164	304	1,277	-	1,277
Of which: in respect of impaired debts	144	-	37	181	-	181

(1) Credit to the public, credit to governments, deposits with banks and other debts, excluding bonds and securities borrowed.
(2) Includes the provision exceeding the amount required according to the method of the extent of arrears, calculated on a collective basis in the amount of NIS 122 million (31.12.20 - NIS 124 million).
(3) The balance of commercial debts includes housing loans in the amount of NIS 2,964 million, combined in the framework of transaction and collateral of the commercial borrowers or that have been granted to purchase groups at construction stages (31.12.20 - NIS 3,009 million).

NOTE 13 - CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

1. Debts(1), credit to the public and provision for credit losses

The Bank						December 31, 2021
				Credit to the public		
	Commercial(3)	Housing	Other private	Total	Banks and Governments	Total
Recorded balance:						
Debts examined on an individual basis	**40,225**	**-**	**456**	**40,681**	**3,044**	**43,725**
Debts examined on an collective basis	**6,127**	**32,260**	**17,531**	**55,918**	**-**	**55,918**
Of which: according to the extent of arrears	**84**	**32,255**	**-**	**32,339**	**-**	**32,339**
Total	**46,352**	**32,260**	**17,987**	**96,599**	**3,044**	**99,643**
Of which:						
Debts restructuring	**88**	**-**	**75**	**163**	**-**	**163**
Other impaired debts	**243**	**51**	**28**	**322**	**-**	**322**
Total impaired debts	**331**	**51**	**103**	**485**	**-**	**485**
Debts in arrears of 90 days or more	**18**	**161**	**12**	**191**	**-**	**191**
Other problematic debts	**787**	**63**	**98**	**948**	**-**	**948**
Total problematic debts	**1,136**	**275**	**213**	**1,624**	**-**	**1,624**
Provision for credit losses:						
In respect of debts examined on an individual basis	**518**	**-**	**32**	**550**	**-**	**550**
In respect of debts examined on an collective basis	**71**	**159**	**230**	**460**	**-**	**460**
Of which: according to the extent of arrears	**-**	(2)**159**	**-**	**159**	**-**	**159**
Total	**589**	**159**	**262**	**1,010**	**-**	**1,010**
Of which: in respect of impaired debts	**126**	**-**	**27**	**153**	**-**	**153**

The Bank						December 31, 2020
				Credit to the public		
	Commercial(3)	Housing	Other private	Total	Banks and Governments	Total
Recorded balance:						
Debts examined on an individual basis	35,739	-	350	36,089	3,182	39,271
Debts examined on an collective basis	5,884	28,336	16,700	50,920	-	50,920
Of which: according to the extent of arrears	88	28,320	-	28,408	-	28,408
Total	41,623	28,336	17,050	87,009	3,182	90,191
Of which:						
Debts restructuring	110	-	81	191	-	191
Other impaired debts	271	36	33	340	-	340
Total impaired debts	381	36	114	531	-	531
Debts in arrears of 90 days or more	39	156	11	206	-	206
Other problematic debts	930	95	139	1,164	-	1,164
Total problematic debts	1,350	287	264	1,901	-	1,901
Provision for credit losses:						
In respect of debts examined on an individual basis	675	-	32	707	-	707
In respect of debts examined on an collective basis	116	164	217	497	-	497
Of which: according to the extent of arrears	1	(2)164	-	165	-	165
Total	791	164	249	1,204	-	1,204
Of which: in respect of impaired debts	140	-	29	169	-	169

(1) Credit to the public, credit to governments, deposits with banks and other debts, excluding bonds and securities borrowed.

(2) Includes the provision exceeding the amount required according to the method of the extent of arrears, calculated on a collective basis in the amount of NIS 122 million (31.12.20 - NIS 124 million).

(3) The balance of commercial debts includes housing loans in the amount of NIS 2,872 million, combined in the framework of transaction and collateral of the commercial borrowers or that have been granted to purchase groups at construction stages (31.12.20 - NIS 2,866 million).

NOTE 13 - CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

2. Change in provision for credit losses

Consolidated	Credit to the public				Banks and Governments	Total
	Commercial	Housing	Other private	Total		
Change in provision for credit losses - debts						
Provision for credit losses at December 31, 2018	489	119	260	868	-	868
Expenses from credit losses	73	3	69	145	-	145
- Accounting write-offs	(185)	(2)	(138)	(325)	-	(325)
- Collection of debts written off in accounting in previous years	168	1	73	242	-	242
Net accounting write-offs	(17)	(1)	(65)	(83)	-	(83)
Provision for credit losses at December 31, 2019	545	121	264	930	-	930
Expenses from credit losses	320	41	74	435	-	435
- Accounting write-offs	(143)	-	(122)	(265)	-	(265)
- Collection of debts written off in accounting in previous years	87	2	88	177	-	177
Net accounting write-offs	(56)	2	(34)	(88)	-	(88)
Provision for credit losses at December 31, 2020	**809**	**164**	**304**	**1,277**	**-**	**1,277**
Expenses (income) from credit losses	**(208)**	**(6)**	**5**	**(209)**	**-**	**(209)**
- Accounting write-offs	**(94)**	**-**	**(84)**	**(178)**	**-**	**(178)**
- Collection of debts written off in accounting in previous years	**95**	**1**	**90**	**186**	**-**	**186**
Net accounting write-offs	**1**	**1**	**6**	**8**	**-**	**8**
Provision for credit losses at December 31, 2021	**602**	**159**	**315**	**1,076**	**-**	**1,076**

Consolidated	Credit to the public				Banks and Governments	Total
	Commercial	Housing	Other private	Total		
Changes in provision in respect of off-balance sheet credit instruments						
Provision at December 31, 2018	53	-	11	64	-	64
Decrease in provision	(7)	-	-	(7)	-	(7)
Provision at December 31, 2019	46	-	11	57	-	57
Increase in provision	26	-	3	29	-	29
Provision at December 31, 2020	**72**	**-**	**14**	**86**	**-**	**86**
Decrease in provision	**(4)**	**-**	**(3)**	**(7)**	**-**	**(7)**
Provision at December 31, 2021	**68**	**-**	**11**	**79**	**-**	**79**

NOTE 13 - CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

2. Change in provision for credit losses

The Bank	Credit to the public				Banks and	
	Commercial	Housing	Other private	Total	Governments	Total
Change in provision for credit losses - debts						
Provision for credit losses at December 31, 2018	390	116	148	654	-	654
Merging a subsidiary	87	3	70	160	-	160
Expenses in respect of credit losses	71	3	60	134	-	134
- Accounting write-offs	(183)	(2)	(125)	(310)	-	(310)
- Collection of debts written off in accounting in previous years	166	1	66	233	-	233
Net accounting write-offs	(17)	(1)	(59)	(77)	-	(77)
Provision for credit losses at December 31, 2019	531	121	219	871	-	871
Expenses from credit losses	315	41	59	415	-	415
- Accounting write-offs	(140)	-	(107)	(247)	-	(247)
- Collection of debts written off in accounting in previous years	85	2	78	165	-	165
Net accounting write-offs	(55)	2	(29)	(82)	-	(82)
Provision for credit losses at December 31, 2020	**791**	**164**	**249**	**1,204**	**-**	**1,204**
Expenses (income) from credit losses	**(206)**	**(6)**	**6**	**(206)**	**-**	**(206)**
- Accounting write-offs	**(88)**	**-**	**(73)**	**(161)**	**-**	**(161)**
- Collection of debts written off in accounting in previous years	**92**	**1**	**80**	**173**	**-**	**173**
Net accounting write-offs	**4**	**1**	**7**	**12**	**-**	**12**
Provision for credit losses at December 31, 2021	**589**	**159**	**262**	**1,010**	**-**	**1,010**

The Bank	Credit to the public				Banks and	
	Commercial	Housing	Other private	Total	Governments	Total
Changes in provision in respect of off-balance sheet credit instruments						
Provision at December 31, 2018	50	-	7	57	-	57
Merging a subsidiary	4	-	1	5	-	5
Decrease in provision	(7)	-	-	(7)	-	(7)
Provision at December 31, 2019	47	-	8	55	-	55
Increase in provision	26	-	2	28	-	28
Provision at December 31, 2020	**73**	**-**	**10**	**83**	**-**	**83**
Decrease in provision	**(5)**	**-**	**(2)**	**(7)**	**-**	**(7)**
Provision at December 31, 2021	**68**	**-**	**8**	**76**	**-**	**76**

NOTE 14 - CREDIT TO THE GOVERNMENT

(NIS million)

Composition:	Consolidated		The Bank	
	December 31,		December 31,	
	2021	2020	2021	2020
Other credit to the Government	**811**	656	**48**	35

NOTE 15 - INVESTEE COMPANIES
(NIS million)

A. Composition:

	Consolidated		The Bank					
	December 31, 2021	December 31, 2020	December 31, 2021			December 31, 2020		
	Equity basis investee	Equity basis investee	Equity basis investee	Consolidated subsidiaries	Total	Equity basis investee	Consolidated subsidiaries	Total
Investments in shares on equity basis	**713**	636	**713**	**633**	**1,346**	636	557	1,193
Other investments:								
Capital notes and subordinated capital notes	**-**	-	**-**	**5**	**5**	-	5	5
Total investments in investee companies	**713**	636	**713**	**638**	**1,351**	636	562	1,198
Earnings accumulated since acquisition, net	**449**	380	**449**	**1,065**	**1,514**	380	989	1,369
Items accrued in equity capital since purchase date:								
Adjustments in respect of presenting available-for-sale bonds at fair value	**-**	-	**-**	**1**	**1**	-	-	-
Employee benefits	**(12)**	(11)	**(12)**	**(5)**	**(17)**	(11)	(4)	(15)

B. The Bank's share in profits of equity-basis investees:

	Consolidated			The Bank		
	For the year ended December 31			For the year ended December 31		
	2021	2020	2019	2021	2020	2019
						NIS millions
The Bank's share in operating profits of investee companies	**78**	33	57	**164**	100	114
Current taxes	**-**	-	(6)	**-**	-	(6)
Provision for deferred taxes	**(9)**	(4)	-	**(9)**	(4)	-
The Bank's share in operating profits of investee companies, after tax	**69**	29	51	**155**	96	108

NOTE 15 - INVESTEE COMPANIES (CONT'D)

C. Details regarding major investee companies:

Name of investee	Major activity	Bank's share in equity		Bank's voting right		Carrying value of the investment on equity basis(3)	
		December 31		December 31		December 31	
		2021	2020	2021	2020	2021	2020
		%	%	%	%		NIS million
Israeli consolidated subsidiaries:							
Bank Massad Ltd.	Commercial Bank	**51.0**	51.0	**51.0**	51.0	**452**	410
UBank trust company Ltd.	Trust services	**100.0**	100.0	**100.0**	100.0	**88**	62
Equity basis investee:							
Israel Credit Cards Ltd.	Credit Cards	**28.2**	28.2	**21.0**	21.0	**713**	636

(1) The above list does not include wholly owned and controlled consolidated companies that are property companies or that supply services to the Bank, whose assets and operating results are included in the financial statements of the Bank.
(2) The shares of all the companies in the above list are not listed for trading on the stock exchange.
(3) Including balance of excess cost attributed to customers relation.

D. Condensed information regarding an equity basis investee, without adjustment to the rate of ownership held by the Group

1. Condensed information regarding the financial condition

	Bank's share in equity	Total assets	Total liabilities	Capital attributed to the company's shareholders
	%	NIS millions		
Israel Credit Cards Ltd.				
December 31, 2021	**28.2**	**16,076**	**13,860**	**2,216**
December 31, 2020	28.2	18,535	16,605	1,930

2. Condensed information regarding the results of operation

	Bank's share in equity	Net profit for the year
	%	NIS millions
Israel Credit Cards Ltd.		
For the year ended December 31, 2021	**28.2**	**271**
For the year ended December 31, 2020	28.2	115
For the year ended December 31, 2019	28.2	201

	Other capital investments		Bank's equity earnings		Dividend recorded		Other items accumulated in shareholders' equity	
	December 31							
	2021	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
		NIS million		NIS million		NIS million		NIS million
	5	5	**52**	40	**(10)**	-	**-**	-
	-	-	**26**	22	**-**	-	**-**	-
	-	-	**78**	33	**-**	-	**(1)**	(2)

E. Between the Bank and other shareholders in Massad bank Ltd. and between the Bank and other shareholders in Israel Credit Cards Ltd, exist agreements, which arrange the rights and obligations towards each other, as shareholders at Massad bank Ltd. and Israel Credit Cards Ltd.

NOTE 16 - PREMISES AND EQUIPMENT

(NIS million)

A. Composition:

	Consolidated			The Bank		
	Buildings & premises (1)	Furniture, equipment and vehicles	Total	Buildings & premises (1)	Furniture, equipment and vehicles	Total
Cost of assets						
Balance as at December 31, 2019	1,431	571	2,002	1,363	556	1,919
Additions	20	20	40	18	20	38
Disposals	(13)	(11)	(24)	(11)	-	(11)
At December 31, 2020	1,438	580	2,018	1,370	576	1,946
Additions	**18**	**21**	**39**	**16**	**20**	**36**
Disposals	**(49)**	**(1)**	**(50)**	**(22)**	**-**	**(22)**
At December 31, 2021	**1,407**	**600**	**2,007**	**1,364**	**596**	**1,960**
Accumulated depreciation (2)						
Balance as at December 31, 2019	544	462	1,006	506	449	955
Depreciation	40	31	71	36	30	66
Disposals	(13)	(11)	(24)	(11)	-	(11)
At December 31, 2020	571	482	1,053	531	479	1,010
Depreciation	**37**	**29**	**66**	**34**	**29**	**63**
Disposals	**(42)**	**(1)**	**(43)**	**(19)**	**-**	**(19)**
At December 31, 2021	**566**	**510**	**1,076**	**546**	**508**	**1,054**
Amortized balance as at December 31, 2019	887	109	996	857	107	964
Amortized balance as at December 31, 2020	867	98	965	839	97	936
Amortized balance as at December 31, 2021	**841**	**90**	**931**	**818**	**88**	**906**
Weighted average depreciation rate in % as at 31.12.21	**3.7%**	**15.6%**		**3.5%**	**15.7%**	
Weighted average depreciation rate in % as at 31.12.20	3.8%	15.5%		3.6%	15.5%	

(1) Including fixtures and improvements in the rental.
(2) Depreciation accrued including losses accrued from impairment.

B. The Bank and its subsidiaries own rental or leasehold rights in different properties in a total amount of NIS 369 million (December 31, 2020 - NIS 381 million). Of this amount are rental or leasehold rights for periods not exceeding 49 years from balance sheet date in the amount of NIS 294 million (December 31, 2020 - NIS 305 million). The Bank and its subsidiaries own rights to property by way of capitalized leaseholds in the amount of NIS 315 million (December 31, 2020 - NIS 326 million).

C. Land rights totaling NIS 304 million (31.12.20 - NIS 314 million) have yet to be recorded in the name of the Bank or its investee companies at Land Registry Offices.

D. The balance-sheet balance of premises and equipment not in use by the Bank or the Group and which were classified as real estate for investment amounted to NIS 13 million (31.12.20 - NIS 7 million).

E. The group has in use assets that were fully depreciated. The cost of these assets as of December 31, 2021 amounted to NIS 573 million (31.12.20 - NIS 595 million).

NOTE 16 - PREMISES AND EQUIPMENT (CONT'D)
(NIS million)

F. Information regarding leases

Starting with January 1, 2020, the Bank applies Item 842 of the Codification with respect to leases. In the framework of lease arrangements, the Bank leases property (mostly office premises and branch offices) and motor vehicles, essentially for the business activity of the Bank. In most property lease agreements and in all vehicle lease agreements to which the Bank is a party, the lease payments are linked to the Consumer Price Index (CPI), based on the most recent index published prior to the date of engagement in the lease ("known index").

The lease period is defined as the period in which the lease may not be cancelled, together with periods covered by an option for extension of the lease, where it is reasonably certain that the Bank would exercise the option.

With respect to a part of the properties leased by the Bank, the Bank, at its exclusive discretion, has the option of terminating the lease after 3-5 years, subject to an advance notice to the lessor of at least 3-12 months. The option for termination has not been taken into account in computing the liability in respect of leases.

Whereas, the rate of interest inherent in the lease is not easily determinable, use has been made of the additional rate of interest of the Bank, being the rate of interest that the Bank would have been required to pay in respect of a loan in an amount equal to the lease payments over a similar period, where the leased property serves as an economic collateral and in a similar environment.

The Bank has no lease arrangements which are classified as financial leases.

1. Expenses in respect of leases

	Consolidated		The Bank	
	For the year ended December 31,		For the year ended December 31,	
	2021	2020	2021	2020
		NIS million		NIS million
Expenses in respect of operating leases	**77**	73	**71**	67
Variable lease expenses	**-**	-	**-**	-
Total expenses in respect of leases	**77**	73	**71**	67

2. Additional information regarding leases

	Consolidated		The Bank	
	For the year ended December 31,		For the year ended December 31,	
	2021	2020	2021	2020
		NIS million		NIS million
Cash paid for balances included in the measurement of liabilities for leases:				
- Cash flow in respect of current operations regarding operating leases	**76**	72	**70**	66
Right of use assets recognized in respect of new operating leases	**37**	42	**28**	39
Balance of weighted average period (in years) in respect of operating leases	**4.4**	4.2	**4.4**	4.2
Weighted average discounting interest in respect of operating leases (in percentages)	**0.04**	0.05	**0.04**	0.06

NOTE 16 - PREMISES AND EQUIPMENT (CONT'D)
(NIS million)

3. Non capitalized cash flows and liabilities in respect of operating leases

				Consolidated
	December 31, 2021		December 31, 2020	
	Noncapitalized cash flows	Liability for leases	Noncapitalized cash flows	Liability for leases
				NIS million
Up to one year	**65**	**65**	72	72
Over one to two years	**52**	**52**	58	58
Over two to three years	**44**	**44**	46	46
Over three to four years	**40**	**40**	38	38
Over four to five years	**35**	**35**	36	35
Over five years	**131**	**130**	141	140
Total	**367**	**366**	391	389

				The Bank
	December 31, 2021		December 31, 2020	
	Noncapitalized cash flows	Liability for leases	Noncapitalized cash flows	Liability for leases
				NIS million
Up to one year	**59**	**59**	66	66
Over one to two years	**47**	**47**	53	52
Over two to three years	**39**	**39**	42	42
Over three to four years	**35**	**35**	34	34
Over four to five years	**31**	**31**	31	31
Over five years	**113**	**112**	124	123
Total	**324**	**323**	350	348

NOTE 17 - INTANGIBLE ASSETS

(NIS million)

	Consolidated			The Bank
	Customers relations	Software	Total	Software
Cost				
At December 31, 2019	538	1,166	1,704	1,165
Addition	-	120	120	120
Disposals	-	-	-	-
At December 31, 2020	538	1,286	1,824	1,285
Addition	**-**	**133**	**133**	**133**
Disposals	**-**	**-**	**-**	**-**
At December 31, 2021	**538**	**1,419**	**1,957**	**1,418**
Amortization				
At December 31, 2019	528	928	1,456	927
Amortization for the year	2	94	96	94
Disposals	-	-	-	-
At December 31, 2020	530	1,022	1,552	1,021
Amortization for the year	**2**	**103**	**105**	**103**
Disposals	**-**	**-**	**-**	**-**
At December 31, 2021	**532**	**1,125**	**1,657**	**1,124**
Book value				
At December 31, 2019	10	238	248	238
At December 31, 2020	8	264	272	264
At December 31, 2021	**6**	**294**	**300**	**294**

NOTE 18 - OTHER ASSETS

(NIS million)

Composition:

	Consolidated		The Bank	
	December 31		December 31	
	2021	**2020**	**2021**	**2020**
Deferred taxes, net (see Note 8)	**617**	680	**581**	643
Income tax advances, net of provisions and other institutions	**3**	5	**3**	3
Assets relating to MAOF market activity	**333**	247	**333**	247
Right-of-use assets in respect of operating lease	**364**	387	**321**	346
Other receivables and debit balances	**219**	145	**222**	150
Total other assets	**1,536**	1,464	**1,460**	1,389

NOTE 19 - DEPOSITS FROM THE PUBLIC
(NIS million)

A. Classes of deposits by place of origin and type of depositor

	Consolidated		The Bank	
	December 31		December 31	
	2021	2020	2021	2020
Demand				
- Non-bearing interest	**68,605**	62,106	**63,665**	57,671
- Bearing interest	**31,353**	25,384	**31,353**	25,384
Total demand	**99,958**	87,490	**95,018**	83,055
Fixed-term	**53,489**	54,187	**51,994**	52,472
Total deposits in Israel*	**153,447**	141,677	**147,012**	135,527
* Of which:				
Deposits of private individuals	**73,045**	72,435	**65,270**	64,903
Deposits of institutional entities	**31,872**	26,310	**31,835**	26,262
Deposits of corporates and others	**48,530**	42,932	**49,907**	44,362

B. Deposits of the public by size (consolidated)

	December 31	
Maximum amount of deposit	**2021**	**2020**
Up to 1	**55,956**	55,269
From 1 to 10	**36,190**	35,447
From 10 to 100	**18,209**	17,187
From 100 to 500	**11,644**	8,046
Over 500	**31,448**	25,728
Total	**153,447**	141,677

NOTE 20 - DEPOSITS FROM BANKS
(NIS million)

Composition:

	Consolidated		The Bank	
	December 31		December 31	
	2021	2020	2021	2020
In Israel				
Commercial Banks:				
Demand deposits	**874**	1,184	**953**	1,208
Fixed-term deposits	**8**	8	**2,363**	2,503
Acceptances	**68**	39	**68**	39
Central banks:				
Fixed-term deposits	**4,194**	1,761	**4,194**	1,761
Total deposits from banks	**5,144**	2,992	**7,578**	5,511

NOTE 21 - BONDS AND SUBORDINATED CAPITAL NOTES
(NIS million)

A. Composition:

	Duration (1)	Internal rate of return (1)	Consolidated		The Bank	
			December 31		December 31	
	Years	%	2021	2020	2021	2020
Bonds and subordinated capital notes in -						
- Non-linked Israeli currency	**0.98**	**6.81**	**6**	241	**6**	9
- Israeli currency linked to the CPI	**4.45**	**0.60**	**3,350**	4,153	**956**	2,077
Total bonds and non-convertible subordinated capital notes(2)			**3,356**	4,394	**962**	2,086
Including: subordinated capital notes			**962**	2,086	**77**	90

(1) Internal rate of return: The rate of interest which discounts the future flow of payments to the outstanding amount in the balance sheet.
Duration: The average period of payments weighted by the flow of payments discounted by the internal rate of return.
The data as to the internal rate of return and the duration to maturity are as at December 31, 2021, and related to the consolidated statements.

(2) Of which: registered for trade at the Tel Aviv Stock Exchange, bonds in the amount of NIS 2,393 million and subordinated capital notes in the amount of NIS 886 million (December 31, 2020 - bonds in the amount of NIS 2,309 million and subordinated capital notes in the amount of NIS 1,995 million).

NOTE 22 - OTHER LIABILITIES

(NIS million)

Composition:

	Consolidated		The Bank	
	December 31		December 31	
	2021	2020	2021	2020
Deferred tax liabilities, net (see Note 8)	**44**	43	**44**	43
Provision for current taxes, net of advance tax payments	**196**	227	**190**	224
Excess of provision for severance pay over amounts funded (see note 23)	**690**	617	**679**	609
Income received in advance	**84**	72	**81**	69
Creditors in respect of credit cards activity	**2,160**	4,020	**1,807**	3,475
Liabilities relating to MAOF market activity	**333**	247	**333**	247
Creditors in respect of salaries and related costs (see also Note 23)	**610**	492	**560**	448
Short selling of securities	**308**	11	**308**	11
Liabilities in respect of operating leases	**367**	389	**323**	348
Other creditors and Credit balances	**296**	289	**276**	267
Total other liabilities	**5,088**	6,407	**4,601**	5,741

NOTE 23 - EMPLOYEE BENEFITS

A. SIGNIFICANT BENEFITS

1. Pension and Severance Pay

A part of the Group's liabilities for severance pay and pensions is covered by current deposits, in the name of the employees, with provident and pension funds or by the purchase of insurance policies. The liability for severance pay and pension included in the balance sheet represents the portion of the liabilities which is not covered by deposits and/or insurance policies, as stated above. This liability is measured on an actuarial basis, using actuarial and other assumptions, including the discounting rate, the rate of increase in wages, increased severance pay, mortality and retirement rates. Additional provision for severance pay in respect of additional efficiency measures (such as organizational structural changes) were recorded as an expense on non-actuarial basis.

2. Staff Long-Service Awards

Part of the employees in the Group are entitled to a special seniority award ("jubilee award") after having completed a defined period of employment at the Group. This liability is measured on an actuarial basis using actuarial and other assumptions, including the discounting rate, the rate of increase in salaries, mortality and retirements rates.

3. Benefit in respect of nonutilized sick leave

Some of the employees of the Bank are entitled to a benefit in respect of nonutilized accumulated sick leave. Towards the retirement date, this benefit is convertible into vacation days to be actually utilized, based on a determined convertion formula. This liability is measured on an actuarial basis using actuarial and other assumptions, including the discounting rate, the rate of increase in salaries, mortality and retirements rates.

4. Other post-employment benefits

Certain senior officers are entitled upon their retirement for a non-competition award.

5. Other post-retirement benefits

Employees of the group are entitled to certain post-retirement benefits. These benefits include: holiday gifts, newspapers, vacations, etc. Employees of a consolidated subsidiary are entiltled to an award upon reaching retirement age in respect of unutilized sick leave. These liabilities are measured on an actuarial basis using actuarial and other assumptions, including the discounting rate, mortality and retirement rates.

6. Vacation pay

Employees of the Group are entitled by law and by labor agreements to paid annual vacation. The provision for vacation pay is calculated on the basis of the most recent salary amounts of employees and the vacation days accumulated in their favor, with the addition of the required related expenses.

B. See note 33.f. regarding employment agreements with the CEO and the Chairman of the Board.

NOTE 23 - EMPLOYEE BENEFITS (CONT'D)

C. Composition of benefits:

	Consolidated		The Bank	
	December 31,		December 31,	
	2021	2020	2021	2020
	(NIS million)		(NIS million)	
Pension and severance pay				
Amount of liability	**987**	960	**877**	866
Fair value of assets of the scheme	**(297)**	(343)	**(198)**	(257)
Excess liabilities over assets of the scheme	**690**	617	**679**	609
Excess liabilities of the scheme included in the item "other liabilities"	**690**	617	**679**	609
Long-service awards - amount of liability	**17**	19	**16**	18
Benefit regarding unused sick leave - amount of liability	**30**	35	**30**	35
Other post-employment benefits	**9**	8	**9**	8
Other post-retirement benefits	**236**	219	**213**	196
Vacation pay	**78**	76	**73**	71
Other	**240**	135	**219**	120
Total				
Excess liabilities regarding employee benefits over assets of the scheme included in the item "other liabilities"	**1,300**	1,109	**1,239**	1,057

D. Defined benefits severance pay and pension schemes

(1) Liabilities and financing situation

		Severance pay, and pension schemes		Other post-retirement benefits	
		For the year ended December 31,		For the year ended December 31,	
		2021	2020	2021	2020
		(NIS million)		(NIS million)	
A.	**Change in liability regarding anticipated benefits**				
	Liability regarding anticipated benefit at beginning of period	**960**	927	**219**	207
	Cost of service	**20**	21	**5**	5
	Cost of interest	**18**	19	**6**	5
	Actuarial loss**	**107**	107	**10**	7
	Benefits paid	**(118)**	(114)	**(4)**	(5)
	Liability regarding anticipated benefit at end of period	**987**	960	**236**	219
	Liability regarding cumulative benefit at end of period	**945**	854	**235**	217
B.	**Change in fair value of assets of the scheme and the financing situation of the scheme**				
	Fair value of assets of the scheme at beginning of period	**343**	415	**-**	-
	Actual return on assets of the scheme	**44**	8	**-**	-
	Deposits in the scheme by the Bank	**9**	9	**-**	-
	Benefits paid	**(99)**	(89)	**-**	-
	Fair value of assets of the scheme at end of period	**297**	343	**-**	-
	Financing situation - net liability recognized at end of period*	**690**	617	**236**	219

* Included in the item "Other liabilities".

** In 2021- the actuarial loss stemmed mainly from leaving review performed during the fourth quarter of 2021, which resulted in an increase in the liability in respect of pension and severance pay against an increase in other comprehensive loss in an amount of NIS 145million. The loss was partially offset by an actuarial gain derived from an increase in the forecasted inflation.
In 2020- the actuarial loss stemmed mainly from an update of the actuarial assumptions due to the efficiency measures.

NOTE 23 - EMPLOYEE BENEFITS (CONT'D)

		Severance pay, and pension schemes		Other post-retirement benefits	
		December 31,		December 31,	
		2021	2020	2021	2020
		(NIS million)		(NIS million)	
C.	**Amounts recognized in the consolidated balance sheet**				
	Amounts recognized in the item "other liabilities"	**690**	617	**236**	219
	Net liability recognized at end of period	**690**	617	**236**	219
D.	**Amounts recognized in other cumulative comprehensive loss, before the tax effect**				
	Actuarial loss, net	**289**	272	**83**	78
	Closing balance in other cumulative comprehensive profit	**289**	272	**83**	78
E.	**Schemes in which the liability regarding cumulative benefits exceeds the assets of the scheme**				
	Liability regarding anticipated benefit	**987**	960	**236**	219
	Liability regarding cumulative benefit	**945**	854	**235**	217
	Fair value of assets of the scheme	**297**	343	**-**	-

(2) Expense for the period

		Severance pay, and pension schemes			Other post-retirement benefits		
		December 31,			December 31,		
		2021	2020	2019	2021	2020	2019
		(NIS million)			(NIS million)		
A.	**Cost components of net benefit recognized in profit and loss**						
	Cost of service	**20**	21	20	**5**	5	4
	Cost of interest	**18**	19	24	**6**	5	6
	Anticipated return on assets of the scheme	**(7)**	(9)	(14)	**-**	-	-
	Amortization of non-recognized amounts:						
	Net actuarial loss	**17**	14	14	**5**	4	3
	Other, including loss from reduction or dismissal and structural changes	**36**	26	50	**-**	-	-
	Capitalized cost of software	**(3)**	(3)	(3)	**-**	-	-
	Total cost of benefits, net	**81**	68	91	**16**	14	13
B.	**Changes in assets of the scheme and in liability for benefits recognized in other comprehensive loss (profit), before the tax effect**						
	Net actuarial loss for the period	**70**	108	85	**10**	7	50
	Amortization of actuarial loss	**(17)**	(14)	(14)	**(5)**	(4)	(3)
	Dismissal	**(36)**	(26)	(48)	**-**	-	-
	Total recognized in other comprehensive loss	**17**	68	23	**5**	3	47
	Total net cost of benefit	**81**	68	91	**16**	14	13
	Total net cost of benefit for the period recognized in other comprehensive loss	**98**	136	114	**21**	17	60

NOTE 23 - EMPLOYEE BENEFITS (CONT'D)

(3) Assumptions

A. Assumptions on the basis of weighted average used to determine the liability in respect of the benefits and for the measurement of the net cost of benefits

	Severance pay, and pension schemes		Other post-retirement benefits	
	December 31,		December 31,	
	2021	2020	2021	2020
		percent		percent
1. Principal guidelines used to determine the liability for benefits				
Discounting rate	**(0.3)**	0.3	**0.4**	0.8
Forecasted rate of rise in the CPI	**2.5**	1.3	**2.5**	1.4
Retirement rate	**0.1-8.6**	0.1-3.4	**0.1-8.6**	0.1-3.4
Rate of increase in nominal-term compensation	**1.1-5.2**	1.1-5.2	**0.0-3.0**	0.0-3.0

	Severance pay, and pension schemes			Other post-retirement benefits		
	For the year ended December 31,			For the year ended December 31,		
	2021	2020	2019	2021	2020	2019
			percent			percent
2. Principal guidelines used to measure the net cost of benefits for the period						
Discounting rate	**0.0-0.3**	0.4-2.0	0.6-1.9	**0.6-0.8**	1.0-2.3	1.3-2.4
Anticipated long-term return on assets of the scheme	**1.5-2.0**	1.6-2.8	3.1-3.4			
Rate of increase in nominal-term compensation	**1.1-5.2**	1.1-5.2	1.1-5.2	**0.0-3.0**	0.0-3.0	0.0-3.0

B. Effect of a one percentage point change on the liability in respect of the anticipated benefit, before the tax effect

	Severance pay, and pension schemes				Other post-retirement benefits			
	One percentage point growth		One percentage point decline		One percentage point growth		One percentage point decline	
	December 31,		December 31,		December 31,		December 31,	
	2021	2020	2021	2020	2021	2020	2021	2020
		(NIS million)		(NIS million)		(NIS million)		(NIS million)
Discounting rate	**(74)**	(70)	**90**	87	**(41)**	(38)	**55**	50
Retirement rate	**121**	78	**(102)**	(110)	**(1)**	(2)	**2**	2
Rate of increase in compensation	**87**	86	**(72)**	(69)	**2**	2	**(1)**	(1)

NOTE 23 - EMPLOYEE BENEFITS (CONT'D)

(4) Assets of the scheme

A. Composition of the fair value of the assets of the scheme

	Severance pay, and pension schemes							
	December 31, 2021				December 31, 2020			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
				(NIS million)				(NIS million)
Cash and deposits with banks	**10**	**6**	**-**	**16**	19	2	-	21
Shares	**58**	**-**	**-**	**58**	74	-	-	74
Bonds:								
Government bonds	**96**	**12**	**-**	**108**	126	12	-	138
Corporate bonds	**66**	**10**	**-**	**76**	43	28	-	71
Total	**162**	**22**	**-**	**184**	169	40	-	209
Other	**3**	**22**	**14**	**39**	3	25	11	39
Total	**233**	**50**	**14**	**297**	265	67	11	343

B. Fair value of the assets of the scheme according to classes of assets and allotment target for 2022

	Severance pay, and pension schemes		
	Allotment	% of scheme's assets	
	target	December 31,	
	2022	2021	2020
			percent
Cash and deposits with banks	**3.9**	**5.4**	6.1
Shares	**16.5**	**19.5**	21.6
Bonds:			
Government bonds	**39.4**	**36.4**	40.2
Corporate bonds	**31.5**	**25.6**	20.7
Total	**70.9**	**62.0**	60.9
Other	**8.7**	**13.1**	11.4
Total	**100.0**	**100.0**	100.0

C. Cash flows

(1) Deposits

	Severance pay, and pension schemes		
		Actual deposits	
	Forecast	For the year ended December 31,	
	*2022	2021	2020
			(NIS million)
Deposits	**9**	9	9

* Assessment of amounts which the Bank expects to deposit with a defined benefit pension scheme during 2022.

NOTE 23 - EMPLOYEE BENEFITS (CONT'D)

(2) Benefits expected to be paid by the Bank in the future**

Year	Severance pay, and pension schemes	Other post-retirement benefits
		(NIS million)
2022	60	8
2023	49	8
2024	56	8
2025	44	8
2026	57	9
2027-2031	320	51
2032 and thereafter	684	374
Total	1,270	466

** Non-discounted values. Not including future service cost.

E. Efficiency measures

The Technology, Innovation and Administration Committee of the Board of Directors of the Bank approved on June 29, 2021, an early retirement plan, according to which, approximately 2% to 3% of the employees of the Group, belonging to a defined population, would be entitled to retire prematurely at beneficial terms. By the end of 2021, all of the employees, which their retirement was approved in the framework of the plan, were retired.

The retirement costs, which amounted to NIS 43 million, were provided for in 2020.

NOTE 24A - SHAREHOLDERS' EQUITY

(NIS million)

A. Share capital - Composition:

	Authorized	Issued and paid up
	December 31	December 31
	2021 and 2020	2021 and 2020
Ordinary shares of NIS 0.05 each	18	5

All the ordinary shares are registered shares.

The ordinary shares of NIS 0.05 are traded on the Tel-Aviv Stock Exchange.

Each share entitles the holder to one vote at the general shareholders meeting. Each share entitles it's holder to participate in the distribution of profits and to participate in the distribution of the Bank's net assets in the event of liquidation, pro-rata to its par value.

B. Dividend distribution policy

In accordance with the profit distribution policy adopted by the Board of Directors (in accordance with a resolutions amended from time to time), the Bank would distribute annual dividends up to 50% of its distributable annual net earnings for the current year, provided that the Bank's ratio of capital to risk elements shall be no less than the regulatory targets and targets specified, or to be specified, by the Bank Board of Directors from time to time. Past retained earnings shall be distributed by specific resolution. Such distributions shall be made subject to statutory provisions and to proper conduct of banking business directives, provided that no adverse changes occur to Bank earnings and/or business condition and/or financial condition and/or overall state of the economy and/or to the statutory environment.

Nothing in this resolution shall detract from the Board of Directors' authority to review the policy from time to time and to resolve, at any time, after taking into account business considerations and statutory provisions applicable to the Bank, to change the policy or to change the dividend amount to be distributed for any specific period, or to resolve not to distribute any dividend at all.

It is hereby clarified that any dividend distribution (including pursuant to the aforementioned resolutions) shall be subject to specific approval by the Board of Directors and to all restrictions applicable to the Bank with regard to dividend distribution, and shall be made public with all required details in accordance with statutory provisions.

It is noted that a dividend distribution by the Bank is subject, in addition to provisions of the Companies Act, to the following additional restrictions:

- Proper Conduct of Banking Business Directive No. 331, whereby a banking corporation may not distribute dividends upon any of the following cases (unless the prior consent of the Supervisor of Banks is obtained): (1) if the cumulative retained earnings, net of differences in debit included in other cumulative comprehensive profit, as per the financial statements, is not positive, or such distribution would cause it to not be positive; (2) if one or more of the three most recent calendar years ended with a loss or with a comprehensive loss; (3) if a loss or a comprehensive loss is indicated by the cumulative results of the three quarters ending at the end of the interim period for which the most recent financial statements were published; (4) if the Bank's financial statements show non-monetary assets in excess of shareholders' equity, or should such distribution result in such condition. In any case, the distribution is contingent on compilation of a written forecast for the year following the dividend distribution, provided that such forecast would show that the banking corporation's ratio of capital to risk assets shall not be lower than the required minimum, thereof.
- Proper Conduct of Banking Business Directives which include guidelines regarding the manner of calculation of minimal capital ratio requirements. Proper Conduct of Banking Business Directive No. 201 requires that as from January 1, 2015, the minimal ratio of Tier 1 equity capital to risk assets will be 9% and the ratio of comprehensive capital to risk assets will be 12.5%. With regards to the minimal cxapital ratio, see Note 24B regarding "Capital adequacy targets", for mitigating provisions stated in a Provisional Instruction issued in the wake of the Corona crisis.

- "Restrictions on extending housing loans"- as a result of the application of the amendment to Proper Conduct of Banking Business Directive No. 329, it is required to raise the target of Tier 1 equity capital by a rate reflecting 1% of the outsatanding balance of housing loans. For relief and clarifications in this matter, see Note 24B regarding "Capital adequacy targets".
- In accordance with letters addressed to the Bank by the Supervisor of Banks, it is required to inform the Supervisor in advance as to a distribution of a dividend in an amount exceeding 50% of the annual profit of the Bank in the current year.
- The permit by the Governor of Bank of Israel issued in 2003 stipulated that no dividends may be distributed out of earnings accrued by the Bank through March 31, 2003 (which amounted to NIS 2,391 million), and that if any loss would be accrued after said date, no dividends may be distributed until such loss is recouped.

Following are details regarding dividends distributed by the Bank, as from the year 2019:

Declaration date	Payment date	Total dividend paid	Dividend per share
		NIS million	NIS
12 March 2019	20 March 2019	105	1.05
28 May 2019	17 June 2019	85	0.85
13 August 2019	29 August 2019	110	1.10
26 November 2019	12 December 2019	110	1.10
15 March 2020	31 March 2020	125	1.25
17 August 2021	1 September 2021	225	2.25
23 November 2021	13 December 2021	320	3.20
6 January 2022	24 January 2022	215	2.15

	For the year ended December 31,		
	2021	**2020**	**2019**
Dividend declared and paid by the Bank	**545**	125	410

In view of the letter of the Supervisor of Banks dated March 29, 2020, addressed to all commercial banks, and regarding the Provisional Instruction dated March 31, 2020 [Proper Conduct of Banking Business Directive No.250 (modification of Proper Conduct of Banking Business Directives for the purpose of coping with the corona crisis) ("Provisional Instruction")], amending Proper Conduct of Banking Business Directive No. 201, which contained, inter alia, a request to review the dividend distribution policy on ground of the Corona crisis and the uncertainty created by developments in the crisis, the Board of Directors of the Bank held discussions from time to time regarding the implementation of the dividend policy stated above, taking into consideration the period of the Provisional Instruction, as extended from time to time, and the anticipations of the Supervisor of Banks regarding the matter from the banking system, based on the continuing economic uncertainty and the continuous effect it might have on the economy.

On July 26, 2021, the Supervisor of Banks published an update to the Provisional Instruction. According to the explanatory notes to the update, the level of uncertainty, which is still high as a result of the Corona crisis, and the risk that the credit losses stemming from the crisis have not yet materialized in full, require the continuation of a careful and conservative capital planning, and a careful and conservative approach to the distribution of dividends. The Supervisor clarified that in view of the improvement in economic activity, and the growing trend of gradual returning to the pre-crisis level of activity, and the renewed accumulation of a capital cushion by banking corporations, he permits the banking system to distribute dividends, though in a limited fashion and in a careful and conservative approach. Furthermore, the position of the Supervisor at that time was that distribution in an amount exceeding 30% of the 2020 earnings, would not be considered as a careful and conservative capital planing. In view of the said position of the Supervisor of Banks, and of background of the continuous uncertainty and risk, as stated, at that stage, the Board of Directors approved on August 17, 2021, a cash dividend distribution to Bank shareholders in a total amount of NIS 225 million (gross), comprising 30% of net earnings according to the financial statements of the Bank for 2020.

On September 30, 2021, the Supervisor of Banks published an additional update to the Provisional Instruction. This update extended the effective period of the Provisional Instruction until December 31, 2021. The explanatory notes to the update state that despite the growing processes of exit from the Corona crisis, the level of uncertainty is still high impacting the ability of banks to predict their capital need for the medium-term, and therefore they must continue the careful and conservative capital planning. The Supervisor encourages banks to apply a careful and conservative approach regarding dividend distributions or purchase of own shares, and clarified that the position of the Supervisor is that a distribution in an amount exceeding 30% of bank profits (in the years 2020 and 2021) shall not be considered as careful and conservative capital planning. In accordance therewith, on November 23, 2021, the Board of Directors of the Bank approved a cash dividend distribution to Bank shareholders of in a total amount of NIS 320 million (gross), comprising 30% of the net earnings of the Bank for the nine months ended September 30, 2021.

The said guideline of the Supervisor of Banks was canceled on December 31, 2021. Concurrently, on December 27, 2021, the Supervisor of Banks expressed his position, according to which banking corporations should continue to take care in everything related to a dividend distribution resolution, and take into account that a certain measure of uncertainty still exists in the markets. Considering the above stated, the Board of Directors of the Bank resolved on January 6, 2022, to distribute an additional dividend of NIS 215 million, reflecting approx. 20% of net earnings in accordance with the financial statements of the Bank for the nine months ended on September 30, 2021, this in accordance with the dividend distribution policy approved by the Board of Directors.

In view of the above stated and in accordance with the dividend distribution policy of the Bank, and with respect to the annual dividend distribution of 50% of net earnings, as discussed above, the Board of Directors of the Bank resolved on March 7, 2022, to approve a cash dividend distribution to the shareholders of the Bank in a total amount of NIS 165 million (gross), comprising approx. 50% of the net earnings of the Bank for the fourth quarter of 2021.

The ex-dividend date was fixed for March 15, 2022, and payment of the dividend shall be made on March 24, 2022. The amount of the dividend is before any tax, including tax which the Bank has to withhold according to the law

NOTE 24B - CAPITAL ADEQUACY, LEVERAGE AND LIQUIDITY

A. Basel 3 guidelines

The bank implements measurement and capital adequacy requirements based on the Basel Committee instructions, as published by the Supervisor of Banks and as integrated into Proper Conduct of Banking Business Directives Nos. 201-211, as well in FAQ file.

Basel 3 instructions were implemented from January 1, 2014, in a gradual manner, in accordance with the transitional instructions stated in Proper Conduct of Banking Business Directive No, 299 in the matter of "measurement and capital adequacy - regulatory capital - transitional instructions". According to the Transitional Instructions, the capital instruments no longer qualified as regulatory capital were recognized since January 1, 2014, up to a maximum of 80% of their balance in the supervisory capital as of December 31, 2013. In each of the following years until January 1, 2022, this maximum level is being reduced by an additional 10%. Accordingly, as of January 1, 2021, the maximum rate of instruments qualified as regulatory capital amounts to 10%.

(1) Capital adequacy goals

In accordance with Proper Conduct of Banking Business Directives regarding the minimum capital ratios, the Bank, the total assets of which on a consolidated basis does not exceed 24% of total assets of the banking sector in Israel, is required to attain a minimum Tier I equity capital ratio of 9%, and a minimum comprehensive capital ratio of 12.5%. In addition, a capital demand was added to the minimum capital ratios, at a rate reflecting 1% of the outstanding balance of housing loans at date of reporting. In accordance with the clarification of the Supervisor of Banks dated October 6, 2021, the additional capital demand in respect of housing loans will be added to Tier 1 capital ratio alone.

On the background of the spreading of the Coronavirus and as part of the adjustment to Proper Conduct of Banking Business Directives, The Supervisor of Banks published Proper Conduct of Banking Business Directives No. 250, which includes, inter alia, provisional instruction concerning the update of Directive 201, which includes a reduction of 1% of the capital requirements applying to banks and an update to Directive 329, which cancels the demand of additional 1% on housing loans for the purpose of purchasing a residential property that were granted during the period from March 19, 2020, and until September 31, 2021, and on housing loans for any other purpose granted as from March 19, 2020.

All through the period of the crisis, the Supervisor of Banks published updates extending the validity of the Provisional Instructions, where as regards the reduction in capital requirements it was stated that the relief will be valid until the end of 24 months from the end of the Provisional Instruction, provided that the capital ratios of a banking corporation will be no less than the capital ratios at the date of the end of the Provisional Instruction, or the minimal capital ratios applicable to the banking corporation before the Provisional Instruction, whichever is lower. However, the letter states that a reduction in the capital ratios of up to 0.3% in the first six months after the end of the Provisional Instruction, will not be considered as a deviation.

On December 27, 2021, the Supervisor of Banks issued a letter according to which, the validity of the Provisional Instruction will expire as from January 1, 2022. Moreover, Proper Conduct of Banking Business Directive No.329 in the matter of limitations on housing loans was updated, so that the additional capital requirement of 1% shall apply only to loans for residential purposes, and shall not apply to housing loans granted for purposes other than the acquisition of rights in real estate secured by a mortgage on residential property (hereinafter – "loan for any putpose").

For the outstanding balance of the housing loans see note 29.B.3.

NOTE 24B - CAPITAL ADEQUACY, LEVERAGE AND LIQUIDITY (CONT'D)

(NIS million)

The Group has capital targets approved by the Board of Director and reflect suitable capital level when taking into consideration the risk profile and risk apetite.

The internal capital goals, as determined by the Board of Directors, are as follows:

- In the ordinary course of business - Tier I equity capital ratio of not lower than 9.25% and comprehensive capital ratio of not lower than 12.50%, given the relief of The Bank of Israel, Tier I equity capital ratio of not lower than 8.25% and comprehensive capital ratio of not lower than 11.50%. These might change in accordance with the volume of mortgage loans extended in the relevant quarter.
- In stress situations - Tier I equity capital ratio of not lower than 6.50% and comprehensive capital ratio of not lower than 9.00%.

(2) Following are details regarding risk assets, the regulatory capital and capital ratios calculated in accordance with Proper Conduct of Banking Business Directives No. 201-211 (NIS million):

	December 31, 2021	December 31, 2020
a. Consolidated		
a. Capital for calculation of capital ratio		
Tier 1 capital, after supervisory adjustments and deductions	**10,199**	9,369
Tier 2 capital after deductions	**1,891**	2,749
Total overall capital	**12,090**	12,118
b. Weighted balances of risk assets		
Credit risk	**(2)81,660**	(2)76,203
Market risk	**683**	883
Operational risk	**6,645**	6,729
Total weighted balances of risk assets	**88,988**	83,815
		percent
c. Ratio of capital to risk assets		
Ratio of tier 1 capital to risk assets	**11.46%**	11.18%
Ratio of comprehensive capital to risk assets	**13.59%**	14.46%
Minimal ratio of Tier 1 equity capital required by the Supervisor of banks	**(1)8.25%**	(1)8.29%
Minimal ratio of comprehensive capital required by the Supervisor of Banks	**(1)11.50%**	(1)11.50%
		percent
B. Significant Subsidiary		
Massad Bank Ltd.		
Ratio of Tier 1 equity capital to risk assets	**14.71%**	14.03%
Ratio of comprehensive capital to risk assets	**15.72%**	15.19%
Minimal ratio of Tier 1 equity capital required by the Supervisor of banks	**8.00%**	8.00%
Minimal ratio of comprehensive capital required by the Supervisor of Banks	**11.50%**	11.50%

NOTE 24B - CAPITAL ADEQUACY, LEVERAGE AND LIQUIDITY (CONT'D)

(NIS million)

(3) Capital components for computation of capital ratio (consolidated)

	December 31, 2021	2020
A. Tier 1 equity capital		
Capital attributed to shareholders	**10,003**	9,141
Differences between capital attributed to shareholders and Tier 1 equity capital		
Non-controlling rights	**220**	208
Total Tier 1 equity capital before regulatory adjustments and deductions	**10,223**	9,349
Regulatory adjustments and deductions:		
Intangible assets	**(96)**	(98)
Regulatory adjustments and other deductions- Tier 1 equity capital	**(3)**	(2)
Total regulatory adjustments and deductions before adjustments in respect of efficiency measures - Tier 1 equity capital	**(99)**	(100)
Total adjustments in respect of efficiency measures- Tier 1 equity capital	**75**	120
Total Tier 1 equity capital after regulatory adjustments and deductions	**10,199**	9,369
B. Tier 2 capital		
Tier 2 capital: instruments before deductions	**907**	1,796
Tier 2 capital: provisions before deductions	**984**	953
Total tier 2 capital before deductions	**1,891**	2,749
Deductions:		
Total deductions- Tier 2 capital	**-**	-
Total Tier 2 capital	**1,891**	2,749

	December 31, 2021	2020
(4) Effect of Transitional Instructions on Tier 1 equity capital		
Ratio of capital to risk assets		
Ratio of Tier 1 equity capital to risk assets before effect of adjustments in respect of efficiency measures	**11.37%**	11.03%
Effect of adjustments in respect of efficiency measures	**0.09%**	0.15%
Ratio of Tier 1 equity capital to risk assets	**11.46%**	11.18%

(1) Minimal Tier 1 equity capital ratio and the minimal comprehensive capital ratio required until March 31, 2020 are 9.0% and 12.5%, respectively. Starting from that date and during the period of the Provisional Instruction (see section A.1. above) the ratios are 8.0% and 11.5% respectively. To these ratios was added capital requirement of 1% of housing loans balance for the reporting date, except for housing loans granted in the period from March 19, 2020 until December 31, 2021, the balance of which at the reporting date amounts to NIS 10,372 million. The data for December 31, 2020 were updated in light of the clarifications of the Supervision of Banks, according to which the additional capital demand in respect of housing loans will be added to Tier 1 capital alone.

(2) An amount of NIS 100 million was deducted from the total average balances of risk assets in respect of adjustments regarding the efficiency measures (December 31, 2020 – NIS 158 million 31).

* The data in this Note are presented in accordance with Proper Conduct of Banking Business Directives No. 202 regarding "measurement and capital adequacy". In addition, the said data include adjustments in respect of efficiency measures, as stated in the letter of the Supervisor of Banks dated January 12, 2016, in the matter of "operational efficiency of the banking sector in Israel" (hereinafter - "adjustments in respect of efficiency measures"), which are being reduced gradually over a five years period.

For additional details in respect of the effect of the adjustments regarding efficiency measures see Item A(4) above.

NOTE 24B - CAPITAL ADEQUACY, LEVERAGE AND LIQUIDITY (CONT'D)

(NIS million)

(5) Factors that might materially affect the capital adequacy of the Bank and of its significant subsidiary

(5a.) Capital components subject to fluctuations

The Bank manages the capital adequacy ratio with the aim of adhering to the minimal capital requirements of the Supervisor of Banks. The capital of the Bank is subject to changes, inter alia, in respect of the factors detailed below:

- Actuarial changes due to changes in the interest rate used to compute the liabilities of the Bank or in other actuarial assumptions, such as: mortality rates, retirement etc.
- The effect of changes in interest rate and interest spread on the adjustments to fair value of available for sale bonds.
- Effect of changes in the CPI and exchange rate on the balances of the assets.

Following is an analysis of the impact of such changes on the Tier I equity capital of the Bank as of Decermber 31, 2021:

	Effect of a change of NIS 100 million in Tier I equity capital	Effect of a change of NIS 1 billion in total risk assets
		percent
The Bank (consolidated data)	**0.11**	**0.12**
Massad Bank	**1.67**	**2.11**

(6) Efficiency

The Supervisor of Banks published a letter on January 12, 2016, in the matter of "operational efficiency of the banking sector in Israel". In accordance with the letter, the Board of Directors of the Bank has to outline a multiannual program for the increase in efficiency. A banking corporation that complies with the provisions of the letter shall be entitled to a relief, whereby, for the purpose of calculating the capital adequacy, the effect of the cost of this program may be spread by the "straight line" method over five years. On December 16, 2019 the Supervisor of Banks published a letter that extends the effectiveness of these guidelines until December 31, 2021.

(a) In the course of the third quarter of 2018, a merger decision was taken, and on January 1, 2019, Otsar Hahayal was merged with and into the Bank. In respect of these actions the Group recorded a provision for increased severance compensation in the amount of NIS 82 million (net amount of NIS 53 million after the tax effect).

The impact of the efficiency measures on the ratio of equity to risk components is recognized, as stated, in installments over five years, and is estimated at December 31, 2021 to be lower by 0.02%.

(b) On July 28, 2020 and on November 3, 2020, the Board of Directors approved an efficiency plan, according to which 60 regular employees of the Bank, belonging to the defined target population, will be allowed to opt for early retirement under preferential terms.

The plan increased other comprehensive loss (gross) in an amount of NIS 48 million in respect of severance compensation liability and post-retirements benefits.

In addition, in the fourth quarter of the year 2020, an additional provision for enlarged severance compensation was recorded, in an amount of NIS 50 million, in respect of another early retirement anticipated in the upcoming years. Total net effect, after tax in respect of these actions amounted to NIS 65 million.

The impact of the efficiency measures on the ratio of equity to risk components is recognized, as stated, in installments over five years, and is estimated at December 31, 2021 to be lower by 0.07%.

NOTE 24B - CAPITAL ADEQUACY, LEVERAGE AND LIQUIDITY (CONT'D)

(NIS million)

(7) Updating the manner of measurement of the capital requirements in respect of exposure to insurance companies, provident funds and mutual investment trust funds

On December 26, 2021, the Supervisor of Banks issued a letter updating the manner of measurement of capital requirements in respect of exposure to insurance companies, provident funds and mutual investment trust funds. According to the letter, it had been decided to reduce the weight of the risk attributed to insurance companies, provident funds and trust funds, equalizing it to the weight of the risk attributed to banking corporations in accordance with Proper Conduct of Banking Business Directive No. 203. Application of the update has led to an increase in the Tier I equity capital ratio and in the comprehensive capital ratio of 0.18% and 0.22%, respectively, and this, as a result of the reduction of NIS 1,420 million, in the total amount of risk assets in respect of the said exposure.

B. Leverage ratio in accordance with instructions of the Supervisor of Banks

The Bank implements Proper Banking Management Directive No. 218 in the matter of leverage ratio. The Directive states a simple and transparent leverage ratio that is not risk based, which would serve as a supplementary and reliable measurement of the risk based capital requirements, and which is intended to restrict the accumulation of leverage at a banking corporation.

The leverage ratio is expressed in percentages, and is defined as the ratio between the measurement of capital and the measurement of exposure. Capital for the purpose of measuring leverage is the Tier I capital as defined in Proper Conduct of Banking Business Directive No. 202, taking into consideration the determined transitional arrangements. The total measurement of exposure of the Bank is the total of the balance sheet exposures, exposure to derivatives and to transactions financing the purchase of securities and off-balance sheet items.

As a general rule, the measurement is consistent with the accounting values, where for this purpose, risk weights are not taken into account. Likewise, the Bank is not permitted to use physical or financial collateral, guarantees or other techniques reducing credit risk, in order to reduce exposure measurements, unless these are specifically permitted by the Directive. Balance sheet assets deducted from Tier I capital (in accordance with Directive 202) are deducted from exposure measurement. In accordance with the Directive, the Bank computes the exposure in respect of derivatives according to Appendix "C" to Proper Conduct of Banking Business Directive No. 203, and the exposure in respect of off-balance sheet items by converting into credit the theoretical amount of these items, using conversion coefficients prescribed by Proper Conduct of Banking Business Directive No. 203.

In accordance with the Directive, a banking corporation shall maintain a leverage ratio of not less than 5% on a consolidated basis, for a banking corporation, the total stated consolidated assets of which comprises up to 24% of the total stated assets of the banking industry, including the Bank.

On November 15, 2020 the Bank of Israel published an update to Proper Conduct of Banking Business Directive No. 250 – Adjustments to Proper Conduct of Banking Business Directives in order to cope with the Coronavirus crisis (Provisional Instruction), within its framework was updated Proper Conduct of Banking Business directive No. 218 in the matter of Leverage Ratio. The update mitigates the requirement of the leverage ratio by 0.5 percent point, so the Bank has to comply with leverage ratio of no less than 4.5% (instead of 5%) on a consolidated basis, being a banking corporation, the total consolidated stated assets of which is up to 24% of total stated assets of the banking sector as a whole. With respect to the reduced leverage requirements, it has been determined that the relief will be valid until December 31, 2023, on condition that the leverage ratio of the banking corporation will not be less than the leverage ratio at June 30, 2022, or the minimal leverage ratio applying to the banking corporation prior to the Provisional Instruction, whichever is lower.

NOTE 24B - CAPITAL ADEQUACY, LEVERAGE AND LIQUIDITY (CONT'D)

(NIS million)

	December 31, 2021	December 31, 2020
		NIS million
A. Consolidated		
Tier 1 capital*	**10,199**	9,369
Total exposures	**191,042**	177,195
		percent
Leverage ratio	**5.34%**	5.29%
B. Significant Subsidiary		
Massad Bank Ltd.		
Leverage ratio	**7.68%**	7.24%
Minimal leverage ratio required by the Supervisor of Banks	**4.50%**	4.50%

* For the effect of adjustments in respect of efficiency measures, see paragraph A(4) above.

C. Liquidity coverage ratio in accordance with instructions of the Supervisor of Banks

The Bank implements Proper Conduct of Banking Business Directive No. 221 in the matter of "liquidity coverage ratio". The Directive adopts the recommendations of the Basel Committee in the matter of liquidity coverage ratio as regards the banking industry in Israel. The liquidity coverage ratio is being measured in accordance with a uniform stress test for a time range of thirty days, as detailed in the Directive. The ratio is intended to ensure that a banking corporation shall have an inventory of high quality liquid assets, as defined in the Directive, serving the liquidity needs of the corporation, and being measured in accordance with the net cash outflow anticipated in the stress tests.

	For the three months ended December 31	
	2021	2020
		percent
1. Consolidated*		
Liquidity coverage ratio	**128%**	150%
2. Significant Subsidiary*		
Massad Bank Ltd.		
Liquidity coverage ratio	**248%**	241%
Minimal liquidity coverage ratio required by the Supervisor of banks	**100%**	100%

* In terms of simple averages of daily observations.

(NIS million)

D. Net stable Funding Ratio in accordance with directives of the Supervisor of Banks

Since December 31, 2021, the Bank implements Proper Conduct of Banking Business Directive No. 222 in the matter of "Net stable Funding Ratio - NSFR", which adopts the recommendations of the Basel Committee in the matter of net stable funding ratio regarding the banking system in Israel. In accordance with the Directive, the aim of the net stable funding ratio, is to improve the resilience of the liquidity risk profile of banking corporations over a longer time horizon, by way of requiring banking corporations to maintain a stable funding profile, in accordance with the composition of their balance sheet assets and their off-balance sheet operations. The net stable funding ratio contains two components: available stable funding items (numerator) and required stable funding items (denominator). "Available stable funding" is defined as that part of capital and liabilities that may be relied on over the time horizon taken into account in the net stable funding ratio, covering a period of one year. The required amount of stable funding of a certain corporation is a function of its liquidity characteristics and the remaining periods to redemption of the different assets held by that corporation, as well as its off-balance sheet exposure.
In accordance with the Directive, the required net stable funding ratio is 100%.
The net stable funding ratio of the Bank and of its significant subsidiary companies in Israel, is computed in accordance with the provisions of Proper Conduct of Banking Business Directive No. 222 regarding "net stable funding ratio".

		For December 31, 2021
		percent
1.	**Consolidated**	
	Net stable funding ratio	**147%**
2	**Significant Subsidiary**	
	Bank Massad Ltd.	
	Net stable funding ratio	**151%**
	Minimal net stable funding ratio required by the Supervisor of banks	**100%**

NOTE 25 - COMMITMENTS AND CONTINGENT LIABILITIES
(NIS million)

A. Off-balance sheet commitment in respect of activity based on the collection of loans(1) at the end of the year

	Consolidated and The Bank	
	December 31	
	2021	2020
Balance of loans granted out of deposits repayable to the extent of collection of the loans (2)		
Non-linked Israeli currency	**14**	16
CPI linked Israeli currency	**257**	277
Total	**271**	293

(1) Loans granted out of deposits repayable to the depositor to the extent of collection of the loans, earning a margin or a collection commission (instead of a margin).
(2) Standing loans and Government deposits made in respect thereof, in the amount of NIS 63 million, consolidated and in the Bank (December 31, 2020 - NIS 54 million consolidated and in the Bank), were not included in the above table.

Flows of collection commission and interest margins in respect of activity based on the collection of loans(1)

	Consolidated and The Bank						
	December 31						December 31
	2021						2020
	Up to one year	One to three years	Three to five years	Five to ten years	Ten to twenty years	Total	Total
Contractual future flows	**2**	**2**	**1**	**1**	**1**	**7**	10
Expected future flows, net of management's estimate of premature repayments	**2**	**2**	**1**	**1**	**-**	**6**	8
Discounted future flows, net of management's estimate of premature repayments(2)	**2**	**2**	**1**	**1**	**-**	**6**	8

(1) The balance of deposits repayable according to collection in the non-linked shekel segment does not exceed 10% of all deposits repayable according to collection, therefore the data is given in respect of all operations.
(2) The capitalization is based on a negative rate of 1.9% (2020 - negative rate of 0.7%).

Information as to the granting of housing loans during the year

	December 31	
	2021	2020
Loans granted out of deposits repayable to the extent of collection of the loans	**26**	29
Standing loans	**13**	16

B. Other contingent liabilities and special commitments

		Consolidated		The Bank	
		December 31		December 31	
		2021	2020	2021	2020
1.	Improvements to premises and acquisition of new premises, equipment and software	**13**	9	**12**	9
	Commitments to invest in private investment funds	**83**	55	**83**	55

NOTE 25 - COMMITMENTS AND CONTINGENT LIABILITIES (CONT'D)

(NIS million)

C. 1. On June 29, 2004, the General Meeting of Shareholders of the Bank (following approval of the Audit Committee and the Board of Directors) approved a resolution to grant exemption from responsibility for the violation of the duty of care towards the Bank, as well as the granting of an advance commitment for indemnification of acting directors and other officers and those who will serve the Bank from time to time, including directors who are controlling shareholders of the Bank (Mr. Tzadik Bino and Mr. Gill Bino) (hereinafter: "Officers"). The said General Meeting also authorized the Board of Directors of the Bank to grant an exemption and commitment for indemnification also for former Officers of the Bank, to whom the Bank had undertaken that they would be entitled to indemnification arrangements as would be in effect from time to time with respect to Officers of the Bank. The Board of Directors of the Bank also approved the grant of an exemption and commitment for indemnification, as stated, for persons representing the Bank as Directors in other companies. All these commitments have been approved in accordance with the Companies Act, subject to the limitations therein, and subject to the provisions of the letter of commitment and indemnification.

The commitment and indemnification will apply to acts directly or indirectly connected to one or more of the events detailed in the Annex to the letter of commitment and indemnification.

The amount of the commitment and indemnification according to this resolution, to all Officers of the Bank and of its subsidiaries together, in respect of one set of events out of the events detailed in the Annex to the letter of commitment, is not to exceed 25% of the equity capital of the Bank, per the latest financial statements issued immediately prior to the actual granting of the indemnification.

In accordance with the said resolutions, letters of exemption and commitment to indemnify, as stated above, have been issued to Officers of the Bank.

On November 29, 2011, after having obtained the approvals of the Audit Committee and of the Board of Directors of the Bank, the general meeting of shareholders enlarged the scope of indebtedness and/or expenses in respect of which the Bank would be entitled to grant indemnification and this in accordance with the Companies Act (Amendment No. 3), 2005, Improving Efficiency of Enforcement by the Securities Authority Act (Legislation amendments), 2010, Increasing Enforcement in the Capital Market Act (Legislation amendments), 2011 and the Companies Act (Amendment No. 16), 2011, as well as in respect of any additional administrative proceedings, which in accordance with the law, indemnification may be paid in respect of payments made or expenses incurred in respect thereof, and to grant amended liability indemnification in accordance therewith to Directors and Officers acting at that time and which will act from time to time at the Bank and at investees of the Bank, including Directors who are controlling shareholders (Mr. Tzadik Bino and Mr. Gil Bino) and including former Officers (in accordance with a resolution of the general meeting of shareholders passed on June 29, 2004) and including other Officers of the Bank who are not Directors.

In the years 2014, 2017 and recently on July 15, 2020, the General Meeting of Shareholders, following approvals by the Compensation Committee and the Board of Directors, approved the granting again of letters of indemnification to Directors having a controlling interest and/or their relatives and/or persons whom the controlling shareholders might have a personal interest in granting them letters of indemnification, in accordance with the same terms and same form of the indemnification letter granted to the other Directors and Officers of the Bank and which had also been granted to them prior to the new approval, for a period of three additional years from date of approval of the relevant General Meeting.

On November 29, 2016 the Board of Directors of the Bank approved, after obtaining the approval of the Audit Committee and the Compensation Committee, to grant letter of exemption and indemnification also to whoever acts from time to time as the CEO of MATAF Computer and Financial Operations Ltd., a wholly owned subsidiary of the Bank. The letter of exemption and indemnification obligation are in accordance with the principles, the scope and the policy approved at the Bank, as mentioned above, to officers at the Bank. On January 1, 2022, the CEO of MATAF was appointed member of Management and officiates also as Officer of the Bank.

On February 23, 2017, and thereafter on February 26, 2020, the General Meeting of Shareholders approved a compensation policy, which determined that an exemption to office holders shall not apply in respect of an act of commission or omission of the office holder regarding a decision or transaction in which a controlling shareholder or any office holder has a personal interest therein. This restriction is not to be applied to office holders which were initially appointed prior to the approval of this compensation policy by the General Meeting held on February 23, 2017, and who are entitled to exemption in accordance with decisions that had been approved in the past by the Bank.

On October 30, 2017, the General Meeting of Shareholders, following approvals by the Compensation Committee and the Board of Directors, resolved to grant exemption from responsibility to officers who were initially appointed or would be appointed after February 23, 2017, and which in their respect includes a qualification according to which the exemption shall not apply in respect to an act of commission or omission by the officer regarding a decision or transaction in which a controlling shareholder or any officer has a personal interest therein, and all in accordance with the compensation policy of the Bank, as stated above. It is noted that the Bank has not tabled for reapproval by the General Meeting of Shareholders the letters of exemption granted in 2004 to Directors holding a controlling interest in the Bank.

Likewise, obligations to indemnify and exemptions in accordance with the principles approved by the General Meeting of Shareholders of June 2004, have been granted also to the following persons:

- Directors who had officiated in the Provident Fund Management Company owned by the Bank, and to those who had officiated in the provident funds controlled by the Bank prior to the sale of their operations. The said company was voluntarily liquidated in December 2014.
- Directors who had officiated on behalf of the Bank in FIBI Bank (U.K.) during the period in which it had been a consolidated subsidiary of the Bank. The holdings in FIBI Bank (U.K.) were sold by the Bank to a third party in June 2014.
- Directors who had officiated on behalf of the Bank in its consolidated subsidiary FIBI (Suisse). It is noted that this subsidiary sold its operations in June 2017 and that during that year all its banking activity was terminated and its voluntary liquidation was concluded in May 2020.
- Directors who had officiated on behalf of the Bank in International Underwriting during the period in which this company was engaged in underwriting business. It is noted that in December 2010 this company changed its status to "an inactive underwriter", and that in December 2015, it was voluntarily liquidated.

The amount of the indemnity obligation is in accordance with the policy of the Bank in this matter.

2. In accordance with decisions taken by UBank Ltd. (hereinafter - "UBank") exemption is granted to Directors and officers of UBank (as defined in the Companies Act, 1999, including the internal auditor, the chief accounting officer and the secretary of UBank) from responsibility regarding the violation of the duty of care towards UBank.

   Furthermore, UBank has committed to indemnify the said Directors and officers (as well as Directors appointed by UBank at UBank Finance (2005) Ltd. and who are not officers of UBank) in respect of a liability or expenditure imposed upon them as a result of actions taken by them in terms of their duties as officeholders at UBank, everything in accordance with the terms detailed in the commitment to indemnify officeholders and in accordance with the principles approved in respect of officers of the First International Bank.

   Upon the merger of Ubank with and into the Bank in 2015, all Ubank's commitments and rights detailed in this section were transferred to the Bank.

3. Otsar Hahayal has committed to indemnify officers as defined in the Company Law, 1999. The amount of the indemnification provided by them in terms of this commitment to all its officers as a group, in respect of one or more of the events covered by this commitment, shall not exceed 33% of the equity of Otsar Hahayal and Massad according to its latest financial statements published shortly prior to the date of the actual indemnification. Upon consummation of the merger of Otsar Hahayal with and into the Bank on January 1, 2019, the commitment of Otsar Hahayal towards its Officers, including in respect of an event related to the merger, has passed to the Bank.

4. In accordance with decisions taken at Poalei Agudat Israel Bank Ltd. (hereinafter - "PAGI") exemption had been granted to Directors and Officers of PAGI (as defined in the Companies Act, 1999, including the Internal Auditor and Secretary of the bank), from responsibility for violation of the duty of care towards PAGI. Furthermore, PAGI is committed to grant the said Officers indemnity with respect to a liability or expense imposed upon them as a result of actions taken in the course of their duties at PAGI, and everything as detailed in the commitment for indemnity of Officers, and in accordance with the principles approved in respect of officers of the First International Bank.
   Upon the merger of PAGI in 2015 with and into the Bank, all PAGI's liabilities and rights detailed in this section were transferred to the Bank.
5. In accordance with the resolutions passed on August 17, 2020 by the General Meeting of Shareholders of Massad Bank Ltd. (hereinafter – "Massad") (following approval by the Audit Committee and the Board of Directors of Massad) exemption from responsibility for the violation of the duty of care regarding Massad has been granted to Directors of Massad and to Officers thereof (as defined by the Companies Act, 1999, including the internal auditor and the company secretary). Also granted to the said Officers are commitments for indemnification in respect of liability or expenditure imposed on them due to actions taken by them in fulfillment of their duties at Massad, and everything as detailed in the commitment for indemnification of Officers and in accordance with the principles applying to Officers of the First International Bank. The said resolution replaces an earlier resolution of 2013, according to which, Massad had committed to indemnify Officers, the amount of indemnification determined by the said commitment, in respect of all Officers of Massad together, regarding one or more of the stated indemnification events, was not to exceed 33% of the equity capital of Massad according to its latest financial statements published proximate prior to the actual date of indemnification. With respect to officiating Officers, the new arrangement will apply only with respect to an act of commission or omission occurring after the date of the resolution.

D. The Clearing House of the Tel-Aviv Stock Exchange (hereinafter - “the Clearing House”) established a risk fund with the purpose of securing the obligations of Clearing House members in respect to the activities of each member. The amount of the Fund is being updated once in each quarter. The share in the risk fund of each member of the Clearing House, including the Bank, is derived from the volume of operations of the member on behalf of its customers (and on its own behalf, if applicable). The share of the Bank amounts to NIS 220 million (December 31, 2020 - NIS 194 million).

According to a resolution of the Board of the Stock Exchange and the by-laws of the Clearing House the Bank is required to deposit only liquid assets as collateral (bonds of the State of Israel or cash) as required by the by-laws, and in addition to sign a pledge agreement to secure their obligations towards the Stock Exchange Clearing House regarding their operation as members of the clearing house.

In accordance with the said decisions, the Clearing House opened an account in its name with the Clearing House for the Bank, in which the Bank deposited securities as collateral in favor of the Clearing House.

In addition, the Clearing House opened a monetary account with Bank of Israel, in which may be deposited the monetary collateral provided in favor of the Clearing House by its members, whether to secure the operations of Clearing House members or secure their liability towards the risk fund of the Clearing House.

As collateral for the fulfillment of all commitments of the Bank towards the Stock Exchange Clearing House, as stated above, with no limitation of their total amount, the Bank registered on April 17, 2005, in favor of the Clearing House, a first degree fixed pledge and an assignment by way of pledge in favor of the Clearing House, on its clearing account with the Clearing House and on its clearing account with another bank (which was closed in 2020).

In April 2017, the Bank registered a first-degree fixed pledge and an assignment by way of a pledge, in favor of the Clearing House, with respect to all the rights of the Bank in the account of the Clearing House with the Bank of Israel.

It should be clarified that starting with the year 2010 the Bank provides services as a member of the Clearing House with respect to operations pertaining to assets cleared by the Clearing House, including with respect to collateral required for RTGS system operations also for Massad, which is a Stock Exchange member but not a Clearing House member. Accordingly, the Bank's obligations as a Clearing House member towards the Clearing House include also obligations in respect of the operations of Massad and its customers. In respect of such obligations of the Bank towards the Clearing House, the Bank has received from Massad a guarantee, unlimited in amount, for the payment of any amount stemming from obligations or commitments of the Bank towards the Clearing House in respect of its or its customers' operations.
As to the pledges to the Stock Exchange Clearing House see Note 26C below.

E. MAOF Clearing House formed a risk fund, serving as additional security cushion in cases where the collateral deposited by a member of the Clearing House is not sufficient to cover all its liabilities. The amount of the fund is being updated once in each quarter. Each member's share in the risk fund, including the Bank, is determined by the volume of his activity in the Clearing House on behalf of its clients (and on its own behalf, if applicable).

The demand for collateral from the Bank in respect of the risk fund amounts to NIS 104 million as of December 31, 2021, in comparison with NIS 106 million on December 31, 2020.

Each of the member banks of the MAOF Clearing House is committed towards the Clearing House for the payment of any monetary charge resulting from transactions on behalf of its customers. The amounts at the balance sheet date relating to the Bank's customer transactions in respect of MAOF options are included in the balance sheet in the item “assets in respect of derivative instruments” and in the item “liabilities in respect of derivative instruments” in equal amounts based on the fair value. The balance of the liability of the Bank to the MAOF clearing house, over and above the amount stated in the balance sheet, based on the Stock Exchange models, is of NIS 360 million (December 31, 2020 - NIS 374 million).

The Bank registered in favor of the MAOF Clearing House a fixed pledge and an assignment by way of a pledge unlimited in amount on the rights in an account of MAOF securities managed in the name of the MAOF Clearing House at the Stock Exchange Clearing House (hereinafter - “the main account”). In addition, the Bank registered in favor of the MAOF Clearing House a floating pledge and an assignment by way of a pledge unlimited in amount on all securities deposited and/or to be deposited to the credit of the Bank and its consolidated subsidiaries at the Stock Exchange Clearing House, including securities deposited and/or to be deposited to the credit of the main account and to the credit of an additional account managed at the Stock Exchange Clearing House, and on the income and any other right derived there from. As aforesaid in section D above, the MAOF Clearing House also opened an account with the Bank of Israel, in which it is also possible to deposit the monetary collateral, which its members are placing in its favor. In April 2017 the Bank registered a first-degree fixed pledge and an assignment by way of a pledge in favor of the MAOF clearing house on all its rights in the account of the MAOF Clearing House with the Bank of Israel.

It should be clarified that starting with the year 2010 the Bank provides services at the MAOF Clearing House also with respect to operations pertaining to Massad, which is a Stock Exchange members but is not a MAOF Clearing House member. Accordingly, the Bank's obligations as a MAOF Clearing House member towards the Clearing House, include also obligations in respect of the operations of Massad and its customers. In respect of such obligations of the Bank towards the MAOF Clearing House, the Bank has received from Massad a guarantee, unlimited in amount, for the payment of any amount stemming from obligations or commitments of the Bank towards the MAOF Clearing House in respect of its or its customers' operations.

As to the pledge in favor of the MAOF Clearing House - see Note 26A below.

F. CLS Bank International is an inter-bank clearing house owned by the large banks in the world and is engaged in the transfer of payments resulting from currency exchange transactions, and the manner of its operation avoids the delivery risk inherent in such transactions.

The Bank is one of the three Israeli banks that serve as providers of shekel liquidity in case of a clearing default. The maximum amount of liability of the Bank in this respect amounts to NIS 1 billion, this after receiving a commitment by Bank of Israel for a parallel credit facility in this amount secured by a floating pledge on the Bank's rights to receive amounts and monetary charges in Israeli currency due and/or will be due from the Bank's customers comprising Israeli corporations.

G. The Bank Group (the Bank and its subsidiary companies) is a party to legal proceedings, including motions for approval of class actions. In the opinion of Management of the Bank and Managements of the subsidiary companies, based on legal opinions regarding the prospects of the actions, including the motions for approval of class actions, as detailed in this section, adequate provisions have been included in the financial statements, where required, to cover losses which might be sustained as a result of these actions.

Following are details of actions filed against the Bank where the amount claimed therein is material, or that by their nature have characteristics similar to those of additional actions the cumulative amount of which is material:

1. On February 18, 2016, The Bank received notice of a lawsuit together with a motion for its approval as a class action suit filed with the Tel Aviv District Court against the Bank and four additional banks (hereinafter altogether -" the Respondents").

   According to the Plaintiff, the Respondents discriminate on grounds of age between "young students" and "not-so-young" students, in a way which deprives "not-so-young" students from benefits and/or discounts offered to "young students" only.

   The Plaintiff has defined the class as follows: "… all students discriminated against due to age in comparison with younger students, thus depriving them from benefits granted to students during the past seven years and at least as from July 15, 2014…".

   The Plaintiff claims that the conduct of the banks caused monetary and nonmonetary damages to the class, and requests the charging of the banks, jointly and severally, with a payment to the class of NIS 219 million. On September 26, 2019, the Court issued a verdict rejecting the motion for approval of the action as a class action. On November 4, 2019, the Plaintiff filed an appeal against this verdict.
2. On May 8, 2018, the Bank received notice of an action and a motion for approval of the action as a class action suit in the amount of NIS 146 million (hereinafter together - "the motion").

   The Plaintiffs argue that the Bank concealed and did not disclose to its business customers the existing possibility of being classified as a "small business" and the practical significance of the classification of an account as a small business account as regards the retail price list, classified business customers under the default classification as a "large business" with no reasonable ground (thus applying to them the large business price list, which is the highest commission fee list), misled its customers and acted in order to hide both their classification as large business and their right to be defined as a small business, so that those of its customers who are entitled to be defined as a small business would continue to pay charges that do not apply to them or charges in amounts higher than those which should be payable by them.

   The group which the Plaintiffs wish to represent comprises "all customers of the Bank, past and present, who were or are entitled to be defined as a "small business" under the Banking Rules (Customer service) (Commission fees), 2008, and who paid fees not in accordance with the pricelist applying to a small business, as from date of entry into effect of the commission fee rules and until this day".
3. On November 26, 2019, the Bank received an action brief together with a motion for approval of the action as a class action. The Plaintiff argues that an amendment to the commission fees rules entered into effect on November 1, 2017, which required banks in Israel to publish in Appendix "E" to the pricelist of the Bank a reduced pricelist applying to

online transactions (namely, transactions made with no direct interface with a bank clerk). The Plaintiff further claims that Bank of Israel had instructed the banks that the discount required to be granted to the customer in respect of an online transaction, should be at least at the rate of 10% and alternatively 3%. The Plaintiff claims that as of date of filing of this action, and in respect of a part of the transactions detailed below, the Bank did not at all state in Appendix "E" to its pricelist, a commission rate applying to online transactions, and that in respect of all the online transactions detailed below, the Bank charges a commission fee as if the transaction had been made through a direct interface with a bank clerk, or charges a commission fee that is higher than the rate stated in the pricelist (for a transaction which is not online), or does not grant the customer the said discount, as instructed by Bank of Israel. The transactions in question are as follows: (1) Transfer of foreign currency from or to an account (any kind of foreign currency transfer including transfers from an account in Israel and an account abroad). (2) Purchase/sale/redemption of securities (shares and bonds) traded on the Tel Aviv Stock Exchange and/or purchase/sale/ redemption of securities (shares, bonds, mutual funds and options traded abroad). The Plaintiff did not state the amount of the claim, but argues that it is a considerable amount in the region of millions of NIS, and probably even higher. On December 15, 2021, the motion for approval of the action as a class action was rejected.

4. On May 7, 2020, the Bank received notice of a motion for approval of a class action against the Bank with respect to the charging of a broker commission on operations in securities. The Plaintiff argues that for each transaction of purchase/sale of securities, the Bank charges a commission named by it as "broker commission", despite the fact that such a commission does not appear on the pricelist of the Bank and therefore is unlawfully charged. The Plaintiff further claims that to the extent that the matter involves a third party expense (which, according to the pricelist, the Bank may collect) the Bank has to provide details of the rate of the commission and manner of its calculation, which the Bank does not provide. The Plaintiff notes that it is not possible to assess the total amount of the claim, however, as argued, the personal damage caused to the Plaintiff in respect of each transaction amounts to NIS 2. Accordingly, the Plaintiff assumes that the total damage caused to the class as a whole during the seven years preceding the date of the action amounts to tens of millions of NIS, if not more. Accordingly, as argued in the claim, similar actions have been brought also against other banks.
5. On April 21, 2021, the Bank received notice of a motion for approval of an action as a class action. The action had been filed against the Bank and against another bank. According to the Plaintiff, the entry-line commission appearing on the pricelist of the Bank for large businesses should be eliminated, and the Bank should be ordered to reimburse its customers with the amount of the entry-line commissions collected excessively by the Bank, together with compensation in respect of distress caused. Alternatively, as argued by the Plaintiff, the amount of the entry-line commission charged by the Bank should be reduced as it does not reflect the actual operating cost of incurred by the Bank in respect of recording an entry-line, taking into consideration the changing reality and the technological development of the banking system.

The amount of additional exposure of the Bank and of the subsidiary companies of the Bank as of December 31, 2021, in respect of pending claims, which, in the opinion of the Bank, the possibility of their materialization, in whole or in part, is not remote and in respect of which no provision has been included, amounts to NIS 53 million.

H. Moreover, a motion for approval of a class action in a material amount is pending against the Bank, as detailed below. In the opinion of Management of the Bank, based on Counsel's opinion, it is not possible, at this stage, to assess the prospects of the action and no provision has been recorded in respect thereof.

On September 13, 2021, the Bank received notice of a motion for approval of an action and as a class action. The action that had been filed against the five major banks, including the Bank (hereinafter together- "the banks"). The Claimants argue that banks' fees published in the foreign currency pricelists (and not in NIS) are against the law, especially, as the collection of the fees is made by a theoretical conversion to NIS, at high exchange rates. Accordingly, as argued by the Claimants, the banks should be ordered to reimburse the members of the class with all amounts collected in respect of fees presented in the foreign currency pricelists during the last 7 years. Alternatively, the banks should be ordered to refund to the members of the class the conversion differences in respect of these fees.

I. 1. Following are details of actions and legal proceedings, including motions for approval of class actions against an affiliated company, Israel Credit Cards Ltd. ("ICC"), the amount claimed therein is material. In the opinion of the Management of ICC, based inter alia on legal opinions, adequate provisions in respect of such claims are included in the financial statements, where required..

(a) On June 8, 2016, an amended motion for approval of an action as a class action was filed with the Central District Court against three credit card companies including ICC (hereinafter - "the amended motion"). The amended motion replaces a previous motion submitted on April 28, 2014.

The subject matter of the motion comprises two cartel arrangements with respect to immediate debit cards ("debit cards") and to "prepaid" cards. The first cartel arrangement, as argued by the Plaintiffs, refers to an arrangement for the charging of cross commission in respect of transactions made by debit cards and prepaid cards. The second cartel arrangement, as argued by the Plaintiffs, refers to the unlawful withholding of funds due to trading houses for periods of approximately twenty days after the credit card companies had received the money.

Perusal of the economic opinion, to which the amended motion refers, reveals that the amount of the claim is composed of the following main types of damage: an amount of NIS 13.5 million per year for the years 2007-2015 in respect of the damage stemming from the existence of an alleged cartel arrangement regarding the amount of the cross commission payable in immediate debit card transactions; an amount of NIS 5.3 million per year, for the years 2007-2015, in respect of the damage stemming from the existence of an alleged cartel arrangement regarding the date for the transfer of funds to trading houses in respect of immediate debit card transactions; an amount of between NIS 418 million and NIS 683 million per year for the years 2007-2015, in respect of the damage stemming from underuse of immediate debit cards due to the alleged two cartel arrangements, as above.

On March 12, 2017, a preliminary hearing of the motion was held. In its decision, the Court stated that the matter of the cross-commission in respect of the "debit" and the "pre-paid" cards, is apparently included in a verdict given by the Competition Tribunal (formerly "Anti-Trust Tribunal"), and therefore any claim raised against the determination of the cross-commission, should be raised using procedures relating to the said verdict. In view of this, the Court deferred the hearing of the motion for a class action until after the matter is settled by the Competition Tribunal.

On October 16, 2017, an action requesting declaratory relief was filed with the Competition Tribunal. Within the framework of this action, the Tribunal is requested to state that when giving the verdict which approved the cross-commission arrangement, such arrangement did not include immediate debit cards and prepaid cards. The credit card companies, including ICC, have filed a motion for the in limine dismissal of the action, and on October 16, 2018, the Court ruled that the motion for in limine dismissal of the action requesting declaratory relief Order is admitted.

On November 29, 2018, an appeal was filed with the Supreme Court against the verdict of the Competition Tribunal.

On December 23, 2018, the Plaintiffs filed a plea with the Supreme Court sitting as a high Court of Justice, against the Competition Commissioner (formerly "Anti-Trust commissioner"), in which the Court is requested to instruct the Commissioner to act in order to clarify, cancel or change the verdict of the Competition Tribunal. The State filed its response on May 22, 2019. The hearing of the Plea was held on July 16, 2020, in which the arguments of the parties were heard at length. On the same day, the Court ruled for the rejection of the Plea with no order for costs. It was stated in the verdict that the Court does not voice an opinion regarding the question at the heart of the Plea for approval of the action as a class action. Accordingly, the class action proceedings will continue at the District Court. On April 12, 2021, a pre-trial was held in which the parties stated their arguments, at the end of the hearing, the Court suggested to the parties to refer the question of date of accountability to mediation. On July 6, 2021, the parties jointly informed the Court of their acceptance of the Court's suggestion to conduct mediation proceedings in the matter. A first mediation meeting was held on November 1, 2021. A further meeting is fixed for April 2022.

(b) On May 2, 2018, ICC received notice of an action and a motion for its approval as a class action suit, filed with the Tel Aviv District Court.

It is alleged in the action that ICC had unlawfully increased the amounts of clearing commission charged to trading houses. The motion for approval relies, inter alia, on the decision of the Tel Aviv District Court in a similar case, wherein a motion for approval of an action as a class action, filed against another company, had been approved. The Plaintiffs assess their personal damage at NIS 4,036. They did not state an amount regarding the damage to the group, but assessed it at "tens of millions of NIS". ICC had responded to the motion for approval, and the Plaintiffs responded to ICC's response. A preliminary hearing of the case was held on January 15, 2020. In the meantime, the parties have accepted the recommendation of the Court to refer the matter to mediation. On October 28, 2020, the Plaintiffs informed the Court that the mediation process had failed and accordingly, they request the continuation of the proceedings at the Court. A pre-trial hearing was held on December 17, 2020. A further pre-trial hearing was held on July 13, 2021. On July 27, 2021, the Court accepted in part the motion of the Plaintiffs for the disclosure of documents, and dates were fixed for submission of summing-up briefs on behalf of the parties. Concurrently, the parties are trying to reinstate the mediation proceedings.

(c) On July 22, 2018, an action was filed with the Tel Aviv District Court together with a motion for approval of the action as a class action, against ICC and against two additional credit card companies. The subject matter of the action is transactions considered "no document transactions" (mainly transactions effected by telephone) made by members of the class with trading houses operating in the "direct marketing" field. It is claimed in the motion that such trading houses utilized the weakness of the senior citizen population, unlawfully charging their credit cards in respect of many transactions, as well as charging them with additional amounts that had not been approved by them. The Plaintiff argues that the credit card companies are engaged in clearing agreements with the "direct marketing" trading houses, thus enabling them to operate. The Plaintiff states the amount of the damage for the whole class, which he purports to represent, at NIS 900 million. The Defendants submitted their response to the motion on March 24, 2019. A pre-trial hearing of the case was held on January 7, 2020, at the conclusion of which, the Court instructed the representative of the Plaintiff to prepare a shortlist of the document required for disclosure and perusal. On January 26, 2020, the Plaintiff submitted the shortlist, and on March 8, 2020, ICC submitted its response to the shortlist. The Plaintiff submitted on October 6, 2020, its reaction to the response to the amended motion for disclosure. On March 3, 2021, the Court decided to dismiss the motion for disclosure. An additional pre-trial hearing was held on June 2, 2021. An additional hearing was fixed for October 21, 2021. On June 11, 2021, the Court ordered the delivery of the argument briefs to the Attorney General to the Government, in order for him to decide whether to take part in the proceedings. On December 27, 2021, the Attorney General to the Government informed of his appearance in the proceedings, and has submitted a position on his behalf. A further hearing was held on January 6, 2022, in which the parties stated their arguments with respect to the position of the Attorney General to the Government. It was also determined that the summing-up brief of the Plaintiff would be submitted by March 13, 2022, and the summing-up brief of the Defendants would be submitted by April 13, 2022.

(d) On May 14, 2020, an action was filed against ICC with the District Court-Central Region together with a motion for approval of the action as a class action. As argued in the action, the notice delivered to the Plaintiff regarding future charges in respect of use of a credit card, contained flaws requiring determination that the notice does not fulfill the notification duties required by law. The Plaintiff states its personal monetary damage at an amount of NIS 13.5 and the non-monetary damage at an amount of NIS 100, but does not state the amount of the damage for the whole class. A pre-trial hearing of the case was held on April 7, 2021. The Court recommended that the parties conduct negotiations in order to reach an agreed arrangement. Whereas the negotiations between the parties did not reach a compromise, the parties have submitted a joint request for the fixing of a date for the hearing of evidence. A further pre-trial hearing is fixed for April 7, 2022.

(e) On December 8, 2020, an action was filed against Isracard Ltd., Europay (EuroCard) Israel Ltd., Premium Express Ltd., ICC and Diners Club Israel Ltd., with the Tel Aviv District Court together with a motion for approval of the action as a class action ("the approval motion"). The Plaintiff argues that Respondents make illegitimate and prohibited use of the data base at their disposal (both by power of them being issuers of credit cards as well as operating as clearing agents), and this without obtaining the informed consent of their customers. It is also argued that the Respondents disclose to third parties personal data of their customers; conduct advertising targeting on the basis of the said characterization for the purpose of promoting sales by third parties; conduct the monitoring of their customers; and make use of their customers' data for the sale of statistical information. As estimated by the Plaintiff, the amount of relief for the class is NIS 150 million. On June 27, 2021, ICC and Diners submitted their response to the approval motion, and on September 29, 2021, the reaction of the Plaintiff to the response of the Respondents was submitted. A pre-trial hearing was fixed for April 6, 2022.

2. The amount of exposure regarding legal actions served against ICC, the realization of which, in whole or in part, is reasonably possible, totals NIS 224 million.

3. An action is pending against ICC together with a motion for its approval as a class action, as detailed below. In the opinion of Management of ICC, which is based upon Counsel's opinion, it is not possible at this stage to estimate the prospects of the action, and therefore no provision has been recorded in respect thereof.

   On October 26, 2021, an action was filed with the Tel Aviv District Court against ICC and against additional credit card companies, together with a motion for its approval as a class action ("the approval motion"). The class, on behalf of which, the Plaintiff applies to conduct the action as a class action, is defined as "all customers of the Respondents who had accumulated rights and/or flight points by using credit cards, and these were erased without making the customers properly aware and without sending the customers an appropriate notice in accordance with the law.

   The Plaintiff did not state an amount in respect of the claim for the class, but based on the financial statements of the Respondents, the Plaintiff estimates the claim at NIS tens of millions.

4. On December 14, 2016, the Director of Value Added Tax (hereinafter - "the VAT Director") issued to ICC VAT assessments for charge periods from January 2012 to August 2016. The sum charged in the assessments, including interest and linkage increments, amounts to NIS 48 million. ICC disputes the position of the VAT Director, and is of the opinion that it has good arguments supporting its position. On March 9, 2017, ICC filed an appeal against these assessments. To the best knowledge of ICC, assessments in this matter have also been received by its competitors. On March 8, 2018, ICC received the decision of the VAT Director rejecting the appeal and also increasing the amount charged in the assessments to NIS 75 million (including interest and linkage increments). If the position of ICC would be rejected by the Court, it may be liable in respect of the issues raised in the VAT assessment, also for periods following the period of the assessment. On January 31, 2019, ICC filed an appeal against the said decision with the Lod District Court. On November 3, 2019, the Supreme Court approved an agreed motion for the consolidation of the hearing of the appeal with those of the appeals filed by competitors of ICC. A pre-trial was held on March 5, 2020. ICC estimates the amount of exposure in respect of which no provision is included in its financial statements regarding this matter, at NIS 183 million. An additional pre-trial hearing was held on May 24, 2021. Hearing of evidence is fixed for May 2022.

J. Since July 2006, the Accountant General announces the appointment of certain entities, including the Bank, as principal market makers for Government bonds, in accordance with Section 6(a) to the State Loans Law, 1979, this as part of the reform initiated by the Ministry of Finance regarding the process of issuance of Government bonds and the operations in the secondary capital market for bonds, in order to encourage entry of additional players into the market, the increase in liquidity and transparency in trading and for reducing the cost of raising funds by the Government. The Bank began operations as a market maker on September 4, 2006.

As part of the market making activity, the Treasury has granted to the Bank a Government bond borrowing facility up to an amount of NIS 1 billion, this in order to cover short sale of bonds transactions as part of the market making activity. Against borrowings in this framework, the Bank deposits funds with the treasury in the amount of bond borrowings, which serve as a collateral for such borrowings. See also Note 26I.

K. The practice of the Bank is to grant from time to time and under accepted circumstances in banking business, letters of indemnity limited and unlimited in amounts and in period, and all in the ordinary course of business of the Bank. Among other things, letters of indemnity are granted within the framework of the clearing house provisions regarding lost checks, to receivers, liquidators, special managers, Courts of Law or Debt Execution Offices, to various providers of services, or as part of a contractual liability and to credit card companies. Furthermore, the Bank and International Issuances grant from time to time indemnity to trustees for debt notes issued by them, subject to the terms of the relevant trust documents.

L. Within the framework of the voluntary liquidation process of FIBI (Suisse) Ltd., which was concluded on May 25, 2020, Deloitte AG (hereinafter - "Deloitte") had been appointed in August 2018, as liquidators of the Extension. As part of their appointment as Liquidators, different indemnifications had been granted to Deloitte by FIBI (Suisse) and by the Bank in connection with the liquidation.

M. The Bank issues debit card with the three credit card companies, in accordance with agreements described below.

During the year 2020, the Bank has signed an extension and update of two joint issuance agreement of debit card with the credit card companies, as detailed below:

- During the month of July, an agreement for joint issuance was signed with Isracard and/or Europay (Eurocard) Israel Ltd. According to the agreement, the parties to the agreement will continue the joint issuance of debit cards to the customers of the Bank. The extension of the agreement updated the commercial and operational terms, which were determined between the parties in the previous agreements.
- During the month of December, a joint issuance agreement was signed with ICC and Diners Club Ltd., a fully owned company of ICC. According to the agreement, the parties will continue the joint issuance of credit cards to the customers of the Bank. The extension of the agreement updated the commercial and operational terms which were determined between the parties in the previous agreements.

During 2019, the Bank has signed a joint issuance agreement with Max It Finance Ltd. (formerly- Leumicard Ltd.) ("Max"). According to the agreement, the parties issue credit cards to the customers of the Bank, which their operation is performed by Max. In the aforementioned agreement, the rights and duties of the parties, as well as additional arrangements in respect of the described activity, were determined.

NOTE 26 - LIENS, RESTRICTIVE CONDITIONS AND COLLATERALS

A. To secure liabilities to the MAOF Clearing House for its customers and for itself as said in Note 25.E, the Bank has pledged securities in favor of the MAOF Clearing House.

Set out below is the balance of the collateral which the Bank provided to the MAOF Clearing House (in NIS million):

	December 31, 2021		Average balance for 2021		Highest balance for 2021	
	For risk fund	For customer & nostro activity	For risk fund	For customer & nostro activity	For risk fund	For customer & nostro activity
Securities	**78**	**382**	**80**	**409**	**87**	**443**
Cash deposited as collateral	**26**	**-**	**27**	**-**	**29**	**-**

	December 31, 2020		Average balance for 2020		Highest balance for 2020	
	For risk fund	For customer & nostro activity	For risk fund	For customer & nostro activity	For risk fund	For customer & nostro activity
Securities	80	303	66	268	80	303
Cash deposited as collateral	26	-	22	-	26	-

B. The Bank is a member of the Euroclear settlement system, which is a clearing house for securities that are traded in international markets. For the purpose of activity via this settlement system and as surety for a credit line in the amount of USD 40 million (or in a higher amount agreed/ to be agreed from time to time with the Bank in exceptional cases, not to exceed USD 200 million) which the settlement system operator provided to the Bank, the Bank created a pledge at an unlimited amount of cash and securities for securing the activity framework.

C. To secure the obligation of the Bank to the Stock Exchange Clearing House as said in Note 25D, the Bank has pledged cash and securities in favor of the Stock Exchange Clearing House.

Set out below is the balance of the collateral which the Bank provided to the Stock Exchange Clearing House (in NIS million):

	December 31		Average balance		Highest balance	
	2021	2020	2021	2020	2021	2020
Securities	**165**	146	**155**	122	**165**	146
Cash deposited as collateral	**55**	48	**52**	41	**55**	48

D. (1) As collateral for credit from Bank of Israel, the Bank and consolidated subsidiary, have created bonds according to which they pledged under a fixed first degree pledge unlimited in amount, all assets and rights deposited and/or recorded in favor of and/or which shall be deposited and/or recorded in favor of the securities accounts managed in the name of Bank of Israel at the Clearing House of the Tel Aviv stock Exchange Ltd. as well as at the Euroclear Clearing House, including all monies and all securities deposited or registered in the said accounts. Securities deposited and/or recorded in favor of and/or which shall be deposited and/or recorded in favor of the securities account held at the Euroclear Clearing House are also pledge under a floating pledge.

(2) Set out below are data on the bonds that were pledged to the Bank of Israel (in NIS million):

	December 31		Average balance		Highest balance	
	2021	2020	2021	2020	2021	2020
Securities	**4,483**	1,882	**3,774**	953	**4,483**	1,882

* See Note 11 regarding cash balances and deposits with Bank of Israel.

NOTE 26 - LIENS, RESTRICTIVE CONDITIONS AND COLLATERALS (CONT'D)

(3) Furthermore, the Bank and a subsidiary company thereof had created bonds, according to which, a fixed first degree pledge was registered in favor of Bank of Israel together with an assignment by way of a pledge on all their assets and rights present and future, regarding Nostro accounts and deposit accounts held with Bank of Israel (whether in Israeli currency or in foreign currency), including all funds existing from time to time in these accounts and including earnings from their securities and any right deriving from such securities deposited therein.
Furthermore, and in accordance with the terms of the bonds, Bank of Israel has the right of lien and setoff with respect to all assets of the Bank and of its subsidiary company, in possession or in control of Bank of Israel, including assets delivered to Bank of Israel as security, for safekeeping or in any other way in accordance with any provision of the law.

(4) See note 25.F. in respect of a floating pledge in favor of the Bank of Israel, on the Bank's rights to receive amounts and debits in NIS, which it is eligible or will be eligible to, from its customers, which are Israeli corporations, in the framework of the Bank's activity as provider in the CLS clearing house.

E. The Bank form contractual associations with foreign banks and foreign brokers in CSA (Credit Support Annex) annexes to ISDA agreements that are intended to minimize the mutual credit risks arising between banks in derivatives trading. Under the annexes, a periodic measurement is made of the value of the stock of derivatives transactions that were conducted between the parties, and if the net exposure of one of the parties exceeds a pre-defined threshold, then that party receives from the other party monetary deposits to cover a part of the exposure.
As of December 31, 2021, the Bank has transferred deposits in favor of counterparties in the amount of NIS 150 million (December 31, 2020 - NIS 533 million). At December 31, 2021 the Bank has received deposits from counterparties in the amount of NIS 135 million (December 31, 2020 - NIS 251 million).
In addition, to secure the fulfillment of the obligation and/or the credit exposure of the Bank as above, the Bank deposited cash deposits with counterparties, as initial margins, that as of December 31, 2021 amounted to NIS 76 million (December 31, 2020 - NIS 105 million).

F. For the purpose of providing services to customers of the Bank and for the "Nostro" operations of the Bank in everything relating to certain operations in foreign securities, including global future contracts, options, lending of securities and short sales, the bank has engagements with foreign banks and/or foreign brokers (hereinafter - "the foreign brokers") for the purpose of obtaining global custody services, clearing and brokerage services, margin activity services and other global services. According to agreements with the foreign brokers, certain securities and cash of the Bank (Nostro) deposited with any of the foreign brokers, serve as collateral (by way of pledge, lien or transfer of ownership) in favor of the foreign broker securing the obligations of the Bank and/or covering the credit exposure of the foreign broker with respect to the operations of customers of the Bank and/or the Bank's Nostro operations. Furthermore, each of the foreign brokers has the right of lien and setoff with respect to cash balances standing to the credit of the Bank with the broker, including cash deposits made with the foreign broker as collateral with respect to the fulfillment of the Bank's obligations and/or the said credit exposure. Various arrangements have been made by the Bank with each of the foreign brokers regarding the value of the collateral and/or the amounts of cash on deposit with the foreign broker. As of December 31, 2021, the value of Nostro securities deposited by the Bank as collateral with all the foreign brokers amounted to NIS 79 million (December 31, 2020 - NIS 82 million), and the cash balances standing to the credit of the Bank with all the foreign brokers (including cash deposits, as stated) amounted to a total of NIS 1,449 million (December 31, 2020 - NIS 1,310 million).

G. The Bank receives from a foreign bank foreign currency clearing services through the CLS clearing house. In order to secure the credit exposure of the foreign bank to the Bank with respect to the clearing of foreign currency transactions through the CLS, the Bank had deposited with the foreign bank a cash amount of US$ 50 million. The deposit serves as collateral and is subject to lien and offsetting rights of the foreign bank in connection with the clearing activity in the CLS clearing house.

H. Set out below are details of the securities that were pledged to lenders as stated in A, C, D and F where the lenders are not entitled to sell or pledge them (in NIS million):

	December 31,	
	2021	**2020**
Securities held to maturity	**1,712**	1,806
Bonds available for sale	**3,475**	687
Total	**5,187**	2,493

I. Set out below are the sources of the securities that were received and which the Bank is entitled to sell (in NIS million):

	December 31,	
	2021	**2020**
Securities received in securities lending transactions in return for cash	**845**	11
Securities received under non-collateralized securities lending transaction	**129**	283
Total	**974**	294

NOTE 27 - DERIVATIVE FINANCIAL INSTRUMENTS - VOLUME, CREDIT RISKS AND MATURITY DATES

(NIS million)

A. Volume of activity on a consolidated basis

1. Face value of derivative instruments

	December 31, 2021			December 31, 2020		
	Not trading derivatives	Trading derivatives	Total	Not trading derivatives	Trading derivatives	Total
Interest contracts						
Forward and Futures Contracts	**661**	**1,550**	**2,211**	400	1,978	2,378
Options written	**-**	**40**	**40**	-	125	125
Options purchased	**-**	**40**	**40**	-	125	125
SWAPS(1)	**4,083**	**11,841**	**15,924**	4,444	11,842	16,286
Total(2)	**4,744**	**13,471**	**18,215**	4,844	14,070	18,914
Of which: Hedging derivatives(3)	**3,245**	**-**	**3,245**	3,527	-	3,527
Foreign currency contracts						
Forward and Futures Contracts(4)	**22,501**	**22,824**	**45,325**	15,231	29,621	44,852
Options written	**-**	**14,084**	**14,084**	-	14,301	14,301
Options purchased	**-**	**13,866**	**13,866**	-	14,482	14,482
SWAPS	**51**	**-**	**51**	179	-	179
Total	**22,552**	**50,774**	**73,326**	15,410	58,404	73,814
Contracts on shares						
Forward and Futures Contracts	**38**	**34,252**	**34,290**	-	27,466	27,466
Options written	**-**	**19,211**	**19,211**	-	13,850	13,850
Options purchased(5)	**1**	**19,209**	**19,210**	-	13,843	13,843
Total	**39**	**72,672**	**72,711**	-	55,159	55,159
Commodities and other contracts						
Forward and Futures Contracts	**-**	**279**	**279**	-	151	151
Options written	**-**	**419**	**419**	-	10	10
Options purchased	**-**	**419**	**419**	-	10	10
Total	**-**	**1,117**	**1,117**	-	171	171
Total face value	**27,335**	**138,034**	**165,369**	20,254	127,804	148,058

(1) Of which: SWAPS the Bank is paying fixed interest in an amount of NIS 9,495 million (31.12.20 - NIS 10,567 million).
(2) Of which: NIS-CPI swap contracts in an amount of NIS 668 million (31.12.20 - NIS 566 million).
(3) The Bank performs protection transactions by IRS derivatives in order to hedge the accounting fair value of bonds. These transactions hedge the interest risk imbedded in foreign currency bonds having fixed interest and long duration.
(4) Of which: foreign currency swap spot contracts in an amount of NIS 1,336 million (31.12.20 - NIS 1,830 million).
(5) Of which: Traded on the Stock Exchange in an amount of NIS 19,208 million (31.12.20 - NIS 13,830 million).

NOTE 27 - DERIVATIVE FINANCIAL INSTRUMENTS - VOLUME, CREDIT RISKS AND MATURITY DATES (CONT'D)

(NIS million)

2. Gross fair value of derivative instruments

	December 31, 2021					
	Gross amount of assets in respect of derivative instruments			Gross amount of liabilities in respect of derivative instruments		
	Not trading derivatives	Trading derivatives	Total	Not trading derivatives	Trading derivatives	Total
Interest contracts	**15**	**142**	**157**	**126**	**130**	**256**
Of which: Hedging derivatives	**14**	**-**	**14**	**110**	**-**	**110**
Foreign currency contracts	**40**	**515**	**555**	**59**	**726**	**785**
Contracts on shares	**-**	**951**	**951**	**-**	**951**	**951**
Commodities and other contracts	**-**	**46**	**46**	**-**	**46**	**46**
Total assets/liabilities in respect of derivatives gross(1)	**55**	**1,654**	**1,709**	**185**	**1,853**	**2,038**
Amounts offset in the balance sheet	**-**	**-**	**-**	**-**	**-**	**-**
Balance sheet balance	**55**	**1,654**	**1,709**	**185**	**1,853**	**2,038**
Of which: not subject to net settlement arrangement or similar arrangements	**-**	**-**	**-**	**-**	**-**	**-**

	December 31, 2020					
	Gross amount of assets in respect of derivative instruments			Gross amount of liabilities in respect of derivative instruments		
	Not trading derivatives	Trading derivatives	Total	Not trading derivatives	Trading derivatives	Total
Interest contracts	4	217	221	250	203	453
Of which: Hedging	3	-	3	233	-	233
Foreign currency contracts	66	819	885	99	972	1,071
Contracts on shares	-	789	789	-	789	789
Commodities and other contracts	-	2	2	-	2	2
Total assets/liabilities in respect of derivatives gross(1)	70	1,827	1,897	349	1,966	2,315
Amounts offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance	70	1,827	1,897	349	1,965	2,314
Of which: not subject to net settlement arrangement or similar arrangements	-	-	-	-	-	-

(1) Of which: 31.12.20 Gross fair value of liabilities in respect of embedded derivatives in an amount of NIS 1 million.

NOTE 27 - DERIVATIVE FINANCIAL INSTRUMENTS - VOLUME, CREDIT RISKS AND MATURITY DATES (CONT'D)

(NIS million)

B. Accounting hedge

General

The Bank is exposued to market risks, including basis risks and interest risks. Basis risk is the exsisting or future risk to the income or capital of the Group which can materialize as a result from changes in the CPI or the exchange rates of foreign currency due to the difference between the value of the assets to the value of the liabilities. Interest risk is the risk to the earnings or capital deriving from flactuations in the interest rates. Changes in the interest rates affect the Bank's earnings by change in net earnings, and the value of the Bank's assets, its liabilities and off balance sheet instruments, since the present value of future cash flows (and even the cash flows themselves) changes when a change occur in the interest rates.
As part of the overall strategy of the Bank to manage the level of exposure to basis and interest risks, the Bank uses derivative instruments such as foreign currency and CPI forwards, foreign currency options and interest rate swaps (swaping fixed interest rate with variable interest rate). The Bank have derivatives designated and qualified as fair value hedges.
If a derivative is not designated as qualified hedging, the derivative is stated according to fair value and changes in the fair value are stated on a current basis in the profit and loss statement.

Fair value hedges

The Bank designates certain derivatives as fair value hedges. The change in the fair value of the derivatives, hedging the exposure to changes in the fair value of the underlying asset, is recognized on a currect basis in the profit and loss statement, as well as the change in the fair value of the hedged instrument, which can be attributed to the hedged risk.

	For the year ended December 31, 2021	For the year ended December 31, 2020
	Interest income (expenses)	**Interest income (expenses)**
1. Effect of accounting of fair value Hedge on profit (loss)		
Profit from fair value Hedge		
Interest contracts		
- Hedged items	**(130)**	108
- Hedging derivatives	**82**	(144)

	December 31, 2021		December 31, 2020	
		Cumulative fair value adjustments increasing the book value		Cumulative fair value adjustments increasing the book value
	Book value	**Existing hedge relation**	**Book value**	**Existing hedge relation**
2. Items Hedged by fair value Hedge				
Securities- debt instruments classified as available for sale	**3,544**	**78**	3,908	210

NOTE 27 - DERIVATIVE FINANCIAL INSTRUMENTS - VOLUME, CREDIT RISKS AND MATURITY DATES (CONT'D)

(NIS million)

	For the year ended December 31, 2021	For the year ended December 31, 2020
	Loss recognized in income (expenses) from activity in derivative instruments[(1)]	Loss recognized in income (expenses) from activity in derivative instruments[(1)]
3. Effect of derivatives which were not designated as hedging instruments on statement of income		
Derivatives which were not designated as hedging instruments		
- Interest contracts	**30**	1
- Foreign currency contracts	**(476)**	(681)
- Share contracts	**6**	8

(1) Included in the item non-interest financing income (expenses).

C. Credit risk in respect of derivatives instruments, according to transaction counterparty on a consolidated basis

						December 31, 2021
	Exchanges	**Banks**	**Dealers/ brokers**	**Government and central banks**	**Others**	**Total**
Balance sheet balance of assets in respect of derivative instruments	**297**	**427**	**357**	**-**	**628**	**1,709**
Gross amounts not offset in the balance sheet:						
Credit risk mitigation in respect of financial instruments	**-**	**(205)**	**(38)**	**-**	**(294)**	**(537)**
Credit risk mitigation in respect of cash collateral received	**-**	**(49)**	**(5)**	**-**	**(189)**	**(243)**
Net amount of assets in respect of derivative instruments	**297**	**173**	**314**	**-**	**145**	**929**
Off balance sheet credit risk in respect of derivative instruments[(2)]	**-**	**285**	**64**	**-**	**1,828**	**2,177**
Off balance sheet credit risk mitigation	**-**	**(136)**	**(28)**	**-**	**(1,382)**	**(1,546)**
Net off balance sheet credit risk in respect of derivative instruments	**-**	**149**	**36**	**-**	**446**	**631**
Total credit risk in respect of derivative instruments	**297**	**322**	**350**	**-**	**591**	**1,560**
Balance sheet balance of liabilities in respect of derivative instruments[(1)]	**173**	**341**	**315**	**-**	**1,209**	**2,038**
Gross amounts not offset in the balance sheet:						
Financial instruments	**-**	**(205)**	**(38)**	**-**	**(171)**	**(414)**
Cash collateral which was attached by a lien	**-**	**(45)**	**(5)**	**-**	**-**	**(50)**
Net amount of liabilities in respect of derivative instruments	**173**	**91**	**272**	**-**	**1,038**	**1,574**

NOTE 27 - DERIVATIVE FINANCIAL INSTRUMENTS - VOLUME, CREDIT RISKS AND MATURITY DATES (CONT'D)

(NIS million)

	December 31, 2020					
	Exchanges	Banks	Dealers/ brokers	Government and central banks	Others	Total
Balance sheet balance of assets in respect of derivative instruments	166	630	329	90	682	1,897
Gross amounts not offset in the balance sheet:						
Credit risk mitigation in respect of financial instruments (1)	-	(428)	(42)	-	(301)	(771)
Credit risk mitigation in respect of cash collateral received	-	(9)	-	-	(170)	(179)
Net amount of assets in respect of derivative instruments	166	193	287	90	211	947
Off balance sheet credit risk in respect of derivative instruments(2)	-	285	50	14	1,446	1,795
Off balance sheet credit risk mitigation	-	(158)	(30)	-	(1,020)	(1,208)
Net off balance sheet credit risk in respect of derivative instruments	-	127	20	14	426	587
Total credit risk in respect of derivative instruments	166	320	307	104	637	1,534
Balance sheet balance of liabilities in respect of derivative instruments	131	777	412	-	995	2,315
Gross amounts not offset in the balance sheet:						
Financial instruments	-	(428)	(41)	-	(129)	(598)
Cash collateral which was attached by a lien	-	(296)	(23)	-	(1)	(320)
Net amount of liabilities in respect of derivative instruments	131	53	348	-	865	1,397

(1) The fair value of derivative instruments subject to netting agreements amounts to NIS 414 million, government bonds received as collateral amounts to NIS 95 million, shares received as collateral amounts to NIS 26 million and corporate bonds received as collateral amounts to NIS 2 million (31.12.20 - derivative instruments subject to netting agreements amounts to NIS 599 million, government bonds received as collateral amounts to NIS 132 million, shares received as collateral amounts to NIS 39 million and corporate bonds received as collateral amounts to NIS 1 million).

(2) The difference, if positive, between total amounts in respect of derivative instruments (including in respect of derivative instruments having a negative fair value) as computed for the purpose of limitations on indebtedness of a single borrower, before credit risk mitigation, to the total balance of assets in respect of derivative instrument of the borrower.

NOTE 27 - DERIVATIVE FINANCIAL INSTRUMENTS - VOLUME, CREDIT RISKS AND MATURITY DATES (CONT'D)

(NIS million)

D. Maturity dates (stated value amounts): year-end balance on consolidated basis

	December 31, 2021				
	Up to 3 months	from 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Interest rate contracts -					
- NIS - CPI	**-**	**200**	**468**	**-**	**668**
- Other	**2,156**	**1,811**	**10,275**	**3,305**	**17,547**
Foreign currency contracts	**60,446**	**12,011**	**869**	**-**	**73,326**
Contracts of shares	**68,462**	**3,570**	**679**	**-**	**72,711**
Commodities and other contracts	**1,117**	**-**	**-**	**-**	**1,117**
Total	**132,181**	**17,592**	**12,291**	**3,305**	**165,369**

	December 31, 2020				
	Up to 3 months	from 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Total	114,835	18,878	10,949	3,396	148,058

NOTE 28 - SUPERVISORY SEGMENTS OF OPERATION AND GEOGRAPHIC REGIONS

A. Definitions

- **Private individuals** - individuals including those conducting a joint account, who at the reporting date have no indebtedness to the bank, or where their indebtedness has been classified to the "Private individuals - residential and other loans" segment.
- **Private banking segment** - private individuals the balance of their financial asset portfolio, on a consolidated basis, held with the bank (including monetary deposits, securities portfolios and other financial assets) exceeds NIS 3 million.
- **Households** - private individuals, excluding customers included in the private banking segment.
- **Business** - a customer not included in the "private individual" definition and who is not an institutional body or a banking corporation.
- **Business turnover** - annual sales turnover or volume of annual income.
- **Minute business** - a business the annual turnover of which is less than NIS 10 million.
- **Small business** - a business the annual turnover of which is higher than or equal to NIS 10 million and is lower than NIS 50 million.
- **Middle-market business** - a business the annual turnover of which is higher than or equal to NIS 50 million and is lower than NIS 250 million.
- **Large business** - a business the annual turnover of which is higher than or equal to NIS 250 million.
- **Institutional entities**- as defined in the Regulation of Engagement in Investment Consulting activity, Investment Marketing and Investment Portfolio Management Act, including provident funds, pension funds, further education funds, mutual trust funds, ETF's, insurance companies and stock exchange members managing customers funds.

  Where the income turnover of business customer does not represent its volume of activity, the activity of the business customer was classified according to the said below: where the total indebtedness of the business customer is equal to or exceeds NIS 100 million, the customer was classified to large business segment. In addition, business customer operating in the capital market or in the real estate segment, which indebtedness is less than NIS 100 million, the classification to customers' segments is made in accordance to the value of assets in the balance sheet.

- **Financial management segment** - includes trading and asset and liability management operations as defined in the Directives of the Supervisor of Banks. The segment includes the Bank's share in the earning of ICC.

Principles for apportioning operating results among the different segments

- Net interest income-includes:
  - The financial margin between borrowing and lending activity, which is calculated as the spread between the interest obtained or paid and the average prices of money for the Bank, which derive from the duration of assets or liabilities in the relevant linkage segments.
  - Interest on the weighted capital attributed to the segment (on the basis of the risk assets attributed to each segment).
  - The customer segments are charged with the excess financing costs (over and above the cost of raising sources) of the capital notes attributed to the segment.
- Expenses on credit losses - Expenses on credit losses which were recorded in respect of its customers are attributed to each segment of activity.
- Non-interest income - Commission income, non-interest financing income and other income deriving from its customers' activity are charged to each segment of activity.

NOTE 28 - SUPERVISORY SEGMENTS OF OPERATION AND GEOGRAPHIC REGIONS (CON'T)

A. Definitions (CON'T)

- Operating expenses - Attributed to each segment of activity are the direct expenses at the branches of the Bank and the head office deriving from the provision of services to the segment's customers, according to loading methodology, as follow:
  - Direct costs include:
    - Salary and organization expenses in the branches- are loaded on the basis of the "activity index" standard, which translates activity with customers into labor inputs.
    - Computer expenses at the branches- are loaded in accordance with the number of transactions carried out by the customers.
    - Salary, organization and computer expenses of the business units at head office- are loaded in accordance with loading parameters, corresponding with the nature of activity of the customer (such as: distribution of credit balances, number and volume of transactions).
  - The indirect expenses including the expenses of the head office and computer expenses of the back office divisions and the general computer expenses which are not classified- these expenses are loaded in accordance to the nature of the expense. Most of the indirect expenses are loaded according to the distribution of the direct expenses, and the remaining expenses according to the distribution of income.
- Taxes on income - The provision for taxes on the earnings of each segment is calculated in accordance with the statutory rate of tax, with certain adjustments deriving from such factors as unrecognized expenses.
- Minority interest in net earnings - The charging of minority interest in the different segments of activity is calculated on the basis of the net earnings of subsidiaries with minority interest, as these earnings are attributed to the different segments of activity.

NOTE 28 - SUPERVISORY SEGMENTS OF OPERATION AND GEOGRAPHIC REGIONS (CON'T)

(NIS million)

B. Operational supervision segment information

Consolidated	For the year ended December 31, 2021							
	Activity in Israel							
	Households	Private banking	Small and minute businesses	Medium businesses	Large businesses	Institutional entities	Financial Management	Total
								(NIS million)
Interest income from external	1,823	15	715	150	291	(1)	157	3,150
Interest expense from external	139	20	41	8	94	36	18	356
Net interest income								
- From external	1,684	(5)	674	142	197	(37)	139	2,794
- Inter - segment	(473)	21	(65)	8	94	70	345	-
Total net interest income	1,211	16	609	150	291	33	484	2,794
Non-interest income	635	92	358	64	109	201	297	1,756
Total income	1,846	108	967	214	400	234	781	4,550
Expenses (income) from credit losses	(5)	1	(115)	(21)	(73)	(3)	-	(216)
Operating and other expenses	1,422	72	640	100	167	155	96	2,652
Operating profit before taxes	429	35	442	135	306	82	685	2,114
Provision for taxes on operating profit	148	12	152	47	105	28	236	728
Operating profit after taxes	281	23	290	88	201	54	449	1,386
Bank's share in operating profit of investee company after tax effect	-	-	-	-	-	-	69	69
Net profit:								
Before attribution to non-controlling interests	281	23	290	88	201	54	518	1,455
Attributed to non-controlling interests	(32)	(1)	(5)	(3)	-	-	(9)	(50)
Net profit attributed to shareholders of the Bank	249	22	285	85	201	54	509	1,405
Average balance of assets[1]	51,325	68	19,325	5,623	16,978	1,139	77,915	172,373
of which: Investee Company[1]	-	-	-	-	-	-	674	674
of which: Average balance of credit to the public[1]	51,325	68	19,325	5,623	16,978	1,139	-	94,458
Balance of credit to the public	[4]54,882	95	21,044	6,101	18,571	1,547	-	102,240
Balance of impaired debts	189	-	218	69	69	-	-	545
Balance in arrears over 90 days	183	-	16	1	1	-	-	201
Average balance of liabilities[1]	64,312	9,074	24,809	5,949	13,519	30,555	13,905	162,123
of which: Average balance of deposits from the public[1]	63,497	9,033	24,374	5,813	12,830	30,401	-	145,948
Balance of deposits from the public	63,792	9,253	25,949	7,028	15,553	31,872	-	153,447
Average balance of risk assets[1][2]	34,201	234	18,470	6,268	18,058	1,601	7,329	86,161
Balance of risk assets[2]	35,600	244	19,122	6,800	19,627	1,515	6,080	88,988
Average balance of assets under management[1][3]	37,986	22,320	19,213	3,554	17,467	330,622	-	431,162
Segmentation of net interest income:								
- Earnings from credit - granting activity	1,103	1	583	145	284	11	-	2,127
- Earnings from deposits - taking activity	116	15	30	6	12	22	-	201
- Other	(8)	-	(4)	(1)	(5)	-	484	466
Total net interest income	1,211	16	609	150	291	33	484	2,794

(1) Average balances computed on the basis of balances at the beginning of the quarter or as at the beginning of the month.
(2) Risk assets - as computed for the purpose of capital adequacy.
(3) Managed assets - including assets of provident funds, further education funds, mutual funds and securities of customers.
(4) Including housing loans to private individuals, which their business activity is classified to the small and minute business segment amount to NIS 1,338 million.

NOTE 28 - SUPERVISORY SEGMENTS OF OPERATION AND GEOGRAPHIC REGIONS (CON'T)

(NIS million)

B. Operational supervision segment information (CON'T)

Consolidated	For the year ended December 31, 2020							
	Activity in Israel							
	Households	Private banking	Small and minute businesses	Medium businesses	Large businesses	Institutional entities	Financial Management	Total activity in Israel
								(NIS million)
Interest income from external	1,646	7	671	158	232	(8)	172	2,878
Interest expense from external	105	29	46	10	37	14	-	241
Net interest income								
- From external	1,541	(22)	625	148	195	(22)	172	2,637
- Inter - segment	(323)	46	(2)	7	109	61	102	-
Total net interest income	1,218	24	623	155	304	39	274	2,637
Non-interest income	586	77	344	71	100	212	133	1,523
Total income	1,804	101	967	226	404	251	407	4,160
Expenses from credit losses	117	1	162	84	98	2	-	464
Operating and other expenses	1,395	67	621	100	152	174	60	2,569
Operating profit before taxes	292	33	184	42	154	75	347	1,127
Provision for taxes on operating profit	105	11	58	11	44	26	113	368
Operating profit after taxes	187	22	126	31	110	49	234	759
Bank's share in operating profit of investee company after tax effect	-	-	-	-	-	-	29	29
Net profit:								
Before attribution to non-controlling interests	187	22	126	31	110	49	263	788
Attributed to non-controlling interests	(26)	-	(4)	(2)	(1)	-	(5)	(38)
Net profit attributed to shareholders of the Bank	161	22	122	29	109	49	258	750
Average balance of assets(1)	47,443	50	17,827	5,592	17,425	1,405	62,438	152,180
of which: Investee Company(1)	-	-	-	-	-	-	617	617
of which: Average balance of credit to the public(1)	47,443	50	17,827	5,592	17,425	1,405	-	89,742
Balance of credit to the public	(4)49,687	70	18,876	5,385	16,724	1,505	-	92,247
Balance of impaired debts	190	-	231	78	78	-	-	577
Balance in arrears over 90 days	174	-	36	-	7	-	-	217
Average balance of liabilities(1)	60,059	8,698	22,255	5,589	13,162	22,665	10,630	143,058
of which: Average balance of deposits from the public(1)	59,151	8,666	21,759	5,413	12,317	22,553	-	129,859
Balance of deposits from the public	63,338	9,097	24,358	5,707	12,867	26,310	-	141,677
Average balance of risk assets(1)(2)	32,393	207	17,441	6,564	17,761	1,606	7,321	83,293
Balance of risk assets(2)	32,960	214	17,720	5,982	17,624	1,718	7,597	83,815
Average balance of assets under management(1)(3)	32,799	17,287	15,775	3,497	12,373	248,302	-	330,033
Segmentation of net interest income:								
- Earnings from credit - granting activity	1,073	-	582	148	296	14	-	2,113
- Earnings from deposits - taking activity	156	24	47	9	14	26	-	276
- Other	(11)	-	(6)	(2)	(6)	(1)	274	248
Total net interest income	1,218	24	623	155	304	39	274	2,637

(1) Average balances computed on the basis of balances at the beginning of the quarter or as at the beginning of the month.
(2) Risk assets - as computed for the purpose of capital adequacy.
(3) Managed assets - including assets of provident funds, further education funds, mutual funds and securities of customers.
(4) Including housing loans to private individuals, which their business activity is classified to the small and minute business segment amount to NIS 1,253 million.

NOTE 28 - SUPERVISORY SEGMENTS OF OPERATION AND GEOGRAPHIC REGIONS (CON'T)

(NIS million)

B. Operational supervision segment information (CON'T)

Consolidated	For the year ended December 31, 2019							
	Activity in Israel							
	Households	Private banking	Small and minute businesses	Medium businesses	Large businesses	Institutional entities	Financial Management	Total activity in Israel
								(NIS million)
Interest income from external	1,669	14	670	164	265	16	287	3,085
Interest expense from external	172	52	87	17	67	77	11	483
Net interest income								
- From external	1,497	(38)	583	147	198	(61)	276	2,602
- Inter - segment	(253)	76	72	18	76	136	(125)	-
Total net interest income	1,244	38	655	165	274	75	151	2,602
Non-interest income	549	68	313	75	111	190	214	1,520
Total income	1,793	106	968	240	385	265	365	4,122
Expenses from credit losses	72	-	35	12	18	1	-	138
Operating and other expenses	1,443	65	632	110	161	184	59	2,654
Operating profit before taxes	278	41	301	118	206	80	306	1,330
Provision for taxes on operating profit	95	14	103	44	90	27	105	478
Operating profit after taxes	183	27	198	74	116	53	201	852
Bank's share in operating profit of investee company after tax effect	-	-	-	-	-	-	51	51
Net profit:								
Before attribution to non-controlling interests	183	27	198	74	116	53	252	903
Attributed to non-controlling interests	(24)	-	(5)	(3)	-	-	(6)	(38)
Net profit attributed to shareholders of the Bank	159	27	193	71	116	53	246	865
Average balance of assets(1)	45,476	50	16,653	5,623	16,599	1,039	50,865	136,305
of which: Investee Company(1)	-	-	-	-	-	-	605	605
of which: Average balance of credit to the public(1)	45,476	50	16,653	5,623	16,599	1,039	-	85,440
Balance of credit to the public	(4)47,418	67	17,264	5,539	17,280	1,261	-	88,829
Balance of impaired debts	156	-	220	35	298	-	-	709
Balance in arrears over 90 days	212	-	20	4	13	-	-	249
Average balance of liabilities(1)	52,093	7,619	19,232	5,225	10,527	23,365	9,516	127,577
of which: Average balance of deposits from the public(1)	50,896	7,611	18,660	4,968	9,861	22,825	-	114,821
Balance of deposits from the public	51,572	7,734	19,157	5,491	11,018	25,080	-	120,052
Average balance of risk assets(1)(2)	31,559	213	16,480	6,654	16,416	1,070	7,627	80,019
Balance of risk assets(2)	32,112	218	16,844	6,448	16,880	1,159	7,588	81,249
Average balance of assets under management(1)(3)	35,493	17,337	16,139	3,993	13,001	236,423	-	322,386
Segmentation of net interest income:								
- Earnings from credit - granting activity	1,046	-	575	149	265	10	-	2,045
- Earnings from deposits - taking activity	215	38	89	20	20	66	-	448
- Other	(17)	-	(9)	(4)	(11)	(1)	151	109
Total net interest income	1,244	38	655	165	274	75	151	2,602

(1) Average balances computed on the basis of balances at the beginning of the quarter or as at the beginning of the month.
(2) Risk assets - as computed for the purpose of capital adequacy.
(3) Managed assets - including assets of provident funds, further education funds, mutual funds and securities of customers.
(4) Including housing loans to private individuals, which their business activity is classified to the small and minute business segment amount to NIS 1,038 million.

(NIS million)

C. Private individuals - household and private banking - activity in Israel

Consolidated	For the year ended December 31, 2021							
	Households segment				Private banking segment			
	Housing loans	Credit cards	other	Total	Credit cards	other	Total	Total
								(NIS million)
Interest income from externals	942	17	864	1,823	-	15	15	1,838
Interest expenses for externals	-	-	139	139	-	20	20	159
Net interest income								
- From externals	942	17	725	1,684	-	(5)	(5)	1,679
- Inter-segmental	(515)	(9)	51	(473)	-	21	21	(452)
Total net interest income	427	8	776	1,211	-	16	16	1,227
Non-interest income	16	96	523	635	1	91	92	727
Total income	443	104	1,299	1,846	1	107	108	1,954
Expenses (income) from credit losses	(6)	-	1	(5)	-	1	1	(4)
Operating and other expenses	192	41	1,189	1,422	-	72	72	1,494
Profit before taxes	257	63	109	429	1	34	35	464
Provision for taxes on profit	89	22	37	148	-	12	12	160
Net profit:								
Before attribution to non-controlling interests	168	41	72	281	1	22	23	304
Attributed to non-controlling interests	-	(3)	(29)	(32)	-	(1)	(1)	(33)
Net profit attributed to shareholders of the Bank	168	38	43	249	1	21	22	271
Average balance of assets(1)	30,353	2,807	18,165	51,325	28	40	68	51,393
Of which: average balance of credit to the public (1)	30,353	2,807	18,165	51,325	28	40	68	51,393
Balance of credit to the public at the end of the reported period	(4)32,260	3,868	18,754	54,882	43	52	95	54,977
Balance of impaired debts	51	-	138	189	-	-	-	189
Balance of debts in arrears of more than 90 days	161	-	22	183	-	-	-	183
Average balance of liabilities(1)	294	50	63,968	64,312	1	9,073	9,074	73,386
Of which: average balance of deposit from the public (1)	-	-	63,497	63,497	-	9,033	9,033	72,530
Balance of deposits from the public at the end of the reported period	-	-	63,792	63,792	-	9,253	9,253	73,045
Average balance of risk-adjusted assets(1)(2)	16,091	3,193	14,917	34,201	36	198	234	34,435
Balance of risk-adjusted assets at the end of the reported period(2)	17,057	3,697	14,846	35,600	47	197	244	35,844
Average balance of assets under management(1)(3)	-	-	37,986	37,986	-	22,320	22,320	60,306
Segmentation of net interest income:								
- Spread from credit granting activity	431	8	664	1,103	-	1	1	1,104
- Spread from deposit taking activity	-	-	116	116	-	15	15	131
- Other	(4)	-	(4)	(8)	-	-	-	(8)
Total net interest income	427	8	776	1,211	-	16	16	1,227

(1) Average balances computed on the basis of balances at the beginning of the quarter or as at the beginning of the month.
(2) Risk assets - as computed for the purpose of capital adequacy.
(3) Managed assets - including assets of provident funds, further education funds, mutual funds and securities of customers.
(4) Including housing loans to private individuals, which their business activity is classified to the small and minute business segment amount to NIS 1,338 million.

NOTE 28 - SUPERVISORY SEGMENTS OF OPERATION AND GEOGRAPHIC REGIONS (CON'T)

(NIS million)

C. Private individuals - household and private banking - activity in Israel

Consolidated	For the year ended December 31, 2020							
	Households segment				Private banking segment			
	Housing loans	Credit cards	other	Total	Credit cards	other	Total	Total
								(NIS million)
Interest income from externals	633	14	999	1,646	-	7	7	1,653
Interest expenses for externals	-	-	105	105	-	29	29	134
Net interest income								
- From externals	633	14	894	1,541	-	(22)	(22)	1,519
- Inter-segmental	(265)	(2)	(56)	(323)	-	46	46	(277)
Total net interest income	368	12	838	1,218	-	24	24	1,242
Non-interest income	13	82	491	586	1	76	77	663
Total income	381	94	1,329	1,804	1	100	101	1,905
Expenses from credit losses	41	-	76	117	-	1	1	118
Operating and other expenses	172	48	1,175	1,395	-	67	67	1,462
Profit before taxes	168	46	78	292	1	32	33	325
Provision for taxes on profit	60	16	29	105	-	11	11	116
Net profit:								
Before attribution to non-controlling interests	108	30	49	187	1	21	22	209
Attributed to non-controlling interests	-	(2)	(24)	(26)	-	-	-	(26)
Net profit attributed to shareholders of the Bank	108	28	25	161	1	21	22	183
Average balance of assets(1)	26,964	2,626	17,853	47,443	21	29	50	47,493
Of which: average balance of credit to the public (1)	26,964	2,626	17,853	47,443	21	29	50	47,493
Balance of credit to the public at the end of the reported period	(4)28,336	3,462	17,889	49,687	31	39	70	49,757
Balance of impaired debts	36	-	154	190	-	-	-	190
Balance of debts in arrears of more than 90 days	156	-	18	174	-	-	-	174
Average balance of liabilities(1)	365	67	59,627	60,059	1	8,697	8,698	68,757
Of which: average balance of deposit from the public (1)	-	-	59,151	59,151	-	8,666	8,666	67,817
Balance of deposits from the public at the end of the reported period	-	-	63,338	63,338	-	9,097	9,097	72,435
Average balance of risk-adjusted assets(1)(2)	14,517	3,085	14,791	32,393	29	178	207	32,600
Balance of risk-adjusted assets at the end of the reported period(2)	15,187	3,729	14,044	32,960	37	177	214	33,174
Average balance of assets under management(1)(3)	-	-	32,799	32,799	-	17,287	17,287	50,086
Segmentation of net interest income:								
- Spread from credit granting activity	374	12	687	1,073	-	-	-	1,073
- Spread from deposit taking activity	-	-	156	156	-	24	24	180
- Other	(6)	-	(5)	(11)	-	-	-	(11)
Total net interest income	368	12	838	1,218	-	24	24	1,242

(1) Average balances computed on the basis of balances at the beginning of the quarter or as at the beginning of the month.
(2) Risk assets - as computed for the purpose of capital adequacy.
(3) Managed assets - including assets of provident funds, further education funds, mutual funds and securities of customers.
(4) Including housing loans to private individuals, which their business activity is classified to the small and minute business segment amount to NIS 1,253 million.

NOTE 28 - SUPERVISORY SEGMENTS OF OPERATION AND GEOGRAPHIC REGIONS (CON'T)

(NIS million)

C. Private individuals - household and private banking - activity in Israel

Consolidated								For the year ended December 31, 2019
	Households segment				Private banking segment			
	Housing loans	Credit cards	other	Total	Credit cards	other	Total	Total
								(NIS million)
Interest income from externals	670	15	984	1,669	-	14	14	1,683
Interest expenses for externals	-	-	172	172	-	52	52	224
Net interest income								
- From externals	670	15	812	1,497	-	(38)	(38)	1,459
- Inter-segmental	(349)	(2)	98	(253)	-	76	76	(177)
Total net interest income	321	13	910	1,244	-	38	38	1,282
Non-interest income	14	84	451	549	1	67	68	617
Total income	335	97	1,361	1,793	1	105	106	1,899
Expenses from credit losses	3	-	69	72	-	-	-	72
Operating and other expenses	156	57	1,230	1,443	-	65	65	1,508
Profit before taxes	176	40	62	278	1	40	41	319
Provision for taxes on profit	60	14	21	95	-	14	14	109
Net profit:								
Before attribution to non-controlling interests	116	26	41	183	1	26	27	210
Attributed to non-controlling interests	-	(1)	(23)	(24)	-	-	-	(24)
Net profit attributed to shareholders of the Bank	116	25	18	159	1	26	27	186
Average balance of assets(1)	24,871	2,798	17,807	45,476	25	25	50	45,526
Of which: average balance of credit to the public (1)	24,871	2,798	17,807	45,476	25	25	50	45,526
Balance of credit to the public at the end of the reported period	(4)25,583	3,639	18,196	47,418	34	33	67	47,485
Balance of impaired debts	10	-	146	156	-	-	-	156
Balance of debts in arrears of more than 90 days	186	-	26	212	-	-	-	212
Average balance of liabilities(1)	525	106	51,462	52,093	1	7,618	7,619	59,712
Of which: average balance of deposits from the public (1)	-	-	50,896	50,896	-	7,611	7,611	58,507
Balance of deposits from the public at the end of the reported period	-	-	51,572	51,572	-	7,734	7,734	59,306
Average balance of risk-adjusted assets(1)(2)	13,620	3,151	14,788	31,559	29	184	213	31,772
Balance of risk-adjusted assets at the end of the reported period(2)	14,056	3,805	14,251	32,112	38	180	218	32,330
Average balance of assets under management(1)(3)	-	-	35,493	35,493	-	17,337	17,337	52,830
Segmentation of net interest income:								
- Spread from credit granting activity	330	13	703	1,046	-	-	-	1,046
- Spread from deposit taking activity	-	-	215	215	-	38	38	253
- Other	(9)	-	(8)	(17)	-	-	-	(17)
Total net interest income	321	13	910	1,244	-	38	38	1,282

(1) Average balances computed on the basis of balances at the beginning of the quarter or as at the beginning of the month.
(2) Risk assets - as computed for the purpose of capital adequacy.
(3) Managed assets - including assets of provident funds, further education funds, mutual funds and securities of customers.
(4) Including housing loans to private individuals, which their business activity is classified to the small and minute business segment amount to NIS 1,038 million.

NOTE 28 - SUPERVISORY SEGMENTS OF OPERATION AND GEOGRAPHIC REGIONS (CON'T)

(NIS million)

D. Small and minute, medium and large business - activity in Israel

Consolidated	For the year ended December 31, 2021									
	Small and minute business segment			Medium business segment			Large business segment			
	Const. & real estate	other	Total	Const. & real estate	other	Total	Const. & real estate	other	Total	Total
										(NIS million)
Interest income from externals	193	522	715	31	119	150	100	191	291	1,156
Interest expenses for externals	-	41	41	-	8	8	-	94	94	143
Net interest income										
- From externals	193	481	674	31	111	142	100	97	197	1,013
- Inter-segmental	(2)	(63)	(65)	-	8	8	(2)	96	94	37
Total net interest income	191	418	609	31	119	150	98	193	291	1,050
Non-interest income	39	319	358	12	52	64	32	77	109	531
of which: income from credit cards	-	20	20	-	1	1	-	1	1	22
Total income	230	737	967	43	171	214	130	270	400	1,581
Income from credit losses	(2)	(113)	(115)	(2)	(19)	(21)	(16)	(57)	(73)	(209)
Operating and other expenses	111	529	640	17	83	100	42	125	167	907
Profit before taxes	121	321	442	28	107	135	104	202	306	883
Provision for taxes on profit	42	110	152	9	38	47	36	69	105	304
Net profit:										
Before attribution to non-controlling interests	79	211	290	19	69	88	68	133	201	579
Attributed to non-controlling interests	(1)	(4)	(5)	-	(3)	(3)	-	-	-	(8)
Net profit attributed to shareholders of the Bank	78	207	285	19	66	85	68	133	201	571
Average balance of assets(1)	6,580	12,745	19,325	958	4,665	5,623	3,923	13,055	16,978	41,926
Of which: average balance of credit to the public (1)	6,580	12,745	19,325	958	4,665	5,623	3,923	13,055	16,978	41,926
Balance of credit to the public at the end of the reported period	7,163	13,881	21,044	1,251	4,850	6,101	4,850	13,721	18,571	45,716
Balance of impaired debts	78	140	218	-	69	69	11	58	69	356
Balance of debts in arrears of more than 90 days	5	11	16	-	1	1	-	1	1	18
Average balance of liabilities(1)	3,827	20,982	24,809	986	4,963	5,949	1,927	11,592	13,519	44,277
Of which: average balance of deposits from the public (1)	3,706	20,668	24,374	961	4,852	5,813	1,817	11,013	12,830	43,017
Balance of deposits from the public at the end of the reported period	4,000	21,949	25,949	1,185	5,843	7,028	2,446	13,107	15,553	48,530
Average balance of risk-adjusted assets(1)(2)	7,441	11,029	18,470	1,478	4,790	6,268	6,290	11,768	18,058	42,796
Balance of risk-adjusted assets at the end of the reported period(2)	7,904	11,218	19,122	1,849	4,951	6,800	7,138	12,489	19,627	45,549
Average balance of assets under management(1)(3)	2,090	17,123	19,213	193	3,361	3,554	1,439	16,028	17,467	40,234
Segmentation of net interest income:										
- Spread from credit granting activity	189	394	583	30	115	145	99	185	284	1,012
- Spread from deposit taking activity	4	26	30	1	5	6	1	11	12	48
- Other	(2)	(2)	(4)	-	(1)	(1)	(2)	(3)	(5)	(10)
Total net interest income	191	418	609	31	119	150	98	193	291	1,050

(1) Average balances computed on the basis of balances at the beginning of the quarter or as at the beginning of the month.
(2) Risk assets - as computed for the purpose of capital adequacy.
(3) Managed assets - including assets of provident funds, further education funds, mutual funds and securities of customers.

NOTE 28 - SUPERVISORY SEGMENTS OF OPERATION AND GEOGRAPHIC REGIONS (CON'T)
(NIS million)

D. Small and minute, medium and large business - activity in Israel

Consolidated	For the year ended December 31, 2020									
	Small and minute business segment			Medium business segment			Large business segment			
	Const. & real estate	other	Total	Const. & real estate	other	Total	Const. & real estate	other	Total	Total
										(NIS million)
Interest income from externals	193	478	671	33	125	158	95	137	232	1,061
Interest expenses for externals	-	46	46	-	10	10	-	37	37	93
Net interest income										
- From externals	193	432	625	33	115	148	95	100	195	968
- Inter-segmental	(3)	1	(2)	(1)	8	7	(2)	111	109	114
Total net interest income	190	433	623	32	123	155	93	211	304	1,082
Non-interest income	40	304	344	14	57	71	29	71	100	515
of which: income from credit cards	-	16	16	-	1	1	-	1	1	18
Total income	230	737	967	46	180	226	122	282	404	1,597
Expenses (income) from credit losses	14	148	162	(1)	85	84	13	85	98	344
Operating and other expenses	104	517	621	16	84	100	36	116	152	873
Profit before taxes	112	72	184	31	11	42	73	81	154	380
Provision for taxes on profit	35	23	58	8	3	11	21	23	44	113
Net profit:										
Before attribution to non-controlling interests	77	49	126	23	8	31	52	58	110	267
Attributed to non-controlling interests	(2)	(2)	(4)	(1)	(1)	(2)	-	(1)	(1)	(7)
Net profit attributed to shareholders of the Bank	75	47	122	22	7	29	52	57	109	260
Average balance of assets(1)	6,339	11,488	17,827	964	4,628	5,592	3,484	13,941	17,425	40,844
Of which: average balance of credit to the public (1)	6,339	11,488	17,827	964	4,628	5,592	3,484	13,941	17,425	40,844
Balance of credit to the public at the end of the reported period	6,436	12,440	18,876	863	4,522	5,385	3,973	12,751	16,724	40,985
Balance of impaired debts	60	171	231	-	78	78	11	67	78	387
Balance of debts in arrears of more than 90 days	20	16	36	-	-	-	7	-	7	43
Average balance of liabilities(1)	3,496	18,759	22,255	994	4,595	5,589	2,699	10,463	13,162	41,006
Of which: average balance of deposits from the public (1)	3,334	18,425	21,759	960	4,453	5,413	2,573	9,744	12,317	39,489
Balance of deposits from the public at the end of the reported period	3,594	20,764	24,358	1,012	4,695	5,707	2,470	10,397	12,867	42,932
Average balance of risk-adjusted assets(1)(2)	7,249	10,192	17,441	1,512	5,052	6,564	5,260	12,501	17,761	41,766
Balance of risk-adjusted assets at the end of the reported period(2)	7,113	10,607	17,720	1,302	4,680	5,982	5,831	11,793	17,624	41,326
Average balance of assets under management(1)(3)	1,300	14,475	15,775	158	3,339	3,497	1,193	11,180	12,373	31,645
Segmentation of net interest income:										
- Spread from credit granting activity	186	396	582	31	117	148	93	203	296	1,026
- Spread from deposit taking activity	7	40	47	2	7	9	2	12	14	70
- Other	(3)	(3)	(6)	(1)	(1)	(2)	(2)	(4)	(6)	(14)
Total net interest income	190	433	623	32	123	155	93	211	304	1,082

(1) Average balances computed on the basis of balances at the beginning of the quarter or as at the beginning of the month.
(2) Risk assets - as computed for the purpose of capital adequacy.
(3) Managed assets - including assets of provident funds, further education funds, mutual funds and securities of customers.

NOTE 28 - SUPERVISORY SEGMENTS OF OPERATION AND GEOGRAPHIC REGIONS (CON'T)

(NIS million)

D. Small and minute, medium and large business - activity in Israel

Consolidated	For the year ended December 31, 2019									
	Small and minute business segment			Medium business segment			Large business segment			
	Const. & real estate	other	Total	Const. & real estate	other	Total	Const. & real estate	other	Total	Total
										(NIS million)
Interest income from externals	188	482	670	41	123	164	74	191	265	1,099
Interest expenses for externals	-	87	87	-	17	17	-	67	67	171
Net interest income										
- From externals	188	395	583	41	106	147	74	124	198	928
- Inter-segmental	(4)	76	72	(1)	19	18	(3)	79	76	166
Total net interest income	184	471	655	40	125	165	71	203	274	1,094
Non-interest income	34	279	313	15	60	75	31	80	111	499
of which: income from credit cards	-	16	16	-	1	1	-	-	-	17
Total income	218	750	968	55	185	240	102	283	385	1,593
Expenses (income) from credit losses	(11)	46	35	(1)	13	12	(15)	33	18	65
Operating and other expenses	93	539	632	16	94	110	32	129	161	903
Profit before taxes	136	165	301	40	78	118	85	121	206	625
Provision for taxes on profit	47	56	103	15	29	44	38	52	90	237
Net profit:										
Before attribution to non-controlling interests	89	109	198	25	49	74	47	69	116	388
Attributed to non-controlling interests	(2)	(3)	(5)	(2)	(1)	(3)	-	-	-	(8)
Net profit attributed to shareholders of the Bank	87	106	193	23	48	71	47	69	116	380
Average balance of assets(1)	5,899	10,754	16,653	1,077	4,546	5,623	2,591	14,008	16,599	38,875
Of which: average balance of credit to the public (1)	5,899	10,754	16,653	1,077	4,546	5,623	2,591	14,008	16,599	38,875
Balance of credit to the public at the end of the reported period	6,301	10,963	17,264	1,074	4,465	5,539	3,023	14,257	17,280	40,083
Balance of impaired debts	42	178	220	5	30	35	23	275	298	553
Balance of debts in arrears of more than 90 days	2	18	20	-	4	4	13	-	13	37
Average balance of liabilities(1)	3,170	16,062	19,232	1,041	4,184	5,225	2,019	8,508	10,527	34,984
Of which: average balance of deposits from the public (1)	2,963	15,697	18,660	961	4,007	4,968	1,848	8,013	9,861	33,489
Balance of deposits from the public at the end of the reported period	3,081	16,076	19,157	962	4,529	5,491	2,265	8,753	11,018	35,666
Average balance of risk-adjusted assets(1)(2)	6,910	9,570	16,480	1,700	4,954	6,654	4,383	12,033	16,416	39,550
Balance of risk-adjusted assets at the end of the reported period(2)	6,928	9,916	16,844	1,676	4,772	6,448	4,345	12,535	16,880	40,172
Average balance of assets under management(1)(3)	1,366	14,773	16,139	176	3,817	3,993	1,804	11,197	13,001	33,133
Segmentation of net interest income:										
- Spread from credit granting activity	179	396	575	38	111	149	72	193	265	989
- Spread from deposit taking activity	10	79	89	3	17	20	2	18	20	129
- Other	(5)	(4)	(9)	(1)	(3)	(4)	(3)	(8)	(11)	(24)
Total net interest income	184	471	655	40	125	165	71	203	274	1,094

* Reclassified. See item A in page 225.

(1) Average balances computed on the basis of balances at the beginning of the quarter or as at the beginning of the month.

(2) Risk assets - as computed for the purpose of capital adequacy.

(3) Managed assets - including assets of provident funds, further education funds, mutual funds and securities of customers.

NOTE 28 - SUPERVISORY SEGMENTS OF OPERATION AND GEOGRAPHIC REGIONS (CON'T)
(NIS million)

E. Financial Mangement segment - activity in Israel

Consolidated	For the year ended December 31, 2021				
	Trading activity	Assets and liabilities management activity	Real investment activity	Other	Total
					(NIS million)
Interest income from externals	1	156	-	-	157
Interest expenses for externals	1	17	-	-	18
Net interest income					
- From externals	-	139	-	-	139
- Inter-segmental	-	345	-	-	345
Total net interest income	-	484	-	-	484
Non-interest income	37	22	231	7	297
Total income	37	506	231	7	781
Operating and other expenses	-	96	-	-	96
Profit before taxes	37	410	231	7	685
Provision for taxes on profit	13	142	79	2	236
Profit after taxes	24	268	152	5	449
Bank's share in operating profit of investee company after tax effect	-	-	69	-	69
Net profit:					
Before attribution to non-controlling interests	24	268	221	5	518
Attributed to non-controlling interests	-	(9)	-	-	(9)
Net profit attributed to shareholders of the Bank	24	259	221	5	509
Average balance of assets(1)	302	76,403	1,210	-	77,915
Of which: Investee company(1)	-	-	674	-	674
Average balance of liabilities(1)	112	13,793	-	-	13,905
Average balance of risk assets(1)(2)	821	4,563	1,945	-	7,329
Balance of risk assets(2)	683	3,199	2,198	-	6,080
Distribution of net interest income and non interest financing income:					
Exchange rate differences, net(3)	18	(10)			
CPI differences, net(3)	-	98			
Interest rate exposures, net(3)	20	396			
Exposures to shares, net(3)	2	-			
Total net interest and non-interest income, by accrual basis	40	484			
Profits or losses from sale or impairment that is not temporary of bonds	-	23			
Difference between fair value and accrual basis of derivatives, recorded in income statement	-	(1)			
Other non-interest expenses	(3)	-			
Total net interest income and non interest financing income	37	506			

(1) Average balances computed on the basis of balances at the beginning of the quarter or as at the beginning of the month.
(2) Risk assets - as computed for the purpose of capital adequacy.
(3) Including in respect of securities and derivative instruments.

E. Financial Mangement segment - activity in Israel

Consolidated	For the year ended December 31, 2020				
	Trading activity	Assets and liabilities management activity	Real investment activity	Other	Total
					(NIS million)
Interest income from externals	-	172	-	-	172
Interest expenses for externals	1	(1)	-	-	-
Net interest income					
- From externals	(1)	173	-	-	172
- Inter-segmental	-	102	-	-	102
Total net interest income (expense)	(1)	275	-	-	274
Non-interest income	14	118	1	-	133
Total income	13	393	1	-	407
Operating and other expenses	-	60	-	-	60
Profit before taxes	13	333	1	-	347
Provision for taxes on profit (loss)	4	109	-	-	113
Operating profit after taxes	9	224	1	-	234
Bank's share in operating profit of investee company after tax effect	-	-	29	-	29
Net profit:					
Before attribution to non-controlling interests	9	224	30	-	263
Attributed to non-controlling interests	-	(5)	-	-	(5)
Net profit attributed to shareholders of the Bank	9	219	30	-	258
Average balance of assets(1)	228	61,304	906	-	62,438
Of which: Investee company(1)	-	-	617	-	617
Average balance of liabilities(1)	31	10,599	-	-	10,630
Average balance of risk assets(1)(2)	886	4,870	1,565	-	7,321
Balance of risk assets(2)	883	5,076	1,638	-	7,597
Distribution of net interest income and non interest financing income:					
Exchange rate differences, net(3)	(21)	67			
CPI differences, net(3)	-	(17)			
Interest rate exposures, net(3)	42	322			
Exposures to shares, net(3)	(3)	-			
Total net interest and non-interest income, by accrual basis	18	372			
Profits or losses from sale or impairment that is not temporary of bonds	-	24			
Difference between fair value and accrual basis of derivatives, recorded in income statement	-	(3)			
Other non-interest expenses	(5)	-			
Total net interest income and non interest financing income	13	393			

(1) Average balances computed on the basis of balances at the beginning of the quarter or as at the beginning of the month.
(2) Risk assets - as computed for the purpose of capital adequacy.
(3) Including in respect of securities and derivative instruments.

NOTE 28 - SUPERVISORY SEGMENTS OF OPERATION AND GEOGRAPHIC REGIONS (CON'T)

(NIS million)

E. Financial Mangement segment - activity in Israel

Consolidated	For the year ended December 31, 2019				
	Trading activity	Assets and liabilities management activity	Real investment activity	Other	Total
					(NIS million)
Interest income from externals	1	286	-	-	287
Interest expenses for externals	3	8	-	-	11
Net interest income					
- From externals	(2)	278	-	-	276
- Inter-segmental	-	(125)	-	-	(125)
Total net interest income (expenses)	(2)	153	-	-	151
Non-interest income (expenses)	(19)	159	71	3	214
Total income (expenses)	(21)	312	71	3	365
Operating and other expenses	-	59	-	-	59
Profit (loss) before taxes	(21)	253	71	3	306
Provision for taxes (tax saving) on profit (loss)	(8)	88	24	1	105
Operating profit (loss) after taxes	(13)	165	47	2	201
Bank's share in operating profit of investee company after tax effect	-	-	51	-	51
Net profit (loss):					
Before attribution to non-controlling interests	(13)	165	98	2	252
Attributed to non-controlling interests	-	(6)	-	-	(6)
Net profit (loss) attributed to shareholders of the Bank	(13)	159	98	2	246
Average balance of assets (1)	222	49,765	878	-	50,865
Of which: Investee company(1)	-	-	605	-	605
Average balance of liabilities(1)	202	9,314	-	-	9,516
Average balance of risk assets(1)(2)	748	5,356	1,523	-	7,627
Balance of risk assets(2)	875	5,131	1,582	-	7,588
Distribution of net interest income and non interest financing income:					
Exchange rate differences, net (3)	(41)	56			
CPI differences, net(3)	-	(6)			
Interest rate exposures, net(3)	7	242			
Exposures to shares, net(3)	-	-			
Total net interest and non-interest income, by accrual basis	(34)	292			
Profits or losses from sale or impairment that is not temporary of bonds	-	26			
Difference between fair value and accrual basis of derivatives, recorded in income statement	-	(6)			
Other non-interest income	13	-			
Total net interest income and non interest financing income	(21)	312			

(1) Average balances computed on the basis of balances at the beginning of the quarter or as at the beginning of the month.
(2) Risk assets - as computed for the purpose of capital adequacy.
(3) Including in respect of securities and derivative instruments.

NOTE 28 - SUPERVISORY SEGMENTS OF OPERATION AND GEOGRAPHIC REGIONS (CON'T)

(NIS million)

F. Geographical region information

(NIS million)

Consolidated	Income[2]			Net profit			Total assets	
	Year ended December 31			Year ended December 31			at December 31	
	2021	2020	2019	2021	2020	2019	2021	2020
Israel	**4,550**	4,160	4,119	**1,405**	750	863	**180,470**	167,778
Western Europe	**-**	-	3	**-**	-	2	**-**	-
Consolidated total	**4,550**	4,160	4,122	**1,405**	750	865	**180,470**	167,778

(1) The distribution to geographical regions is based on the location of the assets.

(2) Net interest income and non-interest income.

NOTE 28A - ACTIVITY SEGMENTS BASED ON MANAGEMENT'S APROACH

A. General

1. Instructions of the Supervisor of Banks state that a banking corporation, the operating segments of which per Management's approach, materially differ from the regulatory segments of activity, shall, in addition, provide disclosure regarding operating segments according to Management's approach ("administrative operating segments"), in accordance with accounting principles accepted by US banks in the matter of segments of operation (ASC 280-10).
2. The distribution to segments of operation in accordance with Management's approach is made according to criteria detailed in item 3 below. This distribution is used by the chief operational decision maker at the Bank for the purpose of determining the work plan, taking decisions and analyzing the business results of the Group. Management of the Bank and the Board of Directors are considered as the chief operational decision maker at the Bank.
3. The Bank has identified the following administrative operating segments:
   - **Banking Division - housing loans** - the segment is responsible for providing residential credit services to customers in this segment.
   - **Banking Division - Households** - which includes all operations of households' customers.
   - **Banking Division - Private banking** - which includes all operations of private customers having a medium to high financial wealth, to which the Bank provides a variety of banking services and financial instruments, including investment counseling services.
   - **Banking Division - other** - the segment includes all activities of small businesses and commercial customers of the Banking Division branches.
   - **Corporate Division - corporate customers** - The corporate department of the Division coordinates all activities of large and international corporate customers, having a credit facility of NIS 40 million and over, or an income turnover of NIS 200 million and over, as well as the activity of borrower in complex credit areas, such as: communication, construction projects, factoring and such like.
   - **Corporate Division - commercial customers** - The commercial department handles customers having a credit facility of between NIS 5 million and up to NIS 40 million, and an income turnover of between NIS 25 million and up to NIS 200 million and the customers of the branches of the corporate division, which are not under authority of the branches' managers.
   - **Corporate Division - other** - Bank customers in the business branches subordinated to the corporate division.
   - **Customer Assets Division** - The Division is responsible for the Bank's activity with all customers in operations involving the capital market, foreign currency and deposits and the overall activities of institutional entities.
   - **Financial Management** - The segment includes the results of operations concerning the asset and liability management of the Bank, including management of market and liquidity risk management in general, the results of management of the "nostro" securities portfolio of the Bank, including activity with other banks and with Bank of Israel. The segment includes also the Bank's share in the earnings of Israel Credit Cards Ltd.
   - **Subsidiary companies** - The segment includes the results of operation of its subsidiary Massad Bank.

NOTE 28A - ACTIVITY SEGMENTS BASED ON MANAGEMENT'S APROACH (CON'T)

- **Adjustments:**

  A part of the results of operations with customers of the Bank is recorded in more than one operating segment, as detailed below:

  - The results of operation in the capital market product, which includes securities activity of customers, the distribution of pension products and deposits from the public, as well as the foreign currency product, are included both in the Customer Assets Division segment and in the Banking Division segments (except for mortgages) or in any one of the Corporate Division segments.
  - The results of operation of certain commercial customers under the responsibility of the Corporate Division are included both in the Corporate Division-commercial customers segment and in the Banking Division-other segment.
  - The results of operation of certain small business customers under the responsibility of the Banking Division are included both in the Banking Division-other segment and in the Corporate Division-other segment.

- The results of operation of certain customers under the responsibility of the Customer Assets Division are included both in the Customer Assets Division segment and in the Banking Division segments (except mortgages) or in any one of the Corporate Division segments.

  The duplicity in the recording of the results of operation as described above is eliminated in the adjustments column.

  The adjustments column includes also the elimination of inter-company balances.

  For detail regarding the principles of the distribution of the results of operation between the different segments of activity, see note 28.

NOTE 28A - ACTIVITY SEGMENTS BASED ON MANAGEMENT'S APROACH (CON'T)

(NIS million)

Consolidated	For the year ended December 31, 2021						
	Banking Division				Corporate Division		
	Housing loans	Households	Private banking	Other	Corporate customers	Commercial customers	Other
Net interest income	**431**	**524**	**144**	**401**	**440**	**262**	**42**
Non-interest income	**16**	**228**	**477**	**217**	**220**	**82**	**37**
Total income	**447**	**752**	**621**	**618**	**660**	**344**	**79**
Expenses (income) from credit losses	**(8)**	**(12)**	**2**	**(61)**	**(94)**	**(47)**	**(2)**
Operating and other expenses	**199**	**691**	**531**	**441**	**295**	**174**	**28**
Operating profit before taxes	**256**	**73**	**88**	**238**	**459**	**217**	**53**
Provision for taxes on operating profit	**88**	**25**	**30**	**82**	**158**	**75**	**18**
Operating profit after taxes	**168**	**48**	**58**	**156**	**301**	**142**	**35**
Bank's share in operating profit of investee company	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Net profit:							
Before attribution to non-controlling interests	**168**	**48**	**58**	**156**	**301**	**142**	**35**
Attributed to non-controlling interests	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Attributed to shareholders of the Bank	**168**	**48**	**58**	**156**	**301**	**142**	**35**
Average balance of assets[1]	**30,108**	**14,857**	**4,201**	**10,409**	**23,851**	**9,687**	**1,058**
Balance of credit to the public at the end of the reported period	**32,012**	**15,660**	**4,634**	**11,992**	**26,900**	**10,562**	**1,073**
Balance of deposits from the public at the end of the reported period	**-**	**30,432**	**39,353**	**21,641**	**26,424**	**8,657**	**28,439**

Consolidated	For the year ended December 31, 2020						
	Banking Division				Corporate Division		
	Housing loans	Households	Private banking	Other	Corporate customers	Commercial customers	Other
Net interest income	376	551	181	416	458	260	40
Non-interest income	13	209	441	211	241	80	20
Total income	389	760	622	627	699	340	60
Expenses from credit losses	40	77	22	133	131	92	8
Operating and other expenses	178	683	541	442	311	170	27
Operating profit before taxes	171	-	59	52	257	78	25
Provision for taxes on operating profit	53	-	16	12	88	22	6
Operating profit after taxes	118	-	43	40	169	56	19
Bank's share in operating profit of investee company	-	-	-	-	-	-	-
Net profit:							
Before attribution to non-controlling interests	118	-	43	40	169	56	19
Attributed to non-controlling interests	-	-	-	-	-	-	-
Attributed to shareholders of the Bank	118	-	43	40	169	56	19
Average balance of assets[1]	26,758	14,661	3,939	9,851	24,233	9,242	1,024
Balance of credit to the public at the end of the reported period	28,121	14,882	4,190	10,946	24,431	9,284	620
Balance of deposits from the public at the end of the reported period	-	28,228	41,178	19,784	31,191	6,935	15,147

(1) Average balances computed on the basis of balances at the beginning of the quarter or as at the beginning of the month.

	Customer assets division	Financial Management	Subsidiaries	Adjustments		Total
				Total	Of which: activity in capital market products	
	221	462	245	(378)	(222)	2,794
	925	289	101	(836)	(734)	1,756
	1,146	751	346	(1,214)	(956)	4,550
	(2)	-	(3)	11	2	(216)
	804	94	192	(797)	(658)	2,652
	344	657	157	(428)	(300)	2,114
	118	226	55	(147)	(103)	728
	226	431	102	(281)	(197)	1,386
	-	69	-	-	-	69
	226	500	102	(281)	(197)	1,455
	-	-	(50)	-	-	(50)
	226	500	52	(281)	(197)	1,405
	6,474	75,476	8,667	(12,415)	(6,474)	172,373
	9,328	-	5,641	(15,562)	(9,328)	102,240
	147,340	-	9,025	(157,864)	(147,340)	153,447

	Customer assets division	Financial Management	Subsidiaries	Adjustments		Total
				Total	Of which: activity in capital market products	
	293	273	241	(452)	(293)	2,637
	883	130	84	(789)	(711)	1,523
	1,176	403	325	(1,241)	(1,004)	4,160
	9	-	22	(70)	(9)	464
	821	59	182	(845)	(690)	2,569
	346	344	121	(326)	(305)	1,127
	102	118	44	(93)	(87)	368
	244	226	77	(233)	(218)	759
	-	29	-	-	-	29
	244	255	77	(233)	(218)	788
	-	-	(38)	-	-	(38)
	244	255	39	(233)	(218)	750
	5,326	60,040	7,995	(10,889)	(5,326)	152,180
	5,423	-	5,238	(10,888)	(5,423)	92,247
	135,831	-	8,612	(145,229)	(135,831)	141,677

NOTE 28A - ACTIVITY SEGMENTS BASED ON MANAGEMENT'S APROACH (CON'T)

(NIS million)

Consolidated	For the year ended December 31, 2019						
	Banking Division				Corporate Division		
	Housing loans	Households	Private banking	Other	Corporate customers	Commercial customers	Other
Net interest income	331	577	233	446	421	283	95
Non-interest income	14	204	387	210	194	80	35
Total income	345	781	620	656	615	363	130
Expenses (income) from credit losses	1	65	6	71	(42)	42	10
Operating and other expenses	163	747	544	459	263	182	50
Operating profit (loss) before taxes	181	(31)	70	126	394	139	70
Provision for taxes (tax saving) on operating profit (loss)	61	(11)	24	43	157	47	24
Operating profit (loss) after taxes	120	(20)	46	83	237	92	46
Bank's share in operating profit of investee company	-	-	-	-	-	-	-
Net profit (loss):							
Before attribution to non-controlling interests	120	(20)	46	83	237	92	46
Attributed to non-controlling interests	-	-	-	-	-	-	-
Attributed to shareholders of the Bank	120	(20)	46	83	237	92	46
Average balance of assets(1)	25,255	14,347	3,950	9,806	21,952	9,242	1,415
Balance of credit to the public at the end of the reported period	25,422	15,022	4,304	10,325	23,006	9,352	1,383
Balance of deposits from the public at the end of the reported period	-	23,667	32,480	16,559	22,349	5,852	20,024

(1) Average balances computed on the basis of balances at the beginning of the quarter or as at the beginning of the month.

	Customer assets division	Financial Management	Subsidiaries	Adjustments Total	Of which: activity in capital market products	Total
	457	132	246	(619)	(457)	2,602
	755	214	90	(663)	(620)	1,520
	1,212	346	336	(1,282)	(1,077)	4,122
	(1)	-	11	(25)	1	138
	791	58	200	(803)	(634)	2,654
	422	288	125	(454)	(444)	1,330
	143	98	46	(154)	(150)	478
	279	190	79	(300)	(294)	852
	-	51	-	-	-	51
	279	241	79	(300)	(294)	903
	-	-	(38)	-	-	(38)
	279	241	41	(300)	(294)	865
	5,753	48,206	6,952	(10,573)	(5,753)	136,305
	6,221	-	5,116	(11,322)	(6,221)	88,829
	115,128	-	6,962	(122,969)	(115,128)	120,052

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES

(NIS millions)

A. Debts(1) and off-balance sheet credit instruments

Provision for credit loses

1. Change in provision for credit losses

Consolidated	For the year ended December 31, 2021					
	Credit to the public					
	Commercial	Housing	Other private	Total	Banks and Governments	Total
Change in provision for credit losses - Debts						
Provision for credit losses at beginning of year	**809**	**164**	**304**	**1,277**	**-**	**1,277**
Expenses (income) from credit losses	**(208)**	**(6)**	**5**	**(209)**	**-**	**(209)**
- Accounting write-offs	**(94)**	**-**	**(84)**	**(178)**	**-**	**(178)**
- Collection of debts written off in accounting in previous years	**95**	**1**	**90**	**186**	**-**	**186**
Net accounting write-offs	**1**	**1**	**6**	**8**	**-**	**8**
Provision for credit losses at end of year	**602**	**159**	**315**	**1,076**	**-**	**1,076**
Changes in provision in respect of off-balance sheet credit instruments						
Provision at beginning of year	**72**	**-**	**14**	**86**	**-**	**86**
Decrease in the provision	**(4)**	**-**	**(3)**	**(7)**	**-**	**(7)**
Provision in respect of off-balance sheet credit instruments at end of year	**68**	**-**	**11**	**79**	**-**	**79**
Total provision for credit losses - debts and off-balance sheet credit instruments	**670**	**159**	**326**	**1,155**	**-**	**1,155**

Consolidated	For the year ended December 31, 2020					
	Credit to the public					
	Commercial	Housing	Other private	Total	Banks and Governments	Total
Change in provision for credit losses - Debts						
Provision for credit losses at beginning of year	545	121	264	930	-	930
Expenses from credit losses	320	41	74	435	-	435
- Accounting write-offs	(143)	-	(122)	(265)	-	(265)
- Collection of debts written off in accounting in previous years	87	2	88	177	-	177
Net accounting write-offs	(56)	2	(34)	(88)	-	(88)
Provision for credit losses at end of year	809	164	304	1,277	-	1,277
Changes in provision in respect of off-balance sheet credit instruments						
Provision at beginning of year	46	-	11	57	-	57
Increase in the provision	26	-	3	29	-	29
Provision in respect of off-balance sheet credit instruments at end of year	72	-	14	86	-	86
Total provision for credit losses - debts and off-balance sheet credit instruments	881	164	318	1,363	-	1,363

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

Consolidated	For the year ended December 31, 2019					
	Credit to the public					
	Commercial	Housing	Other private	Total	Banks and Governments	Total
Change in provision for credit losses - Debts						
Provision for credit losses at beginning of year	489	119	260	868	-	868
Expenses from credit losses	73	3	69	145	-	145
- Accounting write-offs	(185)	(2)	(138)	(325)	-	(325)
- Collection of debts written off in accounting in previous years	168	1	73	242	-	242
Net accounting write-offs	(17)	(1)	(65)	(83)	-	(83)
Provision for credit losses at end of year	545	121	264	930	-	930
Changes in provision in respect of off-balance sheet credit instruments						
Provision at beginning of year	53	-	11	64	-	64
Decrease in the provision	(7)	-	-	(7)	-	(7)
Provision in respect of off-balance sheet credit instruments at end of year	46	-	11	57	-	57
Total provision for credit losses - debts and off-balance sheet credit instruments	591	121	275	987	-	987

(1) Credit to the public, credit to governments, deposits with banks and other debts, excluding bonds and securities borrowed.

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

A. Debts(1) and off-balance sheet credit instruments (Cont.)

2. Additional information regarding the method of calculating the provision for credit losses in respect of debts(1) and the underlying debts(1)

Consolidated	For the year ended December 31, 2021					
	Credit to the public					
	Commercial (3)	Housing	Other private	Total	Banks and Governments	Total
Recorded balance of debts(1)						
Examined on an individual basis	**41,141**	**-**	**491**	**41,632**	**3,421**	**45,053**
Examined on a collective basis	**6,206**	**32,260**	**22,142**	**60,608**	**-**	**60,608**
Of which: provision for which was calculated according to the extent of arrears	**84**	**32,255**	**-**	**32,339**	**-**	**32,339**
Total debts	**47,347**	**32,260**	**22,633**	**102,240**	**3,421**	**105,661**
Provision for credit losses in respect of debts(1)						
Examined on an individual basis	**530**	**-**	**38**	**568**	**-**	**568**
Examined on a collective basis	**72**	**159**	**277**	**508**	**-**	**508**
Of which: provision for which was calculated according to the extent of arrears	**-**	(2)**159**	**-**	**159**	**-**	**159**
Total provision for credit losses	**602**	**159**	**315**	**1,076**	**-**	**1,076**

Consolidated	For the year ended December 31, 2020					
	Credit to the public					
	Commercial (3)	Housing	Other private	Total	Banks and Governments	Total
Recorded balance of debts(1)						
Examined on an individual basis	36,595	-	390	36,985	3,623	40,608
Examined on a collective basis	5,983	28,336	20,943	55,262	-	55,262
Of which: provision for which was calculated according to the extent of arrears	88	28,320	-	28,408	-	28,408
Total debts	42,578	28,336	21,333	92,247	3,623	95,870
Provision for credit losses in respect of debts(1)						
Examined on an individual basis	693	-	40	733	-	733
Examined on a collective basis	116	164	264	544	-	544
Of which: provision for which was calculated according to the extent of arrears	1	(2)164	-	165	-	165
Total provision for credit losses	809	164	304	1,277	-	1,277

(1) Credit to the public, credit to governments, deposits with banks and other debts, excluding bonds and securities borrowed.

(2) Includes the provision exceeding the amount required according to the method of the extent of arrears, calculated on a collective basis in the amount of NIS 122 million (31.12.20 - NIS 124 million).

(3) The balance of commercial debts includes housing loans in the amount of NIS 2,964 million, combined in the framework of transaction and collateral of the commercial borrowers or that have been granted to purchase groups at construction stages (31.12.20 - NIS 3,009 million).

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

A. Debts[(1)] and off-balance sheet credit instruments (Cont.)

Provision for credit loses (Cont.)

1. Change in provision for credit losses (Cont.)

The Bank	For the year ended December 31, 2021					
	Credit to the public					
	Commercial	Housing	Other private	Total	Banks and Governments	Total
Change in provision for credit losses - Debts						
Provision for credit losses at beginning of year	**791**	**164**	**249**	**1,204**	**-**	**1,204**
Expenses (income) from credit losses	**(206)**	**(6)**	**6**	**(206)**	**-**	**(206)**
- Accounting write-offs	**(88)**	**-**	**(73)**	**(161)**	**-**	**(161)**
- Collection of debts written off in accounting in previous years	**92**	**1**	**80**	**173**	**-**	**173**
Net accounting write-offs	**4**	**1**	**7**	**12**	**-**	**12**
Provision for credit losses at end of year	**589**	**159**	**262**	**1,010**	**-**	**1,010**
Changes in provision in respect of off-balance sheet credit instruments						
Provision at beginning of year	**73**	**-**	**10**	**83**	**-**	**83**
Decrease in the provision	**(5)**	**-**	**(2)**	**(7)**	**-**	**(7)**
Provision in respect of off-balance sheet credit instruments at end of year	**68**	**-**	**8**	**76**	**-**	**76**
Total provision for credit losses - debts and off-balance sheet credit instruments	**657**	**159**	**270**	**1,086**	**-**	**1,086**

The Bank	For the year ended December 31, 2020					
	Credit to the public					
	Commercial	Housing	Other private	Total	Banks and Governments	Total
Change in provision for credit losses - Debts						
Provision for credit losses at beginning of year	531	121	219	871	-	871
Expenses from credit losses	315	41	59	415	-	415
- Accounting write-offs	(140)	-	(107)	(247)	-	(247)
- Collection of debts written off in accounting in previous years	85	2	78	165	-	165
Net accounting write-offs	(55)	2	(29)	(82)	-	(82)
Provision for credit losses at end of year	791	164	249	1,204	-	1,204
Changes in provision in respect of off-balance sheet credit instruments						
Provision at beginning of year	47	-	8	55	-	55
Increase in the provision	26	-	2	28	-	28
Provision in respect of off-balance sheet credit instruments at end of year	73	-	10	83	-	83
Total provision for credit losses - debts and off-balance sheet credit instruments	864	164	259	1,287	-	1,287

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

A. Debts(1) and off-balance sheet credit instruments (Cont.)

Provision for credit loses (Cont.)

1. Change in provision for credit losses (Cont.)

The Bank	For the year ended December 31, 2019					
	Credit to the public					
	Commercial	Housing	Other private	Total	Banks and Governments	Total
Change in provision for credit losses - Debts						
Provision for credit losses at beginning of year	390	116	148	654	-	654
Merging a subsidiary	87	3	70	160	-	160
Expenses from credit losses	71	3	60	134	-	134
- Accounting write-offs	(183)	(2)	(125)	(310)	-	(310)
- Collection of debts written off in accounting in previous years	166	1	66	233	-	233
Net accounting write-offs	(17)	(1)	(59)	(77)	-	(77)
Provision for credit losses at end of year	531	121	219	871	-	871
Changes in provision in respect of off-balance sheet credit instruments						
Provision at beginning of year	50	-	7	57	-	57
Merging a subsidiary	4	-	1	5	-	5
Decrease in the provision	(7)	-	-	(7)	-	(7)
Provision in respect of off-balance sheet credit instruments at end of year	47	-	8	55	-	55
Total provision for credit losses - debts and off-balance sheet credit instruments	578	121	227	926	-	926

(1) Credit to the public, credit to governments, deposits with banks and other debts, excluding bonds and securities borrowed.

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

A. Debts[(1)] and off-balance sheet credit instruments (Cont.)

2. Additional information regarding the method of calculating the provision for credit losses in respect of debts[(1)] and the underlying debts[(1)]

The Bank	For the year ended December 31, 2021					
	Credit to the public					
	Commercial [(3)]	Housing	Other private	Total	Banks and Governments	Total
Recorded balance of debts[(1)]						
Examined on an individual basis	**40,225**	**-**	**456**	**40,681**	**3,044**	**43,725**
Examined on a collective basis	**6,127**	**32,260**	**17,531**	**55,918**	**-**	**55,918**
Of which: provision for which was calculated according to the extent of arrears	**84**	**32,255**	**-**	**32,339**	**-**	**32,339**
Total debts	**46,352**	**32,260**	**17,987**	**96,599**	**3,044**	**99,643**
Provision for credit losses in respect of debts[(1)]						
Examined on an individual basis	**518**	**-**	**32**	**550**	**-**	**550**
Examined on a collective basis	**71**	**159**	**230**	**460**	**-**	**460**
Of which: provision for which was calculated according to the extent of arrears	**-**	[(2)]**159**	**-**	**159**	**-**	**159**
Total provision for credit losses	**589**	**159**	**262**	**1,010**	**-**	**1,010**

The Bank	For the year ended December 31, 2020					
	Credit to the public					
	Commercial [(3)]	Housing	Other private	Total	Banks and Governments	Total
Recorded balance of debts[(1)]						
Examined on an individual basis	35,739	-	350	36,089	3,182	39,271
Examined on a collective basis	5,884	28,336	16,700	50,920	-	50,920
Of which: provision for which was calculated according to the extent of arrears	88	28,320	-	28,408	-	28,408
Total debts	41,623	28,336	17,050	87,009	3,182	90,191
Provision for credit losses in respect of debts[(1)]						
Examined on an individual basis	675	-	32	707	-	707
Examined on a collective basis	116	164	217	497	-	497
Of which: provision for which was calculated according to the extent of arrears	1	[(2)]164	-	165	-	165
Total provision for credit losses	791	164	249	1,204	-	1,204

(1) Credit to the public, credit to governments, deposits with banks and other debts, excluding bonds and securities borrowed.
(2) Includes the provision exceeding the amount required according to the method of the extent of arrears, calculated on a collective basis in the amount of NIS 122 million (31.12.20 - NIS 124 million).
(3) The balance of commercial debts includes housing loans in the amount of NIS 2,872 million, combined in the framework of transaction and collateral of the commercial borrowers or that have been granted to purchase groups at construction stages (31.12.20 - NIS 2,866 million).

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

B. Debts[(1)]

1. Credit quality and arrears (Cont.)

Consolidated						**December 31, 2021**
		Problematic[(2)]			**Unimpaired debts - additional information**	
Borrower activity in Israel	Non-problematic	Unimpaired	Impaired [(3)]	Total	In arrears of 90 days or more[(4)]	In arrears of 30 to 89 days[(5)]
Public - commercial						
Construction and real estate - construction	**7,219**	**49**	**49**	**7,317**	**4**	**5**
Construction and real estate - real estate activities	**5,962**	**10**	**40**	**6,012**	**1**	**2**
Financial services	**9,224**	**4**	**6**	**9,234**	**-**	**10**
Commercial - other	**23,192**	**750**	**261**	**24,203**	**11**	**14**
Total commercial	**45,597**	**813**	**356**	**46,766**	**16**	**31**
Private individuals - housing loans	**31,985**	[(6)]**224**	**51**	**32,260**	**161**	**159**
Private individuals - others	**22,364**	**131**	**138**	**22,633**	**22**	**44**
Total public - activity in Israel	**99,946**	**1,168**	**545**	**101,659**	**199**	**234**
Banks in Israel	**752**	**-**	**-**	**752**	**-**	**-**
Israeli government	**811**	**-**	**-**	**811**	**-**	**-**
Total activity in Israel	**101,509**	**1,168**	**545**	**103,222**	**199**	**234**
Borrower activity abroad						
Public - commercial						
Construction and real estate	**19**	**-**	**-**	**19**	**-**	**-**
Other commercial	**560**	**2**	**-**	**562**	**2**	**3**
Total commercial	**579**	**2**	**-**	**581**	**2**	**3**
Private individuals	**-**	**-**	**-**	**-**	**-**	**-**
Total public - activity abroad	**579**	**2**	**-**	**581**	**2**	**3**
Banks abroad	**1,858**	**-**	**-**	**1,858**	**-**	**-**
Governments abroad	**-**	**-**	**-**	**-**	**-**	**-**
Total activity abroad	**2,437**	**2**	**-**	**2,439**	**2**	**3**
Total public	**100,525**	**1,170**	**545**	**102,240**	**201**	**237**
Total banks	**2,610**	**-**	**-**	**2,610**	**-**	**-**
Total governments	**811**	**-**	**-**	**811**	**-**	**-**
Total	**103,946**	**1,170**	**545**	**105,661**	**201**	**237**

(1) Credit to the public, credit to governments, deposits with banks and other debts, excluding bonds and securities borrowed.
(2) Credit risk that is impaired, substandard, or under special supervision, including in respect of housing loans for which a provision based on the extent of arrears exists, and housing loans for which a provision based on the extent of arrears does not exist, which are in arrears of 90 days or more.
(3) In general, impaired debts do not accrue interest income. For information regarding certain impaired debts restructured in problematic debt restructuring, see Note 29.B.2.c. below.
(4) Classified as unimpaired problematic debts, accruing interest income.
(5) Accruing interest income Debts in arrears of 30 to 89 days, in the amount of NIS 85 million (31.12.20 - NIS 83 million) were classified as unimpaired problematic debts.
(6) Includes a balance of housing loans, in the amount of NIS 12 million (31.12.20 - NIS 16 million) with provision based on the extent of arrears, for which an arrangement has been signed for the borrower's repayment of the amounts in arrears, where a change has been made in the repayment, schedule with regard to the balance of the loan not yet due for repayment.

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

B. Debts [1] (Cont.)

1. Credit quality and arrears (Cont.)

Consolidated	December 31, 2020					
		Problematic[2]			Unimpaired debts - additional information	
Borrower activity in Israel	Non-problematic	Unimpaired	Impaired [3]	Total	In arrears of 90 days or more[4]	In arrears of 30 to 89 days[5]
Public - commercial						
Construction and real estate - construction	5,751	39	44	5,834	7	1
Construction and real estate - real estate activities	5,432	53	27	5,512	20	11
Financial services	7,358	6	7	7,371	-	1
Commercial - other	21,884	888	309	23,081	16	26
Total commercial	40,425	986	387	41,798	43	39
Private individuals - housing loans	28,049	[6]251	36	28,336	156	138
Private individuals - others	21,004	175	154	21,333	18	39
Total public - activity in Israel	89,478	1,412	577	91,467	217	216
Banks in Israel	1,108	-	-	1,108	-	-
Israeli government	656	-	-	656	-	-
Total activity in Israel	91,242	1,412	577	93,231	217	216
Borrower activity abroad						
Public - commercial						
Construction and real estate	16	-	-	16	-	-
Other commercial	764	-	-	764	-	-
Total commercial	780	-	-	780	-	-
Private individuals	-	-	-	-	-	-
Total public - activity abroad	780	-	-	780	-	-
Banks abroad	1,859	-	-	1,859	-	-
Governments abroad	-	-	-	-	-	-
Total activity abroad	2,639	-	-	2,639	-	-
Total public	90,258	1,412	577	92,247	217	216
Total banks	2,967	-	-	2,967	-	-
Total governments	656	-	-	656	-	-
Total	93,881	1,412	577	95,870	217	216

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

Credit quailty - the status of debts in arrears

The credit risk policy of the Bank defines principal indicators for the examination of credit quality, among which are the default situation, rating of the customer, status of the collateral etc. The status of debts in arrears is monitored routinely, and serves as one of the key indicators of credit quality. The status of debts in arrears is determined based on actual days of arrears. Debts which are evaluated on an individual basis, are treated as impaired debts after 90 days of arrears. In addition, debts restructuring of problematic debts, are treated as impaired debts. With regard to debts evaluated on a collective basis, the status of arrears effects the classification of the debt (the classification is more severe for more extensive arrears) and mostly after 150 days of arrears, the Bank performs an accounting write-off of the debt up to the extent of the collateral. With regard to housing loans, with the exception of loans without quarterly or monthly payments, the Bank establishes an allowance according to the method of the extent of arrears.

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

B. Debts [1](Cont'd)

2. Additional information regarding impaired debts

Consolidated					December 31, 2021
A Impaired debts and the individual provision	Balance[2] of impaired debts for which an individual provision exists[3]	Balance of Individual provision[3]	Balance[2] of impaired debts for which no individual provision exists[3]	Total Balance[2] of impaired debts	Balance of contractual principal of impaired debts
Borrower activity in Israel					
Public - commercial					
Construction and real estate - construction	46	5	3	49	804
Construction and real estate - real estate activities	24	6	16	40	1,014
Financial services	5	1	1	6	1,391
Commercial - other	230	117	31	261	2,016
Total commercial	305	129	51	356	5,225
Private individuals - housing loans	-	-	51	51	53
Private individuals - others	127	33	11	138	266
Total public - activity in Israel	432	162	113	545	5,544
Banks in Israel	-	-	-	-	-
Israeli government	-	-	-	-	-
Total activity in Israel	432	162	113	545	5,544
Borrower activity abroad					
Public - commercial					
Construction and real estate	-	-	-	-	-
Other commercial	-	-	-	-	14
Total commercial	-	-	-	-	14
Private individuals	-	-	-	-	-
Total public - activity abroad	-	-	-	-	14
Banks abroad	-	-	-	-	-
Governments abroad	-	-	-	-	-
Total activity abroad	-	-	-	-	14
Total public	432	162	113	545	5,558
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	432	162	113	545	5,558
Of which:					
Measured at the present value of cash flows	426	162	46	472	
Debts in problematic debt restructuring	163	45	30	193	

(1) Credit to the public, credit to governments, deposits with banks, and other debts, excluding bonds and securities borrowed.
(2) Recorded debt balance.
(3) Individual provision for credit losses.

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

B. Debts (1)(Cont'd)

2. Additional information regarding impaired debts (Cont'd)

Consolidated					December 31, 2020
A Impaired debts and the individual provision	Balance(2) of impaired debts for which an individual provision exists(3)	Balance of Individual provision(3)	Balance(2) of impaired debts for which no individual provision exists(3)	Total Balance(2) of impaired debts	Balance of contractual principal of impaired debts
Borrower activity in Israel					
Public - commercial					
Construction and real estate - construction	38	10	6	44	898
Construction and real estate - real estate activities	12	2	15	27	960
Financial services	7	2	-	7	1,200
Commercial - other	266	130	43	309	2,029
Total commercial	323	144	64	387	5,087
Private individuals - housing loans	-	-	36	36	38
Private individuals - others	140	37	14	154	276
Total public - activity in Israel	463	181	114	577	5,401
Banks in Israel	-	-	-	-	-
Israeli government	-	-	-	-	-
Total activity in Israel	463	181	114	577	5,401
Borrower activity abroad					
Public - commercial					
Construction and real estate	-	-	-	-	-
Other commercial	-	-	-	-	14
Total commercial	-	-	-	-	14
Private individuals	-	-	-	-	-
Total public - activity abroad	-	-	-	-	14
Banks abroad	-	-	-	-	-
Governments abroad	-	-	-	-	-
Total activity abroad	-	-	-	-	14
Total public	463	181	114	577	5,415
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	463	181	114	577	5,415
Of which:					
Measured at the present value of cash flows	457	180	58	515	
Debts in problematic debt restructuring	184	51	43	227	

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

B. Debts (1)(Cont'd)

2. Additional information regarding impaired debts (Cont'd)

Consolidated	For the year ended December 31,								
	2021			2020			2019		
B. Average balance and interest income	Average balance of impaired debts(2)	Interest income recorded (3)	Of which: recorded on a cash basis	Average balance of impaired debts(2)	Interest income recorded (3)	Of which: recorded on a cash basis	Average balance of impaired debts(2)	Interest income recorded (3)	Of which: recorded on a cash basis
Borrower activity in Israel									
Public - commercial									
Construction and real estate - construction	**55**	**-**	**-**	35	-	-	38	-	-
Construction and real estate - real estate activities	**42**	**-**	**-**	33	-	-	22	-	-
Financial services	**7**	**-**	**-**	6	-	-	2	-	-
Commercial - other	**291**	**1**	**-**	452	1	-	396	2	1
Total commercial	**395**	**1**	**-**	526	1	-	458	2	1
Private individuals - housing loans	**66**	**-**	**-**	13	-	-	9	-	-
Private individuals - others	**141**	**1**	**-**	157	1	-	112	2	-
Total public - activity in Israel	**602**	**2**	**-**	696	2	-	579	4	1
Borrower activity abroad									
Public - commercial									
Construction and real estate	**-**	**-**	**-**	6	-	-	8	-	-
Other commercial	**-**	**-**	**-**	-	-	-	-	-	-
Total commercial	**-**	**-**	**-**	6	-	-	8	-	-
Private individuals	**-**	**-**	**-**	-	-	-	-	-	-
Total public - activity abroad	**-**	**-**	**-**	6	-	-	8	-	-
Total	**602**	(4)**2**	**-**	702	(4)2	-	587	(4)4	1

(1) Credit to the public, credit to governments, deposits with banks and other debts, excluding bonds and securities borrowed.
(2) Average recorded debt balance of impaired debts in the reported period.
(3) Interest income recognized in the reported period in respect of the average balance of impaired debts, during the period of time in which the debts have been classified as impaired.
(4) If the impaired debts were accruing interest in respect of the original terms, an interest income in the amount of NIS 28 million was recorded in the year ended December 31, 2021 (2020 - NIS 33 million, 2019 - NIS 30 million).

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

B. Debts [1](Cont'd)

2. Additional information regarding impaired debts (Cont'd)

Consolidated					December 31, 2021
					Recorded debt balance
C. Problematic debt restructuring	Not accruing interest income	accruing[2] in arrears of 90 days or more	accruing[2] in arrears of 30 to 89 days	Accruing[2], not in arrears	Total[3]
Borrower activity in Israel					
Public - commercial					
Construction and real estate - construction	**4**	**-**	**-**	**2**	**6**
Construction and real estate - real estate activities	**5**	**-**	**-**	**3**	**8**
Financial services	**-**	**-**	**-**	**1**	**1**
Commercial - other	**58**	**-**	**-**	**18**	**76**
Total commercial	**67**	**-**	**-**	**24**	**91**
Private individuals - others	**69**	**-**	**-**	**33**	**102**
Total public - activity in Israel	**136**	**-**	**-**	**57**	**193**
Borrower activity abroad					
Public - commercial					
Construction and real estate	**-**	**-**	**-**	**-**	**-**
Other commercial	**-**	**-**	**-**	**-**	**-**
Total commercial	**-**	**-**	**-**	**-**	**-**
Private individuals	**-**	**-**	**-**	**-**	**-**
Total public - activity abroad	**-**	**-**	**-**	**-**	**-**
Total	**136**	**-**	**-**	**57**	**193**

(1) Credit to the public, credit to governments, deposits with banks, and other debts, excluding bonds and securities borrowed.
(2) Accruing interest income.
(3) Included in impaired debts.

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

B. Debts [1](Cont'd)

2. Additional information regarding impaired debts (Cont'd)

Consolidated	December 31, 2020				
	Recorded debt balance				
C. Problematic debt restructuring	Not accruing interest income	accruing[2] in arrears of 90 days or more	accruing[2] in arrears of 30 to 89 days	Accruing[2], not in arrears	Total[3]
Borrower activity in Israel					
Public - commercial					
Construction and real estate - construction	12	-	-	1	13
Construction and real estate - real estate activities	4	-	-	3	7
Financial services	1	-	-	-	1
Commercial - other	78	-	-	15	93
Total commercial	95	-	-	19	114
Private individuals - others	79	-	-	34	113
Total public - activity in Israel	174	-	-	53	227
Borrower activity abroad					
Public - commercial					
Construction and real estate	-	-	-	-	-
Other commercial	-	-	-	-	-
Total commercial	-	-	-	-	-
Private individuals	-	-	-	-	-
Total public - activity abroad	-	-	-	-	-
Total	174	-	-	53	227

(1) Credit to the public, credit to governments, deposits with banks, and other debts, excluding bonds and securities borrowed.
(2) Accruing interest income.
(3) Included in impaired debts.

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

B. Debts Cont'd)

2. Additional information regarding impaired debts (Cont'd)

Consolidated	Restructuring made								
	For the year ended December 31,								
	2021			2020			2019		
C. Problematic debt restructuring	Number of contracts	Debt balance before restructuring	Debt balance after restructuring	Number of contracts	Debt balance before restructuring	Debt balance after restructuring	Number of contracts	Debt balance before restructuring	Debt balance after restructuring
Borrower activity in Israel									
Public - commercial									
Construction and real estate - construction	**18**	**2**	**2**	31	9	8	37	10	10
Construction and real estate - real estate activities	**19**	**3**	**3**	19	13	13	5	1	1
Financial services	**4**	**-**	**-**	5	2	2	5	3	3
Commercial - other	**221**	**38**	**38**	325	73	73	339	71	71
Total commercial	**262**	**43**	**43**	380	97	96	386	85	85
Private individuals - others	**1,025**	**46**	**44**	1,406	62	60	1,528	74	71
Total public - activity in Israel	**1,287**	**89**	**87**	1,786	159	156	1,914	159	156

Consolidated	Restructuring failed (2)					
	For the year ended December 31,					
	2021		2020		2019	
C. Problematic debt restructuring	Number of contracts	Balance of debt recorded	Number of contracts	Balance of debt recorded	Number of contracts	Balance of debt recorded
Borrower activity in Israel						
Public - commercial						
Construction and real estate - construction	**16**	**1**	18	3	15	2
Construction and real estate - real estate activities	**5**	**1**	1	-	1	1
Financial services	**2**	**-**	3	-	2	-
Commercial - other	**142**	**6**	164	12	165	18
Total commercial	**165**	**8**	186	15	183	21
Private individuals - others	**517**	**10**	623	15	561	16
Total public - activity in Israel	**682**	**18**	809	30	744	37

(1) Credit to the public, credit to governments, deposits with banks and other debts, excluding bonds and securities borrowed.

(2) Debts that became debts in arrears of 30 days or more during the reported period which were restructured as a problematic debts during the 12 months that preceded the date in which they became debts in arrears.

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

B. Debts (Cont'd)

3. Additional information regarding housing loans

Year-end balances by financing ratio (LTV)*, repayment type, and interest type

	December 31, 2021			
	Balance of housing loans			
	Total	Of which: bullet and balloon	OF which: floating interest rate	Total Off-balance sheet credit risk
First lien financing rate				
LTV - Up to 60%	**22,020**	**227**	**12,965**	**2,053**
LTV - Over 60%	**9,770**	**73**	**5,903**	**1,525**
Secondary lien or no lien	**470**	**76**	**398**	**-**
Total	**32,260**	**376**	**19,266**	**3,578**

	December 31, 2020			
	Balance of housing loans			
	Total	Of which: bullet and balloon	OF which: floating interest rate	Total Off-balance sheet credit risk
First lien financing rate				
LTV - Up to 60%	19,603	216	11,537	1,800
LTV - Over 60%	8,250	84	5,038	1,149
Secondary lien or no lien	483	116	402	-
Total	28,336	416	16,977	2,949

* Ratio of the approved credit facility, when the facility was provided, to the value of the asset, as approved by the Bank when the facility was provided.

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

B. Debts (Cont'd)

4. Syndication and participation in the syndication of loans

	December 31, 2021					
	Syndication transactions initiated by the Bank(1)				Syndication transactions initiated by others	
					Balance at end of year	
	Share of the Bank		Share of others		Share of the Bank	
	Credit to the public	Off-balance sheet credit risk (2)	Credit to the public	Off-balance sheet credit risk (2)	Credit to the public	Off-balance sheet credit risk (2)
Industry	**35**	**-**	**35**	**-**	**193**	**53**
Electricity supply	**-**	**-**	**-**	**-**	**1,013**	**29**
Construction and real estate	**12**	**-**	**12**	**-**	**691**	**1,085**
Financial services	**-**	**-**	**-**	**-**	**21**	**-**
Commercial - other	**120**	**-**	**120**	**-**	**187**	**92**
Total commercial	**167**	**-**	**167**	**-**	**2,105**	**1,259**
Private individuals - housing loans	**-**	**-**	**-**	**-**	**-**	**-**
Private individuals - others	**-**	**-**	**-**	**-**	**-**	**-**
Total	**167**	**-**	**167**	**-**	**2,105**	**1,259**

	December 31, 2020					
	Syndication transactions initiated by the Bank(1)				Syndication transactions initiated by others	
					Balance at end of year	
	Share of the Bank		Share of others		Share of the Bank	
	Credit to the public	Off-balance sheet credit risk (2)	Credit to the public	Off-balance sheet credit risk (2)	Credit to the public	Off-balance sheet credit risk (2)
Mining and excavation	-	-	-	-	218	49
Industry	48	-	48	-	178	78
Electricity supply	-	-	-	-	914	5
Construction and real estate	18	-	18	-	354	955
Financial services	1	-	1	-	39	-
Commercial - other	169	-	169	-	187	101
Total commercial	236	-	236	-	1,890	1,188
Private individuals - housing loans	-	-	-	-	-	-
Private individuals - others	-	-	-	-	-	-
Total	236	-	236	-	1,890	1,188

(1) Including where the Bank has provided material service in the syndication transaction.
(2) Credit risk relating to off-balance sheet financial instruments, as computed for the purpose of restrictions on indebtedness of a single borrower, excluding in respect of derivative instruments.

5. Purchase of credit to the public

Commercial credit to the public that was purchased during 2021 via factoring transactions amounts to NIS 4,094 million (2020 - NIS 3,422 million). The balance of credit as at December 31, 2021 amounts to NIS 1,228 million (as at December 31, 2020- NIS 1,097 million) of which: problematic credit in the amout of NIS 2 million (December 31, 2020 - NIS 9 million).

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

C. Classification of Credit and Credit Risk of Off-Balance Sheet Items by Size of Borrowers

Consolidated		December 31, 2021			December 31, 2020		
Size of credit per borrower		Number of borrowers(4)	Credit(1)(2)	Off-balance sheet credit risk (1)(3)	Number of borrowers (5)	Credit(1)(2)	Off-balance sheet credit risk (1)(3)
NIS thousands				NIS million			NIS million
	Up to 10	**209,995**	**307**	**644**	195,159	275	649
From 10	to 20	**80,815**	**431**	**859**	78,342	394	862
From 20	to 40	**104,123**	**1,214**	**1,995**	101,066	1,137	2,001
From 40	to 80	**107,248**	**3,043**	**3,336**	105,601	2,965	3,330
From 80	to 150	**82,908**	**6,022**	**3,305**	82,699	5,951	3,349
From 150	to 300	**53,841**	**8,714**	**2,563**	53,351	8,563	2,601
From 300	to 600	**29,913**	**11,106**	**1,839**	28,869	10,676	1,731
From 600	to 1,200	**26,297**	**19,316**	**2,928**	23,759	17,104	2,815
From 1,200	to 2,000	**7,241**	**8,736**	**1,985**	5,822	6,974	1,607
From 2,000	to 4,000	**2,369**	**4,886**	**1,447**	2,112	4,325	1,368
From 4,000	to 8,000	**937**	**3,911**	**1,304**	915	3,768	1,322
From 8,000	to 20,000	**736**	**6,649**	**2,556**	700	6,394	2,446
From 20,000	to 40,000	**280**	**5,639**	**2,139**	270	5,438	2,083
From 40,000	to 200,000	**248**	**13,890**	**6,189**	210	13,138	5,341
From 200,000	to 400,000	**33**	**5,670**	**2,952**	21	3,827	1,712
From 400,000	to 800,000	**7**	**2,450**	**1,400**	6	2,343	1,044
From 800,000	to 1,200,000	**3**	**819**	**2,117**	2	798	1,109
From 1,200,000	to 1,600,000	**1**	**1,177**	**334**	-	-	-
Total		**706,995**	**103,980**	**39,892**	678,904	94,070	35,370

(1) Credit and off-balance sheet credit risk are presented before the effect of the provision for credit losses, and before the effect of deductible collateral for the purposes of the indebtedness of a borrower.

(2) Credit to the public, investments in corporate bonds, other assets in respect of derivative instruments against the public, at a total of NIS 102,240 million, NIS 458 million and NIS 1,282 million, respectively (31.12.2020 - NIS 92,247 million, NIS 646 million and NIS 1,177 million, respectively).

(3) Credit risk relating to off-balance sheet financial instruments as calculated for the purpose of the limitation on indebtedness of a borrower.

(4) The number of borrowers according to the total credit and off-balance sheet credit risk.

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

D. Off-balance sheet financial instruments

	Consolidated				The Bank			
	Balance of contracts(1)		Balance of provision for credit losses		Balance of contracts(1)		Balance of provision for credit losses	
	December 31				December 31			
	2021	2020	2021	2020	2021	2020	2021	2020
Transactions the balance of which represents credit risk:								
Documentary credit	**179**	177	**-**	1	**179**	174	**-**	1
Guarantees securing credit	**949**	891	**12**	14	**739**	633	**11**	12
Guarantees to home purchasers	**3,282**	2,132	**5**	4	**3,227**	2,061	**5**	4
Guarantees and letters of indemnity to subsidiaries to secure credit granted by them	**-**	-	**-**	-	**-**	3	**-**	-
Guarantees and other liabilities	**4,581**	3,840	**24**	27	**4,493**	3,729	**22**	27
Unutilized credit lines for derivatives instruments	**2,715**	2,364	**-**	-	**2,714**	2,363	**-**	-
Unutilized revolving credit and other on-call credit facilities	**11,738**	10,683	**20**	21	**10,862**	9,810	**20**	20
Irrevocable commitments to grant credit, not yet executed	**7,267**	6,217	**9**	7	**7,253**	6,196	**9**	7
Unutilized credit lines for credit card facilities	**8,650**	8,451	**5**	6	**7,705**	7,481	**5**	6
Facilities for the lending of securities	**548**	267	**-**	-	**548**	267	**-**	-
Required guarantees and collateral in respect of the Stock Exchange and Maof Clearing Houses (see Note 25(D,E)).	**324**	300	**-**	-	**324**	300	**-**	-
Commitments to issue guarantees	**1,565**	1,580	**4**	6	**1,556**	1,564	**4**	6

(1) Balance of contracts or their stated amounts at the end of the period, before provision for credit losses.

(2) In addition, the Bank provided the courts with letters of self-undertaking unlimited in amounts, given in connection with legal proceedings, in order to secure compensation for the damage to the defendants in the event that the action against them is dismissed or the legal proceedings terminated because of any other reason.

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

E. Guaranties

The Bank provides to its customers a large variety of guaranties and letters of indemnity in order to improve their credit ability and allow them to consummate different types of transactions. In the case of certain contracts that match the definition of guaranty, the Bank recognizes at the initial recognition date, a liability in the amount of the fair value of the obligation in respect of the guarantee on date of issue thereof. The maximum amount of the future potential payments is determined in accordance with the stated amount of the guaranty, without taking into account possible repayments or held or pledged collateral.

On December 31, 2021, the total written down cost of the liabilities in respect of guaranties, as detailed in the tables below, amounts to NIS 39 million (as of December 31, 2020 - NIS 31 million). The written down cost of financial and execution guaranties is included in the item "other liabilities".

1. General

	Maximum amount of future potential payments									
	December 31, 2021					December 31, 2020				
	Expiry in one year or less	Expiry from one to three years	Expiry over three and up to five years	Total amount	Outstanding book balance	Expiry in one year or less	Expiry from one to three years	Expiry over three and up to five years	Total amount	Outstanding book balance
					NIS million					NIS million
Guaranties securing credit	**650**	**282**	**17**	**949**	**6**	666	205	20	891	5
Guaranties to home purchasers	**1,580**	**1,569**	**133**	**3,282**	**13**	673	1,384	75	2,132	8
Other guarantees and obligations	**3,758**	**903**	**423**	**5,084**	**20**	3,314	705	298	4,317	18
Commitments to issue guaranties	**738**	**572**	**255**	**1,565**	**-**	453	1,115	12	1,580	-
Total guaranties	**6,726**	**3,326**	**828**	**10,880**	**39**	5,106	3,409	405	8,920	31

2. Guaranty risk assessment

	Maximum amount of future potential payments							
	December 31, 2021				December 31, 2020			
	Rated in accordance with investment rating	Rated not in accordance with investment rating	Not rated	Total amount	Rated in accordance with investment rating	Rated not in accordance with investment rating	Not rated	Total amount
				NIS million				NIS million
Guaranties securing credit	**919**	**23**	**7**	**949**	834	49	8	891
Guaranties to home purchasers	**3,269**	**13**	**-**	**3,282**	2,120	12	-	2,132
Other guarantees and obligations	**4,876**	**114**	**94**	**5,084**	4,170	118	29	4,317
Commitments to issue guaranties	**1,519**	**-**	**46**	**1,565**	1,567	-	13	1,580
Total guaranties	**10,583**	**150**	**147**	**10,880**	8,691	179	50	8,920

NOTE 30 - ASSETS AND LIABILITIES ACCORDING TO LINKAGE BASES

(NIS million)

Consolidated							December 31, 2021
	Israeli currency		Foreign currency[1]				
	Non-linked	Linked to the consumer price index	U.S. dollar	Euro	Other	Non-monetary items[2]	Total
Assets							
Cash and deposits with banks	53,496	-	3,504	266	104	-	57,370
Securities	8,323	241	4,390	1,405	-	732	15,091
Securities which were borrowed	845	-	-	-	-	-	845
Credit to the public, net[3]	84,013	12,634	2,880	844	95	698	101,164
Credit to the government	48	763	-	-	-	-	811
Investee company	-	-	-	-	-	713	713
Premises and equipment	-	-	-	-	-	931	931
Intangible assets	-	-	-	-	-	300	300
Assets in respect of derivative instruments	526	11	149	8	18	997	1,709
Other assets	843	5	24	2	-	662	1,536
Total assets	148,094	13,654	10,947	2,525	217	5,033	180,470
Liabilities							
Deposits from the public	120,343	6,298	21,870	3,158	1,080	698	153,447
Deposits from banks	4,751	-	330	36	27	-	5,144
Deposits from the Government	857	-	101	1	1	-	960
Bonds and subordinated capital notes	6	3,350	-	-	-	-	3,356
Liabilities in respect of derivative instruments	793	18	182	42	6	997	2,038
Other liabilities	4,560	121	42	5	2	358	5,088
Total liabilities	131,310	9,787	22,525	3,242	1,116	2,053	170,033
Difference	16,784	3,867	(11,578)	(717)	(899)	2,980	10,437
Non-hedging derivatives							
Derivative instruments (not including options)	(11,338)	(213)	10,070	586	895	-	-
Options in the money, net (in terms of underlying asset)	(1,104)	-	957	145	2	-	-
Options out of the money, net (in terms of underlying asset)	(436)	-	447	(11)	-	-	-
Total	3,906	3,654	(104)	3	(2)	2,980	10,437
Options in the money, net (present value of stated amount)	(1,701)	-	1,453	247	1	-	-
Options out of the money, net (present value of stated amount)	(1,975)	-	1,909	64	2	-	-

(1) Including linked to foreign currency.
(2) Including derivatives instruments which their underlying assets represent non-monetary item.
(3) After deduction of provisions for credit losses attributed to the linkage base.

NOTE 30 - ASSETS AND LIABILITIES ACCORDING TO LINKAGE BASES (CONT'D)

(NIS million)

Consolidated							December 31, 2020
	Israeli currency		Foreign currency[1]				
	Non-linked	Linked to the consumer price index	U.S. dollar	Euro	Other	Non-monetary items[2]	Total
Assets							
Cash and deposits with banks	54,952	-	2,518	102	230	-	57,802
Securities	6,719	285	4,183	1,611	-	307	13,105
Securities which were borrowed	11	-	-	-	-	-	11
Credit to the public, net[3]	75,077	11,185	3,070	1,010	63	565	90,970
Credit to the government	36	620	-	-	-	-	656
Investee companies	-	-	-	-	-	636	636
Premises and equipment	-	-	-	-	-	965	965
Intangible assets	-	-	-	-	-	272	272
Assets in respect of derivative instruments	785	46	140	102	33	791	1,897
Other assets	822	6	69	-	-	567	1,464
Total assets	138,402	12,142	9,980	2,825	326	4,103	167,778
Liabilities							
Deposits from the public	112,861	5,365	18,609	3,086	1,190	566	141,677
Deposits from banks	2,579	-	358	16	39	-	2,992
Deposits from the Government	321	-	136	1	1	-	459
Bonds and subordinated capital notes	241	4,153	-	-	-	-	4,394
Liabilities in respect of derivative instruments	956	11	303	220	34	790	2,314
Other liabilities	6,020	71	89	3	1	223	6,407
Total liabilities	122,978	9,600	19,495	3,326	1,265	1,579	158,243
Difference	15,424	2,542	(9,515)	(501)	(939)	2,524	9,535
Non-hedging derivatives:							
Derivative instruments (not including options)	(10,623)	(319)	9,554	458	930	-	-
Options in the money, net (in terms of underlying asset)	240	-	(268)	28	-	-	-
Options out of the money, net (in terms of underlying asset)	(14)	-	(16)	30	-	-	-
Total	5,027	2,223	(245)	15	(9)	2,524	9,535
Options in the money, net (present value of stated amount)	32	-	(42)	10	-	-	-
Options out of the money, net (present value of stated amount)	(622)	-	374	244	4	-	-

NOTE 30 - ASSETS AND LIABILITIES ACCORDING TO LINKAGE BASES (CONT'D)

(NIS million)

The bank							December 31, 2021
	Israeli currency		Foreign currency[1]				
	Non-linked	Linked to the consumer price index	U.S. dollar	Euro	Other	Non-monetary items[2]	Total
Assets							
Cash and deposits with banks	52,328	403	3,503	263	104	-	56,601
Securities	7,704	238	4,361	1,313	-	732	14,348
Securities which were borrowed	845	-	-	-	-	-	845
Credit to the public, net[3]	78,632	12,452	2,876	836	95	698	95,589
Credit to the government	48	-	-	-	-	-	48
Investee companies	-	-	-	-	-	1,351	1,351
Premises and equipment	-	-	-	-	-	906	906
Intangible assets	-	-	-	-	-	294	294
Assets in respect of derivative instruments	526	11	150	10	18	997	1,712
Other assets	812	3	24	1	-	620	1,460
Total assets	140,895	13,107	10,914	2,423	217	5,598	173,154
Liabilities							
Deposits from the public	112,637	8,124	21,500	2,987	1,066	698	147,012
Deposits from banks	6,461	297	669	109	42	-	7,578
Deposits from the Government	857	-	101	1	1	-	960
Bonds and subordinated capital notes	6	956	-	-	-	-	962
Liabilities in respect of derivative instruments	793	18	182	42	6	997	2,038
Other liabilities	4,077	119	41	5	2	357	4,601
Total liabilities	124,831	9,514	22,493	3,144	1,117	2,052	163,151
Difference	16,064	3,593	(11,579)	(721)	(900)	3,546	10,003
Non-hedging derivatives:							
Derivative instruments (not including options)	(11,338)	(213)	10,070	586	895	-	-
Options in the money, net (in terms of underlying asset)	(1,104)	-	957	145	2	-	-
Options out of the money, net (in terms of underlying asset)	(436)	-	447	(11)	-	-	-
Total	3,186	3,380	(105)	(1)	(3)	3,546	10,003
Options in the money, net (present value of stated amount)	(1,701)	-	1,453	247	1	-	-
Options out of the money, net (present value of stated amount)	(1,975)	-	1,909	64	2	-	-

(1) Including linked to foreign currency.
(2) Including derivatives instruments which their underlying assets represent non-monetary item.
(3) After deduction of provisions for credit losses attributed to the linkage base.

NOTE 30 - ASSETS AND LIABILITIES ACCORDING TO LINKAGE BASES (CONT'D)

(NIS million)

The bank							December 31, 2020
	Israeli currency		Foreign currency[1]				
	Non-linked	Linked to the consumer price index	U.S. dollar	Euro	Other	Non-monetary items[2]	Total
Assets							
Cash and deposits with banks	53,709	200	2,517	101	230	-	56,757
Securities	6,235	280	4,153	1,505	-	307	12,480
Securities which were borrowed	11	-	-	-	-	-	11
Credit to the public, net[3]	70,061	11,052	3,062	1,001	64	565	85,805
Credit to the Government	35	-	-	-	-	-	35
Investee companies	-	-	-	-	-	1,198	1,198
Premises and equipment	-	-	-	-	-	936	936
Intangible assets and goodwill	-	-	-	-	-	264	264
Assets in respect of derivative instruments	785	46	142	107	33	791	1,904
Other assets	790	4	69	-	-	526	1,389
Total assets	131,626	11,582	9,943	2,714	327	4,587	160,779
Liabilities							
Deposits from the public	105,631	6,877	18,344	2,932	1,177	566	135,527
Deposits from banks	4,515	290	592	61	53	-	5,511
Deposits from the Government	321	-	136	1	1	-	459
Bonds and subordinated capital notes	9	2,077	-	-	-	-	2,086
Liabilities in respect of derivative instruments	957	11	302	220	34	790	2,314
Other liabilities	5,358	67	89	3	1	223	5,741
Total liabilities	116,791	9,322	19,463	3,217	1,266	1,579	151,638
Difference	14,835	2,260	(9,520)	(503)	(939)	3,008	9,141
Non-hedging derivatives:							
Derivative instruments (not including options)	(10,623)	(319)	9,554	458	930	-	-
Options in the money, net (in terms of underlying asset)	240	-	(268)	28	-	-	-
Options out of the money, net (in terms of underlying asset)	(14)	-	(16)	30	-	-	-
Total	4,438	1,941	(250)	13	(9)	3,008	9,141
Options in the money, net (present value of stated amount)	32	-	(42)	10	-	-	-
Options out of the money, net (present value of stated amount)	(622)	-	374	244	4	-	-

NOTE 31 - ASSETS AND LIABILITIES ACCORDING TO CURRENCY AND MATURITY DATES(1)

Consolidated	Future expected cash flows				
	December 31, 2021				
	On demand and up to one month	One to three months	Three months to one year	One to two years	Two to three years
	NIS million				
Israeli currency (including linked to foreign currency)					
Assets	**71,612**	**5,622**	**17,240**	**12,405**	**10,253**
Liabilities	**110,993**	**11,830**	**6,033**	**2,811**	**3,390**
Difference	**(39,381)**	**(6,208)**	**11,207**	**9,594**	**6,863**
Derivative instruments (except options)	**(13,152)**	**304**	**1,364**	**(67)**	**-**
Options (in terms of underlying assets)	**(65)**	**(6)**	**78**	**2**	**-**
Difference after effect of derivative instruments	**(52,598)**	**(5,910)**	**12,649**	**9,529**	**6,863**
Foreign currency					
Assets	**5,461**	**881**	**2,033**	**1,557**	**1,342**
Liabilities	**23,126**	**2,704**	**911**	**69**	**51**
Difference	**(17,665)**	**(1,823)**	**1,122**	**1,488**	**1,291**
Of which: Difference in U.S. dollar	**(14,087)**	**(1,982)**	**1,129**	**1,384**	**269**
Derivative instruments (except options)	**13,152**	**(304)**	**(1,364)**	**67**	**-**
Options (in terms of underlying assets)	**65**	**6**	**(78)**	**(2)**	**-**
Difference after effect of derivative instruments	**(4,448)**	**(2,121)**	**(320)**	**1,553**	**1,291**
Total					
Assets*	**77,073**	**6,503**	**19,273**	**13,962**	**11,595**
Liabilities**	**134,119**	**14,534**	**6,944**	**2,880**	**3,441**
Difference	**(57,046)**	**(8,031)**	**12,329**	**11,082**	**8,154**
* Of which: Credit to the public	**18,099**	**6,149**	**17,179**	**12,167**	**9,206**
** Of which: Deposits from the public	**130,082**	**13,582**	**5,753**	**793**	**960**

	December 31, 2020				
	On demand and up to one month	One to three months	Three months to one year	One to two years	Two to three years
	NIS million				
Assets	71,272	6,390	20,162	12,641	11,592
Liabilities	120,465	14,796	9,268	2,182	3,288
Difference	(49,193)	(8,406)	10,894	10,459	8,304
* Of which: Credit to the public	15,306	5,739	16,343	11,175	8,442
** Of which: Deposits from the public	116,683	13,407	7,102	1,270	520

(1) This note presents the anticipated future contractual cash flows in respect of assets and liabilities (including off-balance sheet items) according to their linkage base and to the remaining period to contractual maturity of each item. Rules were prescribed for cash flows relating to credits and deposits bearing variable interest rates, the date of their change falls prior to the maturity date of the principal and/or interest of such credits and deposits. The data is presented net of accounting write-offs and provision for credit losses.

(2) Including overdue amounts of NIS 337 million (31.12.20 - NIS 173 million).

(3) As included in note 30 "Assets and liabilities according to linkage bases" including off-balance sheet amount in respect of derivatives.

(4) The contractual rate of return is the rate of interest discounting the anticipated future contractual cash flows presented in this note in respect of a financial item, to its stated balance.

(5) Credit in current account classified according to the period of the credit facility in the amount of NIS 3,736 million (31.12.20 - NIS 3,701 million). Credit in excess of credit facility in the amount NIS 228 million, classified without maturity date (31.12.20 - NIS 127 million).

						Balance-sheet balance (3)		
Three to four years	**Four to five years**	**Five to ten years**	**Ten to twenty years**	**Over twenty years**	**Total cash flows(5)**	**Without maturity date(2)(5)**	**Total**	**Contractual return rate(4)**
							NIS million	Percent
9,467	**8,653**	**19,061**	**14,858**	**4,115**	**173,286**	**292**	**161,838**	**2.26**
2,973	**945**	**1,945**	**453**	**132**	**141,505**	**10**	**141,133**	**0.53**
6,494	**7,708**	**17,116**	**14,405**	**3,983**	**31,781**	**282**	**20,705**	
-	**-**	**-**	**-**	**-**	**(11,551)**	**-**	**(11,551)**	
-	**-**	**-**	**-**	**-**	**9**	**-**	**(1,540)**	
6,494	**7,708**	**17,116**	**14,405**	**3,983**	**20,239**	**282**	**7,614**	
354	**727**	**1,572**	**114**	**-**	**14,041**	**60**	**13,599**	**1.59**
45	**37**	**94**	**-**	**-**	**27,037**	**-**	**26,847**	**0.85**
309	**690**	**1,478**	**114**	**-**	**(12,996)**	**60**	**(13,248)**	
199	**652**	**996**	**1**	**-**	**(11,439)**	**54**	**(11,630)**	
-	**-**	**-**	**-**	**-**	**11,551**	**-**	**11,551**	
-	**-**	**-**	**-**	**-**	**(9)**	**-**	**1,540**	
309	**690**	**1,478**	**114**	**-**	**(1,454)**	**60**	**(157)**	
9,821	**9,380**	**20,633**	**14,972**	**4,115**	**187,327**	**352**	**175,437**	**2.23**
3,018	**982**	**2,039**	**453**	**132**	**168,542**	**10**	**167,980**	**0.54**
6,803	**8,398**	**18,594**	**14,519**	**3,983**	**18,785**	**342**	**7,457**	
7,205	**5,757**	**17,302**	**14,814**	**3,746**	**111,624**	**337**	**100,466**	**2.44**
549	**657**	**390**	**90**	**-**	**152,856**	**-**	**152,749**	**0.36**

Three to four years	**Four to five years**	**Five to ten years**	**Ten to twenty years**	**Over twenty years**	**Total cash flows(5)**	**Without maturity date(2)(5)**	**Total**	**Contractual return rate(4)**
							NIS million	Percent
9,397	7,040	20,166	13,317	3,377	175,354	192	163,675	2.50
1,807	2,284	2,428	706	116	157,340	18	156,664	0.92
7,590	4,756	17,738	12,611	3,261	18,014	174	7,011	
6,838	5,456	16,077	13,154	2,972	101,502	173	90,405	2.75
1,187	541	433	87	-	141,230	1	141,111	0.46

NOTE 31 - ASSETS AND LIABILITIES ACCORDING TO CURRENCY AND MATURITY DATES[(1)] (CONT'D)

The bank	Future expected cash flows				
	December 31, 2021				
	On demand and up to one month	One to three months	Three months to one year	One to two years	Two to three years
	NIS million				
Israeli currency (including linked to foreign currency)					
Assets	**69,679**	**5,266**	**15,856**	**11,390**	**9,419**
Liabilities	**103,159**	**11,493**	**6,454**	**3,657**	**3,605**
Difference	**(33,480)**	**(6,227)**	**9,402**	**7,733**	**5,814**
Derivative instruments (except options)	**(13,152)**	**304**	**1,364**	**(67)**	**-**
Options (in terms of underlying assets)	**(65)**	**(6)**	**78**	**2**	**-**
Difference after effect of derivative instruments	**(46,697)**	**(5,929)**	**10,844**	**7,668**	**5,814**
Foreign currency					
Assets	**5,452**	**880**	**2,026**	**1,553**	**1,288**
Liabilities	**22,759**	**2,741**	**1,114**	**70**	**51**
Difference	**(17,307)**	**(1,861)**	**912**	**1,483**	**1,237**
Of which: Difference in U.S. dollar	**(13,818)**	**(2,019)**	**918**	**1,383**	**269**
Derivative instruments (except options)	**13,152**	**(304)**	**(1,364)**	**67**	**-**
Options (in terms of underlying assets)	**65**	**6**	**(78)**	**(2)**	**-**
Difference after effect of derivative instruments	**(4,090)**	**(2,159)**	**(530)**	**1,548**	**1,237**
Total					
Assets*	**75,131**	**6,146**	**17,882**	**12,943**	**10,707**
Liabilities**	**125,918**	**14,234**	**7,568**	**3,727**	**3,656**
Difference	**(50,787)**	**(8,088)**	**10,314**	**9,216**	**7,051**
* Of which: Credit to the public	**17,381**	**5,790**	**15,795**	**11,146**	**8,387**
** Of which: Deposits from the public	**121,865**	**13,238**	**5,721**	**896**	**1,065**

	Future expected cash flows				
	December 31, 2020				
	On demand and up to one month	One to three months	Three months to one year	One to two years	Two to three years
	NIS million				
Assets	71,894	5,809	17,379	11,292	9,981
Liabilities	115,290	14,234	8,576	2,153	3,260
Difference	(43,396)	(8,425)	8,803	9,139	6,721
* Of which: Credit to the public	14,669	5,361	15,083	10,239	7,687
** Of which: Deposits from the public	109,457	13,158	6,699	1,377	616

(1) This note presents the anticipated future contractual cash flows in respect of assets and liabilities (including off-balance sheet items) according to their linkage base and to the remaining period to contractual maturity of each item. Rules were prescribed for cash flows relating to credits and deposits bearing variable interest rates, the date of their change falls prior to the maturity date of the principal and/or interest of such credits and deposits. The data is presented net of accounting write-offs and provision for credit losses.

(2) Including overdue amounts of NIS 328 million (31.12.20 - NIS 167 million).

(3) As included in note 30 "Assets and liabilities according to linkage bases" including off-balance sheet amount in respect of derivatives.

(4) The contractual rate of return is the rate of interest discounting the anticipated future contractual cash flows presented in this note in respect of a financial item, to its stated balance.

(5) Credit in current account classified according to the period of the credit facility in the amount of NIS 3,378 million (31.12.20 - NIS 3,382 million). Credit in excess of credit facility in the amount NIS 218 million, classified without maturity date (31.12.20 - NIS 121 million).

Three to four years	Four to five years	Five to ten years	Ten to twenty years	Over twenty years	Total cash flows(5)	Balance-sheet balance (3) Without maturity date(2)(5)	Total	Contractual return rate(4)
							NIS million	Percent
8,722	**7,632**	**18,052**	**14,828**	**4,115**	**164,959**	**283**	**154,090**	**2.23**
2,999	**930**	**1,898**	**425**	**132**	**134,752**	**10**	**134,381**	**0.57**
5,723	**6,702**	**16,154**	**14,403**	**3,983**	**30,207**	**273**	**19,709**	
-	**-**	**-**	**-**	**-**	**(11,551)**	**-**	**(11,551)**	
-	**-**	**-**	**-**	**-**	**9**	**-**	**(1,540)**	
5,723	**6,702**	**16,154**	**14,403**	**3,983**	**18,665**	**273**	**6,618**	
352	**721**	**1,521**	**114**	**-**	**13,907**	**59**	**13,465**	**1.61**
45	**39**	**94**	**-**	**-**	**26,913**	**-**	**26,718**	**0.85**
307	**682**	**1,427**	**114**	**-**	**(13,006)**	**59**	**(13,253)**	
198	**645**	**979**	**1**	**-**	**(11,444)**	**54**	**(11,631)**	
-	**-**	**-**	**-**	**-**	**11,551**	**-**	**11,551**	
-	**-**	**-**	**-**	**-**	**(9)**	**-**	**1,540**	
307	**682**	**1,427**	**114**	**-**	**(1,464)**	**59**	**(162)**	
9,074	**8,353**	**19,573**	**14,942**	**4,115**	**178,866**	**342**	**167,555**	**2.21**
3,044	**969**	**1,992**	**425**	**132**	**161,665**	**10**	**161,099**	**0.57**
6,030	**7,384**	**17,581**	**14,517**	**3,983**	**17,201**	**332**	**6,456**	
6,586	**5,321**	**16,570**	**14,784**	**3,746**	**105,506**	**328**	**94,890**	**2.38**
2,233	**803**	**514**	**65**	**-**	**146,400**	**-**	**146,314**	**0.37**

Three to four years	Four to five years	Five to ten years	Ten to twenty years	Over twenty years	Total cash flows(5)	Balance-sheet balance (3) Without maturity date(2)(5)	Total	Contractual return rate(4)
							NIS million	Percent
8,509	6,444	19,312	13,285	3,377	167,282	186	156,192	2.46
1,768	2,271	2,385	681	116	150,734	18	150,059	0.95
6,741	4,173	16,927	12,604	3,261	16,548	168	6,133	
6,263	5,040	15,345	13,121	2,972	95,780	167	85,240	2.68
1,272	2,043	408	63	-	135,093	1	134,961	0.48

NOTE 32A - BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS

(NIS million)

					Consolidated
					December 31, 2021
	Stated in the Balance Sheet				Fair value[1]
		(1)	(2)	(3)	Total
Financial assets					
Cash and deposits with banks	**57,370**	**665**	**56,705**	**-**	**57,370**
Securities[2]	**15,091**	**9,112**	**5,999**	**78**	**15,189**
Securities which were borrowed	**845**	**-**	**845**	**-**	**845**
Credit to the public, net	**101,164**	**5,817**	**1**	**95,569**	**101,387**
Credit to the government	**811**	**-**	**48**	**768**	**816**
Assets in respect of derivative instruments	**1,709**	**1,141**	**319**	**249**	**1,709**
Other financial assets	**546**	**333**	**-**	**213**	**546**
Total financial assets	[3]**177,536**	**17,068**	**63,917**	**96,877**	**177,862**
Financial liabilities					
Deposits from the public	**153,447**	**5,009**	**113,439**	**34,439**	**152,887**
Deposits from Banks	**5,144**	**-**	**939**	**4,175**	**5,114**
Deposits from the Government	**960**	**537**	**393**	**34**	**964**
Bonds and non-convertible subordinated capital notes	**3,356**	**3,437**	**-**	**84**	**3,521**
Liabilities in respect of derivative instruments	**2,038**	**1,176**	**844**	**18**	**2,038**
Other financing liabilities	**3,451**	**641**	**-**	**2,809**	**3,450**
Total financial liabilities	[3]**168,396**	**10,800**	**115,615**	**41,559**	**167,974**
Off balance sheet financial instruments					
Transactions were the balance represents credit risk	**39**	**-**	**-**	**39**	**39**
In addition, the liability in respect of employee rights, gross - pension and severance pay[4]	**987**	**-**	**-**	**987**	**987**

(1) Level 1 - fair value measurements using prices quoted in an active market.
Level 2 - fair value measurements using other significant observable data.
Level 3 - fair value measurements using significant unobservable data.

(2) For further details of the stated balance and the fair value of securities, see Note 12, "Securities".

(3) Of which: assets of NIS 20,296 and liabilities of NIS 8,225, the stated balance of which is identical to their fair value (instruments reflected in the balance sheet at fair value). For further information regarding instruments measured at fair value on a recurring basis and on a non-recurring basis, see note 32B-32D.

(4) The liability is shown gross, without taking into account the plan assets managed against it.

NOTE 32A - BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONT'D)

(NIS million)

					Consolidated
					December 31, 2020
	Stated in the Balance Sheet				Fair value(1)
		(1)	(2)	(3)	Total
Financial assets					
Cash and deposits with banks	57,802	679	57,120	4	57,803
Securities(2)	13,105	7,163	5,978	90	13,231
Securities which were borrowed	11	-	11	-	11
Credit to the public, net	90,970	3,260	*2	*88,559	91,821
Credit to the government	656	-	35	620	655
Assets in respect of derivative instruments	1,897	909	612	376	1,897
Other financial assets	388	247	-	141	388
Total financial assets	(3)164,829	12,258	63,758	89,790	165,806
Financial liabilities					
Deposits from the public	141,677	3,434	103,076	35,020	141,530
Deposits from Banks	2,992	-	1,230	1,755	2,985
Deposits from the Government	459	-	422	44	466
Bonds and non-convertible subordinated capital notes	4,394	4,345	-	102	4,447
Liabilities in respect of derivative instruments	2,314	909	1,392	13	2,314
Other financing liabilities	4,929	258	*2	*4,668	4,928
Total financial liabilities	(3)156,765	8,946	106,122	41,602	156,670
Off balance sheet financial instruments					
Transactions were the balance represents credit risk	31	-	-	31	31
In addition, the liability in respect of employee rights, gross - pension and severance pay(4)	960	-	-	960	960

* reclassified

(1) Level 1 - fair value measurements using prices quoted in an active market.
Level 2 - fair value measurements using other significant observable data.
Level 3 - fair value measurements using significant unobservable data.

(2) For further details of the stated balance and the fair value of securities, see Note 12, "Securities".

(3) Of which: assets of NIS 15,875 and liabilities of NIS 6,007 million, the stated balance of which is identical to their fair value (instruments reflected in the balance sheet at fair value). For further information regarding instruments measured at fair value on a recurring basis and on a non-recurring basis, see note 32B-32D.

(4) The liability is shown gross, without taking into account the plan assets managed against it.

NOTE 32A - BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS - (CONT'D)

A. Fair value of financial instruments.

The note includes information regarding the fair value of financial instruments. There is no quotable “market value” for most of the financial instruments of the Bank since they are not traded in an active market. Therefore, the fair value is derived by accepted pricing models, such as discounting future cash flows at interest rates reflecting the credit risk inherent in the financial instrument.

Determination of fair value, estimated by discounting future cash flows and determining the relative interest rates is subjective. Furthermore, the fair value estimations for most of the financial instruments does not necessarily indicate the realizable value on the reporting date. The estimated fair value was calculated according to interest rates prevailing on balance sheet date and does not consider interest rate fluctuations. Given other interest rate assumptions fair value estimates may differ materially. This is mainly the case where financial instruments have fixed interest rates or do not bear interest.

In addition, in determining fair value, commissions to be received or paid as a result of the said transactions and tax effects, in respect of the gap between the fair value and the balances at the balance sheet, were not taken into consideration.

Furthermore, the difference between the balance sheet and the fair value amounts may not be realized as the Bank may hold the instruments until maturity. As a result of all of these it is necessary to emphasize that the data included in this note does not reflect the net worth of the Bank as a going concern. Also, as a result of the wide range of possible estimation techniques and methods, care should be taken when comparing fair value of different banks.

B. Principal methods and assumptions used for the calculation of the fair value estimates of financial instruments

Marketable securities - fair value was estimated according to their value in the principal market. Where there are several markets on which the instrument is traded, the assessment is made according to the most beneficial market.

Credit to the public - The fair value was estimated according to discounting the future cash flows in an appropriate discount rate. The balance was separated into homogenous categories. The receipts in each category were discounted at a discount rate which reflects the risk inherent in the category. In general, this discount rate is determined according to the interest at which the Bank transacts similar business at the reporting date.
The fair value of impaired debts is assessed using discount rates that reflect the high credit risk inherent in such debts.
Anticipated future cash flows in respect of impaired debts and other debts have been assessed after deducting the effect of accounting write-offs and of provisions for credit losses in respect of the debts.
Accounting write-offs and provisions for credit losses are attributed, where possible, to periods in which these debts had been classified (example: where the provision was assessed on a specific basis, by the present value of future cash flows). In the absence of such data, accounting write-offs and provisions for credit losses are attributed proportionally to the outstanding balance of credit according to maturity periods at end of the period.
Cash flows in respect of mortgages have been assessed according to the premature repayment forecast, which is based on a statistical model. In the fourth quarter of 2021 an update to the model was performed, which caused an increase in the fair value in the amount of NIS 11 million. Comparative data were not restated.

Deposits and subordinate capital notes - fair value was estimated by discounting future cash flows according to interest rates used by the Group in raising similar deposits, or issuing similar capital notes (if a quoted price on an active market is not available) at reporting date. As regards bonds and subordinate debt notes that are traded as an asset on an active market, fair value is based upon quoted market prices or on traders' quotations regarding a similar liability traded as an asset on an active market.
Cashflows with respect to demand deposits (current accounts) were distributed based on statistical model for forecasting stable balances. In the fourth quarter of 2021 an update to the model was performed, which caused an increase in the fair value in the amount of NIS 112 million. Comparative data were not restated.
Cashflows in respect of deposits from the public were estimated according to premature repayment forecast, which is based on a statistical model.

Derivative financial instruments - Derivative financial instruments for which an active market exists have been estimated at market value, and where several active markets exist, have been estimated according to the most beneficial market.
Derivative financial instruments for which no active market exists have been calculated according to models which are used by the Group in current activity and take into account the inherent risks of the financial instrument (market risk, credit risk, etc.).

Off-balance sheet financial instruments in transactions the balance of which represents credit risk - the fair value has been assessed in accordance with commission earned in similar transactions at the reporting date, adjusted in respect of the remaining period of the transaction and the credit quality of the counterparty.

NOTE 32B - ITEMS MEASURED AT FAIR VALUE
(NIS million)

A. Items measured at fair value on a recurrent basis

	December 31, 2021				
	Fair-value measurements using -				
	Prices quoted in an active market (level 1)	Other significant observable inputs (level 2)	Significant unobservable inputs (level 3)	Effect of netting agreements	Total fair value
Assets					
Bonds available for sale	**5,888**	**5,751**	**-**	**-**	**11,639**
Shares not for trading	**565**	**-**	**-**	**-**	**565**
Trading Securities	**233**	**-**	**-**	**-**	**233**
Assets in respect of derivative instruments	**1,141**	**319**	**249**	**-**	**1,709**
Others	**6,150**	**-**	**-**	**-**	**6,150**
Total assets	**13,977**	**6,070**	**249**	**-**	**20,296**
Liabilities					
Liabilities in respect of derivative instruments	**1,176**	**844**	**18**	**-**	**2,038**
Others	**6,187**	**-**	**-**	**-**	**6,187**
Total liabilities	**7,363**	**844**	**18**	**-**	**8,225**

	December 31, 2020				
	Fair-value measurements using -				
	Prices quoted in an active market (level 1)	Other significant observable inputs (level 2)	Significant unobservable inputs (level 3)	Effect of netting agreements	Total fair value
Assets					
Bonds available for sale	4,354	5,724	-	-	10,078
Shares not for trading	187	-	-	-	187
Trading Securities	206	-	-	-	206
Assets in respect of derivative instruments	909	612	376	-	1,897
Others	3,507	-	-	-	3,507
Total assets	9,163	6,336	376	-	15,875
Liabilities					
Liabilities in respect of derivative instruments	909	1,393	13	-	2,315
Others	3,692	-	-	-	3,692
Total liabilities	4,601	1,393	13	-	6,007

NOTE 32B - ITEMS MEASURED AT FAIR VALUE

(NIS million)

B. Items measured at fair value on a nonrecurrent basis

					December 31, 2021
	Level 1	Level 2	Level 3	Total fair value	Profit in respect of value changes for the year ended December 31, 2021
Investment in shares	**-**	**87**	**-**	**87**	**10**
Impaired credit the collection of which is contingent on collateral	**-**	**1**	**16**	**17**	**1**

					December 31, 2020
	Level 1	Level 2	Level 3	Total fair value	Profit in respect of value changes for the year ended December 31, 2020
Investment in shares	-	30	-	30	2
Impaired credit the collection of which is contingent on collateral	-	-	20	20	-

NOTE 32C - CHANGES IN ITEMS MEASURED AT FAIR VALUE ON A RECURRENT BASIS INCLUDED IN LEVEL 3

(NIS million)

	For the year ended 31, December 2021							
	Fair value as at December 31, 2020	Profits (losses) realized and unrealized Included in the profit and loss statement (1)	Purchases	Payments	Transfers to level 3, gross	Transfer from level 3, gross	Fair value as at December 31, 2021	Unrealized profits (losses) in respect of instruments held as at December 31, 2021
Assets								
Assets in respect of derivative instruments	**376**	**1,102**	**49**	**(1,278)**	**-**	**-**	**249**	**284**
Liabilities								
Liabilities in respect of derivative instruments	**13**	**(9)**	**-**	**(4)**	**-**	**-**	**18**	**(7)**

	For the year ended 31, December 2020							
	Fair value as at December 31, 2019	Profits (losses) realized and unrealized Included in the profit and loss statement (1)	Purchases	Payments	Transfers to level 3, gross	Transfer from level 3, gross	Fair value as at December 31, 2020	Unrealized profits in respect of instruments held as at December 31, 2020
Assets								
Assets in respect of derivative instruments	193	1,857	58	(1,732)	-	-	376	301
Liabilities								
Liabilities in respect of derivative instruments	12	(7)	-	(6)	-	-	13	(3)

(1) Realized profits (losses) are included in the profit and loss statement in the item non interest financing income.

NOTE 32D -QUANTITATIVE INFORMATION ON ITEMS MEASURED AT FAIR VALUE INCLUDED IN LEVEL 3

	Value Assessment technique	Unobservable inputs	Fair value	Average	Range
				as of December 31, 2021	
			(NIS million)		in %
A. Items measured at fair value on a recurrent basis					
Assets					
Assets in respect of derivative instruments:					
Interest rate contract: NIS-CPI	Discounted cash flow	CPI linked interest	**1**	**(2.19)**	**(2.32)-(2.09)**
Interest rate contract: other	Discounted cash flow	Counter-party credit risk	**8**	**1.61**	**1.20-1.75**
Foreign currency contracts	Discounted cash flow	1. CPI-linked interest	**10**	**(2.73)**	**(3.64)-(2.39)**
		2. Counter-party credit risk	**230**	**1.48**	**1.00-4.60**
Liabilities					
Liabilities in respect of derivative instruments:					
Interest rate contract: NIS-CPI	Discounted cash flow	CPI-linked interest	**8**	**(1.88)**	**(2.35)-(1.64)**
Foreign currency contracts	Discounted cash flow	CPI-linked interest	**10**	**(2.73)**	**(3.64)-(2.39)**
B. Items measured at fair value on a non-recurrent basis					
Impaired credit the collection of which is contingent on collateral	Collaterals value		**16**		

	Value Assessment technique	Unobservable inputs	Fair value	Average	Range
				as of December 31, 2020	
			(NIS million)		in %
A. Items measured at fair value on a recurrent basis					
Assets					
Assets in respect of derivative instruments:					
Interest rate contract: NIS-CPI	Discounted cash flow	CPI linked interest	3	0.10	(0.41)-0.31
Interest rate contract: other	Discounted cash flow	Counter-party credit risk	8	1.65	1.40-1.75
Foreign currency contracts	Discounted cash flow	1. CPI-linked interest	47	(0.36)	(1.28)-(0.18)
		2. Counter-party credit risk	318	1.44	1.00-4.60
Liabilities					
Liabilities in respect of derivative instruments:					
Interest rate contract: NIS-CPI	Discounted cash flow	CPI-linked interest	2	0.22	(0.41)-0.48
Foreign currency contracts	Discounted cash flow	CPI-linked interest	11	(0.96)	(1.28)-(0.64)
B. Items measured at fair value on a non-recurrent basis					
Impaired credit the collection of which is contingent on collateral	Collaterals value		20		

Qualitative information regarding items measured at fair value at level 3:

- Interest linked to the CPI - A change in the forecasted inflation rate would affect the fair value of CPI linked transactions, such that a rise (decline) in the inflationary forecast would lead to an increase (decrease) in fair value in accordance with the CPI linkage position of the Bank.
- Credit risk of a counterparty - A change in the credit risk of a counterparty to a transaction, such that in as much as the credit risk of a counterparty to a transaction would be higher/lower, the value of the transaction would also be higher/lower.

NOTE 33 - INTERESTED AND RELATED PARTIES

(NIS million)

A. Balances

	December 31, 2021			
	Interest parties(1)			
	Shareholders			
	Controlling shareholders(2)		Others(3)	
	Year-end balance	Highest balance during the year (5)	Year-end balance	Highest balance during the year (5)
Credit to the public	-	-	-	-
Investment in equity-basis investees(9)	-	-	-	-
Other assets	-	-	-	-
Deposits from the public	3	12	165	165
Other liabilities	-	-	-	-
Shares (included in shareholders' equity)(10)	4,835	4,835	-	-
Credit risk in off- balance sheet financial instrument(9)(11)	-	-	1	1

	December 31, 2020			
	Interest parties(1)			
	Shareholders			
	Controlling shareholders(2)		Others(3)	
	Year-end balance	Highest balance during the year (5)	Year-end balance	Highest balance during the year (5)
Credit to the public	-	-	-	-
Investment in equity-basis investees(9)	-	-	-	-
Other assets	-	-	-	-
Deposits from the public	2	3	-	-
Other liabilities	-	-	-	-
Shares (included in shareholders' equity)(10)	4,428	4,428	-	-
Credit risk in off- balance sheet financial instrument(9)(11)	-	-	-	-

B. Condensed results of transactions with related and interested parties

	Interest parties (1)								
	Shareholders								
	Controlling shareholders(2)			Others(3)			Office-holders (4)		
	For the year ended December 31			For the year ended December 31			For the year ended December 31		
Statement of income items	2021	2020	2019	2021	2020	2019	2021	2020	2019
Net interest income*	-	-	-	-	-	-	-	-	-
Non-interest income (expense)	1	-	-	-	-	8	-	-	-
Operating and other expenses**	-	-	-	-	-	-	35	29	37
Total	1	-	-	-	-	8	(35)	(29)	(37)

* Details are provided in D below.

** Details are provided in C below.

Note: For notes to the table see page 284.

Interest parties[1]						Related parties held by the Bank[1]			
Office-holders[4]		Others[6]		Whoever was an interested party at the time of the transaction		Equity basis investees[7]		others[8]	
Year-end balance	Highest balance during the year [5]	Year-end balance	Highest balance during the year [5]	Year-end balance	Highest balance during the year [5]	Year-end balance	Highest balance during the year [5]	Year-end balance	Highest balance during the year [5]
10	11	1,423	1,460	3	3	80	582	12	13
-	-	-	-	-	-	713	713	-	-
-	-	-	-	-	-	-	1	-	-
11	19	2,272	3,485			14	14	590	642
31	31	1	2			1	2	8	8
-	-	-	-			-	1	-	-
3	5	78	81	-	-	426	426	69	69

Interest parties[1]						Related parties held by the Bank[1]			
Office-holders[4]		Others[6]		Whoever was an interested party at the time of the transaction		Equity basis investees[7]		others[8]	
Year-end balance	Highest balance during the year [5]	Year-end balance	Highest balance during the year [5]	Year-end balance	Highest balance during the year [5]	Year-end balance	Highest balance during the year [5]	Year-end balance	Highest balance during the year [5]
10	11	-	-	3	4	500	601	6	6
-	-	-	-	-	-	636	636	-	-
-	-	-	-	-	-	1	1	-	-
13	25	24	34			7	9	80	91
28	28	-	-			-	-	-	-
-	-	-	-			-	-	-	-
3	4	1	1	1	1	5	7	-	-

Interest parties			Related parties held by the Bank [1]					
Others [6]			Equity basis investees [7]			Others [8]		
For the year ended December 31			For the year ended December 31			For the year ended December 31		
2021	2020	2019	2021	2020	2019	2021	2020	2019
(9)	-	-	**2**	3	4	**-**	-	-
37	-	-	**(2)**	(2)	2	**(23)**	-	-
6	6	5	**-**	-	-	**-**	-	-
22	(6)	(5)	**-**	1	6	**(23)**	-	-

NOTE 33 - INTERESTED AND RELATED PARTIES (CONT'D)

(NIS million)

C. Benefits to interested parties (by the Bank and its invetees)

	Salaries to interested parties (by the Bank and its investees)*					
	For the year ended December 31, 2021		For the year ended December 31, 2020		For the year ended December 31, 2019	
	Office-holders(4)		Office-holders(4)		Office-holders(4)	
	Total benefits	Number of Recipients	Total benefits	Number of Recipients	Total benefits	Number of Recipients
An interested party employed by the Bank	****31**	**15**	**25	16	**33	17
Directors not employed by the Bank	**4**	**10**	4	12	4	11

* Not including VAT on salary.

** Of which: employee benefits for short term - NIS 29 million (2020 - NIS 24 million, 2019 - NIS 30 million), other benefits after termination of employment - NIS 2 million (2020 - NIS 1 million, 2019 – NIS 3 million).

Notes:

(1) Interested party, related party, related person - within the definition in Section 80(d) of the public reporting instructions.
(2) Controlling shareholders and their kin - in accordance with Section 80(d)(1) of the public reporting instructions.
(3) Other shareholders - including whoever holds 5% or more of the means of control of a banking corporation, and whoever is entitled to appoint one or more directors to the board of directors of a banking corporation or its general manager - in accordance with Section 80(d)(2) of the public reporting instructions.
(4) Officers - in accordance with Section 80(d)(3) of the public reporting instructions.
(5) On the basis of the outstanding balance at month-end.
(6) In accordance with Section 80(d)(4) of the public reporting instructions- in respect of corporations in which, a person or a corporation, included in one of the groups of interested parties according to the Securities Act, holds twenty-five percent or over of their issued share capital or of the voting therein, or is entitled to appoint twenty-five percent or over of their number of directors.
(7) Equity based investees - in accordance with Section 80(d)(7) of the public reporting instructions.
(8) In accordance with Section 80(d)(8) of the public reporting instructions.
(9) Details of these items are included also in the following Notes: Note 12 - Securities, Note 15 - Investee companies and Note 26 - Guaranties.
(10) Holdings by interested and related parties in the equity of a banking corporation.
(11) Credit risk inherent in off-balance sheet financial instruments, as computed for the purpose of limitations applying to a single borrower.

D. Net interest income in respect of transactions with interested and related parties*

	Consolidated			of which: investee companies		
	For the year ended December 31			For the year ended December 31		
	2021	2020	2019	2021	2020	2019
In respect of assets						
From credit to the public	**3**	3	4	2	3	4
In respect of liabilities						
On deposits from the public	**(10)**	-	-	**-**	-	-
Total net interest income (expense)	**(7)**	3	4	**2**	3	4

* For information regarding the terms of transactions and outstanding balances with related and interested parties, see Note 33E, below.

For notes to the table see page 284.

NOTE 33 - INTERESTED AND RELATED PARTIES (CONT'D)

E. Aquisition of control of the Bank

On September 19, 2003, the control of FIBI Holding Ltd. (hereinafter - “FIBI”), the parent company of the Bank, was transferrd to Binohon Ltd. and the Australian Lieberman Group (composed of the Michael and Helen Abeles family and the Lieberman family (Messrs Barry Liebrman, Casy Lieberman-Harris, Lee Lieberman and Joshua Lieberman), by way of Instanz Holdings Ltd. and Dolphin Energies Ltd. in equal parts). The purchasers have between them a voting and cooperation agreement.
The transfer of control was in accordance of a permit issued by the Governor of Bank of Israel on August 27, 2003 to purchase the control and the means to control in FIBI Holdings Ltd. and The First International Bank of Israel Ltd. granted according to the Banking Law (licensing) 1981.
The permit states different condition and liabilities as to the holding of the means of control, their transfer and the relations between the permit holders, FIBI and the Bank.

The permit states that no dividend shall be distributed out of earnings retained by the Bank as of March 31, 2003, and in the event that the Bank would sustain losses subsequent to that date - no dividend shall be distributed until such losses are recovered. The balance of distributable retained earnings as of March 31, 2003 amounted to NIS 2,391 million.

In accordance with amendments to the permit from time to time, and in accordance with reports by FIBI:
Since 2015 Mr. Zadik Bino and his children, Messrs Gil Bino, Hadar Bino Shmueli and Daphna Bino Or hold in equal parts the means of control in Binohon (each of them holding 25%).
On March 24, 2013, Instanz Holdings transferred to Instanz Number 2 Ltd. (hereinafter - "Instanz 2"), all the holdings of Instanz Holdings in FIBI. Instanz 2 is wholly owned (through Australian entities) by Messrs. Helen and Michael Abeles, who also fully control Instanz Holdings (through the same Australian entities). Upon the transfer of the shares, Instanz 2 joined as a party the shareholder agreement between Instanz Holdings, Binohon and Dolphin Energies, as amended from time to time, and Instanz Holdings continues as a party to the shareholder agreement and is a guarantor for the obligations of Instanz 2.
According to FIBI's report, as of the date of the financial statements, the holdings of the controlling shareholders in FIBI (in the equity and voting rights) is as follows: Binohon Ltd.- 28.54%, Instanz number 2 Ltd.- 11.68% and Dolphin Energies Ltd.- 11.68% of the equity of FIBI (the holdings of all the controlling shareholders in FIBI comprise the core control therein, in accordance with the control permit granted by Bank of Israel).
FIBI holds 48.34% of the equity and voting rights in the Bank (a rate comprising the core control, in accordance with the Bank of Israel permit).

F. (1) The employment agreement of the CEO, Mrs. Smadar Berber-Tsadik, was for a period of five years, starting on March 19, 2007, with a provision that at the end of the initial period of the agreement, the agreement will continue for an unspecified period, and each party will be entitled to bring about its termination by means of a written notice of three months in advance. Following the publication of the Compensation of Officers of Financial Corporations (Special permit and the nondeducibility tax wise of exceptional compensation) Act, 2016 (hereinafter - "the Compensation Act"), the General Meeting of Shareholders approved on November 20, 2016 the terms of employment of the CEO of the Bank, Mrs. Smadar Berber-Tsadik. These terms apply as from October 12, 2016 (hereinafter - "the beginning date"), taking into consideration the provisions of the Compensation Act (hereinafter - "the terms of employment"), with nothing in the employment terms detracting from the rights of the CEO accumulated prior to the beginning date. In accordance with the employment terms, the maximum annual fixed compensation of the CEO of the Bank shall equal the maximum amount stated in Section 2(a) of the Compensation Act (not including payments and allowances in respect of severance compensation and pension in accordance with statutory provisions, as detailed in the terms of employment). To the extent that the permissible maximum amount in accordance with the Compensation Act (including in accordance with Section 2(b) of the Act) allows, the component of fixed compensation of the CEO will be increased by an additional fixed component, which is not to exceed the amount of 2.5 salaries per year. In respect of the additional fixed compensation component, the Bank shall provide for payments and allowances in respect of severance compensation and pension in accordance with statutory provisions. Accordingly, the annual fixed compensation in respect of 2021 is the maximum permissible amount stated in section 2(b) of the compensation act in respect of the year 2021.

The salary of the CEO is linked to the CPI in accordance with the Compensation Act. In the case of a decline in the CPI, the salary will remain unchanged until a following rise in the CPI eliminates the decline. The CEO is entitled to social benefits, executive insurance or to a provident fund, to a further education fund, to recreation pay and to the reimbursement of expenses incurred in the line of her duties, and to annual vacation and sick leave in accordance with her employment terms. The CEO is entitled to a company car and to its maintenance expenses. The CEO is entitled to changes in her monthly salary and/or in the related benefits, subject to parallel changes and adjustments, and subject to any statutory provisions and the stated maximum compensation (as defined in the employment terms).

In accordance with the employment terms, the Bank or the CEO are entitled to inform the other party, at any time during the employment period, of the termination of the employment, by giving a prior notice of three months. During the period of the prior notice, if the CEO continues in office, she would be entitled to a monthly salary and related benefits. The cost of the monthly salary and of the related benefits during the period of advance notice, has been provided in full in the financial statements of the Bank prior to the beginning date, and would be paid to the CEO, in accordance with the said provision, if the Bank decides not to continue the employment of the CEO during the period of advance notice.

The terms of employment define a non-competition period of three months with full pay, the cost of which as part of the previous employment terms of the CEO, had been provided in the financial statements of the Bank prior to the beginning date, and would be paid to the CEO, in accordance with the said provision, in the case of termination of employer/employee relations in accordance with the terms of employment.

The Compensation Committee and the Board of Directors are entitled to grant to the CEO an annual award not exceeding the amount of two monthly salaries, if in their opinion justifiable reasons exist, and subject to the maximum amount permitted by Section 2(b) of the Compensation Act.

In respect of her period of employment as from the beginning date, the CEO would be entitled to severance pay in accordance with the Severance Pay Act, 1963, and Regulations under it, based on the monthly salary in effect on date of termination of employer/employee relations, or to the funds and right accumulated to her credit under the pension arrangements in respect of the allowances for severance compensation during the period following the beginning date, the higher of the two. The CEO is entitled to severance compensation in accordance with statutory provisions and to enlarged severance compensation for the period of her employment up to the beginning date, which had been provided on a current basis in the financial statements of the Bank until the beginning date, had been deposited to her credit with appropriate Funds and would be released in her favor at date of termination of employment relations.

If the expense regarding the payroll cost of the CEO, which is borne by the Bank in the tax year, exceeds the "maximum amount payable" as defined in Section 4 of the Compensation Act, a part of the compensation payable to the CEO would not be deductible tax wise, as stated in Section 4 of the Compensation Act.

(2) Terms of employment of the chaurman of the Board of Directors of the Bank:

Mr. Ron Levkovich was appointed Director and Chairman of the Board of Directors of the Bank on September 15, 2020. His appointment as Director, approved also by the general meeting of shareholders of the Bank held on November 5, 2020, is for a period of up to three years from date of approval by the meeting. The terms of office of the Chairman of the Board are for an unspecified period, and each party to the agreement may terminate it by a prior notice in writing of three months. The maximum fixed amount of remuneration of the Chairman of the Board is NIS 2,834 thousand per annum (including payment and provisions for severance pay and pension in accordance with the law and a provision in respect of a non-competition period, as stated in the terms of engagement). The maximum amount of the fixed remuneration is linked to the Consumer Price Index. The Chairman of the Board is entitled to contributions to a managers' insurance fund or to a provident fund, to a further education fund, to convalescence pay, refund of expenses incurred in fulfilling his duties, to annual vacation and to sick leave in accordance with his terms of engagement. The Chairman of the Board is also entitled to a company car and to its maintenance expenses. The Chairman of the Board has the right to apply for changes in his monthly remuneration and/or in the related benefits, subject to parallel changes and adjustments, and subject to any law and to the maximum fixed amount of remuneration (as defined by the terms of engagement).

The terms of engagement of the Chairman of the Board define a graduate non-competition period with full remuneration (not including related benefits except for the company car and its maintenance expenses). The non-competition period would be one month in case his office is terminated during the first year of engagement, two months in case his office is terminated during the second year of engagement, and three months in case his office is terminated during the third year of engagement or thereafter. The Board of Directors has the right to waive the period of non-competition or a part thereof, and in such a case, the Chairman of the Board would not be entitled to the remuneration as stated above.

If the expense regarding the payroll cost of the Chairman of the Board, which is borne by the Bank in the tax year, exceeds the "maximum amount payable" as defined in Section 4 of the Compensation Act, a part of the compensation payable to the Chairman of the Board would not be deductible tax wise, as stated in Section 4 of the Compensation Act.

CORPORATE GOVERNANCE, ADDITIONAL INFORMATION AND APPENDICES TO THE ANNUAL REPORT

LIST OF TABLES

CORPORATE GOVERNANCE

BOARD OF DIRECTORS

Mr. Ron Levkovich, Chairman of the Board

Mr. Zadik Bino

Mrs. Pnina Biterman-Cohen

Mr. Gil Bino

Mr. Dov Goldfriend

Dr. Ronen Harel

Mr. Zvi Levron

Mr. Jacob Sitt

Mr. Ilan (Eilon) Aish

Mrs.Orna Dov (since 25.12.2021)

Mr. David Assia (until 24.12.2021)

For further details on the members of the Board of Directors of the Bank, see Article 26 “Board of Directors of the Bank” in the Bank’s periodic report for 2021, which is published on the Securities Authority’s magna site.

REPORTING ON DIRECTORS WITH ACCOUNTING AND FINANCIAL EXPERTISE

Pursuant to the Companies Law, 1999, at least one of the External directors must have accounting and financial expertise, and the others should be professionally competent or have accounting and financial expertise (as these terms are defined in the law). In addition, under Bank of Israel directives, at least five of all the members of the Board of Directors and at least two members of the Audit Committee must have accounting and financial expertise.

In practice, all directors currently serving on the Board of Directors (including two directors from the public) have accounting and financial expertise.

Set out below are details of the present members of the Bank's Board of Directors having accounting and financial expertise, with mention of their membership of the Audit Committee and a description of their professional background and/or education in accordance with which they are to be regarded as having accounting and financial expertise:

1. **Mr. Ron Levkovich**, Chairman of the Board, Bachelor of Economics (expanded) from the Tel Aviv University and graduate of the Advanced Management Program of the Harvard University Business School. Owner and director of family investment companies. Serves as director of Nimbio Company Ltd. and as member of the Advisory Committee of Rambam Hospital Medatech. Founded and served as joint CEO of Epsilon Investment House.
2. **Mr. Zadik Bino**, served as Chairman of the Board of Directors and as CEO of the First International Bank of Israel Ltd. and as CEO of Bank Leumi Le-Israel B.M. Served as Chairman of the Board of Directors of FIBI Holdings Ltd., parent company of the First International Bank of Israel Ltd. Director of companies. Serves as Director of: BINO Holdings Ltd.; GHD Investments (2006) Ltd.; Bigro Commodities Ltd.; Binohon Ltd; DADA Management Ltd.
3. **Mrs. Pnina Bitternam-Cohen**, (External Director under the Companies Act, 1999 and External Director under Proper Conduct of Banking Business Directive No.301 of the Supervisor of Banks, Chairperson of the Audit Committee). Attorney-at-Law, Bachelor of Law from the Tel Aviv University, advanced legal study courses at Tel Aviv and Bar Ilan Universities, including analysis of financial statements and risk management. Served for nine years in the past as External Director at the First International Bank of Israel Ltd. served as Legal Counsel of the Polar group of companies, including accompanying all the business activity of the Group. Conduct of negotiations with banks and complex negotiations regarding the acquisition and sale of companies, the raising of capital in Israel and abroad and submission of tenders for projects in the communication field. Served for thirty years on Boards of as Director of public and private companies engaged in industry, real estate, communication, infrastructure as well as finance, trading and services.
4. **Mr. Gil Bino**. Attorney-at-Law, Bachelor of Law and Business Administration Master of Business Administration (EMBA). Serves as Chairman of FIBI Holdings Ltd., the parent company of First International Bank Israel Ltd.; CEO of Bino Holdings Ltd.; of GHD Investments (2006) Ltd.; Director at Alden Hotel AG.
5. **Mr. Dov Goldfriend**, (External Director under Proper Conduct of Banking Business Directive No. 301 of the Supervisor of Banks; member of the Audit Committee); CPA, Bachelor of Economic and Accounting and Master of Business Management from the Tel Aviv University. Serves as CEO at A.T.R.N. Management and Consulting Ltd. Served as Director of the Mediterranean Coastal Cliffs Preservation Company Ltd., a Government company, and as Chairman of the Audit Committee of Emanuel Association - Guardianship for Autism Patients Founded by Allot (AR). Served as External Director at: Rishon LeZion Economic Company Ltd.; Rishon Initiative – The Municipal Company Ltd.; Leumi Card Ltd.; Scorpio Real Estate Ltd. Served as the CEO of Poaley Agudat Israel Bank Ltd, as VP and Chief Accounting Officer and member of Management at The First International Bank of Israel Ltd., and as Director of companies in the First International Bank Group.
6. Mrs. Orna Dov, (External Director under Proper Conduct of Banking Business Directive No. 301 of the Supervisor of Banks), Bachelor degree in Accounting and Economics and Master Degree in Information Systems from the Tel Aviv University. Serves as Chairperson of the Board of Directors of Vicarius Ltd. and as External Director of Radview Software Ltd. Member of advisory committees to the Boards of Directors of CyberWall Ltd. and Bigbi A. Ltd. Served as consultant to Matrix Ltd. and Open Legacy Ltd. Founded and served as CEO of Intelinks Ltd. Served also as GM, CFRM at Bottomline Technologies (EPAY) Ltd.

7. **Dr. Ronen Harel** (External Director under the Companies Act, 1999 and External Director under Proper Conduct of Banking Business Directive No.301 of the Supervisor of Banks and member of the Audit Committee). Bachelor of Economics and Master of Business Administration specializing in finance from Tel-Aviv university. Ph.D. in Management Science specializing in entrepreneurship and innovation from Ben-Gurion University in the Negev. Graduate of the International Management Program of NYU Business School. Senior Lecturer on business management in the innovation, entrepreneurship, strategy, business development and finance fields, at: Tel Aviv University (2019 to date), Peres Academic Center (2018 to date), Academic College Tel Aviv-Yaffo (2012-2018), Ben Gurion University, Negev (2016-2018). Serves as External Director of: Ch. Mer Industries Ltd. (Chairman of the Audit, Balance Sheet and Compensation Committee); Kerur Holdings Ltd. (Chairman of the Audit, Balance Sheet and Compensation Committee); One Software Technologies Ltd. (Chairman of the Audit, Balance Sheet and Compensation Committee). Served as Director in the companies: Atreyu Capital Markets Ltd. (Chairman of the Balance Sheet Committee), P.C.B. Technologies Ltd., UBank Ltd., E.G.R.E. Ltd. and as Chairman of the Board of Directors of Trans-Clal Trading Ltd.
8. Mr. Zvi Levron, (member of the Audit Committee), Attorney-at-Law, Law graduate of the Tel Aviv University, LL.M. Degree in International Business Law from Queen Mary College at London University (specialized in private and international business taxation, international trade and international finance). Serves as Director of Zvi Levron & Co. Ltd.. Served as Director of Guy Yarden Company Ltd. Has experience in legal assistance to commercial transactions, project financing and corporate finance.
9. **Mr. Jacob Sitt**, Attorney-at-Law, Bachelor of Law, Bachelor of Economics from Tel Aviv University, and Master of Business Administration (Financing) from the Inter Disciplinary Center, Herzliya. Serves as CEO of FIBI Holdings Ltd. and as Director of companies. Served as CEO and Director at: FIBI Investment House Ltd. Served as Joint CEO at Leumi & Co. Underwriters Ltd. and as Investment Manager and VP, Business Development, at Barbino Ltd..
10. **Mr. Ilan (Eilon) Aish**, (External Director under Proper Conduct of Banking Business Directive No.301 of the Supervisor of Banks; member of the Audit Committee); CPA, Bachelor of Economics and Accounting from the University of Tel Aviv. Serves as Director and Joint CEO of Harvest Capital Markets Ltd. Serves as Outside Director in ISSTA Lines Student Travel Company in Israel Ltd. Until March 2, 2022, served as Outside Director (under Proper Conduct of Banking Business Directive) at Israel Discount Bank Ltd. and Chairman of the Risk Management Committee. Chairman of the Audit Committee and Chairman of the Corporate Governance Committee of the Bank. Was a consulting partner at Goldstein, Sabu, Tevet CPA's, and a partner at Igal Breitman CPA's.
11. **Mr. David Assia**, (until December 21, 2021, served as External Director under Proper Conduct of Banking Business Directive No.301 of the Supervisor of Banks). Bachelor of Economics and Social Science and Master of Business Administration from the Tel Aviv University. Serves as Chairman of iAngels Crowd Ltd., and as Director at: Yeda R&D Co. Ltd.; Nadir Investments Ltd.; Nadir Holdings Millennium Ltd.; S.M. Patentech Ltd.; Enformia Software Ltd.; Advancement of Education in Israel Funded by Iraqi Jews Educational Fund in Israel Ltd.; Kismet Investments Ltd; DB Maestro Ltd.; Landing Express Ltd.; Way 2 Vat Ltd.; Director at Impact Foundation, and member of Weizmann Institute of Science Board of Governors.

The Bank's Board of Directors held in 2021, 26 meetings in plenary session and 57 meetings of its various Board Committees.

In accordance with the amendment to Proper Conduct of Banking Business Directive No. 301, the Board of Directors of the Bank adopted at the beginning of 2018, a policy according to which, the maximum period of office of the Chairman of the Board of the Bank would be twelve years, unless, in the opinion of the Board, existing circumstances indicate that the termination of office at the prescribed date, might be harmful to essential interests of the Bank.

APPOINTMENTS AND RETIREMENTS

On April 6, 2021, Mr. Ofir Kadosh was appointed CEO of MATAF Computing and finance operation Ltd. (a wholly owned subsidiary of the Bank) and on January 1, 2022 he was appointed member of Management of the Bank.

The office of Mr. David Assia as External Director and as independent Director was terminated on December 24, 2021, after nine years of office at the Bank, in accordance with Proper Conduct of Banking Business Directive No. 301 of the Supervisor of Banks. The Board of Directors of the Bank thanks Mr. Assia for his contribution to the work of the Board and its Committees.

Mrs. Orna Dov was appointed on December 25, 2021, as an External Director in accordance with Proper Conduct of Banking Business Directive No. 301 of the Supervisor of Banks.

MEMBERS OF SENIOR MANAGEMENT

Mrs. Smadar Barber-Tsadik	President and Chief Executive Officer
Mr. Yoram Sirkis	Executive Vice President, Head of Client Asset Management Division
Mr. Nachman Nitzan	Executive Vice President, Head of Chief Accountant Division
Mr. Benzi Adiri	Executive Vice President, Head of Corporate Division
Mrs. Yael Ronen	Executive Vice President, Chief Internal Auditor
Mrs. Ella Golan	Executive Vice President, Head of Resources Division
Mr. Eli Cohen	Executive Vice President, CRO and Head of the Risk Management Division
Mr.Ron Grissaro	Executive Vice President, Head of Banking Division
Mr. Yinnon Shveka	Executive Vice President, Head of PAGI department
Mrs. Haviva Dahan	Executive Vice President, Head of Legal Consulting department
Mr. Ofir Kadosh	CEO of MATAF Computing and finance operation Ltd. (since 1.1.2022)

Corporate Secretary	Mr. Aviad Biller, Adv.
The Bank's independent auditors	KPMG Somekh Chaikin, Certified Public Accountants (ISR) (in office since 1972)

* For further details on the senior manager members, see Article 26A "Senior Office Holders at the Bank" in the Bank's periodic report for 2021, which is published on the Securities Authority's magna site.

THE GROUP'S INTERNAL AUDITING

Details of the Chief Internal Auditor

Mrs. Yael Ronen CPA seves as Chief Internal Auditor of the Bank since May 2011, and serves as Internal Auditor at all the banking subsidiaries in the First International Group. At the non-banking subsidiaries, the managers from the Internal Audit department were appointed as the internal auditors.

The Chief Internal Auditor has a bachelors in economics and psychology and in the accounting track for graduates at the University of Tel Aviv and masters degree in law in the academic track of the College of Management. In her previous positions, she managed the Sarbanes Oxley Department of Clal Insurance Ltd., and was manager of the Information Systems Risk Management Department at the KPMG Somekh Chaikin accountants office, with an emphasis on auditing and consulting in the area of banking.

The Chief Internal Auditor is an employee of the Bank and conforms to the conditions prescribed in Paragraph 3(a) of the Internal Auditing Law. The Internal Auditor and her employees serve in auditing functions alone, without any conflict of interests, and act in accordance with the Internal Auditor's Regulations as stated in Paragraph 146 (b) of the Companies Law, the provisions of Paragraph 8 of the Internal Auditing Law, 1992 and Proper Conduct of Banking Business Regulation 307.

Manner of appointment and organizational subordination

The appointment of the Internal Auditor was approved by the Audit Committee on March 15, 2011 and by the Board of Directors on March 22, 2011.

The Internal Auditor's superior in the organization is the Chairman of the Board of Directors.

The Internal Audit work program

The Internal Auditing Department operates on the basis of a 4-5 years multi-year work program and an annual work program derived from it, which covers all of the Bank's activities and the entities operating within it, including the subsidiaries in Israel. The work program is based on a systematic risk assessment methodology and takes into account inter alia the assessment of risks expressed in the ICAAP document and the Internal Audit's assessments concerning the risk centers in the Bank's activity, including focal points of operational, embezzlement and fraud risks, and the findings arising from previous audits which the Internal Audit and external entities had conducted. The work program includes the allocation of inputs and the frequency at which audits are to be conducted in accordance with the level of risk of the audited entity/activity.

The work program is submitted for discussion by the Audit Committee which recommends its approval to the Board of Directors, and which is then approved by the Board.

Under the work program, the Chief Internal Auditor is permitted at her discretion to deviate from the program and to conduct unplanned audits. Material changes from the approved work program are submitted for discussion by the Audit Committee.

Positions

As stated, the Chief Internal Auditor is an employee of the Bank and is employed in a full-time position. The number of employees in the Internal Auditing Department of the Bank and its subsidiaries averaged 46 posts in 2021.

The number of employee posts is derived from the multi-year work program and includes outsourcing.

Conduct of the audit

Audit work is carried out on the basis of legal requirements, including the Internal Audit Law, the Banking Order, the Banking Regulations, the directives and guidelines of the Supervisor of Banks, including Proper Conduct of Banking Business Regulation 307 and the directives of other supervisory bodies.

Proper Conduct of Banking Business Regulation 307 governs the matter of the internal audit function at the banking corporation in accordance with the Basel working framework, with the aim of enhancing corporate governance principles.

The regulation covers inter alia the positions involved in the function, the extent of its activity, its working methods and the reports which it is required to send.
The Internal Audit operates in accordance with accepted professional standards determined by the international Institute of Internal Auditors.

Access to information

As required in Paragraph 9 of the Internal Auditing Law, the Internal Auditor is given full access to all the information which she requires, including constant and unimpeded access to the information systems of the Bank, including financial data. It should be noted that such full access is given when auditing the subsidiaries.

Reporting by the Chief Internal Auditor

The Internal Audit reports, including periodic reports, are submitted in writing.
The Internal Audit reports are submitted to the members of Management in charge of the units/matters audited, and in accordance with criteria specified in the Board of Directors' procedures, to the CEO of the Bank and to the Chairman of the Board. Significant audit reports, as relevant, are discussed at meetings with the CEO of the Bank.
In consultation with the Chief Internal Auditor, the Chairman of the Audit Committee determines which audit reports will be presented in their entirety for discussion at the Audit Committee. In addition, a monthly report compiled by the Internal Audit, which contains executive summaries of all the audit reports that were circulated in the past month, is submitted to the members of the Audit Committee, who are entitled to peruse any audit report which they see fit and ask the Chairman to present it in its entirety at the Audit Committee. Also significant audit reports are presented for discussion in the Board of Directors and/or the Risk Management Committee after consultation with the Chairman of the Board or the committee, according to the relevance.
The Internal Audit's periodic reports include a monthly report, a half-yearly report and an annual report.
The monthly report is submitted to the CEO and to the members of the Management of the Bank, to the Chairman and members of the Audit Committee, and to the Chairman of the Board of Directors.
The Internal Audit's half-yearly report and annual report include reporting concerning the performance of the work program versus the plan, a list of all the audit reports that were circulated in the period reported, a report on the findings from the monitoring of remedial action with respect to deficiencies arising from the audit reports, a summary of the material findings emerging from the audit reports, and the annual report appraising the effectiveness of the Internal Control. The Internal Audit's report for 2020 was discussed by the Bank's Audit Committee on April 12, 2021. The Internal Audit's report for the first half of 2021 was discussed by the Bank's Audit Committee on October 19, 2021. The Internal Audit's report for 2021 will be discussed during April 2022.
The Board of Directors are sent copies of the Audit Committee's minutes, in order to notify those Board members who are not members of the Audit Committee of the content of the Committee's discussions.
In cases of particularly serious findings, an immediate report is sent to the CEO, to the Chairman of the Audit Committee and to the Chairman of the Board of Directors.

The Board of Directors' appraisal of the Chief Internal Auditor's activity

In the opinion of the Board of Directors and the Audit Committee, the scale, the nature and the continuity of the Internal Auditor's activity and work program are reasonable in the circumstances of the matter, and are adequate for the purpose of achieving the objectives of the internal audit function at the Bank.

Remuneration

Set out below are details of the payments to the Chief Internal Auditor and the components of these payments (in NIS thousand), in accordance with the details required in the table of the Bank's highest salary recipients:

	Year	
	2021	**2020**
Salary and bonuses	**1,420**	1,063
Severance pay, provident fund, advanced study fund, vacation, national insurance and additional benefits	**403**	335
Value of benefits	**70**	73
Total salary and included expenses	**1,893**	1,471

The compensation of the Chief Internal Auditor is commensurate with her position. In the estimation of the Board of Directors, nothing in the compensation of the Chief Internal Auditor can be regarded as leading to bias in her professional discretion.

DISCLOSURE OF THE PROCESS OF APPROVAL OF THE FINANCIAL STATEMENTS

The office-holders engaged in the preparation of the financial statements of the Bank are the CEO of the Bank, Mrs. Smadar Barber Zadik, and the Chief Accountant, Nachman Nitzan CPA.

In accordance with the SOX 302 directives, a Disclosure Committee chaired by the CEO and with the participation of the Head of the Chief Accountant's Division, heads of divisions and department managers subordinate to the CEO and/or the Board of Directors, the Chief Disclosure Coordinator and the Bank's External Auditors meet every quarter. The Disclosure Committee discusses material matters that could have an effect on the data in the financial statements, and deficiencies that were discovered in the financial reporting control system, and monitors the rectification of those deficiencies.

Before the financial statements are presented to the plenum of the Board of Directors, initial discussions concerning them are held at the Bank's Management, at the Disclosure Committee and with the participation of the CEO, the Head of the Chief Accountant's Division and the Bank's External Auditor. Discussed at this forum are material issues that may arise in the preparation of the financial statements and the accounting policy that needs to be applied.

The Board of Directors has authorized the Audit Committee to act as the Committee for the Review of the Financial Statements, in accordance with the Companies Regulations (Terms and Conditions Concerning the Process of Approval of the Financial Statements), 2010. The Audit Committee is headed by an external director and most of its members are qualified as independent directors and all its members have declared themselves capable of perusing and comprehending financial statements.

In accordance with a resolution of the Board of Directors, at least two directors with accounting and financial expertise must serve on the Board of Directors and on the Audit Committee. Currently, all members of the Board of Directors and all members of the Audit Committee have accounting and financial expertise. The Audit Committee consists of five directors:

1. **Mrs. Pnina Bitterman-Cohen**, Chairperson of the Audit Committee. Serves as External Director under the Companies Act, 1999 (and as External Director under Proper Conduct of Banking Business Directive 301 of the Supervisor of Banks), and with qualification as an Independent Director. Has accounting and financial expertise and the ability to peruse and comprehend financial statements (and has signed on a declaration confirming this in accordance with the law), in view of the following: served for over thirty years as a senior officer of a public company, the securities of which are traded on the Tel Aviv Stock Exchange; served for over thirty years as director of companies engaged in diverse fields of activity; had participated in study courses on subjects of financial statements analysis and risk management.
2. **Mr. Dov Goldfriend** a member of the Audit Committee. Serves as External Director in accordance with Proper Conduct of Banking Business Directive 301 of the Supervisor of Banks and is qualified as an Independent Director. Has accounting and financial expertise. Has the ability to peruse and comprehend financial statements (and has signed on a declaration confirming this in accordance with the law) in view of the following: CPA, Bachelor of Economic and Accounting and Master of Business Management from the University of Tel Aviv. Served as the CEO of Poaley Agudat Israel Bank Ltd.; as VP and Chief Accounting Officer and member of Management at The First International Bank of Israel Ltd. and as Director of companies.
3. **Dr. Ronen Harel**, a member of the Audit Committee. Serves as External Director in accordance with Proper Conduct of Banking Business Directive 301 of the Supervisor of Banks and is qualified as an Independent Director. Has accounting and financial expertise. Has the ability to peruse and comprehend financial statements (and has signed on a declaration confirming this in accordance with the law) in view of the following: Bachelor of Economics, Master of Business Administration specializing in finance from Tel-Aviv university. Ph.D. in Management Sciences specializing in entrepreneurship and innovation from Ben-Gurion University in the Negev. Served as External Director of Ubank Ltd. and of Tikun Olam - Cannbit Pharmaceuticals Ltd. Serves as an External Director of: Ch. Mer Industries Ltd.; Kerur Holdings Ltd.; One Software Technologies Ltd.

4. **Mr. Ilan (Eilon) Aish**, a member of the Audit Committee, serves as External Director in accordance with Proper Conduct of Banking Business Directive 301 of the Supervisor of Banks and is qualified as an Independent Director. Has accounting and financial expertise. Has the ability to peruse and comprehend financial statements (and has signed on a declaration confirming this in accordance with the law) in view of the following: CPA, Bachelor of Economic and Accounting from the University of Tel Aviv. Served until March 2, 2022, as External Director of Issta Lines, the Travel Company of Students in Israel Ltd. Served as External Director (under Proper Conduct of Banking Business Directive) of Israel Discount Bank Ltd. Serves as Director and joint CEO at Harvest Capital Markets Ltd.
5. **Mr. Zvi Levron**, a member of the Audit Committee, does not serve as External Director and is not classified as Independent Director. Has accounting and financial expertise. Serves as Director having the ability to peruse and comprehend financial statements (and has signed on a declaration confirming this), in view of the following: serves as director of companies.

As in each quarter, the Board of Directors' Audit Committee at its meeting on February 22, 2022, discussed allowances for credit losses, in order to approve these allowances and the provisions for writedown in the nostro portfolio before the financial statements were submitted for approval by the Board of Directors. The discussion was attended by the members of the Audit Committee, the CEO, the Chief Accountant and the External Auditor of the Bank.

In addition, at its meeting on March 1, 2022, the Audit Committee discussed the findings of the Disclosure Committee in accordance with the provisions of SOX, and with the participation of the members of the Audit Committee, the CEO, the Chief Accountant and the External Auditor of the Bank.

The Board of Directors' Audit Committee held a detailed preliminary discussion of the draft financial statements. The discussion was held on March 1, 2022, and was attended by the members of the Audit Committee, the CEO, the Chief Accountant and the External Auditor of the Bank. Discussed at this meeting were material issues, to the extent encountered, in the preparation of the financial statements and the accounting policy that was applied. Following the Audit Committee's discussion, the financial statements, amended as requested by the Audit Committee, were sent to the Board of Directors with the Committee's recommendation that the members of the Board approve the financial statements, since it had compiled recommendations to the Board in all the matters required in the Securities Regulations and directives of the Supervisor of Banks.

The Audit Committee sends its recommendations regarding the approval of the financial statements to the Board of Directors within a reasonable time period prior to their discussion at the Board of Directors, and reports any deficiency or problem discovered in the course of its review, if any.

Within the framework of the process of approval of the financial statements by the Audit Committee and the Board of Directors, drafts of the financial statements and of the Board of Directors Report are submitted for perusal and comments by the Directors several days before the date of the meeting that is set for the discussion of the financial statements.

The Board of Directors is the ultimate control authority at the Bank.

The Board of Directors, at its meeting on March 7, 2022, discussed the approval of the financial statements of the Bank, with the participation of the members of Bank management, including the CEO, the Chief Accountant and the Bank's External Auditor. The aforementioned recommendations by the Audit Committee were submitted to the members of the Board of Directors on March 1, 2022, in due time before the plenary discussion. At the discussion by the plenum of the Board of Directors, the CEO presented the financial results of the Bank and a comparison with previous periods. At this stage, a discussion was held during which the Bank's office-holders answered the directors' questions on matters relating to the financial results and to the financial statements. At the end of the discussion, the Board of Directors resolved to adopt the aforementioned recommendations of the Audit Committee, to approve the Bank's financial statements and to authorize for the Chairman of the Board of Directors, the Pesident and CEO and the Chief Accounting Officer to sign the financial statements.

AUDITORS' REMUNERATION (1)(2)(3)

(NIS thousands)

	Consolidated		The Bank	
	2021	**2020**	**2021**	**2020**
For audit work(4):				
Auditors of the Bank	**7,493**	6,580	**6,203**	5,297
Another auditor	**-**	-	**-**	-
Total	**7,493**	6,580	**6,203**	5,297
For additional Auditing related services(5):				
Auditors of the Bank	**-**	62	**-**	-
For tax services:				
Auditors of the Bank	**872**	617	**872**	617
Other services:				
Auditors of the Bank	**3,431**	2,213	**3,077**	2,213
Total	**4,303**	2,892	**3,949**	2,830
Total auditors' remuneration	**11,796**	9,472	**10,152**	8,127

(1) Report of the Directors to the Annual Meeting of shareholders on the remuneration of the auditors for audit work and for additional services, according to sections 165 and 167 of the Companies Law - 1999.
(2) The auditors' remuneration includes payments to partnership and companies under their control as well as payment under the Value Added Tax Law.
(3) Includes remuneration paid and accrued.
(4) Includes audit of annual financial statements, review of interim statements, audit of internal control over financial reporting.

REMUNERATION OF SENIOR OFFICERS

(NIS thousands)

						2021
Name	Title	Position	Holdings in the Bank's equity	Salary	Bonus	benefits(2)
Ron Levkovich	Chairman of the Board of Directors	**100%**	**0.02%**	**2,193**	**-**	**104**
Smadar Barber-Tsadik	Chief Executive Officer	**100%**	**-**	**2,822**	**-**	**105**
Yoram Sirkis	Executive Vice President, Head of Client Assets Management Division	**100%**	**-**	**1,422**	**457**	**73**
Ella Golan	Executive Vice President, Head of Resources Division	**100%**	**-**	**1,357**	**417**	**74**
Ron Grisaro	Executive Vice President, Head of the Banking division	**100%**	**-**	**1,306**	**430**	**72**
Benzi Adiri	Executive Vice President, Head of the Corporate division	**100%**	**-**	**1,245**	**405**	**73**

						2020
Name	Title	Position	Holdings in the Bank's equity	Salary	Bonus	benefits(2)
Ron Levkovich	Chairman of the Board of Directors (7)	100%	0.02%	637	-	19
Irit Izakson	Chairperson of the Board of Directors(7)	100%	-	268	-	21
Smadar Barber-Tsadik	Chief Executive Officer	100%	-	2,799	-	113
Ron Grisaro	MATAF Chief Executive Officer	100%	-	1,255	-	76
Yoram Sirkis	Executive Vice President, Head of Client Assets Management Division	100%	-	1,356	-	74
Ella Golan	Executive Vice President, Head of the Banking division	100%	-	1,293	-	75
Benzi Adiri	Executive Vice President, Head of Resources Division	100%	-	1,183	-	74

(1) Not including VAT on salaries.
(2) Value of benefits (including: car benefit, cellular phone, health insurance, etc.).
(3) Including loss (gain) in respect of updated actuarial calculations in respect of the liability of the Bank.
(4) Excluding deposits and provisions for provident funds and severance compensation (including loss of work ability) in accordance with the law, which are not included in the definition of "compensation" for the purpose of computing the amount of engagement in Section 2(a) of the Compensation of Officers of Financial Corporations Act (Special approval and the non-deductibility tax wise of an expense in respect of exceptional compensation), 2016".
(5) Loans and mortgages granted to senior executives at conditions similar to those that were granted to all Bank employees, the amounts of which were determined on the basis of uniform criteria.
(6) Actuarial loss in respect of changes in the discounting interest rate of the liabilities of the Bank for severance pay and post-retirement benefits.
(7) Mrs. Irit Izakson - until February 23, 2020.
Mr. Ron Levkovich - from September 15, 2020.

Employer payments and provisions	Supplement to reserves in respect to incidental expenses following changes in salaries in accounting year	Actuarial loss in respect of change in the discounting interest rate (6)	Total payroll and related expenses (1)(3)	Total payroll and related expenses according to remuneration law (1)(4)	Loans granted under ordinary market terms (5)
560	**2**	**-**	**2,859**	**2,531**	**-**
498	**-**	**5**	**3,430**	**2,983**	**-**
318	**136**	**186**	**2,592**	**2,149**	**-**
416	**103**	**212**	**2,579**	**2,093**	**74**
384	**22**	**-**	**2,214**	**2,018**	**746**
355	**15**	**3**	**2,096**	**1,909**	**2,527**

Employer payments and provisions	Supplement to reserves in respect to incidental expenses following changes in salaries in accounting year	Actuarial loss in respect of change in the discounting interest rate (6)	Total payroll and related expenses (1)(3)	Total payroll and related expenses according to remuneration law (1)(4)	Loans granted under ordinary market terms (5)
234	-	-	890	795	-
533	-	-	822	337	-
493	-	5	3,410	2,968	-
364	12	1	1,708	1,524	193
249	-	11	1,690	1,588	-
278	-	4	1,650	1,539	162
328	14	6	1,605	1,434	2,546

Notes:

A. The bank accounts management conditions for senior executives, including all activity in those accounts, are similar to other customers conditions with similar characteristics.

B. For details regarding the Compensation policy for senior officers as approved by the general meeting of shareholders dated February 26, 2020, see immediate report of the Bank dated January 21, 2020 (reference no. 2020-02-008841).

Mr. Ron Levkovich - was appointed Chairman of the Board of Directors of the Bank as from September 15, 2020.
For details of the engagement agreement with Mr. Levkovich - see Note 33F(2) to the financial statements.

Mrs. Smadar Barber-Tsadik - has been employed by the Bank since January 9, 2005 and has served as CEO of the Bank since March 19, 2007.
For description of the engagement agreement with Mrs. Smadar Berber-Tsadik- see Note 33F(1) to the financial statements.

Mr. Yoram Sirkis - has been employed at the Bank since February 9, 1993, under a collective agreement and since March 20, 2007 under a personal agreement, for a specified period until Mars 20, 2010. Following that date, the agreement will continue for an unspecified period in which each of the parties to the agreement may terminate the agreement at any time and for whatever reason by a prior and written notification of six month and in accordance with the terms of the employment agreement. On termination of his employment Mr. Sirkis is eligible to severance compensation at a level of 100% of his last monthly salary, for the period of his employment by the Bank until January 1, 2019, while for the period following that date, he will be eligible for severance compensation according to section 14 to the Severance Compensation Act. The redemption value of the severance compensation amounts, contributed by the Bank to a pension fund in his favor, will be deducted from these amounts.
The non-competition period is six month from the date of termination of his employment at the Bank of which three months with payment.
Mr. Sirkis's salary is linked to the rise in the consumer price index.
For details of determination of the annual award for 2021, among others, to Mr. Sirkis, see immediate report of the Bank dated January 21, 2020, mentioned above.

Mr. **Ron Grissaro** - has been engaed by MATAF since June 4, 2017, according to a personal agreement for a specified prtiod of three years. Thereafter, the agreement remains in effect for an additional unspecified period, in which each of the parties thereto are entitled to terminate the agreement, for whatever reason at any time, giving a prior notice in writing of three months in accordance with the terms of the employment agreement.
As from January 1, 2021, Mr. Grissaro is employed by the Bank, with rights continuity with his employment at MATAF.
Upon termination of his employment, Mr. Grissaro is entitled to severance compensation in accordance with Section 14 of the Severance Compensation Act.
The non-competition period is six month from the date of termination of his employment at MATAF or at the Bank, of which three months with payment.
Mr. Grissaro's salary if linked to the rise in the consumer price index.
The compensation policy of the Bank has applied to Mr. Grissaro also in his former position as CEO of MATAF.
For details of determination of the annual award for 2021, among others, to Mr. Grissaro, see immediate report of the Bank dated January 21, 2020, mentioned above.

Mrs. Ella Golan - employed at the Bank since January 16, 1994 under collective agreement, and since December 1, 2013, under a personal agreement for an unspecified period, in which each of the parties thereto are entitled to terminate the agreement, for whatever reason at any time, giving a prior notice in writing of six months in accordance with the terms of the employment agreement.
On termination of her employment Mrs. Golan is eligible to an ordinary severance payment at a level of 100% of her last monthly salary, for the period of her employment in the Bank up to January 1, 2018, while for the period after that date, Mrs. Golan will be entitled to severance compensation in accordance with Section 14 of the Severance Compensation Act. The redemption value of the severance compensation amounts contributed by the Bank to a pension fund in her favor, will be deducted from these amounts.
The non-competition period is six month from the date of termination of her employment at the Bank of which three months are with payment.
Mrs. Golan's salary is linked to the rise in the consumer price index.

For details of determination of the annual award for 2021, among others, to Mrs. Golan, see immediate report of the Bank dated January, 21, 2020, mentioned above.

Mr. Benzi Adiri - has been employed at the Bank since January 2, 2012, under a personal employment agreement for a specified period of two years, following which, the agreement continues in effect for an additional unspecified period, in which each pf the parties thereto is entitled to terminate the agreement, at any time and for whatever reason, giving a prior notice in writing of three months, in accordance with the terms of the employment agreement.
Upon termination of his employment, Mr. Adiri is eligible to severance compensation in accordance with Section 14 of the Severance Compensation Act.
A non-competition period of six months applies from date of termination of his employment, of which three months are with payment.
The salary of Mr. Adiri is linked to the rise in the Consumer Price Index.
For details of determination of the annual award for 2021, among others, to Mr. Adiri, see immediate report of the Bank dated January, 21, 2020, mentioned above.

TRANSACTIONS WITH INTERESTED PARTIES

a. Amendment to the Securities Regulations (Periodic and Immediate Reports), 1970 - Reports on transactions with controlling shareholders.

No changes have taken place during the reported period in the rules regarding the reporting of transactions with controlling shareholders, as detailed in the Chapter "Corporate Governance, transactions with interested parties" in the financial statements for the year 2018.

b. Determination of criteria for the purpose of the Bank's transactions with interested parties

No changes have taken place during the reported period in the criteria, as detailed in the Chapter "Corporate Governance, transactions with interested parties" in the financial statements for the year 2018.

c. Transactions with controlling owners or in which a controlling owner has an interest, approved in the reported year in accordance with Section 270(4) and/or Section 267A of the Companies Act (including framework transactions still valid at the reporting date and transactions approved in accordance with the Companies Regulations (Relief regarding Transactions with Interested Parties), 2000 (hereinafter: "the Relief Regulations"):

1. On December 20, 2018, and towards the termination of a framework transaction of June 2014, and after obtaining the approvals of the Audit Committee, the Compensation Committee and the Board of Directors, the general meeting of shareholders of the Bank approved the following resolutions concerning insurance for directors and officers:
    - Approval in advance to engagement of the Bank in a “directors and officers liability” insurance policy, for the Bank itself and for the Group companies, for a period of up to six years, namely until December 31, 2024, including by way of extension of policies approved in the past and/or by means of the purchasing of new policies, and which would apply to officers that had served and/or that would serve at the Bank and/or at Group companies from time to time, including the President and CEO, as well as officers who have a controlling interest in the Bank and/or their next of kin and/or persons the inclusion of whom in the insurance policy, might be the interest of holders of a controlling interest.

      The said resolution comprises a resolution for the approval of a framework transaction, as defined in item 1(3) of the Relief Regulations (hereinafter – "the framework decision") allowing the renewal of the insurance policy also with respect to Directors and Officers who are controlling shareholders of the Bank and/or their kin, as well as with respect to the President and CEO, also in accordance with provisions 1(3), 1B(5) and 1A(1) of the Relief Regulations. The mechanism for the renewal of the insurance coverage had also been approved within the framework of the new compensation policy, approved by the general meeting of shareholders of the Bank held on February 26, 2020, the details of which were reported in an immediate report dated January 21, 2020 (Ref. No. 008841-01-2020) (hereinafter – "the compensation policy"), so that it allows the renewal of the insurance policy also with respect to directors and officers, who hold a controlling interest in the Bank and/or their next of kin, in accordance with Regulation 1B(1) of the Relief Regulations.
    - Approval of the manner in which the said insurance fees are to be allocated among FIBI Holdings Ltd., the Bank and Group's companies which elect to join the insurance policy as from January 1, 2019 for six years. The said resolution comprises also a resolution for the approval of a framework transaction, as defined in item 1(3) of the Relief Regulations.
    - The framework for the terms of the policy as well as the terms for the renewal of the policy from time to time, within the existing framework transaction, the compensation policy and the manner of allocation of the insurance fees between FIBI Holdings Ltd., the Bank and the Bank's subsidiaries, were described in an immediate report of the Bank regarding the approval of the framework transaction existing since November 6, 2018 (Ref. No. 104838-01-2018), and the contents of this report is presented herein by way of reference.

On July 15, 2020, the general meeting of shareholders of the Bank, following approvals by the Audit Committee, the Compensation Committee and the Board of Directors, approved updates of the existing framework transaction, which entered into effect as from July 1, 2020, regarding everything relating to the limits of the liability, the scope of the insurance fees, the terms for renewal of the policy within the framework transaction, and the amounts of insurance deductibles (to be paid by the Group and not by the officers), all other terms of the framework transaction remaining unchanged (also during the period of the existing framework transaction, which shall end on December 31, 2024). For details regarding the updates relating to the existing framework transaction, see the immediate report by the Bank dated June 9, 2020 (Ref. No. 01-051931-2020), which is presented herein by way of reference.

The above resolution comprises an update of the framework transaction, as well as a resolution under Section 267A of the Companies Act, as an amendment of Section 8.2 of the compensation policy, for the period in which the updated compensation policy remains in effect, which would allow the renewal of the insurance policy also with respect to Directors and Officers who are controlling shareholders of the Bank and/or their next kin, and/or persons the inclusion of whom in the insurance policy, might be the interest of holders of a controlling interest, as well as with respect to the President and CEO, this in accordance with provisions 1(3), 1B(5), 1A(1) and 1B(1) of the Relief Regulations.

Allocation of the insurance fees among the Group companies shall be made in accordance with criteria determined and approved within the framework of the framework transaction, including with respect to FIBI Holdings, and no changes apply to them.

Upon approval by the General Meeting of Shareholders dated July 15, 2020, approval by the Compensation Committee, the Audit Committee and the Board of Directors for engagement of the Bank in an insurance policy covering Directors and Officers liability had taken effect for the insurance period that began on July 1, 2020 and ended on June 30, 2021, this in accordance with provisions 1(3), 1B(5), 1A(1) and 1B(1) of the Relief Regulations, including its application also to the President and CEO of the Bank and to Officers who are controlling shareholders of the Bank and/or their next kin, and/or persons the inclusion of whom in the insurance policy, might be the interest of holders of a controlling interest. For additional details regarding the policy for the abovementioned insurance period, see the immediate report by the Bank dated June 30, 2020 (Ref. No. 061486- 01-2020), which is presented herein by way of reference.

The General Meeting of Shareholders of the Bank held on June 10, 2021, following approvals by the Board of Directors of the Bank and by the Compensation Committee and the Audit Committee, approved the updating of the framework transaction and of the compensation policy in respect of officers of the Bank, as follows:

- The maximum amount of the insurance coverage remains unchanged, with the addition of reasonable legal defense expenses to the liability limit.
- The maximum amounts that had been determined with respect to the annual insurance fees and to insurance deductibles shall be deleted.

  For details regarding the changes in the framework transaction and in the compensation policy, see the Immediate Report by the Bank dated May 4, 2021 (Ref No. 077970-01-2021), presented herewith by way of reference.

In continuation of the above, and following approvals by the Compensation Committee and by the Audit Committee, in accordance with Regulations 1(3), 1A1, 1(b)(5) and 1B1 of the Relief Regulations, the Board of Directors of the Bank approved on June 29, 2021, the renewal of the directors and officers liability insurance policy in respect of the Bank and of the Bank Group, including subsidiaries of the Bank and the controlling shareholder of the Bank, FIBI Holdings Ltd., for an additional insurance period beginning on July 1, 2021 and ending on June 30, 2022. For details regarding the insurance policy, see the Immediate Report by the Bank dated June 29, 2021 (Ref No. 109029-01-2021) as well as supplementary report dated September 14, 2021 (Ref No. 146625-01-2021) presented herein by way of reference.

2. On September 15, 2020, after obtaining the approval of the Compensation Committee and in accordance with Regulation 1b. of the Companies Regulations (Reliefs regarding transactions with Interested Parties), 2000, the Board of Directors of the Bank ratified the continuation of payment of remuneration to Directors from among the controlling shareholders of the Bank, as paid to them prior to the said ratification, for a period of three additional years, all as detailed in the

immediate report of the Bank dated September 15, 2020 (Ref. No. 092554-01-2020) included herein by way of reference. The said remuneration agrees with the compensation policy for officers of the Bank, as approved by the general meeting of shareholders of the Bank held on February 26, 2020, the details of which, regarding compensation to all directors (excluding the Chairman of the Board) are stated in Section 7 of the Appendix "A" to the immediate report of the Bank dated January 21, 2020 (Ref No. 008841-01-2020) presented herein by way of reference.

On May 4, 2021, the Board of Directors of the Bank, following approval by the Compensation Committee, approved an update to the annual remuneration and to the remuneration for participation in meetings, in respect of external Directors and other Directors, officiating or who may officiate from time to time, and who are expert Directors, as the term "expert external director" is defined in the Companies Regulations (Rules regarding remuneration and reimbursement of expenses of an external director), 2000, (hereinafter – "Remuneration Regulations" and "Expert Director"), excluding the Chairman of the Board, in respect of whom separate remuneration for fulfillment of position had been determined, so that following the above update, the remuneration would amount to the "maximum amount for an expert external director" as stated in the Fourth Addendum to the Remuneration Regulations (annual and per meeting), in accordance with the ranking of the Bank (the said amount being rounded off to the nearest amount being a multiplication of five NIS and linked to the CPI in accordance with the Remuneration Regulations). VAT in accordance with the law would be added to the said amounts. With respect to resolutions passed with no meeting being convened and resolutions passed online, the remuneration for participation in meetings would continue to be paid at the rate stated in the Remuneration Regulations. Furthermore, Directors would be entitled to the reimbursement of expenses, as stated in Regulation 6 of the Remuneration Regulations.

The amount of remuneration, as stated above, shall be paid to an expert Director starting with the date of extension of office of an external Director of the Bank under the Companies Act, in accordance with the Remuneration Regulations. On June 10, 2021 the General Meeting of Shareholders of the Bank approved the extension of office of an external director in accordance with the Companies Act.

As of date of this Report, all officiating Directors are expert Directors, within the meaning of the term in the Remuneration Regulations.

Notwithstanding the above mentioned, at the request of Mr. Tsadik Bino and Mr. Gill Bino, who are controlling shareholders of the Bank, the decision regarding the updating of the remuneration shall not apply to them, and they will continue to be compensated in accordance to the previous amount of compensation that had been paid to them, this in accordance with decisions taken in their respect in September 2020, by the Compensation Committee and by the Board of Directors, as detailed above.

Nothing stated above derogates prior resolutions that had been passed by the Bank with respect to Directors' remuneration, including with respect to remuneration payable to non-expert Directors, who may officiate at the Bank from time to time.

3. Commitment for the indemnification of directors and officers of the Bank (including renewal of the indemnification of directors from among the controlling shareholders of the Bank dated July 15, 2020, as described in Note 25C to the financial statements).

d. Additional information on transactions with interested parties

1. For details of the balances and condensed results of transactions with interested parties and related parties, see also Note 33 to the financial statements.
2. The Group, including FIBI Holdings and its subsidiaries, jointly purchases insurance policies, including liability insurance for directors and officers (including directors who are controlling owners and their relatives).

3. Granting exemption from responsibility to acting directors and officers and to those who would act at the Bank from time to time, in accordance with the approval of the general meeting of shareholders of 2004 and as detailed in Note 25C to the financial statements.

   It is noted that the Bank has not tabled for reapproval by the general meeting of shareholders, of exemption letters granted in 2004 to directors who are controlling shareholders.
4. In addition, the Bank and its subsidiaries conduct from time to time transactions with interested parties in the Bank in the ordinary course of business and at market terms.
5. Set out below is a collation of data concerning banking transactions that were conducted by the Bank and companies under its control with the controlling owners at the Bank (including their relatives and companies in which controlling owners at the Bank are interested parties), including data concerning transactions conforming to the criteria that were determined with respect to negligible transactions (NIS thousand):

	Credit	Investment in bonds	Fair value of derivatives	Total balance-sheet monetary indebtedness	Unutilized credit balance	Guarantees granted by Bank for securing credit to a controlling owner or to a party related thereto	Guarantees granted to Bank by controlling owner in favor of third party	Indebtedness of controlling owner in respect of transactions in derivatives	Total
									NIS thousand
Indebtedness of others(1)									
December 31, 2021	**161**	**-**	**-**	**161**	**520**	**-**	**-**	**-**	**681**
December 31, 2020	97	-	-	97	633	-	-	-	730

	December 31, 2021		December 31, 2020	
	Balance on balance-sheet date	Highest balance during period(3)	Balance on balance-sheet date	Highest balance during period(3)
		NIS thousand		NIS thousand
Deposits of others(1)	**3,744**	**16,045**	5,168	5,904

(1) Relatives of controlling shareholders of the Bank, according to the definition of a "relative" in the Banking Act (licensing)-1981.

(2) On the basis of balances at the end of each month.

DETAILS OF THE OWNERS OF CONTROL IN THE BANK

FIBI Holdings Ltd. (hereinafter - "FIBI"), a public company the shares of which are traded on the Stock Exchange, holds 48.34% of the issued share capital and voting rights in the Bank (a rate comprising the core of control according to the control permit issued by Bank of Israel). The holders of control of FIBI are Mr. Zadik Bino and his children - Gill Bino, Hadar Bino-Shmueli and Daphna Bino-Or (herinafter - "the Bino family"), Messrs. Michael and Helen Abeles, and Messrs. Barry Lieberman, Casy Lieberman-Harris, Lee Lieberman and Joshua Lieberman (each of the groups by way of corporations under their full control: Binohon Ltd., Instanz No.2 Ltd. and Dolphin Energies Ltd.). For details regarding the different arrangements existing among the control holders with respect to their holdings in FIBI, and indirectly in the Bank, and with respect to the terms of the control permit dated September 19, 2003, that had been granted to the control holders by Bank of Israel, as amended from time to time, see "Details regarding the owners of control in the Bank" in the Chapter "Corporate Governance" in the financial statements for 2019.

In accordance with the reports of FIBI, as of date of publication of the financial statements, the holdings of the controlling shareholders in FIBI (in equity and voting) are as follows: Binohon Ltd. - 28.54%, Instanz No. 2 Ltd. - 11.68%, and Dolphin Energies Ltd. - 11.38 (the holdings of all the controlling shareholders of FIBI comprise its core of control, in accordance with the control permit issued by Bank of Israel).

INVOLVEMENT AND CONTRIBUTION TO THE COMMUNITY

The Bank attributes great importance to the promotion of social values and contribution to the community alongside its business activity. Therefore, the Bank acts within the framework of the flag plan "Believing-in-you", the aim of which is to establish long-term involvement and cooperation in society, inter alia, by means of voluntary activity of its employees and long-term cooperation with associations that help the community.

In 2021 as well, the Bank continued to accompany a number of projects in different areas, combining voluntary work in the community by Bank employees. Employees participate in such projects and contribute their time, experience and skills in aid of different populations and sectors. Volunteer work was conducted with the necessary modifications required for the continuation of the continuous voluntary activity, under existing limitations, in view of the spreading of the Coronavirus.

Skills of the Bank's employees enables cooperation regarding joint learning, experiential involvement, digital financial education, volunteering, help with food packages, study of languages and rehabilitating social activity.

Defense forces

"Warm Home" - the Bank is active in favor of the defense forces, focusing on providing response to the needs of solitary soldiers serving in fighting units of the IDF. In conjunction with the "Together in favor of the Soldier", the Bank has put at the disposal of soldiers eighteen apartments all over the country, equiped at a high level, serving soldiers in leading a comfortable and embracing daily routine, providing the feeling of a warm home. Each such apartment has an adopting branch of the Bank, employees of which escort the soldiers using the apartment and maintain current relations with them, being attentive and providing response to their needs in their daily life.

"Adopt a fighter" - Within nthe framework of the "Adopt a Fighter" initiative, the Bank continues to adopt for several years a fighting Regiment, participating in events and social gatherings of the Regiment. The Bank maintains close cooperation with the IDF Invalid Association, escorting IDF invalids at enrichment meetings and tours. In addition the Bank cooperated with a framework escorting and training soldiers completing their military service, towards employment.

"Leading to Success" - The Bank focuses on reducing gaps in the population and providing opportunities for the integration of disadvantaged soldiers and veterans in the community. The Bank has formed a scholarship plan to finance academic studies at the Open University, intended for such students, with a view of providing them with a key for econhomic independence, allowing a change of life and increasing their earning ability, thus leading them to optimal integration in society. The plan will be implemented in 2022.

Children and youth in risk situation - activity focuses on youth in risk situations from the geographic and social periphery, and who were expelled from different programs, with a view of enabling them to receive the tools required to change direction towards a normative life in the Israeli society. Through the "Unistream" Association, the Bank has adopted a number of youth groups, which are integrated into different programs that promote business entrepreneurship together with social involvement, providing them with tools coming from the financial education world.

Female business entrepreneurship - involvement and accompaniment of learning groups for business entrepreneurship for women, which concentrate on enrichment and provision of tools in various subjects, such as: financial awareness, business entrepreneurship, management and excellence skills. The bank operates with several associations in this field, including in study and enrichment meetings.

The total amount of involvement and contribution to the community of the Bank Group amounted in 2021 to NIS 3 million.

ADDITIONAL INFORMATION

PRINCIPAL HOLDING STRUCTURE CHART

BANK MASSAD LTD	**UBANK TRUST COMPANY LTD**	**FIRST INTERNATIONAL ISSUES LTD**	**THE INTERNATIONAL UNIQUE INVESTMENT MANAGEMENT LTD**	**ISRAEL CREDIT CARDS LTD.**
(E. 51%, V. 51%)	(E. 100%, V. 100%)	(E. 100%, V. 100%)	(E. 100%, V. 100%)	(E. 28.2%, V. 21%)

V - Bank's Voting Right
E - Bank's Share in Equity

FIXED ASSETS

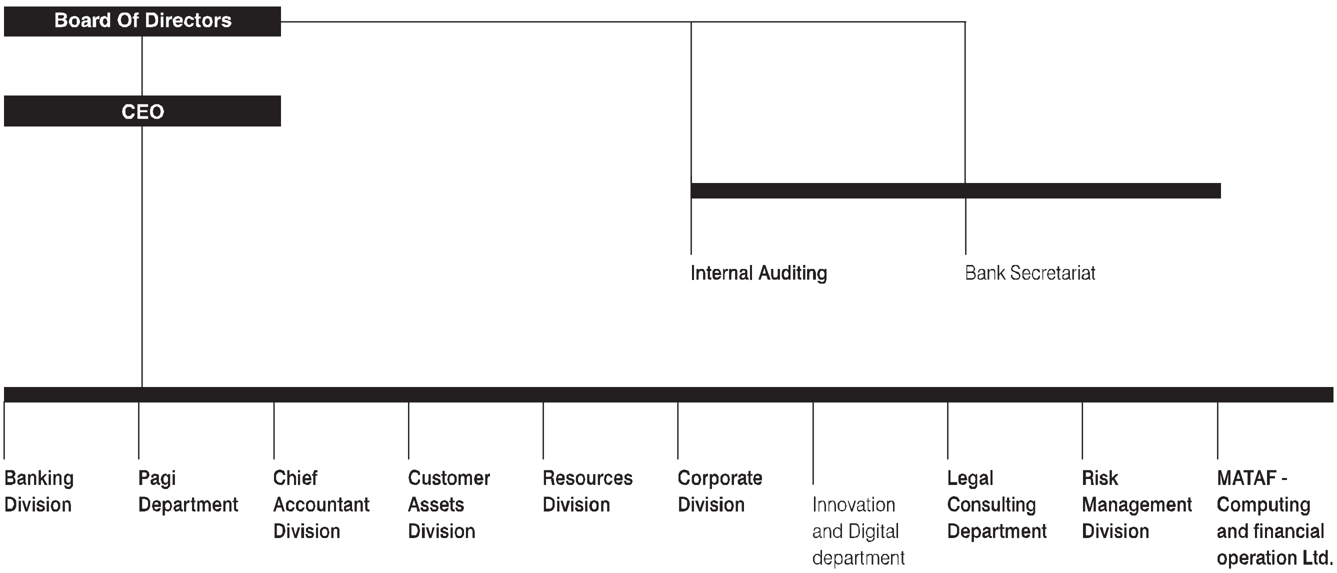
	As of December 31			
	2021			2020
	Cost	Accumulated depreciation	Balance	Balance
				NIS million
Buildings and land (including installations and improvements to rented properties)	**1,407**	**566**	**841**	867
Equipment (including computers, furniture and vehicles)	**600**	**510**	**90**	98
Total	**2,007**	**1,076**	**931**	965

As of December 31, 2021, the Bank Group owned or leased a total area of 55 thousand square meters in 45 properties (31.12.2020 - 56 thousand square meters in 47 properties). In addition, the Group rents in Israel a total area of 37 thousand square meters in 114 properties throughout the country (December 31, 2020 - 40 thousand square meters in 117 properties). The rental agreements for rented premises are for varying periods and in most cases an option to extend the rental periods is provided. The majority of rental contracts are linked to the consumer price index.

See Note 16 to the financial statements for details on additional aspects of the investment in premises and equipment.

HUMAN CAPITAL

The organizational structure of the Bank



As of December 31, 2021, the Bank Group operated via 136 branches and sub-branches (114 branches and sub-branches at the Bank and 22 branches and sub-branches in Massad). The Group examines on a current basis the developments in the profitability and business activity of the branches, relative to the target populations for which they were ment to serve, the targets set in the working plans of the banks in the Group and the ability to utilize to the fullness the potential in the geographical area in which each branch operates. In this framework the compatability of the branches distribution to the business environment is examined on a current basis, as well as to the changes in the areas comprising potential business development in the target population of each bank in the Group.

Human Resources Strategy

The Bank promotes a culture of professional development, excellence and an up to date professional qualification to face future challenges by means of training and qualification programs that provide knowledge and skills in a range of operating fields reflecting aspects of regulation, technology work procedures and more.

The Bank performed a comprehensive examination of the future labor world. In consequence thereof, training and development programs have been formulated in order to prepare the human capital to the challenges of the future in areas relating to employee skills, management tracks, adaptation of diagnosis processes and formulation of training programs.

In the learning processes, different expression and emphasis are given to central principles: initiating service, the banker as a financial expert, digital transformation, as well as a "skills basket" of the future labor market. Among the skills are: data management, interpersonal skills, subject presentation, innovation, change leadership, etc.

Management study courses are held for different employee grades, the aim of which is to intensify the management and leadership expertise of manager while preparing for the future challenges.

Personnel

The following are details of manpower in the Bank Group in terms of positions[(1)]

	2021		2020	
	Annual average	**Balance at end of the year**	**Annual average**	**Balance at end of year**
The Bank	**3,421**	**3,351**	3,583	3,487
Subsidiaries	**294**	**294**	312	304
Total at the Bank Group	**3,715**	**3,645**	3,895	3,791

(1) Number of positions include translation of overtime to position, with addition of external manpower which are not bank employees, that provide work services.

The number of positions in the Group, as of December 31, 2021, declined by 146 positions (3.9%), compared with the end of 2020. The main decrease derived from the voluntary retirement plans which were completed in the fourth quarter of the year . In the framework of the efficiency measures, carried out at the Bank on current basis, the Bank completed during the years 2019- 2021 several voluntary retirement plans.

The following are details of the annual average (in terms of positions) of the Group's manpower according to supervisory segments of activity:

The positions presented according to segments of activity include position of employees directly employed in the segment and positions of head-office employees at different levels, which the cost of their employment was allocated to the segment. The computation of the said positions is based on the model of cost allocation which the Bank uses, as detailed in note 28 to the financial statements.

	Year 2021	**Year 2020**
Large business segment	**218**	215
Medium business segment	**145**	152
Small and minute business segment	**952**	995
Household segment	**2,034**	2,140
Private banking segment	**87**	84
Institutional entities	**183**	243
Financial management segment	**96**	66
Total	**3,715**	3,895

Details of cost and salary of employee position at the Bank (in NIS thousands)

	Year 2021	**Year 2020**
Cost of employee position (excluding bonus)	**405.0**	392.6
Cost of employee position (including bonus)	**435.9**	398.7
Salary of employee position (excluding bonus)	**269.5**	261.5
Salary of employee position (including bonus)	**294.5**	266.4

Nature of the human resources

The average seniority of the Bank’s employees amounted to 18.6 years compared with 18.1 years in 2020. The average age of the Bank's employees was 47.6 compared with 47.2 in 2020.

Employee mobility

In order to reduce as far as possible the risk and dependency on different office-holders and as part of employees' personal and professional development, the Bank insists on employee mobility within the Bank and on rotation in office of employees. For this purpose, the Bank regularly moves employees in sensitive functions reaching the end of the period in office determined by procedures of the Bank and in accordance with a multi-year rotation plan, according to the type of position and/or personnel requirements and subject to the constraints imposed by the labor agreements at the Bank.

Human resource quality and managerial quality

The enhancement of human resources continued in 2021 via the creation of advanced processes at the different stages of the employee's life at the organization: recruitment, classification and absorption of new employees, the conferral of tenure and new appointments, management development etc.

Management cadres and management development plans

The Bank's management cadre was built up on the basis of the managerial profile and critical core proficiencies. This cadre is used as a means for monitoring employees with managerial potential, for personal planning and development purposes and in order to map qualitative and quantitative gaps. As a result, different tracks for management development have been established during recent years, in order to train managerial reserves for various terms.

The proportion of graduate employees at the Bank amounted to 64% at December 2021.

Code of Ethics

The Bank has institutionalized the process of developing tools for assimilation of the code and for promoting a culture of ethical behavior and social accountability. For this purpose, the Bank established ethical institutions at the bank, including an Ethics Committee headed by a member of management, which is responsible for assimilation of the code and for providing guidance and training on the basis of the values in the Code of Ethics, among other things, using a Code of Ethics Portal was instituted at the Bank. This portal contains interactive tools for the use of all employees.

Once in every three year period, the Bank conducts a comprehensive integration of the Code of Ethics at the Bank. Accordingly, during 2020, such integration was effected, and during 2021, refreshing of the Code was conducted for all Bank employees.

Intra-organizational communication

Intra-organizational communication serves as a strategic managerial tool for supporting the Bank's objectives and activities, for assisting in all key processes and events, and for fostering dialog and a sense of connection between employees and the organization. The Bank has placed an emphasis on effective management of intra-organizational communication for the purpose of promoting transparency, increasing the level of employee satisfaction and strengthening the connection between all of the Bank's employees.

Professional instruction and training

In 2021, an emphasis was placed on the development of a climate of study and excellence among the Bank's employees, and innovative information tools and processes were employed for mapping knowledge gaps and for the development of advanced professional instruction activities in the Bank Group. An emphasis was also placed on instruction in the Bank's core areas of activity, and on managers' development before entering into and during the function.

The instruction plan refers to all the employees' needs- instruction in banking knowledge, according to areas of profession, managerial instruction according to rank and instruction in areas which are suitable platform for the extraction of employees' ability. In addition, great emphasis is placed on instruction of regulstion subjects, as an additional layer of proffesionalizm and excellence, specifically and as part of the current professional contents, in order to provide fully to the requirement of the regulation. In addition, the instruction in respect of the digital subjects, was broadened (internet website, cellular application and new products and services) in order to offer customers full support and awareness of all the Bank services.

The number of days of instruction at the Bank Group totaled 17,096 in 2021, compare with 12,174 days of instruction in 2020. The increase in the number of days of instruction stemmed from the return to full scale activity (as compared with the year 2020, in which instruction activity was discontinued following the lockdown imposed in the wake of the outbreak of the Coronavirus) and from new instruction activities developed in diverse areas, among which instruction activities regarding regulatory matters directed at all managers and employees of the Group.

LABOR RELATIONS

The labor relations at the Bank are principally based on collective labor agreements and complementing arrangements, except in case of employees engaged under a personal employment agreement, and are reflected in the employee organizations discussed below:

Two employee organizations exist at the Bank: the Union of Managers and Signatories and the Union of Clerks. Collective labor agreements are in effect at the Bank, which link to a certain extent, the employment terms of the clerks, managers and signatories to those agreed upon by the Management of Bank Leumi,the Union of Bank Leumi Employees and the General Federation of Labor.

Furthermore, Otzar Hachayal employees continue to be represented by the Union of Otzar Hachayal Employees and are entitled to their rights in acordance to agreements that had been in effect at that bank, until such time when a new collective labor agreement, regulating their integration into the labor agreements in effect at the Bank, is signed.

Existing also at the Bank Group are employee unions that represent employees of Massad Bank and of MATAF.

In 2017, the Union of Managers and Signatories filed an action demanding the discontinuation of the organizational changes being made by the Bank, until the holding of negotiations between the parties and the signing of a collective agreement in the matter. On March 16, 2021, the parties signed an agreement for the termination of the said dispute, and by joint consent, filed a motion for the removal of the action. This motion has been admitted By the Tribunal.

COMPENSATION POLICY IN A BANKING CORPORATION

The compensation policy for officers of the Bank

The General Meeting of Shareholders of the Bank approved on February 26, 2020, a compensation policy for officers of the Bank, in accordance with Section 267A of the Companies Act and with Proper Conduct of Banking services Directive No.301A "compensation policy of a banking corporation" (hereinafter - "the Directive") and with in consideration to the Compensation of Officers of Financial Corporation Act (Special approval and the non-deductibility tax wise of exceptional compensation), 2016 (hereinafter - "the Compensation Act").

For additional details, see the immediate report by the Bank dated January 21, 2020 (ref. No. 008841-01-2020). The content of this report is included herewith by way of reference. The new compensation policy for officers of the Bank contains provisions considering the Directive, as amended from time to time, and the Compensation Act.

On April 2021, the compensation committee and the Board of Directors, in respect of their authority according to section 4.5.1 to the compensation policy of office holders, approved to update, in an unmaterial amount the ceiling of the monthly salary of a member of the Bank Management.

Employee compensation policy

In accordance with Proper Conduct of Banking services Directive No.301A "compensation policy of a banking corporation" (hereinafter - "the Directive"), in June 2020, the Bank approved, after the passing of three years from the previous approval, an updated compensation policy for all Bank employees, including central employees, as well as principles for the compensation policy of the Group, the compensation policy for officers, as approved on February 26, 2020 by the General meeting of Shareholders, forming a part thereof. The compensation policy for employees determines rules for the compensation of employees and of central employees, including in accordance with the Directive as amended from time to time, as well as instructions regarding the allocation of responsibility among the relevant functions at the Bank engaged in the compensation mechanism. Moreover, within the framework of the compensation policy of the Group principles were determined regarding the fixed compensation and the variable compensation for officers of the controlled companies, considering also the principles of the compensation policy to the office holders in the Bank.

For further disclosure in the matter of compensation, see the document "Disclosure according to Pillar III of Basel and additional information regarding risk", available for perusal on the Internet.

MATERIAL AGREEMENTS

Apart from the agreements in the ordinary course of business, the agreements detailed below, which were signed in 2021 and/or were signed previously and are still binding on the Bank, are likely to be considered as material agreements not in the ordinary course of business:

1. Collective Labor Agreements:

   There are two employees' organizations at the Bank - the clerks' organization, and the managers and authorized signatories' organization.

   The following is a summary of the principal agreements signed with the two employees' organizations:

   - A collective agreement of November 19, 1975 between the Bank's management and the National Organization of the Association of the Managers and Authorized Signatories of the Bank regarding the linkage of salary conditions and related work conditions as practiced with respect to authorized signatories at Bank Leumi Le-Israel Ltd. On November 12, 2000 a special collective agreement was signed. The agreement stipulated employees' obligations and rights, inter alia, concerning mobility between functions, overtime policy, annual vacation, recreation pay, sick leave, maternity leave, studies, dismissal and resignation and severance pay (labor statute).

     Apart from these agreements, specific agreements are signed from time to time between the Bank, the said organization and the General Federation of Labor with respect to specific subjects.
   - A collective agreement of October 25, 1974 between the Bank's management and the national organization of the Bank's employees concerning the receipt of related payments such as are received by the employees of Bank Leumi le-Israel Ltd. There is also a special collective agreement from that year which determines the obligations and rights of employees, inter alia, concerning mobility between functions, overtime policy, annual vacation, recreation pay, sick leave, maternity leave, studies, dismissal and resignation and severance pay (labor statute). In addition to these agreements, specific agreements are signed from time to time between the Bank and the said organization with respect to specific subjects.

   The Bank's employees, which formerly were Otzar Hachayal employees continue to be represented by the Union of Otzar Hachayal Employees until such time when a new collective labor agreement, regulating their integration into the labor agreements in effect at the Bank, is signed.

   Existing also at the Bank Group are employee unions that represent employees of Massad Bank and of MATAF.
2. Indemnification and exemption for officers of the Bank and its subsidiaries - see Note 25C to the financial statements.
3. Deeds of trust and guarantees relating to the issue of bonds, subordinated debt notes and subordinated capital notes.

   First International Issues Company Ltd., a wholly owned subsidiary of the Bank, concluded deeds of trust in connection with the issue of bonds, subordinated debt notes and subordinated capital notes of different series issued by First International Issues, in accordance with prospectuses in public or private placements.

   Agreements were signed between First International Issues and the Bank, according to which, concerning issues whose proceeds are placed in deposits or subordinated deposits with the Bank at terms identical to the terms of the debt notes, part of which with the addition of a commission, the Bank is committed to bear all payments due to the holders of the debt notes, including the repayment of principal and payments of interest.

   The total revaluated value of the debt notes that were issued under the said deeds of trust, whose proceeds were deposited at the Bank, and which are held by the public, amounted to NIS 3,279 million on December 31, 2021 (including linkage increments, accrued interest, issue expenses, discounting and premium).
4. Arrangements concerning matters connected with the capital market - a notification which the Bank sent on August 1, 1984 to the Supervisor of Banks at the time, concerning a number of restrictions which the Bank took upon itself in connection with its activity in the capital market.
5. Pledge of the Bank's assets to clearing houses in Israel and abroad and to foreign banks and brokers - see Note 26 to the financial statements.
6. Pledge to the benefit of the Bank of Israel - see Note 26 to the financial statements.
7. Mutual guarantee for the MAOF Risk Fund and a risk fund that was established by the stock exchange - see Note 25.D and 25.E to the financial statements.
8. Agreements for joint issuance of debit cards with the credit cards companies- see note 25.L to the financial statements.

LEGISLATION AND REGULATORY INITIATIVES

Following are summarized details of the provisions of laws and regulatory initiatives, which were published and/or entered into effect during the reported period, and which materially affect or might affect the operations of the Bank. The Bank is studying the overall significance of the said provisions and initiatives regarding the income and expenses of the Bank, as well as the long-term business and operating implications.
A part of the initiatives may have an adverse effect on the income of the Bank and/or its expenses. This effect cannot be quantified at this stage, due to dependence of different factors, including customer behavior, competitors' activity and additional regulatory changes, and with respect to legislation not yet finalized, it is also not possible to assess whether it would be in fact be enacted and what would be its final content.
Nothing in the contents of this Chapter derogates from that stated in other Chapters and Sections of this Report, where there exists additional reference to provisions of the law and to regulatory initiatives as described below or to others.

A PERIOD OF EMERGENCY - THE CORONAVIRUS CRISIS

On background of the outbreak of the Coronavirus, Bank of Israel has published, since March 2020, mitigating instructions with the aim of allowing banking corporations the required business flexibility, providing assistance to households and businesses in the evolving exceptional circumstances.
Moreover, several outlines have been published for the deferral of repayment of loans applying to a number of segments of operation (the last of the outlines permitting borrowers to file until march 31, 2021, requests for deferral of repayments until March 31, 2022).
Bank of Israel also published the Banking Order (Customer service) (Supervision over immediate charge card fee services, lawyer warning letter and transaction made through a call center clerk) (Provisional instruction), 2020, applying to private individuals and small businesses, and which declared three banking services as services under supervision - immediate charge card fee services, lawyer warning letter and transaction made through a call center clerk. The order expierd on April 13, 2021.
The Securities Authority and the Capital Market Authority also issued mitigating instructions and arrangements intended to allow and/or facilitate the offering of services by digital means, and additional Regulators introduced different manners of conducting business with banks at a distance, subject to approved arrangements.
Also published, among other things, is an amendment to the Debt Execution Act, which states special arrangements with the aim of assisting private individuals and businesses encountering economic distress due to the Corona crisis, as well as Regulations excluding checks dishonored during certain periods, from the number of dishonored checks in respect of imposing limitations on a bank account. In addition, dates of monthly payments have been deferred in respect of certain borrowers, in accordance with the announcements of the Official Receiver and the Commissioner of Insolvency Proceedings and Economic Rehabilitation.
The effective period of a part of the mitigating instructions has expires, a small number of which have been permanently approved, and another part of which are still in effect at date of publication of this Report. Following are the principal details of the instructions, most of which had been published within the framework of Proper Conduct of Banking Business Directive No. 250 - amendments of Proper Conduct of Banking Business Directives aimed at confronting the Corona crisis (Provisional instruction), the effect of which expired on December 31, 2021 (hereinafter - "date of termination of the period") except for certain mitigating instructions the effect of which had been extended, as detailed below:

- Reduced regulatory capital requirements applying to banks by one percentage point until date of termination of the period. It is also determined that mitigation will apply for a period of two additional years from date of termination of the period, namely until December 31, 2023, provided that the capital ratios would not be lower than the capital ratios at date of termination of the period, or the minimum applying to the banking corporation prior to the provisional instruction, the lower of the two. In addition to the above stated, a certain mitigation applies until June 30, 2022, in certain circumstances. As of December 31, 2021, the regulatory capital ratios of the Bank were higher than those required prior to the provisional instruction (for details regarding this matter, see Note 24(b)(1) to the financial statements).

- A guideline in the matter of the dividend distribution policy and of the acquisition of own shares during the provisional instruction period. In accordance with an update published on September 30, 2021, the Supervisor of Bank clarified that the uncertainty and risk caused by the Corona crisis are still at a high level and make it difficult to forecast the middle-term capital requirements, and therefore requires the continued careful and conservative capital planning. The Supervisor encouraged banks to adopt a careful and conservative distribution of dividends or purchase of own shares, and stated that his position is that a distribution of dividends in an amount higher than 30% of the profits of a bank (in the year 2020 and in 2021) shall not be considered as a careful and conservative capital planning. The said guideline was eliminated on January 1, 2022. Notwithstanding the above, the Supervisor of Bank clarified that regarding a resolution for the distribution of a dividend, banking corporations have to take care and take into consideration that a certain measure of uncertainty still exists in the markets (for details of this matter, see Note 24(a)(b) to the financial statements).
- Reduction in the leverage ratio applying to banking corporations by one-half of a percent. The mitigation shall apply for an additional period of two years from date of termination of the period, namely until December 31, 2023, provided that the leverage ratio shall not be lower than the ratio at June 30, 2022, or lower than the minimum leverage ratio required from the banking corporation prior to the provisional instruction, the lower of the two (for details regarding this matter, see Note 24(b)(b) to the financial statements).
- The maximum amount of the credit facilities allocated to the construction and real estate sector (including indebtedness in respect of national infrastructure) has been increased from 24% to 26% of total indebtedness of the public, and the said maximum rate, net of indebtedness in respect of national infrastructure, has been increased from 20% to 22% of total indebtedness of the public. This mitigation remains in effect until the end of twenty-four months from December 31, 2025, provided that during the said 24 months the rate of indebtedness should not exceed the rate existing on December 31, 2025, or the rate of the segmental limitation existing prior to the mitigation, whichever is higher.
- Mitigation with respect to managing credit facilities in current accounts expired at date of termination of the period.
- An extension until February 28, 2022, was granted for submitting financial statements required for the extension of credit to borrowers in accordance with Proper Conduct of Banking Business Directive No. 311.
- The relief allowing approval of a housing loan of up to a financing ratio of 70%, which is not granted for the purpose of acquiring rights to real estate, was cancelled on September 30, 2021.
- In accordance with an amendment of the provisional instruction dated January 18, 2022, Proper Conduct of Banking Business Directive No. 355 in the matter of business continuity has been amended, stating that due to actual concern regarding damage to public health following the spreading of the Corona virus, a banking corporation may decide that all banking services would be granted at the branches subject to the prior fixing of an appointment, and that not all branches would be open to the public, subject to certain conditions. This amendment remained in effect until February 28, 2022.

BANKING

Proper Conduct of Banking Business Directive No. 443 - Dormant deposits and accounts of deceased persons

The Directive was published on November 15, 2020, for the purpose of making more efficient the process of locating dormant deposits and accounts of deceased persons. The Directive requires the establishment of a function dealing with dormant deposits, and states the responsibility of the Board of Directors and of Management for the operation of which. It also expands the duties applying to banking corporations with respect to locating owners of dormant deposits, while determining a hierarchy for required locating operations and instructions regarding the establishment of contact, and includes also instructions regarding accounts of deceased persons and regarding lost connection with hirers of safe deposit boxes. The Directive becomes effective one year following its publication date.

Proper Conduct of Banking Business Directive No. 311A - Consumer credit management

The Directive was published on February 2, 2021, with the aim of securing proper, fair and transparent activity by banking corporations and clearing agents regarding their customers, from the aspect of marketing consumer credit, in order to minimize conduct risk and prevent materialization of other risks. The Directive collects the requirements addressed by the Supervisor of Banks to the banking system regarding activity with retail customers, and includes instructions regarding the duties of Boards of Directors and Managements with respect to outlining the management and marketing strategy for consumer credit and its establishment in a policy and procedures document, that would cover all aspects of consumer credit at the borrower's level, instructions regarding the manner of marketing consumer credit and regarding processes for approval of such credit. The Directive took effect on November 2, 2021, except for the items dealing with the marketing of credit, which took effect on May 2, 2021.

Proper Conduct of Banking Business Directive No. 420 - Delivery of notices through communication channels

In accordance with an update of the Directive, intended to improve service to customers and reduce costs, it has been, inter alia, determined that a banking corporation has to choose the most suitable communication channel for delivering particular notices to customers who had joined the service of receiving notices by means of communication channels, in accordance with the level of materiality of the information and the speed required for its delivery. For this purpose, a banking corporation has to examine the needs of the customer in accordance with circumstances and take into consideration aspects of privacy protection, and among other things, examine whether a need exists to enable the customer to receive the information immediately and in an accessible manner, and whether the customer needs to monitor, safekeep and print the notice. Moreover, a closed list of notices has been determined, which a bank is required to deliver to the customer both by means of a communication channel, allowing the customer the monitoring, safekeeping and printing of the notice, and by means of a communication channel enabling the immediate delivery of the notice in an accessible manner, such as SMS notices. The update takes effect at the end of one year since its publication.

Proper Conduct of Banking Business Directive No.359A - Outsourcing

The Directive, which allowed a banking corporation to conduct, through brokers, initiated approaches to households referring them to obtain credit, subject to fulfillment of one of the conditions stated in the Directive, was updated on June 21, 2021, allowing now the payment of reward to the broker, subject to the banking corporation fulfilling the requirements of Directive 311A, in the matter of the marketing of consumer credit. The update takes effect on date of its publication.

Proper Conduct of Banking Business Directive No. 314A - Management of debt arrangements and of collection procedures regarding material problematic debts

The Directive was published on September 30, 2021, with a view of regulating the manner of treatment, reporting and authority relating to problematic debts, the amount of which exceeds NIS 50 million, or which are in lower amounts, matching quantitative or qualitative parameters defined in the matter by the banking corporation. The Directive includes corporate governance instructions in the matter,including the duty to define a policy, goals and an organizational structure that would include a "designated function". The Directive also states the measures that have to be adopted prior to the debt becoming a problematic debt, starting with the underwriting stage and continuing with the early recognition processes and risk reducing measures, before passing on the debt for handling by the designated function. The Directive takes effect on April 1, 2022.

Proper Conduct of Banking Business Directive No. 250A - Transition from the LIBOR interest

The Directive was published on September 30, 2021, stating principles for the implementation of the transition to interest bases serving as an alternative to the LIBOR interest, the quotation which for most currencies, was discontinued at the beginning of 2022 (the Libor interest in respect of the US dollar would continue to be quoted for certain periods until June 2023). In accordance with the Directive, the Bank is required, inter alia, to discontinue, as early as possible and no later than December 31, 2021, the entry into new LIBOR interest based agreements, to choose alternative interest bases, taking into account the recommendations of the relevant international bodies, and document the reasons for the choise, as well as inform its customers with respect to the discontinuation of the LIBOR interest quotations and its implications.

For additional details, see disclosure regarding the preparations made in respect of the discontinued use of the LIBOR interest in the Chapter "Risk review - Interest risk".

CAPITAL MARKET

Proper Conduct of Banking Business Directive No. 460 - presentation of data regarding transactions in a securities deposit

The Directive published on December 23, 2021, determines a uniform format for the presentation to the customer of data regarding his securities deposit with a banking corporation, with a view of improving the ability of the customer to take an educated decision as to the investment track best for him in relation to other investment options.

The Directive includes, inter alia, details of the types of information and data, which the banking corporation has to present, including the rate of return, and where the customer obtains from the bank investment advisory services, it is required to present, inter alia, also the measure of exposure of his securities deposit. The Directive states also the dates and format in which the information would be presented.

The Directive takes effect on January 1, 2023.

INCREASE IN COMPETITION

Amendment No. 27 to the Banking Act (Customer service) regarding the transfer of a customer between banks and Proper Conduct of Banking Business Directive No. 448 - The online transfer between banks of the financial activity of a customer

The Amendment, published in March 2018, as part of the Economic Program Act (Legislation amendments for the implementation of the economic policy for the 2019 budget year), 2018, took effect on September 22, 2021. In accordance with the Amendment, banks are required to allow the transfer of the financial activity of a customer from the bank, in which it is being conducted ("the bank of origin") to another bank ("the accepting bank") in an online, convenient, reliable and secured manner, with no charge to the customer in respect of such operation, and within seven business days from the date on which the bank of origin received from the accepting bank notice of approval of the customer's request.

Proper Conduct of Banking Business Directive No. 448 - the online transfer between banks of the financial activity of a customer, published in December 2019, details the rules that the bank of origin and the accepting bank have to apply with respect to the handling of the request of a customer for the transfer of his account. The Amendment was amended on August 17, 2021, expanding, inter alia, the duties of disclosure to the customer as regards the process, adding of items relating to the transfer of the checks operation of the customer, and updating of items relating to the inplementation of the process in general. Also published were the Banking Rules (Customer service) (Transfer between banks of the financial activity of customers) (Amendment), 2021, stating the classes of accounts and the classes of financial operations to which the said Amendment applies, and the length of the period for directing certain financial activities by the bank of origin.

On February 9, 2021, amendments to the Electronic Clearing Act and to the Unpaid Checks Act were published, regulating the transfer of financial activity between banks in everything relating to checks, and which even states a monetary sanction of NIS 50,000, in respect of violation of any of the provisions of the Act. The monetary sanction item took effect on May 1, 2021.

OPEN BANKING

Proper Conduct of Banking Business Directive No. 368 - application in Israel of the open banking Standard

The Directive was published in continuation to the provisions of the Increase in Competition and Decrease in Centralization in the Banking Market in Israel Act (Legislation amendments), 2017, and with a view of promoting the open banking Reform, giving customers the option of allowing third parties access to their financial information in a digital and secured way.

With respect to information regarding the current account of the customer, the Directive took effect on April 18, 2021. Graded and later effective date were determined in respect of information regarding charge cards and nonrecurring payment orders in shekel; information regarding savings accounts, deposits and credit. No date was fixed with respect to information regarding securities.

The Directive applies to banks and credit card companies and includes provisions in matters of implementation of open banking (both as regards the transfer of information and in respect of payment orders), with respect to corporate governance, the manner in which the consent of the customer for delivery of information or for instructing payment, is obtained, rules regarding the level of service, principles for the management of data protection risk and cyber defense, duties applying to banks and to credit card companies choosing to operate also as a consumer of information or as a payments initiator, the manner of treating approaches by customers and the reports required by the Supervisor.

Following the enactment of the Financial Information Service Act, 2021, (hereinafter - "the Act"), Bank of Israel published of February 23, 2022, an amendment to the Proper Conduct of Banking Business Directive, with the aim of modifying the Directive to the provisions of the Act, including expansion of the classes of providers of financial information services, who would be entitled to obtain access to the financial information of a customer, with his consent. Also , on January 17, 2022, Bank of Israel published a letter updating a part of the effective dates that had been fixed in the Proper Conduct of Banking Business Directive, with a view of modifying them to the provisions of the Act.

Financial Information Service Act, 2021

The Act, which was published on November 18, 2021, creates comprehensive and uniform regulation of the financial information service activity. In accordance with the Act, the providing of this service requires a license or approval by the Regulator relevant to the provider of the service (the Supervisor of Banks in the case of a bank, settling agent and an auxiliary corporation). It is further stated that the provider of the service may not engage in cost comparison services or in brokerage, as defined by law, with respect to financial products and services, which he (or parties related to him) provides to his customers. The Act includes provisions regarding the activity and duties of the entities providing the financial information services and the "sources of information" (which include, in accordance with the Act, banks, settlement agents, auxiliary corporations, institutional bodies [provident funds and insurance companies], the holder of a license for the provision of deposit and credit services, the holder of a license for to provide credit and the holder of a license to operate a credit brokerage system), including in the matter of privacy protection, the use of information, its protection and obtaining consent for making use thereof, collection of consideration, avoidance of conflict of interests and consumer instructions. The Act states gradual application dates for sources of information and different types of information, the earliest of which is on June 14, 2022, with respect to information regarding payment accounts and charge cards, originating in a bank, an auxiliary corporation or a settlement agent.

MISCELLANEOUS MATTERS

Pricacy protection

A trend of growth in the scope of regulation relating to privacy protection, is recently noted in Israel and globally. A joint team of the Privacy Protection Authority, the Competition Authority and the Customer Protection and Fair Trade Authority published in January 2021, for public comment, a policy proposition in the matter of adoption of the right for data portability. Under Israeli law, this right may entitle a private individual to apply for the online transfer to his possession of information collected in his respect by a certain entity, so that additional or repeated use may be made of such information.

The Privacy Protection Authority published in March 2021, for public comment, a draft opinion in the matter of the duty of reducing personal data existing in the data bases of different organizations, both private and public, with a view of reducing the collection, maintenance and use of excess information, of reducing the risk of impairment to privacy and the violation of data protection duties.

In April 2021, the Privacy Protection Authority issued a document in the matter of privacy regarding advanced means of payment for the transfer of funds and for payment at trading houses, within the framework of which, the Authority emphasized that consent of the users has to be obtained for the registration and use of such means of payment, in order to allow users to control in an optimal manner, the information relating to them and their privacy.

In May 2021, the Privacy Protection Authority published for public comment, an opinion in the matter of the terms "information" and "information regarding the private business of an individual" contained in the Privacy Protection Act, including examples of elements and data considered as personal data protected by the Privacy Ptotection Act in the digital era.

In January 2022, the Privacy Ptotection Authority issued a document containing recommendations regarding the appointment of a privacy protection officer, relevant to organizations collecting and processing personal data. The documents provides a set of tools and guidelines regarding everything connected to the areas of responsibility of the privacy protection officer in the organization, states the fields of knowledge and qualification required from whoever officiates in this office, and refers to his position in the organization. The Bank has appointed a privacy protection officer. For additional details, see the Risk Review Chapter.

In January 2022, the Government tabled a proposed Amendment Bill to the Privacy Protection Act (Amendment No. 14), 2022. The Amendment Bill contains, inter alia, a significant reduction in the duty to register data bases, modifications of the definitions contained in the Act to technological and social developments, and expansion of the supervision and enforcement powers of the Privacy Protection Authority, authorizing it to inpose monetary penalties in amounts of between NIS 1,000 and up to NIS 3.2 million (depending on the circumstances of processing the information and on the severity of the violation).

Proper Conduct of Banking Business Directive No. 336 - Pledge of assets of a banking corporation

In view of the growth in scope and diversity of operations, in respect of which, banking corporations are required to pledge assets, an amendment to the Directive was published on June 15, 2021, which eliminates the quantitive regulatory limitation on the pledge of assets of a banking corporation. In its place, the Directive introduced requirements for the proper management of the pledging of assets, in order to maintain a proper balance between the need to conduct the business of a banking corporation and the need to protect the rights of depositors in the event of insolvency. Inter alia, it is determined that the board of directors of a banking corporation has to outline the strategy with respect to pledged assets and approve the policy determined in the matter by Management. Accordingly, in December 2021, the Board of Directors of the Bank adopted a startegy in the matter and approved the policy that had been detemined by Management.

CORPORATE GOVERNANCE

Proper Conduct of Banking Business Directive No. 301 - the Board of Directors

In accordance with an amendment to the Directive published on January 18, 2022, the Board of Directors of the Bank has to determine a policy regarding the ratio for the representation of the genders on the Board, so that both genders are properly represented thereon, including the time limit and milestones to achive this goal.

The said policy is to be determined within six months from date of publication of the Directive and achievement of the goal for the representation of the genders is to be reached within three years from date of approval of the policy.

LEGAL PROCEEDINGS

With respect to material legal actions pending against the Bank and against its consolidated subsidiaries, see Note 25G to the financial statements.

THE RATING OF THE BANK BY RATING AGENCIES

Set out below is the Bank’s rating as determined by rating agencies in Israel and by an international rating agency:

- On August 1, 2021, Midrug ratified the evaluation of the Bank's internal financial stability at the rank of aa2.il/stable outlook, the Bank's short-term deposits at the rank of P-1.il, the Bank's long-term deposits and the senior debt at the rank of Aaa.il/stable outlook, its subordinate debt notes at the rank of Aa1.il/stable outlook, and its subordinate debt notes with a loss absorption mechanism to Aa3.il (hyb)/stable outlook rating.
- On November 16, 2021, the international rating agency Moody's ratified the rating of long-term deposits with the Bank in foreign currency and in Israeli currency at A2, the short-term deposits with the Bank at Prime-1, and the rating outlook at "stable".
- On January 4, 2022, S&P Maalot ratified the issuer rating of the Bank at ilAAA/Stable and the rating of the subordinate debt notes with a loss absorption mechanism at ilAA-.

THE SUPERVISORY SEGMENTS OF ACTIVITY - ADDITIONAL DETAILS

For the description of segments of activity see note 28 to the financial statements and the chapter of segments of activity in the Board of Directors and Management report.

Structure of the competition in the segment and changes in it

CORPORATE SEGMENT

- The majority of business customers in Israel manage accounts at a number of banks, and often at all the large banks operating in Israel as well as at foreign banks.
- The level of competition in the banking system for quality corporate segment customers is very high. The competition is reflected by the level of service and rapidity of response, by the level of prices and fees, and by the terms for the extension of credit. The Bank Group competes against the four other largest bank groups in Israel, as well as against foreign banks with representative offices in Israel and against off-banking factors such as insurance companies. The competition concerns the ability to provide a rapid and effective response to the changing requirements of each customer, the quality of service and professional personnel, and in the development of sophisticated and innovative banking products.
- Furthermore, the expansion of the non-banking market in Israel as a substitute for bank credit granted by institutional bodies and insurance companies, the globalization and liberalization processes have provided the Corporate Segment's customers with opportunities for raising capital in local and worldwide capital markets, and with ready access to credit and banking services from banks and financial entities in Israel and abroad.

THE PRIVATE BANKING SEGMENT

- Activity in the private banking segment, which is characterized by a high level of competition, comprises a central layer of the Group's strategy. The Group competes in this segment against all Israeli banks as well as against representative offices in Israel of foreign banks and investment houses, against institutional bodies, private and foreign brokers.
- On this background, and in view of the relatively low credit risk level involved in the private banking segment operations, competition as regards customers is fierce and very dynamic. This competition is expressed in the allocation of considerable resources for the raising of the level of service and consulting to private banking customers, in the training of staff, in a continuous expansion of the array of products being offered, the upgrading of decision supporting technological systems, in the benefits regarding account management terms, in the erosion in the level of bank charges and fees, in many advertising campaigns, focus on personal service and creation of a customer adjusted overall service program.
- In the upper section of the private banking segment, as well as with respect to activity with foreign resident customers, the Group faces competitors in the global private banking market, which is characterized by especially high level of competition. In particular, the Group competes against Israeli banks operating abroad, against banks and other institutions specializing in private banking for the foreign population and against international investment houses.

  In order to improve the Group preparedness in attending to the upper section of private banking segment, the Bank changed Ubank's branches into platinum centers which attend the said customers with a service model that is uniquely tailored to the character of the customers' activity and their needs.
- The Bank and the Group are constantly acting to improve work processes and introduce technological improvements with the aim of improving the level of service and expanding the variety of products, including the upgrading and development of services offered on the Internet and on cellular phones, and development of advanced capital market services, such as "advise me"- system which enables the transfer of recommendations from the advisor directly to the cellular phone of the customer and the performance of the advised transactions by the customer through the application. In addition, "smart trade"- service which enables an upgrade to the supervision of the customer of its portfolio and to execute transaction in security through the application, by receiving alerts to his cell phone and creating strategies for buying and selling securities.

THE MEDIUM BUSINESS SEGMENT

- The competition in the banking system for commercial segment customers is growing continually. The competition is reflected by the level of service and rapidity of response, by the level of prices and Fees, and by the terms for the extension of credit. The Bank Group competes with the four other largest banks in Israel, as well as foreign banks with representative offices in Israel. The banks compete in their ability to provide a rapid and effective response to the changing requirements of each customer, in the quality of service and personnel, and in the development of sophisticated and innovative banking products. Competition also comes from non-banking entities, such as insurance companies, and from the opportunity for raising capital in local and overseas markets.
- Most middle market business customers in Israel manage accounts at a number of banks, which increases the competition for these customers. In addition, regulatory requirements that restrict the banks in their activity with large business customers and their increased severity in recent years are prompting the banking system to focus on commercial, mainly middle-market customers.
- The Bank uses the competitive advantage existing in the Group's activity and offers customers to enjoy the factoring services and the financing within the framework of the small and middle market business fund.
- Competition also exists in deposits and savings activity with the segment's middle-market customers, against other banks and against non-banking entities that specialize in the capital and money markets (including insurance companies and investment houses).

THE HOUSEHOLD SEGMENT

In recent years the level of competition on the household segment is rising - both in the banking system and against entities outside the banking system. As part of competition on market share the Group performs needed changes, including adjustment of preparations in the following areas:

- Focusing on the development of the online services of the Group; "International online", advanced cellular phone applications, self-service stations, etc.
- An extensive marketing activity based on supportive computer systems.
- Modifications to the branch layout in accordance with developments in the targeted population of the Group and in accordance with business potential areas.
- Strengthening the personal bond and relations with the customer.
- At the same time, the group continues to focus on specific target populations within the household segment, such as: defense agencies staff and retirees, teaching staff population, professionals, employees of large corporations, the ultra-orthodox customer segment and more. The merger of the activity of Otsar Hahayal into the Bank, as from the year 2019, greatly contributes to improve and widen the service provided to the defense force personnel and its retirees.

The improved position of the Group in the household segment will continue to comprise a central layer of the business strategy of the Group. This strategy is designed to decentralize the income mix of the Group, as well as create a new customer pool, which will provide reserve of private banking customers in the future. The Bank strives to preserve and enlarge the activity of the Group among existing customers, including dual customers, who conduct a part of their financial activity with other banks. Moreover, the Group continues to attract new customers from among the target population of the Group and to introduce measures for the efficiency and improvement of the retail infrastructure.

The following processes are being implemented and/or planned in the course of business for the realization of this strategy:

- Strengthening the concept of focusing on the customer, while modifying value offers, products, the level of service and distribution channels to the preferences and financial needs of each customer.
- Educated management of the retail network with a multi-channel concept, based both on the adequate deployment of the branch layout, and on the constant expansion of online banking services, including advanced automatic appliances, the Internet website, cellular phone applications which are in a state of constant expansion of the banking services included in them, such as FIBI - the virtual banker, biometric identification, expansion of the service of information in a

click- allowing the customer receiving information without the need to identify, sending personal massages to customers, correspondence with a banker via electronic mail or SMS on the website or the application, etc.

- A data based systematic initiation of activity with customers in all lines of operation, including account management services, investment activity and consulting, consumption credit and mortgages.
- Preservation of leadership and competitive advantage in the field of savings and investments.
- Development of mortgage activity as a supplementary retail product.

THE SMALL AND MINUTE BUSINESS SEGMENT

The competition in the Small and minute Business Segment has increased during recent years.

In this segment, the Group competes with all the banks in Israel and mainly with the four largest banks. Competition also derives from such financial entities as credit card companies, leasing companies and insurance companies. Additional factor contributing to the intensification of the competition in the segment is the existence of specific government funds for granting credit to small and medium sized businesses. During the Corona crisis, the Bank made available to the small business financial solutions, including: deferral of loan repayments, granting of loans in the framework of the fund guaranteed by the state for businesses impacted by the economic implications of the spread of the Coronavirus, granting of credit from the designated government fund for granting credit to middle-market and small businesses and providing individual solutions to customers in accordance with the customer's information and the profile of its activity.

TECHNOLOGICAL IMPROVEMENTS AND INNOVATION

The information technology group of the Bank operates and maintains the hardware and software of the core systems and digital of the central and decentralized servers and of the end stations, the communication and telephone network, as well as all the designated and related equipment connected to information technology at the branches and at the head offices of the Group companies.
Following are the principal issues concerning the technological infrastructure developed in 2021:

Digital and innovation

- Submitting an application for a bank guarantee – introduction of a new service on the website of the Bank for private and business customers, allowing submission of an application for bank guarantee, including the option of attaching the text for the required guarantee. Also added is the possibility of requesting a digital guarantee of the Accountant General at the Treasury;
- Introduction of a service for the ordering by telephone of a charge card and its delivery directly to the address of the customer;
- Correspondence with a banker – enlarging the variety of operations available on this service in order to expand the service and customer support;
- Improving the variety of options for the online opening and management of an account – addition of the service for the online opening of a joint account, in addition to the infrastructure allowing the opening of an individual account, which had been developed previously;
- Within the framework of improving service to customers with respect to mortgages, it is now possible to apply for a mortgage loan by means of the digital channels (modified for the mobile phone), as well as submit an application for internal restructuring by means of the Internet website.

Data

- integration of the Natural language Processing (NLP) platform;
- integration of a system for the development and integration of AI models and Machine Learning;
- Integration of a system for Self Service BI for use by the knowledge staff of the organization.

The strengthening of digital capabilities in capital market operations

- Additional services, both on the website and on the Application, have been introduced in the FIBI WISE system for the management and presentation of the pension portfolio of a customer on the digital channels, which, inter alia, allows customers to obtain personal pension consultation, carry out recommendations and updating of the pension portfolio, as well as making nonrecurring deposits.
- The SmarTrade service has been enlarged to include foreign ETF certificates and securities of additional foreign corporations as well as shares traded in the US not under leading indices.
- Improvements have been made to the "derivatives arena" of the capital market section on the website of the Bank, allowing customers authorized to transact business in MAOF and dollar derivatives to plan and carry out strategies easily and efficiently.
- Management of MAOF strategies - introduction of a unique tool allowing customers to plan and carry out different strategies regarding options in Israel, and accordingly send orders regarding securities. Use of this experiential tool, allows the presentation of possibilities for the purchase/sale of options, examination of strategies combined with up-to-date data, and more.
- Within the framework of improvements and innovations made by the Bank regarding the capital market field, an additional service was added for the delivery of premarket orders for shares traded on US stock exchanges. The service applies to all customers authorized to trade on the US equities market and who operate via the Internet website. The service allows

customers to trade in foreign securities, in accordance with anticipations and news reaching investors prior to the official opening of the market.

Improving customer service

- Introduction of the FIBI WISE 360 system – digital financial planning used for the management of all financial assets and liabilities of Bank customers, allowing them to enjoy a service for personal wealth management through the website or the Application.

Open banking

- Open banking services – the Bank enlarged the MultiBank service, offering customers a comprehensive service for collecting information from their accounts at other banks in a centralized manner using the Bank's Application. The system realizes advance capabilities, including a "drill down" of information items, totaling and graphic presentation of data, and more.
- The revolutionary Swift GPI service has been upgraded, and now an overall digital service, exclusive to the Bank, is being offered to customers. They can follow in real time the status of outgoing foreign currency transfers, by means of an innovative and unique graphic interface.
- Digital wallets – Integration of a new service offering Bank customers payments of the "Tap&Pay" class, by means of Google Pay and Apple Pay digital wallets, as well as by means of the Bank's Application using the FIBI Pay wallet.
- The API's services have been enlarged, providing corporations and ERP service suppliers, a direct link for the purpose of transmitting orders and extracting data directly from the systems of the Bank.

Automation and innovation

- Robotic Process Automation (RPA) – expansion of the integration of robots in business and operational processes, improving customer service and efficiency, such as the process of intake of mortgage consultants' applications directly into the approval in principle stage.
- Operating the operational layout with no human intervention – automation of processing and manual operations, with the aim of transferring operators to monitoring and control duties and to handling failure events, thereby reducing the risk of manual operations.

Data protection

- Management and protection interfaces for online wallets introduced in the course of 2021.
- Monitoring of the external protection characteristics of the Group's websites and the upgrading of characteristics, where required.
- Protection controls regarding the online opening of accounts.
- Strengthening and improving the password policy for customers.
- Clarifying notices to customers in information brochures and recommending the use of a two-stage verification on every website or online service permitting this.
- Updating data protection content on the Bank's website with respect to business email compromise (BEC) frauds, and guidelines for using the Bank's official Application.
- A refresher campaign to customers regarding the use of FIBIGUARD.

Upgrading of infrastructure

- Transition to new and advanced storage systems has been made for the purpose of improving sustainability, performance and availability of critical data of the Bank.
- Upgrading of the core computer – purchase of advanced core computers having a large central memory volume, enabling improved performance and savings in storage facilities and in the use of discs.
- Transition to use of a private cloud.
- A WhatsApp based intra-organizational service Application has been introduced.

APPENDIX 1 -
RATES OF INTEREST INCOME AND EXPENSES AND ANALYSIS OF CHANGES IN INTEREST INCOME AND EXPENSES

A. Average balances and interest rates - assets

	Year ended December 31, 2021			Year ended December 31, 2020			Year ended December 31, 2019		
	Average balance (1)	Interest income	Rate of income	Average balance (1)	Interest income (expense)	Rate of income (expense)	Average balance (1)	Interest income	Rate of income
		NIS million	%		NIS million	%		NIS million	%
Interest-bearing assets									
Credit to the public(2)(5)									
- In Israel	**87,465**	**2,995**	**3.42**	83,763	2,702	3.23	80,171	2,797	3.49
Total	**87,465**	**2,995**	**3.42**	83,763	2,702	3.23	80,171	2,797	3.49
Credit to the Government									
- In Israel	**687**	**13**	**1.89**	847	(4)	(0.47)	675	2	0.30
Total	**687**	**13**	**1.89**	847	(4)	(0.47)	675	2	0.30
Deposits with banks									
- In Israel	**2,452**	**-**	**-**	2,551	5	0.20	2,291	23	1.00
- Outside Israel	**-**	**-**	**-**	28	-	-	4	-	-
Total	**2,452**	**-**	**-**	2,579	5	0.19	2,295	23	1.00
Deposits with central banks									
- In Israel	**46,728**	**47**	**0.10**	36,570	49	0.13	26,722	68	0.25
Total	**46,728**	**47**	**0.10**	36,570	49	0.13	26,722	68	0.25
Securities borrowed or repurchased									
- In Israel	**223**	**1**	**0.45**	46	-	-	429	1	0.23
Total	**223**	**1**	**0.45**	46	-	-	429	1	0.23
Held to maturity or available for sale bonds(3)									
- In Israel	**14,013**	**93**	**0.66**	11,350	126	1.11	10,592	193	1.82
Total	**14,013**	**93**	**0.66**	11,350	126	1.11	10,592	193	1.82
Trading bonds									
- In Israel	**302**	**1**	**0.33**	228	-	-	218	1	0.46
Total	**302**	**1**	**0.33**	228	-	-	218	1	0.46
Total Interest-bearing assets	**151,870**	**3,150**	**2.08**	135,383	2,878	2.13	121,102	3,085	2.55
Non-interest-bearing debtors regarding credit cards	**2,694**			2,586			2,762		
Other non-interest-bearing assets(4)	**17,730**			14,205			12,396		
Total assets	**172,294**			152,174			136,260		
Total interest-bearing assets attributed to activity outside Israel	**-**	**-**	**-**	28	-	-	4	-	-

See notes in page 335.

APPENDIX 1 - RATES OF INTEREST INCOME AND EXPENSES AND ANALYSIS OF CHANGES IN INTEREST INCOME AND EXPENSES (CONT'D)

B. Average balances and interest rates - liabilities and capital

	Year ended December 31, 2021			Year ended December 31, 2020			Year ended December 31, 2019		
	Average balance (1)	Interest expenses	Rate of expense (1)	Average balance (1)	Interest expenses	Rate of expense (1)	Average balance (1)	Interest expenses	Rate of expense (1)
		NIS million	%		NIS million	%		NIS million	%
Interest-bearing liabilities									
Deposits from the public									
- In Israel									
Demand	**28,225**	**1**	**-**	20,659	5	0.02	18,981	24	0.13
Fixed-term	**46,939**	**236**	**0.50**	48,843	197	0.40	45,698	342	0.75
Total	**75,164**	**237**	**0.32**	69,502	202	0.29	64,679	366	0.57
Deposits from the Government									
- In Israel	**169**	**2**	**1.18**	159	3	1.89	233	4	1.72
Total	**169**	**2**	**1.18**	159	3	1.89	233	4	1.72
Deposits from banks									
- In Israel	**1,020**	**1**	**0.10**	1,063	1	0.09	1,042	4	0.38
Total	**1,020**	**1**	**0.10**	1,063	1	0.09	1,042	4	0.38
Deposits with central banks									
- In Israel	**3,299**	**2**	**0.06**	587	1	0.17	-	-	-
Total	**3,299**	**2**	**0.06**	587	1	0.17	-	-	-
Bonds									
- In Israel	**3,403**	**113**	**3.32**	4,099	33	0.81	3,980	106	2.66
Total	**3,403**	**113**	**3.32**	4,099	33	0.81	3,980	106	2.66
Other liabilities									
- In Israel	**112**	**1**	**0.89**	31	1	3.23	202	3	1.49
Total	**112**	**1**	**0.89**	31	1	3.23	202	3	1.49
Total Interest-bearing liabilities	**83,167**	**356**	**0.43**	75,441	241	0.32	70,136	483	0.69
Non-interest-bearing deposits from the public	**70,784**			60,357			50,142		
Non-interest-bearing creditors in respect of credit cards	**2,008**			2,428			2,638		
Other non-interest-bearing liabilities(6)	**6,164**			4,832			4,661		
Total liabilities	**162,123**			143,058			127,577		
Total capital resources	**10,171**			9,116			8,683		
Total liabilities and capital resources	**172,294**			152,174			136,260		
Interest spread			**1.65**			1.81			1.86
Net return on interest-bearing assets (7)									
- In Israel	**151,870**	**2,794**	**1.84**	135,355	2,637	1.95	121,098	2,602	2.15
- Outside Israel	**-**	**-**	**-**	28	-	-	4	-	-
Total	**151,870**	**2,794**	**1.84**	135,383	2,637	1.95	121,102	2,602	2.15
Total interest-bearing liabilities attributed to activity outside Israel	**-**	**-**	**-**	-	-	-	-	-	-

See notes in page 335.

APPENDIX 1 -
RATES OF INTEREST INCOME AND EXPENSES AND ANALYSIS OF CHANGES IN INTEREST INCOME AND EXPENSES (CONT'D)

C. Average balances and income rates - additional information on interest-bearing assets and liabilities attributed to activity in Israel

	Year ended December 31, 2021			Year ended December 31, 2020			Year ended December 31, 2019		
	Average balance (1)	Interest income (expenses)	Rate of income (expense)	Average balance (1)	Interest income (expenses)	Rate of income (expense)	Average balance (1)	Interest income (expenses)	Rate of income (expense)
		NIS million	%		NIS million	%		NIS million	%
Non-linked Israeli currency									
Total interest-bearing assets	**129,187**	**2,431**	**1.88**	112,510	2,427	2.16	98,352	2,442	2.48
Total interest-bearing liabilities	**67,156**	**(106)**	**(0.16)**	58,621	(133)	(0.23)	53,096	(159)	(0.30)
Interest spread			**1.72**			1.93			2.18
Israeli currency linked to the CPI									
Total interest-bearing assets	**11,199**	**595**	**5.31**	10,619	257	2.42	10,623	336	3.16
Total interest-bearing liabilities	**7,476**	**(238)**	**(3.18)**	7,566	(54)	(0.71)	8,677	(179)	(2.06)
Interest spread			**2.13**			1.71			1.10
Foreign currency (including linked to f-c)									
Total interest-bearing assets	**11,484**	**124**	**1.08**	12,226	194	1.59	12,123	307	2.53
Total interest-bearing liabilities	**8,535**	**(12)**	**(0.14)**	9,254	(54)	(0.58)	8,363	(145)	(1.73)
Interest spread			**0.94**			1.01			0.80
Total activity in Israel									
Total interest-bearing assets	**151,870**	**3,150**	**2.08**	135,355	2,878	2.13	121,098	3,085	2.55
Total interest-bearing liabilities	**83,167**	**(356)**	**(0.43)**	75,441	(241)	(0.32)	70,136	(483)	(0.69)
Interest spread			**1.65**			1.81			1.86

See notes in page 335.

APPENDIX 1 - RATES OF INTEREST INCOME AND EXPENSES AND ANALYSIS OF CHANGES IN INTEREST INCOME AND EXPENSES (CONT'D)

D. Analysis of changes in interest income and expenses

	Year ended December 31, 2021 compared with the year ended December 31, 2020			Year ended December 31, 2020 compared with the year ended December 31, 2019		
	Increase (decrease) due to the change			Increase (decrease) due to the change		
	Quantity	Price	Net change	Quantity	Price	Net change
						NIS million
Interest-bearing assets						
Credit to the public						
In Israel	**127**	**166**	**293**	116	(211)	(95)
Total	**127**	**166**	**293**	116	(211)	(95)
Other interest-bearing assets						
In Israel	**31**	**(52)**	**(21)**	36	(148)	(112)
Total	**31**	**(52)**	**(21)**	36	(148)	(112)
Total interest income	**158**	**114**	**272**	152	(359)	(207)
Interest-bearing liabilities						
Deposits from the public						
- In Israel						
Demand	**-**	**(4)**	**(4)**	-	(19)	(19)
Fixed-term	**(10)**	**49**	**39**	13	(158)	(145)
Total	**(10)**	**45**	**35**	13	(177)	(164)
Other interest-bearing liabilities						
In Israel	**31**	**49**	**80**	3	(81)	(78)
Total	**31**	**49**	**80**	3	(81)	(78)
Total interest expenses	**21**	**94**	**115**	16	(258)	(242)
Total interest income less interest expenses	**137**	**20**	**157**	136	(101)	35

(1) On the basis of monthly opening balances, excluding the non-linked Shekel segment in which calculated on daily balances.
(2) Before deduction of the average balance of provisions for credit losses including impaired debts which are non-interest-bearing income.
(3) From the average balance of available for sale bonds was deducted the average balance of unrealized gains from adjustments to fair value of bonds, included in other comprehensive income in the item "adjustments to fair value of available for sale bonds" for the year ended on December 31, 2021 in the amount of NIS 79 million (year ended on December 31, 2020 amount of NIS 6 million was deducted and for the year ended on December 31, 2019 an amount of NIS 45 million was deducted).
(4) Including derivative instruments, other non-bearing interest assets and after deduction of provision for credit losses.
(5) Fees in the amount of NIS 212 million, NIS 189 million and NIS 181 million were included in interest income for the years ended December 31, 2021, December 31, 2020 and December 31, 2019 respectively.
(6) Including derivative instruments.
(7) Net return- net interest income to total interest-bearing assets.
(8) Change attributed to quantity was calculated by multiplying the price in the reported period by the change in the quantity in the compared periods.
Change attributed to price was calculated by multiplying the quantity in the previous period by the change in the price in the compared periods.

APPENDIX 2 -
CONSOLIDATED STATEMENT OF INCOME - MULTI-PERIOD DATA

(NIS million)

	Year ended December 31,				
	2021	**2020**	**2019**	**2018**	**2017**
Interest Income	**3,150**	2,878	3,085	3,001	2,704
Interest Expenses	**356**	241	483	515	402
Interest Income, net	**2,794**	2,637	2,602	2,486	2,302
Expenses (income) from credit losses	**(216)**	464	138	166	121
Net Interest Income after expenses from credit losses	**3,010**	2,173	2,464	2,320	2,181
Non-Interest Income					
Non Interest Financing income	**303**	148	225	231	83
Commissions	**1,444**	1,371	1,286	1,325	1,305
Other income	**9**	4	9	81	62
Total non-Interest income	**1,756**	1,523	1,520	1,637	1,450
Operating and other expenses					
Salaries and related expenses	**1,601**	1,532	1,601	1,696	1,579
Maintenance and depreciation of premises and equipment	**340**	344	353	376	380
Amortizations and impairment of intangible assets and goodwill	**105**	96	92	91	94
Other expenses	**606**	597	608	656	554
Total operating and other expenses	**2,652**	2,569	2,654	2,819	2,607
Profit before taxes	**2,114**	1,127	1,330	1,138	1,024
Provision for taxes on profit	**728**	368	478	408	358
Profit after taxes	**1,386**	759	852	730	666
The bank's share in profit of equity-basis investees, after taxes	**69**	29	51	37	54
Net profit:					
Before attribution to non-controlling interests	**1,455**	788	903	767	720
Attributed to non-controlling interests	**(50)**	(38)	(38)	(34)	(42)
Attributed to shareholders of the Bank	**1,405**	750	865	733	678

					NIS
Primary profit per share attributed to the shareholders of the Bank					
Net profit per share of NIS 0.05 par value	**14.00**	7.48	8.62	7.31	6.76

APPENDIX 3 -
CONSOLIDATED STATEMENT OF INCOME - MULTY QUARTER DATA

(NIS million)

Year				**2021**				**2020**
Quarter	**4**	**3**	**2**	**1**	**4**	**3**	**2**	**1**
Interest Income	**758**	**807**	**856**	**729**	718	731	714	715
Interest Expenses	**54**	**97**	**146**	**59**	61	69	54	57
Interest Income, net	**704**	**710**	**710**	**670**	657	662	660	658
Expenses (income) from credit losses	**(10)**	**(69)**	**(128)**	**(9)**	51	91	165	157
Net Interest Income after expenses from credit losses	**714**	**779**	**838**	**679**	606	571	495	501
Non-Interest Income								
Non Interest Financing income	**89**	**63**	***75**	***76**	51	36	64	(3)
Commissions	**387**	**346**	**350**	**361**	345	335	323	368
Other income (expenses)	**(1)**	**6**	**-**	**4**	1	1	1	1
Total non-Interest income	**475**	**415**	**425**	**441**	397	372	388	366
Operating and other expenses								
Salaries and related expenses	**402**	**399**	**402**	**398**	394	386	373	379
Maintenance and depreciation of premises and equipment	**85**	**84**	**86**	**85**	83	89	86	86
Amortizations and impairment of intangible assets	**27**	**27**	**25**	**26**	25	24	23	24
Other expenses	**185**	**135**	**139**	**147**	173	141	135	148
Total operating and other expenses	**699**	**645**	**652**	**656**	675	640	617	637
Profit before taxes	**490**	**549**	**611**	**464**	328	303	266	230
Provision for taxes on profit	**158**	**193**	***216**	***161**	114	109	97	48
Profit after taxes	**332**	**356**	**395**	**303**	214	194	169	182
The bank's share in profit (loss) of equity-basis investee, after taxes	**12**	**21**	**23**	**13**	5	19	7	(2)
Net profit:								
Before attribution to non-controlling interests	**344**	**377**	**418**	**316**	219	213	176	180
Attributed to non-controlling interests	**(11)**	**(13)**	**(14)**	**(12)**	(9)	(12)	(8)	(9)
Attributed to shareholders of the Bank	**333**	**364**	**404**	**304**	210	201	168	171

				NIS				NIS
Primary profit per share attributed to the shareholders								
Net profit per share of NIS 0.05 par value	**3.32**	**3.62**	**4.03**	**3.03**	2.10	2.00	1.68	1.70

* Unsignificant adjustment of comparable data.

APPENDIX 4 -
CONSOLIDATED BALANCE SHEET - MULTI-PERIOD DATA
(NIS million)

	As at December 31,				
	2021	**2020**	**2019**	**2018**	**2017**
Assets					
Cash and deposits with banks	**57,370**	57,802	37,530	31,303	39,186
Securities	**15,091**	13,105	10,995	12,595	10,238
Securities which were borrowed	**845**	11	9	863	813
Credit to the public	**102,240**	92,247	88,829	85,160	81,216
Provision for Credit losses	**(1,076)**	(1,277)	(930)	(868)	(838)
Credit to the public, net	**101,164**	90,970	87,899	84,292	80,378
Credit to the government	**811**	656	1,039	700	675
Investments in investee companies	**713**	636	605	606	565
Premises and equipment	**931**	965	996	1,023	1,095
Intangible assets	**300**	272	248	239	235
Assets in respect of derivative instruments	**1,709**	1,897	1,091	1,399	1,342
Other assets	**1,536**	1,464	698	1,100	1,186
Assets held for sale	**-**	-	-	-	4
Total assets	**180,470**	167,778	141,110	134,120	135,717
Liabilities, temporary equity and Shareholders' Equity					
Deposits from the public	**153,447**	141,677	120,052	111,697	113,511
Deposits from banks	**5,144**	2,992	1,137	1,150	1,133
Deposits from the Government	**960**	459	353	982	960
Bonds and subordinated capital notes	**3,356**	4,394	3,674	4,989	5,249
Liabilities in respect of derivative instruments	**2,038**	2,314	1,247	1,294	1,318
Other liabilities	**5,088**	6,407	5,723	5,595	5,162
Total liabilities	**170,033**	158,243	132,186	125,707	127,333
Temporary equity - non-controlling interest	**-**	-	-	-	338
Capital attributed to the shareholders of the Bank	**10,003**	9,141	8,568	8,093	7,756
Non-controlling interests	**434**	394	356	320	290
Total equity	**10,437**	9,535	8,924	8,413	8,046
Total liabilities, temporary equity and shareholders' equity	**180,470**	167,778	141,110	134,120	135,717

APPENDIX 5 -
CONSOLIDATED BALANCE SHEET - MULTY QUARTER DATA
(NIS million)

Year				2021				2020
Quarter	**4**	**3**	**2**	**1**	**4**	**3**	**2**	**1**
Assets								
Cash and deposits with banks	**57,370**	**57,083**	**56,673**	**59,471**	57,802	52,366	46,144	41,933
Securities	**15,091**	**14,803**	***16,291**	***14,730**	13,105	12,174	11,715	10,824
Securities which were borrowed	**845**	**232**	**32**	**244**	11	14	45	82
Credit to the public	**102,240**	**96,965**	**96,340**	**93,581**	92,247	90,810	90,371	91,075
Provision for Credit losses	**(1,076)**	**(1,088)**	**(1,149)**	**(1,260)**	(1,277)	(1,225)	(1,156)	(1,047)
Credit to the public, net	**101,164**	**95,877**	**95,191**	**92,321**	90,970	89,585	89,215	90,028
Credit to the government	**811**	**859**	**101**	**659**	656	651	852	1,114
Investments in investee companies	**713**	**699**	**675**	**648**	636	629	611	603
Premises and equipment	**931**	**929**	**945**	**954**	965	970	979	989
Intangible assets	**300**	**275**	**279**	**265**	272	249	244	246
Assets in respect of derivative instruments	**1,709**	**1,565**	**1,307**	**1,603**	1,897	1,438	1,671	2,551
Other assets	**1,536**	**1,436**	**1,581**	**1,605**	1,464	1,294	1,243	1,161
Total assets	**180,470**	**173,758**	**173,075**	**172,500**	167,778	159,370	152,719	149,531
Liabilities and Shareholders' Equity								
Deposits from the public	**153,447**	**148,273**	**146,276**	**146,600**	141,677	135,914	129,160	126,977
Deposits from banks	**5,144**	**5,471**	**5,035**	**3,326**	2,992	1,717	1,881	1,129
Deposits from the Government	**960**	**417**	**435**	**694**	459	426	495	553
Bonds and subordinated capital notes	**3,356**	**2,851**	**2,833**	**3,716**	4,394	4,384	4,375	3,754
Liabilities in respect of derivative instruments	**2,038**	**1,751**	**1,440**	**1,554**	2,314	1,669	1,940	2,586
Other liabilities	**5,088**	**4,538**	***6,755**	***6,708**	6,407	5,932	5,783	5,625
Total liabilities	**170,033**	**163,301**	**162,774**	**162,598**	158,243	150,042	143,634	140,624
Capital attributed to the shareholders of the Bank	**10,003**	**10,022**	***9,880**	***9,495**	9,141	8,944	8,712	8,542
Non-controlling interests	**434**	**435**	**421**	**407**	394	384	373	365
Total equity	**10,437**	**10,457**	**10,301**	**9,902**	9,535	9,328	9,085	8,907
Total liabilities and shareholders' equity	**180,470**	**173,758**	**173,075**	**172,500**	167,778	159,370	152,719	149,531

* Unsignificant adjustment of comparable data.

THE FIRST INTERNATIONAL BANK OF ISRAEL LTD

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