FIBI FIRST INTERNATIONAL BANK OF ISRAEL

# Financial Statements as of June 30,

# 2021

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# REPORT OF THE BOARD OF DIRECTORS AND MANAGEMENT AS OF JUNE 30, 2021

The meeting of the Board of Directors held on August 17, 2021, resolved to approve and publish the unaudited consolidated financial statements of the First International Bank of Israel Ltd. (hereinafter - "the Bank") and its consolidated subsidiaries (hereinafter - "the Bank Group"), as of June 30, 2021.

## GENERAL OVERVIEW, OBJECTIVES AND STRATEGY

### Description of the Bank Group's activity

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 private and 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. Operating within this division is the business region, covering the operation of all business branches of the Bank.
- 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 January 3, 2021, 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-.

On May 21, 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 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 and its subordinate debt notes with a loss absorption mechanism to Aa3.il (hyb)/stable outlook rating.

## FORWARD-LOOKING INFORMATION

Part of the information detailed in these reports which does not refer to historical facts is 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 due to a large number of factors, including changes in legislation and supervisory directives, macroeconomic developments in Israel and abroad and their effect on the liquidity position and stability in the capital markets at business companies in Israel and abroad, exceptional economic developments such as extreme changes in interest rates, exchange rates and inflation, stock prices, bond prices, competitors' behavior and changes in the terms of competition. In respect of which, see also the reservation in the chapter of major risks to which the Bank is exposed- the effect of he spread of the Coronavirus.

Forward-looking information is notable for such words or expressions as: "forecast," "expected," "in the Bank's estimation" and "the Bank intends," as well as expressions 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 table of risk factors presented in this report.

The information in this report is based, among other, on the publication of 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.

# CONDENSED PRINCIPAL FINANCIAL INFORMATION AND PRINCIPAL EXECUTION INDICES

| Principal financial ratios | For the six months ended June 30, 2021 | For the six months ended June 30, 2020 | For the year ended December 31, 2020 |
|---|---|---|---|
| | | | in % |
| **Execution indices** | | | |
| Return on equity attributed to shareholders of the Bank(1) | **15.0%** | 8.1% | 8.6% |
| Return on average assets(1) | **0.80%** | 0.47% | 0.49% |
| Ratio of equity capital tier 1 | **11.67%** | 10.71% | 11.18% |
| Leverage ratio | **5.49%** | 5.49% | 5.29% |
| Liquidity coverage ratio | **137%** | 139% | 150% |
| Ratio of total income to average assets(1) | **2.6%** | 2.9% | 2.7% |
| Ratio of interest income, net to average assets (1) | **1.6%** | 1.8% | 1.7% |
| Ratio of fees to average assets (1) | **0.8%** | 1.0% | 0.9% |
| Efficiency ratio | **59.5%** | 60.5% | 61.8% |
| **Credit quality indices** | | | |
| Ratio of provision for credit losses to credit to the public | **1.19%** | 1.28% | 1.38% |
| Ratio of impaired debts or in arrears of 90 days or more to credit to the public | **0.87%** | 1.18% | 0.86% |
| Ratio of provision for credit losses to total impaired credit to the public | **184%** | 151% | 221% |
| Ratio of net write-offs to average total credit to the public (1) | **-** | 0.18% | 0.10% |
| Ratio of expenses (income) for credit losses to average total credit to the public (1) | **(0.30%)** | 0.72% | 0.52% |

| Principal data from the statement of income | For the six months ended June 30, 2021 | For the six months ended June 30, 2020 |
|---|---|---|
| | | NIS million |
| Net profit attributed to shareholders of the Bank | **677** | 339 |
| Interest Income, net | **1,380** | 1,318 |
| Expenses (income) from credit losses | **(137)** | 322 |
| Total non-Interest income | **819** | 754 |
| Of which: Fees | **711** | 691 |
| Total operating and other expenses | **1,308** | 1,254 |
| Of which: Salaries and related expenses | **800** | 752 |
| Primary net profit per share of NIS 0.05 par value (NIS) | **6.75** | 3.38 |

| Principal data from the balance sheet | As of 30.6.21 | 30.6.20 | 31.12.20 |
|---|---|---|---|
| | | | NIS million |
| Total assets | **173,028** | 152,719 | 167,778 |
| of which: Cash and deposits with banks | **56,673** | 46,144 | 57,802 |
| Securities | **16,244** | 11,715 | 13,105 |
| Credit to the public, net | **95,191** | 89,215 | 90,970 |
| Total liabilities | **162,758** | 143,634 | 158,243 |
| of which: Deposits from the public | **146,276** | 129,160 | 141,677 |
| Deposits from banks | **5,035** | 1,881 | 2,992 |
| Bonds and subordinated capital notes | **2,833** | 4,375 | 4,394 |
| Capital attributed to the shareholders of the Bank | **9,849** | 8,712 | 9,141 |

| Additional data | 30.6.21 | 30.6.21 | 31.12.20 |
|---|---|---|---|
| Share price (0.01 NIS) | **10,440** | 7,310 | 8,514 |
| Dividend per share (0.01 NIS) | **-** | 125 | 125 |

(1) Annualized.

## 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.

All material risks are managed by members of Management or by other senior officeholders. 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.

Additional information is detailed in the financial statements for 2020.

### Developing risks

Developing risks are risks which may be created in new areas, or new risk centers developing in existing areas, which stem, inter alia, from changes in the environment affecting areas of banking activity, including the regulatory, competitive, digital and additional environments.

The principal developing risks are the strategic/business model risk, regulatory risk, cyber and data protection risks, information technology risk, cross-border risks and fair banking risk, environmental risks, as well as macro-economic risk, which includes the impact of the spreading of the Coronavirus. For additional details regarding developing risks – see the Risk Report on the Internet website of the Bank.

### Impact of the spreading of the Coronavirus

The economic recovery trend in most sectors of economic activity continues since the exit from the third lockdown, and the rate of unemployment continues to decline. According to the forcast of the Research Department of Bank of Israel, published in July, the GDP is expected to grow by 5.5% in 2021 and by 6% in 2022.

Towards the end of the second quarter, morbidity in Israel started to rise again. According to estimates, the high rate of immunization of the population reduces significantly the negative impact expected as a result of the outbreak. However, uncertainty still exists with respect to the risks involved in the spreading of the virus, in view of the lack of definite information regarding the level of efficiency of the vaccination in preventing heavy sickness. Furthermore, the elderly population in Israel has started to receive since July a third vaccination ("booster"), in an effort trying to curb the renewed rise in morbidity.

Due to the renewed outbreak, a part of the removed restrictions has been reinstated, and concern exists that following the rise in morbidity, significant restrictions would be reimposed, which may lead to impairment in activity of the Israeli economy.

The Bank continues to follow and monitor the different risks - including those, the probability of their realization has increased as a result of the crisis – their implications and impact upon the Bank, inter alia, credit risk, cyber and data protection risks, money laundering risk, the strategic risk and more.

The Bank continues to strictly apply the guidelines of the Ministry of Health and of Bank of Israel, and has adopted a series of measures regarding the maintenance of business continuity, inter alia, the splitting of critical units into capsules, reduction in the holding of frontal meetings and enabling risk group employees to work from home, while strictly maintaining risk management and control. During the second quarter of the year, the high use trend of digital means by Bank customers continued alongside the return to work at a full format at the branches.

On March 22, 2021, Bank of Israel extended the Provisional Instruction providing to banks mitigated terms regarding different issues, including mitigation regarding the capital requirements and the leverage ratio. The Provisional Instruction is in effect until September 30, 2021 (a transitional period had been applied in respect of certain of the mitigated terms).

The significant decline in the volume of deferred loan repayments continued in the first half of the year. The balance of deferred loan repayments (principal and interest) as at June 30, 2021, amounted to NIS 19 million, comprising 0.02% of the balance of credit to the public, as compared to the balance of deferred loan repayments of NIS 125 million at December 31, 2020, comprising 0.14% of the balance of credit to the public. The rate of debts to which repayment deferral applies at June 30, 2021, amounts to 0.21% of total credit to the public, as compared to 1.9% at December 31, 2020.

Since the outbreak of the Corona crisis and the high uncertainty created by it, and in order to reflect the possible increase in the specific provisions in respect of borrowers impacted by the crisis but not yet identified, the Bank significantly increased during the year 2020, the collective provision for credit losses.

All through the crisis, the Bank monitors developments in the market as well as the relevant data in respect of determination of the provision for credit losses and the adjustment of the collective provision, in order to reflect a possible growth in the specific provisions in respect of borrowers affected by the crisis, but not yet identified.

Within the framework of the considerations respecting the determination of the level of the collective provision as of June 30, 2021, the Bank took into account the significant increase in economic activity in relation to that reflected during 2020, estimating that despite the recent increase in morbidity, the risk of impairment in economic activity has declined, in view of the policy for the modification of the economy to the continuation of activity in the period of rising morbidity, the anticipated additional vaccination measures and the Government policy for the management of the crisis at minimal impairment to the economy.

The ratio of the balance of the provision for credit losses to the balance of credit to the public at June 30, 2021, amounted to 1.19%, as compared to 1.28% at June 30, 2020, and compare to 1.38% and 1.05% at the end of the years 2020 and 2019, respectively.

As stated, it is still not possible to assess the full impact of the crisis and its scope regarding the Bank, due to the uncertainty relating to the continued spreading of the virus in the world, inter alia, in view of the discovery of different variants and additional measures taken to stop their spreading.

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

For additional details regarding the effect of the spreading of the Coronavirus, see Note 15 to the condensed financial statements and the risk report available on the Internet website of the Bank.

## Objectives and Strategy

The Bank operates in accordance with a multi-annual strategic plan that is being validated by the Board of Directors every six months. In November 2019, the Board of Directors of the Bank 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 customers and strives to provide up-to-date banking services, adapted to the needs of its customers, in an efficient,professional and secured manner, while adjusting to the changing banking environment and maintaining a proportional level of risk.

The strategic plan states business focal points, the aim of which is to lead the Bank forward in the competitive environment, under uncertainty conditions. The plan has superior goals in terms of return on equity and efficiency ratio, in which, concurrently with an educated risk management, the Bank focuses on the following issues:

- providing added value to its customers in accordance with the needs of each customer, including in the digital field and technological response;
- focusing of the subsidiary company (Massad) and the brands UBank, PAGI and Otsar Hahayal in their unique operating niches;
- maintaining leadership in the capital market;
- preserving activity with the corporate sector;
- leading to efficiency in expenses, while improving its manpower position, improving procedures, establishment of a branch operational center, continuing efficiency measures in the branch layout and continuing diversion to the online 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 computing strategy, the digital operation strategy, the aim of which is to provide advanced technological response to customers, and the data strategy, aimed at leveraging the vast amount of data accumulated within the organization, in order to create significant business added value for the Bank and its customers.

The strategic plan has been examined and found relevant and suitable for the Bank, even in the face of the spread of the Coronavirus and its economic implications in Israel and the world over. The Bank continues to follow the effects of the Corona crisis and its implications on the Bank's operations and strategy, and performs adjustments to the work plan of the Bank, as needed.

## EXPLENATION AND ANALYSIS OF RESULTS AND BUSINESS POSITION

## TRENDS, EVENTS, DEVELOPMENTS AND MATERIAL CHANGES

### PRINCIPAL ECONOMIC DEVELOPMENTS

Following are the principal economic development in the first half of 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. Notwithstanding this, since the middle of the month of June 2021, increase is noted in the number of persons found infected by the Coronavirus, due to the spreading of the "Delta" variant. According to estimates of Bank of Israel of July 2021, concern regarding the spreading of mutations resistant to vaccination, or such that may cause higher morbidity, comprise a certain risk to the continuing recovery of the economy.

Alongside the growth in economic activity, the manpower survey data for June and for the first half of July indicate encouraging reduction in the rate of the wide unemployment to a level of 9.0%, as compared to 9.8% in May. The 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 to households and businesses, the reduction in bank capital requirements, 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. With the removal of restrictions and the recovery of the economy, the need for the plan for providing long-term loans to banks in order to finance loans granted to small and minute businesses would be reduced and the operation of this tool would be terminated, subject to the decision of Bank of Israel. The layer in which loans were provided to banks at a negative interest rate of 0.1%, came to an end, as planned, in June, and the layer in which loans had been granted at an interest rate of 0.1% will be terminated on October 1, or upon the utilization in full of the amount of NIS 40 billion.

The global economy shows signs of recovery, immunization in the developed countries has reached a high rate and morbidity is at a downward trend, concurrently with the removal of restrictions on economic activity. The global growth forecast for 2021 of the World Bank and of investment houses have been updated upwards, in view of the economic plan approved in the United States, the immunization process and the adaption to economic activity under restrictions. The Purchase Managers Index continues to rise, indicating economic expansion, and for the first time since the outbreak of the Corona crisis, the services sector index shows a higher rate than that of industry. The volume of world trade continues to grow in recent months. Share indices continue to rise, though the pace of rising prices was relatively moderate. According to Bank of Israel estimates, it is possible that the pricing of a part of financial assets does not necessarily reflect all relevant risks. Oil prices have also risen, but on the other hand, commodity prices declined recently.

#### Growth

The Research Division of Bank of Israel updated on July 5, 2021, its forecasts, according to which the GDP is expected to grow in 2021 at the rate of 5.5%, a more moderate rate in relation to the previous forecast of April (6.3%), and in 2022, a growth of 6% is expected (5% according to the April forecast), so that the level of the GDP at the end of 2022 is expected to be lower by only 0.5% than the level forecasted prior to the crisis.

In 2020, private consumption was the most dominant factor shrinking due to lockdowns and restrictions. Accordingly, the free income of households has grown creating forced savings Thus, within the range of the forecast, private consumption is expected to grow comprising a significant generator for the growth in the GDP.

### 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 at the end of 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 on April 27, 2021, the credit rating outlook of the State of Israel at the level of "A1" with a stable outlook. This follows the reduction by the agency at the end of April 2020, of the credit rating outlook of the State of Israel from a level of "A1" with a positive outlook, to 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

At the beginning of August 2021, the Government of Israel approved the State budget for the years 2021-2022. The State budget for 2021 amounts to NIS 432.5 billion, and for 2022 amounts to NIS 452.5 billion. The deficit for 2021 is estimated at 6.8% and in 2022 at 3.9%. In November 2021, the proposed budget would be tabled for the decision by the Knesset.

In March 2021, the Ministry of Finance updated the forecast with respect to Government revenues and expenditure for 2021. The forecast includes return to the outline of economic growth, where uncertainty is mostly reflected in the imposition of additional lockdowns and the volume of restrictions that might be imposed on the public in continuation.

The "central" scenario assumes overcoming of the virus in the course of the first half of 2021, and health restrictions only during this period, following which, growth of 4.9% in the GDP. The "health deterioration" scenario assumed growth in morbidity and in restrictions that would be applied all through 2021, following which, growth of the GDP at the rate of only 2.8%.

The forecast is subject to risks of significant lockdowns, stemming from additional variants of the virus, or waves of morbidity that might lead to different developments and to deviation from the growth forecast. The uncertainty relating to the global confrontation with the virus and the scope of the damage may significantly affect world trade, capital markets and investments, also in 2021. On the other hand, the wide and efficient continuation of immunization may assist a speedy recovery of the local and global economies.

According to preliminary assessments made by the Accountant General at the Ministry of Finance for the preparation of the budget, published in June 2021, a decline is noted in the Government deficit (in the last twelve months to May 2021). The cumulative deficit for the period amounts to NIS 149 billion, comprising 10.5% of the GDP (as compared to 11.2% in April 2021 and 12.1% in March 2021). Notwithstanding the above, the rate of Government expenditure remains high amounting to NIS 199.2 billion, reflecting an increase of 15.5% in comparison to the corresponding period last year, and stemming mostly from the economic assistance plan. Most of the decrease in the deficit since the beginning of the year stems from growth in State revenues, amounting since the beginning of the year to NIS 164.4 billion, an increase of 30% in comparison to the corresponding period last year.

The cumulative deficit since the beginning of the year and until may 2021, amounted to NIS 34.8 billion, compared to NIS 45.9 billion in the corresponding period last year. State expenditure (after elimination of the economic assistance plan) since the beginning of the year and until May 2021, amounted to NIS 166.8 billion, forming a gap of NIS 2.4 billion. However, as stated, most of the deficit stems from the expenditure of NIS 32.7 billion relating to the economic assistance plan, so that despite the positive data on the part of revenues, Government expenditure continues to be high.

The forecast by Bank of Israel published in July 2021, stated that subject to the assumption that the State budget would be approved until the end of 2021, and that the fiscal consolidation would be deferred to 2023, the deficit is expected to shrink, reaching at the end of 2021, 7.1% of GDP and in 2022, 3.8% of GDP (in contrast to 12% of GDP in 2020). The ratio of debt to GDP is expected to amount to 74% in each of these years.

### Inflation

The rate of inflation rose in the first half of 2021. The CPI "for the month" rose by 1.6%, as compared to the decrease of 0.8% in the corresponding period last year, whereas the "known" CPI rose by 1.4%, in comparison to a decline of 0.5% in the corresponding period last year. During the past twelve months (the June 2021 CPI "for the month" compared to June 2020) the CPI rose by 1.7%.

In accordance with an update by the Research Department of Bank of Israel of July 2021, inflation in the coming four quarters (ending with the second quarter of 2022), is expected to amount to 1.0%. The anticipated rates to the years 2021 and 2022 are 1.7% and 1.2%, respectively.

### Housing market

In accordance with the apartment price index of the CBS, published in July 2021, an increase of 7.2% was recorded in prices of transactions effected in the period April-May 2021, as compared with transactions effected in the months of April-May 2020. However, Bank of Israel report on the monetary policy of July 2021, notes that in the first half of 2021, the rate of increase in rental prices remained at a moderate level in continuation of the significant moderation recorded during 2020. The Owned Property User Cost Index rose during the first half of 2021 by an average annualized rate of 1.2%, identical with the average rate recorded in the preceding half year.

### Labor market

The Corona crisis has seriously affected the labor market, which until the outbreak of the crisis demonstrated power. According to the manpower survey published by the CBS in June 2021 and in the first half of July, the wide unemployment rate declined to 9.0%, in comparison to 9.8% in May. 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, as well as the termination of the sweeping "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 dated July 5, 2021, a decrease in the rate of wide range of unemployment is anticipated from 16.1% in 2020 to 8.0% in the last quarter of 2021 (7.5% according to the forecast of April), and to 5.5% in the last quarter of 2022 (6% according to the forecast of April), 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, the number of open positions in the economy in the second quarter of 2021, increased by 39% in relation to the previous quarter and by 171% in relation to the corresponding quarter last year, being the height of the Corona crisis.

According to an open positions survey published by the CBS in June 2021, the number of open positions in the economy (net of seasonality) amounted to 128.2 thousand positions, in comparison to 121.8 positions in the previous month. The rate of open positions for the month of June amounted to 4.83%, as compared to 4.62% in the previous month and to 2.47% in 2020.

### Exchange rate

In the first half of 2021, the rate of exchange of the shekel as against the US dollar appreciated by 1.4%, while as against the Euro, the exchange rate of the shekel dropped by 1.8%.

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). During the period from January to June 2021, Bank of Israel purchased an amount of US$25 billion, comprising 83% of the planned annual target.

At the beginning of July 2021, Bank of Israel announced that it is not limited to the maximum involvement of 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.

**Bank of Israel interest rate**

In the first half of 2021, Bank of Israel left the interest rate unchanged, at a level of 0.1%. Members of the Monetary Committee of bank of Israel have noted that this low level of the interest rate supports economic recovery and the gradual return of the inflation to the targeted range, this with the help of additional tools activated by Bank of Israel in the credit market and in the foreign currency market.

According to an updated assessment of the Research Division of Bank of Israel of July 2021, the interest rate is expected to continue remaining at the level of 0.1% in the coming year, similarly to the previous forecast of April 2021.

**The global environment**

The increased pace of vaccination around the world and the efficiency of vaccination assist the recovery of the global economy. The International Monetary Fund updated upwards in April 2021, the growth forecasts for all principal zones, according to which, the global economy is expected to grow in 2021 by 6%. However, the OECD foresees that of all the G20 countries, only in the United States the GDP would reach its potential level, as forecasted in 2019, and would even exceed it slightly, so that at the end of 2021, the global product is expected to be lower by 3% in relation to the pre-crisis forecast.

In its monetary policy report for the first half of 2021, Bank of Israel notes that the US had led economic recovery in relation to other developed countries around the world, due to the speedy distribution of vaccination, the reduction in restrictions and the introduction of a fiscal plan of a significant scope, together with a planned tax reform, which if implemented, is expected to have a global impact. The fiscal plan is expected to have a positive impact upon economic growth rate and the labor market in the US, and is supposed to encourage the continued upward trend of inflation.

In contrast, in Europe, the first quarter of 2021, recorded the shrinking in economic activity. However, acceleration in the pace of vaccination of the population, alongside the decline in morbidity and expectations for the introduction of a fiscal plan in the second half of the year, have led to the upward updating of the growth forecast for 2021. The economy in China continued to expand at a moderate rate, similarly to the pre-crisis rate.

The global Purchase Managers Index rose during the second quarter of 2021 to its highest level in fifteen years, indicating a significant expansion in economic activity. The expansion in activity was reflected both in the services component and in the industrial component.

Inflation has grown in all principal zones, being supported by the steep increase in prices of commodities and of oil. However, inflationary expectations remained near the targets of the central banks.

**Capital market**

Trading on the capital markets around the world, during the first half of 2021, reflected a rise in quotations on all leading indices, though with high fluctuations. The Dow Jones and S&P Indices recorded an average rise of 14%, and the Nasdaq Index recorded a rise of 13% (following a rise of 47.5% in 2020). Also the leading Stock Exchanges in Europe presented fair increases in the leading indices.

On the local market, investors who were encouraged by the decline in morbidity that started at the beginning of the year, returned to the market and contributed to the rise in prices in all leading share indices. The TA-35 Index closed the first half of the year with a rise of 12%, and the TA-90 and the TA-60 SME Indices rose by 16% on the average.

Also the segmental indices concluded a successful half year, headed by the TA-Oil and Gas Index, which rose by 31% (inter alia, on background of the a 44% increase in oil prices), and the TA- Construction and TA-5 Banks Indices, which rose by 29% and 26%, respectively. The steep increase in oil and in real estate prices during the year, stem, inter alia, from 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 demand for residential property.

Trading on the bond market was characterized in the first half of 2021 by rising prices, mostly in the linked bond indices. Prices of CPI-linked corporate bond increased by 4.5%, and CPI-linked government bonds recorded a more moderate increase of 1.5%. Foreign currency linked corporate bonds were positively outstanding with a rise of 8.7%, this due to the effect of expectations for the devaluation of the shekel as against the US dollar, inter alia, due to the plan for the purchase of dollars announced by Bank of Israel, and expectations for the early increase in the FED interest rate.

# MATERIAL DEVELOPMENTS IN REVENUES, EXPENSES AND OTHER COMPREHENSIVE INCOME

## PROFIT AND PROFITABILLITY

**Net profit attributed to the shareholders of the Bank** amounted to NIS 677 million in the first half of 2021, as compared to NIS 339 million in the same period last year, an increae of 99.7%.

**The return of net profit to the capital attributed to the shareholders of the Bank** (annualized) amounted to 15.0% in the period January-June 2021, as compared to 8.1% in the same period last year and 8.6% in 2020.

**Net profit attributed to the shareholders of the Bank** in the second quarter of the year amounted to NIS 390 million, compared with NIS 168 million in the same period last year, an increase of 132.1%.

**The return of net profit to the capital attributed to the shareholders of the Bank** (annualized) amounted to 17.2% in the second quarter of the year, compared with 8.0% in the same period last year.

### Condensed statement of income

| | For the three months ended June 30, | | | For the six months ended June 30, | | |
|---|---|---|---|---|---|---|
| | **2021** | **2020** | **change** | **2021** | **2020** | **change** |
| | | NIS million | % | | NIS million | % |
| Net financing earnings(1) | **763** | 724 | 5.4 | **1,484** | 1,379 | 7.6 |
| Expenses (income) from credit losses | **(128)** | 165 | (177.6) | **(137)** | 322 | (142.5) |
| Net financing earnings after Expenses from credit losses | **891** | 559 | 59.4 | **1,621** | 1,057 | 53.4 |
| Fees and other income | **350** | 324 | 8.0 | **715** | 693 | 3.2 |
| Operating and other expenses | **652** | 617 | 5.7 | **1,308** | 1,254 | 4.3 |
| Profit before taxes | **589** | 266 | 121.4 | **1,028** | 496 | 107.3 |
| Provision for taxes on profit | **208** | 97 | 114.4 | **361** | 145 | 149.0 |
| The bank's share in profit of equity-basis investee, after taxes | **23** | 7 | 228.6 | **36** | 5 | 620.0 |
| **Net profit:** | | | | | | |
| Before attribution to non-controlling interests | **404** | 176 | 129.5 | **703** | 356 | 97.5 |
| Attributed to non-controlling interests | **(14)** | (8) | 75.0 | **(26)** | (17) | 52.9 |
| Attributed to shareholders of the Bank | **390** | 168 | 132.1 | **677** | 339 | 99.7 |
| Net return on equity attributed to the Bank's shareholders(2) | **17.2%** | 8.0% | | **15.0%** | 8.1% | |

(1) The items of profit and loss above were presented in a different format then the condensed statement of income in a manner enables better analysis of the financial results. The change is expressed by sorting of non-interest income from the item non-interest income to the Net financing earnings.

(2) Annualized.

## 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 raise 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:

| | | 2021 | | | | 2020 | | First Half |
|---|---|---|---|---|---|---|---|---|
| | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 | 2021 | 2020 |
| | | | | | | NIS million | | NIS million |
| Interest income | **856** | **729** | 718 | 731 | 714 | 715 | **1,585** | 1,429 |
| Interest expenses | **146** | **59** | 61 | 69 | 54 | 57 | **205** | 111 |
| Net interest income | **710** | **670** | 657 | 662 | 660 | 658 | **1,380** | 1,318 |
| Non-interest financing income (expenses) | **53** | **51** | 51 | 36 | 64 | (3) | **104** | 61 |
| Net reported financing earnings | **763** | **721** | 708 | 698 | 724 | 655 | **1,484** | 1,379 |
| Elimination of non-current activities: | | | | | | | | |
| Reconciliations to fair value of derivative instruments | **5** | **(3)** | (6) | - | 3 | - | **2** | 3 |
| Income (expenses) from realization and reconciliations to fair value of bonds | **10** | **3** | 12 | 5 | 20 | (9) | **13** | 11 |
| Earnings (losses) from investments in shares | **23** | **40** | 25 | 17 | 4 | (48) | **63** | (44) |
| Total non-current activities | **38** | **40** | 31 | 22 | 27 | (57) | **78** | (30) |
| Financing earnings from current activity(1) | **725** | **681** | 677 | 676 | 697 | 712 | **1,406** | 1,409 |

(1) Of which in respect of changes in the CPI- an income of NIS 50 million in the first half of 2021, in comparison with an expense of NIS 23 million in the same period last year (in the second quarter of 2021 - an income of NIS 48 million, in comparison with an expense of NIS 7 million in the same period last year).

The financing earnings from current activity amounted to NIS 1,406 million, compared with NIS 1,409 million in the corresponding period last year, a decrease of 0.2%. The decrease stemmed from an erosion of the spreads as a result of the decrease in the Bank of Israel interest rate and from a decline in the Dollar interest rate compared with the same period last year. This decrease was partially offset by the the effect of the changes in the CPI and the effect of the rise in the volume of the business activity.

Set out below are main data regarding interest income and expenses:

| | For the six months ended June 30, | |
|---|---|---|
| | 2021 | 2020 |
| | | in % |
| Income rate on asset bearing interest | **2.12** | 2.22 |
| Expense rate on liabilities bearing interest | **0.50** | 0.31 |
| Total interest spread | **1.62** | 1.91 |
| Ratio between net interest income and assets bearing interest balance | **1.84** | 2.04 |

For details regarding the report on rates of interest income and expenses of the Bank and of its consolidated subsidiaries and the analysis of changes in interest income and expenses, see Appendix 1 to the Chapter "Corporate governance ".

**Income from credit losses** amounted to NIS 137 million in the first half of 2021 compared with expenses of NIS 322 million in the same period last year.

**Income from credit losses** amounted to NIS 128 million in the second quarter of 2021 compared with expenses of NIS 165 million in the same period last year.

The income from credit losses recorded in the first half of the year derive mainly from the decrease in the collective provision for credit losses, explained by the improvement in the macro-economic indices and indicators indicating the level of risk latent in the credit protfolio of the Bank and from a continued decline in the volum of debts in repayment defferals. In the corresponding period last year, the expenses from credit losses derived mainly from an increase in the collective provision for credit losses, due to the changes in the macro-economic environment, as a result of the spreading of the corona virus and as a result, the uncertainty as to its effect on the position of the borrowers and from an increrase in the volume of problematic debts.

Set out below are details of expenses in respect of credit losses in respect of debts and off-balance sheet credit instruments:

| | For the three months ended June 30, | | For the six months ended June 30, | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| | | NIS million | | NIS million |
| Individual expense in respect of credit losses | **27** | 53 | **55** | 107 |
| Decrease in individual expense in respect of credit losses and collection of debts written off in accounting | **(41)** | (23) | **(66)** | (50) |
| Individual expense (income), net in respect of credit losses | **(14)** | 30 | **(11)** | 57 |
| Collective expense (income) in respect of credit losses | **(114)** | 135 | **(126)** | 265 |
| Total expenses (income) in respect of credit losses | **(128)** | 165 | **(137)** | 322 |
| Of which: | | | | |
| Expenses (income) in respect of commercial credit | **(132)** | 107 | **(145)** | 231 |
| Expenses(income) in respect of housing credit | **(5)** | 24 | **2** | 28 |
| Expenses in respect of other private credit | **9** | 34 | **6** | 63 |
| Ratio of individual expense (income) in respect of credit losses to average total credit to the public(1) | **(0.06%)** | 0.13% | **(0.02%)** | 0.13% |
| Ratio of collective expense (income) in respect of credit losses to average total credit to the public(1) | **(0.49%)** | 0.61% | **(0.28%)** | 0.59% |
| Ratio of total expenses (income) in respect of credit losses to average total credit to the public(1) | **(0.55%)** | 0.74% | **(0.30%)** | 0.72% |

(1) Annualized.

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

**Fees** totaled NIS 711 million in the first half of 2021, compared with NIS 691 million in the same period last year, an increase of2.9%. 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' portfolio of the customers of the Group.

Set out below are details of fees income:

| | For the six months ended | |
|---|---|---|
| | **June 30, 2021** | **June 30, 2020** |
| | | NIS million |
| Account management | **101** | 106 |
| Credit cards | **53** | 46 |
| Transactions in securities | **380** | 357 |
| Conversion differentials | **83** | 92 |
| Fees from financing transactions | **39** | 39 |
| Other Fees | **55** | 51 |
| Total Fees | **711** | 691 |

**Operating and other expenses** totaled NIS 1,308 million in the first six months of 2021, compared with NIS 1,254 million in the same period last year, an increase of 4.3%.

Set out below are details of operating and other expenses:

| | For the six months ended | |
|---|---|---|
| | **June 30, 2021** | **June 30, 2020** |
| | | NIS million |
| Salaries and related expenses | **800** | 752 |
| Maintenance and depreciation of premises and equipment | **171** | 172 |
| Amortization of intangible assets | **51** | 47 |
| Dismissals | **5** | 4 |
| Other expenses except dismissals | **281** | 279 |
| Total operating and other expenses | **1,308** | 1,254 |

**Salaries and related expenses** totaled NIS 800 million in the first six months of 2021, compared with NIS 752 million in the same period last tear, an increase of 6.4%, explained mainly the adjustments of variable compensation components to the return and earning of the Bank.

**Maintenance and depreciation of buildings and equipment expenses** amounted to NIS 171 million in comparison to NIS 172 million in the same period last year.

**Other expenses** totaled NIS 286 million in the first six months of 2021, compared with NIS 283 million in the same period last year.

**The provision for taxes on operating earnings** amounted to NIS 361 million in the first six months of 2021, compared with NIS 145 million in the same period last year. The effective tax rate as a proportion of earnings before taxes amounted to 35.1%, compared with 29.2% in the same period last year and compared with the statutory rate of tax of 34.2%.
The increase in tax expenses and in the effective tax rate derives from income from income taxes in respect of previous years, in the amount of NIS 37 million, recorded in the coresponding period last year.

**The Bank's share in the operating earnings of investee company after the tax effect** amounted to NIS 36 million, compared with NIS 5 million in the same period last year. The increase in the Bank's share in the operating profit of investee company derives from the increase in the earnings of Israel Credit Cards Ltd, which were affected mainly from a decrease in the provision for credit losses and an increase in the volume of activity.

**The total comprehensive profit attributed to the shareholders of the Bank** amounted to NIS 708 million. This amount was affected by the net profit for the period attributed to the shareholders of the Bank of NIS 677 million, by other comprehensive income in respect of adjustments of available-for-sale bonds in an amount of NIS 3 million and by other comprehensive income in respect of employees' benefits in an amount of NIS 28 million.

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

The consolidated balance sheet as of June 30, 2021 amounted to NIS 173,028 million compared with NIS 167,778 million as of December 31, 2020, an increase of 3.1%.

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

| | June 30, 2021 | December 31, 2020 | Change |
|---|---|---|---|
| | | NIS million | % |
| Credit to the public, net | **95,191** | 90,970 | 4.6 |
| Securities | **16,244** | 13,105 | 24.0 |
| Cash and deposits with banks | **56,673** | 57,802 | (2.0) |
| Deposits from the public | **146,276** | 141,677 | 3.2 |
| Bonds and subordinated capital notes | **2,833** | 4,394 | (35.5) |
| Shareholders' equity | **9,849** | 9,141 | 7.7 |

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

| | June 30, 2021 | December 31, 2020 | Change |
|---|---|---|---|
| | | NIS million | % |
| **Off-balance sheet financial instruments excluding derivatives:** | | | |
| Documentary credit | **168** | 177 | (5.1) |
| Guarantees and other liabilities | **7,852** | 7,163 | 9.6 |
| Unutilized credit lines for derivatives instruments | **2,679** | 2,364 | 13.3 |
| Unutilized revolving credit and other on-call credit facilities | **11,105** | 10,683 | 4.0 |
| Unutilized credit lines for credit card facilities and Facilities for the lending of securities | **8,759** | 8,718 | 0.5 |
| Irrevocable commitments to grant credit, not yet executed and commitments to issue guarantees | **9,093** | 7,797 | 16.6 |
| Total | **39,656** | 36,902 | 7.5 |

**Derivative financial instruments:**

| | June 30, 2021 | | | December 31, 2020 | | |
|---|---|---|---|---|---|---|
| | Positive fair value | Negative fair value | Face value | Positive fair value | Negative fair value | Face value |
| | | | | | | NIS million |
| Interest contracts | **192** | **340** | **18,349** | 221 | 453 | 18,914 |
| Currency contracts | **352** | **337** | **74,651** | 885 | 1,071 | 73,814 |
| Contracts in respect of shares | **760** | **760** | **70,190** | 789 | 789 | 55,159 |
| Commodities and other contracts | **3** | **3** | **105** | 2 | 2 | 171 |
| Total | **1,307** | **1,440** | **163,295** | 1,897 | 2,315 | 148,058 |

**Credit to the public**, net as of June 30, 2021 amounted to NIS 95,191 million compared with NIS 90,970 million as of December 31, 2020, an increase of 4.6%.

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

| | As of | | | | Segment's share of credit to the public as of | |
|---|---|---|---|---|---|---|
| | June 30, 2021 | December 31, 2020 | | Change | June 30, 2021 | December 31, 2020 |
| | | NIS million | NIS million | % | % | % |
| Local currency | | | | | | |
| - Non-linked | **78,943** | 75,077 | 3,866 | 5.1 | **82.9** | 82.5 |
| - CPI-linked | **11,855** | 11,185 | 670 | 6.0 | **12.4** | 12.3 |
| Foreign currency (including f-c linked) | **3,584** | 4,143 | (559) | (13.5) | **3.8** | 4.6 |
| Non-monetary items | **809** | 565 | 244 | 43.2 | **0.9** | 0.6 |
| Total | **95,191** | 90,970 | 4,221 | 4.6 | **100.0** | 100.0 |

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

| | | | As of | | Change |
|---|---|---|---|---|---|
| | June 30, 2021 | June 30, 2020 | December 31, 2020 | June 30, 2020 | December 31, 2020 |
| | | | NIS million | | % |
| Large business segment | **17,316** | 17,219 | 16,724 | 0.6 | 3.5 |
| Medium business segment | **5,696** | 5,652 | 5,385 | 0.8 | 5.8 |
| Small and minute business segment | **19,576** | 17,719 | 18,876 | 10.5 | 3.7 |
| Household segment excluding housing loans | **22,023** | 21,406 | 21,351 | 2.9 | 3.1 |
| Housing loans | **30,159** | 26,776 | 28,336 | 12.6 | 6.4 |
| Private banking segment | **74** | 55 | 70 | 34.5 | 5.7 |
| Institutional entities | **1,496** | 1,544 | 1,505 | (3.1) | (0.6) |
| Total | **96,340** | 90,371 | 92,247 | 6.6 | 4.4 |
| Of which: consumer credit excluding housing loans and credit cards | | | | | |
| Household segment | **18,414** | 18,200 | 17,889 | 1.1 | 2.9 |
| Private banking segment | **37** | 29 | 39 | 27.6 | (5.1) |
| Total | **18,451** | 18,229 | 17,928 | 1.2 | 2.9 |

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 135,844 million on June 30, 2021 compared with NIS 129,440 million on December 31, 2020, an increase of 4.9%.

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

| Sector | As of June 30, 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) | **16,947** | **12.5** | 15,591 | 12.0 | 8.7 |
| Construction and real estate | **18,460** | **13.6** | 17,062 | 13.2 | 8.2 |
| Industry | **10,579** | **7.8** | 10,263 | 7.9 | 3.1 |
| Commerce | **7,107** | **5.2** | 7,368 | 5.7 | (3.5) |
| Private customer, including housing loans | **68,793** | **50.6** | 65,820 | 50.9 | 4.5 |
| Others | **13,958** | **10.3** | 13,336 | 10.3 | 4.7 |
| Total | **135,844** | **100.0** | 129,440 | 100.0 | 4.9 |

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 June 30, 2021 | | | |
|---|---|---|---|---|---|
| Borrower no. | Sector of the economy | Balance-sheet credit risk (*) | Off-balance-sheet credit risk | Aggregate credit risk | Aggregate credit risk after permitted deductions |
| | | | | | NIS million |
| 1. | Financial services | **640** | **495** | **1,135** | **638** |
| 2. | Financial services | **601** | **400** | **1,001** | **1,001** |
| 3. | Industry | **149** | **844** | **993** | **993** |
| 4. | Electricity and water supply | **736** | **33** | **769** | **769** |
| 5. | Industry | **402** | **338** | **740** | **740** |
| 6. | Financial services | **583** | **4** | **587** | **587** |

| | | As of December 31, 2020 | | | |
|---|---|---|---|---|---|
| Borrower no. | Sector of the economy | Balance-sheet credit risk (*) | Off-balance-sheet credit risk | Aggregate credit risk | Aggregate 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 purchased by the public.

The investment in securities as of June 30, 2021 totaled NIS 16,244 million compared with NIS 13,105 million at the end of 2020, an increase of 24.0%.

Set out below is the composition of the portfolio:

| | As of | | Share of total securities | |
|---|---|---|---|---|
| | **June 30, 2021** | **December 31, 2020** | **June 30, 2021** | **December 31, 2020** |
| | | NIS million | | % |
| Government bonds | **14,745** | 11,831 | **90.8** | 90.3 |
| Banks' bonds (1) | **353** | 321 | **2.2** | 2.5 |
| Corporate bonds | **540** | 634 | **3.3** | 4.8 |
| Corporate bonds guaranteed by governments | **12** | 12 | **0.1** | 0.1 |
| Shares (2) | **594** | 307 | **3.6** | 2.3 |
| Total | **16,244** | 13,105 | **100.0** | 100.0 |

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

(2) Investment in shares includes inter alia investment in private equity funds in the amount of NIS 74 million, investment in foreign currency shares and EITF of NIS 129 million, investment in hedging funds in the amount NIS 81 million and investment in shares and EITF traded on the Tel Aviv Stock Exchange amounting to NIS 302 million (31.12.20 - Investment in shares includes inter alia investment in private equity funds in the amount of NIS 80 million, investment in foreign currency shares and EITF of NIS 55 million, investment in hedging funds in the amount NIS 30 million and investment in shares and EITF traded on the Tel Aviv Stock Exchange amounting to NIS 135 million).

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

| | As of | | Change | | Segment's share of total securities | |
|---|---|---|---|---|---|---|
| | **June 30, 2021** | **December 31, 2020** | | | **June 30, 2021** | **December 31, 2020** |
| | | NIS million | NIS million | % | % | % |
| Local currency | | | | | | |
| - Non-linked | **9,626** | 6,719 | 2,907 | 43.3 | **59.3** | 51.3 |
| - CPI-linked | **284** | 285 | (1) | (0.4) | **1.7** | 2.2 |
| Foreign currency denominated & linked | **5,740** | 5,794 | (54) | (0.9) | **35.3** | 44.2 |
| Non-monetary items | **594** | 307 | 287 | 93.5 | **3.7** | 2.3 |
| Total | **16,244** | 13,105 | 3,139 | 24.0 | **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 June 30, 2021:

| | Price quoted in active market | Indicative price* | Counter-party price** | Total |
|---|---|---|---|---|
| | | | | NIS million |
| Shares and private investment funds | **426** | **89** | **79** | **594** |
| Local currency government bonds | **9,405** | **-** | **-** | **9,405** |
| Local currency corporate bonds | **296** | **209** | **-** | **505** |
| Non-asset backed foreign-currency and f-c linked bonds | **60** | **5,680** | **-** | **5,740** |
| Total | **10,187** | **5,978** | **79** | **16,244** |
| % of portfolio | **62.7** | **36.8** | **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. With respect to private equity funds, the need for a provision for write-down is examined on the basis of their financial statements.

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

| | As of | |
|---|---|---|
| | **June 30, 2021** | **December 31, 2020** |
| | | NIS million |
| Israel (incl. Israel Government - NIS 4,264 million, 31.12.20 - NIS 4,051 million) | **4,325** | 4,150 |
| USA (incl. USA Government - NIS 1,076 million, 31.12.20 - NIS 1,312 million) | **1,133** | 1,352 |
| France | **28** | 29 |
| Canada | **28** | 28 |
| Germany | **50** | 50 |
| Far East, Australia and others (3 countries; 31.12.20 - 4 countries) | **71** | 84 |
| Europe (3 countries, 31.12.20 - 3 countries) | **105** | 101 |
| Total | **5,740** | 5,794 |

It should be noted that there is no issuer (except the Israel Government and USA Government) 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 sector:

| | As of | |
|---|---|---|
| | **June 30, 2021** | **December 31, 2020** |
| | | NIS million |
| Electricity and water | **109** | 125 |
| Construction and real estate | **145** | 169 |
| Financial services | **54** | 60 |
| Banks | **105** | 82 |
| Industry | **29** | 30 |
| Commerce | **15** | 15 |
| Transportation | **48** | 51 |
| Public and community services | **-** | 4 |
| Total | **505** | 536 |

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

- **Non-asset-backed bonds denominated in or linked to foreign currency**-amounting to NIS 5,740 million (Dollar 1,761 million) (includes foreign corporations in an amount of NIS 340 million, foreign currency denominated Israel Government bonds amounting to NIS 4,264 million, foreign currency denominated bonds of Israeli corporations, mostly traded abroad, amounting to NIS 60 million and bonds of foreign governments amounting to NIS 1,076 million). 97% of the foreign bonds are investment grade and is rated A or higher; 4% of the exposure is to leading banking and financial institutions in OECD countries. This portfolio is diversified, in a manner whereby exposure to any single issuer (which is not a government) does not exceed 1% of the total foreign currency bond portfolio. The duration (average term-to-maturity) of the foreign currency bond portfolio is 3 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 55 million (Dollar 17 million) compared with gross earnings of NIS 42 million (Dollar 13 million) on December 31, 2020.

The balance of earnings, net (before the tax effect), included in other cumulative comprehensive profit, in respect of the difference between the fair value of bonds included in the available-for-sale portfolio and their amortized cost, as of June 30, 2021, amounted to NIS 83 million.

**Cash and deposits at banks** on June 30, 2021 totaled NIS 56,673 million compared with NIS 57,802 million at the end of 2020, a decrease of 2.0%.

**Deposits from the public** on June 30, 2021 totaled NIS 146,276 million compared with NIS 141,677 million at the end of 2020, an increase of 3.2%.

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

| | As of | | | | Segment's share of total deposits from the public on | |
|---|---|---|---|---|---|---|
| | June 30, 2021 | December 31, 2020 | | Change | June 30, 2021 | December 31, 2020 |
| | | NIS million | NIS million | % | % | % |
| Local currency | | | | | | |
| - Non-linked | **115,332** | 112,861 | 2,471 | 2.2 | **78.8** | 79.7 |
| - CPI-linked | **5,662** | 5,365 | 297 | 5.5 | **3.9** | 3.8 |
| Foreign currency denominated & linked | **24,474** | 22,885 | 1,589 | 6.9 | **16.7** | 16.1 |
| Non-monetary items | **808** | 566 | 242 | 42.8 | **0.6** | 0.4 |
| Total | **146,276** | 141,677 | 4,599 | 3.2 | **100.0** | 100.0 |

### Deposits from the public by segment of activity

| | | | As of | | Change |
|---|---|---|---|---|---|
| | June 30, 2021 | June 30, 2020 | December 31, 2020 | June 30, 2020 | December 31, 2020 |
| | | | NIS million | | % |
| Large business | **12,085** | 11,233 | 12,867 | 7.6 | (6.1) |
| Medium business | **5,764** | 5,512 | 5,707 | 4.6 | 1.0 |
| Small and minute business | **24,661** | 21,070 | 24,358 | 17.0 | 1.2 |
| Household | **64,272** | 60,152 | 63,338 | 6.8 | 1.5 |
| Private banking | **9,047** | 9,109 | 9,097 | (0.7) | (0.5) |
| Institutional entities | **30,447** | 22,084 | 26,310 | 37.9 | 15.7 |
| Total | **146,276** | 129,160 | 141,677 | 13.3 | 3.2 |

### Securities portfolios belonging to customers of the Bank Group

The total of the securities portfolios of customers of the Bank Group as of June 30, 2021, amounted to NIS 434 billion, as compared to NIS 388 billion at the end of 2020, an increase of 11.9%.

**Bonds and subordinated capital notes** amounted at June 30, 2021 to NIS 2,833 million, as compared with NIS 4,394 million at December 31, 2020, a decrease of 35.5%.

On May 4, 2021, the Boards of Directors of the Bank decided to redeem, on full early redemption, subordinated capital notes series no. 22. Accordingly, on June 27, 2021, the subordinated capital notes of series 22 were redeemed in the amount of NIS 0.9 billion.

## CAPITAL AND CAPITAL ADEQUACY

**The capital attributed to the shareholders of the Bank** amounted on June 30, 2021 to NIS 9,849 million, as compared with NIS 9,141 million on December 31, 2020, and increase of 7.7%.

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. These instruction require that the ratio of Tier I equity capital to weighted average risk assets should be no less than 9% and the ratio of comprehensive capital to average risk assets should be no less than 12.5% for all banking corporations, the total consolidated stated assets of which does not exceeds 24% of total stated assets of the banking sector (including the Bank).

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.

On the background of the spreading of the Coronavirus and as part of the adjustment to Proper Banking Management directives, The Supervisor of Banks published Proper Banking Management directives no. 250 (as was last updated on March 22, 2021), which includes, inter alia, provisional instruction concerning the update of directive 201, which includes a reduction of 1% of  the capital requirements of banks and an update to directive 329 which cancel the demand of additional 1% on housing loans that were and will be granted during the period of the provisional instruction, (from March 19, 2020 until September 30, 2021) ("the end of the provisional instruction"), this in order to secure the ability of banks to continue to grant credit. In accordance with the provisional instruction, the relief will be valid until the end of 24 months from the end of the provisional instruction with the condition 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, it was determined 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.

In consequence thereof, the minimum Tier I equity capital ratio and the minimum comprehensive capital ratio required on a consolidated basis by the Supervisor of Banks, based on data as of the reporting date, are 8.26% and 11.76%, respectively.

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 is the higher capital requirement of the findings of the ICAAP and 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 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 9.30%, and the ratio of the comprehensive capital will be no less than 12.76%. Given the relief granted by the Bank of Israel, Tier I equity capital will be no less than 8.30% and the ratio of the comprehensive capital will be no less than 11.76%.
- 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 information security, compliance risk and anti money laundering risk, strategy risk, legal risk and reputation risk. All of this is carried out with adequacy to 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% 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.

- On November 17, 2016, the Board of Directors of the Bank approved the update of the strategic program of the Group concerning the efficiency measures aspect, the cost of which was estimated at NIS 207 million (before the tax effect). Were it not for the said relief, the implementation of the efficiency measures, as of June 30, 2021 would have reduced the capital adequacy ratios by 0.02%.
- In the course of 2018, the Board of Directors of the Bank resolved to introduce additional efficiency measures at Otsar Hahayal, a merger decision was taken in the third quarter of 2018, and on January 1, 2019, Otsar Hahayal was merged with and into the Bank. The said decisions as well as their expected implications have surpassed the original efficiency program of the Group from 2016. 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). Were it not for the said relief, the implementation of the efficiency measures, as of June 30, 2021 would have reduced the capital adequacy ratios by additional 0.04%.
- On July 28, 2020 and on November 3, 2020, the Board of Directors approved an efficiency plan, according to which 60 constant employees of the Bank, belonging to the defined target population, will be allowed to retire in early retirement and with preffered conditions.

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

  In addition, in the forth 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.

Were it not for the said relief, the implementation of the efficiency measures, as of June 30, 2021 would have reduced the capital adequacy ratios by additional 0.07%.

### Implementation of the instructions

Pillar I - Credit, market and operating risks - the Bank is implementing the standard approach in accordance with Bank of Israel instructions.

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, 2020, has been dully 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.

| | | As of | |
|---|---|---|---|
| | | **June 30, 2021** | **December 31, 2020** |
| **1.** | **Capital for calculation of capital ratio, after deduction and supervisory adjustments** | | |
| | Tier 1 capital, after deductions and supervisory adjustments | **10,059** | 9,369 |
| | Tier 2 capital, after deductions | **1,883** | 2,749 |
| | Total capital | **11,942** | 12,118 |
| **2.** | **Weighted balances of risk assets** | | |
| | Credit risk | **78,650** | 76,203 |
| | Market risk | **826** | 883 |
| | Operational risk | **6,742** | 6,729 |
| | Total weighted balances of risk assets | **86,218** | 83,815 |
| **3.** | **Ratio of capital to risk assets** | | |
| | Raito of tier 1 equity capital to risk assets | **11.67%** | 11.18% |
| | Comprehensive ratio of capital to risk assets | **13.85%** | 14.46% |
| | Minimal ratio of equity capital tier 1 required by the Supervisor of banks | **8.26%** | 8.29% |
| | Minimal ratio of comprehensive capital required by the Supervisor of Banks | **11.76%** | 11.79% |

The Tier I equity capital ratio as of June 30, 2021, amounted to 11.67% in comparison with 11.18% on December 31, 2020. The ratio of comprehensive capital to risk components as of June 30, 2021, amounted to 13.85%, in comparison with 14.46% on December 31, 2020.

The comprehensive capital as of June 30, 2021 amounted to NIS 11,942 million, in comparison with NIS 12,118 million on December 31, 2020.

The capital base was affected from earnings of NIS 677 million, from other comprehensive profit in respect of employees' benefits in the amount of NIS 28 mollion and from other comprehensive profit in respect of presentation of available for sale bonds at fair value in the amount of NIS 3 million. However, this increase was offset by a decrease in instruments issued by the Bank qualified for inclusion in the regulatory capital in the amount of NIS 897 million.

Risk assets as of June 30, 2021 amounted to NIS 86,218 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:

| | **June 30, 2021** | **December 31, 2020** |
|---|---|---|
| | | In percent |
| **Bank Massad Ltd.** | | |
| Ratio of Tier 1 capital to risk assets | **14.66%** | 14.03% |
| Ratio of comprehensive capital to risk assets | **15.72%** | 15.19% |

**Leverage ratio in accordance with instructions of the Supervisor of Banks** - The Bank implements the Proper Conduct of Banking Business Directive No. 218 in the matter of Leverage ratio. 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, for 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 (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 relieves 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, for 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 (including the Bank), in accordance with the provisional instruction ( as was last updated on March 22, 2021). The relief will be valid until September 30, 2021. After this date the relief will be valid for another 24 months, in which the leverage ratio will not be less than the leverage ratio at the date of the end of the Provisional Instruction, or the minimal leverage ratio applying to a banking corporation prior to the Provisional Instruction, whichever is lower. The leverage ratio of the Bank as of June 30, 2021, amounts to 5.49%, compared to 5.29% as of December 31, 2020.

## DIVIDEND DISTRIBUTION POLICY

According to the updated dividend distribution policy as was approved by the Board of Directors of the Bank (as was updated on June 9, 2015 and August 14, 2017), the Bank will distribute annual dividends of up to 50% of its distributable annual net earnings, subject to the Bank's ratio of capital to risk elements being no less than the target 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 the legal environment. It should be clarified, that as from the year 2017, the net annual earnings refer to the annual net earnings of the current year.
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 with all required details in accordance with the law.

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 for the year 2020.

Following are details regarding dividends distributed by the Bank, as from the year 2018:

| Declaration date | Payment date | Total dividend paid | Dividend per share |
|---|---|---|---|
| | | NIS million | NIS |
| 5 March 2018 | 21 March 2018 | 95 | 0.95 |
| 28 May 2018 | 5 June 2018 | 60 | 0.60 |
| 14 August 2018 | 2 September 2018 | 100 | 1.00 |
| 20 November 2018 | 9 December 2018 | 100 | 1.00 |
| 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 |

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, 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 a discussion on April 16, 2020, regarding the dividend policy and resolved that the Bank shall refrain from the distribution of dividends to its shareholders during the period of the Provisional Instruction, which originaly was set for six months, until September 30, 2020, with an option for extension of another six months. On September 16, 2020, the provisional instruction was extended until March 31, 2021. It should be noted that on March 22, 2021, the Bank of Israel published an amendment to the provisional instruction, according to which, the period of the instruction was extended until September 30, 2021. 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, the Board of Directors decided on March 16, 2021, to continue not to distribute dividends at this time.

On July 26, 2021, the Supervisor of Banks published an update to Proper Conduct of Banking Business Directive No. 250 (Modifications to Proper Conduct of Banking Business Directives for the confrontation with the Corona crisis). According to the expalanatory notes to this update, the level of uncertainty, which is still high following the Corona crisis, and the risk that credit losses stemming from the crisis have not yet been realized in full, require continuation of careful and conservative capital planning, as well as careful and conservative approach to the distribution of dividends. The Supervisor clarifies that in view of the improvement in economic activity, the growing trend of the gradual reverting to the level existing prior to the crisis, and the renewed accumulation of a capital cushion by banking corporations, he permits the banking system to distribute dividends, though in a limited manner, maintaining a careful and conservative approach. In Addition, the position of the Supervisor of Banks is that distribution of an amount higher than 30% of the profits earned in 2020, would not be considered careful and conservative planning. In view of the said position of the Supervisor of Banks and on background of the continuing uncertainty and the risk, as stated above, the Board of Directors of the Bank resolved on August 17, 2021, to distribute to the shareholders of the Bank at this stage, a dividend in cash in a total amount of NIS 225 million (gross), comprising 30% of the net profit per the financial statements of the Bank for the year 2020.

The ex-dividend date is fixed for August 25, 2021, and date of payment of the dividend is fixed for September 1, 2021. The amount of the dividend is pre-tax, including any withholding tax that the Bank has to apply under the law.

It is clarified that except as stated above, the dividend distribution policy remains unchanged. The Board of Directors of the Bank would continue to discuss the dividend distribution policy of the Bank in view of developments in the Corona crisis and its effect on the economy and on the Bank.

## 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 defferent from the segments of activity used by the Bank according to Management approach, which are detailed in Note 11A 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 protfolio- 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 the year 2020.

For details regarding segments of activity according to management's approach, see Note 28A to the financial statements for the year 2020.

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

### a. Total income*

| | For the three months ended June 30, | | | Segment's share of total income | |
|---|---|---|---|---|---|
| | **2021** | **2020** | **Change** | **30.6.21** | **30.6.20** |
| | | NIS million | % | | % |
| Large business | **101** | 102 | (1.0) | **9.1** | 9.7 |
| Medium business | **51** | 58 | (12.1) | **4.6** | 5.5 |
| Small and minute business | **236** | 240 | (1.7) | **21.2** | 22.9 |
| Household | **455** | 439 | 3.6 | **40.9** | 41.9 |
| Private banking | **25** | 23 | 8.7 | **2.2** | 2.2 |
| Institutional entities | **60** | 63 | (4.8) | **5.4** | 6.0 |
| Financial management | **185** | 123 | 50.4 | **16.6** | 11.8 |
| Total | **1,113** | 1,048 | 6.2 | **100.0** | 100.0 |

| | For the six months ended June 30, | | | Segment's share of total income | |
|---|---|---|---|---|---|
| | **2021** | **2020** | **Change** | **30.6.21** | **30.6.20** |
| | | NIS million | % | | % |
| Large business | **201** | 200 | 0.5 | **9.2** | 9.7 |
| Medium business | **104** | 119 | (12.6) | **4.7** | 5.7 |
| Small and minute business | **478** | 496 | (3.6) | **21.7** | 23.9 |
| Household | **913** | 913 | - | **41.5** | 44.1 |
| Private banking | **53** | 53 | - | **2.4** | 2.6 |
| Institutional entities | **119** | 141 | (15.6) | **5.4** | 6.8 |
| Financial management | **331** | 150 | 120.7 | **15.1** | 7.2 |
| Total | **2,199** | 2,072 | 6.1 | **100.0** | 100.0 |

## b. Net profit (loss) attributed to the shareholders of the bank

| | For the three months ended June 30, | | For the six months ended June 30, | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| | | NIS million | | NIS million |
| Large business | **75** | 37 | **119** | 34 |
| Medium business | **29** | (15) | **50** | 8 |
| Small and minute business | **87** | 28 | **134** | 76 |
| Household | **58** | 27 | **116** | 78 |
| Private banking | **5** | 4 | **12** | 13 |
| Institutional entities | **15** | 15 | **27** | 37 |
| Financial management | **121** | 72 | **219** | 93 |
| Total | **390** | 168 | **677** | 339 |

* Including net interest income and non-interest income.

## c. Average balance sheet balances*

| | Credit to the public | | | % of credit to the public | |
|---|---|---|---|---|---|
| | For the six months ended June 30, | | | For the six months ended June 30, | |
| | **2021** | **2020** | **Change** | **30.6.21** | **30.6.20** |
| | | NIS million | % | % | % |
| Large business | **17,062** | 17,931 | (4.8) | **18.5** | 20.0 |
| Medium business | **5,457** | 5,658 | (3.6) | **5.9** | 6.3 |
| Small and minute business | **18,592** | 17,457 | 6.5 | **20.2** | 19.5 |
| Household | **49,843** | 46,919 | 6.2 | **54.1** | 52.5 |
| Private banking | **58** | 48 | 20.8 | **0.1** | 0.1 |
| Institutional entities | **1,095** | 1,452 | (24.6) | **1.2** | 1.6 |
| Total | **92,107** | 89,465 | 3.0 | **100.0** | 100.0 |

| | Deposits from the public | | | % of deposits from the public | |
|---|---|---|---|---|---|
| | For the six months ended June 30, | | | For the six months ended June 30, | |
| | **2021** | **2020** | **Change** | **30.6.21** | **30.6.20** |
| | | NIS million | % | % | % |
| Large business | **11,879** | 12,876 | (7.7) | **8.3** | 10.4 |
| Medium business | **5,568** | 5,403 | 3.1 | **3.9** | 4.4 |
| Small and minute business | **24,103** | 20,429 | 18.0 | **16.8** | 16.4 |
| Household | **63,573** | 56,111 | 13.3 | **44.3** | 45.2 |
| Private banking | **8,987** | 8,349 | 7.6 | **6.2** | 6.7 |
| Institutional entities | **29,413** | 21,044 | 39.8 | **20.5** | 16.9 |
| Total | **143,523** | 124,212 | 15.5 | **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 three months ended June 30, 2021 | | | | For the three months ended June 30, 2020 | | | |
|---|---|---|---|---|---|---|---|---|
| | Small and minute business | Medium business | Large business | Total | Small and minute business | Medium business | Large business | Total |
| | | | | | | | | NIS million |
| Net interest income | **150** | **36** | **74** | **260** | 158 | 40 | 78 | 276 |
| Non-interest income | **86** | **15** | **27** | **128** | 82 | 18 | 24 | 124 |
| Total income | **236** | **51** | **101** | **388** | 240 | 58 | 102 | 400 |
| Expenses (income) from credit losses | **(58)** | **(19)** | **(55)** | **(132)** | 43 | 56 | 8 | 107 |
| Operating and other expenses | **158** | **24** | **39** | **221** | 151 | 25 | 37 | 213 |
| Net profit (loss) attributed to the shareholders of the Bank | **87** | **29** | **75** | **191** | 28 | (15) | 37 | 50 |
| Average balance of credit to the public | **18,846** | **5,460** | **16,683** | **40,989** | 17,553 | 5,783 | 18,290 | 41,626 |
| Balance of credit to the public at the end of the reported period | **19,576** | **5,696** | **17,316** | **42,588** | 17,719 | 5,652 | 17,219 | 40,590 |
| Average balance of deposits from the public | **24,406** | **5,600** | **11,710** | **41,716** | 21,341 | 5,556 | 13,080 | 39,977 |
| Balance of deposits from the public at the end of the reported period | **24,661** | **5,764** | **12,085** | **42,510** | 21,070 | 5,512 | 11,233 | 37,815 |

| | For the six months ended June 30, 2021 | | | | For the six months ended June 30, 2020 | | | |
|---|---|---|---|---|---|---|---|---|
| | Small and minute business | Medium business | Large business | Total | Small and minute business | Medium business | Large business | Total |
| | | | | | | | | NIS million |
| Net interest income | **301** | **73** | **150** | **524** | 325 | 81 | 149 | 555 |
| Non-interest income | **177** | **31** | **51** | **259** | 171 | 38 | 51 | 260 |
| Total income | **478** | **104** | **201** | **783** | 496 | 119 | 200 | 815 |
| Expenses (income) from credit losses | **(54)** | **(25)** | **(65)** | **(144)** | 82 | 61 | 88 | 231 |
| Operating and other expenses | **321** | **49** | **81** | **451** | 305 | 50 | 74 | 429 |
| Net profit attributed to the shareholders of the Bank | **134** | **50** | **119** | **303** | 76 | 8 | 34 | 118 |
| Average balance of credit to the public | **18,592** | **5,457** | **17,062** | **41,111** | 17,457 | 5,658 | 17,931 | 41,046 |
| Balance of credit to the public at the end of the reported period | **19,576** | **5,696** | **17,316** | **42,588** | 17,719 | 5,652 | 17,219 | 40,590 |
| Average balance of deposits from the public | **24,103** | **5,568** | **11,879** | **41,550** | 20,429 | 5,403 | 12,876 | 38,708 |
| Balance of deposits from the public at the end of the reported period | **24,661** | **5,764** | **12,085** | **42,510** | 21,070 | 5,512 | 11,233 | 37,815 |

**Main changes in the results of activity in the first half of 2021 compered with the coresponding period last year**

Total net interest income amounted to NIS 524 million, compared with NIS 555 million in the same period last year, a decrease of 5.6%, deravied mainly from the decline in the financial spreadson deposits, due the decrease in the Bank of Israel interest rate and the decline in the Dollar interest rate.This dercrease was partially offset by an increase in interest income derived from the increase in the volume of activity.

Non-interest income amounted to NIS 259 million, compared to NIS 260 million in the corresponding period last year.

Income in respect of cresit losses amounted to NIS 144 million, in comparison with an expense of NIS 231 million in the same period last year. The income in respect of credit losses, in the first six months of the year , derived from a decrease in the collective provision, mainly due to an improvement in maco-economic measures and in the indicators of the risk level latent in the credit portfolio of the Bank. In the corresponding period last year, the expenses in respect of credit losses, derived mainly from an increase in the collective provision for credit losses, due to changes in the macro-economic environment as a result of the spreading of the coronavirus and the uncertainty as to its effect on the condition of borrowers and an increase in the volume of troubled debts as a result.

The operating and other expenses amounted to NIS 451 million, compared to NIS 429 million in the corresponding period last year, an increase of 5.1%, derived mainly from increase in the payroll expenses due to adjustment of the variable compensation components to the return and profit of the Bank.

The net profit attributed to the shareholders of the Bank in respect of the small and minute, medium sized and large businesses, amounted to NIS 303 million, in comparison with NIS 118 million in the same period last year, an increase which is explained by the decrease in the expenses for credit losses, as above.

Average balance of credit to the public amounted to NIS 41,111 million, in comparison with NIS 41,046 million in the same period last year, an increase of 0.2%.

Credit to the public as of June 30, 2021 amounted to NIS 42,588 million, in comparison with NIS 40,590 million on June 30, 2020, an increase of 4.9%.

Average balance of deposits from the public amounted to NIS 41,550 million, in comparison with NIS 38,708 million in the same period last year, an increase of 7.3%.

Deposits from the public as of June 30, 2021 amounted to NIS 42,510 million, in comparison with NIS 37,815 million on June 30, 2020, an increase of 12.4%.

## PRIVATE INDIVIDUALS SEGMENTS - HOUSEHOLDS AND PRIVATE BANKING

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

| | For the three months ended June 30, 2021 | | | For the three months ended June 30, 2020 | | |
|---|---|---|---|---|---|---|
| | **households** | **private banking** | **Total** | **households** | **private banking** | **Total** |
| | | | | | | NIS million |
| Net interest income | **301** | **4** | **305** | 303 | 6 | 309 |
| Non-interest income | **154** | **21** | **175** | 136 | 17 | 153 |
| Total income | **455** | **25** | **480** | 439 | 23 | 462 |
| Expenses from credit losses | **4** | **-** | **4** | 58 | - | 58 |
| Operating and other expenses | **347** | **17** | **364** | 328 | 16 | 344 |
| Net profit attributed to the shareholders of the Bank | **58** | **5** | **63** | 27 | 4 | 31 |
| Average balance of credit to the public | **50,550** | **59** | **50,609** | 46,865 | 43 | 46,908 |
| Balance of credit to the public at the end of the reported period | **52,182** | **74** | **52,256** | 48,182 | 55 | 48,237 |
| Average balance of deposits from the public | **63,850** | **8,955** | **72,805** | 59,446 | 8,896 | 68,342 |
| Balance of deposits from the public at the end of the reported period | **64,272** | **9,047** | **73,319** | 60,152 | 9,109 | 69,261 |

| | For the six months ended June 30, 2021 | | | For the six months ended June 30, 2020 | | |
|---|---|---|---|---|---|---|
| | **households** | **private banking** | **Total** | **households** | **private banking** | **Total** |
| | | | | | | NIS million |
| Net interest income | **600** | **9** | **609** | 621 | 15 | 636 |
| Non-interest income | **313** | **44** | **357** | 292 | 38 | 330 |
| Total income | **913** | **53** | **966** | 913 | 53 | 966 |
| Expenses from credit losses | **8** | **-** | **8** | 91 | - | 91 |
| Operating and other expenses | **701** | **35** | **736** | 681 | 33 | 714 |
| Net profit attributed to the shareholders of the Bank | **116** | **12** | **128** | 78 | 13 | 91 |
| Average balance of credit to the public | **49,843** | **58** | **49,901** | 46,919 | 48 | 46,967 |
| Balance of credit to the public at the end of the reported period | **52,182** | **74** | **52,256** | 48,182 | 55 | 48,237 |
| Average balance of deposits from the public | **63,573** | **8,987** | **72,560** | 56,111 | 8,349 | 64,460 |
| Balance of deposits from the public at the end of the reported period | **64,272** | **9,047** | **73,319** | 60,152 | 9,109 | 69,261 |

**Main changes in the results of activity in the first half of 2021 compered with the coresponding period last year**

Total net interest income amounted to NIS 609 million, as compared with NIS 636 million in the corresponding period last year, a decrease of 4.2%, which mainly derived from a decrease in the financial spreads on deposits due a decrease in the Bank of Israel interest and the Dollar interest. This decrease was partially offset by an increase in interest income deriving from an increase in the volume of activity including in the housing loans activity.

Non-interest income amounted to NIS 357 million, in comparison with NIS 330 million in the corresponding period last year, an increase of 8.2%, derived mainly from an increase in income from capital market activity, explained by an increase in the volume of securities portfolio of the customers of the Bank group.

Expenses in respect of cresit losses amounted to NIS 8 million, in comparison with NIS 91 million in the same period last year. The decrease is explained by the improvement in the macro-economic indices and indicators indicating the risk level latent in the credit portfolio of the Bank. In the corresponding period last year, the expenses from credit losses were explained by the increase in collective provision for credit losses which mainly derived from the spread of the Corona virus crisis and the uncertainty condition as to its implications on the condition of the borrowers.

Operating and other expenses amounted to NIS 736 million, as compared to NIS 714 million in the corresponding period last year, an increase of 3.1%, derived mainly from a raise in the payroll expenses due to adjustments of the variable compensation components to the return and profit of the Bank.

The net profit attributed to the shareholders of the Bank in respect of the private individuals segment, which includes households and private banking, amounted to NIS 128 million, compared with NIS 91 million in the corresponding period last year, an increase of 40.7%, explained by the decrease in the expenses for credit losses, as stated above.

Average balance of credit to the public amounted to NIS 49,901 million, in comparison with NIS 46,967 million in the same period last year, an increase of 6.2%.

Credit to the public as of June 30, 2021 amounted to NIS 52,256 million, in comparison with NIS 48,237 million on June 30, 2020, an increase of 8.3%.

Average balance of deposits from the public amounted to NIS 72,560 million, in comparison with NIS 64,460 million in the same period last year, an increase of 12.6%.

Deposits from the public as of June 30, 2021 amounted to NIS 73,319 million, in comparison with NIS 69,261 million on June 30, 2020, an increase of 5.9%.

## FINANCIAL MANAGEMENT SEGMENT

Total income attributed to this segment in the first half of the year amounted to NIS 331 million compared with NIS 150 million in the corresponding period last year, an increase derived mainly from a raise in the amount of NIS 109 million from investment in shares and bonds and from an increase in the amount of NIS 73 million in income from linkage differences, due to the change in the "known" index between the periods.

The net earnings of the Financial Management Segment in the first half of the year amounted to NIS 219 million compared with NIS 93 million in the corresponding period last year. The increase in net earnings is explained by the increase in income, as stated above, and from an increase in the Bank's share in ICC earnings, amounting to NIS 36 million, compared with NIS 5 million, in the same period last year.

## 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 teaching staff population in Israel.

The Bank's investment in Massad amounted to NIS 438 million on June 30, 2021.

Total assets of Massad on June 30, 2021 amounted to NIS 10,457 million compared with NIS 10,349 million on December 31, 2020, an increase of 1.0%.

Shareholders' equity of Massad on June 30, 2021, totaled NIS 860 million compared with NIS 804 million on December 31, 2020, an increase of 7.0%.

Net earnings of Massad for the first half of the year totaled NIS 52.4 million compared with NIS 35.9 million in the same period last year, an increase of 46.0%.

The Bank's share in Massad's operating results for the first half of the year amounted to NIS 26.7 million compared with NIS 18.3 million in the same period last year, an increase of 45.9%. The growth in earnings of Massad is mostly explained by the increase in collection of debts written-off in prior years, and by the decrease in the collective provision for credit losses, mainly due to indicators pointing at the level of risk inherent in the credit portfolio of Massad and to the continuing decline in volume of debts, the repayment of which had been deferred.

Net return on equity (on an annualized basis) amounted to 13.1% compared with 9.9% in the corresponding period last year.

The comprehensive ratio of 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 14.66% compare with 14.03% at the end of 2020.

In the framework of the ICAAP process for the data of June 30, 2020 the minimal capital targets were set by the Board of Directors of Massad, as follows: tier 1 equity capital ratio will not be less than 10.5% until December 31, 2021 and the comprehensive capital ratio will be no less than 12.65% until December 31, 2021.

In June 2021, Massad was successful in the tender published by the Accountant General at the Ministry of Finance, for the extension of loans to teaching staff and of conditional grants to students at teacher training colleges. In accordance with the terms of the tender the period of engagement is five years as from July 2021, with the option by the Accountant General for extention of the engagement for a period of up to three additional 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 brands, 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 675 million on June 30, 2021.

The ratio of comprehensive capital to risk assets amounted to 15.3%, compare with 14.8% at the end of 2020.

The Bank's share in the net earnings of ICC, before the tax effect, for the first half of the year amounted to NIS 40.3 million compared with NIS 6.5 million in the same period last year. The increase in earnings of ICC is explained mostly by the decline in provision for credit losses and by the growth in volume of operations.

See Note 9 to the condensed 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

This chapter was written in great detail in the financial statements for 2020. Therefore, it should be read together with the chapter of the risk review published in the annual reports for 2020. Additional information about the risks can be found on 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 (cross system risk), liquidity risk, operational risk including cyber and information security 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. 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 by means of independent control. The third line consists of the internal and external auditing functions.

e. Chief Risk Manager is a member of Management in charge of the risk management division and across the organization 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, CRO, operational risk manager, supervisor of the internal enforcement and manager of business continuity (in addition, the cyber risks manager is subordinated to him).

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

   The Strategic risk and financial risks are managed by Mrs. Ella golan, head of resources and financial management division.

   Mr. Amir Birenboim - compliance manager, including, among other things, Money Laundering risk, Finance of Terror risks and internal enforcement and cross border risks. Also appointed as Responsible Officer in-charge of implementation of the FATCA and CRS directives and QI agreement.

   Mr. Ophir Kadosh - the CEO of MATAF -IT risk manager, as from April 6, 2021. From the beginning of the year and up to that date were managed by Mrs. Iris Levanon, deputy CEO of MATAF and its replacement.

   Mr. Yehoshua Peleg, manager of cyber defense and information security- cyber risks manager;

   Adv. Haviva Dahan, head of the legal sub-division -Legal Risk Manager;

   Mr. Nachman Nitzan, CPA- head of the chief accounting division- reputation risk manager;

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 department heads in the areas for which they are responsible.

h. Risk management is carried out at the banking subsidiary separately, 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 was appointed 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 an examination 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 as well as the results of stress scenarios that were conducted. Presented in the 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 developments in the business environment and in the financial markets, 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 division took during the relevant quarter.

k. The Bank and the Group has variety of stress scenarios for the unique risks, as embedded in the various policy documents.

   The Bank applies stress scenarios for reviewing capital adequacy and the capital ratio according to the triennial capital planning. The scenarios which the Bank operates, include scenarios which are sensitivity analysis, historical scenarios, hypothetical scenarios and macro-economic scenarios. The stress scenarios were updated during 2020, and in this framework reflected possible implications of the corona crisis, while identifying and mapping of the relevant risk focals, in accordance to the character and development of the crisis.

   The stress scenarios are additional 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 scenarios, are tool for the Bank of Israel, in order to receive an updated holistic picture of the Israeli economy and the ability of the banking system to continue and grant credit to the public while maintaining its stability.

For discussion of the risk appetite and risk management principles, see reference in the description of principal risks, presented in the financial statements for the year 2020.

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

## CREDIT RISK

Credit risk is the risk borrowers' inability or counterparty's inability to fulfill their obligations to the Bank.
The Group implements the standard approach, within the implementation of the Basel Directives, with respect to the exposure to credit risk. Within Pillar 2 the capital allocation of Pillar 1 is challenged, and if required, a complementary capital allocation is carried in respect of the credit risks.

### Significant exposures to borrower groups

As of June 30, 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 directive of Proper Conduct of Banking Business regulation concerning measurement and capital adequacy.

### Effect of the spreading of the Corona virus

The Bank continues to monitor the risk focals in the credit portfolio and examine the customers, which may be affected from the continuance of the crisis. Also, the Bank takes measures to minimize the credit risks.

### Changes in terms of debts within the framework of confrontation with the Corona virus

In view of the spread of the Coronavirus and 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 circular letters that include focal points for the treatment of debts the terms of which had been changed. The letters state that changes in terms of loans, including postponement 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 troubled debts. Bank of Israel encourages 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.
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 1C (4) to the condensed financial statements.

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

| | | | | | | | | | | | June 30, 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 | Troubled 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** | **3** | **-** |
| Medium business | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **97** | **7** |
| Small and minute business | **110** | **131** | **12** | **17** | **21** | **-** | **72** | **93** | **2** | **91** | **1,013** | **32** |
| Private individuals - housing loans | **91** | **115** | **6** | **86** | **2** | **-** | **3** | **5** | **1** | **4** | **5,139** | **124** |
| Private individuals - others | **2** | **44** | **-** | **1** | **-** | **-** | **1** | **1** | **-** | **1** | **452** | **13** |
| **Total as of 30.6.2021** | **207** | **291** | **19** | **(2)104** | **23** | **-** | **80** | **103** | **3** | **100** | **6,704** | **176** |
| **Total as of 31.3.2021** | **467** | **1,464** | **44** | | | | | | | | | |
| **Total as of 31.12.2020** | **1,754** | **5,778** | **125** | | | | | | | | | |

(1) Of which: Deferrals granted outside the wide range framework totaling NIS 43 million.
(2) Of which: Classified as impaired debts not accumulating interest income in the amount of NIS 86 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.

In the wake of the corona crisis, the Bank adopted the regulatory reliefs granted by the Bank of Israel and allowed its customers to defer repayments of loans.

There is a significant decline in the volume of the deferred credit. As of June 30, 2021, the ratio of debts which are in deferral of payments amounts to 0.21% of total balance of credit to the public, compared to 1.9% as of December 31, 2020.

Concurrently, in the wake of the crisis, the Bank signed an agreement with the general controller together with other banks in the banking system, to extend loans guaranteed by the State the purpose of which is to assist businesses in Israel to cope with cash flows difficulties ocurred as a result of the spreading of the corona virus. For this purpose special credit funds were formed in the name of "The small and medium size businesses fund affected by the corona" and "The large business fund for the confronting the spread of the corona virus".

The Bank continues to grants its business customers loans in the framework of the credit fund guaranteed by the State, enabaling them to cope with the continuance of the crisis and its implications.

## Credit granted guarunteed by the State in the outline of coping with the corona crisis

| | June 30, 2021 | December 31, 2020 |
|---|---|---|
| Borrowers activity in Israel | | NIS million |
| Small and minute business | **1,416** | 1,308 |
| Medium business | **426** | 431 |
| Large business | **167** | 165 |
| **Total** | **2,009** | 1,904 |

## Credit quality and problematic credit risk

Problematic credit risk, including off-balance-sheet components, totaled NIS 2,089 million as of June 30, 2021, compared with NIS 2,295 million at the end of 2020, a decrease of 9.0%

The ratio of problematic credit risk to total credit risk at the group as of June 30, 2021 amounted to 1.5%, compared to 1.8% at the end of 2020. 17.6% of problematic credit risk at the group are attributed to the manufacturing sector, 14.4% to the real estate sector, 12.1% to the commerce sector, and 29.5% to the private customers including housing loans. The ratio of problematic credit risk to total credit to the public amounted to 1.9%, compared to 2.2% at the end of 2020.

For additional information in respect of credit quality see note 12B(1) to the financial statements.

### Problematic credit risk, non-performing assets and credit quality analysis

| | June 30, 2021 | | | | June 30, 2020 | | | |
|---|---|---|---|---|---|---|---|---|
| | Commercial | Housing | Private | Total | Commercial | Housing | Private | Total |
| | | | | | | | | NIS million |
| **Credit risk in credit granting rating(1)** | | | | | | | | |
| Balance sheet credit risk | **42,895** | **29,491** | **21,106** | **93,492** | 40,567 | 26,202 | 20,293 | 87,062 |
| Off-balance sheet credit risk | **20,831** | **3,741** | **12,707** | **37,279** | 17,684 | 2,260 | 13,110 | 33,054 |
| Total credit risk in credit granting rating | **63,726** | **33,232** | **33,813** | **130,771** | 58,251 | 28,462 | 33,403 | 120,116 |
| **credit risk not in credit granting rating:** | | | | | | | | |
| Non problematic | **1,497** | **324** | **664** | **2,485** | 2,624 | 312 | 620 | 3,556 |
| Problematic(2) | **1,251** | **344** | **264** | **1,859** | 1,259 | 261 | 297 | 1,817 |
| Special supervision(3) | **787** | **246** | **67** | **1,100** | 559 | 250 | 70 | 879 |
| Inferior | **74** | **-** | **58** | **132** | 70 | - | 66 | 136 |
| Impaired | **390** | **98** | **139** | **627** | 630 | 11 | 161 | 802 |
| Total balance sheet credit risk | **2,748** | **668** | **928** | **4,344** | 3,883 | 573 | 917 | 5,373 |
| Off-balance sheet credit risk | **577** | **6** | **146** | **729** | 178 | 4 | 177 | 359 |
| Total credit risk not in credit granting rating | **3,325** | **674** | **1,074** | **5,073** | 4,061 | 577 | 1,094 | 5,732 |
| Of which: non-impaired debts in arrears of 90 days or more | **15** | **179** | **18** | **212** | 56 | 221 | 21 | 298 |
| Total overall credit risk of the public | **67,051** | **33,906** | **34,887** | **135,844** | 62,312 | 29,039 | 34,497 | 125,848 |
| **Non-performing assets** | | | | | | | | |
| Impaired debts - not accruing interest income | **367** | **98** | **105** | **570** | 569 | 11 | 130 | 710 |

| | December 31, 2020 | | | |
|---|---|---|---|---|
| | Commercial | Housing | Private | Total |
| | | | | NIS million |
| **Credit risk in credit granting rating[1]** | | | | |
| Balance sheet credit risk | 41,529 | 27,721 | 20,438 | 89,688 |
| Off-balance sheet credit risk | 18,696 | 2,946 | 13,068 | 34,710 |
| Total credit risk in credit granting rating | 60,225 | 30,667 | 33,506 | 124,398 |
| **credit risk not in credit granting rating:** | | | | |
| Non problematic | 1,450 | 329 | 568 | 2,347 |
| Problematic[2] | 1,420 | 286 | 330 | 2,036 |
| Special supervision[3] | 932 | 250 | 119 | 1,301 |
| Inferior | 54 | - | 57 | 111 |
| Impaired | 434 | 36 | 154 | 624 |
| Total balance sheet credit risk | 2,870 | 615 | 898 | 4,383 |
| Off-balance sheet credit risk | 525 | 3 | 131 | 659 |
| Total credit risk not in credit granting rating | 3,395 | 618 | 1,029 | 5,042 |
| Of which: non-impaired debts in arrears of 90 days or more | 43 | 156 | 18 | 217 |
| Total overall credit risk of the public | 63,620 | 31,285 | 34,535 | 129,440 |
| **Non-performing assets** | | | | |
| Impaired debts - not accruing interest income | 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 three months ended June 30, 2021 | | | For the three months ended June 30, 2020 | | |
|---|---|---|---|---|---|---|
| | Commercial | Private | Total | Commercial | Private | Total |
| | | | | | | NIS million |
| Balance of impaired debts at beginning of period | **388** | **231** | **619** | 559 | 158 | 717 |
| Classified as impaired during the period | **35** | **60** | **95** | 81 | 24 | 105 |
| Removed from impaired classification | **-** | **(37)** | **(37)** | - | - | - |
| Accounting write-offs | **(14)** | **(5)** | **(19)** | (23) | (6) | (29) |
| Collection of debts | **(22)** | **(12)** | **(34)** | (25) | (4) | (29) |
| Balance of impaired debts at end of period | **387** | **237** | **624** | 592 | 172 | 764 |
| **Of which: movement in problematic restructured debts** | | | | | | |
| Balance of restructured debts at beginning of the period | **108** | **108** | **216** | 168 | 113 | 281 |
| Debts restructured during the period | **10** | **8** | **18** | 18 | 17 | 35 |
| Accounting write-offs of restructured debts | **(2)** | **(4)** | **(6)** | (15) | (6) | (21) |
| Collection of restructured debts | **(13)** | **(9)** | **(22)** | (13) | (7) | (20) |
| Balance of problematic restructured debts at end of period | **103** | **103** | **206** | 158 | 117 | 275 |
| **Changes in provision for credit losses in respect of impaired debts** | | | | | | |
| Balance of provision for credit losses at the beginning of the period | **143** | **36** | **179** | 173 | 39 | 212 |
| Increase in provisions | **18** | **3** | **21** | 36 | 5 | 41 |
| Collection and write-offs | **(16)** | **(6)** | **(22)** | (23) | (4) | (27) |
| Balance of provision for credit losses at the end of the period | **145** | **33** | **178** | 186 | 40 | 226 |

| | For the six months ended June 30, 2021 | | | For the six months ended June 30, 2020 | | | For the year ended December 31, 2020 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Commercial | Private | Total | Commercial | Private | Total | Commercial | Private | Total |
| | | | | | | NIS million | | | NIS million |
| Balance of impaired debts at beginning of period | **387** | **190** | **577** | 553 | 156 | 709 | 553 | 156 | 709 |
| Classified as impaired during the period | **84** | **136** | **220** | 155 | 48 | 203 | 179 | 99 | 278 |
| Removed from impaired classification | **-** | **(54)** | **(54)** | - | - | - | (44) | (1) | (45) |
| Accounting write-offs | **(30)** | **(10)** | **(40)** | (53) | (11) | (64) | (69) | (20) | (89) |
| Collection of debts | **(54)** | **(25)** | **(79)** | (63) | (21) | (84) | (232) | (44) | (276) |
| Balance of impaired debts at end of period | **387** | **237** | **624** | 592 | 172 | 764 | 387 | 190 | 577 |
| **Of which: movement in problematic restructured debts** | | | | | | | | | |
| Balance of restructured debts at beginning of the period | **114** | **113** | **227** | 140 | 108 | 248 | 140 | 108 | 248 |
| Debts restructured during the period | **19** | **19** | **38** | 64 | 34 | 98 | 96 | 60 | 156 |
| Accounting write-offs of restructured debts | **(6)** | **(8)** | **(14)** | (19) | (10) | (29) | (33) | (20) | (53) |
| Collection of restructured debts | **(24)** | **(21)** | **(45)** | (27) | (15) | (42) | (89) | (35) | (124) |
| Balance of problematic restructured debts at end of period | **103** | **103** | **206** | 158 | 117 | 275 | 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 period | **144** | **37** | **181** | 169 | 35 | 204 | 169 | 35 | 204 |
| Increase in provisions | **36** | **10** | **46** | 77 | 17 | 94 | 96 | 22 | 118 |
| Collection and write-offs | **(35)** | **(14)** | **(49)** | (60) | (12) | (72) | (121) | (20) | (141) |
| Balance of provision for credit losses at the end of the period | **145** | **33** | **178** | 186 | 40 | 226 | 144 | 37 | 181 |

| | For the six months ended June 30 | | For the year ended December 31 |
|---|---|---|---|
| | 2021 | 2020 | 2020 |
| **Risk Indices** | | | |
| Ratio of impaired credit to the public or in arrears of 90 days + to total credit to the public | **0.87%** | 1.18% | 0.86% |
| Of which: | | | |
| Ratio of impaired credit to the public to total credit to the public | **0.65%** | 0.85% | 0.63% |
| Ratio of non-impaired credit to the public in arrears of 90 days+ to total credit to the public | **0.22%** | 0.33% | 0.23% |
| Ratio of problematic credit risk in respect of the public to overall credit risk in respect of the public | **1.54%** | 1.63% | 1.77% |
| Ratio of expenses (income) for credit losses to average total credit to the public* | **(0.30%)** | 0.72% | 0.52% |
| Ratio of net write-offs in respect of credit to the public to average total credit to the public* | **-** | 0.18% | 0.10% |
| Ratio of provision for credit losses in respect of credit to the public to credit to the public | **1.19%** | 1.28% | 1.38% |
| Ratio of provision for credit losses in respect of credit to the public to total impaired credit to the public | **184.1%** | 151.3% | 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 | **137.4%** | 108.9% | 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* | **(0.3%)** | 14.3% | 6.9% |

* Annualized.

## Total credit risk according to economic sectors

(NIS million)

| | as at June 30, 2021 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | | | Credit losses (2) | | |
| | Total credit risk(1) | Of which: Credit execution 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 | **10,371** | **9,812** | **365** | **138** | **(26)** | **12** | **201** |
| Construction and Real estate - construction (5) | **12,389** | **12,052** | **166** | **51** | **(9)** | **(2)** | **83** |
| Construction and Real estate - real estate activities | **6,039** | **5,659** | **121** | **111** | **(9)** | **1** | **28** |
| Commerce | **7,038** | **6,434** | **253** | **57** | **(40)** | **(3)** | **179** |
| Financial services | **16,199** | **16,102** | **17** | **7** | **(8)** | **(8)** | **29** |
| Other business services | **13,833** | **12,650** | **534** | **134** | **(51)** | **3** | **208** |
| Total commercial (6) | **65,869** | **62,709** | **1,456** | **498** | **(143)** | **3** | **728** |
| Private individuals - housing loans | **33,906** | **33,232** | **343** | **98** | **2** | **1** | **165** |
| Private individuals - others | **34,887** | **33,813** | **273** | **141** | **6** | **(6)** | **330** |
| Total public - activity in Israel | **134,662** | **129,754** | **2,072** | **737** | **(135)** | **(2)** | **1,223** |
| Banks and Israeli government in Israel | **15,262** | **15,262** | **-** | **-** | **-** | **-** | **-** |
| Total activity in Israel | **149,924** | **145,016** | **2,072** | **737** | **(135)** | **(2)** | **1,223** |
| **In respect of borrowers abroad** | | | | | | | |
| Total public - activity abroad | **1,182** | **1,017** | **17** | **14** | **(2)** | **-** | **5** |
| Banks and foreign governments abroad | **3,511** | **3,511** | **-** | **-** | **-** | **-** | **-** |
| Total activity abroad | **4,693** | **4,528** | **17** | **14** | **(2)** | **-** | **5** |
| Total | **154,617** | **149,544** | **2,089** | **751** | **(137)** | **(2)** | **1,228** |

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 instruments as were calculated in respect of limitations of a borrower of NIS 99,290, 15,650, 32, 1,307 and 38,338 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, 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.

(5) Including balance sheet credit risk amounting to NIS 64 million and non-utilized credit facilities amounting to NIS 91 million, in respect of 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 3,101 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

(NIS million)

| | as at June 30, 2020 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | | | Credit losses (2) | | |
| | Total credit risk(1) | Of which: Credit execution 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 | 10,498 | 9,770 | 408 | 189 | 63 | 23 | 229 |
| Construction and Real estate - construction (5) | 10,161 | 9,718 | 135 | 54 | 12 | 4 | 80 |
| Construction and Real estate - real estate activities | 6,616 | 6,226 | 107 | 89 | 8 | (1) | 31 |
| Commerce | 7,802 | 6,858 | 232 | 87 | 42 | 15 | 183 |
| Financial services | 13,139 | 13,080 | 9 | 6 | 2 | - | 23 |
| Other business services | 12,785 | 11,296 | 583 | 288 | 104 | 14 | 219 |
| Total commercial (6) | 61,001 | 56,948 | 1,474 | 713 | 231 | 55 | 765 |
| Private individuals - housing loans | 29,039 | 28,462 | 261 | 11 | 28 | (1) | 150 |
| Private individuals - others | 34,497 | 33,403 | 309 | 164 | 63 | 26 | 312 |
| Total public - activity in Israel | 124,537 | 118,813 | 2,044 | 888 | 322 | 80 | 1,227 |
| Banks and Israeli government in Israel | 11,263 | 11,263 | - | - | - | - | - |
| Total activity in Israel | 135,800 | 130,076 | 2,044 | 888 | 322 | 80 | 1,227 |
| **In respect of borrowers abroad** | | | | | | | |
| Total public - activity abroad | 1,311 | 1,303 | 8 | 8 | - | - | 2 |
| Banks and foreign governments abroad | 4,026 | 4,026 | - | - | - | - | - |
| Total activity abroad | 5,337 | 5,329 | 8 | 8 | - | - | 2 |
| Total | 141,137 | 135,405 | 2,052 | 896 | 322 | 80 | 1,229 |

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 instruments as were calculated in respect of limitations of a borrower of NIS 94,120, 11,476, 45, 1,671 and 33,825 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, 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.

(5) Including balance sheet credit risk amounting to NIS 165 million and non-utilized credit facilities amounting to NIS 109 million, in respect of 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 3,114 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
(NIS million)

| | | | | | | | as at December 31, 2020 |
|---|---|---|---|---|---|---|---|
| | | | | | Credit losses (2) | | |
| | Total credit risk(1) | Of which: Credit execution 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 | 10,038 | 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 and Israeli government in Israel | 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 and foreign governments abroad | 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 instruments as were calculated in respect of limitations of a borrower of NIS 95,870, 12,798, 11, 1,897 and 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, 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.

(5) Including balance sheet credit risk amounting to NIS 88 million and non-utilized credit facilities amounting to NIS 101 million, in respect of 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

### 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) consolidated

| External credit rating | As of June 30, 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- | **93** | **2** | **95** | 107 | 2 | 109 |
| A+ to A- | **2,516** | **35** | **2,551** | 3,027 | 35 | 3,062 |
| BBB+ to BBB- | **140** | **5** | **145** | 142 | 7 | 149 |
| BB+ to B- | **147** | **-** | **147** | 75 | - | 75 |
| Total credit exposure to foreign financial institutions | **2,896** | **42** | **2,938** | 3,351 | 44 | 3,395 |
| Of which: Balance of problem 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, and do not include investments in asset-backed securities.
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 10 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 254 million on June 30, 2021 (December 31, 2020 - NIS 227 million).

Most of the exposure is to foreign financial institutions with high financial resilience, which most of them are included in investment grade A- and above. During the first half of the year no material change has occurred in the credit exposure of the Bank to thses financial institutions and these financial institutions did not lose their external grading.

On the background of the corona crisis, at the beginning of the year 2020, an increase in the credit spreads in respect of most of the financial institution, to which the Bank had material credit exposures. As of December 31, 2020, these credit spreads were decreased to a level of 0.3%-0.7%, similar to the level before the corona outbrake. The Bank continues to monitor the foreign financial institutions, and as of June 30, 2021, the spreads remained at a level similar to that of the end of 2020.

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 247 million investment in foreign currency bonds.

The bonds portfolio, included in the foreign financial institutions exposure, is deversified and all these bonds are investment grade bonds, of which 50% are rated A- or higher.

The average duration of the portfolio is 3 years.

In addition, balance-sheet credit risk includes NIS 2 billion of deposits placed with foreign banks, mainly for a short period of a day to a week.

As of June 30, 2021 there is no country in which the credit exposure to sovereigns of the Bank group exceeding 15% of the Bank's equity capital, which amounted to NIS 1,791 million (as defined in Proper Conduct of Banking Business Regulation No. 202 concerning capital components).

## 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)

| | June 30, 2021 | | | December 31, 2020 | | |
|---|---|---|---|---|---|---|
| | exposure | | | exposure | | |
| | Balance sheet (2) | Off Balance sheet(2)(3) | Total | Balance sheet (2) | Off Balance sheet(2)(3) | Total |
| United States | **2,875** | **26** | **2,901** | 3,067 | 33 | 3,100 |
| Other | **2,358** | **380** | **2,738** | 2,525 | 349 | 2,874 |
| Total exposure to foreign countries | **5,233** | **406** | **5,639** | 5,592 | 382 | 5,974 |
| Off which: Total exposure to PIGS countries (Portugal, Italy, Greece and Spain) | **28** | **3** | **31** | 23 | 2 | 25 |
| Off which: Total exposure to LDC countries | **165** | **42** | **207** | 168 | 41 | 209 |
| Off which: Total exposure to countries with liquidity problems | **16** | **2** | **18** | 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

### The Group's credit policy in the area of mortgage activity

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 transactions 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, modified to customers of the Group, 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 troubled 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 the six months ended June 30 | | |
|---|---|---|---|
| | **2021** | **2020** | **Change** |
| | | NIS million | % |
| **Housing loans extensions** | | | |
| Loans from bank funds | **3,754** | 2,696 | 39.2 |
| Loans from treasury funds | **13** | 13 | - |
| Grants from treasury funds | **7** | 8 | (12.5) |
| Total new loans | **3,774** | 2,717 | 38.9 |
| Refinanced loans from bank funds | **425** | 407 | 4.4 |
| Total extensions | **4,199** | 3,124 | 34.4 |

| | As at June 30, | | |
|---|---|---|---|
| | **2021** | **2020** | **Change** |
| | | NIS million | % |
| **Balance of housing loans, net** | | | |
| Loans from bank funds | **30,057** | 26,788 | 12.2 |
| Loans from treasury funds* | **276** | 299 | (7.7) |
| Grants from treasury funds* | **49** | 38 | 28.9 |
| Total balance of housing loans | **30,382** | 27,125 | 12.0 |

* The amounts are not included in the balance sheet balances

### 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 the 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 June 30, 2021 included 70% of credit granted at an LTV of up to 60% compared with 69% on June 30, 2020. 97% of total loans were granted at an LTV of up to 75%, compared with 94% on June 30, 2020.

Housing loan extensions from the Bank's sources in the first six months of 2021 included 65% of credit granted at an LTV of up to 60%, compared with 69% in the same period last year. All loan extensions were granted at an LTV of up to 75%, similar to the same period last year.

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 June 30, 2021 included 90% of credit granted at a debt-income ratio of up to 35% compared with 89% on June 30, 2020. 98% of the credit was extended to borrowers on the basis of a debt-income ratio of up to 50%, similar to the same period last year.

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

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 June 30, 2021 includes 60% of credit that was granted at floating-rate interest and amounts to NIS 18,044 million.

Housing loan extensions from the Bank's sources in the first half of 2021 include NIS 1,526 million of credit granted at floating-rate interest of up to five years constituting 41% of extentions. An amount of NIS 632 million is floating-rate credit for five years, constituting 17% of extentions .

### Long-term loans

The portfolio of housing loans from the Bank's sources as of June 30, 2021 includes 81% of credit whose redemption period as of the report date is up to 25 years and amounts to NIS 24,442 million.

Housing loan extensions from the Bank's sources in the first half of 2021 include 67% of credit whose redemption period as of the report date is up to 25 years and amounts to NIS 2,514 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 |
| 30.6.21 | **8,300** | **28.4** | **12,576** | **43.1** | **3,520** | **12.1** | **4,793** | **16.4** | **11** | **-** | **29,200** | **857** | **30,057** |
| 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)

| | six months 2021 | six months 2020 | 2020 | 2019 | 2018 | 2017 |
|---|---|---|---|---|---|---|
| Total housing loan extensions (NIS million) | **3,754** | 2,696 | 5,915 | 4,374 | 4,149 | 3,756 |
| Rate of change in housing loan extensions compared with previous year | **39.2%** | 32.3% | 35.2% | 5.4% | 10.5% | (13.4%) |
| Rate of expense (income) on credit losses relative to mortgages at the Bank's risk | **-** | 0.21% | 0.14% | 0.01% | - | (0.01%) |
| Cumulative rate of allowance for credit losses relative to mortgages at the Bank's risk | **0.56%** | 0.57% | 0.59% | 0.49% | 0.50% | 0.51% |

### Effect of the spreading of the Corona virus on residential credit

As from March 2020, the Bank enabled borrowers to defer the monthly payment of the housing loans and to arrange a lenient repayment schedule.

As of June 30, 2021, the deferred repayment of loans amounted to NIS 6 million, as stated in note 1C.4 to the condensed financial statements.

### The update of the limitation in respect of part of residential loan in floating rate interest

On December 27, 2020, an amendment to Proper Conduct of Banking Business Directive No. 329 in the matter of "restrictions on the granting of residential 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 in which the previous rate was determined, 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 other two thirds are to be granted at floating rates.

The implementation of the amendments to the directive was set at January 17, 2021. In respect of a housing loan designated for the early repayment of a loan at the Bank, or at other bank, the amendment will apply from February 28, 2021.

## Private individuals credit risk (excluding housing loans and derivatives)

### 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 granting of credit is based on statistical models for the rating of credit risk, which take into account the personal parameters of each customer, including: his income and stability of income, financial wealth, his repayment ability and past experience of the Bank with the customer.

This perception is well reflected in the credit policy of the Bank through quantitative and qualitative restrictions for the granting of credit in the level of the single customer and in 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 both for the direct granting of credit via the Internet, the cellular application and via "International Bank Call", and in the underwriting process of credit at the branches. 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 proportional risk appetite of the Group as regards the consumer credit field.

The Bank focuses on retail 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 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, salaried persons and those having a fixed income, 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 at Otsar Hahayal branches are salaried employees, large part of them are former employees of the defense forces. Loans to Ministry of Defense personnel are granted within the framework of different tender, reflect the capitalization of rights for interim periods and are characterized by 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, deducted directly from salaries.

80% of the balance of the credit risk to private individuals is in respect of customers with fixed income credited to the account in an amount exceeding NIS 10 thousands.

### Effect of the spreading of the Corona virus on credit to private individuals

The outbrake of the corona crisis was accompanied by a high level of economic uncertainty. The Bank adopted several actions in order to hedge the credit risk, among others, the update of the parameters to classify problematic debts and adjustments in the underwriting model and in the procedures in the credit area. Also, provision in the collective and specific level were made in a conservative manner.

Several economic indicators suggest the beginning of exiting the crisis. In the first half of the year, an improvement in the ratio between the problematic credit and the non-problematic credit in the Bank, occurred, and most of the customers, which deferred repayments during the period of the crisis, resumed repaying their loans. In-light of the above, the Bank resumed operating in accordance with the parameters which were acceptable before the crisis. However, the renewed outbrake of the virus might harm the trend of improvement.

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

| | | | As of | | Change |
|---|---|---|---|---|---|
| | **30.6.21** | **30.6.20** | **31.12.20** | **30.6.20** | **31.12.20** |
| | | | NIS million | | % |
| Current account and utilized balances of credit cards | **5,092** | 4,758 | 4,865 | 7.0 | 4.7 |
| Other loans | **16,941** | 16,538 | 16,468 | 2.4 | 2.9 |
| Total balance credit risk | **22,033** | 21,296 | 21,333 | 3.5 | 3.3 |
| Unutilized current account credit lines | **4,663** | 4,574 | 4,693 | 1.9 | (0.6) |
| Unutilized credit lines in credit cards | **7,208** | 7,368 | 7,287 | (2.2) | (1.1) |
| Other off-balance credit risks | **967** | 1,241 | 1,204 | (22.1) | (19.7) |
| Total off-balance credit risk | **12,838** | 13,183 | 13,184 | (2.6) | (2.6) |
| Total credit risk | **34,871** | 34,479 | 34,517 | 1.1 | 1.0 |
| Average volume of credit, including overdrafts, credit cards and loans | **20,649** | 20,791 | 20,529 | (0.7) | 0.6 |

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

| | | | As of | | Change |
|---|---|---|---|---|---|
| | **30.6.21** | **30.6.20** | **31.12.20** | **30.6.20** | **31.12.20** |
| | | | NIS million | | % |
| Impaired credit risks | **141** | 164 | 156 | (14.0) | (9.6) |
| Unimpaired problematic credit risk | **132** | 145 | 192 | (9.0) | (31.3) |
| Non-problematic credit risk | **34,598** | 34,170 | 34,169 | 1.3 | 1.3 |
| Total credit risk | **34,871** | 34,479 | 34,517 | 1.1 | 1.0 |
| Of which: unimpaired debts in arrears of 90 days or more | **18** | 21 | 18 | (14.3) | - |
| Balance of restructured debts out of the problematic credit | **103** | 117 | 113 | (12.0) | (8.8) |
| Expense rate of credit losses out of total credit to the public* | **0.05%** | 0.59% | 0.36% | | |

*annualized

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

| | | | | June 30, 2021 |
|---|---|---|---|---|
| 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 | **381** | **65** | **446** | **203** |
| Up to 10 | **3,544** | **499** | **4,043** | **2,220** |
| From 10 to 20 | **4,855** | **1,555** | **6,410** | **3,588** |
| Over 20 | **5,772** | **5,362** | **11,134** | **6,827** |
| Total | **14,552** | **7,481** | **22,033** | **12,838** |

| | | | | June 30, 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 | 400 | 40 | 440 | 209 |
| Up to 10 | 3,827 | 464 | 4,291 | 2,428 |
| From 10 to 20 | 5,011 | 1,368 | 6,379 | 3,691 |
| Over 20 | 5,645 | 4,541 | 10,186 | 6,855 |
| Total | 14,883 | 6,413 | 21,296 | 13,183 |

| | | | | 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 in average calculation 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)

| | | | Balance sheet credit risk |
|---|---|---|---|
| | June 30, 2021 | June 30, 2020 | December 31, 2020 |
| Period to redemption | | | NIS million |
| Up to one year | **5,576** | 5,304 | 5,347 |
| From one to three years | **3,112** | 2,987 | 2,959 |
| From three to five years | **4,715** | 4,860 | 4,762 |
| From five to seven years | **2,999** | 2,749 | 2,864 |
| Over seven years | **5,631** | 5,396 | 5,401 |
| Total | **22,033** | 21,296 | 21,333 |

Distribution by size of credit to the borrower*

| Credit range to the borrower | June 30, 2021 Balance sheet credit risk | Off-balance sheet credit risk | Total credit risk** | June 30, 2020 Balance sheet credit risk | Off-balance sheet credit risk | Total credit risk** | December 31, 2020 Balance sheet credit risk | Off-balance sheet credit risk | Total credit risk** |
|---|---|---|---|---|---|---|---|---|---|
| NIS thousands | | | NIS million | | | NIS million | | | NIS million |
| Up to 10 | **206** | **463** | **669** | 257 | 645 | 902 | 197 | 470 | 667 |
| From 10 to 20 | **404** | **865** | **1,269** | 376 | 853 | 1,229 | 383 | 873 | 1,256 |
| From 20 to 40 | **1,145** | **2,017** | **3,162** | 1,067 | 1,989 | 3,056 | 1,096 | 2,040 | 3,136 |
| From 40 to 80 | **2,881** | **3,358** | **6,239** | 2,849 | 3,362 | 6,211 | 2,848 | 3,432 | 6,280 |
| From 80 to 150 | **5,711** | **3,251** | **8,962** | 5,650 | 3,342 | 8,992 | 5,656 | 3,391 | 9,047 |
| From 150 to 300 | **6,786** | **2,162** | **8,948** | 6,636 | 2,259 | 8,895 | 6,633 | 2,262 | 8,895 |
| Over 300 | **4,900** | **722** | **5,622** | 4,461 | 733 | 5,194 | 4,520 | 716 | 5,236 |
| Total | **22,033** | **12,838** | **34,871** | 21,296 | 13,183 | 34,479 | 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 residential loans.

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

| Type of credit | June 30, 2021 Balance sheet credit risk | June 30, 2020 Balance sheet credit risk | December 31, 2020 Balance sheet credit risk |
|---|---|---|---|
| | NIS million | NIS million | NIS million |
| Current account | **1,446** | 1,526 | 1,372 |
| Credit card | **3,646** | 3,232 | 3,493 |
| Credit carrying variable interest | **16,364** | 15,922 | 15,862 |
| Credit carrying fixed interest | **577** | 616 | 606 |
| Total | **22,033** | 21,296 | 21,333 |

* Reclassified.

## Collateral

| | June 30, 2021 Balance sheet credit risk | Off-balance sheet credit risk | Total credit risk | June 30, 2020 Balance sheet credit risk | Off-balance sheet credit risk | Total credit risk | December 31, 2020 Balance sheet credit risk | Off-balance sheet credit risk | Total credit risk |
|---|---|---|---|---|---|---|---|---|---|
| | | | NIS million | | | NIS million | | | NIS million |
| Total credit secured by collateral* | **4,325** | **649** | **4,974** | 3,981 | 913 | 4,894 | 4,096 | 880 | 4,976 |
| * Of which: | | | | | | | | | |
| Non-liquid collateral | **3,914** | **624** | **4,538** | 3,571 | 886 | 4,457 | 3,705 | 853 | 4,558 |
| Liquid collateral | **411** | **25** | **436** | 410 | 27 | 437 | 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 proportional 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 in an initiated fashion on the basis of monitoring the risk characteristics of the borrower and identifying his needs. 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 at the Bank by means of an appropriate infrastructure of restraint, 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 troubled credit in arrears and follow-up of developments in the troubled consumer credit at the branches.

The second line of defense includes different controls, the essence of which are 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 group, 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 respect of this risk.

## Construction and real estate sector risks

On background of changes and developments in the housing credit market, directives of the Supervisor of Banks and Government regulations, the Bank adopts a proportional 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, changes in regulation, etc. The said proportionality and care are reflected in the examination of the financing ratio, sensitivity analisys examination of the financing of construction projects and examination of the ratio of the borrower's equity and early sales, this 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.

Over and above examination performed on a current basis, the Bank conducts monthly discussions with respect of all credit portfolios and examines the condition of the projects as well as the level of risk inherent in each, and reduces exposure accordingly.

The pricing of each transaction is strictly calculated in accordance with the risk involved and the required capital allocation.

The parameters used by the Bank for the examination of risk relating to the real estate credit portfolio are mostly "loan to value", the ratio of the credit amount to the value of assets used as collateral at date of approval of the loan, based on an updated value assessment and the existence of stable sources for the repayment of the credit.

Examination of the risk relating to the construction credit portfolio 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 corona crisis brought uncertainty to the continued demand for yielding real estate, with difference between types of yielding real estate. However if negative impact will occur in this field, it will probably impact old assets which are not in demand area. The Bank examines on a current basis the level of negative impact on this type of assets.

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

| | | June 30, | December 31, |
|---|---|---|---|
| | 2021 | 2020 | 2020 |
| | | | NIS million |
| **Overall credit risk**[(1)] | | | |
| Projects not yet completed | | | |
| Of which: Open land | **2,922** | 2,280 | 2,296 |
| Property under construction | **5,202** | 4,377 | 4,613 |
| Completed building projects | **4,728** | 4,730 | 4,494 |
| Other[(2)] | **5,576** | 5,390 | 5,631 |
| Total | **18,428** | 16,777 | 17,034 |

(1) Of which: credit secured by housing property in the amount of NIS 6,508 million, Credit secured by industrial property in the amount of NIS 805 million and credit secured by commercial property in the amount of 5,539 million (30.6.20 - NIS 5,263 million, NIS 773 million and NIS 5,351 million, respectively, 31.12.20 - NIS 5,348 million, NIS 770 million and NIS 5,285 million).

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

### Leveraged Finance

Leveraged finance is defined as credit granted for financing capital transaction in corporation (as defined in the Bank of Israel directive 323) that meets certain criteria, and credit granted to debtors characterized with high finance leverage.

The criteria according to which the Bank defines credit as leveraged finance were set in a conservative manner.

Additional information can be found in the financial statements for 2020.

As of June 30, 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 559 million, compared to NIS 496 million on June 30, 2020 and NIS 576 million at the end of 2020.

## MARKET RISK

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

### 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 and management and exposure control tools such as: duration, fair value and sensitivity tests for changes in the interest curve.

### Interest exposure

Interest risk is the actual or future existence of a risk to the Group's income or capital deriving from movement in interest rates, effecting the Bank's earnings by changes in net income, and the value of the Bank's assets, liabilities and off-balance-sheet instruments, since the fair value of future cash-flows (and in certain cases the cash-flows themselves) changes when the interest rates are changing. The main shapes of the interest risk to which the Bank is exposued to are: risk of repricing, yield curve risk, basis risk and option risk. Interest risks in respect of the entire portfolio are 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, a specific directive in the area of interest risk management with emphasis on the banking portfolio. The Bank implemented policy for the management of interest risk, in accordance with the regulations.

### Analysis of sensitivity to the effect of exposure to interest rate adjustments based on the fair value of financial instruments

Set out below is information on assets and liabilities that are exposed to changes in interest rates on the basis of their fair value, including a sensitivity analysis of the effect of theoretical changes in the interest rate on the fair value of financial instruments, excluding non monetary 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 surplus in the segment:

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):

| | June 30, 2021 | | | June 30, 2020 | | | December 31, 2020 | | |
|---|---|---|---|---|---|---|---|---|---|
| | **NIS** | **Foreign currency** | **Total** | **NIS** | **Foreign currency** | **Total** | **NIS** | **Foreign currency** | **Total** |
| | | | NIS million | | | NIS million | | | NIS million |
| Adjusted fair value, net [1] | **8,336** | **(155)** | **8,181** | 7,692 | (68) | 7,624 | 8,092 | (223) | 7,869 |
| Of which: banking portfolio | **7,638** | **188** | **7,826** | 7,643 | (100) | 7,543 | 8,096 | (297) | 7,799 |

Additional details as to the assumptions used to calculate the adjusted fair value of the financial instruments, see note 14A 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:

| | June 30, 2021 | | | June 30, 2020 | | | December 31, 2020 | | |
|---|---|---|---|---|---|---|---|---|---|
| | **NIS[5]** | **Foreign currency** | **Total** | **NIS[5]** | **Foreign currency** | **Total** | **NIS[5]** | **Foreign currency** | **Total** |
| | | | NIS million | | | NIS million | | | NIS million |
| **Parallel changes** | | | | | | | | | |
| Parallel increase of 1% | **44** | **(44)** | **-** | (25) | (14) | (39) | (41) | (45) | (86) |
| Of which: banking portfolio | **55** | **(38)** | **17** | (15) | (10) | (25) | (39) | (38) | (77) |
| Parallel decrease of 1% | **125** | **49** | **174** | 77 | 3 | 80 | 200 | 47 | 247 |
| Of which: banking portfolio | **117** | **44** | **161** | 67 | 3 | 70 | 207 | 42 | 249 |
| **Non-parallel changes** | | | | | | | | | |
| Steeping[2] | **(127)** | **(12)** | **(139)** | (171) | (8) | (179) | (165) | (11) | (176) |
| Flattening[3] | **198** | **(6)** | **192** | 218 | (7) | 211 | 214 | (8) | 206 |
| Interest increase in short term | **186** | **(21)** | **165** | 178 | (13) | 165 | 170 | (25) | 145 |
| Interest decrease in short term | **(53)** | **43** | **(10)** | (62) | (2) | (64) | (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 income: (6)

| | June 30, 2021 | | | June 30, 2020 | | | December 31, 2020 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Interest income | Non-interest income | Total(4) | Interest income | Non-interest income | Total(4) | Interest income | Non-interest income | Total(4) |
| | | | NIS million | | | NIS million | | | NIS million |
| **Parallel changes** | | | | | | | | | |
| Parallel increase of 1% | **409** | **(1)** | **408** | 391 | 5 | 396 | 418 | 1 | 419 |
| Of which: banking portfolio | **407** | **-** | **407** | 391 | - | 391 | 417 | - | 417 |
| Parallel decrease of 1% | **(712)** | **1** | **(711)** | (672) | (5) | (677) | (724) | (1) | (725) |
| Of which: banking portfolio | **(712)** | **-** | **(712)** | (672) | - | (672) | (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 detail as to the assumptions used in the calculation of the adjusted fair value of financial instruments, see note 14A 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) Components for which a negative interest environment in taken into account- financial derivative instruments, assets and liabilities in the CPI segment and bonds in the foreign currency segment.
(6) In interest decline scenarios reflecting negative interest, the effect of the scenario on interest income, net was calculated according to deferent assumptions.

**Disclosure regarding preparations for the discontinuation of use of the LIBOR**

On February 13, 2020, the Supervisor of Banks published a circular letter in the matter of "disclosure regarding preparations for the discontinuation of use of the LIBOR", this on background of the disclosure guidelines of the SEC regarding the discontinued use of the LIBOR, clarifying, inter alia, the required disclosure in the matter. The said disclosure guidelines had been published on background of the risk of lack of certainty regarding the way in which contracts linked to the LIBOR would be interpreted, in a situation in which, as from the year 2022 and for the Dollar for common periods as from July 2023, a LIBOR rate would no longer be published, or it is determined that the LIBOR no longer represents the relevant interest rates.

Following this decision, work teams have been formed worldwide for the purpose of determining alternative interest indices to the LIBOR rate for each of the following currencies: US dollar, Pound Sterling, Euro, Swiss Franc and the Japanese Yen. The alternatives being studied by the work teams include, inter alia, the interest rates of the SOFR (Secured Overnight Financing Rate); the SONIA (Sterling Overnight Index Average); the ESTER (Euro Short-Term Rate); the SARON (Swiss Average Rate Overnight); TONA (Tokyo Overnight Average Rate).

The alternative interest indices form an applicable solution in respect of derivatives, however, alternative interest for the LIBOR in respect of cash products (credit and deposits) is yet to be determined for some of the currencies and the rules for the use of daily interest were not set yet.

On August 3, 2021, the Bank of Israel published a draft of Proper Conduct of Banking Management directive in the matter of "Transition from the LIBOR interest"' which details the guidelines for the implementation of the transfer to other alternative interest indices. This, among other things, in the following aspects: the way to choose the alternative interest indices, providing information to customers, performing adjustments in exisiting agreements, the discontinuation of new loans based on the LIBOR, risk management, etc.

The discontinued use of the LIBOR and transition to alternative interest indices are expected to have wide implications upon the Bank, such as: economic, operational and accounting implications.

In this respect, guidelines of the Supervisor of Banks clarify that, on background of the uncertainty risk regarding the interpretation of contracts linked to the LIBOR, the Bank is required to include in its reports to the public, disclosure regarding its preparations for the discontinued use of the LIBOR.

As of date of this Report, the Bank examined the expected impact of the discontinuation of the publication of the LIBOR rate, including examination of the possible alternatives in each of the currencies mentioned above, the financial implications that might arise from the transition to the use of such currencies, and the required preparations regarding both the business aspect and the risk management aspect of the new exposure.

Following data of contracts which the Bank possesses that are affected from the LIBOR for periods exceeding 2021:

| | Volume of transactions |
|---|---|
| | As Of June 30, 2021 |
| | NIS millions |
| Credit to the public (including mortgages) | **645** |
| Deposits from the public | **-** |
| Derivatives (face value) | **4,775** |

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 combined in the discontinuance use of the LIBOR in derivatives activity, the Bank had signed on the new protocol of the ISDA, arranging, among others, the method of settling old contracts signed with LIBOR interest and will not expire by the time of discontinued publication of the LIBOR. As of date of this Report, and in accordance with assessments made by the Bank, it does not have material balance sheet exposure regarding contracts that relate to the LIBOR, for periods exceeding the year 2021.

**Principal risks and preparations made by the Bank in respect thereof**

The discontinuation of use of the LIBOR and transition to alternative interest indices, 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 all relevant contracts and exposure.

As of date of this Report, the Bank has started preparations for the management and reduction of identified risks related to the discontinuation of use of the LIBOR, including actual implementation of the new interest indices. As part of these preparations, the Bank has formed a designated team, aimed, inter alia, at developing working procedures for the identification of risk, assessment of the scope of the risk, examination of the impact of each risk, offering alternatives for means of risk reduction, the monitoring of risk and related implications, as well as submission of current reports to Management and the Board of Directors. Furthermore, the Bank sends massages to its customers in respect of the changes anticipated by the publication of the LIBOR, and the possible significances of these changes, everything according to the information existing with the Bank at this stage.

The following risks had been mapped at this stage:

- **Financial risk** - decline in profitability and/or increase in costs stemming, inter alia, from: recognition of loss on financial instruments held by the bank, due to cancellation of contracts; customer objection to their interest charges; decline in the number and turnover of customer transactions; opening of positions exposed to interest and modification of the Bank's asset and liability management process.
- **Model risk** - structuring a transfer price methodology modified to the transition to alternative interest indices; determining new pricing for products.
- **Legal risk** - studying the need and way of making changes to existing contracts and the drafting of new contracts agreeing with the discontinuation of use of the LIBOR and the new economic environment.
- **Regulation and supervision risk** - absorption of policy, procedures and allocation of responsibility.
- **Technological risk** - updating of the data bases and information systems, including their modification for use of the old and new products. This risk becomes clearer as a result of the announcement of the ARRC in respect of its lack of support in the forward-looking Dollar interest rate.
- **Business risk** - includes mostly the basis risk created as a result of the fallback mechanisms between the different products (such as: deposits as against derivatives).

### Accounting implications

The discontinuation of use of the LIBOR and transition to alternative interest indices, are expected to have different accounting implications in a number of areas, including discounting rates - transition to alternative interest indices might lead to changes in discounting rates used as input in different models for the purpose of valuation of different assets and liabilities, such as: financial instruments, derivatives and impairment of nonfinancial assets.

The Bank continues to follow the international publications and guidelines of the Bank of Israel and will inspire to reduce the risks deriving from the change of the interest indices.

## Basis exposure

### Actual basis exposure

Set out below is a description of the actual exposure of active capital, at the Group level (NIS millions):

| | Exposure of Active Capital | | % of active capital | |
|---|---|---|---|---|
| | As of June 30, | As of December 31, | As of June 30, | As of December 31, |
| | 2021 | 2020 | 2021 | 2020 |
| Non-linked local currency | **4,344** | 5,027 | **42** | 53 |
| CPI-linked local currency | **3,604** | 2,223 | **35** | 23 |
| Foreign currency and f-C linked | **(170)** | (239) | **(2)** | (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 June 30, 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 exchange rate | Dollar | Euro |
|---|---|---|
| 5% decrease | **4** | **(1)** |
| 10% decrease | **4** | **(1)** |
| 5% increase | **(8)** | **3** |
| 10% increase | **(14)** | **10** |

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.

Set out below is the sensitivity of the Bank's capital to theoretical changes in the CPI as of June 30, 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 | **(114)** |
| 3% increase | **110** |

## Management of risks in derivative financial instruments

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

| | As of June 30, 2021 | | | As of December 31, 2020 | | |
|---|---|---|---|---|---|---|
| | **Derivatives not for trading** | **Derivatives for trading** | **Total** | **Derivatives not for trading** | **Derivatives for trading** | **Total** |
| **Hedging transactions:** | | | | | | |
| Interest rate contracts | **3,469** | **-** | **3,469** | 3,527 | - | 3,527 |
| **Other transactions:** | | | | | | |
| Interest rate contracts | **979** | **13,901** | **14,880** | 1,317 | 14,070 | 15,387 |
| Foreign currency contracts | **19,372** | **55,279** | **74,651** | 15,410 | 58,404 | 73,814 |
| Contracts on shares, share indexes, commodities and other contracts | **-** | **70,295** | **70,295** | - | 55,330 | 55,330 |
| Total derivative financial instruments | **23,820** | **139,475** | **163,295** | 20,254 | 127,804 | 148,058 |

## 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, unexpected withdrawals of deposits from the public, unexpected demand for credit, uncertainty regarding the availability of sources, 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 crisis situations might endanger the stability of the Bank.

### Effect of the spreading of the Corona virus

The spreading of the Coronavirus 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.

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 June 30, 2021, amounted to 137%, 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 8 to the financial statements.

### Net stable Funding Ratio - NSFR

Bank of Israel published in June 2021, Directive 222 "Net stable Funding Ratio - NSFR", which adopts the Basel III recommendations, and which would take effect on December 31, 2021.

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.

This ratio requires banking corporations to maintain a stable funding profile, in accordance with the composition of their balance sheet assets and their off-balance sheet operations, and limits excessive reliance by banking corporations upon short-term wholesale funding.

The Bank is preparing for the implementation of the Directive, in accordance with Bank of Israel guidelines.

### Liquidity position and the composition of assets and liabilities

The liquidity assets at the group, which includes cash, deposits at the Bank of Israel, deposits at banks and liquid securities, amounted to NIS 71.8 billion on June 30, 2021, compared with NIS 70.0 billion at the end of 2020. Of this amount, the balance of cash, deposits with the Bank of Israel and deposits with banks accounted for NIS 56.7 billion, and NIS 15.1 billion were invested in securities, principally Israel government bonds.

The ratio of deposits from the public to credit to the public on June 30, 2021 amounted to 153.6% compared with 155.7% on December 31, 2020.

At the end of June 2021, deposits from the public, bonds and subordinated notes totaled NIS 149.1 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 emphsizing on raising sources for medium and long periods from deversified customers sectors and in different currencies.

The Bank has sources in a short-medium contructual duration, which the Bank anticipates that they will be held for a long time.The uses are both for short term and medium- long term.

Balance of deposits from the public of the three largest depositors in the Group:

| | As of June 30, 2021 | As of December 31, 2020 |
|---|---|---|
| | | NIS million |
| 1 | **3,938** | 3,176 |
| 2 | **2,093** | 1,488 |
| 3 | **1,438** | 1,247 |

## OTHER RISKS

For information regarding other risks, among others, the operational risks and the way they are managed (including business continuity, data security and cyber events), compliance risk, anti money laundering and terror finance risk (including cross border risks), finance risk, legal risk, reputation risk and strategy risk- see the chapter on risk review in the annual financial statements of the Bank for 2020 and the risk report for 2020 on the Bank's website.

## DISCUSSION OF RISK FACTORS

For discussion of risk factors see the chapter of risk review in the annual financial statements of the Bank for 2020.
No change occurred in the table of risk factors during the first half of 2021 compared with the table published in the annual financial statements for 2020, except for:

- Legal risk – 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.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES, CONTROLS AND PROCEDURES

### General

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.
A review of the significant areas, to which, in the opinion of the Bank Management, critical accounting policies apply, are detailed in the Directors and Management report for 2020, with no changes therein, except as stated hereunder.

### 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 troubled 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, private sources for repayment 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 troubled 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. These models assess the risk at the economic sector level, based on environmental factors, part of which is relevant to the specific credit portfolio of the Bank and to the quality of its management, and part is relevant to the condition of the economy in general. The environmental factors contained in the models include, inter alia, reference to changes in the volume of debts, to the quality of the underwriting process and its management, to the quality of controls, to the concentration of credit, to regional, countrywide and sector trends and economic conditions, as well as to the volume of balances in default and of troubled debts and to the volume of accounting write-offs and debt collection.

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. Based on the above, the level of risk inherent in the credit portfolio is assessed as well as its effect on the rate of the collective provision.

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 Corona crisis, and in order to reflect the possible growth in specific provisions in respect of borrowers adversely affected by the crisis, though not yet identified, inter alia as a result of action and steps taken by the Government and Bank of Israel to help the economy to recover from the crisis, the Bank has increased by significant rates the qualitative adjustment produced by the quantitative models. The increases were made while defferentiating between the different economic sectors based on estimates regarding the level of vulnerability of the sectors, and based on defined tests, such as the increase regarding segments identified as having a relatively high rate of credit to small businesses, the increase as a function of the ratio of credit having low rating to total credit to the segment, and more.

During the second quarter of the year, the Bank partialy reduced the subjective increases imposed during the corona crisis. Within the framework of the considerations in determining the level of the collective provision as of June 30, 2021, the Bank based on the significant growth reflected in the economic activity and assessed, that despite the increase in morbidity occuring lately, the risk in respect of the economic activity reduced, in light of the Government policy for the management of the corona crisis with minimum damage in the economy, and the anticipation for new vaccination processes and the impact of the vaccinations already done.

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, also macro-economic indicators. From this aspect, the Bank based its assumptions as of June 30, 2021, on the forecast of the Research Division of Bank of Israel, published on July 5, 2021, according to which it is estimated that in view of the high rates of immunity of the population and thanks to the modification of the economy to activity in the period of increased morbidity, growth recovery is anticipated in the course of 2021, which would total a positive annual rate of 5.5% and 6.0% in the years 2021 and 2022, respectively, and that the wide average rate of unemployment during 2021 and 2022 would be reduced to 10.8% and 6.4%, respectively..

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.

It is emphasized that the Corona crisis is marked as an ongoing and rolling event, in respect of which uncertainty as to its impact exists, so that changes in assessments and subjective estimates might significantly tilt the balance of the collective provision for credit losses.

In view of the uncertainty prevailing in the economy, and 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 June 30, 2021, the Bank has examined additional scenarios. It is emphasized that differences exist between scenarios applied by banks, as such scenarios are affected by the different work systems existing at each bank, by the assumptions made by each bank, and by the different estimates and assessments of each bank as to the effect of such assumptions. Therefore, differentiation may exist between estimates of the different banks, which might be significant. 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 highly based on subjective assessments, it became apparent that the credit loss provision as of June 30, 2021, might have grown under the stricter senarios by up to an amount of NIS 40 million, and under the mitigating scenarios it might have been reduced by a similar amount.

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 the scope of the spread of the virus, the reaction of governments and central banks, the length of the crisis period, and on many additional parameters.

## 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 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 March 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 quarter ending on June 30, 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.

| | | |
|---|---|---|
| **Ron Levkovich** | **Smadar Barber-Tsadik** | **Nachman Nitzan** |
| Chairman of the Board | Chief Executive Officer | Executive Vice President,<br>Chief Accountant |

Tel Aviv, August 17, 2021

# CERTIFICATION

I, Smadar Barber-Tsadik, declare that:

1. I have reviewed the quarterly report of the First International Bank of Israel Ltd. (hereinafter: “the Bank”) for the quarter ended June 30, 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 (including the comprehensive income), 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.

(1) As defined in the public reporting directives concerning the "board of Directors' report".

Tel-Aviv, August 17, 2021

**Smadar Barber-Tsadik**
Chief Executive Officer

## CERTIFICATION

I, Nachman Nitzan, declare that:

1. I have reviewed the quarterly report of the First International Bank of Israel Ltd. (hereinafter: “the Bank”) for the quarter ended June 30, 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 (including the comprehensive income), 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.

(1) As defined in the public reporting directives concerning the "board of Directors' report".

Tel-Aviv, August 17, 2021

**Nachman Nitzan**
Executive Vice President,
Chief Accountant

# FINANCIAL STATMENTS

Somekh Chaikin
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# AUDITORS' REVIEW TO THE SHAREHOLDERS' OF THE FIRST INTERNATIONAL BANK OF ISRAEL LTD.

### Introduction

We have reviewed the accompanying financial information of The First International Bank of Israel Ltd. and its subsidiaries (hereinafter- "the Bank"), comprising of the condensed consolidated interim balance sheet as of June 30, 2021 and the related condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the three and six months periods then ended. The Board of directors and Management are responsible for the preparation and presentation of this interim financial information in accordance with generally accepted accounting principles in Israel (Israeli GAAP) for interim accounting and in accordance with the directives and guidelines of the Supervisor of Banks. Our responsibility is to express a conclusion on this interim financial information based on our review.

### Scope of Review

We conducted our review in accordance with Standard on Review Engagements (Israel) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" and a review standard applied in the review of banking institutions according to the directives and guidelines of the Supervisor of Banks. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Conclusion

Based on our review nothing has come to our attention that causes us to believe that the accompanying financial information was not prepared, in all material respect, in accordance with generally accepted accounting principles in Israel (Israeli GAAP) for interim accounting and in accordance with the directives and guidelines of the Supervisor of Banks.

As explained in Note 1A, the accompanying financial statements represent a translation into English from the original financial statements in Hebrew.

Somekh Chaikin
Certified Public Accountants (Isr.)

August 17, 2021

## CONSOLIDATED STATEMENT OF INCOME

(NIS million)

| | NOTE | For the three months ended June 30 2021 | For the three months ended June 30 2020 | For the six months ended June 30 2021 | For the six months ended June 30 2020 | For the year Ended December 31 2020 |
|---|---|---|---|---|---|---|
| | | (unaudited) | (unaudited) | (unaudited) | (unaudited) | (audited) |
| Interest Income | 2 | **856** | 714 | **1,585** | 1,429 | 2,878 |
| Interest Expenses | 2 | **146** | 54 | **205** | 111 | 241 |
| Interest Income, net | | **710** | 660 | **1,380** | 1,318 | 2,637 |
| Expenses (income) from credit losses | 6,12 | **(128)** | 165 | **(137)** | 322 | 464 |
| Net Interest Income after expenses from credit losses | | **838** | 495 | **1,517** | 996 | 2,173 |
| **Non- Interest Income** | | | | | | |
| Non-Interest Financing income | 3 | **53** | 64 | **104** | 61 | 148 |
| Fees | | **350** | 323 | **711** | 691 | 1,371 |
| Other income | | **-** | 1 | **4** | 2 | 4 |
| Total non- Interest income | | **403** | 388 | **819** | 754 | 1,523 |
| **Operating and other expenses** | | | | | | |
| Salaries and related expenses | | **402** | 373 | **800** | 752 | 1,532 |
| Maintenance and depreciation of premises and equipment | | **86** | 86 | **171** | 172 | 344 |
| Amortizations and impairment of intangible assets | | **25** | 23 | **51** | 47 | 96 |
| Other expenses | | **139** | 135 | **286** | 283 | 597 |
| Total operating and other expenses | | **652** | 617 | **1,308** | 1,254 | 2,569 |
| Profit before taxes | | **589** | 266 | **1,028** | 496 | 1,127 |
| Provision for taxes on profit | | **208** | 97 | **361** | 145 | 368 |
| Profit after taxes | | **381** | 169 | **667** | 351 | 759 |
| The bank's share in profit of equity-basis investee, after taxes | | **23** | 7 | **36** | 5 | 29 |
| **Net profit:** | | | | | | |
| Before attribution to non-controlling interests | | **404** | 176 | **703** | 356 | 788 |
| Attributed to non-controlling interests | | **(14)** | (8) | **(26)** | (17) | (38) |
| Attributed to shareholders of the Bank | | **390** | 168 | **677** | 339 | 750 |
| | | | | | | NIS |
| **Primary profit per share attributed to the shareholders of the Bank** | | | | | | |
| Net profit per share of NIS 0.05 par value | | **3.89** | 1.68 | **6.75** | 3.38 | 7.48 |

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, 17 August, 2021

## STATEMENT OF COMPREHENSIVE INCOME[1]

(NIS million)

| | For the three months ended June 30 | | For the six months ended June 30 | | For the year Ended December 31 |
|---|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 | 2020 |
| | (unaudited) | (unaudited) | (unaudited) | (unaudited) | (audited) |
| Net profit before attribution to non-controlling interests | **404** | 176 | **703** | 356 | 788 |
| Net profit attributed to non-controlling interests | **(14)** | (8) | **(26)** | (17) | (38) |
| Net profit attributed to the shareholders of the Bank | **390** | 168 | **677** | 339 | 750 |
| Other comprehensive income (loss) before taxes: | | | | | |
| Adjustments of available for sale bonds to fair value, net | **(7)** | 157 | **4** | (90) | (4) |
| Adjustments of liabilities in respect of employee benefits[2] | **(20)** | (154) | **46** | (15) | (74) |
| Other comprehensive income (loss) before taxes | **(27)** | 3 | **50** | (105) | (78) |
| Related tax effect | **8** | (1) | **(18)** | 35 | 26 |
| Other comprehensive income (loss) before attribution to non-controlling interests, after taxes | **(19)** | 2 | **32** | (70) | (52) |
| Less other comprehensive income attributed to non-controlling interests | **-** | - | **1** | - | - |
| Other comprehensive income (loss) attributed to the shareholders of the Bank, after taxes | **(19)** | 2 | **31** | (70) | (52) |
| Comprehensive income before attribution to non-controlling interests | **385** | 178 | **735** | 286 | 736 |
| Comprehensive income attributed to non-controlling interests | **(14)** | (8) | **(27)** | (17) | (38) |
| Comprehensive income attributed to the shareholders of the Bank | **371** | 170 | **708** | 269 | 698 |

(1) See note 4.

(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 income.

The notes to the financial statements are an integral part thereof.

# CONSOLIDATED BALANCE SHEET
(NIS million)

| | | | June 30, | December 31, |
|---|---|---|---|---|
| | | 2021 | 2020 | 2020 |
| | NOTE | (unaudited) | (unaudited) | (audited) |
| **Assets** | | | | |
| Cash and deposits with banks | | **56,673** | 46,144 | 57,802 |
| Securities(4) | 5 | **16,244** | 11,715 | 13,105 |
| Securities which were borrowed | | **32** | 45 | 11 |
| Credit to the public | 6,12 | **96,340** | 90,371 | 92,247 |
| Provision for Credit losses | 6,12 | **(1,149)** | (1,156) | (1,277) |
| Credit to the public, net | | **95,191** | 89,215 | 90,970 |
| Credit to the government | | **101** | 852 | 656 |
| Investments in investee company | | **675** | 611 | 636 |
| Premises and equipment | | **945** | 979 | 965 |
| Intangible assets | | **279** | 244 | 272 |
| Assets in respect of derivative instruments | 10 | **1,307** | 1,671 | 1,897 |
| Other assets(2) | | **1,581** | 1,243 | 1,464 |
| Total assets | | **173,028** | 152,719 | 167,778 |
| **Liabilities and Shareholders' Equity** | | | | |
| Deposits from the public | 7 | **146,276** | 129,160 | 141,677 |
| Deposits from banks | | **5,035** | 1,881 | 2,992 |
| Deposits from the Government | | **435** | 495 | 459 |
| Bonds and subordinated capital notes | | **2,833** | 4,375 | 4,394 |
| Liabilities in respect of derivative instruments | 10 | **1,440** | 1,940 | 2,314 |
| Other liabilities(1)(3) | | **6,739** | 5,783 | 6,407 |
| Total liabilities | | **162,758** | 143,634 | 158,243 |
| Capital attributed to the shareholders of the Bank | | **9,849** | 8,712 | 9,141 |
| Non-controlling interests | | **421** | 373 | 394 |
| Total equity | | **10,270** | 9,085 | 9,535 |
| Total liabilities and shareholders' equity | | **173,028** | 152,719 | 167,778 |

(1) Of which: provision for credit losses in respect of off-balance sheet credit instruments in the amount of NIS 79 million and NIS 73 million and NIS 86 million at 30.6.21, 30.6.20 and 31.12.20, respectively.

(2) Of which: other assets measured at fair value in the amount of NIS 353 million and NIS 87 million and NIS 247 million at 30.6.21, 30.6.20 and 31.12.20, respectively.

(3) Of which: other liabilities measured at fair value in the amount of NIS 382 million and NIS 133 million and NIS 258 million at 30.6.21, 30.6.20 and 31.12.20, respectively.

(4) Regarding amounts measured at fair value, see note 14B.

The notes to the financial statements are an integral part thereof.

## STATEMENT OF CHANGES IN EQUITY

(NIS million)

| | For the three months ended June 30, 2021 (unaudited) | | | | | |
|---|---|---|---|---|---|---|
| | Share capital and premium (1) | Accumulated other comprehensive loss | Retained earnings (2) | Total share-holders' equity | Non-controlling interests | Total equity |
| Balance as of March 31, 2021 | **927** | **(133)** | **8,684** | **9,478** | **407** | **9,885** |
| Net profit for the period | **-** | **-** | **390** | **390** | **14** | **404** |
| Other comprehensive income, after tax effect | **-** | **(19)** | **-** | **(19)** | **-** | **(19)** |
| Balance as at June 30, 2021 | **927** | **(152)** | **9,074** | **9,849** | **421** | **10,270** |

| | For the three months ended June 30, 2020 (unaudited) | | | | | |
|---|---|---|---|---|---|---|
| | Share capital and premium (1) | Accumulated other comprehensive income (loss) | Retained earnings (2) | Total share-holders' equity | Non-controlling interests | Total equity |
| Balance as of March 31, 2020 | 927 | (203) | 7,818 | 8,542 | 365 | 8,907 |
| Net profit for the period | - | - | 168 | 168 | 8 | 176 |
| Other comprehensive income, after tax effect | - | 2 | - | 2 | - | 2 |
| Balance as at June 30, 2020 | 927 | (201) | 7,986 | 8,712 | 373 | 9,085 |

| | For the six months ended June 30, 2021 (unaudited) | | | | | |
|---|---|---|---|---|---|---|
| | 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 December 31, 2020 (audited) | **927** | **(183)** | **8,397** | **9,141** | **394** | **9,535** |
| Net profit for the period | **-** | **-** | **677** | **677** | **26** | **703** |
| Other comprehensive profit, after tax effect | **-** | **31** | **-** | **31** | **1** | **32** |
| Balance as at June 30, 2021 | **927** | **(152)** | **9,074** | **9,849** | **421** | **10,270** |

| | For the six months ended June 30, 2020 (unaudited) | | | | | |
|---|---|---|---|---|---|---|
| | Share capital and premium (1) | Accumulated other comprehensive loss | Retained earnings (2) | Total share-holders' equity | Non-controlling interests | Total equity |
| Balance as at December 31, 2019 (audited) | 927 | (131) | 7,772 | 8,568 | 356 | 8,924 |
| Net profit for the period | - | - | 339 | 339 | 17 | 356 |
| Dividend | - | - | (125) | (125) | - | (125) |
| Other comprehensive loss, after tax effect | - | (70) | - | (70) | - | (70) |
| Balance as at June 30, 2020 | 927 | (201) | 7,986 | 8,712 | 373 | 9,085 |

## **STATEMENT OF CHANGES IN EQUITY** (CONT'D)

(NIS million)

| | For the year ended December 31, 2020 (audited) | | | | | |
|---|---|---|---|---|---|---|
| | Share capital and premium (1) | Accumulated other comprehensive loss | Retained earnings (2) | Total | Non-controlling interests | Total equity |
| Balance as at December 31, 2019 | 927 | (131) | 7,772 | 8,568 | 356 | 8,924 |
| 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 |

(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.

The notes to the financial statements are an integral part thereof.

## STATEMENT OF CASH FLOWS

(NIS million)

| | For the three months ended June 30 | | For the six months ended June 30 | | For the year Ended December 31 |
|---|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** | **2020** |
| | (unaudited) | (unaudited) | (unaudited) | (unaudited) | (audited) |
| **Cash flows from operating activities:** | | | | | |
| Net profit for the period | **404** | 176 | **703** | 356 | 788 |
| **Adjustments to reconcile cash provided by operating activities:** | | | | | |
| The Bank's share in profit of equity-basis investee | **(23)** | (7) | **(36)** | (5) | (29) |
| Depreciation of premises and equipment | **16** | 18 | **33** | 34 | 71 |
| Amortization of intangible assets | **25** | 23 | **51** | 47 | 96 |
| Gain on sale of premises and equipment | **-** | - | **(3)** | - | - |
| Expenses (income) from credit losses | **(128)** | 165 | **(137)** | 322 | 464 |
| Loss (gain) from sale of available for sale bonds and not for trading shares and provision for impairment of available-for-sale bonds | **(11)** | (13) | **(14)** | 3 | (20) |
| Realized and non-realized gain from adjustment to fair value of trading securities | **-** | (1) | **(3)** | (1) | (1) |
| Realized and non-realized loss (gain) from adjustment to fair value of not for trading shares | **(18)** | (8) | **(42)** | 41 | 11 |
| Deferred taxes, net | **33** | (23) | **34** | (64) | (144) |
| Defined benefit of pension and severance pay plans | **12** | 13 | **27** | 24 | 68 |
| Adjustments of exchange rate differences | **(243)** | (230) | **161** | (96) | (794) |
| **Net change in current assets:** | | | | | |
| Trading securities | **12** | 95 | **(121)** | (28) | (100) |
| Other assets | **(389)** | (9) | **(177)** | (66) | (207) |
| Assets in respect of derivative instruments | **288** | 870 | **665** | (731) | (908) |
| **Net change in current liabilities:** | | | | | |
| Other liabilities | **394** | (167) | **74** | 373 | 316 |
| Liabilities in respect of derivative instruments | **(114)** | (646) | **(874)** | 693 | 1,067 |
| Accumulation differences included in investing and financing activities | **(140)** | (30) | **(96)** | (26) | (53) |
| Net cash from operating activity | **118** | 226 | **245** | 876 | 625 |
| **Cash flows for investing activity** | | | | | |
| Change in Deposits in banks | **78** | 126 | **261** | (121) | (219) |
| Change in Securities borrowed | **212** | 37 | **(21)** | (36) | (2) |
| Change in Credit to the public | **(2,580)** | 1,046 | **(3,351)** | (2,133) | (3,902) |
| Change in Credit to the government | **558** | 261 | **555** | 182 | 378 |
| Purchase of available for sale bonds and not for trading shares | **(1,781)** | (2,603) | **(4,034)** | (4,775) | (8,210) |
| Proceeds from redemption of bonds held to maturity | **12** | 10 | **64** | 147 | 236 |
| Proceeds from sale of available for sale bonds and not for trading shares | **153** | 1,260 | **414** | 2,357 | 3,220 |
| Redemption of available for sale bonds | **429** | 374 | **575** | 1,451 | 2,620 |
| Acquisition of premises and equipment | **(8)** | (7) | **(15)** | (16) | (40) |
| Proceeds of sale of premises, equipment and other assets | **-** | - | **6** | - | - |
| Investment in intangible assets | **(40)** | (22) | **(59)** | (43) | (120) |
| Net cash for investing activity | **(2,967)** | 482 | **(5,605)** | (2,987) | (6,039) |

The notes to the financial statements are an integral part thereof.

## **STATEMENT OF CASH FLOWS** (CONT'D)

(NIS million)

| | For the three months ended June 30, | | For the six months ended June 30, | | For the year ended December 31 |
|---|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** | **2020** |
| | (unaudited) | (unaudited) | (unaudited) | (unaudited) | (audited) |
| **Cash flows from financing activity** | | | | | |
| Change in Deposits from the public | **(609)** | 2,308 | **4,044** | 9,712 | 23,641 |
| Change in Deposits from banks | **1,728** | 783 | **2,033** | 732 | 1,914 |
| Change in Deposits from the government | **(15)** | (9) | **(24)** | (508) | (540) |
| Issue of bonds and subordinate debt notes | **-** | 644 | **-** | 1,458 | 1,458 |
| Redemption of bonds and subordinate debt notes | **(908)** | - | **(1,586)** | (717) | (701) |
| Dividend paid to shareholders | **-** | - | **-** | (125) | (125) |
| Net cash from financing activity | **196** | 3,726 | **4,467** | 10,552 | 25,647 |
| Increase (decrease) in cash | **(2,653)** | 4,434 | **(893)** | 8,441 | 20,233 |
| Cash balances at beginning of period | **59,180** | 41,431 | **57,328** | 37,275 | 37,275 |
| Effect of changes in exchange rates on cash balances | **(67)** | (97) | **25** | 52 | (180) |
| Cash balances at end of period | **56,460** | 45,768 | **56,460** | 45,768 | 57,328 |
| | | | | | |
| **Interest and taxes paid and/or received:** | | | | | |
| Interest received | **780** | 699 | **1,623** | 1,551 | 3,203 |
| Interest paid | **(172)** | (140) | **(290)** | (375) | (540) |
| Dividends received | **5** | 2 | **11** | 5 | 20 |
| Income tax paid | **(198)** | (80) | **(402)** | (186) | (542) |
| Income tax received | **16** | 12 | **48** | 57 | 61 |

The notes to the financial statements are an integral part thereof.

## NOTES TO THE FINANCIAL STATEMENTS

## NOTE 1 - PRINCIPAL ACCOUNTING POLICIES

### A. General

The First International Bank of Israel Ltd. (hereinafter - "the Bank") is an Israeli corporation. The condensed consolidated interim financial statements of the Bank as of June 30, 2021, include those of the Bank and of its consolidated companies and an affiliated company (hereinafter - "the Group"). The condensed consolidated interim financial statements are prepared in accordance with generaly accepted accounting principles in Israel (Israeli GAAP) as well as in accordance with directives and guidelines of the Supervisor of Banks, and do not include all the information required in full annual financial statements. The condensed statements should be read together with the financial statements as of and for the year ended December 31, 2020, and the related notes thereto (hereinafter - "the Annual Report").

The accounting policy of the Group applied in these condensed consolidated interim financial statements, is the same policy applied in the Annual Report, with the exception of that stated in subsection "C" below.

In accordance with the guidelines of the Supervisor of Banks, publication of condensed financial statements is made on the basis of consolidated financial statements only. The condensed consolidated interim financial statements were approved for publication by the Board of Directors on August 17, 2021.

The accompanying financial statements represent a translation into English from the original financial statements in Hebrew.

### B. Use of estimates

Preparation of the condensed interim consolidared financial statements requires Management to use judgment in making 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 uncertainty. The assessments as well as the assumptions supporting them are consistent with those used in the formation of the annual financial statements.

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 2018-14 of the Codification regarding changes in the disclosure requirements applying to defined benefit plans

The US Financial Accounting Standard Board ("FASB") published on August 28, 2018, Standard ASU 2018-14, in the matter of disclosure framework - changes in the disclosure requirements regarding defined benefits plans, comprising an update of Item 715-20 of the Codification with respect to compensation – retirement benefits – defined benefits plans – general (hereinafter – "the update"). The purpose of the update is to improve effectiveness of disclosure in notes to the financial statements and to reduce the cost involved in preparing the required notes.

The principal amendments are, inter alia: removal of the requirement to present an assessment of the amounts included in other cumulative comprehensive income, which are expected to be deducted from other cumulative comprehensive income to profit and loss as an expense in the following year; removal of the requirement to present the amount of the future annual benefits covered by insurance agreements, including pension (annuity) agreements, as well as any significant transactions between the entity or related parties and the plan; a requirement has been added for the presentation of details regarding the reasons for material earnings or losses related to the change in commitment in respect of a defined benefit during the period; also clarified are the disclosure requirements in respect of entities having two or more benefit plans.

In accordance with the letter of the Supervisor of Banks in the matter of "improving the usefulness of reports to the public by banking corporations for the years 2019 and 2020", formed on the basis of the updated Standard 2018-14 of the Codification, the provisions of the updated Standard apply as from the reports to the public as of January 1, 2021 and thereafter.

Application of the instruction has had no material effect on the financial statements.

**(2) Update of Standard 2018-13 of the Codification regarding changes in the disclosure requirements applying to the measurement of fair value**

The US Financial Accounting Standard Board ("FASB") published on August 28, 2018, Standard ASU 2018-13, in the matter of disclosure framework - changes in the disclosure requirements regarding measurement of fair value, comprising an update of Item 820 of the Codification, with respect to measurement of fair value (hereinafter – "the update"). The purpose of the update is to improve effectiveness of disclosure in notes to the financial statements and to reduce the cost involved in preparing the required notes.

The principal amendments are, inter alia: removal of the requirement to present the amounts and reasons for transfers between Levels 1 and 2 of the fair value hierarchy; removal of the requirement to present information regarding the policy of the entity determining when transfers between levels are to be considered effective; removal of the requirement to present a description of the process of assessing the measurement of fair value at Level 3; within the framework of the requirement to present a verbal description of sensitivity to changes in unobservable data for recurring fair value measurements, classified as Level 3 of the fair value scale, the term "sensitivity" has been changed to "uncertainty" in order to emphasize that the required information applies to uncertainty; a requirement has been added for the presentation in other comprehensive income ("OCI"), of unrealized changes during the period in respect of assets held at the end of the period.

In accordance with the letter of the Supervisor of Banks in the matter of "improving the usefulness of reports to the public by banking corporations for the years 2019 and 2020", formed on the basis of the updated Standard 2018-13 of the Codification, the provisions of the updated Standard apply as from the reports to the public as of January 1, 2021 and thereafter.

Application of the instruction has had no material effect on the financial statements.

**(3) Update of Standard 2019-12 of the Codification regarding simplification of the accounting treatment of taxes on income;**

The US Financial Accounting Standard Board ("FASB") published on December 18, 2019, Standard ASU 2019-12, regarding simplification of the accounting treatment of taxes on income, comprising an update of Item 740 of the Codification, with respect to taxes on income (hereinafter – "the update"). The purpose of the update is to reduce the complexity of US accepted accounting principles while maintaining the usefulness of the information provided to users of financial statements.

The principal items updated by the update are, inter alia: allocation of income tax expenses or of income tax benefits between continuing operations, discontinued operations, other comprehensive income and items recorded directly in shareholders' equity; computation of tax income from losses accumulated in interim financial statements; the manner of recognizing the effect of changes in tax laws or in tax rates in interim financial statements.

The instructions are applied as from January 1, 2021, by way of the "from now onwards" method. Application of the instructions has had no effect on the financial statements.

**(4) Regulatory emphasis on the accounting treatment of debts and on reporting to the public in view of the Coronavirus crisis.**

On April 21, 2020, Bank of Israel issued a letter in the matter of "the Coronavirus event – regulatory emphasis regarding the treatment of debts and reporting to the public".

Moreover, in continuation of the additional outline regarding the deferral of repayment of mortgage loans and consumer loans, adopted by the Supervisor of Banks on November 30, 2020, and in continuation of the additional outline dated December 10, 2020, for the granting of assistance in loan repayment to small and minute businesses, adopted by the banking system, the Supervisor of Banks published on December 3, 2020 and on December 10, 2020, letters in the matter of "the Coronavirus event – emphasis in the matter of the additional outline regarding deferral of repayments" and in the matter of "the Coronavirus event – emphasis in the matter of the additional outline regarding deferral of repayments by small businesses".

Within the framework of the letters of the Supervisor of Banks regarding emphasis on the subject of the additional outlines for the deferral of loan repayments, several guidelines were included with respect to the accounting treatment, among which are:

**Changes in loan terms**

Where a banking corporation takes action in order to stabilize borrowers, who are not in default with respect to their existing loans, whether the action relates to a single borrower or is taken within the framework of a plan for performing borrowers facing short-term financial or operating problems due to the Coronavirus event, as a general rule, such an action shall not be considered as a restructure of a troubled debt. In view of this, debts, the terms of which had been modified, such as: Deferrals of repayment dates, waiver of interest in arrears and extension of repayment periods, have not been classified as a restructure of a troubled debt, where the following conditions exist:

- The modification was made due to the Coronavirus event;
- The borrower was not in default on date of application of the modification plan;
- The modification applies for a short period (up to six months).

In this respect, it is clarified that borrowers are considered to be not in default if they are in default of less than thirty days in relation to their contractual terms at date of application of the modification plan. Moreover, where the modification of the terms of the debt led to a delay in repayment that is not short-term, the debt is not classified as a restructured troubled debt, if it had been renewed at an interest rate identical to the interest rate determined for a new debt of similar risk.

In addition to that, the letters of the Supervisor of Banks of December 2020, state that a banking corporation is entitled not to classify as restructure of a troubled debt, housing loans, other loans to private individuals and loans to small businesses, which had not been in default of thirty days or more at date of deferral of repayment, in respect of which deferral of repayment had been granted until March 31, 2021, within the framework of the additional outlines for the deferral in repayment, even if the cumulative deferral exceeds six months.

**Determination of a default situation**

In respect of debts, which prior to the Coronavirus event had not been in default, and have been granted a deferral following this event, the Bank is not required to classify such debts as debts in default due to this deferral. Moreover, where repayment has been deferred due to the Coronavirus event, in the case of debts that had been in default prior to the deferral, an adjustment was made to the default status in existence prior to the deferral, so that in fact the debt status remained at a standstill for the period of the repayment deferral.

In accordance with the guidelines of the Supervisor of Banks dated October 11, 2020, the Bank had elected not to classify as restructure of a troubled debt, loans to private individuals and loans to small businesses in immaterial amounts, which had not been in default of thirty days or more at date of the repayment deferral, and in respect of which, deferrals of repayment had been granted prior to March 31, 2021, within the framework of the additional outlines for repayment deferrals. This, with the exception of debts in respect of which new information had been gathered regarding deterioration in their repayment prospects, where the Bank acted in accordance with the public reporting instructions in the matter of classification of troubled debts and accounting write-offs.

**(5) Update of Standard 04-2020 of the Codification with respect to mitigation regarding the implications of the reference interest reform on financial reporting**

The FASB published on March 22, 2020 an updated Standard regarding mitigation with respect to the implications of the reference interest reform on financial reporting, comprising an update of item 848 of the Codification regarding the reference interest reform. In accordance with the reference interest reform, the inter-bank interest rate (the LIBOR rate) shall be abolished and replaced by observable alternative reference rates of interest, or interest rates based upon actual transactions, which would be less sensitive to manipulations.

The Bank has adopted the new instructions as from January 1, 2020, choosing to apply the following mitigations:

- As to changes in contracts that affect the amount and timing of contractual cash flows stemming from the termination of use of the reference interest rates following the reform, the Bank has chosen continuation of existing contracts instead of applying modification accounting.
- As to hedge accounting, the Bank has chosen to change (in respect of each hedge transaction) the definition of the critical terms of the designated hedging instrument with no cancellation of the designation of the hedge relations, as well as to conduct assessments of the effectiveness of the hedge relations in a way that potential inefficiency sources would not be taken into account in the assessment.

## D. 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)**

The Supervisor of Banks issued on March 28, 2018, a letter in the matter of "adoption of updates to accounting principles accepted by US banks – provisions 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 transactions, as well as leases. Initial application shall be made in accordance with the transitional instructions stated in the US rules.

The letter adopts the US accepted accounting principles in the matter of provisions for anticipated credit losses, which had been published as part of the update to Standard ASU 2016-13. The aim of the new rules is to improve the quality of reporting the financial condition of the banking corporation by means of the early recognition of provisions for credit losses, in a manner that strengthens the counter-recurrence in the conduct of the provisions for credit losses, which supports a faster reaction of banks to deterioration in the credit quality of borrowers, and reinforces the bond between credit risk management and the way in which such risks are being reflected in financial statements, while basing it on existing methods and processes.

On December 1, 2020, the Supervisor of Banks published a letter in the matter of "regulatory capital – effect of the application of accounting principles regarding anticipated credit losses". The letter states transitional instructions applying to the effect of the initial adoption of the new rules in the matter of anticipated credit losses, this, in order to reduce the unforeseen effects of the application of the rules upon the regulatory capital, in accordance with guidelines of the Basel Committee on Banking Supervision and the bank supervisory authorities in the US and other countries around the world.

In addition to the above, on February 2, 2021, the Supervisor of Banks published a letter in the matter of "anticipated credit loss from financial instruments", within the framework of which, the requirement to record a collective provision at a minimum rate of 0.35% in respect of housing loans, has, inter alia, been removed. Also removed was the requirement to record a minimum provision based on the extent of default method. Also added were amendments to the instructions, according to which, banking corporations are required to deduct from the Tier 1 shareholders' equity amounts in respect of housing loans classified over a time as nonaccumulating loans.

Within the framework of the new rules, disclosure is to be enlarged regarding the date of granting of the credit, the extent of time of the credit and the quality of the credit. Existing definitions regarding impaired debts and impaired credit risk are to be replaced by definitions of nonaccumulating troubled credit, accumulating troubled credit and nontroubled credit.

The Standard is to be applied by a banking corporation as from January 1, 2022, and theresfter. Upon initial application, a banking corporation and a settlement agent shall act in accordance with the transitional instructions stated in the accounting rules accepted by US banks, mutatis mutandis.

The Bank is preparing for the implementation of the instruction and is expected to conform with the time schedule determined by Bank of Israel. At this stage, it is not possible to assess the anticipated effect of the instruction on the financial statements.

## NOTE 2 - INTEREST INCOME AND EXPENSES

(NIS million)

| | | For the three months ended June 30 | | For the six months ended June 30 | |
|---|---|---|---|---|---|
| | | **2021** | **2020** | **2021** | **2020** |
| | | | (unaudited) | | (unaudited) |
| **A.** | **Interest income (expenses)** (1) | | | | |
| | From credit to the public | **809** | 668 | **1,503** | 1,328 |
| | From credit to the Government | **8** | (1) | **9** | (4) |
| | From deposits with banks | **-** | 1 | **-** | 4 |
| | From deposits with Bank of Israel and from cash | **12** | 10 | **24** | 28 |
| | From bonds | **27** | 36 | **49** | 73 |
| | Total interest income | **856** | 714 | **1,585** | 1,429 |
| **B.** | **Interest expenses** | | | | |
| | On deposits from the public | **84** | 48 | **126** | 108 |
| | On deposits from the Government | **-** | 1 | **1** | 2 |
| | On deposits from banks | **1** | - | **1** | 1 |
| | On deposits with Bank of Israel | **1** | - | **1** | - |
| | On bonds and subordinated capital notes | **60** | 5 | **76** | - |
| | Total interest expenses | **146** | 54 | **205** | 111 |
| | Total interest income, net | **710** | 660 | **1,380** | 1,318 |
| **C.** | **Details on net effect of hedging derivative instruments on interest income and expenses** | | | | |
| | Interest expenses(2) | **(12)** | (8) | **(25)** | (13) |
| **D.** | **Details of interest income from bonds on cumulative basis** | | | | |
| | Held to maturity | **12** | 7 | **21** | 14 |
| | Available for sale | **14** | 29 | **27** | 59 |
| | Held for trading | **1** | - | **1** | - |
| | Total included in interest income | **27** | 36 | **49** | 73 |

(1) Including effective component in hedging relations.
(2) Details of effect of hedging derivative instruments on subsection A.

## NOTE 3 - NON-INTEREST FINANCING INCOME

(NIS million)

| | For the three months ended June 30 | | For the six months ended June 30 | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| | | (unaudited) | | (unaudited) |
| **A. Non-interest financing income (expenses) in respect of non-trading activities** | | | | |
| **1. From activity in derivative instruments**[1] | | | | |
| Total from activity in derivative instruments | **(245)** | (192) | **157** | (8) |
| **2. From investments in bonds** | | | | |
| Profits from sale of bonds available for sale[2] | **10** | 20 | **14** | 28 |
| Losses from sale of bonds available for sale[2] | **-** | (2) | **(1)** | (2) |
| Provision for impairment of available-for-sale bonds[2] | **-** | 1 | **-** | (17) |
| Total from investment in bonds | **10** | 19 | **13** | 9 |
| **3. Net exchange differences** | **243** | 230 | **(161)** | 96 |
| **4. From investment in shares** | | | | |
| Gains from sale of shares not for trading | **1** | 1 | **3** | 1 |
| Losses from sale of shares not for trading | **-** | (7) | **(2)** | (13) |
| Dividend from shares not for trading | **4** | 2 | **17** | 10 |
| Unrealized gains (losses)[3] | **18** | 8 | **42** | (41) |
| Total from investment in shares | **23** | 4 | **60** | (43) |
| Total non-interest financing income in respect of non-trading activities | **31** | 61 | **69** | 54 |

(1) Excluding effect of hedging relation.
(2) Reclassified from cumulative 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)

| | For the three months ended June 30 | | For the six months ended June 30 | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| | | (unaudited) | | (unaudited) |
| **B. Net income in respect of non-interest financing activity for trading[3]** | | | | |
| Net income in respect of other derivative instruments | **22** | 2 | **32** | 6 |
| Net realized and unrealized gains from adjustments to fair value of bonds held for trading[1] | **-** | 1 | **-** | 2 |
| Net realized and unrealized income (losses) from adjustments to fair value of shares held for trading[2] | **-** | - | **3** | (1) |
| Total non-interest financing income from trading activities[4] | **22** | 3 | **35** | 7 |
| Total non-interest financing income | **53** | 64 | **104** | 61 |
| **Details on non-interest financing income (expenses) in respect of trading activities, by risk exposure** | | | | |
| Interest rate exposure | **28** | 8 | **21** | 7 |
| Exposure to shares | **-** | 1 | **5** | 2 |
| Foreign currency exposure | **(6)** | (6) | **9** | (2) |
| Total | **22** | 3 | **35** | 7 |

(1) No gains/losses exist in respect of trading bonds on hand at balance sheet date for the three months ended June 30, 2021 (30.6.20 - losses in the amount of NIS 1 million).
(2) No gains/losses exist 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 4 - CUMULATIVE OTHER COMPREHENSIVE INCOME (LOSS)

(NIS million)

### A. Changes in cumulative 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 bonds in fair value | 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 |
| | | | | | **For the three months ended June 30, 2021** |
| Balance as of March 31, 2021 (unaudited) | **57** | **(204)** | **(147)** | **(14)** | **(133)** |
| Net change during the period | **(5)** | **(14)** | **(19)** | **-** | **(19)** |
| Balance as of June 30, 2021 (unaudited) | **52** | **(218)** | **(166)** | **(14)** | **(152)** |
| | | | | | **For the three months ended June 30, 2020** |
| Balance as of March 31, 2020 (unaudited) | (110) | (108) | (218) | (15) | (203) |
| Net change during the period | 103 | (101) | 2 | - | 2 |
| Balance as of June 30, 2020 (unaudited) | (7) | (209) | (216) | (15) | (201) |
| | | | | | **For the six months ended June 30, 2021** |
| Balance as of December 31, 2020 (audited) | **50** | **(248)** | **(198)** | **(15)** | **(183)** |
| Net change during the period | **2** | **30** | **32** | **1** | **31** |
| Balance as of June 30, 2021 (unaudited) | **52** | **(218)** | **(166)** | **(14)** | **(152)** |
| | | | | | **For the six months ended June 30, 2020** |
| Balance as of December 31, 2019 (audited) | 53 | (199) | (146) | (15) | (131) |
| Net change during the period | (60) | (10) | (70) | - | (70) |
| Balance as of June 30, 2020 (unaudited) | (7) | (209) | (216) | (15) | (201) |
| | | | | | **For the year ended December 31, 2020** |
| Balance as of December 31, 2019 (audited) | 53 | (199) | (146) | (15) | (131) |
| Net change during 2020 | (3) | (49) | (52) | - | (52) |
| Balance as of December 31, 2020 (audited) | 50 | (248) | (198) | (15) | (183) |

## NOTE 4 - 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 three months ended June 30 (unaudited) | | | | | |
|---|---|---|---|---|---|---|
| | | | 2021 | | | 2020 |
| | 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 presentation of available for sale bonds according to fair value** | | | | | | |
| Unrealized net gains from adjustments to fair value | **10** | **(4)** | **6** | 185 | (63) | 122 |
| Gains in respect of available for sale bonds reclassified to income statement (1) | **(17)** | **6** | **(11)** | (28) | 9 | (19) |
| Net change during the period | **(7)** | **2** | **(5)** | 157 | (54) | 103 |
| **Employee benefits:** | | | | | | |
| Net actuarial loss for the period | **(28)** | **9** | **(19)** | (159) | 54 | (105) |
| Net losses reclassified to the statement of profit and loss (2) | **8** | **(3)** | **5** | 5 | (1) | 4 |
| Net change during the period | **(20)** | **6** | **(14)** | (154) | 53 | (101) |
| **Changes in the components of cumulative other comprehensive income (loss) attributed to non controlling interests** | | | | | | |
| Total change during the period | **1** | **(1)** | **-** | - | - | - |
| **Changes in the components of cumulative other comprehensive income (loss) attributed to the Bank's shareholders** | | | | | | |
| Total change during the period | **(28)** | **9** | **(19)** | 3 | (1) | 2 |

| | For the six months ended June 30 (unaudited) | | | | | |
|---|---|---|---|---|---|---|
| | | | 2021 | | | 2020 |
| | 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 presentation of available for sale bonds according to fair value** | | | | | | |
| Unrealized net gains (losses) from adjustments to fair value | **(59)** | **20** | **(39)** | 70 | (24) | 46 |
| Losses (gains) in respect of available for sale bonds reclassified to income statement (1) | **63** | **(22)** | **41** | (160) | 54 | (106) |
| Net change during the period | **4** | **(2)** | **2** | (90) | 30 | (60) |
| **Employee benefits:** | | | | | | |
| Net actuarial gain (loss) for the period | **29** | **(10)** | **19** | (27) | 9 | (18) |
| Net losses reclassified to the statement of profit and loss (2) | **17** | **(6)** | **11** | 12 | (4) | 8 |
| Net change during the period | **46** | **(16)** | **30** | (15) | 5 | (10) |
| **Changes in the components of cumulative other comprehensive income (loss) attributed to non controlling interests** | | | | | | |
| Total change during the period | **2** | **(1)** | **1** | - | - | - |
| **Changes in the components of cumulative other comprehensive income (loss) attributed to the Bank's shareholders** | | | | | | |
| Total change during the period | **48** | **(17)** | **31** | (105) | 35 | (70) |

(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 employee benefits, see note 7A.

# NOTE 4 - 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 (cont'd)

| | For the year ended December 31, 2020 (audited) | | |
|---|---|---|---|
| | 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 presentation of available for sale bonds according to fair value** | | | |
| Unrealized net gains from adjustments to fair value | 122 | (42) | 80 |
| Gains in respect of available for sale bonds reclassified to income statement (1) | (126) | 43 | (83) |
| Net change during the period | (4) | 1 | (3) |
| **Employee benefits:** | | | |
| Net actuarial loss for the period | (118) | 41 | (77) |
| Net losses reclassified to the statement of profit and loss (2) | 44 | (16) | 28 |
| Net change during the period | (74) | 25 | (49) |
| **Changes in the components of cumulative other comprehensive income (loss) attributed to non controlling interests** | | | |
| Total change during the period | - | - | - |
| **Changes in the components of cumulative other comprehensive income (loss) attributed to the Bank's shareholders** | | | |
| Total change during the period | (78) | 26 | (52) |

(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 employee benefits, see note 7A.

# NOTE 5 - SECURITIES

(NIS million)

| | June 30, 2021 (unaudited) | | | | |
|---|---|---|---|---|---|
| **A. Bonds 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 | **2,368** | **2,368** | **86** | **5** | **2,449** |
| Of financial institutions in Israel | **72** | **72** | **1** | **-** | **73** |
| Of others in Israel | (5)**180** | **180** | **21** | **-** | **201** |
| Total Bonds held to maturity | **2,620** | **2,620** | **108** | **5** | **2,723** |

| **B. Bonds available for sale** | **Book value** | **Amortized cost** | **Cumulative other comprehensive income** | | **Fair value** (1) |
|---|---|---|---|---|---|
| | | | **Profits** | **Losses** | |
| Of Israeli government | **10,971** | **10,899** | **75** | **3** | **10,971** |
| Of foreign governments | **1,076** | **1,076** | **-** | **-** | **1,076** |
| Of financial institutions in Israel | **87** | **86** | **1** | **-** | **87** |
| Of foreign financial institutions | (6)**247** | **245** | **2** | **-** | **247** |
| Of others in Israel | **226** | **218** | **9** | **1** | **226** |
| Of foreign others | **93** | **93** | **-** | **-** | **93** |
| Total bonds available for sale | **12,700** | **12,617** | (2)**87** | (2)**4** | **12,700** |

| **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 | **593** | **546** | (3)**47** | (3)**-** | **593** |
| Of which: shares, the fair value of which is not ready determinable | **164** | **164** | **-** | **-** | **164** |
| Total not for trading securities | **15,913** | **15,783** | **242** | **9** | **16,016** |

| **D. Securities held for trading** | **Book value** | **Amortized cost (in shares cost)** | **Unrealized gains from adjustment to fair value** | **Unrealized losses from adjustment to fair value** | **Fair value** (1) |
|---|---|---|---|---|---|
| Bonds of Israeli government | **330** | **330** | **-** | **-** | **330** |
| Shares | **1** | **1** | **-** | **-** | **1** |
| Total trading securities | **331** | **331** | (3)**-** | (3)**-** | **331** |
| Total securities | **16,244** | **16,114** | **242** | **9** | **16,347** |

Notes: Details of results of investment activity in bonds and in shares - see note 2 and note 3.

(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 issuer.

(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 18 million.

# NOTE 5 - SECURITIES (CON'T)

(NIS million)

| | June 30, 2020 (unaudited) | | | | |
|---|---|---|---|---|---|
| A. Bonds 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 | 2,083 | 2,083 | 108 | - | 2,191 |
| Of financial institutions in Israel | 82 | 82 | 1 | - | 83 |
| Of others in Israel | 232 | 232 | 19 | 2 | 249 |
| Total Bonds held to maturity | 2,397 | 2,397 | 128 | 2 | 2,523 |

| | | | Cumulative other comprehensive income | | |
|---|---|---|---|---|---|
| B. Bonds available for sale | Book value | Amortized cost | Profits | Losses | Fair value (1) |
| Of Israeli government | 6,781 | 6,780 | 38 | 37 | 6,781 |
| Of foreign governments | 913 | 908 | 5 | - | 913 |
| Of financial institutions in Israel | 45 | 47 | - | 2 | 45 |
| Of foreign financial institutions | (6)(8)446 | 444 | 2 | - | 446 |
| Mortgage backed (MBS) securities | (5)115 | 113 | 2 | - | 115 |
| Of others in Israel | (7)342 | 361 | 2 | 21 | 342 |
| Of foreign others | 304 | 303 | 2 | 1 | 304 |
| Total bonds available for sale | 8,946 | 8,956 | (2)51 | (2)61 | 8,946 |

| 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 | 238 | 262 | (3)1 | (3)25 | 238 |
| Of which: shares, the fair value of which is not ready determinable | 114 | 114 | - | - | 114 |
| Total not for trading securities | 11,581 | 11,615 | 180 | 88 | 11,707 |

| D. Securities held for trading | Book value | Amortized cost (in shares cost) | Unrealized gains from adjustment to fair value | Unrealized losses from adjustment to fair value | Fair value (1) |
|---|---|---|---|---|---|
| Bonds of Israeli government | 133 | 133 | - | - | 133 |
| Shares | 1 | 1 | - | - | 1 |
| Total trading securities | 134 | 134 | (3)- | (3)- | 134 |
| Total securities | 11,715 | 11,749 | 180 | 88 | 11,841 |

Notes: Details of results of investment activity in bonds and in shares - see note 2 and note 3.

(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) Securities issued by GNMA and guaranteed by US government.

(6) Including securities owned by a government in the amount of NIS 229 million securities owned by a government and have specified government guarantee in the amount of NIS 25 million.

(7) Including impaired bonds accruing interest income in amount of NIS 38 million.

(8) Including securities with embedded derivative measured at fair value while changes in fair value were recognized in the statement of income amounting to NIS 19 million.

## NOTE 5 - SECURITIES (CON'T)

(NIS million)

| | | | | | December 31, 2020 (audited) |
|---|---|---|---|---|---|
| **A. Bonds 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 Bonds held to maturity | 2,514 | 2,514 | 126 | - | 2,640 |

| **B. Bonds available for sale** | **Book value** | **Amortized cost (in shares cost)** | **Cumulative other comprehensive income** | | **Fair value (1)** |
|---|---|---|---|---|---|
| | | | **Profits** | **Losses** | |
| 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 | - | 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 | 298 | (3)17 | (3)8 | 307 |
| Of which: shares, the fair value of which is not ready determinable | 120 | 120 | - | - | 120 |
| Total not for trading securities | 12,899 | 12,812 | 233 | 10 | 13,025 |

| **d. Bonds held for trading** | **Book value** | **Amortized cost (in shares 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 | 13,018 | 223 | 10 | 13,231 |

Notes: Details of results of investment activity in bonds and in shares - see note 2 and note 3.

(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 securities 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 issuer.

(5) Including securities 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 5 - SECURITIES (CON'T)

(NIS million)

### E. Fair value and unrealized losses, according to period and rate of impairment of bonds held to maturity and of available-for-sale securities being in an unrealized loss position

| | June 30, 2021 (unaudited) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Less than 12 months(1) | | | | 12 months and above(2) | | | |
| | Fair Value | Unrealized losses 0-20%(3) | 20-40%(4) | Total | Fair Value | Unrealized losses 0-20%(3) | 20-40%(4) | Total |
| **Bonds held for redemption** | | | | | | | | |
| Of others in Israel(5) | **182** | **5** | **-** | **5** | **-** | **-** | **-** | **-** |
| **Available for-sale bonds** | | | | | | | | |
| Of Israeli government | **2,229** | **3** | **-** | **3** | **-** | **-** | **-** | **-** |
| Of others in Israel | **14** | **1** | **-** | **1** | **-** | **-** | **-** | **-** |
| Total bonds available for sale | **2,243** | **4** | **-** | **4** | **-** | **-** | **-** | **-** |

| | June 30, 2020 (unaudited) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Less than 12 months(1) | | | | 12 months and above(2) | | | |
| | Fair Value | Unrealized losses (3)0-20% | (4)20-40% | Total | Fair Value | Unrealized losses (3)0-20% | (4)20-40% | Total |
| **Bonds held for redemption** | | | | | | | | |
| Of others in Israel(5) | 15 | 1 | 1 | 2 | - | - | - | - |
| **Available for-sale bonds** | | | | | | | | |
| Of Israeli government | 2,768 | 37 | - | 37 | - | - | - | - |
| Of Israeli financial institutions | - | - | - | - | 18 | 2 | - | 2 |
| Of others in Israel | 211 | 11 | 5 | 16 | 28 | 1 | 4 | 5 |
| Of foreign others | 67 | 1 | - | 1 | - | - | - | - |
| Total bonds available for sale | 3,046 | 49 | 5 | 54 | 46 | 3 | 4 | 7 |

| | December 31, 2020 (audited) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Less than 12 months(1) | | | | 12 months and above(2) | | | |
| | Fair Value | Unrealized losses 0-20%(3) | 20-40%(4) | Total | Fair Value | Unrealized losses 0-20%(3) | 20-40%(4) | Total |
| **Available for-sale bonds** | | | | | | | | |
| Of Israeli 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) Amortized cost of bonds held for redemption amounts to NIS 187 million (30.6.20 – NIS 17 million).

# NOTE 6 - 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

| | June 30, 2021 (unaudited) | | | | | |
|---|---|---|---|---|---|---|
| | Credit to the public | | | | | |
| | Commercial | Housing | Other private | Total | Banks and Governments | Total |
| **Recorded balance:** | | | | | | |
| Debts examined on an individual basis | **37,992** | **-** | **406** | **38,398** | **2,950** | **41,348** |
| Debts examined on a collective basis | **6,156** | **30,159** | **21,627** | **57,942** | **-** | **57,942** |
| Of which: according to the extent of arrears | **64** | **30,150** | **-** | **30,214** | **-** | **30,214** |
| Total | **44,148** | **30,159** | **22,033** | **96,340** | **2,950** | **99,290** |
| Of which: | | | | | | |
| Debts restructuring | **103** | **-** | **103** | **206** | **-** | **206** |
| Other impaired debts | **284** | **98** | **36** | **418** | **-** | **418** |
| Total impaired debts | **387** | **98** | **139** | **624** | **-** | **624** |
| Debts in arrears of 90 days or more | **16** | **178** | **18** | **212** | **-** | **212** |
| Other problematic debts | **848** | **67** | **105** | **1,020** | **-** | **1,020** |
| Total problematic debts | **1,251** | **343** | **262** | **1,856** | **-** | **1,856** |
| **Provision for credit losses:** | | | | | | |
| In respect of debts examined on an individual basis | **580** | **-** | **36** | **616** | **-** | **616** |
| In respect of debts examined on a collective basis | **86** | **165** | **282** | **533** | **-** | **533** |
| Of which: according to the extent of arrears | **-** | (2)**165** | **-** | **165** | **-** | **165** |
| Total | **666** | **165** | **318** | **1,149** | **-** | **1,149** |
| Of which: in respect of impaired debts | **145** | **-** | **33** | **178** | **-** | **178** |

| | June 30, 2020 (unaudited) | | | | | |
|---|---|---|---|---|---|---|
| | Credit to the public | | | | | |
| | Commercial | Housing | Other private | Total | Banks and Governments | Total |
| **Recorded balance:** | | | | | | |
| Debts examined on an individual basis | 36,641 | - | 387 | 37,028 | 3,749 | 40,777 |
| Debts examined on a collective basis | 5,658 | 26,776 | 20,909 | 53,343 | - | 53,343 |
| Of which: according to the extent of arrears | 165 | 26,759 | - | 26,924 | - | 26,924 |
| Total | 42,299 | 26,776 | 21,296 | 90,371 | 3,749 | 94,120 |
| Of which: | | | | | | |
| Debts restructuring | 158 | - | 117 | 275 | - | 275 |
| Other impaired debts | 434 | 11 | 44 | 489 | - | 489 |
| Total impaired debts | 592 | 11 | 161 | 764 | - | 764 |
| Debts in arrears of 90 days or more | 56 | 221 | 21 | 298 | - | 298 |
| Other problematic debts | 573 | 29 | 115 | 717 | - | 717 |
| Total problematic debts | 1,221 | 261 | 297 | 1,779 | - | 1,779 |
| **Provision for credit losses:** | | | | | | |
| In respect of debts examined on an individual basis | 625 | - | 43 | 668 | - | 668 |
| In respect of debts examined on a collective basis | 81 | 150 | 257 | 488 | - | 488 |
| Of which: according to the extent of arrears | 2 | (2)150 | - | 152 | - | 152 |
| Total | 706 | 150 | 300 | 1,156 | - | 1,156 |
| Of which: in respect of impaired debts | 186 | - | 40 | 226 | - | 226 |

## NOTE 6 - CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

| | December 31, 2020 (audited) | | | | | |
|---|---|---|---|---|---|---|
| | Credit to the public | | | | | |
| | Commercial | 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 a 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 a 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 approximately NIS 129 million (30.6.20 - NIS 111 million, 31.12.20 - NIS 124 million).

(3) The balance of commercial debts includes housing loans in the amount of NIS 3,101 million, combined in the framework of transaction and collateral of the commercial borrowers or that have been granted to purchase groups at construction stages (30.6.20 - NIS 2,883 million, 31.12.20 – NIS 3,009 million).

## NOTE 6 - CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

### 2. Change in provision for credit losses

| | For the three months ended June 30, 2021 (unaudited) | | | | | |
|---|---|---|---|---|---|---|
| | 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 the period | **782** | **171** | **307** | **1,260** | **-** | **1,260** |
| Expenses (income) in respect of credit losses | **(124)** | **(5)** | **10** | **(119)** | **-** | **(119)** |
| Accounting write-offs | **(18)** | **(1)** | **(22)** | **(41)** | **-** | **(41)** |
| Collection of debts written off in accounting in previous years | **26** | **-** | **23** | **49** | **-** | **49** |
| Net accounting write-offs | **8** | **(1)** | **1** | **8** | **-** | **8** |
| Provision for credit losses at end of the period | **666** | **165** | **318** | **1,149** | **-** | **1,149** |
| **Changes in provision in respect of off-balance sheet credit instruments** | | | | | | |
| Provision at beginning of the period | **75** | **-** | **13** | **88** | **-** | **88** |
| Decrease in the provision | **(8)** | **-** | **(1)** | **(9)** | **-** | **(9)** |
| Provision in respect of off-balance sheet credit instruments at end of the period | **67** | **-** | **12** | **79** | **-** | **79** |
| **Total provision for credit losses - debts and off-balance sheet credit instruments** | **733** | **165** | **330** | **1,228** | **-** | **1,228** |

| | For the three months ended June 30, 2020 (unaudited) | | | | | |
|---|---|---|---|---|---|---|
| | 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 the period | 637 | 126 | 284 | 1,047 | - | 1,047 |
| Expenses in respect of credit losses | 98 | 24 | 34 | 156 | - | 156 |
| Accounting write-offs | (40) | - | (39) | (79) | - | (79) |
| Collection of debts written off in accounting in previous years | 11 | - | 21 | 32 | - | 32 |
| Net accounting write-offs | (29) | - | (18) | (47) | - | (47) |
| Provision for credit losses at end of the period | 706 | 150 | 300 | 1,156 | - | 1,156 |
| **Changes in provision in respect of off-balance sheet credit instruments** | | | | | | |
| Provision at beginning of the period | 52 | - | 12 | 64 | - | 64 |
| Increase in the provision | 9 | - | - | 9 | - | 9 |
| Provision in respect of off-balance sheet credit instruments at end of the period | 61 | - | 12 | 73 | - | 73 |
| **Total provision for credit losses - debts and off-balance sheet credit instruments** | 767 | 150 | 312 | 1,229 | - | 1,229 |

# NOTE 6 - CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)
(NIS million)

## 2. Change in provision for credit losses

| | For the six months ended June 30, 2021 (unaudited) | | | | | |
|---|---|---|---|---|---|---|
| | 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 the year (audited) | **809** | **164** | **304** | **1,277** | **-** | **1,277** |
| Expenses (income) in respect of credit losses | **(140)** | **2** | **8** | **(130)** | **-** | **(130)** |
| Accounting write-offs | **(44)** | **(1)** | **(41)** | **(86)** | **-** | **(86)** |
| Collection of debts written off in accounting in previous years | **41** | **-** | **47** | **88** | **-** | **88** |
| Net accounting write-offs | **(3)** | **(1)** | **6** | **2** | **-** | **2** |
| Provision for credit losses at end of the period | **666** | **165** | **318** | **1,149** | **-** | **1,149** |
| **Changes in provision in respect of off-balance sheet credit instruments** | | | | | | |
| Provision at beginning of the year (audited) | **72** | **-** | **14** | **86** | **-** | **86** |
| Decrease in the provision | **(5)** | **-** | **(2)** | **(7)** | **-** | **(7)** |
| Provision in respect of off-balance sheet credit instruments at end of the period | **67** | **-** | **12** | **79** | **-** | **79** |
| **Total provision for credit losses - debts and off-balance sheet credit instruments** | **733** | **165** | **330** | **1,228** | **-** | **1,228** |

| | For the six months ended June 30, 2020 (unaudited) | | | | | |
|---|---|---|---|---|---|---|
| | 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 the year (audited) | 545 | 121 | 264 | 930 | - | 930 |
| Expenses in respect of credit losses | 216 | 28 | 62 | 306 | - | 306 |
| Accounting write-offs | (85) | - | (70) | (155) | - | (155) |
| Collection of debts written off in accounting in previous years | 30 | 1 | 44 | 75 | - | 75 |
| Net accounting write-offs | (55) | 1 | (26) | (80) | - | (80) |
| Provision for credit losses at end of the period | 706 | 150 | 300 | 1,156 | - | 1,156 |
| **Changes in provision in respect of off-balance sheet credit instruments** | | | | | | |
| Provision at beginning of the year (audited) | 46 | - | 11 | 57 | - | 57 |
| Increase in the provision | 15 | - | 1 | 16 | - | 16 |
| Provision in respect of off-balance sheet credit instruments at end of the period | 61 | - | 12 | 73 | - | 73 |
| **Total provision for credit losses - debts and off-balance sheet credit instruments** | 767 | 150 | 312 | 1,229 | - | 1,229 |

## NOTE 7 - DEPOSITS FROM THE PUBLIC

(NIS million)

### A. Classes of deposits by place of origin and type of depositor In Israel

| | June 30, | June 30, | December 31, |
|---|---|---|---|
| | 2021 | 2020 | 2020 |
| | | (unaudited) | (audited) |
| Demand | | | |
| - Non- bearing interest | **66,469** | 56,751 | 62,106 |
| - Bearing interest | **28,495** | 20,950 | 25,384 |
| Total demand | **94,964** | 77,701 | 87,490 |
| Fixed-term | **51,312** | 51,459 | 54,187 |
| Total deposits in Israel* | **146,276** | 129,160 | 141,677 |
| * Of which: | | | |
| Deposits of private individuals | **73,319** | 69,261 | 72,435 |
| Deposits of institutional entities | **30,447** | 22,084 | 26,310 |
| Deposits of corporates and others | **42,510** | 37,815 | 42,932 |

### B. Deposits of the public by size

| | June 30, | June 30, | December 31, |
|---|---|---|---|
| | 2021 | 2020 | 2020 |
| **Maximum amount of deposit** | | (unaudited) | (audited) |
| Up to 1 | **56,292** | 52,304 | 55,269 |
| From 1 to 10 | **35,913** | 33,771 | 35,447 |
| From 10 to 100 | **17,638** | 16,364 | 17,187 |
| From 100 to 500 | **8,061** | 4,759 | 8,046 |
| Over 500 | **28,372** | 21,962 | 25,728 |
| Total | **146,276** | 129,160 | 141,677 |

## NOTE 7A - EMPLOTYEE RIGHTS

(NIS million)

### A. Composition of benefits:

| | | June 30, | December 31, |
|---|---|---|---|
| | 2021 | 2020 | 2020 |
| | | (unaudited) | (audited) |
| **Pension and severance pay** | | | |
| Amount of liability | **955** | 920 | 960 |
| Fair value of assets of the scheme | **(355)** | (377) | (343) |
| Excess liabilities over assets of the scheme | **600** | 543 | 617 |
| Excess liabilities of the scheme included in the item "other liabilities" | **600** | 543 | 617 |
| **Long-service awards - amount of liability** | **19** | 18 | 19 |
| **Benefit regarding unused sick leave - amount of liability** | **31** | 33 | 35 |
| **Other post-employment benefits** | **8** | 9 | 8 |
| **Other post-retirement benefits** | **221** | 207 | 219 |
| **Vacation pay** | **95** | 70 | 76 |
| **Other** | **154** | 97 | 135 |
| **Total** | | | |
| Excess liabilities regarding employee benefits over assets of the scheme included in the item "other liabilities" | **1,128** | 977 | 1,109 |

## NOTE 7A - EMPLOTYEE RIGHTS (CON'T)

(NIS million)

### B. Defined benefits severance pay and pension schemes

#### (1) Commitment and financing situation

| | Severance pay and pension schemes | | | | | Other post-retirement benefits | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | For the three months ended June 30, | | For the six months ended June 30, | | For the year ended December 31, | For the three months ended June 30, | | For the six months ended June 30, | | For the year ended December 31, |
| | 2021 | 2020 | 2021 | 2020 | 2020 | 2021 | 2020 | 2021 | 2020 | 2020 |
| | | (unaudited) | | (unaudited) | (audited) | | (unaudited) | | (unaudited) | (audited) |
| | | | | | | | | | | (NIS million) |
| **A. Change in liability regarding anticipated benefits** | | | | | | | | | | |
| Liability regarding anticipated benefit at beginning of period | **912** | 784 | **960** | 927 | 927 | **218** | 161 | **219** | 207 | 207 |
| Cost of service | **5** | 5 | **10** | 10 | 21 | **1** | 1 | **2** | 2 | 5 |
| Cost of interest | **4** | 6 | **8** | 10 | 19 | **2** | 2 | **3** | 3 | 5 |
| Actuarial loss (profit)** | **42** | 134 | **(2)** | 12 | 107 | **1** | 44 | **(1)** | (3) | 7 |
| Benefits paid | **(8)** | (9) | **(21)** | (39) | (114) | **(1)** | (1) | **(2)** | (2) | (5) |
| Liability regarding anticipated benefit at end of period | **955** | 920 | **955** | 920 | 960 | **221** | 207 | **221** | 207 | 219 |
| Liability regarding cumulative benefit at end of period | **893** | 818 | **893** | 818 | 854 | 219 | 205 | **219** | 205 | 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** | 357 | **343** | 415 | 415 | **-** | - | **-** | - | - |
| Actual return on assets of the scheme | **14** | 21 | **30** | (13) | 8 | **-** | - | **-** | - | - |
| Deposits in the scheme by the Bank | **3** | 3 | **5** | 5 | 9 | **-** | - | **-** | - | - |
| Benefits paid | **(5)** | (4) | **(23)** | (30) | (89) | **-** | - | **-** | - | - |
| Fair value of assets of the scheme at end of period | **355** | 377 | **355** | 377 | 343 | **-** | - | **-** | - | - |
| Financing situation- net liability recognized at the end of period* | **600** | 543 | **600** | 543 | 617 | **221** | 207 | **221** | 207 | 219 |

* Included in the item "other liabilities".

** Derives mainly from an actuarial loss in respect of the efficiency plan (see C below), partially offset by an actuarial gain in respect of increase in the anticipated inflation.

| | Severance pay and pension schemes | | | Other post-retirement benefits | | |
|---|---|---|---|---|---|---|
| | | June 30, | December 31, | | June 30, | December 31, |
| | 2021 | 2020 | 2020 | 2021 | 2020 | 2020 |
| | | (unaudited) | (audited) | | (unaudited) | (audited) |
| | | | | | | (NIS million) |
| **C. Amounts recognized in the consolidated balance sheet** | | | | | | |
| Amounts recognized in the item "other liabilities" | **600** | 543 | 617 | **221** | 207 | 219 |
| Net liability recognized at end of period | **600** | 543 | 617 | **221** | 207 | 219 |
| **D. Amounts recognized in other cumulative comprehensive loss, before the tax effect** | | | | | | |
| Actuarial loss, net | **230** | 224 | 272 | **74** | 70 | 78 |
| Closing balance in other cumulative comprehensive profit | **230** | 224 | 272 | **74** | 70 | 78 |

## NOTE 7A - EMPLOTYEE RIGHTS (CON'T)

(NIS million)

### (2) Expense for the period

| | Severance pay and pension schemes | | | | | Other post-retirement benefits | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | For the three months ended June 30, | | For the six months ended June 30, | | For the year ended December 31, | For the three months ended June 30, | | For the six months ended June 30, | | For the year ended December 31, |
| | **2021** | **2020** | **2021** | **2020** | **2020** | **2021** | **2020** | **2021** | **2020** | **2020** |
| | | (unaudited) | | (unaudited) | (audited) | | (unaudited) | | (unaudited) | (audited) |
| | | | | | | | | | | (NIS million) |
| **A. Cost components of net benefit recognized in profit and loss** | | | | | | | | | | |
| Cost of service | **5** | 5 | **10** | 10 | 21 | **1** | 1 | **2** | 2 | 5 |
| Cost of interest | **4** | 6 | **8** | 10 | 19 | **2** | 2 | **3** | 3 | 5 |
| Anticipated return on assets of the scheme | **(2)** | (2) | **(3)** | (5) | (9) | **-** | - | **-** | - | - |
| Amortization of non-recognized amounts: | | | | | | | | | | |
| Net actuarial loss | **3** | 2 | **8** | 6 | 14 | **2** | 1 | **3** | 2 | 4 |
| Other, including loss from reduction or dismissal and structural changes | **2** | 2 | **5** | 4 | 26 | **-** | - | **-** | - | - |
| Capitalization of software costs | **-** | - | **(1)** | (1) | (3) | **-** | - | **-** | - | - |
| Total cost of benefits, net | **12** | 13 | **27** | 24 | 68 | **5** | 4 | **8** | 7 | 14 |
| **B. Changes in assets of the scheme and in liability for benefits recognized in other comprehensive (profit) loss, before the tax effect** | | | | | | | | | | |
| Net actuarial loss (profit) for the period | **30** | 115 | **(29)** | 30 | 108 | **1** | 44 | **(1)** | (3) | 7 |
| Amortization of actuarial loss | **(3)** | (2) | **(8)** | (6) | (14) | **(2)** | (1) | **(3)** | (2) | (4) |
| Dismissal | **(2)** | (2) | **(5)** | (4) | (26) | **-** | - | **-** | - | - |
| Total recognized in other comprehensive (profit) loss | **25** | 111 | **(42)** | 20 | 68 | **(1)** | 43 | **(4)** | (5) | 3 |
| Total net cost of benefit | **12** | 13 | **27** | 24 | 68 | **5** | 4 | **8** | 7 | 14 |
| Total net cost of benefit for the period recognized in other comprehensive (profit) loss | **37** | 124 | **(15)** | 44 | 136 | **4** | 47 | **4** | 2 | 17 |

## NOTE 7A - EMPLOTYEE RIGHTS (CON'T)

(NIS million)

### (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 | | |
|---|---|---|---|---|---|---|
| | | June 30, | December 31, | | June 30, | December 31, |
| | 2021 | 2020 | 2020 | 2021 | 2020 | 2020 |
| | | (unaudited) | (audited) | | (unaudited) | (audited) |
| | | | | | | (NIS million) |
| 1. Principal guidelines used to determine the liability for benefits | | | | | | |
| Discounting rate | **0.2** | 0.6 | 0.3 | **0.8** | 1.0 | 0.8 |

| | Severance pay and pension schemes | | | Other post-retirement benefits | | |
|---|---|---|---|---|---|---|
| | For the six months ended June 30, | | For the year ended December 31, | For the six months ended June 30, | | For the year ended December 31, |
| | 2021 | 2020 | 2020 | 2021 | 2020 | 2020 |
| | | (unaudited) | (audited) | | (unaudited) | (audited) |
| | | | | | | (NIS million) |
| 2. Principal guidelines used to measure the net cost of benefits for the period | | | | | | |
| Discounting rate | **0.3** | 0.4-2.0 | 0.4-2.0 | **0.8** | 1.0-2.3 | 1.0-2.3 |

**B. Effect of a one percentage point change on the liability in respect of the anticipated benefit, before the tax effect**

| | | | | | | One percentage point growth |
|---|---|---|---|---|---|---|
| | Severance pay and pension schemes | | | Other post-retirement benefits | | |
| | | June 30, | December 31, | | June 30, | December 31, |
| | 2021 | 2020 | 2020 | 2021 | 2020 | 2020 |
| | | (unaudited) | (audited) | | (unaudited) | (audited) |
| | | | (NIS million) | | | (NIS million) |
| Discounting rate | **(61)** | (69) | (70) | **(37)** | (35) | (38) |

| | | | | | | One percentage point decline |
|---|---|---|---|---|---|---|
| | Severance pay and pension schemes | | | Other post-retirement benefits | | |
| | | June 30, | December 31, | | June 30, | December 31, |
| | 2021 | 2020 | 2020 | 2021 | 2020 | 2020 |
| | | (unaudited) | (audited) | | (unaudited) | (audited) |
| | | | (NIS million) | | | (NIS million) |
| Discounting rate | **74** | 86 | 87 | **50** | 47 | 50 |

**C. Cash flows**

(1) Deposits

| | | | | | | Severance pay and pension schemes |
|---|---|---|---|---|---|---|
| | Forecast | | | | | Actual deposits |
| | | For the three months ended June 30, | | For the six months ended June 30, | | For the year ended December 31, |
| | *2021 | 2021 | 2020 | 2021 | 2020 | 2020 |
| | (unaudited) | | (unaudited) | | (unaudited) | (audited) |
| | | | | | | (NIS million) |
| Deposits | 9 | **3** | 3 | **5** | 5 | 9 |

* Assessment of amounts which the Bank expects to deposit with a defined benefit pension scheme during 2021.

## **NOTE 7A - EMPLOTYEE RIGHTS** (CON'T)

(NIS million)

### C. 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.

The plan increased the Bank's liability for severance compensation and other post retirement benefits by NIS 78 million (of which, NIS 50 million were already provided for in 2020). The increase in liabilities has been recognized in other comprehensive loss.

Management of the Bank estimates that most of the employees choosing early retirement would do so by the end of 2021, and the remainder at the beginning of 2022.

## NOTE 8 - CAPITAL ADEQUACY ACCORDING TO DIRECTIVE OF THE SUPERVISOR OF BANKS

### A. Basel 3 guidelines

The bank implements Proper Banking Management Directives Nos. 201-211 in the matter of measurement and capital adequacy, as reported by the Supervision of Banks and within the framework of the file of questions and answers.

Basel 3 instructions were implemented from January 1, 2014, in a gradual manner, in accordance with the transitional instructions stated in Proper Banking Management 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 shall be recognized up to a maximum of 80% (from their balance in the supervisory capital as of December 31, 2013) on January 1, 2014, this maximum level being reduced by an additional 10% until January 1, 2022. 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 Banking Management Directives regarding the minimum capital ratios, the Bank, the total assets of which on a consolidated basis is up to 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, as from January 1, 2015, a new capital demand was added to the minimum capital ratios, at a rate reflecting 1% of the outstanding balance of residential loans at date of reporting.

On the background of the spreading of the Coronavirus and as part of the adjustment to Proper Banking Management directives, The Supervisor of Banks published Proper Banking Management directives no. 250 (as was last updated on March 22, 2021), which includes, inter alia, provisional instruction concerning the update of directive 201, which includes a reduction of 1% of the capital requirements of banks and an update to directive 329 which cancel the demand of additional 1% on housing loans that were and will be granted during the period of the provisional instruction, (from March 19, 2020 until September 30, 2021) ("the end of the provisional instruction"), this in order to secure the ability of banks to continue to grant credit. In accordance with the provisional instruction, the relief will be valid until the end of 24 months from the end of the provisional instruction with the condition 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, it was determined 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.

In light of the abovementioned, the capital requirements applicable to the Bank as from the financial statements for March 31, 2020 are:

| | **Minimum capital ratio required** | |
|---|---|---|
| **Minimum capital ratios** | **From 31.3.20 until 30.9.21** | **From 30.9.21 until 30.9.23** |
| **Teir 1 equity capital ratio** | 8% | The lower of:<br>- The Bank's capital ratio as of 30.9.21<br>- The Bank's minimal capital ratio before the period of the provisional instruction |
| **Compehensive capital ratio** | 11.5% | |
| **Addition in respect of residential loans** | 1% of the outstanding balance of residential loans at date of the reporting except for loans extended during the period of the provisional instruction | |

For the outstanding balance of the residential loans see note 12.B.3.

## NOTE 8 - CAPITAL ADEQUACY, LEVERAGE AND LIQUIDITY ACCORDING TO DIRECTIVE OF THE SUPERVISOR OF BANKS (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, and which are not lower than the regulatory requirements, are as follows:

- In the ordinary course of business - Tier I equity capital ratio of not lower than 9.30% and comprehensive capital ratio of not lower than 12.76%, given the relief of The Bank of Israel, Tier I equity capital ratio of not lower than 8.30% and comprehensive capital ratio of not lower than 11.76%.
- 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:**

| | June 30, 2021 | June 30, 2020 | December 31, 2020 |
|---|---|---|---|
| | (unaudited) | (unaudited) | (audited) |
| **a. Consolidated** | | | |
| **1. Capital for calculation of capital ratio** | | | |
| Tier 1 capital, after supervisory adjustments and deductions | **10,059** | 8,882 | 9,369 |
| Tier 2 capital after deductions | **1,883** | 2,741 | 2,749 |
| Total comprehensive capital | **11,942** | 11,623 | 12,118 |
| **2. Weighted balances of risk assets** | | | |
| Credit risk | (2)**78,650** | (2)75,685 | (2)76,203 |
| Market risk | **826** | 824 | 883 |
| Operational risk | **6,742** | 6,451 | 6,729 |
| Total weighted balances of risk assets | **86,218** | 82,960 | 83,815 |
| | | | percent |
| **3. Ratio of capital to risk assets** | | | |
| Ratio of tier 1 capital to risk assets | **11.67%** | 10.71% | 11.18% |
| Comprehensive ratio of capital to risk assets | **13.85%** | 14.01% | 14.46% |
| Minimal ratio of equity capital tier 1 required by the Supervisor of banks | (1)**8.26%** | (1)8.31% | (1)8.29% |
| Minimal ratio of capital required by the Supervisor of Banks | (1)**11.76%** | (1)11.81% | (1)11.79% |
| | | | percent |
| **B. Significant Subsidiaries** | | | |
| **Bank Massad Ltd.** | | | |
| Ratio of tier 1 capital to risk assets | **14.66%** | 13.70% | 14.03% |
| Comprehensive ratio of capital to risk assets | **15.72%** | 14.81% | 15.19% |
| Minimal ratio of equity capital tier 1 required by the Supervisor of banks | **8.00%** | 8.00% | 8.00% |
| Minimal ratio of capital required by the Supervisor of Banks | **11.50%** | 11.50% | 11.50% |

(1) Minimal 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) are 8.0% and 11.5% respectively. To these relations was added capital requirement of 1% of housing loans balance for the reporting date, except for housing loans granted in the period from 19.3.20 until 30.6.21, the balance of which amount to NIS 7,615 million.

(2) An amount of NIS 125 million were deducted from the average balances of risk assets in respect of adjustments regarding the efficiency measures (30.6.20 – NIS 95 million, 31.12.20 – NIS 158 million).

* The data in this Note are presented in accordance with Proper Conduct of Banking Business Directives No. 202 regarding "measurement and capital adequacy- regulatory capital". 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 5 years period.

For additional details in respect of the effect of the transitional directives and the adjustment regarding efficiency measures see 4 above.

# NOTE 8 - CAPITAL ADEQUACY, LEVERAGE AND LIQUIDITY ACCORDING TO DIRECTIVE OF THE SUPERVISOR OF BANKS (CONT'D)

(NIS million)

## (3) Capital components for computation of capital ratio (consolidated)

| | June 30, 2021 | June 30, 2020 | December 31, 2020 |
|---|---|---|---|
| | (unaudited) | (unaudited) | (audited) |
| **A. Equity capital tier 1** | | | |
| Capital attributed to shareholders | **9,849** | 8,712 | 9,141 |
| **Differences between capital attributed to shareholders and equity capital tier 1** | | | |
| Minority interests | **216** | 206 | 208 |
| Total equity capital tier 1 before regulatory adjustments and deductions | **10,065** | 8,918 | 9,349 |
| **Regulatory adjustments and deductions:** | | | |
| Intangible assets | **(97)** | (99) | (98) |
| Regulatory adjustments and other deductions- equity capital tier 1 | **(3)** | (7) | (2) |
| Total regulatory adjustments and deductions before adjustments in respect of efficiency measures - equity capital tier 1 | **(100)** | (106) | (100) |
| Total adjustments in respect of efficiency measures- Tier 1 equity capital | **94** | 70 | 120 |
| Total equity capital tier 1 after regulatory adjustments and deductions | **10,059** | 8,882 | 9,369 |
| **B. Tier 2 capital** | | | |
| Tier 2 capital: instruments before deductions | **899** | 1,795 | 1,796 |
| Tier 2 capital: provisions before deductions | **984** | 946 | 953 |
| Total tier 2 capital before deductions | **1,883** | 2,741 | 2,749 |
| **Deductions:** | | | |
| Total deductions- tier 2 capital | **-** | - | - |
| Total tier 2 capital | **1,883** | 2,741 | 2,749 |

| | June 30, 2021 | June 30, 2020 | December 31, 2020 |
|---|---|---|---|
| | (unaudited) | (unaudited) | (audited) |
| **(4) Effect of transitional instructions on equity capital tier 1** | | | |
| **Ratio of capital to risk assets** | | | |
| Ratio of tier 1 equity capital to risk assets before effect of adjustments in respect of efficiency measures | **11.54%** | 10.61% | 11.03% |
| Effect of adjustments in respect of efficiency measures | **0.13%** | 0.10% | 0.15% |
| Ratio of tier 1 equity capital to risk assets | **11.67%** | 10.71% | 11.18% |

## NOTE 8 - CAPITAL ADEQUACY, LEVERAGE AND LIQUIDITY ACCORDING TO DIRECTIVE OF THE SUPERVISOR OF BANKS (CONT'D)

**(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 June 30, 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) | **0.12** | **0.13** |
| Massad Bank | **1.72** | **2.15** |

**(6) Efficiency measures**

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.

(1) On November 17, 2016, the Board of Directors of the Bank approved the update of the strategic program of the Group concerning the efficiency measures aspect. These efficiency measures include, inter alia, the continuation of expanding operations by digital means; the reduction in the number of branches and improvements in work processes at the branches and at head office. The efficiency measures include a reduction in the floor area used by the Bank as well as a gradual reduction in the workforce position of the Bank's group of an average of approximately 130 employees per year, in total, a reduction of approximately 650 employees until the end of 2020.

The Bank has received from the Supervisor of Banks an approval in principle for the spreading of the cost of these measures over five years by the "straight line" method, for the purpose of computing the capital adequacy.

The cost of benefits to employees within the framework of the efficiency measures implemented in the years 2016 and until 2020, is estimated at NIS 207 million, before 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 June 30 2021, to be lower by 0.02%.

(2) In the course of 2018, the Board of Directors of the Bank resolved to introduce additional efficiency measures at Otsar Hahayal, a merger decision was taken in the third quarter of the year, and on January 1, 2019, Otsar Hahayal was merged with and into the Bank. The said decisions as well as their expected implications have surpassed the original efficiency program of the Group from 2016. 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 June 30, 2021 to be lower by 0.04%.

(3) On July 28, 2020 and on November 3, 2020, the Board of Directors approved an efficiency plan, according to which 60 constant employees of the Bank, belonging to the defined target population, will be allowed to retire in early retirement and with preffered conditions.

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

In addition, in the forth 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 June 30, 2021 to be lower by 0.07%.

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 Banking Management 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.

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 relieves 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, for 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 (including the Bank). The relief will be valid for 24 months starting from the end of the provisional instruction (September 30, 2021), in which the leverage ratio will not be less than the leverage ratio at the date of the end of the Provisional Instruction, or the minimal leverage ratio applying to a banking corporation prior to the Provisional Instruction, whichever is lower.

## NOTE 8 - CAPITAL ADEQUACY, LEVERAGE AND LIQUIDITY ACCORDING TO DIRECTIVE OF THE SUPERVISOR OF BANKS (CONT'D)

| | June 30, 2021 (unaudited) | June 30, 2020 (unaudited) | December 31, 2020 (audited) |
|---|---|---|---|
| | NIS million | | |
| **A. Consolidated** | | | |
| Tier 1 capital* | **10,059** | 8,882 | 9,369 |
| Total exposures | **183,199** | 161,702 | 177,195 |
| | | | percent |
| Leverage ratio | **5.49%** | 5.49% | 5.29% |
| **B. Significant Subsidiary** | | | |
| **Bank Massad Ltd.** | | | |
| Leverage ratio | **7.69%** | 7.38% | 7.24% |
| Minimal Leverage ratio required by the Supervisor of banks | **4.50%** | 5.00% | 4.50% |

* For the effect in respect of the efficiency program, see note A(4) above.

### C. Reporting the 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 examines a range of thirty days in a stress test, and is intended to ensure that a banking corporation shall have an inventory of high quality liquid assets serving the liquidity needs of the corporation within that period of time, as well as the anticipated cash outflows in the stress test, as defined in the Directive for the thirty calendar days.

| | For the three months ended | | |
|---|---|---|---|
| | June 30, 2021 (unaudited) | June 30, 2020 (unaudited) | December 31 2020 (audited) |
| | | | percent |
| **A. Consolidated*** | | | |
| Liquidity coverage ratio | **137%** | 139% | 150% |
| **B. The bank*** | | | |
| Liquidity coverage ratio | **137%** | 140% | 150% |
| **C. Significant Subsidiary*** | | | |
| **Bank Massad Ltd.** | | | |
| Liquidity coverage ratio | **294%** | 243% | 241% |
| Minimal liquidity coverage ratio required by the Supervisor of banks | **100%** | 100% | 100% |

* In terms of simple averages of daily observations during the reported quarter.

## NOTE 8 - CAPITAL ADEQUACY, LEVERAGE AND LIQUIDITY ACCORDING TO DIRECTIVE OF THE SUPERVISOR OF BANKS (CONT'D)

### D. Net stable Funding Ratio - NSFR

Bank of Israel published in June 2021, Directive 222 "Net stable Funding Ratio - NSFR", which adopts the Basel III recommendations, and which would take effect on December 31, 2021.

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.

This ratio requires banking corporations to maintain a stable funding profile, in accordance with the composition of their balance sheet assets and their off-balance sheet operations, and limits excessive reliance by banking corporations upon short-term wholesale funding.

The Bank is preparing for the implementation of the Directive, in accordance with Bank of Israel guidelines.

### E. Dividends

| | For the three months ended June 30, | | For the six months ended June 30, | | For the year ended December 31, |
|---|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 | 2020 |
| | | (unaudited) | | (unaudited) | (audited) |
| | | NIS million | | NIS million | NIS million |
| Dividend declared and paid by the Bank | - | - | - | 125 | 125 |

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, 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 a discussion on April 16, 2020, regarding the dividend policy and resolved that the Bank shall refrain from the distribution of dividends to its shareholders during the period of the Provisional Instruction, which originaly was set for six months, until September 30, 2020, with an option for extension of another six months. On September 16, 2020, the provisional instruction was extended until March 31, 2021. It should be noted that on March 22, 2021, the Bank of Israel published an amendment to the provisional instruction, according to which, the period of the instruction was extended until September 30, 2021. 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, the Board of Directors decided on March 16, 2021, to continue not to distribute dividends at this time.

On July 26, 2021, the Supervisor of Banks published an update to Proper Conduct of Banking Business Directive No. 250 (Modifications to Proper Conduct of Banking Business Directives for the confrontation with the Corona crisis). According to the expalanatory notes to this update, the level of uncertainty, which is still high following the Corona crisis, and the risk that credit losses stemming from the crisis have not yet been realized in full, require continuation of careful and conservative capital planning, as well as careful and conservative approach to the distribution of dividends. The Supervisor clarifies that in view of the improvement in economic activity, the growing trend of the gradual reverting to the level existing prior to the crisis, and the renewed accumulation of a capital cushion by banking corporations, he permits the banking system to distribute dividends, though in a limited manner, maintaining a careful and conservative approach. In Addition, the position of the Supervisor of Banks is that distribution of an amount higher than 30% of the profits earned in 2020, would not be considered careful and conservative planning. In view of the said position of the Supervisor of Banks and on background of the continuing uncertainty and the risk, as stated above, the Board of Directors of the Bank resilved on August 17, 2021, to distribute to the shareholders of the Bank at this stage, a divident in cash in a total amount of NIS 225 million (gross), comprising 30% of the net profit per the financial statements of the Bank for the year 2020.

The ex-dividend date is fixed for August 25, 2021, and date of payment of the dividend is fixed for September 1, 2021. The amount of the dividend is pre-tax, including any withholding tax that the Bank has to apply under the law.

It is clarified that except as stated above, the dividend distribution policy remains unchanged. The Board of Directors of the Bank would continue to discuss the dividend distribution policy of the Bank in view of developments in the Corona crisis and its effect on the economy and on the Bank.

## NOTE 9 - COMMITMENTS AND CONTINGENT LIABILITIES

(NIS million)

### Other contingent liabilities and special commitments

| | | June 30, 2021 (unaudited) | June 30, 2020 (unaudited) | December 31 2020 (audited) |
|---|---|---|---|---|
| A. | Improvements to premises and acquisition of new premises, equipment and software | **9** | 6 | 9 |
| | Commitments to invest in private investment funds | **49** | 42 | 55 |

B. The Bank and its subsidiary have leased premises and equipment on a long-term basis. The rentals payable in the future subject to linkage terms (partly to the CPI and partly to foreign currency), are as follows:

| | June 30, 2021 (unaudited) | June 30, 2020 (unaudited) |
|---|---|---|
| First year | ***37** | *35 |
| Second year | **61** | 68 |
| Third year | **52** | 59 |
| Fourth year | **47** | 53 |
| Fifth year | **45** | 48 |
| Sixth year and thereafter | **180** | 218 |
| Total | **422** | 481 |

* For the period until the end of the calendar year

**C.** 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 consolidated subsidiaries, 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.

Regarding the legal actions, including motions for approval of class action suits, see Note 25G. to the financial statements for 2020.

The amount of additional exposure of the Bank and of the subsidiary companies of the Bank as of June 30, 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 62 million.

**D.** Furthermore, pending against the Bank are motions for approval of class action suits, the amounts claimed therein is material, as detailed below. In the opinion of Management of the Bank, based on legal opinions, it is not possible, at this stage, to assess the prospects of these motions, and no provisions had been included in respect thereof:

1. On April 21, 2021, the Bank received notice of a motion for approval as a class action, of an action that had been filed against the Bank and another bank. The Claimants request the cancellation of the entry-line commission appearing in the pricelist of the Bank for large businesses, and the refund by the Bank to its customers of the entry-line commission collected excessively by it together with compensation for the distress caused. Alternatively, as argued by the Claimants, the price of the entry-line commission of the Bank should be reduced, as it does not reflect the operating cost incurred by the Bank in respect of the line recording, considering the changing reality and technological developments in the banking system.
2. On April 26, 2021, the Bank received notice of a motion for approval as a class action, of an action that had been filed against the Bank and additional banks.

   The Claimants argue that the rate of discount granted by the banks to customers with respect to the minimum and maximum commissions charged for an online transaction (in relation to the same transaction made by way of a teller), must be identical to the rate of discount that banks grant when the commission in respect of that same transaction, exceeds the minimum commission or is lower than the maximum commission. In actual fact, as argued by the Claimants, this is not the situation. Accordingly, as argued by the Claimants, the banks should be instructed to refund the excessive commissions charged by them and to amend their pricelist in accordance with the spirit of this action.

**E.** 1. Following are details of actions filed against an affiliated company, Israel Credit Cards Ltd. ("ICC"), including motions for their approval of class actions, the amounts claimed therein are material. In the opinion of the Management of ICC, based inter alia on legal opinions, adequate provisions in respect of such actions 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 are two cartel arrangements with respect to immediate debit cards ("debit cards") and to "prepaid" cards. The first cartel arrangement, as argued by the Plaintiffs, is an arrangement to charge a cross commission in respect of transactions made by debit cards and prepaid cards. The second cartel arrangement, as argued by the Plaintiffs is the unlawful withholding of funds due to trading houses for periods of approximately twenty days after the credit card companies had received the money.

A review of the economic opinion, to which the amended motion refers, shows 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 binding 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 binding 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 pretrial 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. On July 16, 2020, the Court ruled for the rejection of the Plea with no order for costs. It was also 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 pretrial was heard, in which the parties stated their arguments. At the conclusion of the hearing, the Court proposed to the parties to refer to mediation with respect to the question regarding the date of accounting. On July 6, 2021, the parties jointly informed the Court that they accept the proposal of the Court for mediation proceedings regarding this matter.

(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-Yafo 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-Yafo 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 pretrial 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 pretrial hearing was held on December 17, 2020. An additional pretrial hearing was held on July 13, 2021.

(c) On May 6, 2018, ICC received notice of an action together with a motion for approval of the action as a class action suit, filed with the Tel Aviv-Yafo District Court. As argued in the action, which was served against ICC and against an additional company and a bank, which owned it, ICC did not provide proper disclosure of the manner of collecting interest by it.

The plaintiff assesses his personal damage at NIS 38.54 and the total damage to the group at NIS 181 million. On March 5, 2019, ICC responded to the motion for approval. On June 7, 2020, the Court approved the motion for withdrawal from the claim against the defendant bank. A pretrial hearing was held on April 19, 2021. On June 15, 2021, the plaintiff submitted a motion for withdrawal, in which the Court is requested to permit the plaintiff to withdraw from the motion for approval, as well as to dismiss the personal claim of the plaintiff against the respondents. A decision regarding the motion for withdrawal is still pending.

(d) On July 22, 2018, an action was filed with the Tel Aviv-Yafo 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 for approval 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 to the whole class, which he purports to represent, at NIS 900 million. On March 24, 2019, the Defendants submitted their response to the motion. A pretrial 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 shortened list of the documents requested for disclosure and perusal. On January 26, 2020, The Plaintiff submitted the shortened list, and on March 8, 2020, ICC submitted its response to the list. On October 6, 2020, the Plaintiff submitted its reaction to the response to the amended request for disclosure. On March 3, 2021, the Court ruled for the rejection of the disclosure request. An additional pretrial hearing was held on June 2, 2021, and an additional hearing was fixed for October 21, 2021. In a ruling dated June 11, 2021, the Court instructed the delivery of the claims' briefs to the Attorney General for the Government in order for the latter to consider whether to appear in the proceedings.

(e) On May 14, 2020, an action was filed against ICC with the Central Region District, together with a motion for approval of the action as a class action suit. As argued in the action, faults were found in the notice that had been sent to the Plaintiff regarding future charges relating to credit card fees, which require determination that the said notice does not fulfill the notification requirements stated by law. The Plaintiff states its personal monetary damage at NIS 13.5 and the nonmonetary personal damage at NIS 100, but does not state the amount of damage to the class. A pretrial hearing of the case was held on April 7, 2021. The Court has recommended that the parties should enter negotiations in order to reach an agreed arrangement. Whereas the negotiations between the parties had not been concluded in a compromise agreement, the parties submitted on June 6, 2021, a joint motion for the hearing of evidence in the case. The hearing of evidence was fixed by the Court for January 4, 2022.

2. The amount of exposure in respect of legal actions filed against ICC, the materialization of which, in whole or in part, is reasonably possible, totals NIS 152 million.

3. Motions for approval of actions as a class action suits are pending against ICC, as detailed hereunder. ICC states in its reports, that in the opinion of ICC, based on opinions of its legal counsels, it is not possible at this stage to assess the prospects of these actions, and accordingly, no provision has been recorded in respect thereof.

   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-Yafo District Court, together with a motion for approval of the action as a class action suit ("the motion for approval"). The Plaintiff argues that the Respondents are making illegitimate and prohibited use of the data base at their disposal (both by power of them being issuers of credit cards and by power of being a settlement agents), and this without obtaining the informed agreement of their customers. It is also argued, that the Respondents reveal to third parties personal data relating to their customers; conduct targeted advertising on the basis of the said characterization, for the purpose of promoting sales by third parties; perform surveillance of their customers; and make use of their customer data for the sale of statistical data.

   The Plaintiff assesses the amount of relief to the whole class at NIS 150 million. On June 27, 2021, ICC and Diners submitted their response to the motion for approval.

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. Accordingly, 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 Central Region 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 pretrial 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 168 million. Another pretrial was held on May 24, 2021.

# NOTE 10 - DERIVATIVE FINANCIAL INSTRUMENTS - VOLUME, CREDIT RISKS AND MATURITY DATES

(NIS million)

## A. Volume of activity on a consolidated basis

### 1. Face value of derivatives

| | June 30, 2021 (unaudited) | | | June 30, 2020 (unaudited) | | | December 31, 2020 (audited) | | |
|---|---|---|---|---|---|---|---|---|---|
| | Not trading derivatives | Trading derivatives | Total | Not trading derivatives | Trading derivatives | Total | Not trading derivatives | Trading derivatives | Total |
| **Interest contracts** | | | | | | | | | |
| Forward and Futures Contracts | **139** | **2,261** | **2,400** | 450 | 1,761 | 2,211 | 400 | 1,978 | 2,378 |
| Options written | **-** | **-** | **-** | - | 584 | 584 | - | 125 | 125 |
| Options purchased | **-** | **-** | **-** | - | 584 | 584 | - | 125 | 125 |
| SWAPS(1) | **4,309** | **11,640** | **15,949** | 4,588 | 13,322 | 17,910 | 4,444 | 11,842 | 16,286 |
| Total(2) | **4,448** | **13,901** | **18,349** | 5,038 | 16,251 | 21,289 | 4,844 | 14,070 | 18,914 |
| Of which: Hedging derivatives(3) | **3,469** | **-** | **3,469** | 3,667 | - | 3,667 | 3,527 | - | 3,527 |
| **Foreign currency contracts** | | | | | | | | | |
| Forward and Futures Contracts(4) | **19,313** | **23,199** | **42,512** | 16,556 | 46,842 | 63,398 | 15,231 | 29,621 | 44,852 |
| Options written | **-** | **15,992** | **15,992** | - | 11,847 | 11,847 | - | 14,301 | 14,301 |
| Options purchased | **-** | **16,088** | **16,088** | - | 12,061 | 12,061 | - | 14,482 | 14,482 |
| SWAPS | **59** | **-** | **59** | 189 | - | 189 | 179 | - | 179 |
| Total | **19,372** | **55,279** | **74,651** | 16,745 | 70,750 | 87,495 | 15,410 | 58,404 | 73,814 |
| **Contracts on shares** | | | | | | | | | |
| Forward and Futures Contracts | **-** | **28,576** | **28,576** | - | 19,437 | 19,437 | - | 27,466 | 27,466 |
| Options written | **-** | **20,811** | **20,811** | - | 14,257 | 14,257 | - | 13,850 | 13,850 |
| Options purchased(5) | **-** | **20,803** | **20,803** | - | 14,235 | 14,235 | - | 13,843 | 13,843 |
| Total | **-** | **70,190** | **70,190** | - | 47,929 | 47,929 | - | 55,159 | 55,159 |
| **Commodities and other contracts** | | | | | | | | | |
| Forward and Futures Contracts | **-** | **105** | **105** | - | 143 | 143 | - | 151 | 151 |
| Options written | **-** | **-** | **-** | - | 31 | 31 | - | 10 | 10 |
| Options purchased | **-** | **-** | **-** | - | 31 | 31 | - | 10 | 10 |
| Total | **-** | **105** | **105** | - | 205 | 205 | - | 171 | 171 |
| Total face value | **23,820** | **139,475** | **163,295** | 21,783 | 135,135 | 156,918 | 20,254 | 127,804 | 148,058 |

(1) Of which: SWAPS the Bank is paying fixed interest in an amount of NIS 9,766 million (30.6.20 - NIS 11,424 million, 31.12.20 - NIS 10,567 million).
(2) Of which: NIS-CPI swap contracts in an amount of NIS 267 million (30.6.20 - NIS 1,123 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 2,020 million (30.6.20 - NIS 2,651 million, 31.12.20 - NIS 1,830 million).
(5) Of which: Traded on the Stock Exchange in an amount of NIS 20,798 million (30.6.20 - NIS 14,174 million, 31.12.20 - NIS 13,830 million).

# NOTE 10 - DERIVATIVE FINANCIAL INSTRUMENTS - VOLUME, CREDIT RISKS AND MATURITY DATES (CONT'D)

(NIS million)

## A. Volume of activity on a consolidated basis (CONT'D)

### 2. Gross fair value of derivative instruments

| | June 30, 2021 (unaudited) | | | | | |
|---|---|---|---|---|---|---|
| | 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 | **11** | **181** | **192** | **169** | **171** | **340** |
| Of which: Hedging derivatives | **11** | **-** | **11** | **160** | **-** | **160** |
| Foreign currency contracts | **30** | **322** | **352** | **31** | **306** | **337** |
| Contracts on shares | **-** | **760** | **760** | **-** | **760** | **760** |
| Commodities and other contracts | **-** | **3** | **3** | **-** | **3** | **3** |
| Total assets/liabilities in respect of derivatives gross(1) | **41** | **1,266** | **1,307** | **200** | **1,240** | **1,440** |
| Amounts offset in the balance sheet | **-** | **-** | **-** | **-** | **-** | **-** |
| Balance sheet balance | **41** | **1,266** | **1,307** | **200** | **1,240** | **1,440** |
| Of which: not subject to net settlement arrangement or similar arrangements | **-** | **-** | **-** | **-** | **-** | **-** |

| | June 30, 2020 (unaudited) | | | | | |
|---|---|---|---|---|---|---|
| | 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 | 2 | 267 | 269 | 292 | 252 | 544 |
| Of which: Hedging derivatives | - | - | - | 274 | - | 274 |
| Foreign currency contracts | 99 | 488 | 587 | 28 | 555 | 583 |
| Contracts on shares | - | 812 | 812 | - | 812 | 812 |
| Commodities and other contracts | - | 3 | 3 | - | 3 | 3 |
| Total assets/liabilities in respect of derivatives gross(1) | 101 | 1,570 | 1,671 | 320 | 1,622 | 1,942 |
| Amounts offset in the balance sheet | - | - | - | - | - | - |
| Balance sheet balance | 101 | 1,570 | 1,671 | 320 | 1,620 | 1,940 |
| Of which: not subject to net settlement arrangement or similar arrangements | - | - | - | - | - | - |

| | December 31, 2020 (audited) | | | | | |
|---|---|---|---|---|---|---|
| | 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: Gross fair value of liabilities in respect of embedded derivatives in an amount of NIS 2 million and NIS 1 million at 30.6.20 and 31.12.20, respectively.

(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 derivativies 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 of the 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 three months ended June 30, | For the three months ended June 30, | For the six months ended June 30, | For the six months ended June 30, | For the year ended December 31, |
|---|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 | 2020 |
| | | (unaudited) | | (unaudited) | (audited) |
| | | | | | Interest income (expenses) |
| **1. Effect of accounting of fair value Hedge on profit (loss)** | | | | | |
| **Profit from fair value Hedge** | | | | | |
| Interest contracts | | | | | |
| - Hedged items | **11** | 8 | **(74)** | 154 | 108 |
| - Hedging derivatives | **(23)** | (16) | **49** | (167) | (144) |

| | June 30, 2021 (unaudited) | | June 30, 2020 (unaudited) | | December 31, 2020 (audited) | |
|---|---|---|---|---|---|---|
| | | Cumulative fair value adjustments increasing the book value | | 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 | Book value | Existing hedge relation |
| **2. Items Hedged by fair value Hedge** | | | | | | |
| Securities- debt instruments classified as available for sale | **3,828** | **133** | 4,283 | 260 | 3,908 | 210 |

# NOTE 10 - DERIVATIVE FINANCIAL INSTRUMENTS - VOLUME, CREDIT RISKS AND MATURITY DATES (CONT'D)

(NIS million)

| | For the three months ended June 30, 2021 (unaudited) | For the three months ended June 30, 2020 (unaudited) | For the year ended December 31, 2020 (audited) |
|---|---|---|---|
| | Profit (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 | **22** | 2 | 1 |
| Foreign currency contracts | **(247)** | (194) | (681) |
| Contracts on shares | **2** | 2 | 8 |

| | For the six months ended June 30, 2021 (unaudited) | For the six months ended June 30, 2020 (unaudited) |
|---|---|---|
| | Profit (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 | **17** | 3 |
| Foreign currency contracts | **169** | (9) |
| Contracts on shares | **3** | 4 |

(1) Included in the item non-interest financing income (expenses).

## NOTE 10 - DERIVATIVE FINANCIAL INSTRUMENTS - VOLUME, CREDIT RISKS AND MATURITY DATES (CONT'D)

(NIS million)

### D. Credit risk in respect of derivatives instruments, according to transaction counterparty

| | June 30, 2021 (unaudited) | | | | | |
|---|---|---|---|---|---|---|
| | **Exchanges** | **Banks** | **Dealers/ brokers** | **Government and central banks** | **Others** | **Total** |
| Balance sheet balance of assets in respect of derivative instruments | **168** | **357** | **324** | **6** | **452** | **1,307** |
| **Gross amounts not offset in the balance sheet:** | | | | | | |
| Credit risk mitigation in respect of financial instruments(1) | **-** | **(191)** | **(35)** | **-** | **(212)** | **(438)** |
| Credit risk mitigation in respect of cash collateral received | **-** | **(24)** | **(6)** | **-** | **(154)** | **(184)** |
| Net amount of assets in respect of derivative instruments | **168** | **142** | **283** | **6** | **86** | **685** |
| Off balance sheet credit risk in respect of derivative instruments(2) | **-** | **255** | **53** | **2** | **1,779** | **2,089** |
| Off balance sheet credit risk mitigation | **-** | **(131)** | **(27)** | **-** | **(1,365)** | **(1,523)** |
| Net off balance sheet credit risk in respect of derivative instruments | **-** | **124** | **26** | **2** | **414** | **566** |
| Total credit risk in respect of derivative instruments | **168** | **266** | **309** | **8** | **500** | **1,251** |
| Balance sheet balance of liabilities in respect of derivative instruments | **91** | **289** | **369** | **-** | **691** | **1,440** |
| **Gross amounts not offset in the balance sheet:** | | | | | | |
| Financial instruments | **-** | **(190)** | **(36)** | **-** | **(171)** | **(397)** |
| Cash collateral which was attached by a lien | **-** | **(49)** | **(4)** | **-** | **-** | **(53)** |
| Net amount of liabilities in respect of derivative instruments | **91** | **50** | **329** | **-** | **520** | **990** |

| | June 30, 2020 (unaudited) | | | | | |
|---|---|---|---|---|---|---|
| | **Exchanges** | **Banks** | **Dealers/ brokers** | **Government and central banks** | **Others** | **Total** |
| Balance sheet balance of assets in respect of derivative instruments | 185 | 530 | 328 | 66 | 562 | 1,671 |
| **Gross amounts not offset in the balance sheet:** | | | | | | |
| Credit risk mitigation in respect of financial instruments(1) | - | (359) | (24) | - | (269) | (652) |
| Credit risk mitigation in respect of cash collateral received | - | (19) | (3) | (59) | (177) | (258) |
| Net amount of assets in respect of derivative instruments | 185 | 152 | 301 | 7 | 116 | 761 |
| Off balance sheet credit risk in respect of derivative instruments(2) | - | 428 | 52 | 34 | 1,254 | 1,768 |
| Off balance sheet credit risk mitigation | - | (232) | (9) | (6) | (939) | (1,186) |
| Net off balance sheet credit risk in respect of derivative instruments | - | 196 | 43 | 28 | 315 | 582 |
| Total credit risk in respect of derivative instruments | 185 | 348 | 344 | 35 | 431 | 1,343 |
| Balance sheet balance of liabilities in respect of derivative instruments | 113 | 562 | 456 | 11 | 800 | 1,942 |
| **Gross amounts not offset in the balance sheet:** | | | | | | |
| Financial instruments | - | (359) | (24) | - | (189) | (572) |
| Cash collateral which was attached by a lien | - | (135) | (11) | - | (4) | (150) |
| Net amount of liabilities in respect of derivative instruments | 113 | 68 | 421 | 11 | 607 | 1,220 |

## NOTE 10 - DERIVATIVE FINANCIAL INSTRUMENTS - VOLUME, CREDIT RISKS AND MATURITY DATES (CONT'D)

(NIS million)

### C. Credit risk in respect of derivatives instruments, according to transaction counterparty (cont'd)

| | December 31, 2020 (audited) | | | | | |
|---|---|---|---|---|---|---|
| | 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 | - | (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 [(1)] | 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, as well as derivative instruments received as collateral in government bonds, shares received as collateral and corporate bonds received as collateral amounts to NIS 397 million, NIS 17 million, NIS 23 million and NIS 1 million, respectively (30.6.20 - derivative instruments subject to netting agreements NIS 571 million, government bonds received as collateral NIS 74 million shares received as collateral NIS 5 million and in corporate bonds NIS 2 million, 31.12.20 - derivative instruments subject to netting agreements NIS 599 million, in government bonds NIS 132 million, shares received as collateral NIS 39 million and corporate bonds received as collateral 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 10 - DERIVATIVE FINANCIAL INSTRUMENTS - VOLUME, CREDIT RISKS AND MATURITY DATES (CONT'D)

(NIS million)

### D. Maturity dates (stated value amounts): Balance on consolidated basis

| | June 30, 2021 (unaudited) | | | | |
|---|---|---|---|---|---|
| | Up to 3 months | from 3 months to 1 year | From 1 to 5 years | Over 5 years | Total |
| Interest rate contracts - | | | | | |
| - NIS - CPI | **-** | **-** | **267** | **-** | **267** |
| - Other | **2,817** | **2,097** | **9,635** | **3,533** | **18,082** |
| Foreign currency contracts | **60,434** | **13,270** | **947** | **-** | **74,651** |
| Contracts of shares | **64,951** | **5,029** | **210** | **-** | **70,190** |
| Commodities and other contracts | **82** | **23** | **-** | **-** | **105** |
| Total | **128,284** | **20,419** | **11,059** | **3,533** | **163,295** |

| | June 30, 2020 (unaudited) | | | | |
|---|---|---|---|---|---|
| | Up to 3 months | from 3 months to 1 year | From 1 to 5 years | Over 5 years | Total |
| Total | 110,035 | 31,902 | 11,285 | 3,696 | 156,918 |

| | December 31, 2020 (audited) | | | | |
|---|---|---|---|---|---|
| | 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 11 - SUPERVISORY SEGMENTS OF OPERATION

A. **Assignment of customers to the supervisory activity segments** - The reporting is in accordance with the format and classifications established in the Public Reporting Directives of the Banking Supervision Department, as detailed in the Annual Financial Statements for 2020.

## NOTE 11 - SUPERVISORY SEGMENTS OF OPERATION (CON'T)

(NIS million)

### B. Operational supervision segment information

| | For the three months ended June 30, 2021 (Unaudited) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Activity in Israel | | | | | | | | | |
| | Households | | | | | | | | | |
| | Total | Of which: Housing loans | Of which: credit cards | Private banking | Small and minute businesses | Medium businesses | Large businesses | Institutional entities | Financial Management | Total |
| | | | | | | | | | | (NIS million) |
| Interest income from external | 530 | 291 | 3 | 1 | 184 | 37 | 55 | 1 | 48 | 856 |
| Interest expense from external | 52 | - | - | 6 | 13 | 3 | 38 | 22 | 12 | 146 |
| Net interest income | | | | | | | | | | |
| - From external | 478 | 291 | 3 | (5) | 171 | 34 | 17 | (21) | 36 | 710 |
| - Inter - segment | (177) | (185) | (1) | 9 | (21) | 2 | 57 | 29 | 101 | - |
| Total net interest income | 301 | 106 | 2 | 4 | 150 | 36 | 74 | 8 | 137 | 710 |
| Non-interest income | 154 | 7 | 22 | 21 | 86 | 15 | 27 | 52 | 48 | 403 |
| Total income | 455 | 113 | 24 | 25 | 236 | 51 | 101 | 60 | 185 | 1,113 |
| Expenses (income) from credit losses | 4 | (5) | - | - | (58) | (19) | (55) | - | - | (128) |
| Operating and other expenses | 347 | 46 | 9 | 17 | 158 | 24 | 39 | 36 | 31 | 652 |
| Operating profit before taxes | 104 | 72 | 15 | 8 | 136 | 46 | 117 | 24 | 154 | 589 |
| Provision for taxes on operating profit | 37 | 25 | 5 | 3 | 48 | 16 | 41 | 9 | 54 | 208 |
| Operating profit after taxes | 67 | 47 | 10 | 5 | 88 | 30 | 76 | 15 | 100 | 381 |
| Bank's share in operating profit of investee company after tax effect | - | - | - | - | - | - | - | - | 23 | 23 |
| Net profit: | | | | | | | | | | |
| Before attribution to non-controlling interests | 67 | 47 | 10 | 5 | 88 | 30 | 76 | 15 | 123 | 404 |
| Attributed to non-controlling interests | (9) | - | (1) | - | (1) | (1) | (1) | - | (2) | (14) |
| Net profit attributed to shareholders of the Bank | 58 | 47 | 9 | 5 | 87 | 29 | 75 | 15 | 121 | 390 |
| Average balance of assets(1) | 50,550 | 29,757 | 2,767 | 59 | 18,846 | 5,460 | 16,683 | 1,055 | 78,115 | 170,768 |
| of which: Investee Company(1) | - | - | - | - | - | - | - | - | 664 | 664 |
| of which: Average balance of credit to the public(1) | 50,550 | 29,757 | 2,767 | 59 | 18,846 | 5,460 | 16,683 | 1,055 | - | 92,653 |
| Balance of credit to the public | 52,182 | (4)30,159 | 3,609 | 74 | 19,576 | 5,696 | 17,316 | 1,496 | - | 96,340 |
| Balance of impaired debts | 237 | 98 | - | - | 244 | 75 | 68 | - | - | 624 |
| Balance in arrears over 90 days | 196 | 178 | - | - | 16 | - | - | - | - | 212 |
| Average balance of liabilities(1) | 64,623 | 379 | 65 | 8,968 | 24,852 | 5,749 | 12,369 | 29,413 | 14,827 | 160,801 |
| of which: Average balance of deposits from the public(1) | 63,850 | - | - | 8,955 | 24,406 | 5,600 | 11,710 | 29,347 | - | 143,868 |
| Balance of deposits from the public | 64,272 | - | - | 9,047 | 24,661 | 5,764 | 12,085 | 30,447 | - | 146,276 |
| Average balance of risk assets(1)(2) | 33,732 | 15,923 | 3,169 | 220 | 17,981 | 6,210 | 17,589 | 1,516 | 8,195 | 85,443 |
| Balance of risk assets(2) | 34,091 | 16,139 | 3,810 | 228 | 18,504 | 6,350 | 17,161 | 1,526 | 8,358 | 86,218 |
| Average balance of assets under management(1)(3) | 37,493 | - | - | 22,030 | 18,677 | 3,402 | 18,897 | 329,049 | - | 429,548 |
| Segmentation of net interest income: | | | | | | | | | | |
| - Earnings from credit - granting activity | 274 | 108 | 2 | - | 144 | 36 | 72 | 2 | - | 528 |
| - Earnings from deposits - taking activity | 29 | - | - | 4 | 8 | 1 | 3 | 6 | - | 51 |
| - Other | (2) | (2) | - | - | (2) | (1) | (1) | - | 137 | 131 |
| Total net interest income | 301 | 106 | 2 | 4 | 150 | 36 | 74 | 8 | 137 | 710 |

(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 residential loans to private individuals, which their business activity is classified to the small and minute business segment amount to NIS 1,306 million.

## NOTE 11 - SUPERVISORY SEGMENTS OF OPERATION (CON'T)

(NIS million)

### B. Operational supervision segment information (CON'T)

| | For the three months ended June 30, 2020 (Unaudited) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Activity in Israel | | | | | | | | | |
| | Households | | | | | | | | | |
| | Total | Of which: Housing loans | Of which: credit cards | Private banking | Small and minute businesses | Medium businesses | Large businesses | Institutional entities | Financial Management | Total |
| | | | | | | | | | | (NIS million) |
| Interest income from external | 435 | 150 | 3 | 1 | 147 | 38 | 44 | 2 | 47 | 714 |
| Interest expense from external | 23 | - | - | 7 | 15 | 1 | - | 5 | 3 | 54 |
| Net interest income | | | | | | | | | | |
| - From external | 412 | 150 | 3 | (6) | 132 | 37 | 44 | (3) | 44 | 660 |
| - Inter - segment | (109) | (60) | - | 12 | 26 | 3 | 34 | 11 | 23 | - |
| Total net interest income | 303 | 90 | 3 | 6 | 158 | 40 | 78 | 8 | 67 | 660 |
| Non-interest income | 136 | 3 | 17 | 17 | 82 | 18 | 24 | 55 | 56 | 388 |
| Total income | 439 | 93 | 20 | 23 | 240 | 58 | 102 | 63 | 123 | 1,048 |
| Expenses from credit losses | 58 | 24 | - | - | 43 | 56 | 8 | - | - | 165 |
| Operating and other expenses | 328 | 40 | 12 | 16 | 151 | 25 | 37 | 40 | 20 | 617 |
| Operating profit (loss) before taxes | 53 | 29 | 8 | 7 | 46 | (23) | 57 | 23 | 103 | 266 |
| Provision for taxes (tax saving) on operating profit (loss) | 20 | 10 | 3 | 3 | 17 | (8) | 20 | 8 | 37 | 97 |
| Operating profit (loss) after taxes | 33 | 19 | 5 | 4 | 29 | (15) | 37 | 15 | 66 | 169 |
| Bank's share in operating profit of investee company after tax effect | - | - | - | - | - | - | - | - | 7 | 7 |
| Net profit (loss): | | | | | | | | | | |
| Before attribution to non-controlling interests | 33 | 19 | 5 | 4 | 29 | (15) | 37 | 15 | 73 | 176 |
| Attributed to non-controlling interests | (6) | - | (1) | - | (1) | - | - | - | (1) | (8) |
| Net profit (loss) attributed to shareholders of the Bank | 27 | 19 | 4 | 4 | 28 | (15) | 37 | 15 | 72 | 168 |
| Average balance of assets(1) | 46,865 | 26,644 | 2,430 | 43 | 17,553 | 5,783 | 18,290 | 1,283 | 61,156 | 150,973 |
| of which: Investee Company(1) | - | - | - | - | - | - | - | - | 608 | 608 |
| of which: Average balance of credit to the public(1) | 46,865 | 26,644 | 2,430 | 43 | 17,553 | 5,783 | 18,290 | 1,283 | - | 89,817 |
| Balance of credit to the public | 48,182 | (4)26,776 | 3,206 | 55 | 17,719 | 5,652 | 17,219 | 1,544 | - | 90,371 |
| Balance of impaired debts | 172 | 11 | - | - | 245 | 68 | 279 | - | - | 764 |
| Balance in arrears over 90 days | 242 | 221 | - | - | 30 | 3 | 23 | - | - | 298 |
| Average balance of liabilities(1) | 60,659 | 336 | 50 | 8,980 | 21,932 | 5,757 | 13,965 | 20,423 | 10,384 | 142,100 |
| of which: Average balance of deposits from the public(1) | 59,446 | - | - | 8,896 | 21,341 | 5,556 | 13,080 | 20,206 | - | 128,525 |
| Balance of deposits from the public | 60,152 | - | - | 9,109 | 21,070 | 5,512 | 11,233 | 22,084 | - | 129,160 |
| Average balance of risk assets(1)(2) | 32,040 | 14,628 | 2,944 | 190 | 17,779 | 6,760 | 17,748 | 1,243 | 7,273 | 83,033 |
| Balance of risk assets(2) | 32,080 | 14,728 | 3,522 | 211 | 17,414 | 6,493 | 17,896 | 1,241 | 7,625 | 82,960 |
| Average balance of assets under management(1)(3) | 31,788 | - | - | 16,079 | 16,288 | 3,499 | 10,971 | 229,336 | - | 307,961 |
| Segmentation of net interest income: | | | | | | | | | | |
| - Earnings from credit - granting activity | 267 | 91 | 3 | - | 148 | 39 | 76 | 3 | - | 533 |
| - Earnings from deposits - taking activity | 37 | - | - | 6 | 11 | 2 | 3 | 5 | - | 64 |
| - Other | (1) | (1) | - | - | (1) | (1) | (1) | - | 67 | 63 |
| Total net interest income | 303 | 90 | 3 | 6 | 158 | 40 | 78 | 8 | 67 | 660 |

(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 residential loans to private individuals, which their business activity is classified to the small and minute business segment amount to NIS 1,136 million.

## NOTE 11 - SUPERVISORY SEGMENTS OF OPERATION (CON'T)
(NIS million)

### B. Operational supervision segment information

| | For the six months ended June 30, 2021 (Unaudited) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Activity in Israel | | | | | | | | | |
| | Households | | | | | | | | | |
| | Total | Of which: Housing loans | Of which: credit cards | Private banking | Small and minute businesses | Medium businesses | Large businesses | Institutional entities | Financial Management | Total |
| | | | | | | | | | | (NIS million) |
| Interest income from external | 816 | 480 | 6 | 1 | 357 | 84 | 237 | 7 | 83 | 1,585 |
| Interest expense from external | 82 | - | - | 11 | 24 | 4 | 54 | 20 | 10 | 205 |
| Net interest income | | | | | | | | | | |
| - From external | 734 | 480 | 6 | (10) | 333 | 80 | 183 | (13) | 73 | 1,380 |
| - Inter - segment | (134) | (273) | (1) | 19 | (32) | (7) | (33) | 30 | 157 | - |
| Total net interest income | 600 | 207 | 5 | 9 | 301 | 73 | 150 | 17 | 230 | 1,380 |
| Non-interest income | 313 | 10 | 43 | 44 | 177 | 31 | 51 | 102 | 101 | 819 |
| Total income | 913 | 217 | 48 | 53 | 478 | 104 | 201 | 119 | 331 | 2,199 |
| Expenses (income) from credit losses | 8 | 2 | - | - | (54) | (25) | (65) | (1) | - | (137) |
| Operating and other expenses | 701 | 92 | 20 | 35 | 321 | 49 | 81 | 78 | 43 | 1,308 |
| Operating profit before taxes | 204 | 123 | 28 | 18 | 211 | 80 | 185 | 42 | 288 | 1,028 |
| Provision for taxes on operating profit | 72 | 43 | 10 | 6 | 74 | 28 | 65 | 15 | 101 | 361 |
| Operating profit after taxes | 132 | 80 | 18 | 12 | 137 | 52 | 120 | 27 | 187 | 667 |
| Bank's share in operating profit of investee company after tax effect | - | - | - | - | - | - | - | - | 36 | 36 |
| Net profit: | | | | | | | | | | |
| Before attribution to non-controlling interests | 132 | 80 | 18 | 12 | 137 | 52 | 120 | 27 | 223 | 703 |
| Attributed to non-controlling interests | (16) | - | (1) | - | (3) | (2) | (1) | - | (4) | (26) |
| Net profit attributed to shareholders of the Bank | 116 | 80 | 17 | 12 | 134 | 50 | 119 | 27 | 219 | 677 |
| Average balance of assets(1) | 49,843 | 29,252 | 2,701 | 58 | 18,592 | 5,457 | 17,062 | 1,095 | 78,031 | 170,138 |
| of which: Investee Company(1) | - | - | - | - | - | - | - | - | 653 | 653 |
| of which: Average balance of credit to the public(1) | 49,843 | 29,252 | 2,701 | 58 | 18,592 | 5,457 | 17,062 | 1,095 | - | 92,107 |
| Balance of credit to the public | 52,182 | (4)30,159 | 3,609 | 74 | 19,576 | 5,696 | 17,316 | 1,496 | - | 96,340 |
| Balance of impaired debts | 237 | 98 | - | - | 244 | 75 | 68 | - | - | 624 |
| Balance in arrears over 90 days | 196 | 178 | - | - | 16 | - | - | - | - | 212 |
| Average balance of liabilities(1) | 64,388 | 382 | 67 | 9,006 | 24,561 | 5,722 | 12,651 | 29,495 | 14,464 | 160,287 |
| of which: Average balance of deposits from the public(1) | 63,573 | - | - | 8,987 | 24,103 | 5,568 | 11,879 | 29,413 | - | 143,523 |
| Balance of deposits from the public | 64,272 | - | - | 9,047 | 24,661 | 5,764 | 12,085 | 30,447 | - | 146,276 |
| Average balance of risk assets(1)(2) | 33,400 | 15,697 | 3,130 | 224 | 17,617 | 6,190 | 17,800 | 1,507 | 7,930 | 84,668 |
| Balance of risk assets(2) | 34,091 | 16,139 | 3,810 | 228 | 18,504 | 6,350 | 17,161 | 1,526 | 8,358 | 86,218 |
| Average balance of assets under management(1)(3) | 36,698 | - | - | 21,375 | 17,977 | 3,453 | 17,074 | 321,010 | - | 417,587 |
| Segmentation of net interest income: | | | | | | | | | | |
| - Earnings from credit - granting activity | 544 | 210 | 5 | - | 288 | 71 | 147 | 5 | - | 1,055 |
| - Earnings from deposits - taking activity | 61 | - | - | 9 | 16 | 3 | 6 | 12 | - | 107 |
| - Other | (5) | (3) | - | - | (3) | (1) | (3) | - | 230 | 218 |
| Total net interest income | 600 | 207 | 5 | 9 | 301 | 73 | 150 | 17 | 230 | 1,380 |

(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 residential loans to private individuals, which their business activity is classified to the small and minute business segment amount to NIS 1,306 million.

## NOTE 11 - SUPERVISORY SEGMENTS OF OPERATION (CON'T)
(NIS million)

### B. Operational supervision segment information (CON'T)

| | For the six months ended June 30, 2020 (Unaudited) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Activity in Israel | | | | | | | | | |
| | Households | | | | | | | | | |
| | Total | Of which: Housing loans | Of which: credit cards | Private banking | Small and minute businesses | Medium businesses | Large businesses | Institutional entities | Financial Management | Total |
| | | | | | | | | | | (NIS million) |
| Interest income from external | 727 | 278 | 7 | 1 | 334 | 89 | 170 | 8 | 100 | 1,429 |
| Interest expense from external | 50 | - | - | 16 | 28 | 2 | 14 | 8 | (7) | 111 |
| Net interest income | | | | | | | | | | |
| - From external | 677 | 278 | 7 | (15) | 306 | 87 | 156 | - | 107 | 1,318 |
| - Inter - segment | (56) | (100) | (1) | 30 | 19 | (6) | (7) | 25 | (5) | - |
| Total net interest income | 621 | 178 | 6 | 15 | 325 | 81 | 149 | 25 | 102 | 1,318 |
| Non-interest income | 292 | 6 | 38 | 38 | 171 | 38 | 51 | 116 | 48 | 754 |
| Total income | 913 | 184 | 44 | 53 | 496 | 119 | 200 | 141 | 150 | 2,072 |
| Expenses from credit losses | 91 | 28 | - | - | 82 | 61 | 88 | - | - | 322 |
| Operating and other expenses | 681 | 80 | 25 | 33 | 305 | 50 | 74 | 86 | 25 | 1,254 |
| Operating profit before taxes | 141 | 76 | 19 | 20 | 109 | 8 | 38 | 55 | 125 | 496 |
| Provision for taxes (tax saving) on operating profit | 51 | 27 | 7 | 7 | 31 | (1) | 4 | 18 | 35 | 145 |
| Operating profit after taxes | 90 | 49 | 12 | 13 | 78 | 9 | 34 | 37 | 90 | 351 |
| Bank's share in operating profit of investee company after tax effect | - | - | - | - | - | - | - | - | 5 | 5 |
| Net profit: | | | | | | | | | | |
| Before attribution to non-controlling interests | 90 | 49 | 12 | 13 | 78 | 9 | 34 | 37 | 95 | 356 |
| Attributed to non-controlling interests | (12) | - | (1) | - | (2) | (1) | - | - | (2) | (17) |
| Net profit attributed to shareholders of the Bank | 78 | 49 | 11 | 13 | 76 | 8 | 34 | 37 | 93 | 339 |
| Average balance of assets(1) | 46,919 | 26,323 | 2,600 | 48 | 17,457 | 5,658 | 17,931 | 1,452 | 56,116 | 145,581 |
| of which: Investee Company(1) | - | - | - | - | - | - | - | - | 606 | 606 |
| of which: Average balance of credit to the public(1) | 46,919 | 26,323 | 2,600 | 48 | 17,457 | 5,658 | 17,931 | 1,452 | - | 89,465 |
| Balance of credit to the public | 48,182 | (4)26,776 | 3,206 | 55 | 17,719 | 5,652 | 17,219 | 1,544 | - | 90,371 |
| Balance of impaired debts | 172 | 11 | - | - | 245 | 68 | 279 | - | - | 764 |
| Balance in arrears over 90 days | 242 | 221 | - | - | 30 | 3 | 23 | - | - | 298 |
| Average balance of liabilities(1) | 57,202 | 346 | 60 | 8,415 | 20,990 | 5,597 | 13,754 | 21,231 | 9,464 | 136,653 |
| of which: Average balance of deposits from the public(1) | 56,111 | - | - | 8,349 | 20,429 | 5,403 | 12,876 | 21,044 | - | 124,212 |
| Balance of deposits from the public | 60,152 | - | - | 9,109 | 21,070 | 5,512 | 11,233 | 22,084 | - | 129,160 |
| Average balance of risk assets(1)(2) | 32,197 | 14,415 | 3,059 | 211 | 17,580 | 6,659 | 17,699 | 1,366 | 7,394 | 83,106 |
| Balance of risk assets(2) | 32,080 | 14,728 | 3,522 | 211 | 17,414 | 6,493 | 17,896 | 1,241 | 7,625 | 82,960 |
| Average balance of assets under management(1)(3) | 32,753 | - | - | 16,819 | 16,267 | 3,549 | 11,368 | 230,044 | - | 310,800 |
| Segmentation of net interest income: | | | | | | | | | | |
| - Earnings from credit - granting activity | 536 | 180 | 6 | - | 296 | 76 | 143 | 8 | - | 1,059 |
| - Earnings from deposits - taking activity | 88 | - | - | 15 | 31 | 6 | 8 | 17 | - | 165 |
| - Other | (3) | (2) | - | - | (2) | (1) | (2) | - | 102 | 94 |
| Total net interest income | 621 | 178 | 6 | 15 | 325 | 81 | 149 | 25 | 102 | 1,318 |

(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 residential loans to private individuals, which their business activity is classified to the small and minute business segment amount to NIS 1,136 million.

## NOTE 11 - SUPERVISORY SEGMENTS OF OPERATION (CON'T)

(NIS million)

### B. Operational supervision segment information (CON'T)

| | For the year ended December 31, 2020 (audited) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Activity in Israel | | | | | | | | | |
| | Households | | | | | | | | | |
| | Total | Of which: Housing loans | Of which: credit cards | Private banking | Small and minute businesses | Medium businesses | Large businesses | Institutional entities | Financial Management | Total |
| | | | | | | | | | | (NIS million) |
| Interest income from external | 1,646 | 633 | 14 | 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 | 633 | 14 | (22) | 625 | 148 | 195 | (22) | 172 | 2,637 |
| - Inter - segment | (323) | (265) | (2) | 46 | (2) | 7 | 109 | 61 | 102 | - |
| Total net interest income | 1,218 | 368 | 12 | 24 | 623 | 155 | 304 | 39 | 274 | 2,637 |
| Non-interest income | 586 | 13 | 82 | 77 | 344 | 71 | 100 | 212 | 133 | 1,523 |
| Total income | 1,804 | 381 | 94 | 101 | 967 | 226 | 404 | 251 | 407 | 4,160 |
| Expenses from credit losses | 117 | 41 | - | 1 | 162 | 84 | 98 | 2 | - | 464 |
| Operating and other expenses | 1,395 | 172 | 48 | 67 | 621 | 100 | 152 | 174 | 60 | 2,569 |
| Operating profit before taxes | 292 | 168 | 46 | 33 | 184 | 42 | 154 | 75 | 347 | 1,127 |
| Provision for taxes on operating profit | 105 | 60 | 16 | 11 | 58 | 11 | 44 | 26 | 113 | 368 |
| Operating profit after taxes | 187 | 108 | 30 | 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 | 108 | 30 | 22 | 126 | 31 | 110 | 49 | 263 | 788 |
| Attributed to non-controlling interests | (26) | - | (2) | - | (4) | (2) | (1) | - | (5) | (38) |
| Net profit attributed to shareholders of the Bank | 161 | 108 | 28 | 22 | 122 | 29 | 109 | 49 | 258 | 750 |
| Average balance of assets(1) | 47,443 | 26,964 | 2,626 | 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 | 26,964 | 2,626 | 50 | 17,827 | 5,592 | 17,425 | 1,405 | - | 89,742 |
| Balance of credit to the public | 49,687 | (4)28,336 | 3,462 | 70 | 18,876 | 5,385 | 16,724 | 1,505 | - | 92,247 |
| Balance of impaired debts | 190 | 36 | - | - | 231 | 78 | 78 | - | - | 577 |
| Balance in arrears over 90 days | 174 | 156 | - | - | 36 | - | 7 | - | - | 217 |
| Average balance of liabilities(1) | 60,059 | 365 | 67 | 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 | 14,517 | 3,085 | 207 | 17,441 | 6,564 | 17,761 | 1,606 | 7,321 | 83,293 |
| Balance of risk assets(2) | 32,960 | 15,187 | 3,729 | 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 | 374 | 12 | - | 582 | 148 | 296 | 14 | - | 2,113 |
| - Earnings from deposits - taking activity | 156 | - | - | 24 | 47 | 9 | 14 | 26 | - | 276 |
| - Other | (11) | (6) | - | - | (6) | (2) | (6) | (1) | 274 | 248 |
| Total net interest income | 1,218 | 368 | 12 | 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 residential loans to private individuals, which their business activity is classified to the small and minute business segment amount to NIS 1,253 million.

## NOTE 11A - ACTIVITY SEGMENTS BASED ON MANAGEMENT'S APROACH

The division into segments of activity according to the management approach is based on types of products and services or on types of customers. The chief operating decision maker of the Bank uses this division to make decisions and to analyze the Group's business results. For details regarding the assignment of customers to segments based on the management approach and rules for the distribution of results of operations among the segments, see Note 28A to the Annual Financial Statements for 2020.

| | | | Banking Division | | | Corporate Division | |
|---|---|---|---|---|---|---|---|
| | Housing loans | Households | Private banking | Other | Corporate customers | Commercial customers | Other |
| Net interest income | **107** | **131** | **36** | **99** | **110** | **64** | **11** |
| Non-interest income | **7** | **56** | **114** | **53** | **47** | **20** | **14** |
| Total income | **114** | **187** | **150** | **152** | **157** | **84** | **25** |
| Expenses (income) in respect of credit losses | **(6)** | **1** | **1** | **(30)** | **(75)** | **(21)** | **(1)** |
| Operating and other expenses | **48** | **169** | **131** | **110** | **67** | **42** | **8** |
| Operating profit before taxes | **72** | **17** | **18** | **72** | **165** | **63** | **18** |
| Provision for taxes on operating profit | **25** | **6** | **7** | **25** | **58** | **22** | **6** |
| Operating profit after taxes | **47** | **11** | **11** | **47** | **107** | **41** | **12** |
| Bank's share in operating profit of investee company after taxes | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Net profit** | | | | | | | |
| Before attribution to non-controlling interests | **47** | **11** | **11** | **47** | **107** | **41** | **12** |
| Attributed to non-controlling interests | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| Attributed to shareholders of the Bank | **47** | **11** | **11** | **47** | **107** | **41** | **12** |
| Average balance of assets(1) | **29,518** | **14,808** | **4,177** | **10,381** | **22,776** | **9,424** | **1,353** |
| Balance of credit to the public at the end of the reported period | **29,921** | **15,385** | **4,520** | **11,533** | **24,417** | **9,722** | **1,188** |
| Balance of deposits from the public at the end of the reported period | **-** | **29,605** | **40,334** | **19,971** | **22,210** | **7,421** | **26,968** |

| | | | Banking Division | | | Corporate Division | |
|---|---|---|---|---|---|---|---|
| | Housing loans | Households | Private banking | Other | Corporate customers | Commercial customers | Other |
| Net interest income | 92 | 139 | 44 | 105 | 122 | 67 | 10 |
| Non-interest income | 3 | 45 | 106 | 48 | 58 | 19 | 4 |
| Total income | 95 | 184 | 150 | 153 | 180 | 86 | 14 |
| Expenses in respect of credit losses | 24 | 30 | 9 | 61 | 13 | 45 | 5 |
| Operating and other expenses | 41 | 163 | 131 | 107 | 74 | 41 | 7 |
| Operating profit (loss) before taxes | 30 | (9) | 10 | (15) | 93 | - | 2 |
| Provision for taxes (tax savings) on operating profit (loss) | 10 | (3) | 3 | (6) | 35 | 1 | 1 |
| Operating profit (loss) after taxes | 20 | (6) | 7 | (9) | 58 | (1) | 1 |
| Bank's share in operating profit of investee company after taxes | - | - | - | - | - | - | - |
| **Net profit (loss)** | | | | | | | |
| Before attribution to non-controlling interests | 20 | (6) | 7 | (9) | 58 | (1) | 1 |
| Attributed to non-controlling interests | - | - | - | - | - | - | - |
| Attributed to shareholders of the Bank | 20 | (6) | 7 | (9) | 58 | (1) | 1 |
| Average balance of assets(1) | 26,439 | 14,633 | 3,787 | 9,709 | 25,140 | 9,302 | 1,046 |
| Balance of credit to the public at the end of the reported period | 26,579 | 15,317 | 4,060 | 10,765 | 23,624 | 9,401 | 953 |
| Balance of deposits from the public at the end of the reported period | - | 25,103 | 40,825 | 18,210 | 23,545 | 6,136 | 16,212 |

(1) Average balance calculated on the basis of balances at the beginning of the quarter or the beginning of the month.

| | For the three months ended June 30, 2021 (unaudited) | | | | | |
|---|---|---|---|---|---|---|
| | | | | Adjustments | | |
| | Customer Asset Division | Financial management | Subsidiary companies | Total | Of which: operation in the capital market products | Total |
| | **55** | **128** | **63** | **(94)** | **(55)** | **710** |
| | **220** | **49** | **24** | **(201)** | **(171)** | **403** |
| | **275** | **177** | **87** | **(295)** | **(226)** | **1,113** |
| | **(3)** | **-** | **(3)** | **9** | **3** | **(128)** |
| | **196** | **31** | **46** | **(196)** | **(156)** | **652** |
| | **82** | **146** | **44** | **(108)** | **(73)** | **589** |
| | **29** | **52** | **16** | **(38)** | **(26)** | **208** |
| | **53** | **94** | **28** | **(70)** | **(47)** | **381** |
| | **-** | **23** | **-** | **-** | **-** | **23** |
| | **53** | **117** | **28** | **(70)** | **(47)** | **404** |
| | **-** | **-** | **(14)** | **-** | **-** | **(14)** |
| | **53** | **117** | **14** | **(70)** | **(47)** | **390** |
| | **5,826** | **75,340** | **8,948** | **(11,783)** | **(5,826)** | **170,768** |
| | **6,092** | **-** | **5,481** | **(11,969)** | **(6,092)** | **96,340** |
| | **139,769** | **-** | **8,824** | **(148,826)** | **(139,769)** | **146,276** |

| | For the three months ended June 30, 2020 (unaudited) | | | | | |
|---|---|---|---|---|---|---|
| | | | | Adjustments | | |
| | Customer Asset Division | Financial management | Subsidiary companies | Total | Of which: operation in the capital market products | Total |
| | 68 | 61 | 61 | (109) | (68) | 660 |
| | 213 | 61 | 19 | (188) | (170) | 388 |
| | 281 | 122 | 80 | (297) | (238) | 1,048 |
| | 5 | - | 7 | (34) | (5) | 165 |
| | 200 | 19 | 45 | (211) | (171) | 617 |
| | 76 | 103 | 28 | (52) | (62) | 266 |
| | 27 | 36 | 10 | (17) | (19) | 97 |
| | 49 | 67 | 18 | (35) | (43) | 169 |
| | - | 7 | - | - | - | 7 |
| | 49 | 74 | 18 | (35) | (43) | 176 |
| | - | - | (8) | - | - | (8) |
| | 49 | 74 | 10 | (35) | (43) | 168 |
| | 4,912 | 59,261 | 8,400 | (11,656) | (4,912) | 150,973 |
| | 4,852 | - | 5,059 | (10,239) | (4,852) | 90,371 |
| | 124,007 | - | 7,890 | (132,768) | (124,007) | 129,160 |

# NOTE 11A - ACTIVITY SEGMENTS BASED ON MANAGEMENT'S APROACH

| | Banking Division | | | | Corporate Division | | |
|---|---|---|---|---|---|---|---|
| | **Housing loans** | **Households** | **Private banking** | **Other** | **Corporate customers** | **Commercial customers** | **Other** |
| Net interest income | **209** | **261** | **75** | **199** | **225** | **129** | **21** |
| Non-interest income | **10** | **111** | **240** | **105** | **104** | **40** | **18** |
| Total income | **219** | **372** | **315** | **304** | **329** | **169** | **39** |
| Expenses (income) in respect of credit losses | **1** | **2** | **2** | **(26)** | **(91)** | **(18)** | **(1)** |
| Operating and other expenses | **95** | **341** | **268** | **223** | **145** | **87** | **14** |
| Operating profit before taxes | **123** | **29** | **45** | **107** | **275** | **100** | **26** |
| Provision for taxes on operating profit | **43** | **10** | **16** | **37** | **96** | **35** | **9** |
| Operating profit after taxes | **80** | **19** | **29** | **70** | **179** | **65** | **17** |
| Bank's share in operating profit of investee company after taxes | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Net profit** | | | | | | | |
| Before attribution to non-controlling interests | **80** | **19** | **29** | **70** | **179** | **65** | **17** |
| Attributed to non-controlling interests | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| Attributed to shareholders of the Bank | **80** | **19** | **29** | **70** | **179** | **65** | **17** |
| Average balance of assets(1) | **29,018** | **14,675** | **4,098** | **10,264** | **23,441** | **9,363** | **1,033** |
| Balance of credit to the public at the end of the reported period | **29,921** | **15,385** | **4,520** | **11,533** | **24,417** | **9,722** | **1,188** |
| Balance of deposits from the public at the end of the reported period | **-** | **29,605** | **40,334** | **19,971** | **22,210** | **7,421** | **26,968** |

| | Banking Division | | | | Corporate Division | | |
|---|---|---|---|---|---|---|---|
| | **Housing loans** | **Households** | **Private banking** | **Other** | **Corporate customers** | **Commercial customers** | **Other** |
| Net interest income | 182 | 285 | 101 | 217 | 238 | 137 | 27 |
| Non-interest income | 6 | 101 | 221 | 105 | 123 | 41 | 10 |
| Total income | 188 | 386 | 322 | 322 | 361 | 178 | 37 |
| Expenses in respect of credit losses | 27 | 54 | 12 | 77 | 110 | 57 | 4 |
| Operating and other expenses | 83 | 334 | 271 | 218 | 146 | 82 | 14 |
| Operating profit (loss) before taxes | 78 | (2) | 39 | 27 | 105 | 39 | 19 |
| Provision for taxes (tax saving) on operating profit (loss) | 20 | (2) | 9 | 3 | 35 | 8 | 4 |
| Operating profit after taxes | 58 | - | 30 | 24 | 70 | 31 | 15 |
| Bank's share in operating profit of investee company after taxes | - | - | - | - | - | - | - |
| **Net profit** | | | | | | | |
| Before attribution to non-controlling interests | 58 | - | 30 | 24 | 70 | 31 | 15 |
| Attributed to non-controlling interests | - | - | - | - | - | - | - |
| Attributed to shareholders of the Bank | 58 | - | 30 | 24 | 70 | 31 | 15 |
| Average balance of assets(1) | 26,130 | 14,743 | 3,931 | 9,685 | 24,734 | 9,242 | 1,180 |
| Balance of credit to the public at the end of the reported period | 26,579 | 15,317 | 4,060 | 10,765 | 23,624 | 9,401 | 953 |
| Balance of deposits from the public at the end of the reported period | - | 25,103 | 40,825 | 18,210 | 23,545 | 6,136 | 16,212 |

(1) Average balance calculated on the basis of balances at the beginning of the quarter or the beginning of the month.

| For the six months ended June 30, 2021 (unaudited) | | | | | |
|---|---|---|---|---|---|
| | | | Adjustments | | |
| Customer Asset Division | Financial management | Subsidiary companies | Total | Of which: operation in the capital market products | Total |
| **115** | **218** | **123** | **(195)** | **(115)** | **1,380** |
| **460** | **100** | **47** | **(416)** | **(367)** | **819** |
| **575** | **318** | **170** | **(611)** | **(482)** | **2,199** |
| **(2)** | **-** | **(5)** | **1** | **2** | **(137)** |
| **401** | **42** | **94** | **(402)** | **(328)** | **1,308** |
| **176** | **276** | **81** | **(210)** | **(156)** | **1,028** |
| **62** | **97** | **29** | **(73)** | **(55)** | **361** |
| **114** | **179** | **52** | **(137)** | **(101)** | **667** |
| **-** | **36** | **-** | **-** | **-** | **36** |
| **114** | **215** | **52** | **(137)** | **(101)** | **703** |
| **-** | **-** | **(26)** | **-** | **-** | **(26)** |
| **114** | **215** | **26** | **(137)** | **(101)** | **677** |
| **5,691** | **75,421** | **8,732** | **(11,598)** | **(5,691)** | **170,138** |
| **6,092** | **-** | **5,481** | **(11,969)** | **(6,092)** | **96,340** |
| **139,769** | **-** | **8,824** | **(148,826)** | **(139,769)** | **146,276** |

| For the six months ended June 30, 2020 (unaudited) | | | | | |
|---|---|---|---|---|---|
| | | | Adjustments | | |
| Customer Asset Division | Financial management | Subsidiary companies | Total | Of which: operation in the capital market products | Total |
| 175 | 92 | 122 | (258) | (175) | 1,318 |
| 453 | 54 | 41 | (401) | (359) | 754 |
| 628 | 146 | 163 | (659) | (534) | 2,072 |
| 2 | - | 15 | (36) | (2) | 322 |
| 410 | 24 | 91 | (419) | (343) | 1,254 |
| 216 | 122 | 57 | (204) | (189) | 496 |
| 55 | 40 | 21 | (48) | (45) | 145 |
| 161 | 82 | 36 | (156) | (144) | 351 |
| - | 5 | - | - | - | 5 |
| 161 | 87 | 36 | (156) | (144) | 356 |
| - | - | (17) | - | - | (17) |
| 161 | 87 | 19 | (156) | (144) | 339 |
| 5,462 | 54,001 | 7,858 | (11,385) | (5,462) | 145,581 |
| 4,852 | - | 5,059 | (10,239) | (4,852) | 90,371 |
| 124,007 | - | 7,890 | (132,768) | (124,007) | 129,160 |

## NOTE 11A - ACTIVITY SEGMENTS BASED ON MANAGEMENT'S APROACH (CON'T)
(NIS million)

| | 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 in respect of 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 after taxes | - | - | - | - | - | - | - |
| **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 balance calculated on the basis of balances at the beginning of the quarter or the beginning of the month.

| | | | | | | |
|---|---|---|---|---|---|---|
| | For the year ended December 31, 2020 (audited) | | | | | |
| | | | | Adjustments | | |
| | Customer Asset Division | Financial management | Subsidiary companies | Total | Of which: operation in the capital market products | Total |
| | 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 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES

(NIS million)

## A. Debts(1) and off-balance sheet credit instruments

### Provision for credit losses

### 1. Change in provision for credit losses

| | For the three months ended June 30, 2021 (unaudited) | | | | | |
|---|---|---|---|---|---|---|
| | 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 the period | **782** | **171** | **307** | **1,260** | **-** | **1,260** |
| Expenses (income) in respect of credit losses | **(124)** | **(5)** | **10** | **(119)** | **-** | **(119)** |
| - Accounting write-offs | **(18)** | **(1)** | **(22)** | **(41)** | **-** | **(41)** |
| - Collection of debts written off in accounting in previous years | **26** | **-** | **23** | **49** | **-** | **49** |
| Net accounting write-offs | **8** | **(1)** | **1** | **8** | **-** | **8** |
| Provision for credit losses at end of the period | **666** | **165** | **318** | **1,149** | **-** | **1,149** |
| **Changes in provision in respect of off-balance sheet credit instruments** | | | | | | |
| Provision at beginning of the period | **75** | **-** | **13** | **88** | **-** | **88** |
| Decrease in the provision | **(8)** | **-** | **(1)** | **(9)** | **-** | **(9)** |
| Provision in respect of off-balance sheet credit instruments at end of the period | **67** | **-** | **12** | **79** | **-** | **79** |
| **Total provision for credit losses - debts and off-balance sheet credit instruments** | **733** | **165** | **330** | **1,228** | **-** | **1,228** |

| | For the three months ended June 30, 2020 (unaudited) | | | | | |
|---|---|---|---|---|---|---|
| | 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 the period | 637 | 126 | 284 | 1,047 | - | 1,047 |
| Expenses in respect of credit losses | 98 | 24 | 34 | 156 | - | 156 |
| - Accounting write-offs | (40) | - | (39) | (79) | - | (79) |
| - Collection of debts written off in accounting in previous years | 11 | - | 21 | 32 | - | 32 |
| Net accounting write-offs | (29) | - | (18) | (47) | - | (47) |
| Provision for credit losses at end of the period | 706 | 150 | 300 | 1,156 | - | 1,156 |
| **Changes in provision in respect of off-balance sheet credit instruments** | | | | | | |
| Provision at beginning of the period | 52 | - | 12 | 64 | - | 64 |
| Increase in the provision | 9 | - | - | 9 | - | 9 |
| Provision in respect of off-balance sheet credit instruments at end of the period | 61 | - | 12 | 73 | - | 73 |
| **Total provision for credit losses - debts and off-balance sheet credit instruments** | 767 | 150 | 312 | 1,229 | - | 1,229 |

(1) Credit to the public, credit to governments, deposits with banks and other debts, excluding bonds and securities borrowed.

# NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

## A. Debts[1] and off-balance sheet credit instruments (Cont'd)

### Provision for credit losses (Cont'd)

### 1. Change in provision for credit losses (Cont'd)

| | For the six months ended June 30, 2021 (unaudited) | | | | | |
|---|---|---|---|---|---|---|
| | 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 the year | **809** | **164** | **304** | **1,277** | **-** | **1,277** |
| Expenses (income) in respect of credit losses | **(140)** | **2** | **8** | **(130)** | **-** | **(130)** |
| Accounting write-offs | **(44)** | **(1)** | **(41)** | **(86)** | **-** | **(86)** |
| Collection of debts written off in accounting in previous years | **41** | **-** | **47** | **88** | **-** | **88** |
| Net accounting write-offs | **(3)** | **(1)** | **6** | **2** | **-** | **2** |
| Provision for credit losses at end of the period | **666** | **165** | **318** | **1,149** | **-** | **1,149** |
| **Changes in provision in respect of off-balance sheet credit instruments** | | | | | | |
| Provision at beginning of the year | **72** | **-** | **14** | **86** | **-** | **86** |
| Decrease in the provision | **(5)** | **-** | **(2)** | **(7)** | **-** | **(7)** |
| Provision in respect of off-balance sheet credit instruments at end of the period | **67** | **-** | **12** | **79** | **-** | **79** |
| **Total provision for credit losses - debts and off-balance sheet credit instruments** | **733** | **165** | **330** | **1,228** | **-** | **1,228** |

| | For the six months ended June 30, 2020 (unaudited) | | | | | |
|---|---|---|---|---|---|---|
| | 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 the year | 545 | 121 | 264 | 930 | - | 930 |
| Expenses in respect of credit losses | 216 | 28 | 62 | 306 | - | 306 |
| Accounting write-offs | (85) | - | (70) | (155) | - | (155) |
| Collection of debts written off in accounting in previous years | 30 | 1 | 44 | 75 | - | 75 |
| Net accounting write-offs | (55) | 1 | (26) | (80) | - | (80) |
| Provision for credit losses at end of the period | 706 | 150 | 300 | 1,156 | - | 1,156 |
| **Changes in provision in respect of off-balance sheet credit instruments** | | | | | | |
| Provision at beginning of the year | 46 | - | 11 | 57 | - | 57 |
| Increase in the provision | 15 | - | 1 | 16 | - | 16 |
| Provision in respect of off-balance sheet credit instruments at end of the period | 61 | - | 12 | 73 | - | 73 |
| **Total provision for credit losses - debts and off-balance sheet credit instruments** | 767 | 150 | 312 | 1,229 | - | 1,229 |

(1) Credit to the public, credit to governments, deposits with banks and other debts, excluding bonds and securities borrowed.

## NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

### A. Debts* and off-balance sheet credit instruments (Cont'd)

### 2. Additional information regarding the method of calculating the provision for credit losses in respect of debts(1) and the underlying debts(1)

| | June 30, 2021 (unaudited) | | | | | |
|---|---|---|---|---|---|---|
| | Credit to the public | | | | | |
| | Commercial (3) | Housing | Other private | Total | Banks and Governments | Total |
| **Recorded debt balance of debts** | | | | | | |
| Examined on an individual basis | **37,992** | **-** | **406** | **38,398** | **2,950** | **41,348** |
| Examined on a collective basis | **6,156** | **30,159** | **21,627** | **57,942** | **-** | **57,942** |
| Of which: provision for which was calculated according to the extent of arrears | **64** | **30,150** | **-** | **30,214** | **-** | **30,214** |
| Total debts | **44,148** | **30,159** | **22,033** | **96,340** | **2,950** | **99,290** |
| **Provision for credit losses in respect of debts** | | | | | | |
| Examined on an individual basis | **580** | **-** | **36** | **616** | **-** | **616** |
| Examined on a collective basis | **86** | **165** | **282** | **533** | **-** | **533** |
| Of which: provision for which was calculated according to the extent of arrears | **-** | (2)**165** | **-** | **165** | **-** | **165** |
| Total provision for credit losses | **666** | **165** | **318** | **1,149** | **-** | **1,149** |

| | June 30, 2020 (unaudited) | | | | | |
|---|---|---|---|---|---|---|
| | Credit to the public | | | | | |
| | Commercial (3) | Housing | Other private | Total | Banks and Governments | Total |
| **Recorded debt balance of debts** | | | | | | |
| Examined on an individual basis | 36,641 | - | 387 | 37,028 | 3,749 | 40,777 |
| Examined on a collective basis | 5,658 | 26,776 | 20,909 | 53,343 | - | 53,343 |
| Of which: provision for which was calculated according to the extent of arrears | 165 | 26,759 | - | 26,924 | - | 26,924 |
| Total debts | 42,299 | 26,776 | 21,296 | 90,371 | 3,749 | 94,120 |
| **Provision for credit losses in respect of debts** | | | | | | |
| Examined on an individual basis | 625 | - | 43 | 668 | - | 668 |
| Examined on a collective basis | 81 | 150 | 257 | 488 | - | 488 |
| Of which: provision for which was calculated according to the extent of arrears | 2 | (2)150 | - | 152 | - | 152 |
| Total provision for credit losses | 706 | 150 | 300 | 1,156 | - | 1,156 |

## NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

### A. Debts* and off-balance sheet credit instruments (Cont'd)

### 2. Additional information regarding the method of calculating the provision for credit losses in respect of debts(1) and the underlying debts(1) (Cont'd)

| | December 31, 2020 (audited) | | | | | |
|---|---|---|---|---|---|---|
| | Credit to the public | | | | | |
| | Commercial (3) | Housing | Other private | Total | Banks and Governments | Total |
| **Recorded debt 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 approximately NIS 129 million (30.6.20 - NIS 111 million, 31.12.20 - NIS 124 million).

(3) The balance of commercial debts includes housing loans in the amount of NIS 3,101 million, combined in the framework of transaction and collateral of the commercial borrowers or that have been granted to purchase groups at construction stages (30.6.20 - NIS 2,883 million, 31.12.20 - NIS 3,009 million).

# NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

## B. Debts(1)

### 1. Credit quality and arrears

| | | | | | | June 30, 2021 (unaudited) |
|---|---|---|---|---|---|---|
| | | Problematic(2) | | | Unimpaired debts - additional information | |
| | Non-problematic | Unimpaired | Impaired (3) | Total | In arrears of 90 days or more(4) | In arrears of 30 to 89 days(5) |
| **Borrower activity in Israel** | | | | | | |
| **Public - commercial** | | | | | | |
| Construction and real estate - construction | **6,370** | **83** | **41** | **6,494** | **5** | **3** |
| Construction and real estate - real estate activities | **5,492** | **9** | **48** | **5,549** | **1** | **1** |
| Financial services | **8,126** | **9** | **7** | **8,142** | **1** | **-** |
| Commercial - other | **22,268** | **760** | **291** | **23,319** | **9** | **19** |
| **Total commercial** | **42,256** | **861** | **387** | **43,504** | **16** | **23** |
| Private individuals - housing loans | **29,816** | (6)**245** | **98** | **30,159** | **178** | **156** |
| Private individuals - others | **21,771** | **123** | **139** | **22,033** | **18** | **25** |
| **Total public - activity in Israel** | **93,843** | **1,229** | **624** | **95,696** | **212** | **204** |
| Banks in Israel | **1,188** | **-** | **-** | **1,188** | **-** | **-** |
| Israeli government | **101** | **-** | **-** | **101** | **-** | **-** |
| **Total activity in Israel** | **95,132** | **1,229** | **624** | **96,985** | **212** | **204** |
| **Borrower activity abroad** | | | | | | |
| **Public - commercial** | | | | | | |
| Construction and real estate | **16** | **-** | **-** | **16** | **-** | **-** |
| Other commercial | **625** | **3** | **-** | **628** | **-** | **5** |
| **Total commercial** | **641** | **3** | **-** | **644** | **-** | **5** |
| Private individuals | **-** | **-** | **-** | **-** | **-** | **-** |
| **Total public - activity abroad** | **641** | **3** | **-** | **644** | **-** | **5** |
| Banks abroad | **1,661** | **-** | **-** | **1,661** | **-** | **-** |
| Governments abroad | **-** | **-** | **-** | **-** | **-** | **-** |
| **Total activity abroad** | **2,302** | **3** | **-** | **2,305** | **-** | **5** |
| **Total public** | **94,484** | **1,232** | **624** | **96,340** | **212** | **209** |
| **Total banks** | **2,849** | **-** | **-** | **2,849** | **-** | **-** |
| **Total governments** | **101** | **-** | **-** | **101** | **-** | **-** |
| **Total** | **97,434** | **1,232** | **624** | **99,290** | **212** | **209** |

(1) Credit to the public, credit to government, 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 troubled debt restructuring, see Note 12.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 approximately NIS 83 million (30.6.20 - NIS 67 million) were classified as unimpaired problematic debts.
(6) Includes a balance of housing loans, in the amount of approximately NIS 13 million (30.6.20 - 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 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

### B. Debts(1) (Cont'd)

### 1. Credit quality and arrears (Cont'd)

| | June 30, 2020 (unaudited) | | | | | |
|---|---|---|---|---|---|---|
| | | Problematic(2) | | | Unimpaired debts - additional information | |
| | Non-problematic | Unimpaired | Impaired (3) | Total | In arrears of 90 days or more(4) | In arrears of 30 to 89 days(5) |
| **Borrower activity in Israel** | | | | | | |
| **Public - commercial** | | | | | | |
| Construction and real estate - construction | 5,522 | 41 | 27 | 5,590 | 13 | 11 |
| Construction and real estate - real estate activities | 5,865 | 7 | 41 | 5,913 | 1 | 2 |
| Financial services | 6,567 | 3 | 6 | 6,576 | 2 | 28 |
| Commercial - other | 22,626 | 578 | 510 | 23,714 | 40 | 35 |
| **Total commercial** | 40,580 | 629 | 584 | 41,793 | 56 | 76 |
| Private individuals - housing loans | 26,515 | (6)250 | 11 | 26,776 | 221 | 154 |
| Private individuals - others | 20,999 | 136 | 161 | 21,296 | 21 | 41 |
| **Total public - activity in Israel** | 88,094 | 1,015 | 756 | 89,865 | 298 | 271 |
| Banks in Israel | 1,014 | - | - | 1,014 | - | - |
| Israeli government | 852 | - | - | 852 | - | - |
| **Total activity in Israel** | 89,960 | 1,015 | 756 | 91,731 | 298 | 271 |
| **Borrower activity abroad** | | | | | | |
| **Public - commercial** | | | | | | |
| Construction and real estate | 13 | - | 8 | 21 | - | - |
| Other commercial | 485 | - | - | 485 | - | - |
| **Total commercial** | 498 | - | 8 | 506 | - | - |
| Private individuals | - | - | - | - | - | - |
| **Total public - activity abroad** | 498 | - | 8 | 506 | - | - |
| Banks abroad | 1,883 | - | - | 1,883 | - | - |
| Governments abroad | - | - | - | - | - | - |
| **Total activity abroad** | 2,381 | - | 8 | 2,389 | - | - |
| **Total public** | 88,592 | 1,015 | 764 | 90,371 | 298 | 271 |
| **Total banks** | 2,897 | - | - | 2,897 | - | - |
| **Total governments** | 852 | - | - | 852 | - | - |
| **Total** | 92,341 | 1,015 | 764 | 94,120 | 298 | 271 |

# NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

## B.Debts(1) (Cont'd)

### 1. Credit quality and arrears (Cont'd)

| | December 31, 2020 (audited) | | | | | |
|---|---|---|---|---|---|---|
| | | Problematic(2) | | | Unimpaired debts - additional information | |
| | Non-problematic | Unimpaired | Impaired (3) | Total | In arrears of 90 days or more(4) | In arrears of 30 to 89 days(5) |
| **Borrower activity in Israel** | | | | | | |
| **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 |

(1) Credit to the public, credit to government, deposits with banks and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.
(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 troubled debt restructuring, see Note 12.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 approximately NIS 83 million were classified as unimpaired problematic debts.
(6) Includes a balance of housing loans, in the amount of approximately 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.

(NIS million)

## B.Debts[1] (Cont'd)

### 1. Credit quality and arrears (Cont'd)

### 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 nonperforming debts (debts not accruing interest income) 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. It is noted, the in light of Bank of Israel instructions dated April 21, 2020 and as part of the efforts to assist borrowers in difficulties, debt arrangements which were made as a result of the Corona event and in order to stabilize borrowers which are not in arrears, in which the terms of the debt were changed, specifically the original repayment dates were postponed, were not taken into account when determining the default status or the classification of the debts.

## NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

### B. Debts (1)(Cont'd)

### 2. Additional information regarding impaired debts

| | June 30, 2021 (unaudited) | | | | |
|---|---|---|---|---|---|
| A. Impaired debts and the individual provision | Balance(2) of impaired debts for which an individual provision exists(3) | 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 | 34 | 6 | 7 | 41 | 777 |
| Construction and real estate - real estate activities | 33 | 6 | 15 | 48 | 1,043 |
| Financial services | 7 | 2 | - | 7 | 1,292 |
| Commercial - other | 261 | 131 | 30 | 291 | 1,951 |
| **Total commercial** | 335 | 145 | 52 | 387 | 5,063 |
| Private individuals - housing loans | - | - | 98 | 98 | 99 |
| Private individuals - others | 126 | 33 | 13 | 139 | 265 |
| **Total public - activity in Israel** | 461 | 178 | 163 | 624 | 5,427 |
| Banks in Israel | - | - | - | - | - |
| Israeli government | - | - | - | - | - |
| **Total activity in Israel** | 461 | 178 | 163 | 624 | 5,427 |
| **Borrower activity abroad** | | | | | |
| **Public - commercial** | | | | | |
| Construction and real estate | - | - | - | - | 7 |
| Other commercial | - | - | - | - | 15 |
| **Total commercial** | - | - | - | - | 22 |
| Private individuals | - | - | - | - | - |
| **Total public - activity abroad** | - | - | - | - | 22 |
| Banks abroad | - | - | - | - | - |
| Government abroad | - | - | - | - | - |
| **Total activity abroad** | - | - | - | - | 22 |
| **Total public** | 461 | 178 | 163 | 624 | 5,449 |
| **Total banks** | - | - | - | - | - |
| **Total governments** | - | - | - | - | - |
| **Total(*)** | 461 | 178 | 163 | 624 | 5,449 |
| (*) Of which: | | | | | |
| Measured at the present value of cash flows | 454 | 177 | 42 | 496 | |
| Debts in troubled debt restructuring | 173 | 45 | 33 | 206 | |

(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 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

## B. Debts(1) (Cont'd)

### 2. Additional information regarding impaired debts (Cont'd)

| | June 30, 2020 (unaudited) | | | | |
|---|---|---|---|---|---|
| A. Impaired debts and the individual provision | Balance(2) of impaired debts for which an individual provision exists(3) | 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 | 18 | 8 | 9 | 27 | 883 |
| Construction and real estate - real estate activities | 29 | 4 | 12 | 41 | 895 |
| Financial services | 5 | - | 1 | 6 | 1,118 |
| Commercial - other | 485 | 174 | 25 | 510 | 2,169 |
| **Total commercial** | 537 | 186 | 47 | 584 | 5,065 |
| Private individuals - housing loans | - | - | 11 | 11 | 13 |
| Private individuals - others | 146 | 40 | 15 | 161 | 275 |
| **Total public - activity in Israel** | 683 | 226 | 73 | 756 | 5,353 |
| Banks in Israel | - | - | - | - | - |
| Israeli government | - | - | - | - | - |
| **Total activity in Israel** | 683 | 226 | 73 | 756 | 5,353 |
| **Borrower activity abroad** | | | | | |
| **Public - commercial** | | | | | |
| Construction and real estate | - | - | 8 | 8 | 8 |
| Other commercial | - | - | - | - | 14 |
| **Total commercial** | - | - | 8 | 8 | 22 |
| Private individuals | - | - | - | - | - |
| **Total public - activity abroad** | - | - | 8 | 8 | 22 |
| Banks abroad | - | - | - | - | - |
| Government abroad | - | - | - | - | - |
| **Total activity abroad** | - | - | 8 | 8 | 22 |
| **Total public** | 683 | 226 | 81 | 764 | 5,375 |
| **Total banks** | - | - | - | - | - |
| **Total governments** | - | - | - | - | - |
| **Total(*)** | 683 | 226 | 81 | 764 | 5,375 |
| (*) Of which: | | | | | |
| Measured at the present value of cash flows | 674 | 226 | 40 | 714 | |
| Debts in troubled debt restructuring | 243 | 73 | 32 | 275 | |

## NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

### B. Debts(1) (Cont'd)

### 2. Additional information regarding impaired debts (Cont'd)

| | | | | | December 31, 2020 (audited) |
|---|---|---|---|---|---|
| A. Impaired debts and the individual provision | Balance(2) of impaired debts for which an individual provision exists(3) | 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 | - | - | - | - | - |
| Government 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 troubled debt restructuring | 184 | 51 | 43 | 227 | |

# NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

## B. Debts(1) (Cont'd)

### 2. Additional information regarding impaired debts (Cont'd)

| | For the three months ended June 30 | | | | | |
|---|---|---|---|---|---|---|
| | 2021 | | | 2020 | | |
| | (unaudited) | | | (unaudited) | | |
| 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 |
| **Borrower activity in Israel** | | | | | | |
| **Public - commercial** | | | | | | |
| Construction and real estate - construction | **40** | **-** | **-** | 30 | - | - |
| Construction and real estate - real estate activities | **45** | **-** | **-** | 36 | - | - |
| Financial services | **8** | **-** | **-** | 6 | - | - |
| Commercial - other | **293** | **-** | **-** | 500 | - | - |
| **Total commercial** | **386** | **-** | **-** | 572 | - | - |
| Private individuals - housing loans | **86** | **-** | **-** | 9 | - | - |
| Private individuals - others | **141** | **1** | **-** | 160 | - | - |
| **Total public - activity in Israel** | **613** | **1** | **-** | 741 | - | - |
| Banks in Israel | **-** | **-** | **-** | - | - | - |
| Israeli government | **-** | **-** | **-** | - | - | - |
| **Total activity in Israel** | **613** | **1** | **-** | 741 | - | - |
| **Borrower activity abroad** | | | | | | |
| **Public - commercial** | | | | | | |
| Construction and real estate | **-** | **-** | **-** | 8 | - | - |
| Other commercial | **-** | **-** | **-** | - | - | - |
| **Total commercial** | **-** | **-** | **-** | 8 | - | - |
| Private individuals | **-** | **-** | **-** | - | - | - |
| **Total public - activity abroad** | **-** | **-** | **-** | 8 | - | - |
| Banks abroad | **-** | **-** | **-** | - | - | - |
| Government abroad | **-** | **-** | **-** | - | - | - |
| **Total activity abroad** | **-** | **-** | **-** | 8 | - | - |
| **Total public** | **613** | **1** | **-** | 749 | - | - |
| **Total banks** | **-** | **-** | **-** | - | - | - |
| **Total governments** | **-** | **-** | **-** | - | - | - |
| **Total** | **613** | (4)**1** | **-** | 749 | (4)- | - |

(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 to the public 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 8 million was recorded in three months ended June 30, 2021 (for three months ended June 30, 2020 - NIS 10 million).

## NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

### B. Debts(1) (Cont'd)

### 2. Additional information regarding impaired debts (Cont'd)

| | For the six months ended June 30 | | | | | |
|---|---|---|---|---|---|---|
| | | | 2021 | | | 2020 |
| | | | (unaudited) | | | (unaudited) |
| 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 |
| **Borrower activity in Israel** | | | | | | |
| **Public - commercial** | | | | | | |
| Construction and real estate - construction | **41** | **-** | **-** | 35 | - | - |
| Construction and real estate - real estate activities | **41** | **-** | **-** | 32 | - | - |
| Financial services | **8** | **-** | **-** | 5 | - | - |
| Commercial - other | **297** | **-** | **-** | 488 | - | - |
| **Total commercial** | **387** | **-** | **-** | 560 | - | - |
| Private individuals - housing loans | **73** | **-** | **-** | 8 | - | - |
| Private individuals - others | **146** | **1** | **-** | 155 | - | - |
| **Total public - activity in Israel** | **606** | **1** | **-** | 723 | - | - |
| Banks in Israel | **-** | **-** | **-** | - | - | - |
| Israeli government | **-** | **-** | **-** | - | - | - |
| **Total activity in Israel** | **606** | **1** | **-** | 723 | - | - |
| **Borrower activity abroad** | | | | | | |
| **Public - commercial** | | | | | | |
| Construction and real estate | **-** | **-** | **-** | 8 | - | - |
| Other commercial | **-** | **-** | **-** | - | - | - |
| **Total commercial** | **-** | **-** | **-** | 8 | - | - |
| Private individuals | **-** | **-** | **-** | - | - | - |
| **Total public - activity abroad** | **-** | **-** | **-** | 8 | - | - |
| Banks abroad | **-** | **-** | **-** | - | - | - |
| Government abroad | **-** | **-** | **-** | - | - | - |
| **Total activity abroad** | **-** | **-** | **-** | 8 | - | - |
| **Total public** | **606** | **1** | **-** | 731 | - | - |
| **Total banks** | **-** | **-** | **-** | - | - | - |
| **Total governments** | **-** | **-** | **-** | - | - | - |
| **Total** | **606** | (4)**1** | **-** | 731 | (4)- | - |

(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 to the public 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 15 million was recorded in six months ended June 30, 2021 (for six months ended June 30, 2020 - NIS 18 million).

# NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

## B. Debts[1] (Cont'd)

### 2. Additional information regarding impaired debts (Cont'd)

| | June 30, 2021 (unaudited) | | | | |
|---|---|---|---|---|---|
| | Recorded debt balance | | | | |
| C. Troubled 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 | 7 | - | - | 2 | 9 |
| Construction and real estate - real estate activities | 6 | - | - | 3 | 9 |
| Financial services | 1 | - | - | - | 1 |
| Commercial - other | 69 | - | - | 15 | 84 |
| **Total commercial** | 83 | - | - | 20 | 103 |
| Private individuals - housing loans | - | - | - | - | - |
| Private individuals - others | 69 | - | - | 34 | 103 |
| **Total public - activity in Israel** | 152 | - | - | 54 | 206 |
| Banks in Israel | - | - | - | - | - |
| Israeli government | - | - | - | - | - |
| **Total activity in Israel** | 152 | - | - | 54 | 206 |
| **Borrower activity abroad** | | | | | |
| **Public - commercial** | | | | | |
| Construction and real estate | - | - | - | - | - |
| Other commercial | - | - | - | - | - |
| **Total commercial** | - | - | - | - | - |
| Private individuals | - | - | - | - | - |
| **Total public - activity abroad** | - | - | - | - | - |
| **Total** | 152 | - | - | 54 | 206 |

(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 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

## B. Debts[1] (Cont'd)

### 2. Additional information regarding impaired debts (Cont'd)

| | June 30, 2020 (unaudited) | | | | |
|---|---|---|---|---|---|
| | Recorded debt balance | | | | |
| C. Troubled 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 | 8 | - | - | 1 | 9 |
| Construction and real estate - real estate activities | 8 | - | - | 3 | 11 |
| Financial services | 1 | - | - | - | 1 |
| Commercial - other | 110 | - | - | 19 | 129 |
| **Total commercial** | 127 | - | - | 23 | 150 |
| Private individuals - housing loans | - | - | - | - | - |
| Private individuals - others | 86 | - | - | 31 | 117 |
| **Total public - activity in Israel** | 213 | - | - | 54 | 267 |
| Banks in Israel | - | - | - | - | - |
| Israeli government | - | - | - | - | - |
| **Total activity in Israel** | 213 | - | - | 54 | 267 |
| **Borrower activity abroad** | | | | | |
| **Public - commercial** | | | | | |
| Construction and real estate | 8 | - | - | - | 8 |
| Other commercial | - | - | - | - | - |
| **Total commercial** | 8 | - | - | - | 8 |
| Private individuals | - | - | - | - | - |
| **Total public - activity abroad** | 8 | - | - | - | 8 |
| **Total** | 221 | - | - | 54 | 275 |

(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 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

### B. Debts(1) (Cont'd)

### 2. Additional information regarding impaired debts (Cont'd)

| | December 31, 2020 (audited) | | | | |
|---|---|---|---|---|---|
| | Recorded debt balance | | | | |
| **C. Troubled debt restructuring** (Cont'd) | 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 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 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

## B. Debts[1] (Cont'd)

### 2. Additional information regarding impaired debts (Cont'd)

| | Restructuring made | | | | | |
|---|---|---|---|---|---|---|
| | For the three months ended June 30 | | | | | |
| | 2021 | | | 2020 | | |
| | | | | (unaudited) | | |
| C. Troubled debt restructuring (Cont'd) | 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 | **3** | **1** | **-** | 10 | 1 | 1 |
| Construction and real estate - real estate activities | **7** | **2** | **2** | 1 | 6 | 6 |
| Financial services | **1** | **-** | **-** | 3 | 1 | 1 |
| Commercial - other | **56** | **7** | **7** | 100 | 10 | 10 |
| **Total commercial** | **67** | **10** | **9** | 114 | 18 | 18 |
| Private individuals - housing loans | **-** | **-** | **-** | - | - | - |
| Private individuals - others | **218** | **10** | **9** | 409 | 19 | 18 |
| **Total public - activity in Israel** | **285** | **20** | **18** | 523 | 37 | 36 |
| Banks in Israel | **-** | **-** | **-** | - | - | - |
| Israeli government | **-** | **-** | **-** | - | - | - |
| **Total activity in Israel** | **285** | **20** | **18** | 523 | 37 | 36 |

| | Restructuring made | | | | | |
|---|---|---|---|---|---|---|
| | For the six months ended June 30 | | | | | |
| | 2021 | | | 2020 | | |
| | | | | (unaudited) | | |
| C. Troubled debt restructuring (Cont'd) | 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 | **8** | **1** | **1** | 15 | 2 | 2 |
| Construction and real estate - real estate activities | **13** | **3** | **3** | 5 | 8 | 8 |
| Financial services | **2** | **-** | **-** | 3 | 1 | 1 |
| Commercial - other | **106** | **15** | **15** | 159 | 53 | 53 |
| **Total commercial** | **129** | **19** | **19** | 182 | 64 | 64 |
| Private individuals - housing loans | **-** | **-** | **-** | - | - | - |
| Private individuals - others | **443** | **21** | **20** | 750 | 35 | 34 |
| **Total public - activity in Israel** | **572** | **40** | **39** | 932 | 99 | 98 |
| Banks in Israel | **-** | **-** | **-** | - | - | - |
| Israeli government | **-** | **-** | **-** | - | - | - |
| **Total activity in Israel** | **572** | **40** | **39** | 932 | 99 | 98 |

(1) Credit to the public, credit to governments, deposits with banks and other debts, excluding bonds and securities that were borrowed.

# NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

## B. Debts(1) (Cont'd)

### 2. Additional information regarding impaired debts (Cont'd)

| | Restructuring made and failed (2) | | | |
|---|---|---|---|---|
| | For the three months ended June 30 | | | |
| | 2021 | | 2020 | |
| | | | (unaudited) | |
| **c. Troubled debt restructuring** (Cont'd) | 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 | **7** | **1** | 4 | 3 |
| Construction and real estate - real estate activities | **3** | **1** | 1 | - |
| Financial services | **1** | **-** | - | - |
| Commercial - other | **17** | **1** | 39 | 3 |
| **Total commercial** | **28** | **3** | 44 | 6 |
| Private individuals - housing loans | **-** | **-** | - | - |
| Private individuals - others | **103** | **2** | 202 | 6 |
| **Total public - activity in Israel** | **131** | **5** | 246 | 12 |
| Banks in Israel | **-** | **-** | - | - |
| Israeli government | **-** | **-** | - | - |
| **Total activity in Israel** | **131** | **5** | 246 | 12 |

| | Restructuring made and failed (2) | | | |
|---|---|---|---|---|
| | For the six months ended June 30 | | | |
| | 2021 | | 2020 | |
| | | | (unaudited) | |
| **c. Troubled debt restructuring** (Cont'd) | 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 | **10** | **1** | 11 | 5 |
| Construction and real estate - real estate activities | **3** | **-** | 1 | - |
| Financial services | **1** | **-** | 1 | - |
| Commercial - other | **61** | **4** | 85 | 5 |
| **Total commercial** | **75** | **5** | 98 | 10 |
| Private individuals - housing loans | **-** | **-** | - | - |
| Private individuals - others | **249** | **5** | 359 | 9 |
| **Total public - activity in Israel** | **324** | **10** | 457 | 19 |
| Banks in Israel | **-** | **-** | - | - |
| Israeli government | **-** | **-** | - | - |
| **Total activity in Israel** | **324** | **10** | 457 | 19 |

(1) Credit to the public, credit to governments, deposits with banks and other debts, excluding bonds and securities that were borrowed.

(2) Debts that became debts in arrears of 30 days or more during the reported period which were restructured as problematic debts during the 12 months that preceded the date in which they became debts in arrears.

# NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

## B. Debts[(1)] (Cont'd)

### 3. Additional information regarding housing loans

Year-end balances by financing ratio (LTV)(*), repayment type, and interest type

| | June 30, 2021 (unaudited) | | | |
|---|---|---|---|---|
| | Balance of housing loans | | | Total Off-balance sheet credit risk |
| | Total | Of which: bullet and balloon | OF which: floating interest rate | |
| First lien financing rate | | | | |
| - Up to 60% | **20,717** | **211** | **12,173** | **2,332** |
| - Over 60% | **8,959** | **90** | **5,428** | **1,415** |
| Secondary lien or no lien | **483** | **102** | **406** | **-** |
| Total | **30,159** | **403** | **18,007** | **3,747** |

| | June 30, 2020 (unaudited) | | | |
|---|---|---|---|---|
| | Balance of housing loans | | | Total Off-balance sheet credit risk |
| | Total | Of which: bullet and balloon | OF which: floating interest rate | |
| First lien financing rate | | | | |
| - Up to 60% | 18,152 | 233 | 10,848 | 1,426 |
| - Over 60% | 8,143 | 87 | 4,931 | 837 |
| Secondary lien or no lien | 481 | 131 | 394 | - |
| Total | 26,776 | 451 | 16,173 | 2,263 |

| | December 31, 2020 (audited) | | | |
|---|---|---|---|---|
| | Balance of housing loans | | | Total Off-balance sheet credit risk |
| | Total | Of which: bullet and balloon | OF which: floating interest rate | |
| First lien financing rate | | | | |
| - Up to 60% | 19,603 | 216 | 11,537 | 1,800 |
| - 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.

(1) Credit to the public, credit to governments, deposits with banks and other debts, excluding bonds and securities that were borrowed.

## NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

### C. Off-balance sheet financial instruments

| | Balance of contracts[1] | | | Balance of provision for credit losses | | |
|---|---|---|---|---|---|---|
| | 30.6.21 | 30.6.20 | 31.12.20 | 30.6.21 | 30.6.20 | 31.12.20 |
| | (unaudited) | (unaudited) | (audited) | (unaudited) | (unaudited) | (audited) |
| **Transactions the balance of which represents credit risk:** | | | | | | |
| Documentary credit | **168** | 125 | 177 | **1** | 1 | 1 |
| Guarantees securing credit | **949** | 869 | 891 | **12** | 9 | 14 |
| Guarantees to home purchasers | **2,587** | 2,233 | 2,132 | **4** | 4 | 4 |
| Guarantees and other liabilities | **3,987** | 3,900 | 3,840 | **22** | 25 | 27 |
| Unutilized credit lines for derivatives instruments | **2,679** | 2,242 | 2,364 | **-** | - | - |
| Unutilized revolving credit and other on-call credit facilities | **11,105** | 10,008 | 10,683 | **20** | 18 | 21 |
| Irrevocable commitments to grant credit, not yet executed | **7,067** | 4,775 | 6,217 | **8** | 4 | 7 |
| Unutilized credit lines for credit card facilities | **8,471** | 8,543 | 8,451 | **6** | 6 | 6 |
| Facilities for the lending of securities | **288** | 368 | 267 | **-** | - | - |
| Required guarantees and collateral in respect of the Stock Exchange and Maof Clearing Houses | **329** | 242 | 300 | **-** | - | - |
| Commitments to issue guarantees | **2,026** | 1,717 | 1,580 | **6** | 6 | 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 13 - ASSETS AND LIABILITIES ACCORDING TO LINKAGE BASES
(NIS million)

| | | | | | | | June 30, 2021 (unaudited) |
|---|---|---|---|---|---|---|---|
| | 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 | **54,053** | **-** | **2,224** | **217** | **179** | **-** | **56,673** |
| Securities | **9,626** | **284** | **4,191** | **1,549** | **-** | **594** | **16,244** |
| Securities which were borrowed | **32** | **-** | **-** | **-** | **-** | **-** | **32** |
| Credit to the public, net[3] | **78,943** | **11,855** | **2,526** | **961** | **97** | **809** | **95,191** |
| Credit to the government | **52** | **49** | **-** | **-** | **-** | **-** | **101** |
| Investee company | **-** | **-** | **-** | **-** | **-** | **675** | **675** |
| Premises and equipment | **-** | **-** | **-** | **-** | **-** | **945** | **945** |
| Intangible assets and goodwill | **-** | **-** | **-** | **-** | **-** | **279** | **279** |
| Assets in respect of derivative instruments | **317** | **10** | **186** | **14** | **17** | **763** | **1,307** |
| Other assets | **1,180** | **2** | **37** | **1** | **-** | **361** | **1,581** |
| Total assets | **144,203** | **12,200** | **9,164** | **2,742** | **293** | **4,426** | **173,028** |
| **Liabilities** | | | | | | | |
| Deposits from the public | **115,332** | **5,662** | **19,513** | **3,260** | **1,701** | **808** | **146,276** |
| Deposits from banks | **4,702** | **-** | **305** | **23** | **5** | **-** | **5,035** |
| Deposits from the Government | **391** | **-** | **42** | **1** | **1** | **-** | **435** |
| Bonds and subordinated capital notes | **6** | **2,827** | **-** | **-** | **-** | **-** | **2,833** |
| Liabilities in respect of derivative instruments | **338** | **10** | **247** | **58** | **24** | **763** | **1,440** |
| Other liabilities | **6,204** | **96** | **69** | **5** | **2** | **363** | **6,739** |
| Total liabilities | **126,973** | **8,595** | **20,176** | **3,347** | **1,733** | **1,934** | **162,758** |
| Difference | **17,230** | **3,605** | **(11,012)** | **(605)** | **(1,440)** | **2,492** | **10,270** |
| **Non-hedging derivatives** | | | | | | | |
| Derivative instruments (not including options) | **(11,829)** | **(1)** | **9,971** | **387** | **1,472** | **-** | **-** |
| Options in the money, net (in terms of underlying asset) | **(467)** | **-** | **343** | **124** | **-** | **-** | **-** |
| Options out of the money, net (in terms of underlying asset) | **(590)** | **-** | **459** | **153** | **(22)** | **-** | **-** |
| Total | **4,344** | **3,604** | **(239)** | **59** | **10** | **2,492** | **10,270** |
| Options in the money, net (present value of stated amount) | **(990)** | **-** | **732** | **258** | **-** | **-** | **-** |
| Options out of the money, net (present value of stated amount) | **(1,915)** | **-** | **1,305** | **704** | **(94)** | **-** | **-** |

(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 13 - ASSETS AND LIABILITIES ACCORDING TO LINKAGE BASES (CONT'D)

(NIS million)

| | June 30, 2020 (unaudited) | | | | | | |
|---|---|---|---|---|---|---|---|
| | 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 | 43,638 | - | 2,146 | 186 | 174 | - | 46,144 |
| Securities | 5,218 | 325 | 4,315 | 1,618 | - | 239 | 11,715 |
| Securities which were borrowed | 45 | - | - | - | - | - | 45 |
| Credit to the public, net[3] | 74,004 | 10,474 | 3,085 | 795 | 63 | 794 | 89,215 |
| Credit to the government | 232 | 620 | - | - | - | - | 852 |
| Investee company | - | - | - | - | - | 611 | 611 |
| Premises and equipment | - | - | - | - | - | 979 | 979 |
| Intangible assets and goodwill | - | - | - | - | - | 244 | 244 |
| Assets in respect of derivative instruments | 460 | 45 | 260 | 72 | 18 | 816 | 1,671 |
| Other assets | 743 | 6 | 35 | 2 | - | 457 | 1,243 |
| Total assets | 124,340 | 11,470 | 9,841 | 2,673 | 255 | 4,140 | 152,719 |
| **Liabilities** | | | | | | | |
| Deposits from the public | 101,912 | 4,289 | 17,809 | 3,291 | 1,063 | 796 | 129,160 |
| Deposits from banks | 1,531 | - | 297 | 33 | 20 | - | 1,881 |
| Deposits from the Government | 443 | - | 50 | 1 | 1 | - | 495 |
| Bonds and subordinated capital notes | 236 | 4,139 | - | - | - | - | 4,375 |
| Liabilities in respect of derivative instruments | 521 | 10 | 442 | 131 | 22 | 814 | 1,940 |
| Other liabilities | 5,548 | 86 | 51 | 2 | 1 | 95 | 5,783 |
| Total liabilities | 110,191 | 8,524 | 18,649 | 3,458 | 1,107 | 1,705 | 143,634 |
| Difference | 14,149 | 2,946 | (8,808) | (785) | (852) | 2,435 | 9,085 |
| **Non-hedging derivatives** | | | | | | | |
| Derivative instruments (not including options) | (9,895) | (366) | 8,527 | 885 | 849 | - | - |
| Options in the money, net (in terms of underlying asset) | 118 | - | 80 | (198) | - | - | - |
| Options out of the money, net (in terms of underlying asset) | (214) | - | 111 | 103 | - | - | - |
| Total | 4,158 | 2,580 | (90) | 5 | (3) | 2,435 | 9,085 |
| Options in the money, net (present value of stated amount) | 149 | - | 104 | (253) | - | - | - |
| Options out of the money, net (present value of stated amount) | (1,908) | - | 1,079 | 829 | - | - | - |

(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 13 - ASSETS AND LIABILITIES ACCORDING TO LINKAGE BASES (CONT'D)

(NIS million)

| | December 31, 2020 (audited) | | | | | | |
|---|---|---|---|---|---|---|---|
| | 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 company | - | - | - | - | - | 636 | 636 |
| Premises and equipment | - | - | - | - | - | 965 | 965 |
| Intangible assets and goodwill | - | - | - | - | - | 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 | - | - |

(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 14A - BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS

(NIS million)

| | | | | | June 30, 2021 (unaudited) |
|---|---|---|---|---|---|
| | Stated in the Balance Sheet | | | | Fair value(1) |
| | | (1) | (2) | (3) | Total |
| **Financial assets** | | | | | |
| Cash and deposits with banks | **56,673** | **663** | **56,003** | **8** | **56,674** |
| Securities(2) | **16,244** | **10,272** | **5,993** | **82** | **16,347** |
| Securities which were borrowed | **32** | **-** | **32** | **-** | **32** |
| Credit to the public, net | **95,191** | **3,954** | **1** | **91,711** | **95,666** |
| Credit to the government | **101** | **-** | **51** | **50** | **101** |
| Assets in respect of derivative instruments | **1,307** | **886** | **280** | **141** | **1,307** |
| Other financial assets | **569** | **353** | **-** | **216** | **569** |
| Total financial assets | (3)**170,117** | **16,128** | **62,360** | **92,208** | **170,696** |
| **Financial liabilities** | | | | | |
| Deposits from the public | **146,276** | **3,742** | **104,791** | **37,325** | **145,858** |
| Deposits from Banks | **5,035** | **-** | **1,383** | **3,623** | **5,006** |
| Deposits from the Government | **435** | **-** | **401** | **40** | **441** |
| Bonds and non-convertible subordinated capital notes | **2,833** | **2,868** | **-** | **85** | **2,953** |
| Liabilities in respect of derivative instruments | **1,440** | **889** | **541** | **10** | **1,440** |
| Other financing liabilities | **5,271** | **382** | **-** | **4,887** | **5,269** |
| Total financial liabilities | (3)**161,290** | **7,881** | **107,116** | **45,970** | **160,967** |
| **Off balance sheet financial instruments** | | | | | |
| Transaction were the balance represents credit risk | **30** | **-** | **-** | **30** | **30** |
| **In addition, the liability in respect of employee rights, gross - pension and severance pay(4)** | **955** | **-** | **-** | **955** | **955** |

(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 5, "Securities".

(3) Of which: assets of NIS 19,074 million and liabilities of NIS 5,564 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 14B-14D.

(4) The liability is shown gross, without considering the plan assets managed against it.

## NOTE 14A - BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONT'D)

(NIS million)

| | Stated in the Balance Sheet | Fair value[1] (1) | (2) | (3) | Total |
|---|---|---|---|---|---|
| | June 30, 2020 (unaudited) | | | | |
| **Financial assets** | | | | | |
| Cash and deposits with banks | 46,144 | 677 | 45,463 | 3 | 46,143 |
| Securities[2] | 11,715 | 5,619 | 6,134 | 88 | 11,841 |
| Securities which were borrowed | 45 | - | 45 | - | 45 |
| Credit to the public, net | 89,215 | 2,900 | *2 | *87,117 | 90,019 |
| Credit to the government | 852 | - | 229 | 618 | 847 |
| Assets in respect of derivative instruments | 1,671 | 915 | 511 | 245 | 1,671 |
| Other financial assets | 239 | 87 | - | 153 | 240 |
| Total financial assets | [3]149,881 | 10,198 | 52,384 | 88,224 | 150,806 |
| **Financial liabilities** | | | | | |
| Deposits from the public | 129,160 | 3,475 | 91,209 | 34,235 | 128,919 |
| Deposits from Banks | 1,881 | - | 1,080 | 794 | 1,874 |
| Deposits from the Government | 495 | - | 451 | 52 | 503 |
| Bonds and non-convertible subordinated capital notes | 4,375 | 4,242 | - | 103 | 4,345 |
| Liabilities in respect of derivative instruments | 1,940 | 915 | 1,009 | 16 | 1,940 |
| Other financing liabilities | 4,447 | 133 | *91 | *4,218 | 4,442 |
| Total financial liabilities | [3]142,298 | 8,765 | 93,840 | 39,418 | 142,023 |
| **Off balance sheet financial instruments** | | | | | |
| Transaction were the balance represents credit risk | 33 | - | - | 33 | 33 |
| **In addition, the liability in respect of employee rights, gross - pension and severance pay**[4] | 920 | - | - | 920 | 920 |

* 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 5, "Securities".

(3) Of which: assets of NIS 13,862 million and liabilities of NIS 5,550 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 14B-14D.

(4) The liability is shown gross, without considering the plan assets managed against it.

## NOTE 14A - BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONT'D)

(NIS million)

| | December 31, 2020 (audited) | | | | |
|---|---|---|---|---|---|
| | 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 | *187 | *4,483 | 4,928 |
| Total financial liabilities | (3)156,765 | 8,946 | 106,307 | 41,417 | 156,670 |
| | | | | | |
| **Off balance sheet financial instruments** | | | | | |
| Transaction 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 5, "Securities".

(3) Of which: assets of NIS 15,875 million 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 14B-14D.

(4) The liability in shown gross, without considering the plan assets managed against it.

## NOTE 14A - BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONT'D)

(NIS million)

### 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 valueestimates of financial instruments

**Marketable securities** - 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 of the credit to the public balance 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.

**Deposits and subordinate capital notes** - 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.
Cashflows in respect of deposits from the public have been assessed according to the 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 and 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 14B - ITEMS MEASURED AT FAIR VALUE

(NIS million)

## A. Items measured at fair value on a recurrent basis

| | June 30, 2021 (unaudited) | | | | |
|---|---|---|---|---|---|
| | 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 | Balance sheet balance |
| **Assets** | | | | | |
| Bonds available for sale | **6,994** | **5,706** | **-** | **-** | **12,700** |
| Shares not for trading | **424** | **5** | **-** | **-** | **429** |
| Trading Securities | **331** | **-** | **-** | **-** | **331** |
| Assets in respect of derivative instruments | **886** | **280** | **141** | **-** | **1,307** |
| Others | **4,307** | **-** | **-** | **-** | **4,307** |
| Total assets | **12,942** | **5,991** | **141** | **-** | **19,074** |
| **Liabilities** | | | | | |
| Liabilities in respect of derivative instruments | **889** | **541** | **10** | **-** | **1,440** |
| Others | **4,124** | **-** | **-** | **-** | **4,124** |
| Total liabilities | **5,013** | **541** | **10** | **-** | **5,564** |

| | June 30, 2020 (unaudited) | | | | |
|---|---|---|---|---|---|
| | 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 | Balance sheet balance |
| **Assets** | | | | | |
| Bonds available for sale | 3,091 | 5,855 | - | - | 8,946 |
| Shares not for trading | 124 | - | - | - | 124 |
| Trading Securities | 134 | - | - | - | 134 |
| Assets in respect of derivative instruments | 915 | 511 | 245 | - | 1,671 |
| Others | 2,987 | - | - | - | 2,987 |
| Total assets | 7,251 | 6,366 | 245 | - | 13,862 |
| **Liabilities** | | | | | |
| Liabilities in respect of derivative instruments | 915 | 1,011 | 16 | - | 1,942 |
| Others | 3,608 | - | - | - | 3,608 |
| Total liabilities | 4,523 | 1,011 | 16 | - | 5,550 |

| | December 31, 2020 (audited) | | | | |
|---|---|---|---|---|---|
| | 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 | Balance sheet balance |
| **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 14B - ITEMS MEASURED AT FAIR VALUE (CONT'D)

(NIS million)

### B. Items measured at fair value on a non-recurrent basis

| | June 30, 2021 (unaudited) | | | | |
|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total fair value | Total profit for the six months ended June 30, 2021 |
| Investment in shares | **-** | **81** | **-** | **81** | **2** |
| Impaired credit the collection of which is contingent on collateral | **-** | **1** | **18** | **19** | **1** |

| | June 30, 2020 (unaudited) | | | | |
|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total fair value | Total loss for the six months ended June 30, 2020 |
| Investment in shares | - | 26 | - | 26 | (1) |
| Impaired credit the collection of which is contingent on collateral | - | - | 31 | 31 | - |

| | December 31, 2020 (audited) | | | | |
|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total fair value | Total profit 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 14C - CHANGES IN ITEMS MEASURED AT FAIR VALUE ON A RECURRENT BASIS INCLUDED IN LEVEL 3

(NIS million)

| | For the three months ended June 30, 2021 (unaudited) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Fair value as at March 31, 2021** | **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 June 30, 2021** | **Unrealized profits (losses) in respect of instruments held as at June 30, 2021** |
| **Assets** | | | | | | | | |
| Assets in respect of derivative instruments | **386** | **59** | **7** | **(311)** | **-** | **-** | **141** | **50** |
| **Liabilities** | | | | | | | | |
| Liabilities in respect of derivative instruments | **14** | **1** | **-** | **(3)** | **-** | **-** | **10** | **1** |

| | For the three months ended June 30, 2020 (unaudited) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Fair value as at March 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 June 30, 2020** | **Unrealized profits (losses) in respect of instruments held as at June 30, 2020** |
| **Assets** | | | | | | | | |
| Assets in respect of derivative instruments | 522 | 234 | 10 | (521) | - | - | 245 | 47 |
| **Liabilities** | | | | | | | | |
| Liabilities in respect of derivative instruments | 16 | (1) | - | (1) | - | - | 16 | - |

| | For the six months ended June 30, 2021 (unaudited) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **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 June 30, 2021** | **Unrealized profits (losses) in respect of instruments held as at June 30, 2021** |
| **Assets** | | | | | | | | |
| Assets in respect of derivative instruments | **376** | **492** | **21** | **(748)** | **-** | **-** | **141** | **115** |
| **Liabilities** | | | | | | | | |
| Liabilities in respect of derivative instruments | **13** | **-** | **-** | **(3)** | **-** | **-** | **10** | **2** |

| | For the six months ended June 30, 2020 (unaudited) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **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 June 30, 2020** | **Unrealized profits (losses) in respect of instruments held as at June 30, 2020** |
| **Assets** | | | | | | | | |
| Assets in respect of derivative instruments | 193 | 1,109 | 28 | (1,085) | - | - | 245 | 123 |
| **Liabilities** | | | | | | | | |
| Liabilities in respect of derivative instruments | 12 | (5) | - | (1) | - | - | 16 | (5) |

## NOTE 14C - CHANGES IN ITEMS MEASURED AT FAIR VALUE ON A RECURRENT BASIS INCLUDED IN LEVEL 3 (CONT'D)

(NIS million)

| | For the year ended December 31, 2020 (audited) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 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 (losses) 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 14D - QUANTITATIVE INFORMATION ON ITEMS MEASURED AT FAIR VALUE INCLUDED IN LEVEL 3

| | | | As of June 30, 2021 (unaudited) | | |
|---|---|---|---|---|---|
| | Value Assessment technique | Unobservable inputs | Fair value | Average | Range |
| | | | (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 | **-** | **(1.49)** | **(1.59)-(1.16)** |
| Interest rate contract: other | Discounted cash flow | Counter-party credit risk | **10** | **1.62** | **1.20-1.95** |
| Foreign currency contracts | Discounted cash flow | 1. CPI-linked interest | **10** | **(2.06)** | **(2.17)-(1.91)** |
| | | 2. Counter-party credit risk | **121** | **1.44** | **1.00-4.66** |
| Liabilities | | | | | |
| Liabilities in respect of derivative instruments: | | | | | |
| Interest rate contract: NIS-CPI | Discounted cash flow | CPI-linked interest | **-** | **(1.59)** | **(1.59)** |
| Foreign currency contracts | Discounted cash flow | CPI-linked interest | **10** | **(2.06)** | **(2.17)-(1.91)** |
| **B. Items measured at fair value on a non-recurrent basis** | | | | | |
| Impaired credit the collection of which is contingent on collateral | Collaterals value | | **18** | | |

| | | | As of June 30, 2020 (unaudited) | | |
|---|---|---|---|---|---|
| | Value Assessment technique | Unobservable inputs | Fair value | Average | Range |
| | | | (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 | 8 | (0.20) | (0.64)-0.21 |
| Interest rate contract: other | Discounted cash flow | Counter-party credit risk | 9 | 2.72 | 1.55-4.88 |
| Foreign currency contracts | Discounted cash flow | 1. CPI-linked interest | 45 | (0.84) | (1.43)-(0.71) |
| | | 2. Counter-party credit risk | 183 | 1.75 | 1.00-4.88 |
| Liabilities | | | | | |
| Liabilities in respect of derivative instruments: | | | | | |
| Interest rate contract: NIS-CPI | Discounted cash flow | CPI-linked interest | 6 | (0.59) | (0.64)-(0.43) |
| Foreign currency contracts | Discounted cash flow | CPI-linked interest | 10 | (1.21) | (1.41)-(0.90) |
| **B. Items measured at fair value on a non-recurrent basis** | | | | | |
| Impaired credit the collection of which is contingent on collateral | Collaterals value | | 31 | | |

## NOTE 14D - QUANTITATIVE INFORMATION ON ITEMS MEASURED AT FAIR VALUE INCLUDED IN LEVEL 3 (CONT'D)

| | As of December 31, 2020 (audited) | | | | |
|---|---|---|---|---|---|
| | Value Assessment technique | Unobservable inputs | Fair value | Average | Range |
| | | | (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 in respect of items measured at fair value included in level 3

- Interest linked to the CPI- a change in the forecasted inflation rate will affect the fair value of CPI transaction, so an Increase (decrease) in the forecasted inflation rate will lead to an increase (decrease) in the fair value in accordance to the Bank's CPI position.
- Counter-party credit risk- a change in the credit risk of the counter-party to the transaction, so when the credit risk of the counter-party will be high/low, the value of the transaction will be low/high.

## NOTE 15 - EFFECT OF THE SPREADING OF THE CORONAVIRUS

The outbreak of the Coronavirus and the spreading thereof around the world has led to a global health and economic crisis. The spreading of the virus in January 2020 began having an effect on most countries around the world in the course of the first quarter of 2020. In response, governments around the world, including in Israel, had adopted precautionary measures, such as limiting transit between states, isolation means and reduction in public gatherings and traffic, lockdowns, restrictions on operation of private businesses, on governmental and municipal services, and more.

In view of the high uncertainty prevailing with respect to developments in the crisis and the accumulation of long-term negative implications, many countries, among which Israel, might have encountered economic recession. At the beginning of December 2020, vaccination against the Coronavirus was approved for emergency use. A wide vaccination effort began around the world at the end of the fourth quarter, which was reflected in a fast rate of vaccination in Israel.

In February 2021, following the fast rate of vaccination and the decline in morbidity, a part of the restrictions imposed on the population was lifted, among which, distancing restrictions. Since the middle of February, the "green sign" has been introduced in Israel, allowing vaccinated persons and those recuperating from the disease to enter shopping malls, to participate in cultural or sport events and to stay at hotels. During March, a part of entertainment places were reopened, and a gradual return of workers to their places of work has begun.

Towards the end of the second quarter, morbidity in Israel started to rise again as a result of the spread of the Delta mutation of the virus. According to estimates, the high rate of immunization of the population reduces significantly the negative impact expected as a result of the outbreak. However, uncertainty still exists with respect to the risks involved in the spreading of the virus, in view of the lack of definite information regarding the level of efficiency of the vaccination in preventing heavy sickness.

Due to the renewed outbreak, a part of the removed restrictions has been reinstated, and concern exists that following the rise in morbidity, significant restrictions would be reimposed, which may lead to impairment in activity of the Israeli economy. Concurrently, since exiting the third lockdown, the economic recovery trend continues in most of the economic segments and the rate of unemployement continues to decrease.

Improvement in the macro-economic indices and in indicators pointing at the level of risk inherent in the credit portfolio of the Bank, had led to a reduction of NIS 124 million, mainly in the collective provision for credit losses in the period of six months ended on June 30, 2021.

# Corporate Governance, Additional Information and Appendix



## LIST OF TABLES

# CORPORATE GOVERNANCE

## DISCLOSURE OF THE INTERNAL AUDITOR

Details regarding the Internal Auditor of the Bank (which also serves as the Internal Auditor in Massad Bank), including the working plan of the internal auditor department, conduct of the audit and the internal audit reports, were published in the annual financial statements for 2020.
The report of the internal audit for the year 2020 was discussed in the audit committee of the Bank on April 12, 2021.

## MEETINGS OF THE BOARD OF DIRECTORS AND ITS COMMITTEES

During January-June 2021, the Bank's Board of Directors held 12 meetings in plenary session and 33 meetings of its various Board Committees.

## APPOINTMENTS

On April 6, 2021, Mr. Ophir Kadoh was appointed the CEO of MATAF computerization and financial operations Ltd. (a fully owned subsidiary of the Bank).

## TRANSACTIONS WITH INTERESTED PARTIES

**a. Amendments to the Securities Regulations (Periodic and immediate reports), 1970 - Reporting of transactions with controling interests**

No changes occurred during the reported period in the rules regarding the reporting of transactions with controlling interests, as detailed in the Chapter on corporate governance, transactions with interested parties, contained in the financial statements for the year 2018.

**b. Determination of criteria regarding transactions of the Bank with interested parties**

No changes occurred during the reported period in the said criteria, as detailed in the Chapter on corporate governance, transactions with interested parties, contained in the financial statements for the year 2018.

**c. Transactions with controlling shareholders, or transactions in which controlling shareholders have a personal interest, which have been approved during the reported period in accordance with Section 270(4) and or Section 267A of the Companies Act (including framework transactions that are still in effect at date of the report and transactions approved under the Companies Regulations (Relief respecting transactions with interested parties), 2000 (hereinafter – "the Relief Regulations"):**

For details of transactions, see Chapter "Corporate Governance", interested party transactions, in the financial statements for 2020, subject to the following updates:

1. Regarding Directors and Officers liability insurance:

   Following the material changes in the directors and officers liability insurance market, 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 (see details of which in the Chapter "Corporate Governance", interested party transactions, in the financial statements for 2020), 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 addition to 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. The said policy shall apply to officers who had acted and/or shall act at the Bank and at the Group from time to time, including the President and CEO of the Bank and officers who are controlling shareholders and/or their kin and/or persons whom the controlling shareholders may have a personal interest in their inclusion in the insurance policy.

2. Regarding Directors' remuneration

   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, 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.

Notwithstanding that stated above, at the request of Messrs. Tsadik Bino and Gil Bino, who are controlling shareholders of the Bank, the resolution regarding the updating of remuneration shall not apply to them, and they will continue to receive remuneration in the amount payable to them at the present time, this in continuation to the resolutions that were passed in their respect in September 2020. For details, see the Immediate Report by the Bank dated September 15, 2020 (Ref No. 0922554-01-2020) and the Chapter "Corporate Governance", interested party transactions, in the financial statements for 2020. Furthermore, the above resolution is not relevant to the Chairman of the Board, Mr. Ron Levkowitz, who officiates in accordance with the terms of office that had been approved in his respect as chairman of the board.

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, 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.

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.

## d. Additional information regarding transactions with interested parties that have undergone changes in the reported period

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, as detailed in the Chapter Corporate Governance, transactions with interested parties, contained in the financial statements for the year 2018 (NIS thousand):

| Indebtedness | 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) | | | | | | | | | |
| June 30, 2021 | **170** | **-** | **-** | **170** | **509** | **-** | **-** | **-** | **679** |
| December 31, 2020 | 97 | - | - | 97 | 633 | - | - | - | 730 |

| Deposits | June 30, 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) | **10,600** | **14,088** | 5,168 | 5,904 |

(1) Relatives of controlling shareholders of the Bank. As the term relative is defined in the Banking Law (licensing)-1981.

(2) On the basis of balances at the end of each day.

## DETAILS OF THE OWNERS OF CONTROL IN THE BANK

FIBI Holdings Ltd. (hereinafter – "FIBI"), a public company, which shares are traded on the Stock Exchange, owns 48.34% of the issued share capital and voting rights in the Bank (a rate comprising the control core in accordance with the control permit granted by Bank of Israel). The controlling shareholders of FIBI are Mr. Zadik Bino and his children, Messrs. Gil Bino, Hadar Bino-Shmueli and Daphna Bino-Or (hereinafter - "the Bino Family), Messrs. Michael and Helen Abeles and Messrs. Barry Lieberman, Casey Lieberman-Harris, Lee Lieberman and Joshua Lieberman (each of the said groups through corporations under their full control: Binohon Ltd., Instanz No. 2 Ltd. and Dolphin Energies Ltd.). For details regarding the various arrangements, to which the controlling shareholders are party, in respect of their holdings in FIBI, and indirectly, in the Bank, and with respect to the terms of the control permit dated August 27, 2003, granted to the controlling shareholders by Bank of Israel, as amended from time to time, see the Chapter "Details regarding the controlling interests in the Bank" in the Chapter "Corporate governance" in the financial report for 2019.

In accordance with FIBI's reports as of the 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 - 11.68% (the holdings of all the controlling shareholders in FIBI comprise the control core therein, in accordance with the control permit granted by Bank of Israel).

## ADDITIONAL INFORMATION

## 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.
There is nothing in this Chapter that derogates the contents of the other chapters and items of this Report, where additional reference is made to provisions of the law and to regulatory initiatives described below or to any other.

## 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, 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 has been extended to September 30, 2021 (hereinafter - "date of termination of the period"):

- 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, 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 in certain circumstances, at the end of the two years (for details regarding this matter, see Note 8.A.1 to the financial statements).

- A guideline requiring a review of the dividend distribution policy and of the acquisition of own shares during the provisional instruction period, in accordance with an update published on July 26, 2021. The Supervisor of Bank permits the banking system to distribute dividends, though in a limited way, as required by a careful and conservative approach, his position being that distribution in an amount exceeding 30% of the earnings for 2020, is not considered careful and conservative planning of capital (for details of this matter, see Note 8.E. to the financial statements).
- Mitigation of the leverage ratio by one-half of a percent relating to a banking corporation, such as the Bank, the total stated assets of which, on a consolidated basis, amounts to up to 24% of the total stated assets of the banking sector, until date of termination of the period. The mitigation applies for an additional period of two years from date of termination of the period, provided that the leverage ratio shall not be lower than the ratio at the end of the period, 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 8.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.
- Possibility of approving residential loans not intended for the purchase of rights in real estate up to a financing level of 70%, subject to the declaration of the borrower that the loan is not intended to serve the purchase of an additional apartment.
- An extension was granted for submitting financial statements required of the extension of credit to borrowers in accordance with Proper Conduct of Banking Business Directive No. 311.
- The documentation requirements upon a change in terms of an existing loan have been mitigated.

## 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 takes 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.

## 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, requires banks 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. The Amendment takes effect on September 22, 2021.

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. Also published were the Banking Rules (Customer service) (Transfer between banks of the financial activity of customers) 2019, 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.

### Proper Conduct of Banking Business Directive No. 368 - application in Israel of the open banking Standard

In accordance with the Increase in Competition and Decrease in Centralization in the Banking Market in Israel Act (Legislation amendments), 2017, a banking corporation is required, at the request of a customer, to enable a supplier of a cost comparison service to observe the financial information of that customer existing in the hands of a banking corporation. In addition and concurrently with the formation process of the legislation required to enable the above requirement (within the framework of the Financial Information Services Bill Memeorandum, 2020), Bank of Israel published on February 24, 2020, Proper Conduct of Banking Business Directive No. 368, which applies to banks and credit card companies.

The Directive includes provisions in matters of corporate governance, of implementation of open banking, both as regards the transfer of information and in respect of payment orders, 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.

As of date of publication of this Report and following deferments of effective date of the instruction, the instruction entered into effect on April 18, 2021, except for the matter of delivery of information regarding charge cards, placing a one-time payment order in shekel and providing information regarding the status of a payment order, as stated, which effective date has been deferred to January 31, 2022; delivery of information regarding savings, deposit accounts and credit, which effective date has been deferred to May 31, 2022. The effective date with respect to providing information about securities has been deferred to as yet undetermined date.

## 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 exces 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.

### 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.

## LEGAL PROCEEDINGS

With respect to material legal actions pending against the Bank and against its consolidated subsidiaries, see Note 9 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 capital notes at the rank of Aaa.il(hyb)/stable outlook, and its subordinate debt notes with a loss absorption mechanism to Aa3.il (hyb)/stable outlook rating.
- On May 21, 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 3, 2021, 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-.

## EMPLOYEE COMPENSATION POLICY

For disclosure regarding the employee compensation policy, see the 2020 Risk Report on the Internet site of the Bank.

## INVOLVEMENT AND CONTRIBUTION TO THE COMMUNITY

The Bank continues to act within the framework of the flag plan "Believing-in-you" with the aim of establishing involvement and cooperation by means of voluntary activity of its employees, while creating a joint way having added value.
The Bank has acted and is acting during the spreading period of the Coronavirus to make the necessary modifications for the continuation of the consecutive voluntary activity, under existing limitations and in view of guidelines of the authorized factors.

- 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. As part of the program, youth are being integrated into business ventures under the different programs that combine study with work and promotion of business entrepreneurship with the help of development of qualifications and skills, while creating social involvement with added value, such as enterprises maintained by the Bank with different associations and diverse activities of employees with youths in risk situation:

  Unistream - Activity and training of young persons for integration into the business and entrepreneurship world alongside social responsibility, leadership and empowerment of youth. The program also uses tools belonging to the financial education world. The Bank adopts a number of groups and in parallel participates in events and activities of the Association all over the country.
- Female business entrepreneurship - involvement and accompaniment of learning groups for business entrepreneurship for women, while concentrating on enrichment and provision of tools in various subjects, such as: financial awareness, business entrepreneurship, management and excellence skills, and through personal support, tutoring and adoption of groups in various frames. The bank operates with several associations in this field, including in study and enrichment meetings.
- Defense forces – Through a number of frameworks, the Bank is involved in encouraging young persons for recruitment and meaningful service in the military. The Bank acts in this respect by means of directing professional bodies that accompany young persons in the period prior to their recruitment to the IDF. The Bank's aim is to create motivation and to strengthen the perception of commitment to the State and its values, while striving for excellence and education for military and civil leadership. The Bank Group assists also solitary servicemen during their military service, by cooperating with external bodies and with the LIBI Foundation, whether by providing financial assistance for housing and a warm home, or by the prior preparations for voluntary work by Bank employees in respect of this initiative. In addition, the Bank acts in cooperation with a framework providing employment direction and training for servicemen ending their military service. Within the framework of the "Adopt a Fighter" initiative, the Bank adopts a battle regiment and participates in regimental events and entertainment evenings. The Bank cooperates, in particular, with the IDF Disabled Organization, accompanying disabled ex-servicemen in enrichment meetings and tours.
- Specific activity among special populations and sectors - the Bank encourages and supports volunteers from among Bank employees, interested in taking part in these projects and contribute from their time, experience and expertise, in favor of needy populations and additional sectors. In this framework, the Bank and its subsidiary companies contribute to different associations and organizations in favor of assistance to those populations by cooperating in joint study, experience yielding involvement, digital financial education, volunteering, assistance regarding food packages, language studies and rehabilitating social activity.

# APPENDIX 1 -
# RATES OF INTEREST INCOME AND EXPENSES AND ANALYSIS OF CHANGES IN INTEREST INCOME AND EXPENSES

## A. Average balances and interest rates - assets

| | For the three months ended June 30, 2021 | | | For the three months ended June 30, 2020 | | |
|---|---|---|---|---|---|---|
| | Average balance(1) | Interest income (expense) | Rate of income (expense) | Average balance(1) | Interest income | Rate of income |
| | | NIS million | % | | NIS million | % |
| **Assets bearing interest** | | | | | | |
| Credit to the public(2)(5) | | | | | | |
| - In Israel | **86,061** | **809** | **3.81** | 84,502 | 668 | 3.20 |
| Total | **86,061** | **809** | **3.81** | 84,502 | 668 | 3.20 |
| Credit to the Government | | | | | | |
| - In Israel | **656** | **8** | **4.97** | 1,074 | (1) | (0.37) |
| Total | **656** | **8** | **4.97** | 1,074 | (1) | (0.37) |
| Deposits with banks | | | | | | |
| - In Israel | **2,129** | **-** | **-** | 3,056 | 1 | 0.13 |
| - Outside Israel | **-** | **-** | **-** | 28 | - | - |
| Total | **2,129** | **-** | **-** | 3,084 | 1 | 0.13 |
| Deposits with central banks | | | | | | |
| - In Israel | **46,402** | **12** | **0.10** | 34,093 | 10 | 0.12 |
| Total | **46,402** | **12** | **0.10** | 34,093 | 10 | 0.12 |
| Securities borrowed or repurchased | | | | | | |
| - In Israel | **95** | **-** | **-** | 108 | - | - |
| Total | **95** | **-** | **-** | 108 | - | - |
| Held to maturity or available for sale bonds(3) | | | | | | |
| - In Israel | **14,683** | **26** | **0.71** | 11,614 | 36 | 1.25 |
| Total | **14,683** | **26** | **0.71** | 11,614 | 36 | 1.25 |
| Trading bonds | | | | | | |
| - In Israel | **318** | **1** | **1.26** | 218 | - | - |
| Total | **318** | **1** | **1.26** | 218 | - | - |
| **Total assets bearing interest** | **150,344** | **856** | **2.30** | 134,693 | 714 | 2.14 |
| Debtors regarding credit cards non-bearing interest | **2,783** | | | 2,257 | | |
| Other assets non-bearing interest(4) | **17,567** | | | 14,119 | | |
| **Total assets** | **170,694** | | | 151,069 | | |
| Total assets bearing interest attributed to activity outside Israel | **-** | **-** | **-** | 28 | - | - |

## 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

| | For the three months ended June 30, 2021 | | | For the three months ended June 30, 2020 | | |
|---|---|---|---|---|---|---|
| | Average balance (1) | Interest expense | Rate of expense | Average balance (1) | Interest expense | Rate of expense |
| | | NIS million | % | | NIS million | % |
| **Liabilities bearing interest** | | | | | | |
| Deposits from the public | | | | | | |
| - In Israel | | | | | | |
| Demand | **27,000** | **-** | **-** | 19,395 | - | - |
| Fixed-term | **46,601** | **84** | **0.72** | 48,275 | 48 | 0.40 |
| Total | **73,601** | **84** | **0.46** | 67,670 | 48 | 0.28 |
| Deposits from the Government | | | | | | |
| - In Israel | **171** | **-** | **-** | 153 | 1 | 2.64 |
| Total | **171** | **-** | **-** | 153 | 1 | 2.64 |
| Deposits from banks | | | | | | |
| - In Israel | **1,032** | **1** | **0.39** | 1,252 | - | - |
| Total | **1,032** | **1** | **0.39** | 1,252 | - | - |
| Deposits with Bank of Israel | | | | | | |
| - In Israel | **2,944** | **1** | **0.14** | 522 | - | - |
| Total | **2,944** | **1** | **0.14** | 522 | - | - |
| Bonds | | | | | | |
| - In Israel | **3,734** | **60** | **6.58** | 3,863 | 5 | 0.52 |
| Total | **3,734** | **60** | **6.58** | 3,863 | 5 | 0.52 |
| Other liabilities | | | | | | |
| - In Israel | **25** | **-** | **-** | 65 | - | - |
| Total | **25** | **-** | **-** | 65 | - | - |
| **Total liabilities bearing interest** | **81,507** | **146** | **0.72** | 73,525 | 54 | 0.30 |
| Deposits from the public non-bearing interest | **70,267** | | | 60,855 | | |
| Creditors in respect of credit cards non-bearing interest | **2,587** | | | 2,124 | | |
| Other liabilities non-bearing interest (6) | **6,440** | | | 5,596 | | |
| **Total liabilities** | **160,801** | | | 142,100 | | |
| **Total capital resources** | **9,893** | | | 8,969 | | |
| **Total liabilities and capital resources** | **170,694** | | | 151,069 | | |
| **Interest spread** | | | **1.58** | | | 1.84 |
| **Net return on assets bearing interest (7)** | | | | | | |
| - In Israel | **150,344** | **710** | **1.90** | 134,665 | 660 | 1.97 |
| - Outside Israel | **-** | **-** | **-** | 28 | - | - |
| Total | **150,344** | **710** | **1.90** | 134,693 | 660 | 1.97 |
| Total liabilities bearing interest attributed to activity outside Israel | **-** | **-** | **-** | - | - | - |

# APPENDIX 1 -
# RATES OF INTEREST INCOME AND EXPENSES AND ANALYSIS OF CHANGES IN INTEREST INCOME AND EXPENSES (CONT'D)

## A. Average balances and interest rates - assets

| | For the six months ended June 30, 2021 | | | For the six months ended June 30, 2020 | | |
|---|---|---|---|---|---|---|
| | Average balance(1) | Interest income (expense) | Rate of income (expense) | Average balance(1) | Interest income | Rate of income |
| | | NIS million | % | | NIS million | % |
| **Assets bearing interest** | | | | | | |
| Credit to the public(2)(5) | | | | | | |
| - In Israel | **85,776** | **1,503** | **3.54** | 83,604 | 1,328 | 3.20 |
| Total | **85,776** | **1,503** | **3.54** | 83,604 | 1,328 | 3.20 |
| Credit to the Government | | | | | | |
| - In Israel | **652** | **9** | **2.78** | 965 | (4) | (0.83) |
| Total | **652** | **9** | **2.78** | 965 | (4) | (0.83) |
| Deposits with banks | | | | | | |
| - In Israel | **2,322** | **-** | **-** | 2,640 | 4 | 0.30 |
| - Outside Israel | **-** | **-** | **-** | 28 | - | - |
| Total | **2,322** | **-** | **-** | 2,668 | 4 | 0.30 |
| Deposits with central banks | | | | | | |
| - In Israel | **47,109** | **24** | **0.10** | 31,382 | 28 | 0.18 |
| Total | **47,109** | **24** | **0.10** | 31,382 | 28 | 0.18 |
| Securities borrowed or repurchased | | | | | | |
| - In Israel | **91** | **-** | **-** | 70 | - | - |
| Total | **91** | **-** | **-** | 70 | - | - |
| Held to maturity or available for sale bonds(3) | | | | | | |
| - In Israel | **14,117** | **48** | **0.68** | 10,939 | 73 | 1.34 |
| Total | **14,117** | **48** | **0.68** | 10,939 | 73 | 1.34 |
| Trading bonds | | | | | | |
| - In Israel | **280** | **1** | **0.72** | 179 | - | - |
| Total | **280** | **1** | **0.72** | 179 | - | - |
| **Total assets bearing interest** | **150,347** | **1,585** | **2.12** | 129,807 | 1,429 | 2.22 |
| Debtors regarding credit cards non-bearing interest | **2,699** | | | 2,510 | | |
| Other assets non-bearing interest(4) | **17,015** | | | 13,288 | | |
| **Total assets** | **170,061** | | | 145,605 | | |
| Total assets bearing interest attributed to activity outside Israel | **-** | **-** | **-** | 28 | - | - |

## 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

| | For the six months ended June 30, 2021 | | | For the six months ended June 30, 2020 | | |
|---|---|---|---|---|---|---|
| | Average balance (1) | Interest expense | Rate of expense | Average balance (1) | Interest expense | Rate of expense |
| | | NIS million | % | | NIS million | % |
| **Liabilities bearing interest** | | | | | | |
| Deposits from the public | | | | | | |
| - In Israel | | | | | | |
| Demand | **27,278** | **-** | **-** | 18,598 | 5 | 0.05 |
| Fixed-term | **47,653** | **126** | **0.53** | 48,704 | 103 | 0.42 |
| Total | **74,931** | **126** | **0.34** | 67,302 | 108 | 0.32 |
| Deposits from the Government | | | | | | |
| - In Israel | **184** | **1** | **1.09** | 158 | 2 | 2.55 |
| Total | **184** | **1** | **1.09** | 158 | 2 | 2.55 |
| Deposits from banks | | | | | | |
| - In Israel | **1,063** | **1** | **0.19** | 1,102 | 1 | 0.18 |
| Total | **1,063** | **1** | **0.19** | 1,102 | 1 | 0.18 |
| Deposits with Bank of Israel | | | | | | |
| - In Israel | **2,486** | **1** | **0.08** | 261 | - | - |
| Total | **2,486** | **1** | **0.08** | 261 | - | - |
| Bonds | | | | | | |
| - In Israel | **3,896** | **76** | **3.94** | 3,815 | - | - |
| Total | **3,896** | **76** | **3.94** | 3,815 | - | - |
| Other liabilities | | | | | | |
| - In Israel | **17** | **-** | **-** | 42 | - | - |
| Total | **17** | **-** | **-** | 42 | - | - |
| **Total liabilities bearing interest** | **82,577** | **205** | **0.50** | 72,680 | 111 | 0.31 |
| Deposits from the public non-bearing interest | **68,592** | | | 56,910 | | |
| Creditors in respect of credit cards non-bearing interest | **2,522** | | | 2,352 | | |
| Other liabilities non-bearing interest (6) | **6,596** | | | 4,711 | | |
| **Total liabilities** | **160,287** | | | 136,653 | | |
| **Total capital resources** | **9,774** | | | 8,952 | | |
| **Total liabilities and capital resources** | **170,061** | | | 145,605 | | |
| **Interest spread** | | | **1.62** | | | 1.91 |
| **Net return on assets bearing interest (7)** | | | | | | |
| - In Israel | **150,347** | **1,380** | **1.84** | 129,779 | 1,318 | 2.04 |
| - Outside Israel | **-** | **-** | **-** | 28 | - | - |
| Total | **150,347** | **1,380** | **1.84** | 129,807 | 1,318 | 2.04 |
| Total liabilities bearing interest attributed to activity outside Israel | **-** | **-** | **-** | - | - | - |

# 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

| | For the three months ended June 30, 2021 | | | For the three months ended June 30, 2020 | | |
|---|---|---|---|---|---|---|
| | Average balance(1) | Income (expense) interest | Income (expense) ratio | Average balance (1) | Income (expense) interest | Income (expense) ratio |
| | | NIS million | % | | NIS million | % |
| **Non-linked Israeli currency** | | | | | | |
| Total assets bearing interest | **127,872** | **599** | **1.89** | 111,029 | 600 | 2.18 |
| Total liabilities bearing interest | **65,648** | **(23)** | **(0.14)** | 56,584 | (32) | (0.23) |
| Interest spread | | | **1.75** | | | 1.95 |
| **Israeli currency linked to the CPI** | | | | | | |
| Total assets bearing interest | **11,125** | **226** | **8.38** | 10,736 | 60 | 2.25 |
| Total liabilities bearing interest | **7,644** | **(120)** | **(6.43)** | 7,202 | (9) | (0.50) |
| Interest spread | | | **1.95** | | | 1.75 |
| **Foreign currency (including linked to f-c)** | | | | | | |
| Total assets bearing interest | **11,347** | **31** | **1.10** | 12,900 | 54 | 1.68 |
| Total liabilities bearing interest | **8,215** | **(3)** | **(0.15)** | 9,739 | (13) | (0.54) |
| Interest spread | | | **0.95** | | | 1.14 |
| **Total activity in Israel** | | | | | | |
| Total assets bearing interest | **150,344** | **856** | **2.30** | 134,665 | 714 | 2.14 |
| Total liabilities bearing interest | **81,507** | **(146)** | **(0.72)** | 73,525 | (54) | (0.30) |
| Interest spread | | | **1.58** | | | 1.84 |

| | For the six months ended June 30, 2021 | | | For the six months ended June 30, 2020 | | |
|---|---|---|---|---|---|---|
| | Average balance(1) | Income (expense) interest | Income (expense) ratio | Average balance (1) | Income (expense) interest | Income (expense) ratio |
| | | NIS million | % | | NIS million | % |
| **Non-linked Israeli currency** | | | | | | |
| Total assets bearing interest | **127,499** | **1,195** | **1.88** | 106,846 | 1,225 | 2.31 |
| Total liabilities bearing interest | **66,412** | **(53)** | **(0.16)** | 56,129 | (72) | (0.26) |
| Interest spread | | | **1.72** | | | 2.05 |
| **Israeli currency linked to the CPI** | | | | | | |
| Total assets bearing interest | **10,989** | **320** | **5.91** | 10,516 | 87 | 1.66 |
| Total liabilities bearing interest | **7,773** | **(145)** | **(3.77)** | 7,249 | 1 | 0.03 |
| Interest spread | | | **2.14** | | | 1.69 |
| **Foreign currency (including linked to f-c)** | | | | | | |
| Total assets bearing interest | **11,859** | **70** | **1.18** | 12,417 | 117 | 1.89 |
| Total liabilities bearing interest | **8,392** | **(7)** | **(0.17)** | 9,302 | (40) | (0.86) |
| Interest spread | | | **1.01** | | | 1.03 |
| **Total activity in Israel** | | | | | | |
| Total assets bearing interest | **150,347** | **1,585** | **2.12** | 129,779 | 1,429 | 2.22 |
| Total liabilities bearing interest | **82,577** | **(205)** | **(0.50)** | 72,680 | (111) | (0.31) |
| Interest spread | | | **1.62** | | | 1.91 |

# 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

| | For the three months ended June 30, 2021 compared with the same period last year | | | For the six months ended June 30, 2021 compared with the same period last year | | |
|---|---|---|---|---|---|---|
| | Increase (decrease) due to the change | | | Increase (decrease) due to the change | | |
| | Quantity | Price | Net change | Quantity | Price | Net change |
| | | | NIS million | | | NIS million |
| Interest bearing assets | | | | | | |
| Credit to the public | | | | | | |
| In Israel | **15** | **126** | **141** | **38** | **137** | **175** |
| Total | **15** | **126** | **141** | **38** | **137** | **175** |
| Other interest bearing assets | | | | | | |
| In Israel | **10** | **(9)** | **1** | **23** | **(42)** | **(19)** |
| Total | **10** | **(9)** | **1** | **23** | **(42)** | **(19)** |
| Total interest income | **25** | **117** | **142** | **61** | **95** | **156** |
| Interest bearing liabilities | | | | | | |
| Deposits from the public | | | | | | |
| In Israel | | | | | | |
| Demand | **-** | **-** | **-** | **-** | **(5)** | **(5)** |
| Fixed-term | **(3)** | **39** | **36** | **(3)** | **26** | **23** |
| Total | **(3)** | **39** | **36** | **(3)** | **21** | **18** |
| Other interest bearing liabilities | | | | | | |
| In Israel | **16** | **40** | **56** | **24** | **52** | **76** |
| Total | **16** | **40** | **56** | **24** | **52** | **76** |
| Total interest expenses | **13** | **79** | **92** | **21** | **73** | **94** |
| Total interest income less interest expenses | **12** | **38** | **50** | **40** | **22** | **62** |

(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-bearing interest 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 profit in the item "adjustments to fair value of available for sale securities" for the three and six months ended on June 30, 2021 in the amount of NIS 74 million and NIS 77 million, respectively (for the three and six months ended June 30, 2020 balance of NIS 96 million and NIS 24 million, respectively was added).
(4) Including derivative instruments, other non-bearing interest assets and after deduction of provision for credit losses.
(5) Fees in the amount of NIS 53 million and NIS 45 million were included in interest income for the three months ended June 30, 2021 and June 30, 2020, respectively, and amount of NIS 107 million and NIS 96 million were included in interest income for the six months ended June 30, 2021 and June 30, 2020, 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.