Bank Hapoalim

Condensed Quarterly Financial Statements
as at March 31, 2021

Q1

Contents

Bank Hapoalim

Report of the Board of Directors
and Board of Management
as at March 31, 2021

Q1

Contents

List of Tables

1. General review, objectives, and strategy

At the meeting of the Board of Directors held on May 12, 2021, it was resolved to approve and publish the unaudited consolidated financial statements of Bank Hapoalim B.M. and its consolidated subsidiaries as at March 31, 2021.

1.1. Forward-looking information

Some of the information in these reports that does not refer to historical facts (even if it is based on processing of historical data) constitutes forward-looking information, as defined in the Securities Law, 1968. The actual results of the Bank may differ materially from those included in forward-looking information, including, among other factors, as a result of changes in capital markets in Israel and globally, macroeconomic changes, changes in geopolitical conditions, regulatory changes, accounting changes, changes in taxation rules, and other changes not under the Bank's control, which may lead to the failure of estimates to materialize and/or to changes in the Bank's business plans. Forward-looking information is marked by words or phrases such as "forecast," "plan," "objective," "risk estimate," "scenario," "stress scenario," "risk assessment," "correlation," "distribution," "we believe," "expect," "predict," "estimate," "intends," "plans," "aims," "may change," "should," "can," "will," or similar expressions. Such forward-looking expressions involve risk and uncertainty, because they are based on management's estimates regarding future events, which include changes in the following parameters, among others: economic conditions, public tastes, interest rates in Israel and overseas, inflation rates, new legislation and regulation in the area of banking and the capital market, exposure to financial risks, the financial stability of borrowers, the behavior of competitors, aspects related to the Bank's image, technological developments, manpower-related matters, and other areas that affect the activity of the Bank and the environment in which it operates, the materialization of which is uncertain by nature.

This information reflects the Bank's current viewpoint with regard to future events, which is based on estimates, and is therefore subject to risks and uncertainty, as well as to the possibility that expected events or developments may not materialize at all or may only partially materialize, or even that actual developments may be the opposite of expectations.

The information presented below is based, among other things, on information known to the Bank and based, among other things, on publications by various entities, such as the Central Bureau of Statistics, the Ministry of Finance, the Bank of Israel, the Ministry of Construction and Housing, and other entities that publish data and estimates regarding the Israeli and global capital markets.

1.2. Condensed financial information

As detailed below, the financial results of the Bank, beginning in the month of March 2020, are influenced by the spread of the coronavirus, which caused sharp contraction of global economic activity, changes in the assessment of the condition of the economy and of borrowers, and increased volatility in the markets, among other effects. During the first quarter of 2021, the economic environment in Israel improved, due to vaccination of broad swaths of the population, a decrease in coronavirus cases, and removal of a considerable part of the restrictions imposed by the government.

Table 1-1: Condensed financial information and principal performance indicators over time

	For the three months ended March 31		For the year ended December 31
	2021	2020	2020
Main performance indicators			
Return of net profit on equity attributed to shareholders of the Bank[(1)]	**14.2%**	2.0%	5.3%
Return of net profit on equity attributed to shareholders of the Bank excluding extraordinary items[(1)(2)]	**14.2%**	3.3%	5.7%
Return of net profit from continued operations on equity attributed to shareholders of the Bank[(1)]	**14.2%**	3.2%	5.6%
Return of net profit from continued operations on equity attributed to shareholders of the Bank excluding extraordinary items[(1)(3)]	**14.2%**	3.3%	5.7%
Return on average assets[(1)]	**1.0%**	0.2%	0.4%
Ratio of income to average assets[(1)]	**1.97%**	2.16%	1.99%
Ratio of fees to average assets[(1)]	**0.60%**	0.75%	0.63%
Efficiency ratio – cost-income ratio from continued operations	**53.6%**	56.6%	56.9%
Efficiency ratio – cost-income ratio excluding extraordinary items from continued operations[(3)]	**53.6%**	56.3%	56.7%
Financing margin from regular activity[(1)(4)]	**1.80%**	2.27%	1.98%
Liquidity coverage ratio[(5)]	**139%**	126%	140%

	As at March 31		December 31
	2021	2020	2020
Ratio of common equity Tier 1 capital to risk components[(6)]	**11.67%**	11.21%	11.52%
Ratio of total capital to risk components[(6)]	**14.65%**	14.16%	14.60%
Leverage ratio[(6)]	**6.65%**	7.14%	6.78%

(1) Calculated on an annualized basis.
(2) Does not include expenses in respect of the update of the provision in connection with the investigation of the Bank Group's business with American customers and FIFA, the effect of the closure of the private-banking activity overseas, loss from the separation from Isracard, and loss from impairment in respect of the Bank's investment in Bank Pozitif.
(3) Does not include expenses in respect of the update of the provision in connection with the investigation of the Bank Group's business with American customers and FIFA, the effect of the closure of the private-banking activity overseas, and loss from impairment in respect of the Bank's investment in Bank Pozitif.
(4) Financing profit from regular activity (see the Report of the Board of Directors and Board of Management, Section 2.2, "Material developments in income, expenses, and other comprehensive income") divided by total financial assets after allowance for credit losses, net of non-interest bearing balances in respect of credit cards.
(5) For additional information, see the section "Liquidity and refinancing risk," below.
(6) For additional information, see the section "Capital, capital adequacy, and leverage," below.

Table 1-1: Condensed financial information and principal performance indicators over time (continued)

	For the three months ended March 31		For the year ended December 31
	2021	2020	2020
Main credit quality indicators			
Allowance for credit losses as a percentage of credit to the public	**1.82%**	1.73%	2.00%
Impaired debts and debts in arrears of 90 days or more as a percentage of credit to the public	**1.53%**	1.68%	1.52%
Net charge-offs as a percentage of average credit to the public(1)	**0.03%**	0.25%	0.09%
Provision (income) for credit losses as a percentage of average credit to the public(1)	**(0.66%)**	1.07%	0.64%
	NIS millions		
Main profit and loss data			
Net profit attributed to shareholders of the Bank	**1,354**	192	2,056
Net profit attributed to shareholders of the Bank excluding extraordinary items(2)	**1,354**	313	2,205
Net profit from continued operations attributed to shareholders of the Bank	**1,354**	301	2,165
Net profit from continued operations attributed to shareholders of the Bank excluding extraordinary items(3)	**1,354**	313	2,205
Net interest income	**2,233**	2,192	8,797
Provision (income) for credit losses	**(508)**	809	1,943
Net financing profit*	**2,682**	2,498	9,885
Non-interest income	**1,348**	1,191	4,379
Of which: fees	**817**	863	3,155
Operating and other expenses	**1,919**	1,916	7,501
Of which: salaries and related expenses	**1,096**	962	3,836
Total income	**3,581**	3,383	13,176
Additional data			
Net profit per share attributed to shareholders of the Bank (in NIS)	**1.01**	0.14	1.62
Total dividend per share (in agorot)(4)	**-**	(5)53.94	(5)53.94

* Net financing profit includes net interest income and non-interest financing income (expenses).
(1) Calculated on an annualized basis.
(2) Does not include expenses in respect of the update of the provision in connection with the investigation of the Bank Group's business with American customers and FIFA, the effect of the closure of the private-banking activity overseas, loss from the separation from Isracard, and loss from impairment in respect of the Bank's investment in Bank Pozitif.
(3) Does not include expenses in respect of the update of the provision in connection with the investigation of the Bank Group's business with American customers and FIFA, the effect of the closure of the private-banking activity overseas, and loss from impairment in respect of the Bank's investment in Bank Pozitif.
(4) According to the date of declaration.
(5) Paid as a dividend in kind, in shares; calculated based on the Isracard share price on March 8, 2020 (NIS 10.91).

Table 1-1: Condensed financial information and principal performance indicators over time (continued)

	March 31		December 31
	2021	2020	2020
	NIS millions		
Main balance sheet data			
Total assets	**554,398**	491,459	539,602
Of which: Cash and deposits with banks	**159,943**	89,475	138,711
Securities	**64,798**	74,500	71,885
Net credit to the public	**306,117**	299,548	301,828
Net problematic credit risk	**9,349**	8,468	9,754
Net impaired balance sheet debts	**2,599**	2,718	2,517
Credit to the public not accruing interest income (NPL)	**3,282**	3,650	3,208
Total liabilities	**513,540**	453,792	499,703
Of which: Deposits from the public	**455,394**	388,566	435,217
Deposits from banks	**6,942**	3,980	6,591
Bonds and subordinated notes	**21,415**	24,491	23,490
Shareholders' equity	**40,835**	37,632	39,873
Additional data			
Share price at end of period (in NIS)	**26.0**	21.3	22.0

1.3. Condensed description of the principal risks to which the Bank is exposed

The Bank performs comprehensive examinations to assess the risks to which it is exposed and to estimate the materiality of such risks. Within the ICAAP (Internal Capital Adequacy Assessment Process), the Bank defined the following risks as material risks: credit risk, concentration risk, market risk, investment risk, operational risk (including IT risk and cyber risk), counterparty risk, interest-rate risk in the banking book, liquidity risk, reputational risk, strategic and competitive risk, regulatory risk, compliance risk, and model risk. Other risks to which the Bank is exposed are handled directly as part of the management of its business: legal risk, economic risk, and environmental risk. The spread of the coronavirus is an event with material macroeconomic implications, affecting the ways in which the Bank works as well as the potential for materialization of various risks, including credit risk, market risks, and operational risk. During the first quarter of 2021, the economic environment in Israel improved, due to vaccination of broad swaths of the population, a decrease in coronavirus cases, and removal of a considerable part of the restrictions imposed by the government. However, uncertainty still exists regarding the duration of the event and its future impacts on the activity of the global economy, the local economy, the customers of the Bank, and the Bank itself. For additional information, see the section "Effect of the spread of the coronavirus" and the chapter "Review of risks," below, and the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at March 31, 2021.

1.4. Objectives and business strategy

In late 2020, the Board of Management and Board of Directors of the Bank approved the strategic plan; within this process, the objectives and business strategy for 2021-2023 were established. The objectives and business strategy were determined based on an examination of the impact of the spread of the coronavirus, changes in the global economy, changes in the business environment in Israel, regulatory processes, and the intensification of the competitive environment in which the Bank operates, in all areas of its activity.

The strategic plan was formulated taking into consideration the key trends affecting the banking industry, including the intensifying competition from medium-sized banks and non-bank financial players, the accelerating trend towards the consumption of financial services through direct channels (digital channels, call centers, and self-service stations), continued regulatory measures aimed at increasing competition in the banking system, continued significant investments in fintech companies, and the entry of significant technological players into activity with customers in the financial arena.

In addition to these changes, the strategic plan was built while also taking into consideration possible future scenarios for the banking industry, as published by the Basel Committee on Banking in February 2018. The Bank estimates that the "distributed bank" scenario, in which financial services are distributed among banks and technological players, has a high probability of realization, gradually, over a period of years, in the retail-banking sector (private customers and small businesses). This scenario may involve collaborations forming between players through various activity models.

According to the estimates of the Bank, in corporate and commercial banking, the value added that large technology companies can offer business clients is relatively limited, and the threat posed by tech giants in these customer segments is therefore remote. Thus, the Bank estimates that there is a high probability that the "better bank" scenario will materialize in the corporate-banking sector. In this scenario, existing banks will undergo comprehensive modernization and digitization; they will use new technologies to improve their systems, renew customer interfaces, create added value, and offer advanced services. Some business models will change, but customer relationships and core activity will be maintained.

The Bank implements the directives of the Bank of Israel concerning compliance with capital targets; these directives were taken into consideration in the Bank's strategic planning.

The vision of the Bank: Committed to growth through innovative and fair banking for our customers

As part of the strategic planning process, the Board of Management and Board of Directors of the Bank have decided to formulate a new vision to guide the activity of the Bank.

Corporate strategy

The growth plan is based on three main axes:

1. **Growth in banking activity –** The Bank will work to grow the volume of its activity with retail, commercial, and corporate banking customers, while continually improving its value offer for customers.
2. **Development of new banking –** The Bank will promote the development of new distribution channels for banking services and products, with an emphasis on new digital distribution channels based on advanced data-analysis capabilities and an outstanding user experience.
3. **Building a growth-supporting organizational infrastructure –** The Bank will work to drive processes encouraging a customer-centric, growth-supporting organizational culture, enabling it to improve its delivery and time to market. The use of data and analytics will continue to grow in breadth and depth, in a process begun several years ago, with customer journeys supported by advanced data analysis. The Bank has also started implementation of a project for the modernization of its core systems, to create a more flexible and simpler banking infrastructure, improving the pace of implementation of new business processes and the time to market of newly developed products, providing a foundation for open API, and reducing future IT costs.

For more extensive information regarding the strategy of the Bank and its expression in the various areas of the Bank's activity, see the section "Objectives and business strategy" in the Report of the Board of Directors and Board of Management for 2020.

The Bank's approved work plans and the working assumptions on which they are based refer to the Bank's future activities; therefore, the information in this section with regard to the Bank's action plans and intentions is "forward-looking information."

The strategic plan sets ambitious goals for each of the Bank's activities, yet in any planning, especially in planning several years ahead, and all the more so during periods of changes and turmoil in the global economy and in the world financial system, a considerable degree of uncertainty must be taken into consideration. Various diverse factors may prevent the assumptions on which the strategic plan is based from materializing, or may prevent them from materializing in full, and may prevent the realization or full realization of future plans. Notable such factors are the business environment in Israel and globally, as well as macro conditions. Special importance should be accorded to the impacts of the spread of the coronavirus, worldwide and in Israel; to the condition of the global economy; to the economic, political, and security situation in Israel and in the region; and to regulatory changes.

2. Explanation and analysis of results and business position

2.1. Trends, events, developments, and material changes

2.1.1. Economic and financial review

Developments in the global economy

Economic activity in the various regions of the world in the first quarter was influenced by countries' success in reducing coronavirus case rates and by the progress of vaccination drives. While the United States and Britain are vaccinating rapidly and seeing sharp drops in case numbers, the Eurozone did not begin to accelerate vaccination until March 2021, so that the percentage of the population vaccinated there is significantly lower than in the US, UK, and Israel. In the emerging markets, particularly India and Brazil, case numbers have risen steeply and more severe restrictions are being imposed. The United States economy grew by 6.4% in the first quarter, in annualized terms, while GDP in the Eurozone contracted by approximately 2.5%, with France one of the only Eurozone countries to see positive growth for the quarter. With the lifting of most of the restrictions on activity, the number of people employed in the United States and Europe is rising, but still has not returned to pre-crisis levels. The economic recovery and the expansionary monetary policy have raised inflation expectations worldwide. Concurrently, oil prices and prices of agricultural and industrial commodities rose sharply in the first quarter. Core inflation for the twelve months ended in March reached 1.6% in the United States, and 0.9% in the Eurozone. Central banks in the United States and Europe are signaling that they will tolerate a rise in inflation, and that interest rates are not expected to increase in the near future. In the United States, the yield curve steepened, meaning that investors expect interest-rate hikes in the medium term.

Economic activity in Israel

The first quarter of 2021 was still affected by government-imposed lockdowns and restrictions. These restrictions were gradually removed beginning in February 2021, in light of the rapid vaccination of the population and the sharp drop in the volume of coronavirus cases. Despite the restrictions, the damage to economic activity was lower than in previous lockdowns, likely due to the development of means for remote work, increased online shopping, and lessened concerns of the public. The reopening of the economy beginning in February 2021 led to a leap in private consumption; for example, credit-card purchases rose above their level prior to the coronavirus outbreak. The rate of private savings in the economy rose sharply in 2020, as a result of a reduction in consumption. As the economy reopened, households converted these accumulated savings into heightened consumption. Meanwhile, consumer confidence indices are approaching the levels seen prior to the coronavirus outbreak. A continual increase in prices of financial assets and real estate has created a "wealth effect," which also spurs private consumption. Exports of high-tech services continued to grow at a rapid pace, and Israeli high-tech companies were sold or merged into other companies at values of billions of dollars. These factors will contribute significantly to growth this year.

The real-estate market was also marked by brisk activity during the quarter: sales of new homes reached an average of 3,600 units per month in January-February, similar to the average level in the second half of 2020. The labor market responded to the reopening of the economy, and the broad unemployment rate fell during the first quarter, from 18.4% in January to 12.1% in March. The prolonged period spent by some employees outside the workforce has raised concerns that a return to full employment may take a very long time.

Near the date of publication of the report, the security situation escalated. Conflicts that began in the East Jerusalem area expanded, with rockets fired from the Gaza Strip at Jerusalem and Southern Israel. At the time of writing of this report, the security situation remains tense and disturbances are occurring across Israel. Thus far, the reaction to the events in the financial markets has been moderate.

Fiscal and monetary policy

The government operated without an approved state budget in the first quarter of 2021, using a "continuation budget." General elections for the Knesset were held on March 23, 2021. As of early May 2021, a coalition to form the government has not yet been established. A budget deficit of NIS 22.4 billion was accrued in the first quarter, compared with a deficit of NIS 13.3 billion in the same quarter last year. The cumulative budget deficit for the last twelve months reached 12.1% of GDP. The government expended approximately NIS 21 billion in the first quarter within an economic plan aimed at coping with the coronavirus.

the Bank of Israel maintained the interest rate unchanged at 0.1%, and continued the quantitative easing plan designed to increase liquidity in the markets and provide relief to credit takers. The Bank of Israel purchased government bonds at a volume of NIS 12.7 billion in the first quarter, and granted loans to the banking system designated for the provision of loans to small businesses at a volume of NIS 8.5 billion.

Inflation and exchange rates

The "known" consumer price index rose by 0.1% in the first quarter of 2021, in contrast to the seasonal decrease usually typical of the first quarter of the year. The CPI for March 2021 was up by 0.6%, higher than the CPI for March of last year by 0.2%. A rise in the inflation environment has been apparent in recent months, in large part serving as a correction to the price declines last year. Globally, prices of oil and of agricultural and industrial commodities rose considerably, as well as maritime transport prices. Inflation expectations increased, and are currently within the bounds of the target in all ranges. At this stage, it is difficult to discern whether these are one-time price gains or an indication of a permanent increase in inflation.

The shekel depreciated by 3.7% against the US dollar in the first quarter, and by 1.3% against the currency basket. In January 2021, the Bank of Israel announced a plan to acquire foreign currency at a volume of USD 30 billion in 2021. The Bank of Israel acquired USD 13.7 billion in the first quarter, and foreign-currency reserves reached a record level of USD 186 billion.

Financial and capital markets

The decrease in coronavirus cases and the improvement in economic activity supported the continued gains on global stock markets. Overall in the first quarter of 2021, the S&P 500 index in the United States rose by 5.8%, the Stoxx Europe 50 index rose by 10.3%, and the TA-125 index rose by 6.1%. The gains were also influenced by supportive measures of the central banks, including the Bank of Israel. Daily turnovers in shares and convertibles remained high, at NIS 1.9 billion in the first quarter of 2021, similar to the average level in 2020.

Long-term bond yields rose sharply in the first quarter of 2021. In the United States, yields of ten-year government bonds rose from 0.92% at the end of 2020 to 1.74% at the end of the first quarter of 2021. Yields rose in Israel too, with ten-year government bonds increasing from 0.84% to 1.19% during this period. The increase in yields halted in April 2021, and decreases of approximately 20 basis points were recorded in the United States and in Israel. Overall in the first quarter, the unlinked government bond index fell by 1.5%, while the CPI-linked government bond index remained approximately unchanged. The corporate bond index rose by 2.2% for the quarter, and yield spreads against government bonds decreased to approximately 1.30%, lower than the level prior to the coronavirus crisis. Capital raising by non-financial Israeli companies through bonds totaled approximately NIS 9.1 billion, compared with NIS 10.4 billion raised in the same quarter last year. Most of the decrease in funding stemmed from companies in the real-estate sector.

Table 2-1: Changes in the CPI and in exchange rates

	For the three months ended March 31		For the year 2020
	2021	2020	
Rate of increase (decrease) in "known" CPI	**0.1%**	(0.5%)	(0.6%)
Rate of increase (decrease) in USD exchange rate	**3.7%**	3.2%	(7.0%)
Rate of increase (decrease) in CHF exchange rate	**(3.0%)**	3.1%	2.1%
Rate of increase (decrease) in EUR exchange rate	**(0.8%)**	0.6%	1.7%
Rate of decrease in TRY exchange rate	**(7.5%)**	(6.6%)	(25.4%)

Data regarding the Bank of Israel interest rate

	March 31, 2021	December 31, 2020	September 30, 2020	June 30, 2020	March 31, 2020
Interest rate at end of period	**0.10%**	0.10%	0.10%	0.10%	0.25%

2.1.2. Top and emerging risks

Based on the recommendations of the FSB (Financial Stability Board), a top risk is defined as a development currently occurring in the business environment of the Bank that may adversely affect the Bank's results over the course of the coming year. By contrast, with respect to an emerging risk, there is greater uncertainty regarding the timing of materialization of the risk as an occurrence with a material effect on the strategy of the Bank.

The management of risks at the Bank Group is described extensively in the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at March 31, 2021.

The Board of Management and Board of Directors of the Bank have discussed the effect of the top and emerging risks described below on the Bank; from time to time, they examine the need to adjust business strategy to such developments.

- **Macroeconomic environment:** The activity of the Bank is dependent on the business environment, in Israel and globally. The condition of the global economy, significant changes in monetary policies and interest-rate curves, market volatility, changes in prices of financial assets in Israel and worldwide and in real-estate prices, and the economic, political, and security situation in Israel and in the region have the potential to affect the activity of the Bank. The Bank's multi-annual strategic plan includes certain assumptions regarding the macroeconomic environment, while taking into consideration the existing risks in the global and Israeli economy, and balances risk and return considerations. The Bank is evaluating and examining its strategic plan in view of the changes in the macroeconomic environment.
  The crisis of the spread of the coronavirus has material macroeconomic implications, affecting the ways in which the Bank works as well as the potential for materialization of various risks, including credit risk, market risks, and operational risk. During the first quarter of 2021, the economic environment in Israel improved, due to vaccination of broad parts of the population, a decrease in coronavirus cases, and removal of a considerable part of the restrictions imposed by the government. However, uncertainty still exists regarding the duration of the crisis and its future impacts on the activity of the global economy, the local economy, the customers of the Bank, and the Bank itself, and correspondingly on the various risks. For details, see the section "Economic and financial review," above, and the section "Effect of the crisis of the spread of the coronavirus," below.
- **Regulatory environment in Israel and overseas:** International regulatory reforms have implications for the business of the Bank, in Israel and globally. In Israel, several regulatory initiatives have been formulated over the last few years, with the primary aim of increasing competition in the banking system in Israel; several additional regulatory initiatives are in the process of being generated. These regulatory initiatives and trends, such as bank account switching and open banking, may affect the banking system in general, and the Bank in particular. At this stage, it is too early to estimate all of the effects of these changes on the Bank.
- **Information security and cyber incident risk:** Increasing cyber threats to financial institutions have led to the channeling of resources in the banking industry to cope with this risk. The Bank applies frequent controls in all channels in order to prevent harmful penetration, activation of malicious software, and information leakage. The lines of defense consist of a large number of advanced information-security systems, deployed internally in the Bank's network as well as externally as a perimeter defense. Due to the spread of the coronavirus, there has been a significant process of transition of employees to remote work, as well as additional changes in modes of activity of the Bank, concurrently with an increase in threats and attempted attacks. The cyber defense units have developed responses in order to reduce the risks.

- **Competitive and strategic risk:** New competition from big tech companies (Apple, Google, Facebook, Amazon, and others), fintech companies, and digital banks, alongside the entry of new technologies, changes in customer behavior, and new business models in the financial sphere, may significantly affect the banking system, in Israel and worldwide, in the medium to long term. Concurrently, regulatory and competitive changes in the domestic arena, with an emphasis on measures aimed at increasing competition in the retail credit market, such as the Credit Data Law, which took effect in April 2019, bank account switching, and open banking, may affect the business results of the Bank. The Bank has formulated a strategic plan for 2021-2023, encompassing action in the areas of innovation, technology, the structure of its operations, and more, in order to respond to all such threats.
- **Compliance risk:** Pursuant to Proper Conduct of Banking Business Directive 308, compliance risk also includes risks related to the fairness of the Bank towards its customers, conflicts of interest, the prohibition of money laundering and financing of terrorism, provision of advice to customers, protection of privacy (excluding information-technology aspects), taxation aspects relevant to products or services for customers, or directives of a similar nature. The materialization of this risk on the global level is reflected in the continuing investigations of banks around the world and in the fines imposed on them in connection with the violation of laws or regulations, such as in the areas of assisting tax evasion, the prevention of terrorism financing, money laundering, and investigations of corruption.
- **Environmental risk:** Around the world, the understanding has grown in recent years that the materialization of environmental risks and climate risks may cause harm to the economy, and, in extreme cases, may cause significant damage to banks and to the financial system, as a result of the materialization of financial and non-financial risks in the long term. These effects may also be expressed within other risks to which the banking corporation is exposed in the course of its activity, such as credit risk (through the effect on the financial resilience of borrowers and the value of collateral), market risk, operational risk, legal risk, reputational risk, and more. These risks, particularly climate risks and the impact of processes of transition to a low greenhouse-gas emissions economy, have unique characteristics of uncertainty. At this stage, it is too early to estimate the potential long-term effects of these changes on the Bank.

For details regarding legal proceedings, see Note 10 to the Condensed Financial Statements.

For details regarding material regulatory initiatives with an effect on the activity of the Bank during the reported period, see Note 16 to the Condensed Financial Statements.

2.1.3. Effect of the crisis of the spread of the coronavirus

The coronavirus began to spread rapidly around the world during the first quarter of 2020; in response, governments, including in Israel, took defensive measures such as restriction of international travel, quarantines, reduction of congregation and movement, lockdowns, restrictions of the activity of private businesses and of government and municipal services, and more. In Israel, the early part of the first quarter of 2021 was affected by high numbers of coronavirus cases and by government-imposed lockdowns and restrictions. These restrictions were gradually removed beginning in February, in light of the rapid vaccination of the population and the sharp drop in the volume of cases. At the same time, some parts of the world are experiencing significant case numbers, limited availability of vaccines, and various restrictions. The state of the global pandemic and the concern over vaccine-resistant variants are generating a certain degree of uncertainty regarding the continuation and implications of the health crisis.

Despite the restrictions on activity in Israel, the damage to economic activity was lower than in the period of the first lockdown. The reopening of the economy beginning in February 2021 led to a leap in private consumption. This quarter was also marked by a sharp increase in purchases of new homes and by record demand for mortgages. Economic policy, both budgetary and monetary, remained highly expansionary. The government has maintained its grant program for businesses and unpaid-leave benefits, and the Bank of Israel has extended its bond purchasing plan and allocated a total of USD 30 billion to purchases of foreign currency. The expansionary economic policy is contributing to the improvement of the condition of the economy in the short term, but its longer-term impact is less clear. In particular, the expansionary policy during a period of recovering economic activity has led to higher inflation expectations; at this point, it is difficult to estimate whether the price gains are temporary or whether they indicate an increase in the inflation environment.

Despite the improvement in the first quarter, the crisis of the spread of the coronavirus has had a negative effect on economic activity in Israel, to which the activity of the Bank is exposed, and it has and is expected to have impacts on the business of the Bank, including due to an increase in credit risk and in liquidity problems of borrowers, in both the corporate and private sectors. The reduction of short-term interest rates by the central banks also has the effect of reducing the financing income and interest income of the Bank. This adds to the risk of decreases in prices of tradable assets and changes in bond spreads, which may have an adverse effect on the value of the tradable assets of the Bank, and additional effects.

Accordingly, as part of the Bank's preparations for the consequences of the coronavirus crisis, and in order to assess its potential effects, various scenarios for the progression of a series of economic parameters are being examined and used by the Bank to estimate the impacts on the Bank. In the baseline scenario, the Bank assumes that the pandemic will continue to wane and that no additional wave of contagion will occur. The current restrictions, such as those on incoming tourism, will also be lifted in the second half of the year. The broad unemployment rate will gradually decrease, reaching 9.0% by the end of 2021. The expansionary policy is expected to remain in place. These estimates and scenarios are continuously updated based on various forecasts, the economic plans of the government, and events in Israel and worldwide. See the forward-looking information warning in Section 1.1 above.

On the operational level, and on the level of business continuity, the Bank has applied a series of processes and measures, including remote work, reducing and/or splitting unit personnel, changes in the manner of operation of branches and in activity with customers, deferral of mortgage and loan payments, and more, in accordance with the instructions of the government and of the Ministry of Health, and the changes in regulation by the Bank of Israel, in particular Temporary Proper Conduct of Banking Business Directive 250 of the Banking Supervision Department, which is updated from time to time. In general, the operational risks, including cyber risks, related to the crisis and its effects have been analyzed, and controls and appropriate measures to minimize risk are being considered and implemented accordingly. However, the changing ways of operating due to the crisis of the spread of the coronavirus entail a certain increase in operational risk, in the broad sense. Modes of activity are changing frequently, according to the severity of the spread of the coronavirus and the government guidelines in this area; at this time, the resumption of routine operational activity is in process, while adhering to the guidelines.

In view of the coronavirus crisis, and in order to ensure the ability of the banks to continue to offer credit, the Banking Supervision Department reduced credit requirements for banks, under a temporary order (which has been extended until September 30, 2021); for further details, see the section "Capital and leverage," in the Report on Risks, and the section "Capital, capital adequacy, and leverage," below.

Following the request of the Banking Supervision Department for the capital resources freed by the reduction of the capital requirements to be used to increase credit, the Board of Directors of the Bank resolved, on March 31, 2020, to adjust the target minimum common equity Tier 1 capital ratio to 9.5%, and further resolved that, taking into consideration the existing distribution policy of the Bank, in light of the uncertainty in macroeconomic conditions, and in order to fulfill the purpose of the temporary order and of the policy of the Banking Supervision Department, until the end of the period of the temporary order and until conditions are clearer, the Bank would continue to refrain from performing distributions from ongoing earnings.

The common equity Tier 1 capital ratio as at March 31, 2021, is 11.67%, and the leverage ratio decreased to 6.65%, compared with a common equity Tier 1 capital ratio of 11.52% and a leverage ratio of 6.78% on December 31, 2020. The decrease in the leverage ratio resulted from an increase in the volume of the balance sheet, due to an increase in deposits from the public, and, by contrast, an increase in cash and deposits with banks, as a result of the monetary expansion applied by the Bank of Israel and the consequent increase in liquidity; thus, the decrease mainly stems from an increase in liquidity that does not reflect leverage of credit exposures. The average consolidated liquidity ratio of the Bank was 139% in the quarter ended March 31, 2021, higher than the ratio prior to the spread of the coronavirus, due to the monetary expansion, which led to an increase in deposits.

From the beginning of the crisis to December 31, 2020, the Bank recorded an increase in the collective provision for credit losses in the amount of approximately NIS 1.6 billion, in addition to individual provisions in respect of specific identified borrowers. For further details, see the Financial Statements as at December 31, 2020.

In the first quarter of 2021, the Bank recorded income from credit losses in a total amount of approximately NIS 508 million (of which, income in the amount of approximately NIS 476 million recorded in the collective allowance). The decrease in the collective allowance was recorded in view of the improvement in macroeconomic parameters, and the continued decrease in the volume of debts in deferral of payments.

Due to the coronavirus crisis, as at March 31, 2021, loan payments (principal and/or interest) in the amount of approximately NIS 633 million were deferred, of the total loans in deferral of payments, as detailed in the section "Credit risk," below.

The volatility in the financial markets in the early part of the crisis, which led to an increase in the risk estimates of the activity of the dealing room of the Bank and its customers, subsequently subsided, and the decrease in value of tradable assets was replaced by recovery, with some indices actually reaching record levels, due to the monetary expansion in Israel and worldwide. For details regarding the effect on market risks, see the section "Market risk," below.

It is not possible to estimate the scope of the future spread of the virus, or the responses of governments and central banks, in terms of the restrictions to be imposed on the economy as well as the measures to support and stimulate economic activity, or the reaction of the economies and the markets. It is also not possible to estimate or quantify the duration and extent of the crisis, or its future impact on the global economy, the Israeli economy, the customers of the Bank, and the Bank itself.

2.1.4. External auditors

Ziv Haft (BDO), CPA (Isr.) and Somekh Chaikin (KPMG), CPA (Isr.) serve as the joint auditors of the Bank. The firm Haft & Haft, which merged into Ziv Haft in 2000, began serving as the external auditor of the Bank in 1921. Somekh Chaikin began serving as an auditor of the Bank in 1998.

Occasionally, the external auditor finds it appropriate to diverge from the uniform format by including an emphasis-of-matter paragraph, directing attention to a particular matter that has a significant effect on the financial statements and is included in a note to the financial statements.

The external auditors have emphasized the section in Note 10B(b) to the Condensed Financial Statements concerning exposure to class-action suits filed against the Bank Group.

2.2. Material developments in income, expenses, and other comprehensive income

As detailed below, the financial results, beginning in the month of March 2020, have been influenced by the spread of the coronavirus. During the first quarter of 2021, the economic environment in Israel improved, due to vaccination of broad swaths of the population.

Net profit attributed to shareholders of the Bank totaled NIS 1,354 million in the first three months of 2021, compared with profit in the amount of NIS 192 million in the same period last year.

The increase in profit mainly resulted from income recorded in respect of credit losses, mainly due to an improvement in macroeconomic parameters and the continued decrease in the volume of debts in deferral of payments, which led to a decrease in collective allowance rates, as well as an increase in profit from shares.

Net return on equity attributed to shareholders of the Bank was approximately 14.2% in the first three months of 2021, compared with approximately 2.0% in the same period last year.

Table 2-2: Condensed statement of profit and loss

	For the three months ended		Change
	March 31, 2021	March 31, 2020	
	NIS millions		
Interest income	**2,591**	2,542	1.9%
Interest expenses	**(358)**	(350)	2.3%
Net interest income	**2,233**	2,192	1.9%
Non-interest financing income	**449**	306	46.7%
Net financing profit*	**2,682**	2,498	7.4%
Provision (income) for credit losses	**(508)**	809	(162.8%)
Net financing profit after provision for credit losses	**3,190**	1,689	88.9%
Fees and other income	**899**	885	1.6%
Operating and other expenses	**1,919**	1,916	0.2%
Profit from continued operations before taxes	**2,170**	658	229.8%
Provision for taxes on profit from continued operations	**826**	363	127.5%
Profit from continued operations after taxes	**1,344**	295	355.6%
The Bank's share in profits of equity-basis investees, after taxes	**7**	1	600.0%
Net profit from continued operations	**1,351**	296	356.4%
Net profit (loss) from a discontinued operation	**-**	(109)	(100.0%)
Net profit:			
Before attribution to non-controlling interests	**1,351**	187	622.5%
Loss attributed to non-controlling interests	**3**	5	(40.0%)
Attributed to shareholders of the Bank	**1,354**	192	605.2%
Return of net profit	**14.2%**	2.0%	610.0%

* The profit and loss items above are presented in a different format than in the condensed statement of profit and loss, in order to allow better analysis of the financial results. This change is expressed in the reclassification of non-interest financing income, from the item of "non-interest income (expenses)" to the item of "net financing profit."

2.2.1. Developments in income and expenses

Net financing profit

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 – exchange-rate differences and profit from the sale of securities, among other things – which serve as an integral element of the Bank's exposure management. Income from derivatives includes, among other matters, the effects of the time value in the fair value of derivatives, which offset balance sheet interest exposures, as well as the effects of the rate of change in the known CPI on derivatives balances, which offset CPI exposures in respect of balance sheet balances.

Table 2-3: Composition of net financing profit

	For the three months ended		Change
	March 31, 2021	March 31, 2020	
	NIS millions		
Interest income	**2,591**	2,542	1.93%
Interest expenses	**(358)**	(350)	2.29%
Net interest income	**2,233**	2,192	1.87%
Non-interest financing income	**449**	306	46.73%
Total reported financing profit	**2,682**	2,498	7.37%
Excluding effects not from regular activity:			
Income from realization and adjustments to fair value of bonds	**59**	27	
Profit (loss) from investments in shares	**293**	(122)	
Adjustment to fair value of investment in affiliate	**6**	11	
Adjustments to fair value of derivative instruments(1)	**29**	9	
Financing income (expenses) from tax hedging of investments overseas and hedges of currency exposures of non-monetary items(2)	**(43)**	87	
Total effects not from regular activity	**344**	12	
Total financing profit from regular activity(3)	**2,338**	2,486	(5.95%)

(1) The effect of the measurement of profit and loss in derivative instruments constituting part of the Bank's asset and liability management strategy on a fair-value basis, versus measurement on an accrual basis.

(2) This item includes the effects of hedging of currency exposures of non-monetary items and the effect of hedging the asymmetry in the tax liability in respect of exchange-rate differences in investments in subsidiaries overseas, which are not included in the income base for the calculation of the provision for tax, in contrast to exchange-rate differences in respect of financing sources. The Bank hedges against tax exposure in respect of investments overseas by establishing surplus financing sources against such investments.

(3) Financing profit excluding extraordinary effects, and excluding effects arising mainly from the timing of recording in accounting.
Of which in respect of the effects of changes in the CPI: income in the amount of NIS 12 million in the first quarter of 2021, compared with an expense in the amount of NIS 70 million in the first quarter of 2020.

Income from regular financing activity totaled NIS 2,338 million in the first three months of 2021, compared with a total of NIS 2,486 million in the same period last year. The decrease resulted from a decrease in financial spreads of deposits, due to a decrease in the dollar and shekel interest rates. In addition, the volume of consumer retail credit decreased, and income from dealing-room activity decreased, whereas in the same period last year the volume of transactions increased, due to volatility in the market as a result of the crisis of the spread of the coronavirus. By contrast, income from linkage differentials increased, due to changes in the rate of the known CPI between the periods, and the volume of housing credit and business credit increased.
Total reported financing income amounted to NIS 2,682 million in the first three months of 2021, compared with a total of NIS 2,498 million in the same period last year. The increase mainly resulted from an increase in profits from investment in shares. By contrast, income from exchange-rate differences decreased, mainly due to hedging of currency exposures of non-monetary items, and profit decreased due to a decrease in income from regular financing activity, as noted above.

Table 2-4: Principal data regarding interest income and expenses

	For the three months ended			
	March 31, 2021		March 31, 2020	
	Interest income (expenses)	Rate of income (expense)	Interest income (expenses)	Rate of income (expense)
	NIS millions/percent			
Interest income	**2,591**	**2.10%**	2,542	2.45%
Interest expenses	**(358)**	**0.52%**	(350)	0.58%
Net interest income	**2,233**	**1.58%**	2,192	1.87%
Net interest income as a percentage of the balance of interest-bearing assets		**1.81%**		2.11%

Interest income and expenses increased in the first three months of 2021, compared with the same period last year, as a result of an increase in the volume of assets and liabilities and an increase in linkage differentials, due to changes in the rate of increase of the known CPI between the periods. This increase was offset by a decrease in interest rates, due to the decrease in the dollar and shekel interest rates. Interest income was also influenced by a change in the composition of credit, reflected in a decrease in the volume of retail consumer credit and an increase in the volume of housing credit.
In the first three months of 2021, the ratio of net interest income to the balance of interest-bearing assets decreased by 0.3% in comparison to the same period last year, mainly due to an increase in the average balance of income-bearing assets, most of which resulted from a sharp increase in liquid assets, due to an increase in resources from deposits from the public deposited with the Bank of Israel.
For further details, see the section "Rates of interest income and expenses" in the Corporate Governance Report, below.

The provision for credit losses amounted to income of approximately NIS 508 million in the first three months of 2021, compared with a provision in the amount of NIS 809 million in the same period last year.

The net individual provision amounted to income of NIS 55 million in the first three months of 2021, compared with a provision in the amount of NIS 202 million in the same period last year. The decrease resulted from both a decrease in the gross individual provision and an increase in recovery volumes during the period.

The net collective provision amounted to income of NIS 453 million in the first three months of 2021, compared with a provision in the amount of NIS 607 million in the same period last year. The decrease in the collective provision mainly resulted from the effect of the improvement in macroeconomic parameters and the continued decrease in the volume of debts in deferral of payments, which led to a decrease in collective allowance rates, and from a decrease in the volume of automatic charge-offs.

For further information regarding the development of balances of credit to the public, see the section "Structure and development of assets, liabilities, capital, and capital adequacy," below.

For further information regarding the change in the allowance for credit losses, see Note 6 to the Condensed Financial Statements.

Table 2-5: Cumulative provision for credit losses in respect of debts and in respect of off-balance sheet credit instruments**

	For the three months ended	
	March 31, 2021	March 31, 2020
	NIS millions	
Individual provision for credit losses	**89**	324
Decrease in individual allowance for credit losses and recovery of charged off debts	**(144)**	(122)
Net individual provision (income) for credit losses	**(55)**	202
Net provision (income) in respect of the collective allowance for credit losses and net charge-offs	**(453)**	607
Total provision (income) for credit losses*	**(508)**	809
* Of which:		
Net provision (income) for credit losses in respect of commercial credit risk	**(203)**	656
Net provision (income) for credit losses in respect of housing credit risk	**(68)**	32
Net provision (income) for credit losses in respect of other private credit risk	**(237)**	120
Net provision for credit losses in respect of risk of credit to banks and governments	**-**	1
Total provision (income) for credit losses	**(508)**	809
	%	
Provision as a percentage of total credit to the public:***		
Percentage of individual provision for credit losses	**0.11%**	0.43%
Gross provision (income) for credit losses as a percentage of the average recorded balance of credit to the public****	**(0.47%)**	1.24%
Provision (income) for credit losses as a percentage of the average recorded balance of credit to the public	**(0.66%)**	1.07%
Net charge-offs in respect of credit to the public as a percentage of the average recorded balance of credit to the public	**0.03%**	0.25%
Net charge-offs in respect of credit to the public as a percentage of the allowance for credit losses in respect of credit to the public	**1.62%**	14.20%

** Including in respect of housing loans examined according to the extent of arrears.
*** Annualized.
**** The gross provision for credit losses is the total provision for credit losses, excluding the decrease in the individual allowance for credit losses and recovery of charged off debts.

Fees and other income totaled NIS 899 million in the first three months of 2021, compared with NIS 885 million in the same period last year. Income from fees was influenced, among other factors, by the effects of the spread of the coronavirus, which led to a decrease in income from account-management fees and in income from credit cards. By contrast, fees from financing transactions increased. Fees from securities activity remained high, similar to the same period last year, due to high turnovers in the capital market.

Other income totaled NIS 82 million in the first three months of 2021, compared with NIS 22 million in the same period last year. The increase mainly resulted from capital gains from the sale of branches.

Table 2-6: Details of fees and other income

	For the three months ended		Change
	March 31, 2021	March 31, 2020	
	NIS millions		
Fees			
Account-management fees	**187**	210	(11.0%)
Securities activity	**221**	223	(0.9%)
Credit cards, net	**55**	76	(27.6%)
Credit processing	**62**	63	(1.6%)
Financing transaction fees	**139**	122	13.9%
Other fees	**153**	169	(9.5%)
Total operating fees	**817**	863	(5.3%)
Total others	**82**	22	272.7%
Total operating income and other income	**899**	885	1.6%

Operating and other expenses totaled NIS 1,919 million in the first three months of 2021, similar to the same period last year.

Table 2-7: Details of operating and other expenses

	For the three months ended		Change
	March 31, 2021	March 31, 2020	
	NIS millions		
Wages	**1,096**	962	13.9%
Maintenance and depreciation of buildings and equipment	**337**	321	5.0%
Other expenses	**486**	633	(23.2%)
Total operating and other expenses	**1,919**	1,916	0.2%

Salary expenses totaled NIS 1,096 million in the first three months of 2021, compared with NIS 962 million in the same period last year, an increase of 13.9%. The increase in salary expenses resulted from an increase in the expense for bonuses, due to an increase in return rates compared with the same period last year. Regular salary expenses reflect continued savings due to the continued efficiency processes.

Expenses for maintenance and depreciation of buildings and equipment totaled NIS 337 million in the first three months of 2021, compared with NIS 321 million in the same period last year, an increase of 5.0%, mainly due to an increase in depreciation expenses.

Other expenses totaled NIS 486 million in the first three months of 2021, compared with NIS 633 million in the same period last year. The decrease mainly resulted from a decrease in legal expenses and in the provision in respect of the investigation of the Bank Group's business with American customers.

The provision for taxes on profit from continued operations totaled NIS 826 million in the first three months of 2021, compared with a total of NIS 363 million in the same period last year; the increase mainly resulted from an increase in profit before tax.

Net profit (loss) from a discontinued operation amounted to a loss of NIS 109 million in the first three months of 2020, which resulted from recognition of loss from impairment of the investment in Isracard, in the amount of approximately NIS 109 million (after tax effect), due to the decrease in the share price to a level lower than the balance of the investment in the Bank's books as at December 31, 2019, compared with the price immediately prior to its distribution as a dividend in kind to the shareholders in March 2020.

Non-controlling interests' share in net results of consolidated companies totaled a share in loss in the amount of NIS 3 million in the first three months of 2021, compared with a share in loss in the amount of NIS 5 million in the same period last year.

Net profit attributed to shareholders of the Bank totaled NIS 1,354 million in the first three months of 2021, compared with a total of NIS 192 million in the same period last year.

Basic net profit per share of par value NIS 1 amounted to NIS 1.01 in the first three months of 2021, compared with NIS 0.14 in the same period last year.

2.2.2. Developments in comprehensive income

Table 2-8: Comprehensive income

	For the three months ended	
	March 31, 2021	March 31, 2020
	NIS millions	
Net profit before attribution to non-controlling interests	**1,351**	187
Loss attributed to non-controlling interests	**3**	5
Net profit attributed to shareholders of the Bank	**1,354**	192
Other comprehensive income (loss) before taxes:		
Net adjustments in respect of bonds available for sale at fair value	**(582)**	(667)
Adjustments of liabilities in respect of employee benefits*	**(17)**	635
Other comprehensive loss before taxes	**(599)**	(32)
Effect of related tax	**204**	7
Other comprehensive loss before attribution to non-controlling interests, after taxes	**(395)**	(25)
Net of other comprehensive loss (income) attributed to non-controlling interests	**-**	-
Other comprehensive loss attributed to shareholders of the Bank, after taxes	**(395)**	(25)
Comprehensive income before attribution to non-controlling interests	**956**	162
Comprehensive loss attributed to non-controlling interests	**3**	5
Comprehensive income attributed to shareholders of the Bank	**959**	167

* Mainly reflects adjustments in respect of actuarial estimates at the end of the period, and deduction of amounts previously recorded in other comprehensive income.

Comprehensive income totaled NIS 959 million in the first three months of 2021, compared with a total of NIS 167 million in the same period last year. Comprehensive income was mainly influenced by an increase in net profit, partly offset by a decrease in employee benefit liability adjustments compared with the same period last year, due to an increase in the discount rate of actuarial liabilities in the comparison quarter.

2.3. Structure and development of assets, liabilities, capital, and capital adequacy

The consolidated balance sheet as at March 31, 2021, totaled NIS 554.4 billion, compared with NIS 539.6 billion at the end of 2020. The increase mainly resulted from an increase in deposits from the public, due to the continued monetary expansion applied by the Bank of Israel and the enlargement of the monetary base, and from a continued increase in savings of the public.

Table 2-9: Developments in principal balance sheet items

	Balance as at		Change
	March 31, 2021	December 31, 2020	
	NIS millions		
Total assets	**554,398**	539,602	2.7%
Net credit to the public	**306,117**	301,828	1.4%
Cash and deposits with banks	**159,943**	138,711	15.3%
Securities	**64,798**	71,885	(9.9%)
Deposits from the public	**455,394**	435,217	4.6%
Bonds and subordinated notes	**21,415**	23,490	(8.8%)
Shareholders' equity	**40,835**	39,873	2.4%

2.3.1. Structure and development of assets and liabilities

Credit to the public

Table 2-10: Development of net credit to the public by management approach activity segment

	As at		Change
	March 31, 2021	December 31, 2020	
	NIS millions		
Private customers	**37,225**	37,233	(0.0%)
Small businesses	**31,139**	31,371	(0.7%)
Housing loans	**100,650**	98,737	1.9%
Commercial	**43,832**	42,290	3.6%
Corporate	**78,102**	78,103	(0.0%)
International activity	**13,502**	12,521	7.8%
Financial management	**1,667**	1,573	6.0%
Total	**306,117**	301,828	1.4%

For further information regarding the development of credit and credit risks by economic sector, see the section "Credit risk" in the chapter "Review of risks," below.

Problematic debts

Table 2-11: Problematic credit risk[(1)]

	March 31, 2021			December 31, 2020		
	Balance sheet	Off-balance sheet	Total	Balance sheet	Off-balance sheet	Total
	NIS millions					
Impaired credit risk	**3,998**	**623**	**4,621**	3,971	669	4,640
Substandard credit risk[(2)]	**2,056**	**210**	**2,266**	2,254	158	2,412
Credit risk under special supervision	**4,035**	**716**	**4,751**	4,405	781	5,186
Total problematic credit risk*	**10,089**	**1,549**	**11,638**	10,630	1,608	12,238
Net problematic credit risk	**7,940**	**1,409**	**9,349**	8,294	1,460	9,754
* Of which, unimpaired debts in arrears of 90 days or more[(2)]	**777**	**-**	**777**	728	-	728

(1) Credit risk that is impaired, substandard, or under special supervision.
(2) Including in respect of housing loans for which an allowance based on the extent of arrears exists, and in respect of housing loans for which an allowance based on the extent of arrears does not exist, which are in arrears of 90 days or more.
For details regarding the instructions of the Banking Supervision Department on coping with the coronavirus, see Note 1C to the Condensed Financial Statements.

Note:
Balance sheet and off-balance sheet credit risk are presented before the effect of the allowance for credit losses, and before the effect of deductible collateral for the purpose of the indebtedness of borrowers and of groups of borrowers.

For further information regarding the analysis of the credit portfolio and problematic credit risk, including the scenarios and sensitivity analyses tested, see the section "Credit risk" in the chapter "Review of Risks," below.

Off-balance sheet credit

Table 2-12: Developments in principal off-balance sheet items

	Balance as at		Change
	March 31, 2021	December 31, 2020	
	NIS millions		
Off-balance sheet financial instruments, excluding derivatives			
Documentary credit	**1,300**	828	57.0%
Guarantees and other commitments*,**	**54,758**	52,213	4.9%
Unutilized credit-card credit facilities under the Bank's responsibility	**13,110**	15,744	(16.7%)
Unutilized revolving overdraft and other credit facilities in on-demand accounts*	**50,258**	47,997	4.7%
Irrevocable commitments to grant credit approved but not yet provided, and commitments to provide guarantees	**74,181**	71,776	3.4%

* Includes off-balance sheet credit risk in the amount of approximately NIS 11,174 million, in respect of which insurance was acquired from foreign insurance companies for the portfolio of Sale Law guarantees (December 31, 2020: NIS 11,819 million).

** Includes the Bank's liabilities in respect of its share in the risk fund of the Maof Clearing House, in the amount of NIS 83 million (December 31, 2020: NIS 91 million).

Unutilized credit facilities under the responsibility of the Bank totaled approximately NIS 13.1 billion, compared with NIS 15.7 billion. The decrease mainly resulted from the reduction of credit facilities in credit cards, as part of the preparations for implementation of the Law for Increasing Competition and Reducing Concentration in the Banking Market in Israel. For further details, see Note 16 to the Condensed Financial Statements.

Securities

The Bank has investments in government and corporate bonds, as well as investments in tradable (mainly foreign) and non-tradable shares, broadly diversified.

Investments in securities totaled approximately NIS 64.8 billion as at March 31, 2021, compared with approximately NIS 71.9 billion at the end of 2020, a decrease of approximately 9.9%, which mainly resulted from the net sale of Israeli government bonds and corporate bonds.

The overall share portfolio of the Bank Group totaled approximately NIS 2.8 billion, reflecting a continued trend of growth in non-tradable investments that began in 2020, and an increase in the value of the shares.

Income from realization and adjustments to fair value of bonds in the amount of approximately NIS 59 million was recorded in the first quarter of 2021, compared with approximately NIS 27 million in the same quarter last year. By contrast, a decrease in the amount of approximately NIS 582 million was recorded in the value of bonds, compared with a decrease in the amount of approximately NIS 667 million in the same quarter last year, which was allocated to the capital reserve and is classified into profit and loss at the time of the sale.

Profit in the amount of approximately NIS 293 million was recorded in respect of the share portfolio of the Bank in the first quarter of 2021, compared with a loss in the amount of approximately NIS 122 million in the same period last year.

Details of the Bank Group's activity in securities are set out below.

Table 2-13: Securities balances

	Trading book		Available for sale		Held to maturity		Total	
	Balance sheet value	% of total securities	Balance sheet value	% of total securities	Balance sheet value	% of total securities	Balance sheet value	% of total securities
	NIS millions/percent							
March 31, 2021								
Israeli government bonds	**3,254**	**5.0%**	**41,755**	**64.4%**	**189**	**0.3%**	**45,198**	**69.8%**
US government bonds	**-**	**-**	**9,414**	**14.5%**	**-**	**-**	**9,414**	**14.5%**
Government bonds – other foreign countries	**2**	**0.0%**	**1,251**	**2.0%**	**-**	**-**	**1,253**	**1.9%**
Total government bonds	**3,256**	**5.0%**	**52,420**	**80.9%**	**189**	**0.3%**	**55,865**	**86.2%**
Corporate bonds – Israel	**-**	**-**	**-**	**-**	**312**	**0.5%**	**312**	**0.5%**
Corporate bonds – foreign countries	**-**	**-**	**5,818**	**9.0%**	**-**	**-**	**5,818**	**9.0%**
Total corporate bonds	**-**	**-**	**5,818**	**9.0%**	**312**	**0.5%**	**6,130**	**9.5%**
Shares	**-**	**-**	**2,803**	**4.3%**	**-**	**-**	**2,803**	**4.3%**
Total securities	**3,256**	**5.0%**	**61,041**	**94.2%**	**501**	**0.8%**	**64,798**	**100.0%**
December 31, 2020								
Israeli government bonds	6,213	8.6%	43,335	60.3%	1	0.0%	49,549	68.9%
US government bonds	-	-	9,168	12.8%	-	-	9,168	12.8%
Government bonds – other foreign countries	2	0.0%	1,394	1.9%	-	-	1,396	1.9%
Total government bonds	6,215	8.6%	53,897	75.0%	1	0.0%	60,113	84.0%
Corporate bonds – Israel	-	-	-	-	425	0.6%	425	0.6%
Corporate bonds – foreign countries	-	-	8,962	12.5%	-	-	8,962	12.5%
Total corporate bonds	-	-	8,962	12.5%	425	0.6%	9,387	13.1%
Shares	-	-	2,385	3.3%	-	-	2,385	3.3%
Total securities	6,215	8.6%	65,244	90.8%	426	0.6%	71,885	100.0%

Table 2-14: Details of corporate bonds by economic sector

	March 31, 2021		December 31, 2020	
	Balance sheet value	Percentage of total corporate bonds	Balance sheet value	Percentage of total corporate bonds
	NIS millions		NIS millions	
Mining and quarrying	**486**	**7.9%**	676	7.2%
Industry	**823**	**13.4%**	1,205	12.8%
Electricity and water	**392**	**6.4%**	404	4.3%
Information and communications	**267**	**4.4%**	497	5.3%
Banks and financial institutions	**3,345**	**54.5%**	5,483	58.5%
Commerce	**226**	**3.7%**	406	4.3%
Transportation and storage	**336**	**5.5%**	340	3.6%
Others	**255**	**4.2%**	376	4.0%
Total corporate bonds	**6,130**	**100.0%**	9,387	100.0%

For further details regarding amounts measured at fair value, see Note 15B to the Condensed Financial Statements.
For details regarding unrealized loss from adjustments to fair value in respect of bonds available for sale, see Note 5 to the Condensed Financial Statements.

Deposits

Table 2-15: Developments in balances of deposits

	Balance as at		Change
	March 31, 2021	December 31, 2020	
	NIS millions		
Deposits from the public	**455,394**	435,217	4.6%
Deposits from banks	**6,942**	6,591	5.3%
Deposits from the government	**556**	761	(26.9%)
Total	**462,892**	442,569	4.6%

The balance of deposits totaled approximately NIS 462.9 billion as at March 31, 2021, compared with a total of approximately NIS 442.6 billion at the end of 2020. The accelerated growth in the balance of deposits continued in the first quarter of 2021, in view of the monetary expansion applied by the Bank of Israel within the efforts to cope with the spread of the coronavirus, which enlarges the monetary base and concurrently also deposits from the public, and the continued increase in savings of the public.

Off-balance sheet activity in securities held by the public

Table 2-16: Developments in balances of off-balance sheet monetary assets held by the Bank Group's customers for which the Bank Group provides custody, management, operational, and advisory services

	Balance as at		Change
	March 31, 2021	December 31, 2020	
	NIS millions		
Securities[1]	**692,989**	646,484	7.2%
Mutual fund assets[2]	**84,780**	76,500	10.8%

(1) Including securities balances of provident funds and mutual funds for which the Bank Group provides custody services.
(2) Value of assets of mutual funds receiving services related to account management at various volumes.

The increase in the volume of securities of customers of the Bank Group was primarily influenced by the market gains during the period.

Bonds and subordinated notes totaled approximately NIS 21.4 billion as at March 31, 2021, compared with approximately NIS 23.5 billion at the end of 2020, a decrease of approximately 8.8%, which resulted from the maturities during the first quarter of 2021 of bonds and subordinated notes issued by Poalim Hanpakot in the amount of approximately NIS 2 billion (partial maturity of Series 34 bonds in the amount of approximately NIS 0.7 billion, and full maturity of Series J subordinated notes in the amount of approximately NIS 0.9 billion and Series K subordinated notes in the amount of approximately NIS 0.4 billion).

Table 2-17: Details of bonds and subordinated notes

	March 31, 2021		December 31, 2020	
	Balance sheet value	Of which: tradable	Balance sheet value	Of which: tradable
	NIS millions			
Subordinated notes	**10,373**	**8,753**	11,651	10,029
Bonds	**11,042**	**11,042**	11,839	11,826
Total bonds and subordinated notes	**21,415**	**19,795**	23,490	21,855

Table 2-18: Derivative instruments

	March 31, 2021			December 31, 2020		
	Positive fair value	Negative fair value	Notional value	Positive fair value	Negative fair value	Notional value
	NIS millions					
Interest contracts	**4,983**	**5,486**	**354,342**	6,025	7,180	351,385
Currency contracts	**4,969**	**4,514**	**360,057**	6,894	7,703	322,152
Share-related contracts	**1,412**	**1,405**	**100,807**	1,925	1,914	91,017
Commodity and service contracts (including credit derivatives)	**2**	**2**	**42**	46	45	407
Total	**11,366**	***11,407**	**815,248**	14,890	*16,842	764,961

* Of which: net fair value of liabilities in respect of embedded derivatives in the amount of NIS 44 million (December 31, 2020: NIS 38 million), included in the balance sheet in the item "deposits from the public."

2.3.2. Capital, capital adequacy, and leverage

(1) Capital

Investments in the capital of the Bank and transactions in its shares

The issued and paid-up share capital of the Bank, as at March 31, 2021, is NIS 1,335,921,743 par value, composed of ordinary shares of par value NIS 1 each. This is the issued capital excluding 1,455,368 ordinary shares purchased by the Bank ("Treasury Shares").

Until November 2018, Ms. Shari Arison held the permit for control of the Bank, through Arison Holdings (1998) Ltd. ("Arison Holdings"). On November 22, 2018, Ms. Arison's control permit was replaced by a permit to hold means of control, which she received from the Bank of Israel (a "holding permit"), allowing the control of the Bank to be decentralized, and the Bank became a banking corporation without a controlling core. Pursuant to the terms of the holding permit, Ms. Arison, who holds approximately 11.35% of the shares of the Bank at the date of publication of this statement, is required to sell her holdings in the Bank in excess of 5% within several years (by November 2022, with possible extension by an additional two years, with the approval of the Supervisor of Banks). For additional details regarding the holding permit, the change in the structure of control of the Bank, and the consequences thereof, see the section "Other matters" in the Corporate Governance Report in the Annual Financial Statements for 2018.

Dividends

Subject to the statements in this section, below, since the first quarter of 2017, the dividend distribution policy of the Bank is to distribute up to 40% of quarterly net operating profit. Any distribution is subject to a specific resolution of the Board of Directors of the Bank, based on its judgment at the date of the distribution, taking into account business considerations, the directives of all laws, and any constraints on distribution.

In addition to restrictions under the Companies Law, dividend distribution by banking corporations is subject to regulation applicable to banking corporations in Israel, pursuant to which no dividends shall be distributed: (a) if the cumulative balance of retained earnings of the bank (net of negative differences included in accumulated other comprehensive income) according to its last published financial statements is not positive, or if the payout would lead to a negative balance; (b) when one or more of the last three calendar years ended in a loss or in a comprehensive loss; (c) when the cumulative result of the three quarters ended at the end of the interim period for which the last financial statement has been released indicates a loss or a comprehensive loss; (d) if the forecast is that in the year following the payout the bank's ratio of capital to risk-adjusted assets will fall below the required rate; (e) from capital reserves or positive differences resulting from the translation of financial statements of foreign operations; (f) if after the payout the bank's non-monetary assets would exceed its shareholders' equity; or (g) if the bank does not comply with the requirements of Section 23A of the Banking Law, which establishes a limit on the percentage of capital that a banking corporation may invest in non-financial corporations. The foregoing notwithstanding, in certain cases the Bank can distribute dividends even if the aforesaid circumstances apply, if it obtains prior written approval from the Banking Supervision Department for such distribution, up to the amount thus approved. For details regarding the capital-adequacy target of the Bank, see the section "Capital adequacy," below.

Pursuant to the terms of the Series 1 subordinated notes, if interest payments in respect of these notes are deferred, the Bank shall not pay dividends to its shareholders until all of the deferred interest payments are paid in full.

In light of the uncertainty with respect to the investigation of the United States authorities that existed prior to the approval of the resolutions with them, for reasons of conservatism and in coordination with the Bank of Israel, beginning in the second quarter of 2018, the Board of Directors of the Bank has not declared the distribution of dividends from ongoing earnings, with no change to the Bank's dividend distribution policy. In view of the notification of the Banking Supervision Department of March 29, 2020, and its temporary order (see Section 2 concerning capital adequacy, below) in connection with the spread of the coronavirus, the Board of Directors of the Bank resolved, on March 31, 2020, that in light of the uncertainty in macro-economic conditions, and in order to fulfill the purpose of the directives and policy of the Banking Supervision Department, until the end of the period of the temporary order and until conditions are clearer, the Bank will continue to refrain from performing distributions from ongoing earnings. As at March 31, 2021, the common equity Tier 1 capital ratio was 11.67%, higher than the minimum capital ratio required by the Bank of Israel and the capital target of the Board of Directors, indicating that dividend distribution may be resumed, subject to the required approvals, among other matters.

As a result of the sale of approximately 65.2% of the shares of Isracard in the second quarter of 2019, the Bank accumulated additional capital surplus. In September 2019, the Board of Directors of the Bank declared the distribution of dividends in respect of this capital surplus, in the amount of NIS 1 billion, paid in October 2019. The remaining holdings of the Bank in the shares of Isracard (approximately 33% of the issued and paid-up capital of Isracard) were distributed as a dividend in kind to the shareholders of the Bank on March 9, 2020.

Table 2-19: Details of dividends paid

Date of declaration	Date of payment	Dividend per share	Dividend paid in cash
		Agorot	NIS millions
February 2, 2020	March 9, 2020	*53.937	*720
September 24, 2019	October 23, 2019	74.897	1,000

* Distribution of the remaining holdings of the Bank in Isracard (approximately 33%) as a dividend in kind. Approximately 0.0494 shares of Isracard were distributed as a dividend in kind in respect of each share of the Bank. The dividend was calculated based on the Isracard share price on March 8, 2020 (NIS 10.91).

(2) Capital adequacy

The Bank's approach to capital-adequacy assessment

The Bank applies the capital measurement and adequacy directives based on the Basel directives, as published by the Banking Supervision Department and as integrated into Proper Conduct of Banking Business Directives 201-211 and the file of questions and answers.

These directives are based on three pillars:

- Pillar 1 – Includes the manner of calculation of the supervisory minimum capital requirements in respect of credit risks, operational risk, and market risk.
- Pillar 2 – Sets the forth internal processes (the ICAAP – Internal Capital Adequacy Assessment Process) used by banks to assess the required capital in respect of risks in aggregate, including those not covered by Pillar 1 (such as credit concentration, interest-rate risk in the banking book, liquidity risks, settlement risks, and strategic risks), as well as a review process performed by the Banking Supervision Department.
- Pillar 3 – Market discipline; establishes the type and extent of information to be presented in reporting to the public on the risks to which banks are exposed. This pillar requires the disclosure of both quantitative and qualitative information, in order to enable the market to estimate the extent of the bank's exposure to risk factors.

Basel 3 directives

The Basel 3 directives took effect on January 1, 2014. Implementation is gradual, in accordance with the transitional directives established in Proper Conduct of Banking Business Directive 299, "Capital Measurement and Adequacy – Supervisory Capital – Transitional Directives." In accordance with the transitional directives, capital instruments that no longer qualify as supervisory capital were recognized as of January 1, 2014, up to a ceiling of 80% of their balance in the supervisory capital as at December 31, 2013; this ceiling is being lowered by an additional 10% in each subsequent year, until January 1, 2022. Accordingly, the ceiling for instruments qualifying as supervisory capital was 20% and 10%, respectively, in 2020 and 2021.

Capital-adequacy target and capital management and planning

On March 31, 2020, the Banking Supervision Department issued a circular on the subject, "Adjustments to the Proper Conduct of Banking Business Directives for the purpose of coping with the coronavirus crisis (temporary order)" (the "Temporary Order"), in view, according to the statement of the Banking Supervision Department, of the spread of the coronavirus, and in order to ensure the ability of the banks to continue to offer credit. Pursuant to the circular, the Bank, as a banking corporation of significant importance (a banking corporation whose total balance sheet assets on a consolidated basis constitute at least 24% of the total balance sheet assets of the banking system in Israel), is required to maintain a minimum common equity Tier 1 capital ratio of 9% (versus 10% prior to this change), and a minimum total capital ratio of 12.5% (versus 13.5% prior to this change). The Temporary Order was initially in effect for a period of six months; in September 2020, it was extended by an additional six months (until March 31, 2021). The relief in capital requirements will apply until 24 months have elapsed from the end of the period of validity of the Temporary Order, provided that the capital ratios of the banking corporation do not fall below the capital ratios at the end of the validity period of the Temporary Order, or the capital ratios applicable to the Bank prior to the Temporary Order, whichever is lower. On March 22, 2021, the Banking Supervision Department issued a circular extending the period of validity of the Temporary Order until September 30, 2021, and stating that in the six-month period from the end of the period of validity of the Temporary Order, a reduction in capital ratios of up to 0.3 percentage points relative to the minimum capital ratio shall not be considered a breach of the Temporary Order.

A capital requirement was added to the minimum capital ratios at a rate representing 1% of the balance of housing loans at the dates of the financial statements, excluding housing loans granted during the period of the Temporary Order.

Accordingly, the minimum common equity Tier 1 capital ratio and the minimum total capital ratio of the Bank (which is a banking corporation of significant importance) required by the Banking Supervision Department, on a consolidated basis, as at March 31, 2021, and for the duration of the period of the Temporary Order, stand at 9.23% and 12.73%, respectively (instead of 10.29% and 13.79% without the Temporary Order).

In the statement issued by the Banking Supervision Department in connection with the Temporary Order, boards of directors of banks were asked, among other matters, to reexamine their dividend policies, with the intention of using the capital resources released as a result of the reduced capital requirements in order to increase credit, rather than for distribution. In view of the statement of the Banking Supervision Department, and in order to allow realization of the purpose of the directive, the Board of Directors of the Bank resolved on March 31, 2020, to adjust the minimum target common equity Tier 1 capital ratio to 9.5%. The Board of Directors further resolved that, taking into consideration the existing distribution policy of the Bank (distribution of up to 40% of quarterly net operating profit), in light of the uncertainty in macroeconomic conditions, and in order to fulfill the purpose of the Temporary Order and the policy of the Banking Supervision Department, until the end of the period of the Temporary Order and until conditions are clearer, the Bank will continue to refrain from performing distributions from ongoing earnings.

The common equity Tier 1 capital target established by the Bank takes into consideration, among other matters, the results of the internal processes of the Bank for determining capital targets, including the results of internal stress tests run by the Bank, and the outcomes of discussions held with the Banking Supervision Department regarding the specific risk attributes of the Bank, within the most recent supervisory review process and the most recent uniform stress tests performed.

In order to comply with the capital-adequacy target and manage capital effectively, capital planning is performed at the Bank based on the work plan of the Bank and on regulatory directives, which are translated into risk-adjusted assets and changes in the various tiers of capital, while maintaining safety margins. Various sensitivity tests are applied within the planning of capital and capital ratios. The Bank also routinely monitors actual results as compared to planning, and the gaps between results and planning, and, as necessary, examines the actions needed in order to maintain the established capital targets. The policy of the Bank is to maintain capital adequacy at a level higher than the minimum ratio required by the Banking Supervision Department, and not lower than the level of capital adequacy required to cover the risks, as assessed in the Internal Capital Adequacy Assessment Process (ICAAP). Within the ICAAP, the Bank examines the effect of stress scenarios on capital-adequacy ratios; accordingly, a plan is in place for a return to regulatory capital adequacy in the case of a such a stress event.

Improving operational efficiency

The circulars of the Banking Supervision Department grant reliefs to banks that apply improvements in efficiency, with respect to personnel and to real estate.

Since the reliefs were granted, the Bank has announced personnel efficiency plans at a total volume of NIS 1,114 million, net of tax effect.

The effect of the aforesaid plans was allocated to capital, and, for the purposes of calculation of the capital ratio and leverage ratio, deducted from supervisory capital over a period of five years from the date of beginning of implementation of each plan.

The remaining effect of the reliefs in respect of the efficiency plans on the common equity Tier 1 capital ratio is estimated at approximately 0.12% as at March 31, 2021.

The subsidiary of the Bank in Turkey

In view of the economic and political situation in Turkey, and within the strategic plan of the Bank, a decision was made to act to sell the investment in Bank Pozitif. Accordingly, the Bank is working to gradually reduce the credit portfolio of Bank Pozitif.

In February 2021, the Bank, together with the minority shareholder, entered into an agreement for the sale of the full holdings of the parties (100%) in Bank Pozitif to a buyer. The deal is subject to the receipt of regulatory approvals by June 30, 2021. In response to the request of the Bank for approval of the transaction by the Banking Supervision Department, the Banking Supervision Department gave notice on March 10, 2021, that subject to the receipt of approvals in Turkey and the completion of the transaction, it sees no cause to prevent revocation of the control permit of the Bank with respect to Bank Pozitif. The approval of the competition authority in Turkey for the transaction was received in May 2021; approval by the banking supervision authority in Turkey is also required.

In January 2019, a letter was received from the Bank of Israel concerning the subsidiary of the Bank in Turkey, Bank Pozitif. In the letter, the Bank of Israel stated that the activity of the Bank in Turkey exposes it to significant risks, and therefore, until the realization of the full holdings of the Bank in Bank Pozitif, the Bank was required to increase the risk weighting rates of risk-adjusted assets in respect of the activity of Bank Pozitif, in the calculation of the consolidated capital ratio only, as follows:

- Beginning January 1, 2020, risk-adjusted assets in respect of the activity of Bank Pozitif would be weighted at a rate of at least 300%.
- Beginning January 1, 2021, risk-adjusted assets in respect of the activity of Bank Pozitif would be weighted at a rate of at least 600%.

Accordingly, beginning January 1, 2020, the Bank weighted risk-adjusted assets in respect of Bank Pozitif at 300%. The effect on the financial statements for the first quarter of 2020 was a decrease of approximately 0.04% in the common equity Tier 1 capital ratio. Beginning January 1, 2021, the Bank has weighted risk-adjusted assets in respect of Bank Pozitif at 600%. The effect at the transition date is an additional decrease of approximately 0.04% in the common equity Tier 1 capital ratio.

In April 2021, the Bank renewed a credit line for Bank Pozitif in the amount of approximately USD 50 million, at an interest rate below market terms (for details, see the section "Capital, capital adequacy, and leverage" in the Report of the Board of Directors and Board of Management for 2020). The date of repayment of the credit line was set at the earlier of December 2021 or the date of completion of the sale of Bank Pozitif. In accordance with a requirement of the Banking Supervision Department, due to the aforesaid pricing, the balance of the credit line was deducted from supervisory capital.

Effect of the expected implementation of accounting rules concerning estimated credit losses on supervisory capital

Banking corporations are required to allocate the effect of the initial implementation of accounting rules concerning estimated credit losses to retained earnings on January 1, 2022. In December 2020, the Banking Supervision Department issued a circular pursuant to which, if the initial implementation causes a decrease in the common equity Tier 1 capital of a banking corporation, net of tax effect, the banking corporation is permitted to include this decrease gradually, over the course of three years.

The Bank is preparing to implement this directive; at this stage, it is not possible to estimate its effect. For additional details, see Note 1D to the Condensed Financial Statements.

Implementation of external credit ratings

Beginning in the first quarter of 2021, the Bank transitioned to the use of a single rater for capital-adequacy measurement purposes (as permitted by the directives of the Bank of Israel), instead of the Bank's previous practice of using the lower of the ratings of two raters. The rating agency to remain in use is S&P (Standard & Poor's). The effect of the transition to a single rater, at the transition date, is an increase of approximately 0.12% in the common equity Tier 1 capital ratio and an increase of approximately 0.16% in the total capital ratio.

Table 2-20: Calculation of the capital-adequacy ratio

	March 31, 2021	March 31, 2020	December 31, 2020
		NIS millions	
1. Capital for the calculation of the capital ratio after supervisory adjustments and deductions			
Common equity Tier 1 capital(1)	**41,012**	38,152	40,070
Additional Tier 1 capital	**244**	488	488
Total Tier 1 capital(1)	**41,256**	38,640	40,558
Tier 2 capital	**10,216**	9,552	10,221
Total overall capital(1)	**51,472**	48,192	50,779
2. Weighted balances of risk-adjusted assets			
Credit risk(2)	**324,431**	313,394	321,149
Market risks	**3,852**	3,226	3,447
Operational risk	**23,090**	23,612	23,166
Total weighted balances of risk-adjusted assets(2)	**351,373**	340,232	347,762
		%	
3. Ratio of capital to risk components			
Ratio of common equity Tier 1 capital to risk components	**11.67%**	11.21%	11.52%
Ratio of Tier 1 capital to risk components	**11.74%**	11.36%	11.66%
Ratio of total capital to risk components	**14.65%**	14.16%	14.60%
Minimum common equity Tier 1 capital ratio required by the Banking Supervision Department(3)	**9.23%**	9.27%	9.24%
Minimum total capital ratio required by the Banking Supervision Department(3)	**12.73%**	12.77%	12.74%

(1) The data are presented in accordance with Proper Conduct of Banking Business Directive 202, "Capital Measurement and Adequacy – Supervisory Capital," and in accordance with the transitional directives established in Proper Conduct of Banking Business Directive 299. The data also include adjustments in respect of the efficiency plans, allocated in equal parts over five years, beginning at the inception date thereof. For additional details regarding the effect of the efficiency plan adjustments, see above in this section.

(2) A total of NIS 503 million as at March 31, 2021, NIS 578 million as at December 31, 2020, and NIS 808 million as at March 31, 2020, was deducted from the total weighted balances of risk-adjusted assets, due to adjustments in respect of the efficiency plans, which, in accordance with the approval of the Banking Supervision Department, are allocated gradually over five years from inception.

(3) The required minimum common equity Tier 1 capital ratio and minimum total capital ratio were 10% and 13.5%, respectively, until March 31, 2020, and stand at 9% and 12.5%, respectively, as of that date and for the duration of the Temporary Order (see above in this section). A capital requirement was added to these ratios at a rate representing 1% of the balance of housing loans at the dates of the financial statements, excluding housing loans granted during the period of the Temporary Order.

(3) Leverage ratio

The Bank applies Proper Conduct of Banking Business Directive 218, "Leverage Ratio" (hereinafter: the "Directive"). The Directive establishes a simple, transparent, non-risk-based leverage ratio, which serves as a complementary measurement to risk-based capital requirements, and which is designed to limit the accumulation of leverage at banking corporations.

The leverage ratio is expressed as a percentage, and is defined as the ratio of the capital measurement to the exposure measurement. Capital, for the purpose of measurement of the leverage ratio, is Tier 1 capital, as defined in Proper Conduct of Banking Business Directive 202, taking into consideration the transitional arrangements that have been established. The total exposure measurement is the total of balance sheet exposures, exposures to derivatives and to securities financing transactions, and off-balance sheet items.

On November 15, 2020, the Banking Supervision Department issued a circular updating Proper Conduct of Banking Business Directive 250 concerning the leverage ratio. Banking corporations must maintain a leverage ratio of no less than 4.5% on a consolidated basis. Banking corporations whose total balance sheet assets on a consolidated basis constitute 24% or more of the total balance sheet assets in the banking system (the Bank is such a banking corporation) must maintain a leverage ratio of no less than 5.5% (instead of 6%). Implementation of the directive begins on the date of its publication. When the Temporary Order expires, the relief will continue to apply for an additional 24 months, provided that the leverage ratio does not fall below the lower of the leverage ratio at the end of the period of the order, and the minimum leverage ratio applicable to the banking corporation prior to the Temporary Order. On March 22, 2021, the Banking Supervision Department issued a circular extending the period of validity of the Temporary Order until September 30, 2021.

Table 2-21: Leverage ratio

	March 31, 2021	March 31, 2020	December 31, 2020
		NIS millions	
Consolidated data			
Tier 1 capital*	**41,256**	38,640	40,558
Total exposures*	**620,054**	541,421	597,837
		%	
Leverage ratio	**6.65%**	7.14%	6.78%
Minimum leverage ratio required by the Banking Supervision Department**	**5.50%**	6.00%	5.50%

* These data include adjustments in respect of the efficiency plans, in accordance with the directives of the Banking Supervision Department (see the section "Improving operational efficiency," above). The effect of the reliefs in respect of the efficiency plans on the leverage ratio as at March 31, 2021, estimated at approximately 0.06%, is allocated in equal parts over five years, beginning at the inception date thereof.

** Pursuant to the circular of the Banking Supervision Department, the minimum leverage ratio is 5.5% during the period of the Temporary Order. For further details, see the section "Leverage ratio," above.

The decrease in the leverage ratio as at March 31, 2021, resulted from an increase in the volume of the balance sheet, due to an increase in deposits from the public, and, by contrast, an increase in cash and deposits with banks, as a result of the monetary expansion applied by the Bank of Israel and the consequent increase in liquidity; thus, the decrease mainly stems from an increase in liquidity that does not reflect leverage of credit exposures.

2.4. Description of the Bank Group's business by supervisory activity segments

Segments of activity are reported on in accordance with the format and classifications established in the Public Reporting Directives of the Banking Supervision Department. This reporting is fundamentally different from the activity segments used at the Bank according to the approach of its management, which are described in Section 2.5 and in Note 12A to the Condensed Financial Statements. Supervisory activity segments are reported in the uniform format established by the Banking Supervision Department for the entire banking system. The segments are based on customer characteristics, such as asset portfolio volume with respect to private customers, or annual revenue of a business with respect to business customers.

For the definitions of the supervisory segments and for details regarding the main points of the guidelines, estimates, and reporting principles, see Note 28 to the Annual Financial Statements for 2020.

Table 2-22: Results of operations and principal data of the supervisory activity segments

	For the three months ended March 31, 2021										
	Activity in Israel									Activity overseas	Total
	Households[1]	Private banking	Small businesses and microbusinesses	Mid-sized businesses	Large businesses	Institutional entities	Financial management	Other	Total activity in Israel	Total activity overseas	
	NIS millions										
Net financing profit	**709**	**10**	**493**	**195**	**297**	**23**	**835**	**-**	**2,562**	**120**	**2,682**
Fees and other income	**294**	**39**	**218**	**69**	**113**	**25**	**35**	**96**	**889**	**10**	**899**
Total income	**1,003**	**49**	**711**	**264**	**410**	**48**	**870**	**96**	**3,451**	**130**	**3,581**
Provision (income) for credit losses	**(305)**	**-**	**(26)**	**(44)**	**(141)**	**2**	**-**	**-**	**(514)**	**6**	**(508)**
Operating and other expenses	**873**	**44**	**457**	**99**	**143**	**38**	**99**	**36**	**1,789**	**130**	**1,919**
Profit (loss) from continued operations before taxes	**435**	**5**	**280**	**209**	**408**	**8**	**771**	**60**	**2,176**	**(6)**	**2,170**
Provision for taxes on profit from continued operations	**176**	**2**	**107**	**86**	**173**	**3**	**245**	**22**	**814**	**12**	**826**
Net profit (loss) from continued operations	**259**	**3**	**173**	**123**	**235**	**5**	**533**	**38**	**1,369**	**(18)**	**1,351**
Loss from a discontinued operation	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Net profit (loss) attributed to shareholders of the Bank	**259**	**3**	**173**	**123**	**235**	**5**	**535**	**38**	**1,371**	**(17)**	**1,354**
Balance of gross credit to the public at the end of the reported period	**134,155**	**563**	**54,678**	**32,400**	**73,468**	**1,528**	**-**	**-**	**296,792**	**14,988**	**311,780**
Balance of deposits from the public at the end of the reported period	**159,088**	**34,216**	**83,920**	**30,339**	**57,245**	**71,414**	**-**	**-**	**436,222**	**19,172**	**455,394**

(1) Includes housing loans in the amount of NIS 18.3 billion to individuals whose business activity is classified into the Small Businesses and Microbusinesses Segment.

Table 2-22: Results of operations and principal data of the supervisory activity segments (continued)

	For the three months ended March 31, 2020*										
	Activity in Israel									Activity overseas	Total
	Households[(1)]	Private banking	Small businesses and microbusinesses	Mid-sized businesses	Large businesses	Institutional entities	Financial management	Other	Total activity in Israel	Total activity overseas	
	NIS millions										
Net financing profit	811	33	551	196	307	43	422	-	2,363	135	2,498
Fees and other income	342	44	221	72	105	28	32	31	875	10	885
Total income	1,153	77	772	268	412	71	454	31	3,238	145	3,383
Provision for credit losses	152	-	206	79	325	8	1	-	771	38	809
Operating and other expenses	824	42	399	87	115	42	90	116	1,715	201	1,916
Profit (loss) from continued operations before taxes	177	35	167	102	(28)	21	363	(85)	752	(94)	658
Provision for taxes (tax benefit) on profit (loss) from continued operations	76	13	71	47	(14)	8	166	-	367	(4)	363
Net profit (loss) from continued operations	101	22	96	55	(14)	13	198	(85)	386	(90)	296
Loss from a discontinued operation	-	-	-	-	-	-	-	(109)	(109)	-	(109)
Net profit (loss) attributed to shareholders of the Bank	101	22	96	55	(14)	13	200	(194)	279	(87)	192
Balance of gross credit to the public at the end of the reported period	128,815	586	52,605	30,868	73,769	1,811	-	-	288,454	16,363	304,817
Balance of deposits from the public at the end of the reported period	149,897	34,983	68,691	25,571	47,020	41,671	-	-	367,833	20,733	388,566

* Reclassified. For additional information, see Note 28 to the Annual Financial Statements for 2020.
(1) Includes housing loans in the amount of NIS 13.7 billion to individuals whose business activity is classified into the Small Businesses and Microbusinesses Segment.

Principal changes in net profit and balance sheet balances

Household Segment

Net profit attributed to shareholders of the Bank in the Household Segment totaled NIS 259 million in the first quarter of 2021, compared with net profit in the amount of NIS 101 million in the same quarter last year. The increase mainly resulted from the recognition of income from credit losses, compared with a provision for credit losses in the same quarter last year. This increase was offset by a decrease in net financing profit, and by an increase in operating and other expenses.

Net financing profit totaled NIS 709 million in the first quarter of 2021, compared with NIS 811 million in the same quarter last year. The decrease resulted from a decrease in consumer credit balances and spreads, alongside a decrease in spreads on deposits, due to a decrease in the dollar and shekel interest rates. By contrast, an increase occurred as a result of an increase in the volume of housing credit and the continued increase in the average spread.

Fees and other income totaled NIS 294 million in the first quarter of 2021, compared with NIS 342 million in the same quarter last year. The decrease mainly resulted from a decrease in credit-card fees and in account-management fees.

Income in respect of credit losses totaled approximately NIS 305 million in the first quarter of 2021, compared with a provision in the amount of approximately NIS 152 million in the same quarter last year. The change mainly resulted from a decrease in the collective allowance, including in respect of housing loans, due to the improvement in macroeconomic parameters and the continued decrease in the volume of debts in deferral of payments, which led to a decrease in collective allowance rates, in addition to the continued downward trend in automatic charge-offs.

Operating and other expenses of the segment totaled NIS 873 million in the first quarter of 2021, compared with NIS 824 million in the same quarter last year. The increase mainly resulted from an increase in salary expenses, due to the increase in the provision for bonuses, as a result of differences in returns.

Credit to the public totaled approximately NIS 134 billion as at March 31, 2021, compared with approximately NIS 133 billion as at December 31, 2020. The increase in credit balances resulted from an increase in the amount of approximately NIS 2 billion in housing credit balances. This increase was offset by a decrease in the amount of approximately NIS 1 billion in consumer credit balances.

Deposits from the public totaled approximately NIS 159.1 billion as at March 31, 2021, compared with approximately NIS 156.0 billion as at December 31, 2020. The increase resulted from the continued monetary expansion applied by the Bank of Israel and the enlargement of the monetary base, and from a continued increase in savings of the public.

Private Banking Segment

Net profit attributed to shareholders of the Bank in the Private Banking Segment totaled NIS 3 million in the first quarter of 2021, compared with net profit in the amount of NIS 22 million in the same quarter last year. The decrease mainly resulted from a decrease in net financing profit.

Net financing profit totaled NIS 10 million in the first quarter of 2021, compared with NIS 33 million in the same quarter last year. The decrease mainly resulted from a decrease in spreads on deposits, due to a decrease in the dollar and shekel interest rates.

Fees and other income totaled NIS 39 million in the first quarter of 2021, compared with NIS 44 million in the same quarter last year. The decrease mainly resulted from a decrease in capital-market fees.

Credit to the public totaled approximately NIS 0.6 billion as at March 31, 2021, similar to December 31, 2020.

Deposits from the public totaled approximately NIS 34.2 billion as at March 31, 2021, compared with approximately NIS 33.9 billion as at December 31, 2020.

Small Business and Microbusiness Segment

Net profit attributed to shareholders of the Bank in the Small Business and Microbusiness Segment totaled NIS 173 million in the first quarter of 2021, compared with NIS 96 million in the same quarter last year. The increase mainly resulted from the recognition of income from credit losses, compared with a provision for credit losses in the same quarter last year. This increase was offset by a decrease in net financing profit, and by an increase in operating and other expenses.

Net financing profit totaled NIS 493 million in the first quarter of 2021, compared with NIS 551 million in the same quarter last year. The decrease mainly resulted from a decrease in credit spreads and in spreads on deposits, due to a decrease in the dollar and shekel interest rates.

Income in respect of credit losses totaled approximately NIS 26 million in the first quarter of 2021, compared with a provision in the amount of approximately NIS 206 million in the same quarter last year. The change mainly resulted from a decrease in the collective allowance, due to the improvement in macroeconomic parameters and the continued decrease in the volume of debts in deferral of payments, which led to a decrease in collective allowance rates, in addition to the continued downward trend in automatic charge-offs.

Operating and other expenses of the segment totaled NIS 457 million in the first quarter of 2021, compared with NIS 399 million in the same quarter last year. The increase mainly resulted from an increase in salary expenses, due to the increase in the provision for bonuses, as a result of differences in returns.

Credit to the public totaled approximately NIS 54.7 billion as at March 31, 2021, compared with approximately NIS 54.6 billion as at December 31, 2020.

Deposits from the public totaled approximately NIS 83.9 billion as at March 31, 2021, compared with approximately NIS 79.4 billion as at December 31, 2020. The increase resulted from the continued monetary expansion applied by the Bank of Israel and the enlargement of the monetary base, and from a continued increase in savings of the public.

Mid-sized Business Segment

Net profit attributed to shareholders of the Bank in the Mid-sized Business Segment totaled NIS 123 million in the first quarter of 2021, compared with NIS 55 million in the same quarter last year. The increase mainly resulted from the recognition of income from credit losses, compared with a provision for credit losses in the same quarter last year. This increase was offset by an increase in operating and other expenses.

Income in respect of credit losses totaled approximately NIS 44 million in the first quarter of 2021, compared with a provision in the amount of approximately NIS 79 million in the same quarter last year. The change mainly resulted from a decrease in the collective allowance, due to the improvement in macroeconomic parameters, which led to a decrease in collective allowance rates.

Operating and other expenses of the segment totaled NIS 99 million in the first quarter of 2021, compared with NIS 87 million in the same quarter last year. The increase mainly resulted from an increase in salary expenses, due to the increase in the provision for bonuses, as a result of differences in returns.

Credit to the public totaled approximately NIS 32.4 billion as at March 31, 2021, compared with approximately NIS 30.9 billion as at December 31, 2020.

Deposits from the public totaled approximately NIS 30.3 billion as at March 31, 2021, compared with approximately NIS 27.5 billion as at December 31, 2020.

Large Business Segment

Net profit attributed to shareholders of the Bank in the Large Business Segment totaled NIS 235 million in the first quarter of 2021, compared with a loss in the amount of NIS 14 million in the same quarter last year. The change mainly resulted from the recognition of income from credit losses, compared with a provision for credit losses in the same quarter last year. This increase was offset by an increase in operating and other expenses.

Net financing profit totaled NIS 297 million in the first quarter of 2021, compared with NIS 307 million in the same quarter last year. The decrease resulted from a decrease in income from the activity of the dealing room, due to a decrease in the volume of transactions compared with the same period last year, which was influenced by the volatility in the markets.

Fees and other income totaled NIS 113 million in the first quarter of 2021, compared with NIS 105 million in the same quarter last year. The increase mainly resulted from an increase in fees from financing transactions, partly offset by a decrease in capital-market fees.

Income in respect of credit losses totaled NIS 141 million in the first quarter of 2021, compared with a provision in the amount of NIS 325 million in the same quarter last year. The change resulted from a decrease in the collective allowance, a decrease in the provision recorded on an individual basis, and an increase in debt recovery.

Operating and other expenses of the segment totaled NIS 143 million in the first quarter of 2021, compared with NIS 115 million in the same quarter last year. The increase mainly resulted from an increase in salary expenses, due to the increase in the provision for bonuses, as a result of differences in returns.

Credit to the public totaled approximately NIS 73.5 billion as at March 31, 2021, compared with approximately NIS 71.1 billion as at December 31, 2020.

Deposits from the public totaled approximately NIS 57.2 billion as at March 31, 2021, compared with approximately NIS 56.0 billion as at December 31, 2020.

Institutional Entity Segment

Net profit attributed to shareholders of the Bank in the Institutional Entity Segment totaled NIS 5 million in the first quarter of 2021, compared with NIS 13 million in the same quarter last year. The decrease mainly resulted from a decrease in net financing profit, partly offset by a decrease in the provision for credit losses.

Net financing profit totaled NIS 23 million in the first quarter of 2021, compared with NIS 43 million in the same quarter last year. The decrease resulted from a decrease in income from the activity of the dealing room, due to a decrease in the volume of transactions compared with the same period last year, which was influenced by the volatility in the markets.

The provision for credit losses totaled NIS 2 million in the first quarter of 2021, compared with a provision in the amount of NIS 8 million in the same quarter last year. The decrease resulted from a decrease in the collective allowance.

Credit to the public totaled approximately NIS 1.5 billion as at March 31, 2021, compared with approximately NIS 3.9 billion as at December 31, 2020.

Deposits from the public totaled approximately NIS 71.4 billion as at March 31, 2021, compared with approximately NIS 64.1 billion as at December 31, 2020. The increase mainly resulted from the continued accelerated growth in the balance of deposits, in view of the monetary expansion applied by the Bank of Israel within the efforts to cope with the spread of the coronavirus, which enlarged the monetary base and concurrently also deposits from the public, and from an increase in savings of the public.

Financial Management Segment

Net profit attributed to shareholders of the Bank in the Financial Management Segment totaled NIS 535 million in the first quarter of 2021, compared with NIS 200 million in the same quarter last year. The increase mainly resulted from an increase in net financing profit.

Net financing profit totaled NIS 835 million in the first quarter of 2021, compared with NIS 422 million in the same quarter last year. The increase mainly resulted from an increase in profits from investment in shares. In addition, income from linkage differentials increased due to changes in the rate of the known CPI between the periods. Increases also occurred in profits from investment in bonds, and in profits resulting from a change in the differences between the fair value of derivatives that are part of the asset and liability management of the Bank and the measurement of the same assets on an accrual basis. By contrast, income from exchange-rate differences decreased, mainly due to hedging of currency exposures of non-monetary items, and income from dealing-room activity decreased, whereas in the same period last year the volume of transactions increased, due to volatility in the market as a result of the crisis of the spread of the coronavirus.

For details regarding the effect of the spread of the coronavirus on foreign financial institutions, see the section "Credit risk" in the Review of Risks, below.

Other Segment (activity in Israel)

Profit attributed to shareholders of the Bank in the Other Segment totaled NIS 38 million in the first quarter of 2021, compared with a loss in the amount of NIS 194 million in the same quarter last year.

Profit from continued operations attributed to shareholders of the Bank in the segment totaled NIS 38 million in the first quarter of 2021, compared with a loss in the amount of NIS 85 million in the same quarter last year. The change mainly resulted from a decrease in legal expenses in connection with the investigation of the Bank Group's business with American customers, and from an increase in capital gains from the sale of branches. In addition, in the same quarter last year the Other Segment included a loss attributed to a discontinued operation in the amount of approximately NIS 109 million, which resulted from recognition of loss from impairment of the investment in Isracard, in the amount of approximately NIS 109 million (after tax effect), due to the decrease in the share price to a level lower than the balance of the investment in the Bank's books as at December 31, 2019, compared with the price immediately prior to its distribution as a dividend in kind to the shareholders in March 2020.

International Activity Segment

The loss attributed to shareholders of the Bank in the International Activity Segment totaled NIS 17 million in the first quarter of 2021, compared with a loss in the amount of NIS 87 million in the same quarter last year. The decrease in loss mainly resulted from the update of the provision in connection with the investigation of the Bank Group's business with American customers in the first quarter of 2020, and from a decrease in the associated legal expenses. In addition, the provision for credit losses decreased.

The principal changes in the results of international activity are set out below:

- Net profit of the New York branch totaled approximately NIS 20 million in the first quarter of 2021, compared with profit of approximately NIS 5 million in the same quarter last year. The increase in profit mainly resulted from a decrease in the provision for credit losses.
- The loss of Hapoalim Switzerland totaled approximately NIS 41 million in the first quarter of 2021, compared with a loss in the amount of approximately NIS 104 million in the same quarter last year. The decrease in loss resulted from a decrease in expenses attributed to the investigation of the Bank Group's business with American customers, and a decrease in the associated legal expenses.

Total credit to the public in international activity amounted to approximately NIS 15.0 billion as at March 31, 2021, compared with approximately NIS 14.1 billion as at December 31, 2020.

- Credit to the public at the New York branch totaled approximately NIS 14.5 billion as at March 31, 2021, compared with NIS 13.6 billion as at December 31, 2020. Credit in middle-market activity totaled approximately NIS 12.4 billion, of which a total of approximately NIS 5.3 billion in respect of syndication transactions, compared with approximately NIS 11.4 billion as at December 31, 2020, of which a total of approximately NIS 5.0 billion in respect of syndication transactions.
- As at March 31, 2021, balances of credit to the public in the amount of approximately NIS 0.1 billion remained at Hapoalim Luxembourg, similar to the balance as at December 31, 2020, following the transfer of most of the existing credit portfolio to Israel.
- Credit to the public at Bank Pozitif in Turkey totaled approximately NIS 0.3 billion as at March 31, 2021, similar to December 31, 2020.

Total deposits from the public in international activity amounted to approximately NIS 19.2 billion as at March 31, 2021, compared with approximately NIS 18.2 billion as at December 31, 2020, mostly originating with the New York branch. In middle-market activity, deposits totaled approximately NIS 9.0 billion, compared with approximately NIS 7.3 billion as at December 31, 2020. The balance of brokered CD deposits from the public totaled approximately NIS 10.1 billion, compared with approximately NIS 10.9 billion as at December 31, 2020.

2.5. Description of the Bank Group's business by segment of activity based on the management approach

The Bank Group operates in Israel and abroad, and provides a wide range of banking and financial services to its customers. The division into segments of activity according to the management approach is based on types of products and services, or on types of customers and their assignments to the organizational units by which they are served, which is performed in accordance with various criteria established by the Board of Management of the Bank. The Board of Management of the Bank uses this division to make decisions and to analyze the Group's business results.

For details regarding the criteria used in this classification and the rules for the distribution of the results of operations among the segments, see Note 28A to the Annual Financial Statements for 2020.

Table 2-23: Results of operations and principal data of the segments of activity based on management approach

	For the three months ended March 31, 2021								
	Retail activity			Business activity					
	Private customers	Small businesses	Housing loans	Commercial	Corporate	International activity	Financial management[(1)]	Adjustments[(2)]	Total
	NIS millions								
Net financing profit	**498**	**318**	**268**	**285**	**377**	**106**	**830**	**-**	**2,682**
Fees and other income	**365**	**139**	**12**	**103**	**147**	**9**	**33**	**91**	**899**
Total income	**863**	**457**	**280**	**388**	**524**	**115**	**863**	**91**	**3,581**
Provision (income) for credit losses	**(229)**	**(45)**	**(68)**	**(39)**	**(135)**	**6**	**2**	**-**	**(508)**
Operating and other expenses	**920**	**322**	**91**	**136**	**170**	**128**	**116**	**36**	**1,919**
Profit (loss) from continued operations before taxes	**172**	**180**	**257**	**291**	**489**	**(19)**	**745**	**55**	**2,170**
Provision for taxes on profit from continued operations	**68**	**73**	**102**	**119**	**199**	**8**	**236**	**21**	**826**
Net profit (loss) from continued operations	**104**	**107**	**155**	**172**	**290**	**(27)**	**516**	**34**	**1,351**
Loss from a discontinued operation	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Net profit (loss) attributed to shareholders of the Bank	**104**	**107**	**155**	**172**	**290**	**(26)**	**518**	**34**	**1,354**
Net credit to the public at the end of the reported period	**37,225**	**31,139**	**100,650**	**43,832**	**78,102**	**13,502**	**1,667**	**-**	**306,117**
Deposits from the public at the end of the reported period	**224,406**	**57,368**	**-**	**40,670**	**59,979**	**18,844**	**54,127**	**-**	**455,394**

(1) The Financial Management Segment includes, among other matters, activity with institutional entities, most of which are presented in the information regarding supervisory activity segments as a separate segment.
(2) This section includes the results of activities of the Bank Group with negligible volumes, each of which does not constitute a reportable segment.

Table 2-23: Results of operations and principal data of the segments of activity based on management approach (continued)

	For the three months ended March 31, 2020*								
	Retail activity			Business activity					
	Private customers	Small businesses	Housing loans	Commercial	Corporate	International activity	Financial management[1]	Adjustments[2]	Total
	NIS millions								
Net financing profit	658	379	235	287	391	124	419	5	2,498
Fees and other income	406	151	15	102	137	14	28	32	885
Total income	1,064	530	250	389	528	138	447	37	3,383
Provision for credit losses	131	140	32	175	288	38	5	-	809
Operating and other expenses	855	295	74	119	147	203	98	125	1,916
Profit (loss) from continued operations before taxes	78	95	144	95	93	(103)	344	(88)	658
Provision for taxes (tax benefit) on profit (loss) from continued operations	37	41	60	41	42	(5)	157	(10)	363
Net profit (loss) from continued operations	41	54	84	54	51	(98)	188	(78)	296
Loss from a discontinued operation	-	-	-	-	-	-	-	(109)	(109)
Net profit (loss) attributed to shareholders of the Bank	41	54	84	54	51	(95)	190	(187)	192
Net credit to the public at the end of the reported period	39,410	30,168	92,058	40,596	82,029	13,708	1,579	-	299,548
Deposits from the public at the end of the reported period	210,088	50,119	-	27,153	52,345	20,651	28,210	-	388,566

* Reclassified.
(1) The Financial Management Segment includes, among other matters, activity with institutional entities, most of which are presented in the information regarding supervisory activity segments as a separate segment.
(2) This section includes the results of activities of the Bank Group with negligible volumes, each of which does not constitute a reportable segment, and expenses allocated in Israel pertaining to the investigation of the Bank Group's business with American customers.

For additional information regarding the segments of activity and analysis of the segments' results, see the section "Activity segments based on management approach" in the Corporate Governance Report.

2.6. Principal companies

2.6.1. Companies in Israel

Poalim Capital Markets Group

The Poalim Capital Markets Group, which serves as the non-financial investment arm of the Bank and is held under its full ownership, operates in two main areas:

- Direct equity and quasi-equity investments (including mezzanine) in companies, and investments and ventures in private investment funds. The investment policy of Poalim Capital Markets is consistent with the restrictions of the Banking (Licensing) Law, and therefore includes, among other matters, minority interests only (up to 20% in any means of control). Poalim Capital Markets invests in various sectors, including, among others, utilities, renewable energy, industry, real estate, technology, and fintech.
- Investment banking in Israel and overseas; within this activity, Poalim Capital Markets provides a range of services including financial and strategic consulting for mergers and acquisitions, guidance for companies in various investments in Israel and overseas, and consulting on public and private capital offerings overseas. Poalim Capital Markets also holds Poalim IBI Management and Underwriting Ltd. (a public company, at a holding rate of approximately 27.6%), which provides consulting, underwriting, and management services for public offerings in Israel and for capital raising through private offerings.

During the course of 2020 and in the first quarter of 2021, the Bank increased the scope of investments executed at Poalim Capital Markets, within a multi-year trajectory for investments through 2023 approved by the Board of Directors of the Bank.

The contribution of Poalim Capital Markets to the results of operations of the Bank in the first three months of 2021 amounted to profit of NIS 109 million, compared with profit in the amount of approximately NIS 12 million in the same period last year. The increase in profit mainly resulted from revaluation of shares, in light of indications of an increase in value arising from funding and transactions executed in shares of the companies between existing and new shareholders at prices higher than the cost of the investment.

The Bank's investment in Poalim Capital Markets totaled NIS 1,787 million as at March 31, 2021, compared with NIS 1,498 million at the end of 2020.

Return of net profit on investment of the Poalim Capital Markets Group reached NIS 29.3% in the first three months of 2021, in annualized terms, compared with 4.9% in the same period last year.

2.6.2. Companies outside Israel

Hapoalim (Switzerland) Ltd. (hereinafter: "Hapoalim Switzerland")

A subsidiary (wholly owned by the Bank) incorporated in Switzerland, which was mainly engaged in the provision of private-banking services through branches in Zurich and Luxembourg. In September 2017, the Bank decided to act to discontinue the activity of Hapoalim Switzerland. At present, there are no remaining customer accounts at Hapoalim Switzerland. The Bank is acting to return the banking license.

The loss of Hapoalim Switzerland totaled CHF 10 million in the first three months of 2021, compared with a loss in the amount of CHF 15 million in the same period last year.

Bank Pozitif Kredi Ve Kalkinma Bankasi Anonim Sirketi (hereinafter: "Bank Pozitif")

The Bank Group operates in Turkey through Bank Pozitif, held at a rate of 69.83% by the Bank, which operates and specializes in corporate banking. Deposit taking is subject to local regulation, and is permitted up to the amount of credit of each borrower.

Within the strategic plan, the Bank is acting to sell its investment in Bank Pozitif. Concurrently, the Bank is working to gradually reduce the credit portfolio of Bank Pozitif.

In February 2021, the Bank, together with the minority shareholder, entered into an agreement for the sale of the full holdings of the parties (100%) in Bank Pozitif to a buyer.

The deal is subject to the receipt of regulatory approvals by June 30, 2021. In response to the request of the Bank for approval of the transaction by the Banking Supervision Department, the Banking Supervision Department gave notice on March 10, 2021, that subject to the receipt of approvals in Turkey and the completion of the transaction, it sees no cause to prevent revocation of the control permit of the Bank with respect to Bank Pozitif. The approval of the competition authority in Turkey for the transaction was received in May 2021; approval by the banking supervision authority in Turkey is also required. The Bank, without the minority shareholder, is responsible for the business representations to the buyer. Subject to completion of the transaction, an agreement has been reached with the minority shareholder regarding waiving by both parties of mutual contentions.

Subject to completion of the transaction, taking into consideration the depreciated value of the investment in the books of the Bank and the exchange rate of Turkish currency at this time, the Bank is expected to record profit of approximately NIS 40 million at the completion of the transaction (no tax payment is expected). At this time, there is no certainty that the approvals required for the sale will be received, and there is no certainty that the transaction will be completed, or regarding the profit to be recorded, also taking into consideration the economic situation in Turkey and the circumstances of Bank Pozitif.

For details regarding the instructions of the Bank of Israel to raise the weighting rates of risk-adjusted assets and regarding the deduction of the credit line facility from supervisory capital, see the section "Capital, capital adequacy, and leverage" above.

The balance of credit to the public totaled TRY 727 million (approximately NIS 291 million) as at March 31, 2021, compared with a balance of TRY 700 million (approximately NIS 302 million) at the end of 2020.

The business results of the Bank Pozitif Group amounted to a loss of approximately TRY 1 million in the first three months of 2021, compared with a loss in the amount of approximately TRY 11 million in the same period last year.

The Bank's total investment in Bank Pozitif as at March 31, 2021, after recognition of a loss from impairment of the investment, as noted above, amounted to NIS 103 million (NIS 3 million in capital and NIS 100 million in the utilized balance of a credit line granted to Bank Pozitif, which is to be repaid within the completion of the transaction; for details, see the section "Capital, capital adequacy, and leverage"), compared with approximately NIS 99 million (NIS 3 million in capital and NIS 96 million in the utilized balance of a credit line) at the end of 2020.

For details regarding additional companies and further information concerning the international operations of the Bank, see the International Activity Segment in the section "Segments of activity based on management approach" in the Corporate Governance Report, below.

3. Review of risks

Some of the information in this section, even if it is based on processing of historical data, constitutes forward-looking information, as defined in the Securities Law and as detailed in Section 1.1 above.

Additional information regarding risks is available on the Bank's website, in the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at March 31, 2021, hereinafter the "Report on Risks."

3.1. General description of risks and risk management

The Bank performs a comprehensive examination to assess the risks to which it is exposed and to determine the materiality of such risks. Within the ICAAP (Internal Capital Adequacy Assessment Process), the Bank defined the following risks as material risks: credit risk, concentration risk, market risk, investment risk, operational risk (including IT risk and cyber risk), counterparty risk, interest-rate risk in the banking book, liquidity risk, reputational risk, strategic and competitive risk, regulatory risk, compliance risk, and model risk. Other risks to which the Bank is exposed are handled directly as part of the management of its business: legal risk, economic risk, and environmental risk.

Risk management is performed based on a global view of the Bank's activity in Israel and of activity at the Bank's branches abroad, with due attention to the activity of subsidiaries with exposure significant for the Group. The subsidiaries are instructed to manage risks based on the strategy and policy of the Group, with adjustments according to the circumstances, which are reported to the parent company. Risks are managed separately by each company in the Bank Group, according to policy formulated by each company's board of directors. The Bank manages the various risks while hedging some risks. The Banking Supervision Department has set forth guidelines concerning risk management in the Proper Conduct of Banking Business Directives. The directives detail the requirements of the Banking Supervision Department for the management of the various risks to which a banking corporation is exposed, and stipulate fundamental principles for the management and control of risks, including suitable involvement in and thorough understanding of risk management by the board of directors of the banking corporation, the management of risks by a risk manager who is a member of the board of management, the employment of tools for the identification and measurement of risks, and the creation of means for supervision and control, including the existence of an independent risk-control function. The Bank operates in accordance with the guidelines of the Banking Supervision Department.

The Chief Risk Officer (CRO) and the member of the Board of Management responsible for the Risk Management Division is Dr. A. Bachar.

Financial risks are managed by designated members of the Board of Management and under their responsibility.

The principal members of the Board of Management responsible for managing credit risks are the Head of Corporate Banking, Mr. T. Cohen, and the Head of Retail Banking, Ms. D. Raviv.
The member of the Board of Management responsible for managing market, investment, and liquidity risks is the Head of Financial Markets and International Banking, Mr. Y. Antebi.
Legal risk is managed by Attorney Y. Almog, Chief Legal Advisor.
Technological risk, including cyber risk, is managed by Ms. E. Ben-Zeev, Head of Information Technology.
Operational risk, excluding legal risk and technological risk, is managed by each member of the Board of Management in the area of activity for which he or she is responsible.
For details and more extensive information regarding risk management governance, including the control approach, the responsible parties, and the committees of the Board of Directors and Board of Management relevant to risk management, see the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2020.

3.2. Credit risk

Credit risk is the risk that a borrower or debtor may default on obligations to the Bank under a credit agreement.
The credit portfolio is a major component of the asset portfolio of the Bank Group; therefore, deterioration in the stability of the various borrowers may have an adverse effect on the Group's asset value and profitability.
Activities that create credit risk include:

- **Balance sheet exposures –** Present liabilities to the Bank, such as credit and mortgages to the public, credit to banks and deposits with banks, credit to governments, investment in bonds (corporate and other), and the balance sheet part (positive fair value) of derivatives and financial instruments.
- **Off-balance sheet exposures –** Potential (unrealized) liabilities to the Bank, such as guarantees, unutilized commitments to grant credit, unutilized credit facilities, and potential liabilities arising from changes in the value of transactions in derivative financial instruments.

The credit risk arising from transactions in derivative financial instruments is defined as counterparty risk, which is the risk that the counterparty to the transaction will default before the final settlement of cash flows in the derivatives transaction. For information regarding counterparty credit risk and the management thereof, see the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks.
Another risk arising from the portfolio of credit exposures is concentration risk. Concentration risk arises from non-optimal diversification of specific risks in the credit portfolio, such that the credit portfolio is insufficiently diversified across the various risk factors; for example, when the credit portfolio is composed of a small number of borrowers (name concentration) or has a high degree of exposure to a particular economic sector (sector concentration).

Effect of the crisis of the spread of the coronavirus

The spread of the coronavirus, as well as the coping measures applied by governments in Israel and worldwide, caused damage to business activity in Israel and globally, encompassing most sectors of the economy. Following the vaccination drive, the decrease in case numbers, and the reopening of the economy, recovery has been apparent in most areas of activity over recent months, but the percentage of recipients of unemployment benefits remains high.

The Bank is acting to support its customers during this period, taking into consideration the effects of the crisis on credit risk. Towards that end, the Bank has taken several measures, detailed in Section 2.1.3 above. These measures, together with the government support measures, have led to improvement in the condition of the customers of the Bank.

Within the preparations of the Bank for the outcomes of the coronavirus crisis, and in order to assess its possible effects, various internal scenarios are examined with regard to the progression of a series of economic parameters, which are used by the Bank to estimate the effects on the Bank. In particular, the Bank examines the potential impacts of the crisis on the credit portfolio, also as a supporting tool for examination of the adequacy of credit losses. It is emphasized that such scenarios are applied using different approaches practiced at each bank, which depend on the risk-management methods and internal approach of the banking corporation; different banking corporations may therefore arrive at estimates that vary, sometimes materially, according to the different scenarios applied by each banking corporation, based on its approach, and estimates may vary among banking corporations even given the same set of assumptions. In the baseline scenario used by the Bank to challenge the collective allowance, the Bank assumes that another wave of coronavirus cases does not occur, and that the remaining restrictions on activity are gradually lifted in the second half of the year. Growth is expected to reach 5% in 2021, following 2.6% GDP contraction in 2020. The unemployment rate (using a broad definition including unpaid leave), which stood at approximately 14% in the first quarter of 2021, falls to 9% by the end of 2021. Housing prices rise moderately in 2021. The Bank of Israel interest rate remains at 0.1% in the coming four quarters in this scenario. The collective allowance, which was reduced by a total of approximately NIS 0.5 billion in the current quarter, and totals approximately NIS 4.9 billion at the date of the financial statements, serves as a safety cushion against the possible future materialization of individual credit losses and automatic charge-offs, i.e. recognition of higher credit losses, by increasing the collective allowance against possible future materialization of individual losses and automatic charge-offs. According to the scenario prepared by the Bank, if the data of the scenario materialize, and if the effect of the data in the scenario on portfolio quality is as predicted by the models and assumptions applied, the level of possible credit losses of the Bank in the coming year may, at a non-negligible degree of probability, decrease by NIS 0.2 billion, or increase by NIS 0.3 billion, relative to the provision for credit losses forecast for the coming year in the baseline scenario.

It is emphasized that given the prevailing uncertainty, reflected in volatility of the economic parameters used in the calculation, and in light of the difficulty of fully identifying the credit losses, due to factors including the deferral of borrowers' payments, as described above, the forecast of credit losses is the outcome of assumptions and evaluations, the reasonableness of which is extremely difficult to determine at this stage. Significant factors include the extent of deferral of payments due to the coronavirus crisis, and examination of the degree to which borrowers resume the original payment schedules after the end of such deferral.

The main parameters included in the scenario which the Bank estimates will influence the level of expected credit losses, and which are subject to significant uncertainty, are the unemployment rate and the GDP growth rate. Future actions by the government also affect the estimate of expected credit losses; to the extent that government assistance is granted to businesses and to private individuals, credit losses are expected to decrease further. These estimates and scenarios are continuously updated based on various forecasts, the economic plans of the government, and events in Israel and worldwide.

The change in the allowance for credit losses mainly results from a decrease in the collective allowance, to reflect improved forecasts regarding the condition of the economy and the extent of future credit losses.

As described above, due to the high uncertainty, it is emphasized that different assumptions could have given rise to different results, possibly materially, than those described above, and may lead to varying results among the different banking corporations. The estimates of the Bank regarding the possible ramifications of the spread of the coronavirus and its impact on the markets constitute forward-looking information, as defined in Section 1.1 above. These estimates are uncertain, and may materialize in a manner materially different than described above.

3.2.1. Analysis of credit quality and problematic credit risk

Changes in terms of debts within measures to cope with the crisis of the spread of the coronavirus

In view of the spread of the coronavirus and its possible impacts on the condition of the economy and of borrowers, with the aim of encouraging banking corporations to act to stabilize borrowers who fail or are likely to fail to fulfill their contractual payment obligations due to the crisis of the spread of the coronavirus, the Bank of Israel issued emphases during the course of 2020 for addressing debts the terms of which have been changed. Pursuant to the trajectories, it has been determined that changes in the terms of loans do not automatically lead to the assignment of a troubled debt restructuring classification to the loans when short-term changes in payments are performed, due to the crisis, for borrowers who were not previously in arrears. It has also been determined that borrowers are not considered borrowers in arrears if the arrears are of less than thirty days at the date of implementation of the changes.

Stabilization of borrowers who are not in arrears on their existing loans and who are sound borrowers confronting financial or operational problems in the short term due to the crisis of the spread of the coronavirus, in general, is not considered troubled debt restructuring, particularly when the following conditions are met:

- The change was performed due to the crisis of the spread of the coronavirus.
- The borrower was not in arrears when the changes were implemented.
- The change is for a short period.

In late 2020, the Bank of Israel issued updated trajectories addressing changes in terms of loans approved after January 1, 2021. According to the updated trajectories, banking corporations are permitted to refrain from applying a troubled debt restructuring classification to housing loans, consumer credit, and credit to small businesses and microbusinesses which were not in arrears of thirty days or more at the date of deferral of payments, regarding which payment deferral is performed within the updated trajectory, from January 1, 2021, to March 31, even if the cumulative deferral exceeds six months. The volume of debts deferred under the updated trajectories, and the effects of the implementation of the reliefs in respect thereof, are immaterial. For details regarding the instructions of the Banking Supervision Department on coping with the coronavirus, see Note 1C to the Condensed Financial Statements.

The Bank offers its customers tools, credit products, and additional products aimed at coping with the crisis. For additional details, see the section, "Segments of activity based on management approach" in the Corporate Governance Report.

Details are presented below regarding the balance of debts the terms of which were changed beginning in March 2020, as part of the measures to cope with the coronavirus, which were not classified as troubled debt restructuring, in accordance with the instructions of the Banking Supervision Department, as noted above. The data represent the balance of debts at the reporting date, after repayments performed on debts for which the payment deferral period has ended.

Table 3-1: Details regarding the balance of debts the terms of which have been changed[(1)] in the course of coping with the crisis of the spread of the coronavirus, which are not classified as troubled debt restructuring

	Debts in payment deferral at report date[(2)]		
	Recorded debt balance	Number of loans	Amount of deferred payments
	NIS millions		
Large businesses	1,047	35	122
Mid-sized businesses	458	47	47
Small businesses and microbusinesses	838	3,652	285
Private individuals excluding housing	388	9,419	78
Housing loans	2,103	3,729	91
Total – Israel	4,834	16,882	623
Activity overseas	257	5	10
Total as at March 31, 2021	**5,091**	**16,887**	**633**
Total as at December 31, 2020	15,444	77,672	1,415

(1) As at April 30, 2021, the balance of credit in respect of which payments were deferred totaled approximately NIS 4,939 million; the balance of actual deferred payments totaled approximately NIS 593 million.
(2) The payment deferral period is the cumulative period of deferrals granted to a debt, from the beginning of the efforts to cope with the coronavirus, not including deferrals to which the borrower is entitled under any law.
(3) Of which: impaired debts not accruing interest income in the amount of NIS 108 million.

Further details regarding recorded debt balance of debts in payment deferral					Further details regarding debts in payment deferral by duration of deferral[3]		Debts for which the payment deferral period has ended at the report date	
Problematic debts	Non-problematic debts						Recorded debt balance	Of which: in arrears of 30 days or more
	Debts not at credit execution rating	Debts at credit execution rating in arrears of 30 days or more	Debts at credit execution rating not in arrears	Total non-problematic debts	Debts deferred by more than 3 months, up to 6 months	Debts deferred by more than 6 months		
NIS millions								
204	-	-	843	843	429	255	1,862	-
-	42	-	416	458	135	234	1,705	2
80	171	-	587	758	155	540	6,760	43
6	105	-	277	382	139	221	3,822	52
41	209	47	1,806	2,062	681	1,092	18,273	536
331	527	47	3,929	4,503	1,539	2,342	32,422	633
98	117	15	27	159	27	132	2,465	-
[3]429	**644**	**62**	**3,956**	**4,662**	**1,566**	**2,474**	**34,887**	**633**
1,247	2,784	123	11,290	14,197	5,770	7,437	27,024	464

State-backed loans

In view of the coronavirus outbreak, the State resolved on the establishment of a dedicated loan fund, primarily to assist small, mid-sized, and large businesses experiencing cash-flow difficulties as a result of the outbreak. The terms of the loans were determined by the Ministry of Finance, and are uniform for all types of borrowers:

- Interest rate – zero for the first year (paid to the bank by the State); Prime + 1.5% from the second year forward.
- Period – up to ten years, including a grace period of up to twelve months.
- In addition, deferral of loan payments for periods of up to one year was approved, in loans for which the first grace period has ended.
- Customer collateral – up to 5% of the amount of the loan approved.
- Loan amounts:
    - General track – the lower of 40% of the annual revenue of the customer or NIS 20 million.
    - Amplified track – the lower of 40% of the annual revenue of the customer or NIS 10 million.

Thus far, approximately 77% of the state-backed credit has been granted to small businesses and microbusinesses, and approximately 23% to mid-sized and large businesses. The risk of this credit is determined by the State at the following rates: up to 85% in specific credit, and no more than 15% for the overall portfolio in the general track; and up to 95% in specific credit, and no more than 60% for the overall portfolio in the amplified track launched on June 21, 2020. The amplified track consists of businesses substantially hurt by the spread of the coronavirus, which demonstrated a significant decrease in revenue in 2020 compared with the preceding year, and which do not have the independent ability to cope with the cash-flow damages.

Table 3-2: Details regarding the recorded debt balance of state-backed loans within the effort to cope with the coronavirus

	March 31, 2021	December 31, 2020
	NIS millions	
Small businesses and microbusinesses	**4,628**	4,366
Mid-sized businesses	**1,048**	995
Large businesses	**350**	306
Total	**6,026**	5,667

Table 3-3: Analysis of credit quality, problematic credit risk, and nonperforming assets of the public[1]

	Balance as at March 31, 2021				Balance as at December 31, 2020			
	Commercial	Housing	Private	Total	Commercial	Housing	Private	Total
	NIS millions							
Credit risk at credit execution rating[1]								
Balance sheet credit risk	**169,842**	**98,223**	**29,616**	**297,681**	169,306	96,376	29,709	295,391
Off-balance sheet credit risk	**133,098**	**7,867**	**18,705**	**159,670**	127,509	7,685	21,068	156,262
Total credit risk at credit execution rating	**302,940**	**106,090**	**48,321**	**457,351**	296,815	104,061	50,777	451,653
Credit risk not at credit execution rating								
a. Non-problematic – balance sheet	**7,889**	**2,407**	**3,000**	**13,296**	7,627	2,415	3,374	13,416
b. Total problematic[2]	**8,667**	**656**	**766**	**10,089**	9,170	653	807	10,630
1) Special supervision	**4,015**	**-**	**20**	**4,035**	4,383	-	22	4,405
2) Substandard	**1,364**	**656**	**36**	**2,056**	1,555	652	47	2,254
3) Impaired	**3,288**	**-**	**710**	**3,998**	3,232	1	738	3,971
Total balance sheet credit risk not at credit execution rating	**16,556**	**3,063**	**3,766**	**23,385**	16,797	3,068	4,181	24,046
Off-balance sheet credit risk not at credit execution rating	**3,063**	**42**	**152**	**3,257**	3,369	38	166	3,573
Total credit risk not at credit execution rating	**19,619**	**3,105**	**3,918**	**26,642**	20,166	3,106	4,347	27,619
Of which, unimpaired debts in arrears of 90 days or more[3]	**86**	**656**	**35**	**777**	31	652	45	728
Total overall credit risk of the public	**322,559**	**109,195**	**52,239**	**483,993**	316,981	107,167	55,124	479,272
Additional information regarding total nonperforming assets								
a. Impaired debts not accruing interest income	**3,001**	**-**	**281**	**3,282**	2,894	1	313	3,208
b. Assets received upon settlement of debts	**31**	**-**	**-**	**31**	33	-	-	33
Total nonperforming assets of the public	**3,032**	**-**	**281**	**3,313**	2,927	1	313	3,241

(1) Credit risk for which the credit rating at the date of the report is congruent with the credit rating for the execution of new credit, according to the policy of the Bank.
(2) Credit risk that is impaired, substandard, or under special supervision.
(3) Including in respect of housing loans for which an allowance based on the extent of arrears exists, and in respect of housing loans for which an allowance based on the extent of arrears does not exist, which are in arrears of 90 days or more.

Note:
Balance sheet and off-balance sheet credit risk are presented before the effect of the allowance for credit losses, and before the effect of deductible collateral for the purpose of the indebtedness of borrowers and of groups of borrowers.

In order to reflect the effect of the crisis, the Bank performed processes to increase the severity of internal ratings, based on estimates of the extent of the impact of the crisis on various segments, combined with additional parameters. This resulted in a significant increase in balances of credit not at execution rating at the beginning of the crisis. During the first quarter of 2021, improvements occurred in most segments, following an improvement in borrower data. The internal rating severity processes were updated, and are expected to continue to be updated, according to the estimates of the Bank regarding the effects of the crisis.

Table 3-4: Additional information regarding changes in problematic debts in respect of credit to the public and in the individual allowance

	For the three months ended March 31, 2021		
	Commercial	Private	Total
	NIS millions		
Change in balance of impaired debts in respect of credit to the public			
Balance of impaired debts at beginning of year	**3,221**	**739**	**3,960**
Debts classified as impaired during the period	**326**	**52**	**378**
Debts returned to unimpaired classification	**(42)**	**(2)**	**(44)**
Impaired debts charged off	**(88)**	**(28)**	**(116)**
Impaired debts repaid	**(129)**	**(51)**	**(180)**
Balance of impaired debts at end of period	**3,288**	**710**	**3,998**
Change in balance in troubled debt restructuring			
Balance in troubled debt restructuring at beginning of year	**2,012**	**698**	**2,710**
Restructured during the period	**33**	**49**	**82**
Debts in restructuring charged off	**(39)**	**(24)**	**(63)**
Debts in restructuring restored to unimpaired classification or repaid*	**(84)**	**(50)**	**(134)**
Balance in troubled debt restructuring at end of period	**1,922**	**673**	**2,595**
Change in balance sheet allowance for credit losses in respect of impaired debts			
Allowance for credit losses in respect of impaired debts at beginning of year	**1,342**	**111**	**1,453**
Provision for credit losses – increase in allowance	**60**	**29**	**89**
Provision for credit losses – reduction of allowance	**(16)**	**(12)**	**(28)**
Recoveries of debts charged off in previous years	**(81)**	**(35)**	**(116)**
Allocated to profit and loss – allowance for credit losses	**(37)**	**(18)**	**(55)**
Charge-offs during the period	**(88)**	**(28)**	**(116)**
Recovery of charged-off debts	**81**	**35**	**116**
Allowance for credit losses in respect of impaired debts at end of period	**1,298**	**100**	**1,398**
* Of which: debts returned to unimpaired classification due to subsequent restructuring	**(19)**	**-**	**(19)**

Table 3-4: Additional information regarding changes in problematic debts in respect of credit to the public and in the individual allowance (continued)

	For the three months ended March 31, 2020		
	Commercial	Private	Total
	NIS millions		
Change in balance of impaired debts in respect of credit to the public			
Balance of impaired debts at beginning of year	3,678	764	4,442
Debts classified as impaired during the period	308	97	405
Debts returned to unimpaired classification	(1)	(1)	(2)
Impaired debts charged off	(107)	(47)	(154)
Impaired debts repaid	(405)	(47)	(452)
Balance of impaired debts at end of period	3,473	766	4,239
Change in balance in troubled debt restructuring			
Balance in troubled debt restructuring at beginning of year	667	707	1,374
Restructured during the period	173	90	263
Debts in restructuring charged off	(35)	(43)	(78)
Debts in restructuring restored to unimpaired classification or repaid*	(37)	(40)	(77)
Balance in troubled debt restructuring at end of period	768	714	1,482
Change in balance sheet allowance for credit losses in respect of impaired debts			
Allowance for credit losses in respect of impaired debts at beginning of year	1,272	136	1,408
Provision for credit losses – increase in allowance	258	55	313
Provision for credit losses – reduction of allowance	(24)	(13)	(37)
Recoveries of debts charged off in previous years	(52)	(33)	(85)
Allocated to the statement of profit and loss – allowance for credit losses	182	9	191
Charge-offs during the period	(107)	(47)	(154)
Recovery of charged-off debts	52	33	85
Allowance for credit losses in respect of impaired debts at end of period	1,399	131	1,530
* Of which: debts returned to unimpaired classification due to subsequent restructuring	-	-	-

Table 3-5: Credit risk indicators

	As at	
	March 31, 2021	December 31, 2020
Balance of impaired credit to the public, as a percentage of the balance of credit to the public*	**1.28%**	1.29%
Balance of unimpaired credit to the public, in arrears of 90 days or more, as a percentage of the balance of credit to the public*	**0.25%**	0.24%
Allowance for credit losses in respect of credit to the public, as a percentage of the balance of credit to the public*	**1.82%**	2.00%
Collective allowance for credit losses, as a percentage of the balance of credit to the public*,**	**1.57%**	1.75%
Allowance for credit losses in respect of credit to the public, as a percentage of the balance of impaired credit to the public*	**141.65%**	155.18%
Allowance for credit losses in respect of credit to the public, as a percentage of the balance of impaired credit to the public plus the balance of credit to the public in arrears of 90 days or more*	**118.60%**	131.08%
Problematic credit risk in respect of the public, as a percentage of total credit risk in respect of the public*	**2.40%**	2.55%
Provision (income) for credit losses as a percentage of the average recorded balance of credit to the public	**(0.66%)**	0.64%
Net charge-offs in respect of credit to the public as a percentage of the average recorded balance of credit to the public	**0.03%**	0.09%
Net charge-offs in respect of credit to the public as a percentage of the allowance for credit losses in respect of credit to the public	**1.62%**	4.28%

* Before deduction of the allowance for credit losses.
** Includes allowance for credit losses in respect of off-balance sheet credit instruments.

Portfolio quality analysis

Most indicators decreased (improved) in the first quarter of 2021, compared with the end of 2020:

- The provision (income) for credit losses as a percentage of the average recorded balance of credit to the public.
- The allowance for credit losses in respect of credit to the public, as a percentage of the balance of credit to the public.
- The collective allowance for credit losses, as a percentage of the balance of credit to the public.
- Problematic credit risk in respect of the public, as a percentage of total credit risk in respect of the public.
- Net charge-offs in respect of credit to the public, as a percentage of the average recorded balance of credit to the public.
- The balance of impaired credit to the public, as a percentage of the balance of credit to the public.

By contrast, the balance of unimpaired credit to the public in arrears of ninety days or more, as a percentage of the balance of credit to the public, worsened slightly.

Portfolio quality indicators improved during this quarter, largely influenced by the economic recovery and government support measures, as well as by corresponding improvements in estimates of the impact of the crisis.

With regard to other indicators that refer only to the risk in the portfolio of credit for private individuals, see Table 3-18, below.

3.2.2. Classification and analysis of credit risk by economic sector

Table 3-6: Credit risk by economic sector

	March 31, 2021						
					Credit losses[4]		
	Total credit risk[1]	Of which: credit execution rating[5]	Of which: problematic credit risk[6]	Of which: impaired credit risk (excluding derivatives)	Provision (income) for credit losses	Net charge-offs	Allowance for credit losses
	NIS millions						
Industry	**31,679**	**30,514**	**704**	**240**	**(46)**	**29**	**283**
Construction and real estate – construction	**80,716**	**79,065**	**727**	**448**	**8**	**(4)**	**578**
Construction and real estate – real-estate activities	**29,164**	**27,143**	**507**	**176**	**(81)**	**11**	**475**
Commerce	**38,638**	**36,208**	**1,222**	**399**	**(30)**	**9**	**927**
Financial services	**41,717**	**41,409**	**170**	**6**	**5**	**-**	**246**
Other business services	**15,409**	**14,164**	**195**	**100**	**(13)**	**6**	**205**
Public and community services	**8,573**	**8,144**	**83**	**43**	**(6)**	**-**	**79**
Other sectors	**43,984**	**38,875**	**3,787**	**1,685**	**(49)**	**(6)**	**1,619**
Total commercial	**289,880**	**275,522**	**7,395**	**3,097**	**(212)**	**45**	**4,412**
Private individuals – housing loans	**108,676**	**105,602**	**631**	**-**	**(68)**	**-**	**684**
Private individuals – other	**52,061**	**48,146**	**768**	**712**	**(237)**	**3**	**784**
Total public – activity in Israel	**450,617**	**429,270**	**8,794**	**3,809**	**(517)**	**48**	**5,880**
Total banks in Israel	**2,231**	**2,231**	**-**	**-**	**-**	**-**	**-**
Israeli government	**47,257**	**47,257**	**-**	**-**	**-**	**-**	**-**
Total activity in Israel	**500,105**	**478,758**	**8,794**	**3,809**	**(517)**	**48**	**5,880**
Total public – activity overseas	**33,376**	**28,081**	**2,844**	**808**	**9**	**(25)**	**515**
Banks and governments overseas	**38,065**	**37,902**	**-**	**-**	**-**	**-**	**5**
Total activity overseas	**71,441**	**65,983**	**2,844**	**808**	**9**	**(25)**	**520**
Total activity in Israel and overseas	**571,546**	**544,741**	**11,638**	**4,617**	**(508)**	**23**	**6,400**

(1) Balance sheet credit risk and off-balance sheet credit risk[3], including in respect of derivative instruments. Includes debts[2], bonds, securities borrowed or purchased under agreements to resell, assets in respect of derivative instruments, and credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness, in the amount of NIS 328,552; 61,995; 892; 11,366; and 168,741 million, respectively.
(2) Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").
(3) Credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness.
(4) Including in respect of off-balance sheet credit instruments (presented in the balance sheet under the item "other liabilities").
(5) Credit risk for which the credit rating at the date of the report is congruent with the credit rating for the execution of new credit, according to the policy of the Bank.
(6) Balance sheet and off-balance sheet credit risk that is impaired, substandard, or under special supervision, including in respect of housing loans for which an allowance based on the extent of arrears exists, and housing loans for which an allowance based on the extent of arrears does not exist which are in arrears of 90 days or more.

Table 3-6: Credit risk by economic sector (continued)

	March 31, 2020						
					Credit losses[4]		
	Total credit risk[1]	Of which: credit execution rating[5]	Of which: problematic credit risk[6]	Of which: impaired credit risk (excluding derivatives)	Provision (income) for credit losses	Net charge-offs	Allowance for credit losses
	NIS millions						
Industry	31,646	30,158	992	412	64	5	389
Construction and real estate – construction	67,528	65,679	863	561	78	9	599
Construction and real estate – real-estate activities	25,999	24,529	1,103	289	55	(6)	464
Commerce	35,700	33,496	1,174	481	147	58	893
Financial services	41,951	41,478	131	30	53	(1)	253
Other business services	13,698	12,967	116	97	41	20	167
Public and community services	7,580	7,250	65	22	16	4	69
Other sectors	42,296	37,577	3,546	1,793	153	20	1,399
Total commercial	266,398	253,134	7,990	3,685	607	109	4,233
Private individuals – housing loans	97,679	95,215	710	2	32	-	475
Private individuals – other	58,188	54,175	883	762	119	76	829
Total public – activity in Israel	422,265	402,524	9,583	4,449	758	185	5,537
Total banks in Israel	3,750	3,750	-	-	-	-	-
Israeli government	60,903	60,903	-	-	-	-	-
Total activity in Israel	486,918	467,177	9,583	4,449	758	185	5,537
Total public – activity overseas	32,151	29,895	1,114	518	50	2	327
Banks and governments overseas	48,518	48,518	-	-	1	-	9
Total activity overseas	80,669	78,413	1,114	518	51	2	336
Total activity in Israel and overseas	567,587	545,590	10,697	4,967	809	187	5,873

(1) Balance sheet credit risk and off-balance sheet credit risk[3], including in respect of derivative instruments. Includes debts[2], bonds, securities borrowed or purchased under agreements to resell, assets in respect of derivative instruments, and credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness, in the amount of NIS 334,893, 73,002, 369, 14,944, and 144,379 million, respectively.
(2) Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").
(3) Credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness.
(4) Including in respect of off-balance sheet credit instruments (presented in the balance sheet under the item "other liabilities").
(5) Credit risk for which the credit rating at the date of the report is congruent with the credit rating for the execution of new credit, according to the policy of the Bank.
(6) Balance sheet and off-balance sheet credit risk that is impaired, substandard, or under special supervision, including in respect of housing loans for which an allowance based on the extent of arrears exists, and housing loans for which an allowance based on the extent of arrears does not exist which are in arrears of 90 days or more.

Table 3-6: Credit risk by economic sector (continued)

	December 31, 2020						
					Credit losses[4]		
	Total credit risk[1]	Of which: credit execution rating[5]	Of which: problematic credit risk[6]	Of which: impaired credit risk (excluding derivatives)	Provision (income) for credit losses	Net charge-offs	Allowance for credit losses
	NIS millions						
Industry	32,186	30,904	826	331	43	14	358
Construction and real estate – construction	75,580	73,583	744	480	(46)	(92)	568
Construction and real estate – real-estate activities	29,529	27,119	1,009	178	65	(102)	569
Commerce	38,483	35,866	1,305	456	282	126	966
Financial services	41,714	41,398	186	6	49	8	239
Other business services	15,257	13,941	199	105	134	59	223
Public and community services	8,500	8,049	79	40	38	11	84
Other sectors	42,545	37,249	3,986	1,726	410	17	1,663
Total commercial	283,794	268,109	8,334	3,322	975	41	4,670
Private individuals – housing loans	106,659	103,585	627	1	314	5	752
Private individuals – other	54,909	50,568	808	740	447	209	1,023
Total public – activity in Israel	445,362	422,262	9,769	4,063	1,736	255	6,445
Banks in Israel	2,833	2,833	-	-	-	-	-
Israeli government	51,398	51,398	-	-	-	-	-
Total activity in Israel	499,593	476,493	9,769	4,063	1,736	255	6,445
Total public – activity overseas	33,910	29,391	2,469	562	210	8	481
Banks and governments overseas	38,156	37,504	-	-	(3)	-	5
Total activity overseas	72,066	66,895	2,469	562	207	8	486
Total activity in Israel and overseas	571,659	543,388	12,238	4,625	1,943	263	6,931

(1) Balance sheet credit risk and off-balance sheet credit risk[3], including in respect of derivative instruments. Includes debts[2], bonds, securities borrowed or purchased under agreements to resell, assets in respect of derivative instruments, and credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness, in the amount of NIS 321,591; 69,500; 368; 14,890; and 165,310 million, respectively.
(2) Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").
(3) Credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness, excluding in respect of derivative instruments.
(4) Including in respect of off-balance sheet credit instruments (presented in the balance sheet under the item "other liabilities").
(5) Credit risk for which the credit rating at the date of the report is congruent with the credit rating for the execution of new credit, according to the policy of the Bank.
(6) Balance sheet and off-balance sheet credit risk that is impaired, substandard, or under special supervision, including in respect of housing loans for which an allowance based on the extent of arrears exists, and housing loans for which an allowance based on the extent of arrears does not exist which are in arrears of 90 days or more.

3.2.3. Construction and real estate

Overall credit risk in the construction and real-estate sectors totaled approximately NIS 118 billion as at March 31, 2021.

Table 3-7: Segmentation of credit risk of the Bank Group in the construction and real-estate sectors, by principal area of activity

	Balance as at March 31, 2021			Balance as at December 31, 2020		
	Balance sheet credit risk	Off-balance sheet credit risk	Total credit risk	Balance sheet credit risk	Off-balance sheet credit risk	Total credit risk
	NIS millions					
Construction for commerce and services	**3,975**	**2,698**	**6,673**	3,798	2,637	6,435
Construction for industry	**382**	**86**	**468**	354	95	449
Housing construction	**21,232**	***31,891**	**53,123**	18,618	*31,595	50,213
Yield-generating properties	**25,639**	**6,398**	**32,037**	25,673	6,486	32,159
Other	**11,634**	**14,081**	**25,715**	10,848	12,590	23,438
Total construction and real-estate sectors	**62,862**	**55,154**	**118,016**	59,291	53,403	112,694

* Includes off-balance sheet credit risk in the amount of approximately NIS 2,779 million, in respect of which insurance was acquired from foreign insurance companies for the portfolio of Sale Law guarantees (December 31, 2020: NIS 3,098 million).

On January 7, 2021, the Bank of Israel issued additional adjustments of Proper Conduct of Banking Business Directive 250 (Temporary Order on Coping with the Coronavirus Crisis), which also addresses Proper Conduct of Banking Business Directive 315, "Industry Indebtedness Limit." The update states that the limit on credit for the construction and real-estate sector, excluding indebtedness for national infrastructures, will rise from 20% to 22% of total indebtedness of the public, and the limit on credit for the construction and real-estate sector will rise from 24% to 26% of total indebtedness of the public. The period of the relief was extended to 24 months from December 31, 2025, provided that the rate does not exceed the rate on December 31, 2025, or the rate of the industry limit as established in Proper Conduct of Banking Business Directive 315, whichever is higher.

3.2.4. Credit exposure to foreign countries

Information regarding total exposures to foreign countries and exposures to countries total exposure to each of which constitutes more than 1% of total balance sheet assets, or 20% of capital, whichever is lower, is set out below.

Table 3-8: Principal exposures to foreign countries(1)

	March 31, 2021			December 31, 2020		
	Exposure					
	Balance sheet	Off-balance sheet(2)(3)	Total	Balance sheet	Off-balance sheet(2)(3)	Total
	NIS millions					
Country						
United States	**22,295**	**7,077**	**29,372**	20,098	6,496	26,594
Switzerland	**886**	**973**	**1,859**	1,219	1,022	2,241
England	**7,548**	**4,551**	**12,099**	9,178	4,051	13,229
Germany	**753**	**1,155**	**1,908**	847	1,249	2,096
France	**1,575**	**1,111**	**2,686**	1,963	1,099	3,062
Others	**11,386**	**3,289**	**14,675**	9,905	2,411	12,316
Total exposures to foreign countries	**44,443**	**18,156**	**62,599**	43,210	16,328	59,538
Of which: total exposure to PIGS (Portugal, Italy, Greece, and Spain)	**291**	**59**	**350**	133	67	200
Of which: total exposure to LDCs	**925**	**176**	**1,101**	1,271	208	1,479
Of which: total exposure to countries with liquidity problems*	**9**	**-**	**9**	9	-	9

The line "Of which: total exposure to LDCs" includes the total exposure to countries defined as Least Developed Countries (LDCs) in Proper Conduct of Banking Business Directive 315, "Supplementary Provision for Doubtful Debts."
Balance sheet exposure to a foreign country includes cross-border balance sheet exposure and balance sheet exposure of the branches/subsidiaries of the banking corporation in the foreign country to local residents. Cross-border balance sheet exposure includes balance sheet exposure of the branches/subsidiaries of the banking corporation in Israel to residents of the foreign country, and balance sheet exposure of the overseas branches/subsidiaries of the banking corporation to non-residents of the country in which the branch/subsidiary is located.
Balance sheet exposure of the banking corporation's branches/subsidiaries in a foreign country to local residents includes balance sheet exposure of the branches/subsidiaries of the banking corporation in that foreign country to the residents of the country, less liabilities of those branches/subsidiaries (the deduction is performed up to the level of the exposure).

* The list of countries with liquidity problems is based on several criteria established by the Bank. The spread of the coronavirus has raised risk premiums in the financial markets, notably in the emerging markets. Accordingly, and due to developments in capital and other markets, additional countries were placed on the list of countries with liquidity problems during the period of the report, including Turkey, the country of operations of Bank Pozitif, which is held by the Bank. It is emphasized that the addition of a country to the list does not necessarily represent a worsening unique to that country, and that improvement of the indicators would lead to a corresponding update of the list.

(1) Based on the final risk, after the effect of guarantees, liquid collateral, and credit derivatives.
(2) Credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limits on indebtedness of a borrower, according to Proper Conduct of Banking Business Directive 313.
(3) Governments, official institutions, and central banks.

3.2.5. Credit exposure to foreign financial institutions

Table 3-9: Exposure of the Bank Group to foreign financial institutions[1]

	March 31, 2021			December 31, 2020		
	Balance sheet credit risk[2]	Present off-balance sheet credit risk[3]	Total present credit risk	Balance sheet credit risk[2]	Present off-balance sheet credit risk[3]	Total present credit risk
	NIS millions					
External credit rating[5]						
AAA to AA-	**3,052**	**1,819**	**4,871**	2,183	2,026	4,209
A+ to A-	**11,353**	**1,876**	**13,229**	15,141	1,924	17,065
BBB+ to BBB-	**619**	**82**	**701**	765	84	849
BB+ to B-	**7**	**18**	**25**	4	19	23
Lower than B-	**-**	**-**	**-**	-	-	-
Unrated	**145**	**42**	**187**	159	43	202
Total present credit exposures to foreign financial institutions*	**15,176**	**3,837**	**19,013**	18,252	4,096	22,348
Of which: problematic credit risk[4]	**-**	**-**	**-**	-	-	-
Of which: balance of impaired debts	**-**	**-**	**-**	-	-	-
Individual allowance for credit losses	**-**	**-**	**-**	-	-	-
Total credit exposure to foreign financial institutions after deduction of the individual allowance for credit losses	**15,176**	**3,837**	**19,013**	18,252	4,096	22,348
Collective allowance for credit losses	**6**	**-**	**6**	5	-	5

* The balances include the exposure of the Bank Group to financial institutions in the following countries:
Spain – Total exposure of approximately NIS 228 million, of which a total of NIS 203 million rated A-, a total of NIS 11 million rated BBB+, and a total of NIS 14 million rated BBB- (total exposure at the end of 2020 was approximately NIS 73 million, of which a total of NIS 42 million rated A-, a total of NIS 12 million rated BBB+, and a total of NIS 19 million rated BBB-).
Italy – Total exposure of approximately NIS 17 million, of which a total of NIS 16 million rated BBB- and the remaining amount of NIS 1 million rated BB (total exposure at the end of 2020 was approximately NIS 16 million, of which a total of NIS 15 million rated BBB- and the remaining amount of NIS 1 million rated BB).
Ireland – Total exposure of approximately NIS 1 million, unrated (total exposure at the end of 2020 was approximately NIS 1 million, unrated).
There is no exposure to financial institutions in Greece or Portugal.

(1) Foreign financial institutions include: banks, investment banks, broker/dealers, insurance companies, institutional entities, and entities controlled by such entities. However, credit exposure to foreign financial institutions backed by government guarantees is not included.
(2) Deposits with banks, credit to the public, investments in bonds, securities borrowed or purchased in agreements to resell, and other assets in respect of derivative instruments.
(3) Mainly guarantees and commitments to grant credit. Does not include credit risk in off-balance sheet financial instruments, as calculated for the purposes of the limits on indebtedness of a borrower.
(4) Credit risk that is impaired, substandard, or under special supervision.
(5) According to the lowest of the long-term foreign-currency credit ratings assigned by any of the major rating agencies: S&P, Moody's, and Fitch.

The exposure of the Bank Group to foreign financial institutions totaled approximately NIS 19.0 billion on March 31, 2021, a decrease of approximately NIS 3.3 billion, compared with approximately NIS 22.3 billion at the end of 2020. This decrease resulted from a decrease in balance sheet exposure in the amount of approximately NIS 3.1 billion, and a decrease in off-balance sheet exposure in the amount of approximately NIS 0.3 billion. Approximately 95.2% of the exposure to foreign financial institutions is to financial institutions rated A- or higher.

The Bank Group's exposure to foreign financial institutions is distributed as follows: 80.6% in banks and bank holding companies, 18.3% in insurance companies, and 1.1% in another financial institution.

Most of the Bank Group's exposure is to foreign financial institutions operating in Western European countries (68.0%) and in the United States (22.2%).

The Bank continues to maintain frequent and regular monitoring of the adverse effects of the coronavirus crisis on the global economy and on the financial results of financial institutions worldwide, and, as necessary, acts to reduce all of the relevant risks, including credit risk and settlement risk.

The data on "banks and governments overseas" in the disclosure of credit risk by economic sector, in the section "Review of risks" and in the Report on Risks (hereinafter: the disclosure by economic sector), includes exposures in respect of banks overseas and does not include other financial institutions, which are primarily presented within the financial services sector. This sector also includes central banks, whereas the table above does not include exposure in respect of central banks.

In the disclosure by economic sector, "total credit risk" includes balance sheet and off-balance sheet balances in respect of derivatives, whereas the table above includes only balance sheet balances in respect of derivatives.

In addition, the total of "debts and off-balance sheet credit risk" in the disclosure by economic sector includes credit to the public and deposits with banks, but does not include bonds and securities borrowed or purchased under agreements to resell, which are included in the table above. Balance sheet and off-balance sheet credit in respect of derivatives is not included in the total of "debts and off-balance sheet credit risk." However, the table above includes balance sheet balances in respect of derivatives.

3.2.6. Risks in the housing loan portfolio

Table 3-10: Risks in the housing loan portfolio

	Balance as at		
	March 31, 2021	March 31, 2020	December 31, 2020
	NIS millions		
Credit balances			
Loans from Bank funds	**101,340**	92,536	99,495
Loans from Finance Ministry funds*	**1,020**	1,147	1,055
Grants from Finance Ministry funds*	**183**	139	175
Total	**102,543**	93,822	100,725

	For the three months ended		For the year ended
	March 31, 2021	March 31, 2020	December 31, 2020
	NIS millions		
Execution of housing loans			
Total loans from Bank funds	**5,046**	5,657	20,558
Loans from Finance Ministry funds			
Loans	**13**	37	106
Grants	**10**	18	61
Total from Finance Ministry funds	**23**	55	167
Total new loans	**5,069**	5,712	20,725
Old loans refinanced from Bank funds	**404**	674	2,031
Total loans granted	**5,473**	6,386	22,756

* This amount is not included in balance sheet balances to the public.

Table 3-11: Development of amounts in arrears in housing loans and allowance for credit losses

	Recorded debt balance	Amount over 90 days in arrears, of total problematic debts	Rate of arrears	Allowance for credit losses in respect of housing loans (including allowance based on the extent of arrears)	Rate of allowance for credit losses in respect of housing loans	Problematic debt	Rate of problematic debt
	NIS millions/percent						
March 31, 2021	**101,340**	**117**	**0.12%**	**690**	**0.68%**	**656**	**0.65%**
December 31, 2020	99,495	122	0.12%	758	0.76%	676	0.68%
December 31, 2019	89,777	109	0.12%	446	0.50%	702	0.78%

In the first quarter of 2021, the rate of amounts in arrears remained stable, while the rate of problematic debt and the rate of the allowance for credit losses in respect of housing loans decreased in comparison to the end of 2020. According to the guidelines of the Bank of Israel, deferral due to the coronavirus crisis does not cause a loan to be considered a loan in arrears; if the borrower is already in arrears, the level of arrears is frozen until the end of the deferral. However, the volume of loans to which deferrals were applied is progressively contracting.

Development of housing credit balances

Table 3-12: Development of the balance in the housing credit portfolio, by linkage base and as a percentage of the balance of the credit portfolio of the Bank

	Unlinked segment				CPI-linked segment				Foreign-currency segment		Total	
	Fixed interest rate		Floating interest rate		Fixed interest rate		Floating interest rate		Floating interest rate		Recorded debt balance in NIS millions	Rate of change during the period
	Balance in NIS millions	Rate in %	Balance in NIS millions	Rate in %	Balance in NIS millions	Rate in %	Balance in NIS millions	Rate in %	Balance in NIS millions	Rate in %		
March 31, 2021	**22,300**	**22.0%**	**39,438**	**38.9%**	**13,567**	**13.4%**	**25,842**	**25.5%**	**193**	**0.2%**	**101,340**	**1.9%**
December 31, 2020	21,480	21.6%	38,623	38.8%	13,619	13.7%	25,573	25.7%	200	0.2%	99,495	10.8%
December 31, 2019	17,301	19.3%	34,565	38.5%	13,811	15.4%	23,834	26.5%	266	0.3%	89,777	10.2%

For details regarding the directives of the Banking Supervision Department amending the limit on housing loans at the Prime rate, see Note 16 to the Condensed Financial Statements.

Risk quantification and measurement – housing credit portfolio

The Bank routinely monitors developments in the housing credit portfolio, and applies various measures to manage risk. Housing credit risks are examined individually, based on the policies and objectives established in the risk appetite set for housing credit, from the level of the individual transaction to an overview of the housing credit portfolio of the Bank. The Bank manages and hedges risk, among other means, through limits on various segments, as established in policy discussions of the Board of Management and the Board of Directors, overseen and led by the Risk Management Division. The limits address LTV rates, repayment capability, distribution of credit products in the portfolio, volume of problematic debt, loan durations, geographical distribution, the rate of arrears, etc. These indicators are also monitored in comparison to the data of the banking system as a whole.

The Bank tracks conditions and changes in macroeconomic indicators in general, and in the business environment of the industry in particular. Certain events have been defined as requiring a reexamination of policy, such as a sharp increase in the floating interest rate or in inflation, an increase in unemployment in the Israeli economy, or a material change in housing prices.

Data are reported on a monthly basis in a divisional risk forum headed by the Head of Retail Banking, and on a quarterly basis, as part of the report on developments in the credit portfolio and in credit risk, to the Board of Management and Board of Directors.

The Bank uses a statistical model to measure the probability of default and the expected loss in the mortgage portfolio. In addition, within stress scenario testing, the effect on the mortgage portfolio is also examined. Insurance arrangements are also in place (life insurance and building insurance).

Table 3-13: Developments in housing credit balances, last five quarters

	2021	2020			
	Q1	Q4	Q3	Q2	Q1
	NIS millions				
Balances at end of period	**101,340**	99,495	97,103	94,615	92,536
Change in balances	**1.9%**	2.5%	2.6%	2.2%	3.1%
Execution of new loans	**5,069**	5,365	5,285	4,363	5,712

Housing loan data – percentage of total new loans executed

Table 3-14: Characteristics of housing credit granted by the Bank

	For the three months ended				
	March 31, 2021	December 31, 2020	September 30, 2020	June 30, 2020	March 31, 2020
Characteristics					
Financing rate over 60%	**41.5%**	41.3%	43.3%	40.7%	39.7%
Ratio of repayment to income greater than 40% (for purchases of homes and in monthly payments)	**0.1%**	0.3%	0.0%	0.0%	0.1%
Percentage with floating rates	**58.6%**	59.3%	58.4%	58.7%	58.4%
Percentage of all-purpose loans	**5.2%**	5.3%	5.1%	5.2%	4.9%
Loans for investment purposes as a percentage of total purchases of homes	**10.6%**	9.6%	6.9%	7.9%	8.6%
Principal planned for repayment after age 67 (excluding investments)	**8.0%**	8.1%	8.1%	8.0%	7.9%
Average original term to maturity of loans for purchases of homes, in years (excluding bridge loans)	**24.5**	24.6	24.6	24.7	24.3

The upward trend in balances of housing loans continued in 2021.

The following indicators increased (worsened):

- The percentage of credit granted with a financing rate greater than 60%.
- Loans for investment purposes as a percentage of total purchases of homes.

The following indicators were stable:

- The percentage of execution of all-purpose loans (slight decrease).
- The average term to maturity of loans for purchases of homes (slight decrease).
- The percentage of principal scheduled for repayment after the age of 67 (slight decrease).

The following indicators decreased:

- Payment to income ratios greater than 40%.
- The percentage at floating rates.

The changes in indicators do not point to a material change in the level of underwriting in the last quarter.

3.2.7. Credit to private customers (excluding housing)

Credit is granted to private customers in accordance with the credit and collateral policies and procedures, including with respect to the purpose of the credit and the appropriateness of this purpose for the customer's needs, the amount of credit requested, and the appropriateness of the amount for the customer's repayment capability. Credit applications of private customers in the Retail Banking Division, which are approved at the branches, are processed using automated systems, models, and tools that support decision-making by the authorized personnel. Credit applications of private customers are submitted and examined at the level of risk groups, as required in the directives of the Bank of Israel. Credit applications are examined with an emphasis on the matters noted above.

Private customers in the Retail Banking Division are offered, among other things, online credit in the form of Instant Credit. The maximum amount of the loan that a customer can receive and the terms of the loan are determined based on various criteria, according to data regarding the customer and the customer's accounts. The Bank's growth plan with regard to banking products, including in the area of credit, is based on aspects of growth potential as well as risk aspects, including the expected growth of the economy, customers' repayment capability, the expected volume of repayments, and more. The Bank routinely monitors credit execution and risk.

The Retail Banking Division applies measures to manage credit risk in respect of private individuals, based on the credit risk management principles of the Bank, through measurement and control tools used to monitor the credit portfolio and the quality, risk level, and compliance with policy limits of the credit portfolio, including the following: a statistical model for rating the credit risk of private borrowers, risk-appetite indicators, credit policies and procedures, a hierarchy of authority, and credit-risk control processes.

Table 3-15: Balance of credit to private individuals in Israel

	Balance as at		Change	
	March 31, 2021	December 31, 2020		
	NIS millions			
Balance sheet				
Negative balance in current accounts	**2,353**	2,402	(49)	(2.04%)
Loans[(1)]	**23,365**	23,873	(508)	(2.13%)
Of which: bullet and balloon loans	**44**	62	(18)	(29.03%)
Credit for purchases of motor vehicles[(2)]	**3,001**	3,139	(138)	(4.40%)
Debtors in respect of credit-card activity	**4,658**	4,470	188	4.21%
Total balance sheet credit risk	**33,377**	33,884	(507)	(1.50%)
Off-balance sheet				
Off-balance sheet credit risk	**18,853**	21,229	(2,376)	(11.19%)
Total credit risk	**52,230**	55,113	(2,883)	(5.23%)

(1) Excluding loans for purchases of motor vehicles.
(2) Including loans granted for the purchase of motor vehicles or with a lien on a motor vehicle.

Table 3-16: Distribution of risk of balance sheet credit to private individuals in Israel, by average income(1) and loan size

	March 31, 2021				December 31, 2020			
	Account income			Total	Account income			Total
	Up to NIS 10 thousand	NIS 10 to 20 thousand	Over NIS 20 thousand		Up to NIS 10 thousand	NIS 10 to 20 thousand	Over NIS 20 thousand	
	NIS millions							
Credit per borrower in NIS thousands								
Up to 20	**1,484**	**1,006**	**1,059**	**3,549**	1,475	965	1,037	3,477
20 to 40	**1,429**	**834**	**961**	**3,224**	1,476	834	920	3,230
40 to 80	**3,096**	**2,324**	**1,843**	**7,263**	3,196	2,364	1,855	7,415
80 to 150	**2,976**	**4,156**	**3,443**	**10,575**	3,040	4,252	3,540	10,832
150 to 300	**723**	**2,326**	**4,449**	**7,498**	721	2,341	4,580	7,642
Over 300	**99**	**121**	**1,048**	**1,268**	102	130	1,056	1,288
Total	**9,807**	**10,767**	**12,803**	**33,377**	10,010	10,886	12,988	33,884

(1) Account income was calculated based on the average income over a period of twelve months.

Table 3-17: Distribution of risk of balance sheet credit to private individuals in Israel, by borrowers' financial asset portfolio balance

	March 31, 2021	December 31, 2020
	Balance sheet credit risk	
	NIS millions	
Size of financial asset portfolio, in NIS thousands		
Up to 10	**17,447**	18,127
10 to 50	**6,275**	6,280
50 to 200	**5,075**	4,996
200 to 500	**2,211**	2,172
Over 500	**2,369**	2,309
Total	**33,377**	33,884

Table 3-18: Distribution of risk of balance sheet credit to private individuals in Israel, by type of interest and remaining repayment period

	March 31, 2021			December 31, 2020		
	Loans at floating interest rates	Loans at fixed interest rates	Total	Loans at floating interest rates	Loans at fixed interest rates	Total
	NIS millions					
Repayment period						
Up to one year	**2,607**	**5,046**	**7,653**	2,657	4,886	7,543
1 to 3 years	**7,086**	**105**	**7,191**	7,278	104	7,382
3 to 5 years	**11,811**	**95**	**11,906**	12,077	105	12,182
Over 5 years	**6,524**	**103**	**6,627**	6,670	107	6,777
Total	**28,028**	**5,349**	**33,377**	28,682	5,202	33,884

Table 3-19: Information regarding problematic debts in respect of private individuals in Israel

	Balance as at		Change	Percentage of total balance sheet credit risk As at	
	March 31, 2021	December 31, 2020		**March 31, 2021**	December 31, 2020
	NIS millions				
Problematic credit risk	**768**	808	(5.0%)	**2.3%**	2.4%
Of which: impaired credit risk	**712**	740	(3.8%)	**2.1%**	2.2%
Debts in arrears of more than 90 days	**35**	45	(22.2%)	**0.1%**	0.1%
Net charge-offs for the period	**3**	209	(1)(94.3%)	**(1)0.0%**	0.6%
Allowance for credit losses	**784**	1,023	(23.4%)	**2.3%**	3.0%

(1) Calculated on an annualized basis.

The balance of loans to private individuals in Israel, including credit for the purchase of motor vehicles, continued to decrease in the first quarter of 2021, by approximately 2.4%. Total balance sheet credit risk decreased by approximately 1.5%. The decrease in off-balance sheet credit risk mainly resulted from a decrease in unutilized credit facilities in credit cards under the responsibility of the Bank, due to the preparations of the Bank for implementation of the Law for Increasing Competition and Reducing Concentration in the Banking Market in Israel. For further details, see Note 16 to the Condensed Financial Statements.

The balance of debts in arrears of more than ninety days continued to trend downward in the first quarter of 2021, falling by 22.2%. The problematic credit risk balance decreased by 5%, and also decreased as a percentage of total balance sheet credit risk. Net charge-offs for the period decreased by 94.3%, and the allowance for credit losses decreased by 23.4%.

The improvement in indicators during this quarter was largely influenced by the economic recovery and government support measures, as well as by an improvement in the volume of loans in deferral of payments and corresponding improvements in estimates of the impact of the crisis.

3.2.8. Leveraged financing

Table 3-20: Exposures of the Bank in respect of leveraged financing, by economic sector of the borrower

	March 31, 2021			
	Number of borrowers	Balance sheet credit balance	Off-balance sheet credit balance	Total
		NIS millions		
Economic sector of the borrower				
Construction and real estate – construction	**2**	**632**	**690**	**1,322**
Construction and real estate – real-estate activities	**1**	**358**	**-**	**358**
Mining and quarrying*	**2**	**240**	**-**	**240**
Financial services and insurance services	**1**	**554**	**-**	**554**
Industry	**1**	**422**	**-**	**422**
Other business services	**1**	**90**	**141**	**231**
Total	**8**	**2,296**	**831**	**3,127**

* Net of charge-offs and an individual allowance for credit losses in the amount of approximately NIS 756 million.

	December 31, 2020			
	Number of borrowers	Balance sheet credit balance	Off-balance sheet credit balance	Total
		NIS millions		
Economic sector of the borrower				
Construction and real estate – construction	3	586	954	1,540
Construction and real estate – real-estate activities	2	608	-	608
Mining and quarrying*	2	240	-	240
Industry	1	425	-	425
Other business services	1	87	171	258
Total	9	1,946	1,125	3,071

* Net of charge-offs and an individual allowance for credit losses in the amount of approximately NIS 747 million.

3.2.9. Credit risk in respect of exposure to major borrowers

Table 3-21: Balances of balance sheet credit risk and off-balance sheet credit risk to borrowers whose indebtedness exceeds NIS 1,200 million, by sector of the economy

	March 31, 2021			
	Number of borrowers	Balance sheet credit risk	Off-balance sheet credit risk	Total
		NIS millions		
Economic sector				
Industry	**2**	**919**	**3,562**	**4,481**
Electricity and water supply	**1**	**683**	**1,027**	**1,710**
Financial services	**6**	**6,527**	**7,158**	**13,685**
Construction and real estate – construction	**4**	**3,111**	**2,895**	**6,006**
Information and communications	**1**	**910**	**483**	**1,393**
Construction and real estate – civil engineering	**1**	**438**	**1,522**	**1,960**
Total	**15**	**12,588**	**16,647**	**29,235**

	December 31, 2020			
	Number of borrowers	Balance sheet credit risk	Off-balance sheet credit risk	Total
		NIS millions		
Economic sector				
Industry	2	1,078	3,496	4,574
Electricity and water supply	1	748	1,029	1,777
Financial services	8	9,389	8,113	17,502
Construction and real estate – construction	2	902	2,058	2,960
Motor-vehicle trading	1	729	489	1,218
Information and communications	1	919	470	1,389
Construction and real estate – civil engineering	1	337	1,588	1,925
Total	16	14,102	17,243	31,345

3.2.10. Credit risk in respect of exposure to borrower groups

As at March 31, 2021, there is no group of borrowers whose net indebtedness on a consolidated basis, in accordance with Proper Conduct of Banking Business Directive 313, "Limits on the Indebtedness of Borrowers and Groups of Borrowers" (hereinafter: "Directive 313"), exceeds 15% of the capital of the banking corporation (as defined in Directive 313).

The Bank conducts monitoring and control processes in order to examine compliance with the limits set forth in Directive 313 with regard to exposure to the indebtedness of borrower groups. As at the reporting date, the Bank is in compliance with the limits.

3.3. Market risk

Market risk is the risk of loss or decline in value as a result of change in the economic value of a financial instrument, or of a portfolio of assets/instruments, due to changes in prices, rates, spreads, and other market parameters.

During the first quarter of 2020, as a result of the effects of the coronavirus outbreak crisis, the level of volatility of risk factors in the financial markets increased, which led to an increase in risk estimates of the dealing room and its customers, and decreases in stock and bond indices. In addition, interest rates of central banks decreased. The volatility later subsided, with a corresponding decrease in market risk estimates and recovery in stock indices and corporate bond indices, some of which are at record levels. The changes in the interest rates of the central banks and the changes in yield curves in the market affect the future financing income and interest income of the Bank, as well as the fair value and economic value, as detailed in the tables below. For further details, see the section "Economic and financial review" and the section "Effect of the crisis of the spread of the coronavirus," above.

3.3.1. Interest-rate risk

Interest-rate risk is the risk of loss or decline in value due to changes in interest rates in the various currencies. This risk, as defined above, also includes the following risk factors:

- **Repricing risk –** Risk arising from timing differences in terms to maturity (for fixed interest rates) and repricing dates (for floating interest rates).
- **Yield curve risk –** Risk arising from different changes in interest rates for different terms to maturity, reflected in changes in the slope of the curve (steepening or flattening) or in its shape (twist).
- **Spread risk –** Risk of loss as a result of changes in spreads between different interest-rate curves.
- **Optionality risk –** Risk arising from different exercise rights inherent in assets and liabilities (for example, the right to withdraw funds at any time, sometimes without fines).
- **Value exposure –** The estimated expected change in economic value (financial capital) as a result of changes in the interest rate.
- **Accounting income exposure –** The expected change in accounting income in the coming year as a result of changes in the interest rate.

Table 3-22: Adjusted net fair value* of the financial instruments of the Bank and its consolidated companies

	March 31, 2021			December 31, 2020		
	NIS	Foreign currency	Total	NIS	Foreign currency	Total
	NIS millions					
Adjusted net fair value*	**35,637**	**124**	**35,761**	32,868	275	33,143
Of which: banking book	**35,361**	**(153)**	**35,208**	32,463	2	32,465

* Net fair value of financial instruments, excluding non-monetary items, and after the effect of employee benefit liabilities and spreading over periods of on-demand deposits.

For further details regarding assumptions used to calculate the fair value of financial instruments, see Note 15 to the Condensed Financial Statements.

Table 3-23: Effect of scenarios of changes in interest rates on the adjusted net fair value* of the Bank and its consolidated companies

	March 31, 2021			December 31, 2020		
	NIS	Foreign currency	Total	NIS	Foreign currency	Total
	NIS millions					
Parallel changes						
1% parallel increase	**(133)**	**(19)**	**(152)**	(586)	(117)	(703)
Of which: banking book	**(164)**	**26**	**(138)**	(633)	(86)	(719)
1% parallel decrease	**175**	**36**	**211**	629	108	737
Of which: banking book	**205**	**(6)**	**199**	676	80	756
Non-parallel changes						
Steepening[(1)]	**(291)**	**(190)**	**(481)**	(454)	(132)	(586)
Flattening[(2)]	**328**	**160**	**488**	393	150	543
Increase in short-term interest rate	**217**	**78**	**295**	109	29	138
Decrease in short-term interest rate	**(233)**	**(83)**	**(316)**	(158)	(18)	(176)

* Net fair value of financial instruments, excluding non-monetary items, and after the effect of employee benefit liabilities and spreading over periods of on-demand deposits.
(1) Steepening – decrease in the short-term interest rate and increase in the long-term interest rate.
(2) Flattening – increase in the short-term interest rate and decrease in the long-term interest rate.

This table presents the change in the adjusted net fair value of all of the financial instruments under the assumption that the noted change occurs in all interest rates, in all linkage segments.

Table 3-24: Effect of scenarios of changes in interest rates on interest income

	March 31, 2021			December 31, 2020		
	Interest income	Non-interest financing income	Total	Interest income	Non-interest financing income	Total
	NIS millions					
1% parallel increase	**1,067**	**132**	**1,199**	1,035	176	1,211
Of which: banking book	**1,067**	**144**	**1,211**	1,035	158	1,193
1% parallel decrease	**(515)**	**(307)**	**(822)**	(412)	(368)	(780)
Of which: banking book	**(515)**	**(320)**	**(835)**	(412)	(349)	(761)

Income sensitivity in the table above was calculated by changing interest-rate curves, using assumptions regarding changes in deposit spreads; assumptions of transfer of monies from current accounts to deposits in the case of an increase in the interest rate, versus stability of balances in the case of a decrease in the interest rate; and assumption of interest-rate floors, such that the various interest-rate curves fall to zero. In the foreign-currency segment, the interest-rate curve falls to the lower of zero or the existing negative interest rate. In some of the scenarios, the theoretical loss in the event of a negative interest rate (below the floor) may be higher. The sensitivity of the trading book was calculated using the MTM approach. The decrease in the sensitivity of interest to a decrease in the interest rate resulted from the decrease in the interest rates of the central banks, which brought interest rates closer to the interest-rate floor, combined with certain changes in the position and in assumptions regarding curves.

For details and more extensive information regarding market risks, including interest-rate risk, exchange-rate risk, and investment risk (share and credit spread risk), see the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2020, and the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at March 31, 2021.

3.3.2. Exchange-rate risk

Currency risks (also known as linkage-base exposure) include exposure to exchange rates of the various currencies against the shekel, and exposure to the consumer price index, at the Bank as a whole.

Table 3-25: Sensitivity to changes in the exchange rates of foreign currencies with a significant volume of activity and to changes in the consumer price index

	March 31, 2021		December 31, 2020	
	10% increase	10% decrease	10% increase	10% decrease
	NIS millions			
USD	**(51)**	**164**	(38)	45
EUR	**43**	**(9)**	37	(8)
	3% increase	3% decrease	3% increase	3% decrease
CPI	**285**	**(377)**	273	(388)

The table above presents an analysis of the sensitivity of the economic value of the Bank to changes in exchange rates, based on revaluation of all balance sheet and off-balance sheet instruments in the risk-management system, using prevalent models for revaluation of each instrument and using representative rates as the baseline exchange rate. For the purposes of the calculation, the portfolio is revalued again at an exchange rate reflecting an increase/decrease at the presented rate, with no additional assumptions. Sensitivity to the consumer price index is calculated according to the exposure of the Bank to the index, as detailed in Note 14 to the Condensed Financial Statements, plus the effect of the CPI floor on the expected accounting profit.

3.4. Liquidity and refinancing risk

Liquidity risk – Liquidity risk is defined as present or future risk to the stability and profits of the Bank arising from an inability to sustain the cash flow required for its needs. Liquidity risk at the Bank is examined from a broader perspective, encompassing the ability to repay liabilities on schedule, including during times of stress, without damage to routine operations within the business plans of the Bank and without incurring exceptional losses.

Refinancing risk – The risk of inability to raise new resources to replace resources that have matured, or the risk that the reissue may be performed at durations and terms that damage the Bank's net interest income. This risk is managed as part of liquidity risk.

Table 3-26: Liquidity coverage ratio*

	For the three months ended March 31, 2021	For the three months ended March 31, 2020	For the three months ended December 31, 2020
		%	
a. Consolidated data			
Liquidity coverage ratio	**139%**	126%	140%
Minimum liquidity coverage ratio required by the Banking Supervision Department	**100%**	100%	100%
b. Bank data			
Liquidity coverage ratio	**139%**	125%	139%
Minimum liquidity coverage ratio required by the Banking Supervision Department	**100%**	100%	100%

* The consolidated ratio and the stand-alone ratio for the banking corporation are calculated daily, and reported as an average of the daily observations.

No material changes have occurred in liquidity risk management policy and in resource raising policy since the beginning of this year.

During the quarter, there was no material change in the average liquidity ratio in comparison to the preceding quarter. This ratio is higher than its level prior to the crisis of the spread of the coronavirus, due to the expansionary monetary policy and the increase in deposits. There is some volatility from day to day during the month, and some interchange between NIS and foreign currency, mainly due to activity in derivatives.

For more extensive information regarding liquidity risk and the management thereof, see the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2020, and the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at March 31, 2021.

3.5. Operational risk

Operational risk is defined as the risk of loss that may be caused by failed or faulty internal processes, human actions, system malfunctions, or external events. The definition includes legal risk, but does not include strategic risk or reputational risk. Failures related to one of the aforesaid factors may cause damage to profitability. The Bank operates control units, including Information Systems Security and Cyber Defense, Business Continuity Management, Security, and the Chief Compliance Officer, as well as comprehensive procedures and systems in areas related to banking activity, management of human resources, process control, business continuity, emergency operation, and more.
In light of the spread of the coronavirus, the Bank applied a series of processes and measures to monitor and mitigate the relevant risks, while adapting the routine operations of the Bank to the pandemic situation and to the instructions of the authorities. As of the date of the report, the resumption of routine operational activity is in process, while adhering to the guidelines.

In the first quarter of 2021, no material change occurred in the internal control over financial reporting that had a material impact, or could reasonably be expected to have a material impact, on the internal control over financial reporting, including the potential effects of the coronavirus event on the financial reporting systems and on the system of disclosure controls.

For additional information regarding operational risk and the management thereof, see the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2020.

3.6. Compliance risk

Compliance risk is the risk of imposition of a legal or regulatory sanction, material financial loss, or reputational damage which the banking corporation may suffer as a result of a failure to comply with the compliance directives, as defined in Proper Conduct of Banking Business Directive 308.
Pursuant to Proper Conduct of Banking Business Directive 308, compliance risk also includes risks related to the fairness of the Bank towards its customers, conflicts of interest, the prohibition of money laundering and financing of terrorism (including with respect to tax laws), provision of advice to customers, securities enforcement, protection of privacy (excluding information-technology aspects), the legislation in Israel for implementation of the FATCA and CRS directives, and taxation aspects relevant to products or services for customers, or directives of a similar nature. Compliance risk also includes the reputational risk that accompanies failure to comply with such directives.
Compliance risk also encompasses risk related to the activity of the Bank with banks located in the Palestinian Authority, which requires the fulfillment of various regulatory requirements, in particular in connection with the prevention of money laundering and terrorism financing, and involves monitoring of fund transfers to and from residents of the Palestinian Authority.

The Bank terminated its activity with banks and branches located in the Gaza Strip at the beginning of 2009, after the government declared Gaza a hostile entity. Over the years, the Bank repeatedly notified the Bank of Israel and the Ministry of Finance that in view of the problems involved in the provision of banking services to Palestinian banks, the Bank wished to cease providing such services.

In January 2018, the Bank received signed letters of immunity and indemnity from the Attorney General and the Ministry of Finance. The letter of immunity protects the Bank, its officers, and its employees from indictment in Israel for certain offenses related to money laundering and the prevention of terrorism financing in relation to services granted, or to be granted, by the Bank to Palestinian banks from March 28, 2016, to May 31, 2019 (the "Immunity and Indemnity Period"). Further to the letter of immunity, in January 2018, the Bank received a letter from the Supervisor of Banks in which she gave notice that no enforcement measures would be taken in all matters related to actions of the Bank in connection with the provision of correspondent services to which the letter of immunity applies.

In the letter of indemnity, the State of Israel made a commitment to indemnify the Bank, in an amount up to NIS 1.5 billion, for expenses (liability according to a verdict and legal expenses) borne by the Bank, within civil proceedings or criminal proceedings that do not end in a conviction, prosecuted against the Bank or an officer or employee thereof in connection with the provision of the correspondent services during the Immunity and Indemnity Period. The immunity and indemnity commitments granted to the Bank, as noted, are subject to reservations stated therein and to conditions that the Bank must fulfill.

In light of the request of the State to postpone the termination of correspondent services until the implementation of a long-term solution for the provision of correspondent services, through the establishment of a government company to provide Palestinian banks with these services, an updated letter of indemnity was issued on June 30, 2019. Pursuant to the updated letter of indemnity, the indemnity to which the State has committed towards the Bank, as detailed above, has been amended to an amount of up to NIS 1.5 billion in respect of each proceeding (not cumulatively). An updated letter of the Attorney General extended the immunity period until May 31, 2021, and a letter of the Accountant General of August 18, 2020, extended the period of the letter of indemnity until May 31, 2021.

For additional information regarding compliance risk and the management thereof, see the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2020.

3.7. Environmental risk

Environmental risk to the Bank is the risk of loss as a result of directives related to the protection of the environment and the enforcement thereof, which may materialize if the Bank bears direct responsibility for an environmental hazard, including the possibility that the Bank may be required to remove an environmental hazard, or may be liable to a third party in respect of an environmental hazard, or as a result of the impairment of realized collateral. This risk may also materialize indirectly as a result of the deterioration of the financial condition of another entity due to environmental costs stemming from directives related to the protection of the environment. Reputational risk may also materialize as a result of the association of the Bank to a party causing environmental damage. The definition of environmental risk has expanded in recent years, so that today it is also commonly viewed as a global risk arising from the potentially harmful effects of environmental changes on people, ecological systems, and economic and financial activities. Environmental risks include climate change; harm to biodiversity; and air, water, and land pollution. In this context, environmental risks are generally divided into two principal risk factors: physical risks, which manifest as a direct effect of climate change, such as fires, floods, earthquakes, etc.; and transition risks, which arise from the promotion of processes and implementation of adjustments pertaining to the environment, such as renewable energy, carbon reduction, green technologies and materials, etc.

Environmental risks, including climate-change risks, may have financial and non-financial impacts on banking corporations, including the Bank. These risks may also be included in the Bank's exposure to other risks, such as credit risk, market risk, operational risk, compliance risk, legal risk, reputational risk, and liquidity risk.

In December 2020, the Supervisor of Banks sent a letter to the banking corporations on the subject of the management of environmental risks, with an emphasis on climate risk. This was part of a process conducted at the Banking Supervision Department to formulate and specify a framework for the management of environmental and climate risks, as defined above, in the Israeli banking system, with the aim of adapting international regulation and expectations to the local environment. The Bank addresses environmental risks in the course of its routine risk-management processes, while also preparing to expand the treatment of these risks, as detailed in the letter, according to their relevance and materiality in the context of the business activity of the Bank.

Further to the letter, in February 2021 the Banking Supervision Department sent an additional letter to banking corporations, in which they were asked to complete a self-assessment questionnaire regarding various aspects of the environmental and climate risk management framework. The findings of the questionnaire will serve as the basis for talks between the Banking Supervision Department and the banks, expected to begin in May 2021.

For additional information regarding environmental risk and the management thereof, see the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2020.

3.8. Model risk

Model risk is the risk of adverse consequences, which may take the form of monetary loss or non-financial impacts (incorrect business and/or strategic decisions, damage to the firm's reputation, etc.), resulting from decisions based on incorrect or misused model outputs. The sources of this risk are possible deficiencies in input data, development methodologies, technological implementation, and business use.
Model risk at the Group is managed by a dedicated independent unit – the Model Risk Management Unit. The unit constitutes the second line of defense in respect of this risk, in cooperation with independent validation activities in other Bank units.
Model risk management encompasses independent validation, monitoring of risk-mitigation activities conducted by the various units, definition of risk appetite, and assessment of aggregate risk. Pursuant to the instructions of the Bank of Israel of 2011, all models in use at the Bank require independent validation. Beginning in the first quarter of 2021, model risk is reported within the risk factor severity table of the Bank.

3.9. Other risks

For details and more extensive information regarding legal risk, reputational risk, regulatory and legislative risk, economic risk, and strategic risk, see the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at March 31, 2021, and the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2020.

3.10. Severity of risk factors

Pursuant to the directive of the Bank of Israel, the principal risk factors to which the Group is exposed have been mapped. The risk factors and the Board of Management's estimates regarding the severity of the risk of each factor are listed in the following table. The scale for levels of severity of the risk factors is determined with reference to the risk appetite defined by the Bank. This scale consists of five levels of severity for each risk factor. Quantitative metrics have been established for three of the levels (low, medium, and high). For details, see the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2020.

Table 3-27: Severity of risk factors

	Risk factor	Risk effect
Financial risks		
1.	Credit risk (including counterparty risk)	Medium-High
1.1.	Of which: risk in respect of the quality of borrowers and/or collateral	Medium-High
1.2.	Of which: risk in respect of sector concentration	Medium
1.3.	Of which: risk in respect of concentration of borrowers/borrower groups	Medium
2.	Market risk	Low-Medium
2.1.	Of which: interest-rate risk	Low-Medium
2.2.	Of which: inflation risk/exchange-rate risk	Low
2.3.	Of which: share price and credit spread risk	Low-Medium
3.	Liquidity risk	Low-Medium
Operational and legal risks		
4.	Operational risk	Medium
4.1.	Of which: cyber risk	Medium
4.2.	Of which: IT risk	Medium
5.	Legal risk*	Low-Medium
Other risks		
6.	Reputational risk	Low-Medium
7.	Strategic and competitive risk	Medium
8.	Regulatory and legislative risk	Medium
9.	Economic risk – condition of the Israeli economy**	Medium-High
10.	Economic risk – condition of the global economy**	Medium-High
11.	Compliance risk	Medium
12.	Model risk***	Medium

* The level of legal risk has been raised to Low-Medium.
** Due to the improvement in the economic environment, the vaccination of parts of the population, and the decrease in coronavirus cases in Israel, risk levels of the condition of the economy in Israel and the condition of the global economy were lowered to Medium-High.
*** Model risk has been added to the table as of the first quarter of 2021. For details, see the section, "Model risk," above.

3.11. Effect of the discontinuation of publication of the LIBOR interest rate

Beginning at the end of 2021, the global financial system is expected to discontinue publication of the LIBOR interest rates and cease using these rates. The LIBOR rates serve as the basis for calculation of interest rates applicable to financial products in principal foreign currencies, or linked to these currencies, with floating rates. Within the intention to establish alternative benchmark rates for the relevant currencies, global institutions such as the ISDA (International Swaps and Derivatives Association) and the ARRC (Alternative Reference Rate Committee) have formulated alternatives to these interest rates, new legal language, and proposals for substitution mechanisms. The anticipated change will affect the entire banking industry, globally and in Israel.

In March, it was announced that a decision had been reached to discontinue the publication of the LIBOR interest rates, as of January 1, 2022, in the following currencies; euro, British pound, Swiss franc, and yen; and to discontinue the publication of the dollar LIBOR rate in the future, as of June 30, 2023. Concurrently, based on ISDA decisions, conversion rates were established between the LIBOR and the new interest rates in derivative instruments based on this protocol.

As part of the Bank's preparations for these changes, a steering committee has been established at the Bank, to follow the international publications and examine the impact of the substitution on the activity of the Bank. The committee updates the Board of Management and Board of Directors periodically. Within the activity of the committee, the various products at the Bank that are based on the interest rates due to be eliminated have been mapped; changes are being made to legal documents; and instruction is provided to Bank employees and customers. The Bank has also begun preparations to adapt its technological systems to the new interest rates and mechanisms. In late January 2020, letters were sent to customers of the Bank describing the future change, according to the information in the possession of the Bank at that time. An additional letter was sent in February 2021, containing updates based on the additional information that has come to the attention of the Bank.

In light of the uncertainty concerning the continued execution of this process, which is influenced, as noted, by international decisions, the Bank is unable to perform quantitative evaluations regarding the effect of the substitution of the interest rates. The Bank will continue to monitor the international publications and to act with the aim of reducing the risks arising from the interest-rate substitution process.

On March 22, 2020, the FASB issued reliefs regarding the accounting treatment of the conversion of LIBOR-based contracts to alternative benchmark rates. The reliefs primarily concern the treatment of changes in terms of debts and hedge accounting, with the aim of allowing continuity in accounting in the situation of replacement of the LIBOR with alternative benchmark rates. The Bank is examining the implementation of these reliefs with respect to the relevant contracts.

For further details, see Note 1 to the Condensed Financial Statements and the website of the Bank.

4. Critical accounting policies and estimates; controls and procedures

4.1. Critical accounting policies and estimates

The financial statements of the Bank are prepared in accordance with accounting principles and rules, the main points of which are described in Note 1 to the Annual Financial Statements as at December 31, 2020. In implementing the accounting principles, the Board of Management of the Bank uses various assumptions, estimates, and evaluations that affect the reported amounts of assets and liabilities (including contingent liabilities) and the results reported by the Bank. Actual future results may differ from such estimates and evaluations made when preparing the financial statements.

Some of these estimates and evaluations involve a considerable degree of uncertainty, and can be affected by possible future changes. Such estimates and evaluations in which changes may have a material effect on the financial results presented in the financial statements are considered by the Bank to be estimates and evaluations on "critical" matters. The Bank's Board of Management is of the opinion that the estimates and evaluations applied during the preparation of the financial statements are fair, and were made to the best of its knowledge and professional judgment.

The management estimates and principal assumptions used in the implementation of the Group's accounting policies are consistent with those used in the preparation of the Annual Financial Statements as at December 31, 2020.

4.2. Controls and procedures

In accordance with the Public Reporting Directives of the Supervisor of Banks, the Chief Executive Officer, the Chief Financial Officer, and the Chief Accountant of the Bank must each separately sign a declaration regarding their responsibility for the establishment and application of controls and procedures concerning disclosure and the Bank's internal control over financial reporting, including an assessment of the effectiveness of these controls, pursuant to the provisions of Sections 302 and 404 of the law known as the "Sarbanes-Oxley Act," enacted in the United States.

The provisions of these two sections of the law were integrated into the Public Reporting Directives.

The directive in Section 302 regarding the existence of controls and procedures concerning disclosure is implemented at the Bank on a quarterly basis. The directive in Section 404 regarding the Bank's internal control over financial reporting is implemented at the end of each year, as required in the directives.

As part of the implementation of the directives of Section 404, the Bank, with the assistance of a consulting firm, mapped and documented all material control processes, based on the directives of the SEC (the Securities and Exchange Commission in the United States), using the prevalent methodologies, based on criteria established in the updated Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In addition, in accordance with the requirements, the Bank carried out a test of the effectiveness of the procedures for internal control over financial reporting, through an examination of the effectiveness of the main controls in practice.

The Bank is updating the documentation of the material control processes for 2021, as in every year, according to the prevalent methodologies, with the assistance of a consulting firm, and examining the effectiveness of the procedures for internal control over financial reporting, through a renewed examination of the main controls for the current year. The main part of this process is planned to be completed during the second half of the year.

Evaluation of controls and procedures concerning disclosure

The Board of Management of the Bank, in cooperation with the Chief Executive Officer, the Chief Financial Officer, and the Chief Accountant of the Bank, has assessed the effectiveness of the controls and procedures concerning disclosure at the Bank as at March 31, 2021. Based on this assessment, they have concluded that, as at the end of this period, the controls and procedures concerning disclosure at the Bank are effective in order to record, process, summarize, and report the information that the Bank is required to disclose in its financial statement, in accordance with the Public Reporting Directives of the Supervisor of Banks, on the date stipulated in these directives.

Changes in internal control

During the quarter ended on March 31, 2021, no material change occurred in the internal control over financial reporting that had a material impact, or could reasonably be expected to have a material impact, on the internal control over financial reporting.

Ruben Krupik
Chairman of the Board of Directors

Dov Kotler
President and Chief Executive Officer

Tel-Aviv, May 12, 2021

CEO Declaration

I, Dov Kotler, declare that:

1. I have reviewed the quarterly report of Bank Hapoalim B.M. (hereinafter: the "Bank") for the quarter ended on March 31, 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 in the Report fairly reflect the financial condition, results of operations, changes in equity, and cash flows of the Bank, in all material aspects, for the dates and periods presented 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 and internal control over financial reporting (as defined in the Public Reporting Directives concerning the "Board of Directors' Report"); 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 control over financial reporting, or caused such internal control over financial reporting to be established under our supervision, intended to provide a reasonable degree of assurance with regard to the reliability of the financial reporting, and with regard to the preparation of the financial statements for external purposes 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 in the Report, 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 this 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 auditors, 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 over financial reporting:
   A. Any significant deficiencies or material weaknesses in the establishment or application of internal control over financial reporting that could reasonably be expected to impair the Bank's ability to record, process, summarize, and 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 a significant role in the internal control over financial reporting at the Bank.

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

Dov Kotler
President and Chief Executive Officer

Tel-Aviv, May 12, 2021

CFO Declaration

I, Ram Gev, declare that:

1. I have reviewed the quarterly report of Bank Hapoalim B.M. (hereinafter: the "Bank") for the quarter ended on March 31, 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 in the Report fairly reflect the financial condition, results of operations, changes in equity, and cash flows of the Bank, in all material aspects, for the dates and periods presented 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 and internal control over financial reporting (as defined in the Public Reporting Directives concerning the "Board of Directors' Report"); 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 control over financial reporting, or caused such internal control over financial reporting to be established under our supervision, intended to provide a reasonable degree of assurance with regard to the reliability of the financial reporting, and with regard to the preparation of the financial statements for external purposes 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 in the Report, 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 this 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 auditors, 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 over financial reporting:
   A. Any significant deficiencies or material weaknesses in the establishment or application of internal control over financial reporting that could reasonably be expected to impair the Bank's ability to record, process, summarize, and 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 a significant role in the internal control over financial reporting at the Bank.

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

Ram Gev
Senior Deputy Managing Director,
Chief Financial Officer

Tel-Aviv, May 12, 2021

Chief Accountant Declaration

I, Guy Kalif, declare that:

1. I have reviewed the quarterly report of Bank Hapoalim B.M. (hereinafter: the "Bank") for the quarter ended on March 31, 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 in the Report fairly reflect the financial condition, results of operations, changes in equity, and cash flows of the Bank, in all material aspects, for the dates and periods presented 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 and internal control over financial reporting (as defined in the Public Reporting Directives concerning the "Board of Directors' Report"); 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 control over financial reporting, or caused such internal control over financial reporting to be established under our supervision, intended to provide a reasonable degree of assurance with regard to the reliability of the financial reporting, and with regard to the preparation of the financial statements for external purposes 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 in the Report, 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 this 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 auditors, 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 over financial reporting:
   A. Any significant deficiencies or material weaknesses in the establishment or application of internal control over financial reporting that could reasonably be expected to impair the Bank's ability to record, process, summarize, and 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 a significant role in the internal control over financial reporting at the Bank.

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

Guy Kalif
Member of the Board of Management,
Chief Accountant

Tel-Aviv, May 12, 2021

Bank Hapoalim

Condensed Financial Statements
as at March 31, 2021

Q1

Contents

Auditors' Review Report to the Shareholders of Bank Hapoalim B.M.

Introduction

We have reviewed the accompanying financial information of Bank Hapoalim B.M. and its subsidiaries (hereinafter - "the Bank") comprising of the condensed consolidated interim balance sheet as of March 31, 2021 and the related condensed consolidated interim statements of profit and loss, comprehensive income, changes in equity and cash flows for the three month period 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 reporting 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" of the Institute of Certified Public Accountants in Israel 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 respects, in accordance with generally accepted accounting principles in Israel (Israeli GAAP) for interim reporting and in accordance with the directives and guidelines of the Supervisor of Banks.

Emphasis of a Matter

Without qualifying our above conclusion, we draw attention to that mentioned in Note 10B(b) regarding exposure to class actions that were filed against the Bank Group.

Somekh Chaikin
Certified Public Accountants (Isr)

Ziv Haft
Certified Public Accountants (Isr)

Tel Aviv, May 12, 2021

Condensed Consolidated Statement of Profit and Loss
for the period ended March 31, 2021

NIS millions

		For the three months ended March 31		For the year ended December 31
		2021	2020	2020
	Note	Unaudited		Audited
Interest income	2	**2,591**	2,542	10,260
Interest expenses	2	**(358)**	(350)	(1,463)
Net interest income		**2,233**	2,192	8,797
Provision (income) for credit losses	6(2)	**(508)**	809	1,943
Net interest income after provision for credit losses		**2,741**	1,383	6,854
Non-interest income				
Non-interest financing income	3	**449**	306	1,088
Fees		**817**	863	3,155
Other income		**82**	22	136
Total non-interest income		**1,348**	1,191	4,379
Operating and other expenses				
Salaries and related expenses		**1,096**	962	3,836
Maintenance and depreciation of buildings and equipment		**337**	321	1,377
Other expenses		**486**	633	2,288
Total operating and other expenses		**1,919**	1,916	7,501
Profit from continued operations before taxes		**2,170**	658	3,732
Provision for taxes on profit from continued operations		**826**	363	1,590
Profit from continued operations after taxes		**1,344**	295	2,142
The Bank's share in profits of equity-basis investees, after taxes		**7**	1	10
Net profit from continued operations		**1,351**	296	2,152
Loss from a discontinued operation	1E	**-**	(109)	(109)
Net profit				
Before attribution to non-controlling interests		**1,351**	187	2,043
Loss attributed to non-controlling interests		**3**	5	13
Attributed to shareholders of the Bank		**1,354**	192	2,056
Earnings per ordinary share in NIS				
Basic earnings				
Net profit attributed to shareholders of the Bank		**1.01**	0.14	1.54
Net profit attributed to shareholders of the Bank from continued operations		**1.01**	0.22	1.62
Diluted earnings				
Net profit attributed to shareholders of the Bank		**1.01**	0.14	1.54
Net profit attributed to shareholders of the Bank from continued operations		**1.01**	0.22	1.62

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

Ruben Krupik
Chairman of the
Board of Directors

Dov Kotler
President and
Chief Executive Officer

Ram Gev
Senior Deputy
Managing Director,
Chief Financial Officer

Guy Kalif
Member of the Board
of Management,
Chief Accountant

Tel Aviv, May 12, 2021

Condensed Consolidated Statement of Comprehensive Income
for the period ended March 31, 2021

NIS millions

	Note	For the three months ended March 31		For the year ended December 31
		2021	2020	2020
		Unaudited		Audited
Net profit before attribution to non-controlling interests		**1,351**	187	2,043
Loss attributed to non-controlling interests		**3**	5	13
Net profit attributed to shareholders of the Bank		**1,354**	192	2,056
Other comprehensive income (loss) before taxes:	4			
Net adjustments in respect of bonds available for sale at fair value		**(582)**	(667)	369
Net adjustments from translation of financial statements*, after hedge effects**		**-**	-	(16)
Adjustments of liabilities in respect of employee benefits***		**(17)**	635	85
Other comprehensive loss before taxes		**(599)**	(32)	438
Effect of related tax		**204**	7	(96)
Other comprehensive income (loss) before attribution to non-controlling interests, after taxes		**(395)**	(25)	342
Net of other comprehensive loss attributed to non-controlling interests		**-**	-	1
Other comprehensive income (loss) attributed to shareholders of the Bank, after taxes		**(395)**	(25)	343
Comprehensive income before attribution to non-controlling interests		**956**	162	2,385
Comprehensive loss attributed to non-controlling interests		**3**	5	14
Comprehensive income attributed to shareholders of the Bank		**959**	167	2,399

* Adjustments from the translation of financial statements of a foreign operation whose functional currency, until December 31, 2018, differed from the functional currency of the Bank.
** Hedges – net gains (losses) in respect of net hedges of investments in foreign currency.
*** Mainly reflects adjustments in respect of actuarial estimates at the end of the period, and deduction of amounts previously recorded in other comprehensive income.

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

Condensed Consolidated Balance Sheet
as at March 31, 2021

NIS millions

	Note	March 31 2021	March 31 2020	December 31 2020
		Unaudited		Audited
Assets				
Cash and deposits with banks		**159,943**	89,475	138,711
Securities[(1)(2)]	5	**64,798**	74,500	71,885
Securities borrowed or purchased under agreements to resell		**892**	369	368
Credit to the public		**311,780**	304,817	307,973
Allowance for credit losses		**(5,663)**	(5,269)	(6,145)
Net credit to the public	6 ,13	**306,117**	299,548	301,828
Credit to governments		**2,106**	2,701	2,193
Investments in equity-basis investees		**566**	192	556
Buildings and equipment		**3,245**	3,202	3,319
Assets in respect of derivative instruments	11	**11,366**	14,946	14,890
Other assets[(1)]		**5,365**	6,526	5,852
Total assets		**554,398**	491,459	539,602
Liabilities and capital				
Deposits from the public	7	**455,394**	388,566	435,217
Deposits from banks		**6,942**	3,980	6,591
Deposits from the government		**556**	401	761
Securities lent or sold under agreements to repurchase		**3**	3	6
Bonds and subordinated notes		**21,415**	24,491	23,490
Liabilities in respect of derivative instruments	11	**11,363**	15,957	16,804
Other liabilities (of which: 732; 596; 781, respectively, allowance for credit losses in respect of off-balance sheet credit instruments)[(1)]		**17,867**	20,394	16,834
Total liabilities		**513,540**	453,792	499,703
Shareholders' equity	9	**40,835**	37,632	39,873
Non-controlling interests		**23**	35	26
Total capital		**40,858**	37,667	39,899
Total liabilities and capital		**554,398**	491,459	539,602

(1) With regard to amounts measured at fair value, see Note 15B.
(2) For details regarding securities pledged to lenders, see Note 5.

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

Condensed Statement of Changes in Equity
for the period ended March 31, 2021

Unaudited
NIS millions

	For the three months ended March 31, 2021							
	Share capital and premium*	Capital reserves from benefit due to share-based payment transactions	Total capital and capital reserves	Accumulated other comprehensive income	Retained earnings	Total shareholders' equity	Non-controlling interests	Total capital
Balance as at January 1, 2021	**8,183**	**17**	**8,200**	**(1,009)**	**32,682**	**39,873**	**26**	**39,899**
Net profit (loss) for the period	**-**	**-**	**-**	**-**	**1,354**	**1,354**	**(3)**	**1,351**
Adjustments and changes arising from:								
Benefit due to share-based payment transactions	**-**	**3**	**3**	**-**	**-**	**3**	**-**	**3**
Exercise of equity compensation into shares	**1**	**(1)**	**-**	**-**	**-**	**-**	**-**	**-**
Net other comprehensive loss after tax effect	**-**	**-**	**-**	**(395)**	**-**	**(395)**	**-**	**(395)**
Balance as at March 31, 2021	**8,184**	**19**	**8,203**	**(1,404)**	**34,036**	**40,835**	**23**	**40,858**

* Excluding a balance of 1,455,368 treasury shares.

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

Condensed Statement of Changes in Equity
for the period ended March 31, 2021 (continued)

Unaudited
NIS millions

	For the three months ended March 31, 2020							
	Share capital and premium*	Capital reserves from benefit due to share-based payment transactions	Total capital and capital reserves	Accumulated other comprehensive income	Retained earnings	Total shareholders' equity	Non-controlling interests	Total capital
Balance as at January 1, 2020	8,167	20	8,187	(1,352)	31,346	38,181	40	38,221
Net profit (loss) for the period	-	-	-	-	192	192	(5)	187
Dividends	-	-	-	-	(720)	(720)	-	(720)
Adjustments and changes arising from:								
Benefit due to share-based payment transactions	-	4	4	-	-	4	-	4
Exercise of equity compensation into shares	3	(3)	-	-	-	-	-	-
Net other comprehensive loss after tax effect	-	-	-	(25)	-	(25)	-	(25)
Balance as at March 31, 2020	8,170	21	8,191	(1,377)	30,818	37,632	35	37,667

* Excluding a balance of 1,990,097 treasury shares.

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

Condensed Statement of Changes in Equity
for the period ended March 31, 2021 (continued)

Audited
NIS millions

	For the year ended December 31, 2020							
	Share capital and premium*	Capital reserves from benefit due to share-based payment transactions	Total capital and capital reserves	Accumulated other comprehensive income	Retained earnings	Total shareholders' equity	Non-controlling interests	Total capital
Balance as at January 1, 2020	8,167	20	8,187	(1,352)	31,346	38,181	40	38,221
Net profit (loss) for the year	-	-	-	-	2,056	2,056	(13)	2,043
Dividends	-	-	-	-	(720)	(720)	-	(720)
Adjustments and changes arising from:								
Benefit due to share-based payment transactions	-	13	13	-	-	13	-	13
Exercise of equity compensation into shares	16	(16)	-	-	-	-	-	-
Net other comprehensive income (loss) after tax effect	-	-	-	343	-	343	(1)	342
Balance as at December 31, 2020	8,183	17	8,200	(1,009)	32,682	39,873	26	39,899

* Excluding a balance of 1,479,008 treasury shares.

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

Condensed Consolidated Statement of Cash Flows

for the period ended March 31, 2021

NIS millions

	For the three months ended March 31		For the year ended December 31
	2021	2020	2020
	Unaudited		Audited
Cash flows from (for) operating activity			
Net profit for the period	**1,351**	187	2,043
Adjustments necessary to present cash flows from operating activity			
The Bank's share in profits of equity-basis investees	**(7)**	(1)	(10)
Depreciation of buildings and equipment	**143**	127	580
Amortizations	**4**	5	19
Provision (income) for credit losses	**(508)**	809	1,943
Gain from sale of bonds available for sale and shares not held for trading	**(96)**	(84)	(156)
Realized and unrealized loss (gain) from adjustments to fair value of securities held for trading	**37**	57	(13)
Realized and unrealized loss (gain) from adjustments to fair value of shares not held for trading	**(289)**	123	(59)
Loss (gain) from realization and impairment of affiliates (including discontinued operation)	**(6)**	129	126
Gain from realization of buildings and equipment	**(64)**	(10)	(57)
Change in benefit due to share-based payment transactions	**(11)**	(271)	(271)
Net change in liabilities in respect of employee benefits	**(13)**	8	(214)
Deferred taxes, net	**249**	4	(91)
Gain from sale of credit portfolios	**-**	-	(21)
Dividends received from equity-basis investees	**8**	-	9
Adjustments in respect of exchange-rate differences	**(391)**	58	1,440
Accumulation differentials included in investing and financing activities	**(489)**	(1,643)	249
Net change in current assets			
Assets in respect of derivative instruments	**3,524**	(3,803)	(3,747)
Securities held for trading	**2,922**	(8,916)	405
Other assets	**469**	(1,246)	209
Net change in current liabilities			
Liabilities in respect of derivative instruments	**(5,441)**	3,907	4,755
Other liabilities	**1,067**	525	(4,339)
Net cash from (for) operating activity	**2,459**	(10,035)	2,800

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

Condensed Consolidated Statement of Cash Flows
for the period ended March 31, 2021 (continued)

NIS millions

	For the three months ended March 31		For the year ended December 31
	2021	2020	2020
	Unaudited		Audited
Cash flows from (for) investing activity			
Deposits with banks	**(214)**	297	1,425
Credit to the public	**(1,932)**	(4,701)	(1,964)
Credit to governments	**87**	(730)	(222)
Securities borrowed or purchased under agreements to resell	**(524)**	102	103
Acquisition of bonds held to maturity	**(187)**	(75)	(157)
Proceeds from redemption of bonds held to maturity	**115**	3	43
Acquisition of bonds available for sale and shares not held for trading	**(6,564)**	(24,136)	(50,103)
Proceeds from sale of bonds available for sale and shares not held for trading	**10,441**	14,606	27,038
Proceeds from redemption of bonds available for sale	**569**	4,080	10,205
Acquisition of credit portfolios	**(1,898)**	(2,657)	(8,657)
Proceeds from sale of credit portfolios	**-**	-	55
Investment in equity-basis investees	**(11)**	1	(363)
Acquisition of buildings and equipment	**(100)**	(100)	(682)
Proceeds from realization of buildings and equipment	**95**	14	72
Net cash for investing activity	**(123)**	(13,296)	(23,207)
Cash flows from (for) financing activity			
Deposits from banks	**351**	460	3,071
Deposits from the public	**20,177**	26,921	73,572
Deposits from the government	**(205)**	(284)	76
Securities lent or sold under agreements to repurchase	**(3)**	-	3
Issuance of bonds and subordinated notes	**-**	-	2,372
Redemption of bonds and subordinated notes	**(2,029)**	(2,058)	(5,233)
Net cash from (for) financing activity	**18,291**	25,039	73,861
Increase (decrease) in cash – includes balances of cash and cash equivalents attributed to a discontinued operation	**20,627**	1,708	53,454
Increase in cash	**20,627**	1,708	53,454
Balance of cash from continued operations at beginning of period	**137,900**	85,886	85,886
Effect of changes in exchange rates on cash balances	**391**	(58)	(1,440)
Balance of cash from continued operations at end of period	**158,918**	87,536	137,900
Interest and taxes paid and/or received			
Interest received	**2,390**	2,897	10,749
Interest paid	**(555)**	(929)	(2,720)
Dividends received	**4**	1	11
Income tax paid	**(336)**	(101)	(2,163)
Income tax received	**-**	-	447

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

Note 1 Significant Accounting Policies

A. General information

The Condensed Financial Statements as at March 31, 2021, were prepared in accordance with the directives and guidelines of the Supervisor of Banks. These directives are primarily based on generally accepted accounting principles in the United States. The accounting principles used in the preparation of these condensed financial statements were implemented consistently with the accounting principles used in the preparation of the audited financial statements as at December 31, 2020, with the exceptions noted in Section C below.

The Condensed Financial Statements do not include all of the information required in the aforesaid Annual Financial Statements; these reports should be perused in conjunction with the Annual Financial Statements as at December 31, 2020, and the accompanying Notes.

The Condensed Financial Statements were approved for publication by the Board of Directors of the Bank on May 12, 2021.

B. Use of estimates

In preparing the Condensed Financial Statements, the Board of Management of the Bank uses various assumptions, estimates, and evaluations that affect the implementation of policies, the reported amounts of assets and liabilities (including contingent liabilities), and the results reported by the Bank. Actual future results may differ from such estimates and evaluations made when preparing the financial statements.

The judgment and management estimates used in the implementation of the Bank's accounting policies, and the principal assumptions used in evaluations involving uncertainty, are consistent with those used in the preparation of the Annual Financial Statements as at December 31, 2020. The estimates and the underlying assumptions are reviewed routinely.

Changes in accounting estimates are recognized in the period in which the estimates are updated and in every affected future period.

C. First-time implementation of accounting standards, updates of accounting standards, and directives of the Banking Supervision Department

Instructions of the Banking Supervision Department on coping with the coronavirus

Pursuant to the letters of the Banking Supervision Department of December 3, 2020, and December 17, 2020, concerning the coronavirus event and emphases regarding the additional trajectory for the deferral of payments, banks are permitted to refrain from applying a troubled debt restructuring classification to housing loans, other loans to private individuals, and loans to small businesses that were not in arrears of thirty days or more at the time of the deferral of payments, in respect of which payment deferrals were performed from January 1, 2021, to March 31, 2021, within the updated trajectory, even if the cumulative deferral exceeds six months. If a bank chooses to refrain from applying a troubled debt restructuring classification to loans as noted above and this choice has a material impact on the financial statements, the bank must include a pro-forma disclosure in its quarterly and annual reports to the public in 2021, reflecting the main effects of the implementation of this choice on the financial statements. The effect of the foregoing on the financial statements of the Bank is immaterial.

Note 1 Significant Accounting Policies (continued)

D. New accounting standards and new directives of the Supervisor of Banks in the period prior to implementation

Subject	Main points	Inception date and transitional directives	Effect on the Bank
ASU 2016-13, "Financial Instruments – Credit Losses"	The main objective of this update is to provide more useful information regarding expected credit losses on financial instruments and commitments to grant credit, while strengthening the anti-cyclical behavior of the allowance for credit losses and strengthening the connection between the method of managing credit risks and the reflection of these risks in the financial statements. Towards that end, the amendments in this update replace the method of allowance for credit losses based on incurred losses with a method that reflects expected credit losses over the life of the credit and requires consideration of a broader range of forward-looking information to reflect reasonable forecasts of future economic events. The new rules for the calculation of the allowance for credit losses will apply to credit (including housing loans), bonds held to maturity, and certain off-balance sheet credit exposures. In addition, the manner in which impairments of bonds in the available-for-sale portfolio are recorded will change, and the disclosure of the effect of the date of granting of the credit on the credit quality of the credit portfolio will be expanded. The existing definitions in the directives with regard to impaired debts and impaired credit risk will also be replaced with definitions of non-accruing debts and non-accruing credit risk. The Banking Supervision Department has also updated the requirements for classification and write-off of housing loans.	January 1, 2022. In general, the new rules will be applied by recording the cumulative effect in retained earnings at the initial implementation date. Pursuant to the draft directives of the Banking Supervision Department, at the initial implementation date the banking corporation is permitted to add the decrease recorded at the initial implementation date back to common equity Tier 1 capital over the course of three years (75% on January 1 of the first year of implementation, 50% in the second year, and 25% in the third year).	The Bank is preparing to implement this standard. The expected effect cannot be estimated at this stage.

Discontinuation of publication of the LIBOR interest rate

Beginning at the end of 2021, the global financial system is expected to discontinue publication of the LIBOR interest rates and cease using these rates. The LIBOR rates serve as the basis for calculation of interest rates applicable to financial products in principal foreign currencies, or linked to these currencies, with floating rates. Within the intention to establish alternative benchmark rates for the relevant currencies, global institutions such as the ISDA (International Swaps and Derivatives Association) and the ARRC (Alternative Reference Rate Committee) have formulated alternatives to these interest rates, new legal language, and proposals for substitution mechanisms. The anticipated change will affect the entire banking industry, globally and in Israel.

Note 1 Significant Accounting Policies (continued)

In March, it was announced that a decision had been reached to discontinue the publication of the LIBOR interest rates, as of January 1, 2022, in the following currencies; euro, British pound, Swiss franc, and yen; and to discontinue the publication of the dollar LIBOR rate in the future, as of June 30, 2023. Concurrently, based on ISDA decisions, conversion rates were established between the LIBOR and the new interest rates in derivative instruments based on this protocol.

As part of the Bank's preparations for these changes, a steering committee has been established at the Bank, to follow the international publications and examine the impact of the substitution on the activity of the Bank. The committee updates the Board of Management and Board of Directors periodically. Within the activity of the committee, the various products at the Bank that are based on the interest rates due to be eliminated have been mapped; changes are being made to legal documents; and instruction is provided to Bank employees and customers. The Bank has also begun preparations to adapt its technological systems to the new interest rates and mechanisms. In late January 2020, letters were sent to customers of the Bank describing the future change, according to the information in the possession of the Bank at that time. An additional letter was sent in February 2021, containing updates based on the additional information that has come to the attention of the Bank.

In light of the uncertainty concerning the continued execution of this process, which is influenced, as noted, by international decisions, the Bank is unable to perform quantitative evaluations regarding the substitution of the interest rates. The Bank will continue to monitor the international publications and to act with the aim of reducing the risks arising from the interest-rate substitution process.

On March 22, 2020, the FASB issued reliefs regarding the accounting treatment of the conversion of LIBOR-based contracts to alternative benchmark rates. The reliefs primarily concern the treatment of changes in terms of debts and hedge accounting, with the aim of allowing continuity in accounting in the situation of replacement of the LIBOR with alternative benchmark rates. The Bank is examining the implementation of these reliefs with respect to the relevant contracts.

Details of the contract balances affected by the LIBOR interest rate:

	Total transactions as at March 31, 2021		Of which: transactions continuing beyond the discontinuation of LIBOR publication	
	Amount in NIS millions	Number of transactions	Amount in NIS millions	Number of transactions
Loans	**21,715**	**3,938**	10,990	3,001
Deposits	**2,398**	**1,062**	1,236	349
Derivatives (gross) – par value	**111,844**	**1,426**	50,931	842

In addition, there are unutilized credit facilities, most of which are for periods not exceeding one year.

Note 1 Significant Accounting Policies (continued)

E. Discontinued operation

In accordance with the requirements of the Law for Increasing Competition and Reducing Concentration in the Banking Market in Israel (Legislative Amendments), 2017 (the "Law for Increasing Competition"), in April 2019, the Bank sold 65.2% of the capital of Isracard in a public sale offering. After the sale, the Bank retained a holding of approximately 33% of the shares of Isracard, which was accounted for using the equity method. On February 2, 2020, the Board of Directors of the Bank approved distribution of the remaining holdings in the shares of Isracard as a dividend in kind to the shareholders of the Bank. The distribution was performed on March 9, 2020. The share distribution was performed according to the value of the shares on the stock exchange at the date of the distribution. Due to the share price falling below the balance of the investment in the Bank's books as at December 31, 2019, the Bank recognized a loss from impairment of the investment in the amount of approximately NIS 109 million (after tax effect), within profit from a discontinued operation, in its financial statements for the first quarter of 2020. As of the date of the distribution of the shares, the Bank does not hold shares in Isracard; the Bank thereby completed its separation from the Isracard Group, as required by the Law for Increasing Competition.

For further information regarding the argument of the Tax Assessment Officer that in the sale of a subsidiary classified as a dealer for the purposes of value-added tax ("VAT"), profit tax should be applied to distributable profits exempt from corporate tax, in connection with the sale of the Isracard Group, see Note 8C(3) to the Annual Financial Statements for 2020.

For further information regarding VAT assessments referring, among other matters, to the payment of VAT for foreign-currency fees collected from customers of the Bank, and to the obligation of the Bank to the payment of VAT on fees collected on its behalf, see Note 8C(2) to the Annual Financial Statements for 2020.

Note 2 Interest Income and Expenses

Unaudited
NIS millions

	For the three months ended March 31	
	2021	2020
A. Interest income*		
From credit to the public	**2,416**	2,308
From credit to governments	**9**	13
From deposits with banks	**14**	61
From deposits with the Bank of Israel and from cash	**30**	33
From bonds	**122**	127
Total interest income	**2,591**	2,542
B. Interest expenses*		
On deposits from the public	**(210)**	(321)
On deposits from the government	**(1)**	(1)
On deposits from banks	**(3)**	(3)
On bonds and subordinated notes	**(144)**	(25)
Total interest expenses	**(358)**	(350)
Total net interest income	**2,233**	2,192
C. Details of net effect of hedging derivative instruments on interest income and expenses**		
Interest income	**(27)**	(43)
Interest expenses	**4**	1
D. Details of interest income (expenses) from bonds on a cumulative basis		
Held to maturity	**4**	3
Available for sale	**113**	117
Held for trading	**5**	7
Total included in interest income	**122**	127

* Includes the effect of hedge relationships.
** Details of the effect of hedging derivative instruments on subsections A and B.

Note 3 Non-Interest Financing Income

Unaudited
NIS millions

A. Non-interest financing income (expenses) in respect of non-trading activities

	For the three months ended March 31	
	2021	2020
1. From activity in derivative instruments		
Total from activity in derivative instruments[1]	**1,519**	1,171
2. From investment in bonds		
Gains from sale of bonds available for sale	**155**	111
Losses from sale of bonds available for sale[2]	**(59)**	(27)
Total from investment in bonds	**96**	84
3. Net exchange-rate differences	**(1,555)**	(994)
4. Gains (losses) from investment in shares		
Net realized and unrealized gains (losses) from adjustments to fair value of shares not held for trading[3][4]	**289**	(123)
Dividend from shares not held for trading	**4**	1
Adjustment to fair value of investment in affiliate	**6**	11
Total from investment in shares	**299**	(111)
5. Net gains (losses) in respect of securitization transactions	**-**	-
6. Net gains in respect of loans sold	**-**	-
Total non-interest financing income in respect of non-trading activities	**359**	150

(1) Derivative instruments constituting part of the asset and liability management system of the Bank, which are not designated for hedging.
(2) Including a provision for impairment in the amount of approximately NIS 0 million for the three-month period ended March 31, 2021 (approximately NIS 0 million for the three-month period ended March 31, 2020).
(3) Including a provision for impairment in the amount of approximately NIS 0 million for the three-month period ended March 31, 2021 (approximately NIS 0 million for the three-month period ended March 31, 2020).
(4) Including gains and losses from measurement at fair value of shares with readily determinable fair value, and upward or downward adjustments of shares without readily determinable fair value.

Note 3 Non-Interest Financing Income (continued)

Unaudited
NIS millions

B. Non-interest financing income in respect of trading activities*

	For the three months ended March 31	
	2021	2020
Net income in respect of derivative instruments held for trading	**127**	213
Net realized and unrealized losses from adjustments to fair value of bonds held for trading[(1)]	**(37)**	(57)
Net realized and unrealized gains (losses) from adjustments to fair value of shares held for trading	**-**	-
Total non-interest financing income in respect of trading activities**	**90**	156
Total non-interest financing income	**449**	306
Details of non-interest financing income in respect of trading activities, by risk exposure:		
Interest rate exposure	**6**	(24)
Foreign currency exposure	**76**	176
Share exposure	**8**	4
Total	**90**	156

* Includes exchange-rate differences arising from trading activity.
** With regard to interest income from investment in bonds held for trading, see Note 2.
(1) Of which, the part of gains (losses) associated with bonds held for trading still held at the balance sheet date, in the amount of approximately NIS (24) million for the three-month period ended March 31, 2021 (approximately NIS 52 million for the three-month period ended March 31, 2020).

Note 4 Accumulated Other Comprehensive Income (Loss)

NIS millions

A. Changes in accumulated other comprehensive income (loss), after tax effect

1. Changes in accumulated other comprehensive income (loss) for the three-month periods ended March 31, 2021 and 2020

	Other comprehensive income (loss) before attribution to non-controlling interests				Other comprehensive income attributed to non-controlling interests	Other comprehensive loss attributed to shareholders of the Bank
	Adjustments for presentation of bonds available for sale at fair value	Net adjustments from translation* after hedge effects**	Adjustments in respect of employee benefits***	Total		
	Unaudited					
Balance as at January 1, 2021	**489**	**-**	**(1,496)**	**(1,007)**	**2**	**(1,009)**
Net change during the period	**(384)**	**-**	**(11)**	**(395)**	**-**	**(395)**
Balance as at March 31, 2021	**105**	**-**	**(1,507)**	**(1,402)**	**2**	**(1,404)**
Balance as at January 1, 2020	250	(38)	(1,561)	(1,349)	3	(1,352)
Net change during the period	(442)	-	417	(25)	-	(25)
Balance as at March 31, 2020	(192)	(38)	(1,144)	(1,374)	3	(1,377)

2. Changes in accumulated other comprehensive income (loss) in 2020

	Other comprehensive income (loss) before attribution to non-controlling interests				Other comprehensive income (loss) attributed to non-controlling interests	Other comprehensive income (loss) attributed to shareholders of the Bank
	Adjustments for presentation of bonds available for sale at fair value	Net adjustments from translation* after hedge effects**	Adjustments in respect of employee benefits***	Total		
	Audited					
Balance as at January 1, 2020	250	(38)	(1,561)	(1,349)	3	(1,352)
Net change during the year	239	38	65	342	(1)	343
Balance as at December 31, 2020	489	-	(1,496)	(1,007)	2	(1,009)

* Adjustments from the translation of financial statements of a foreign operation whose functional currency, until December 31, 2018, differed from the functional currency of the Bank.
** Net gains (losses) in respect of net hedging of investments in foreign currency.
*** Mainly reflects adjustments in respect of actuarial estimates at the end of the period, and deduction of amounts previously recorded in other comprehensive income.

Note 4 Accumulated Other Comprehensive Income (Loss) (continued)

Unaudited
NIS millions

B. Changes in components of accumulated other comprehensive income (loss), before and after tax effect

1. Changes in accumulated other comprehensive income (loss) for the three-month periods ended March 31, 2021 and 2020

	For the three months ended					
	March 31, 2021			March 31, 2020		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Changes in components of other comprehensive income (loss) before attribution to non-controlling interests						
Adjustments for presentation of bonds available for sale at fair value						
Net unrealized gains (losses) from adjustments to fair value	**(486)**	**168**	**(318)**	(583)	200	(383)
(Gains) losses in respect of bonds available for sale reclassified to the statement of profit and loss(1)	**(96)**	**30**	**(66)**	(84)	25	(59)
Net change during the period	**(582)**	**198**	**(384)**	(667)	225	(442)
Employee benefits*						
Net actuarial profit (loss) during the period	**(58)**	**20**	**(38)**	592	(203)	389
Net (gains) losses reclassified to the statement of profit and loss(2)	**41**	**(14)**	**27**	43	(15)	28
Net change during the period	**(17)**	**6**	**(11)**	635	(218)	417
Total net change during the period	**(599)**	**204**	**(395)**	(32)	7	(25)
Changes in components of other comprehensive income (loss) attributed to non-controlling interests						
Total net change during the period	**-**	**-**	**-**	-	-	-
Changes in components of other comprehensive income (loss) attributed to shareholders of the Bank						
Total net change during the period	**(599)**	**204**	**(395)**	(32)	7	(25)

* Mainly reflects adjustments in respect of actuarial estimates at the end of the period, and deduction of amounts previously recorded in other comprehensive income.

(1) The amount before tax is reported in the statement of profit and loss, under the item "non-interest financing income." For further details, see Note 3 – Non-Interest Financing Income.

(2) The amount before tax is reported in the statement of profit and loss, under the item "other expenses."

Note 4 Accumulated Other Comprehensive Income (Loss) (continued)

Audited
NIS millions

B. Changes in components of accumulated other comprehensive income (loss), before and after tax effect (continued)

2. Changes in accumulated other comprehensive income (loss) in 2020

	For the year ended December 31, 2020		
	Before tax	Tax effect	After tax
Changes in components of other comprehensive income (loss) before attribution to non-controlling interests			
Adjustments for presentation of bonds available for sale at fair value			
Net unrealized gains (losses) from adjustments to fair value	525	(180)	345
(Gains) losses in respect of securities available for sale reclassified to the statement of profit and loss[(1)]	(156)	50	(106)
Net change during the year	369	(130)	239
Adjustments from translation*			
Net (gains) losses reclassified to the statement of profit and loss, including in respect of the realization of an activity	(16)	54	38
Net change during the year	(16)	54	38
Employee benefits**			
Net actuarial profit (loss) for the year	(46)	25	(21)
Net (gains) losses reclassified to the statement of profit and loss[(2)]	131	(45)	86
Net change during the year	85	(20)	65
Total net change during the year	438	(96)	342
Changes in components of other comprehensive income (loss) attributed to non-controlling interests			
Total net change during the year	(1)	-	(1)
Changes in components of other comprehensive income (loss) attributed to shareholders of the Bank			
Total net change during the year	439	(96)	343

* Adjustments from the translation of financial statements of a foreign operation whose functional currency, until December 31, 2018, differed from the functional currency of the Bank.

** Mainly reflects adjustments in respect of actuarial estimates at the end of the period, and deduction of amounts previously recorded in other comprehensive income.

(1) The amount before tax is reported in the statement of profit and loss, under the item "non-interest financing income." For further details, see Note 3 – Non-Interest Financing Income.

(2) The amount before tax is reported in the statement of profit and loss, under the item "other expenses."

Note 5 Securities

Unaudited
NIS millions

	March 31, 2021				
	Balance sheet value	Depreciated cost	Unrecognized gains from adjustments to fair value	Unrecognized losses from adjustments to fair value	Fair value*
1) Bonds held to maturity					
Bonds and debentures					
Israeli government	**189**	**189**	**-**	**-**	**189**
Financial institutions in Israel	**312**	**312**	**8**	**-**	**320**
Total bonds held to maturity	**501**	**501**	**8**	**-**	**509**

	Balance sheet value	Depreciated cost	Accumulated other comprehensive income		Fair value*
			Gains	Losses	
2) Bonds available for sale					
Bonds and debentures					
Israeli government	**41,755**	**41,552**	**242**	**(39)**	**41,755**
Foreign governments	**10,665**	**10,872**	**72**	**(279)**	**10,665**
Foreign financial institutions	**3,033**	**2,972**	**80**	**(19)**	**3,033**
Foreign others	**2,785**	**2,694**	**91**	**-**	**2,785**
Total bonds and debentures available for sale	**58,238**	**58,090**	(1) **485**	(1) **(337)**	**58,238**

	Balance sheet value	Depreciated cost (in shares – cost)	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value*
3) Investments in shares not held for trading					
Shares not held for trading	**2,803**	**2,522**	(2) **287**	(2) **(6)**	**2,803**
Of which: shares without readily determinable fair value	**1,748**	**1,748**	**-**	**-**	**1,748**
Total securities not held for trading	**61,542**	**61,113**	**780**	**(343)**	**61,550**

* Fair-value data are usually based on stock-exchange prices, which do not necessarily reflect the price that would be obtained from a large-volume sale of securities.
(1) Included in equity in the item "adjustments for presentation of bonds available for sale at fair value" within other comprehensive income.
(2) Charged to the statement of profit and loss.

Notes:
A. For details of the results of activity in investments in bonds and in shares, see Note 2 and Note 3.
B. Israeli bonds and foreign bonds are differentiated according to the country of residence of the issuing entity.

Note 5 Securities (continued)

Unaudited
NIS millions

	March 31, 2021				
	Balance sheet value	Depreciated cost (in shares – cost)	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value*
4) Securities held for trading					
Bonds and debentures					
Israeli government	**3,254**	**3,215**	**40**	**(1)**	**3,254**
Foreign governments	**2**	**2**	**-**	**-**	**2**
Total bonds and debentures held for trading	**3,256**	**3,217**	(1)**40**	(1)**(1)**	****3,256**
Total securities(2)	**64,798**	**64,330**	**820**	**(344)**	**64,806**

	Less than 12 months				12 months or more			
	Fair value	Unrealized losses		Total	Fair value	Unrealized losses		Total
		0-20%	20-40%			0-20%	20-40%	
5) Fair value and unrealized losses, by duration and rate of impairment, of bonds available for sale in an unrealized loss position								
Bonds and debentures								
Israeli government	**7,097**	**(37)**	**-**	**(37)**	**913**	**(2)**	**-**	**(2)**
Foreign governments	**5,377**	**(271)**	**-**	**(271)**	**691**	**(8)**	**-**	**(8)**
Foreign financial institutions	**117**	**(19)**	**-**	**(19)**	**-**	**-**	**-**	**-**
Total bonds and debentures available for sale	**12,591**	**(327)**	**-**	**(327)**	**1,604**	**(10)**	**-**	**(10)**

* Fair-value data are usually based on stock-exchange prices, which do not necessarily reflect the price that would be obtained from a large-volume sale of securities.
** Of which, securities in the amount of NIS 2,366 million are classified as securities held for trading because the Bank chose to measure them according to the fair-value option, despite the fact that they were not acquired for trading purposes.
(1) Charged to the statement of profit and loss.
(2) Of which: securities in the amount of approximately NIS 5.7 billion were pledged to lenders.

Notes:
A. For details of the results of activity in investments in bonds and in shares, see Note 2 and Note 3.
B. Israeli bonds and foreign bonds are differentiated according to the country of residence of the issuing entity.

Note 5 Securities (continued)

Unaudited
NIS millions

	March 31, 2020				
	Balance sheet value	Depreciated cost	Unrecognized gains from adjustments to fair value	Unrecognized losses from adjustments to fair value	Fair value*
1) Bonds held to maturity					
Bonds and debentures					
Financial institutions in Israel	374	374	4	-	378
Total bonds held to maturity	374	374	4	-	378

	Balance sheet value	Depreciated cost	Accumulated other comprehensive income		Fair value*
			Gains	Losses	
2) Bonds available for sale					
Bonds and debentures					
Israeli government	43,571	43,718	107	(254)	43,571
Foreign governments	6,055	5,905	176	(26)	6,055
Foreign financial institutions	5,238	5,441	37	(240)	5,238
Foreign others	2,300	2,407	7	(114)	2,300
Total bonds and debentures available for sale	57,164	57,471	(1)327	(1)(634)	57,164

	Balance sheet value	Depreciated cost (in shares - cost)	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value*
3) Investments in shares not held for trading					
Shares not held for trading	1,496	1,466	(2)49	(2)(19)	1,496
Of which: shares without readily determinable fair value	1,110	1,110	-	-	1,110
Total securities not held for trading	59,034	59,311	380	(653)	59,038

* Fair-value data are usually based on stock-exchange prices, which do not necessarily reflect the price that would be obtained from a large-volume sale of securities.

(1) Included in equity in the item "adjustments for presentation of bonds available for sale at fair value" within other comprehensive income.
(2) Charged to the statement of profit and loss.

Notes:
A. For details of the results of activity in investments in bonds and in shares, see Note 2 and Note 3.
B. Israeli bonds and foreign bonds are differentiated according to the country of residence of the issuing entity.

Note 5 Securities (continued)

Unaudited
NIS millions

	March 31, 2020				
	Balance sheet value	Depreciated cost (in shares - cost)	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value*
4) Securities held for trading					
Bonds and debentures					
Israeli government	15,279	15,303	59	(83)	15,279
Foreign governments	185	185	-	-	185
Total bonds and debentures held for trading	15,464	15,488	59	(83)	**15,464
Shares					
Others	2	2	-	-	2
Total securities held for trading	15,466	15,490	(1)59	(1)(83)	15,466
Total securities(2)	74,500	74,801	439	(736)	74,504

	Less than 12 months				12 months or more			
	Fair value	Unrealized losses		Total	Fair value	Unrealized losses		Total
		0-20%	20-40%			0-20%	20-40%	
5) Fair value and unrealized losses, by duration and rate of impairment, of securities available for sale in an unrealized loss position								
Bonds and debentures								
Israeli government	19,340	(245)	-	(245)	555	(9)	-	(9)
Foreign governments	303	(9)	-	(9)	816	(17)	-	(17)
Foreign financial institutions	3,682	(240)	-	(240)	-	-	-	-
Foreign others	1,800	(90)	(10)	(100)	196	(14)	-	(14)
Total bonds and debentures available for sale	25,125	(584)	(10)	(594)	1,567	(40)	-	(40)

* Fair-value data are usually based on stock-exchange prices, which do not necessarily reflect the price that would be obtained from a large-volume sale of securities.
** Of which, securities in the amount of NIS 1,877 million are classified as securities held for trading because the Bank chose to measure them according to the fair-value option, despite the fact that they were not acquired for trading purposes.
(1) Charged to the statement of profit and loss.
(2) Of which: securities in the amount of approximately NIS 2.5 billion were pledged to lenders.

Notes:
A. For details of the results of activity in investments in bonds and in shares, see Note 2 and Note 3.
B. Israeli bonds and foreign bonds are differentiated according to the country of residence of the issuing entity.

Note 5 Securities (continued)

Audited
NIS millions

	December 31, 2020				
	Balance sheet value	Depreciated cost	Unrecognized gains from adjustments to fair value	Unrecognized losses from adjustments to fair value	Fair value*
1) Bonds held to maturity					
Bonds and debentures					
Israeli government	1	1	-	-	1
Financial institutions in Israel	425	425	8	-	433
Total bonds held to maturity	426	426	8	-	434

	Balance sheet value	Depreciated cost	Accumulated other comprehensive income		Fair value*
			Gains	Losses	
2) Bonds available for sale					
Bonds and debentures					
Israeli government	43,335	42,969	368	(2)	43,335
Foreign governments	10,562	10,456	157	(51)	10,562
Foreign financial institutions	5,058	4,918	142	(2)	5,058
Foreign others	3,904	3,787	120	(3)	3,904
Total bonds and debentures available for sale	62,859	62,130	(1)787	(1)(58)	62,859

	Balance sheet value	Depreciated cost (in shares - cost)	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value*
3) Investments in shares not held for trading					
Shares not held for trading	2,385	2,203	(2)198	(2)(16)	2,385
Of which: shares without readily determinable fair value	1,368	1,368	-	-	1,368
Total securities not held for trading	65,670	64,759	993	(74)	65,678

* Fair-value data are usually based on stock-exchange prices, which do not necessarily reflect the price that would be obtained from a large-volume sale of securities.
(1) Included in equity in the item "adjustments for presentation of bonds available for sale at fair value" within other comprehensive income.
(2) Charged to the statement of profit and loss.

Notes:
A. For details of the results of activity in investments in bonds and in shares, see Note 2 and Note 3.
B. Israeli bonds and foreign bonds are differentiated according to the country of residence of the issuing entity.

Note 5 Securities (continued)

Audited
NIS millions

	December 31, 2020				
	Balance sheet value	Depreciated cost (in shares - cost)	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value*
4) Securities held for trading					
Bonds and debentures					
Israeli government	6,213	6,145	71	(3)	6,213
Foreign governments	2	2	-	-	2
Total bonds and debentures held for trading	6,215	6,147	71	(3)	**6,215
Shares					
Total securities held for trading	6,215	6,147	(1)71	(1)(3)	6,215
Total securities(2)	71,885	70,906	1,064	(77)	71,893

	Less than 12 months				12 months or more			
	Fair value	Unrealized losses		Total	Fair value	Unrealized losses		Total
		0-20%	20-40%			0-20%	20-40%	
5) Fair value and unrealized losses, by duration and rate of impairment, of securities available for sale in an unrealized loss position								
Bonds and debentures								
Israeli government	1,006	(2)	-	(2)	-	-	-	-
Foreign governments	4,349	(41)	-	(41)	658	(10)	-	(10)
Foreign financial institutions	115	(2)	-	(2)	-	-	-	-
Foreign others	98	(2)	-	(2)	90	(1)	-	(1)
Total bonds and debentures available for sale	5,568	(47)	-	(47)	748	(11)	-	(11)

* Fair-value data are usually based on stock-exchange prices, which do not necessarily reflect the price that would be obtained from a large-volume sale of securities.
** Of which, securities in the amount of NIS 3,826 million are classified as securities held for trading because the Bank chose to measure them according to the fair-value option, despite the fact that they were not acquired for trading purposes.
(1) Charged to the statement of profit and loss.
(2) Of which: securities in the amount of approximately NIS 4.6 billion were pledged to lenders.

Notes:
A. For details of the results of activity in investments in bonds and in shares, see Note 2 and Note 3.
B. Israeli bonds and foreign bonds are differentiated according to the country of residence of the issuing entity.

Note 6 Credit Risk, Credit to the Public, and Allowance for Credit Losses

Unaudited
NIS millions

1. Debts*, credit to the public, and allowance for credit losses

	March 31, 2021					
	Credit to the public				Banks and governments	Total
	Commercial**	Housing	Other private	Total		
Recorded debt balance						
Debts examined on an individual basis	**150,253**	**-**	**896**	**151,149**	**16,772**	**167,921**
Debts examined on a collective basis(1)	**26,861**	**101,285**	**32,485**	**160,631**	**-**	**160,631**
(1) Of which: allowance calculated based on the extent of arrears	**55**	**101,174**	**-**	**101,229**	**-**	**101,229**
Total(2)	**177,114**	**101,285**	**33,381**	**311,780**	**16,772**	**328,552**
(2) Of which:						
Debts in restructuring	**1,922**	**-**	**673**	**2,595**	**-**	**2,595**
Other impaired debts	**1,366**	**-**	**37**	**1,403**	**-**	**1,403**
Total impaired debts	**3,288**	**-**	**710**	**3,998**	**-**	**3,998**
Debts in arrears of 90 days or more	**86**	**656**	**35**	**777**	**-**	**777**
Other problematic debts	**5,219**	**-**	**21**	**5,240**	**-**	**5,240**
Total problematic debts	**8,593**	**656**	**766**	**10,015**	**-**	**10,015**
Allowance for credit losses in respect of debts						
In respect of debts examined on an individual basis	**3,725**	**-**	**105**	**3,830**	**5**	**3,835**
In respect of debts examined on a collective basis(3)	**512**	**690**	**631**	**1,833**	**-**	**1,833**
(3) Of which: allowance calculated based on the extent of arrears***	**-**	**690**	**-**	**690**	**-**	**690**
Total allowance for credit losses(4)	**4,237**	**690**	**736**	**5,663**	**5**	**5,668**
(4) Of which: allowance in respect of impaired debts	**1,298**	**-**	**100**	**1,398**	**-**	**1,398**

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

** The balance of commercial debts includes the balance of housing loans, in the amount of approximately NIS 55 million, of commercial borrowers, or extended to purchasing groups currently in the process of construction.

*** Includes the allowance in excess of the amount required according to the method of the extent of arrears, calculated on a collective basis, in the amount of approximately NIS 542 million.

Note 6 Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

Unaudited
NIS millions

1. Debts*, credit to the public, and allowance for credit losses (continued)

	March 31, 2020					
	Credit to the public				Banks and governments	Total
	Commercial**	Housing	Other private	Total		
Recorded debt balance						
Debts examined on an individual basis	150,821	2	909	151,732	30,076	181,808
Debts examined on a collective basis(1)	24,668	92,450	35,967	153,085	-	153,085
(1) Of which: allowance calculated based on the extent of arrears	84	92,296	-	92,380	-	92,380
Total(2)	175,489	92,452	36,876	304,817	30,076	334,893
(2) Of which:						
Debts in restructuring	768	-	714	1,482	-	1,482
Other impaired debts	2,705	2	50	2,757	-	2,757
Total impaired debts	3,473	2	764	4,239	-	4,239
Debts in arrears of 90 days or more	88	715	70	873	-	873
Other problematic debts	3,913	-	51	3,964	-	3,964
Total problematic debts	7,474	717	885	9,076	-	9,076
Allowance for credit losses in respect of debts						
In respect of debts examined on an individual basis	3,470	-	133	3,603	8	3,611
In respect of debts examined on a collective basis(3)	534	478	654	1,666	-	1,666
(3) Of which: allowance calculated based on the extent of arrears***	-	478	-	478	-	478
Total allowance for credit losses(4)	4,004	478	787	5,269	8	5,277
(4) Of which: allowance in respect of impaired debts	1,399	-	131	1,530	-	1,530

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

** The balance of commercial debts includes the balance of housing loans, in the amount of approximately NIS 84 million, of commercial borrowers, or extended to purchasing groups currently in the process of construction.

*** Includes the allowance in excess of the amount required according to the method of the extent of arrears, calculated on a collective basis, in the amount of approximately NIS 344 million.

Note 6 Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

Audited
NIS millions

1. Debts*, credit to the public, and allowance for credit losses (continued)

	December 31, 2020					
	Credit to the public				Banks and governments	Total
	Commercial**	Housing	Other private	Total		
Recorded debt balance						
Debts examined on an individual basis	147,900	1	952	148,853	13,618	162,471
Debts examined on a collective basis(1)	26,743	99,442	32,935	159,120	-	159,120
(1) Of which: according to the extent of arrears	52	99,311	-	99,363	-	99,363
Total(2)	174,643	99,443	33,887	307,973	13,618	321,591
(2) Of which:						
Debts in restructuring	2,012	-	698	2,710	-	2,710
Other impaired debts	1,209	1	40	1,250	-	1,250
Total impaired debts	3,221	1	738	3,960	-	3,960
Debts in arrears of 90 days or more	31	652	45	728	-	728
Other problematic debts	5,794	-	24	5,818	-	5,818
Total problematic debts	9,046	653	807	10,506	-	10,506
Allowance for credit losses in respect of debts*						
In respect of debts examined on an individual basis	3,942	-	118	4,060	5	4,065
In respect of debts examined on a collective basis(3)	500	758	827	2,085	-	2,085
(3) Of which: allowance calculated based on the extent of arrears***	-	758	-	758	-	758
Total allowance for credit losses(4)	4,442	758	945	6,145	5	6,150
(4) Of which: allowance in respect of impaired debts	1,342	-	111	1,453	-	1,453

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

** The balance of commercial debts includes the balance of housing loans, in the amount of approximately NIS 52 million, of commercial borrowers, or extended to purchasing groups currently in the process of construction.

*** Includes the allowance in excess of the amount required according to the method of the extent of arrears, calculated on a collective basis, in the amount of approximately NIS 609 million.

Note 6 Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

NIS millions

2. Change in allowance for credit losses

	For the three months ended March 31, 2021					
	Credit to the public				Banks and governments	Total
	Commercial	Housing	Other private	Total		
Allowance for credit losses at beginning of year (audited)	**5,142**	**758**	**1,026**	**6,926**	**5**	**6,931**
Income in respect of credit losses[1]	**(203)**	**(68)**	**(237)**	**(508)**	**-**	**(508)**
Charge-offs	**(119)**	**(1)**	**(87)**	**(207)**	**-**	**(207)**
Recoveries of debts charged off in previous years	**99**	**1**	**84**	**184**	**-**	**184**
Net charge-offs	**(20)**	**-**	**(3)**	**(23)**	**-**	**(23)**
Allowance for credit losses as at March 31, 2021[2] (unaudited)	**4,919**	**690**	**786**	**6,395**	**5**	**6,400**
(1) Of which: in respect of off-balance sheet credit instruments	**(18)**	**-**	**(31)**	**(49)**	**-**	**(49)**
(2) Of which: in respect of off-balance sheet credit instruments	**682**	**-**	**50**	**732**	**-**	**732**

	For the three months ended March 31, 2020					
	Credit to the public				Banks and governments	Total
	Commercial	Housing	Other private	Total		
Allowance for credit losses at beginning of year (audited)	4,007	446	790	5,243	8	5,251
Provision for credit losses[1]	656	32	120	808	1	809
Charge-offs	(181)	(1)	(158)	(340)	-	(340)
Recoveries of debts charged off in previous years	70	1	82	153	-	153
Net charge-offs	(111)	-	(76)	(187)	-	(187)
Allowance for credit losses as at March 31, 2020[2] (unaudited)	4,552	478	834	5,864	9	5,873
(1) Of which: in respect of off-balance sheet credit instruments	51	-	8	59	-	59
(2) Of which: in respect of off-balance sheet credit instruments	548	-	47	595	1	596

Note 7 Deposits from the Public

NIS millions

A. Types of deposits, by location of deposit taking and by type of depositor

	March 31		December 31
	2021	2020	2020
	Unaudited		Audited
In Israel			
On demand			
Non-interest bearing	**202,406**	169,128	194,435
Interest bearing	**112,887**	92,733	107,302
Total on demand	**315,293**	261,861	301,737
Fixed term	**120,929**	105,972	115,283
Total deposits from the public in Israel*	**436,222**	367,833	417,020
Outside Israel			
On demand			
Non-interest bearing	**1,362**	1,368	1,335
Interest bearing	**7,733**	5,031	6,168
Total on demand	**9,095**	6,399	7,503
Fixed term	**10,077**	14,334	10,694
Total deposits from the public outside Israel	**19,172**	20,733	18,197
Total deposits from the public	**455,394**	388,566	435,217
* Of which:			
Deposits of private individuals	**193,304**	184,880	189,965
Deposits of institutional entities	**71,414**	41,671	64,109
Deposits of corporations and others	**171,504**	141,282	162,946

B. Deposits from the public by size

	March 31		December 31
	2021	2020	2020
	Unaudited		Audited
Deposit ceiling			
Up to 1	**148,347**	136,077	145,035
Over 1 up to 10	**113,042**	106,371	110,768
Over 10 up to 100	**64,408**	58,944	61,471
Over 100 up to 500	**47,351**	38,437	42,604
Over 500	**82,246**	48,737	75,339
Total	**455,394**	388,566	435,217

Note 8 Employee Benefits

NIS millions

A. Employee benefits

	March 31		December 31
	2021	2020	2020
	Unaudited		Audited
Early retirement and severance pay			
Amount of liability	**7,757**	7,574	7,533
Fair value of plan assets	**(3,890)**	(3,919)	(3,671)
Surplus liability over plan assets (included in other liabilities)	**3,867**	3,655	3,862
Grant for non-utilization of sick days			
Amount of liability	**369**	342	364
Fair value of plan assets	**-**	-	-
Surplus liability over plan assets (included in other liabilities)	**369**	342	364
25-year service grant			
Amount of liability	**35**	32	35
Fair value of plan assets	**-**	-	-
Surplus liability over plan assets (included in other liabilities)	**35**	32	35
Other benefits at end of employment and post-employment			
Amount of liability	**693**	558	692
Fair value of plan assets	**-**	-	-
Surplus liability over plan assets (included in other liabilities)	**693**	558	692
Total			
Surplus liabilities in respect of employee benefits over plan assets included in the item "other liabilities"*	**4,964**	4,587	4,953
* Of which: in respect of benefits for employees overseas	**25**	74	42

Note 8 Employee Benefits (continued)

NIS millions

B. Post-retirement benefit plan

(1) Commitments and financing status

a. Net change in commitment in respect of forecast benefit*,**

	For the three months ended March 31		For the year ended December 31
	2021	2020	2020
	Unaudited		Audited
Net commitment in respect of forecast benefit at beginning of period	**4,918**	5,183	5,183
Service cost	**39**	49	159
Interest cost	**20**	27	124
Deposits by plan participants	**-**	-	(12)
Actuarial loss (profit)	**55**	(594)	48
Changes in foreign-currency exchange rates	**3**	2	(2)
Benefits paid	**(106)**	(112)	(582)
Other	**-**	-	-
Net commitment in respect of forecast benefit at end of period	**4,929**	4,555	4,918
Net commitment in respect of cumulative benefit at end of period	**4,705**	4,356	4,660

* Includes post-retirement benefits, including a sick-day grant paid at retirement.
** The amounts presented are net of plan assets. For further details, see Section (d) below.

b. Amounts recognized in the consolidated balance sheet

	March 31		December 31
	2021	2020	2020
	Unaudited		Audited
Early retirement and severance pay			
Amounts recognized in the item "other liabilities"	**4,929**	4,555	4,918

c. Amounts recognized in accumulated other comprehensive income (loss), before tax effect

	March 31		December 31
	2021	2020	2020
	Unaudited		Audited
Net actuarial loss	**2,282**	1,739	2,265
Closing balance in accumulated other comprehensive income	**2,282**	1,739	2,265

Note 8 Employee Benefits (continued)

NIS millions

B. Post-retirement benefit plan (continued)

(1) Commitments and financing status (continued)

d. Plans in which the commitment in respect of the cumulative and forecast benefit exceeds the plan assets

	March 31		December 31
	2021	2020	2020
	Unaudited		Audited
Commitment in respect of forecast benefit	**8,819**	8,474	8,589
Commitment in respect of cumulative benefit	**8,595**	8,275	8,331
Fair value of plan assets	**(3,890)**	(3,919)	(3,671)

(2) Expense for the period

a. Components of net benefit cost recognized in profit and loss

	For the three months ended March 31		For the year ended December 31
	2021	2020	2020
	Unaudited		Audited
Service cost	**39**	49	159
Interest cost	**20**	27	124
Subtraction of unrecognized amounts:			
Net actuarial loss	**41**	43	131
Net total benefit cost	**100**	119	414

b. Changes in plan assets and in benefit commitments recognized in other comprehensive income (loss), before tax effect

	For the three months ended March 31		For the year ended December 31
	2021	2020	2020
	Unaudited		Audited
Net actuarial loss (profit) for the period	**55**	(594)	48
Subtraction of actuarial loss	**(41)**	(43)	(131)
Changes in foreign-currency exchange rates	**3**	2	(2)
Total recognized in other comprehensive income (loss)	**17**	(635)	(85)
Net total benefit cost	**100**	119	414
Total recognized in net benefit cost for the period and in other comprehensive income	**117**	(516)	329

Note 8 Employee Benefits (continued)

B. Post-retirement benefit plan (continued)

(3) Assumptions*

a. Assumptions based on a weighted average used to determine the commitment in respect of the benefit and to measure the net cost of the benefit

1. Principal assumptions used to determine the commitment in respect of the benefit

	March 31		December 31
	2021	2020	2020
	Unaudited		Audited
Capitalization rate	**0.30%**	1.99%	0.37%
Rate of increase in the CPI	**1.5%**	2.0%	1.5%
Rate of increase in remuneration[(1)]	**0.0%-7.5%**	0.0%-7.5%	0.0%-7.5%

2. Principal assumptions used to measure net benefit cost for the period

	For the three months ended March 31		For the year ended December 31
	2021	2020	2020
	Unaudited		Audited
Capitalization rate	**0.37%**	0.44%	0.78%
Rate of increase in remuneration	**0.0%-7.5%**	0.0%-7.5%	0.0%-7.5%

b. Effect of a one-percentage-point change on the commitment in respect of the forecast benefit, before tax effect

	Increase of one percentage point			Decrease of one percentage point		
	March 31		December 31	March 31		December 31
	2021	2020	2020	**2021**	2020	2020
	Unaudited		Audited	Unaudited		Audited
	NIS millions					
Capitalization rate	**(423)**	(332)	(421)	**504**	389	502

* The assumptions refer to the stand-alone data of the Bank.

(1) The rate of increase in remuneration is influenced by several processes leading to an increase in the cost of wages, which reflect an average growth rate of approximately 1% per annum, in real terms. These processes include promotions and changes in job descriptions, seniority, and rank.

Note 8 Employee Benefits (continued)

NIS millions

B. Post-retirement benefit plan (continued)

(4) Plan assets

The Bank's liability for employee benefits is calculated based on an actuarial calculation. Among other factors, this calculation takes into account the probability of early retirement with beneficial terms, in each of the relevant tracks (enlarged severance pay or early retirement); the amounts of the liability at retirement; and the value of amounts funded at that date. In addition, in light of the existing labor agreements at the Bank and the nature of the retirement agreements at the Bank, the Bank's exposure to (positive or negative) changes in the value of amounts funded is limited, due to Section 14 of the Severance Pay Law, pursuant to which in the event of an employee's departure, reaching the retirement age established by law, or taking early retirement, the Bank is not required to supplement amounts funded, and customarily does not do so, if their value has decreased or does not cover the increase that has occurred in wages. The Bank's liability for severance pay to its employees is primarily covered by amounts funded, deposited in severance-pay funds in the employees' names.

Balances of the liability for severance pay and amounts funded for severance pay:

	March 31		December 31
	2021	2020	2020
	Unaudited		Audited
Liability for severance pay	**3,703**	3,743	3,540
Amounts funded for severance pay	**(3,638)**	(3,670)	(3,425)
Net liability	**65**	73	115

Note 8 Employee Benefits (continued)

NIS millions

C. Cash flows

(1) Deposits

	Forecast	Actual deposits		
		For the three months ended March 31		For the year ended December 31
	2021*	**2021**	2020	2020
	Unaudited			Audited
Deposits	**174**	**37**	40	162

* Estimated deposits which the Bank expects to pay into pension plans for a defined benefit during 2021.

(2) Benefits the Bank expects to pay in the future

Year	
2021	380
2022	420
2023	369
2024	346
2025	330
2026-2030	1,339
2031 forward	2,058
Total	5,242

D. On January 21, 2020, the Bank and the representatives of the Employee Union signed a wage agreement for 2018-2022, which was approved by the Board of Directors and Board of Management of the Bank.

E. On April 25, 2021, the Board of Directors approved a grant of restricted shares (for three years, beginning January 1, 2021) to the CEO of the Bank, members of the Board of Management, senior executives, and key employees of the Bank, as well as to managers and employees who retired from the Bank, at a total volume of up to approximately 0.05% of the issued capital of the Bank (573,525 shares), within the implementation of the existing remuneration plans and employment contracts, as part of the fixed remuneration component for 2020, which was recognized in the annual financial statements of the Bank for 2020, and in accordance with the outline issued by the Bank on April 26, 2021. In addition, the allocation of 44,253 restricted stock units (RSU) (approximately 0.003% of the issued capital) to several employees who are not officers was approved. The shares and the restricted stock units will be allocated shortly after the approval of the financial statements of the Bank for the first quarter of 2021.

Note 8 Employee Benefits (continued)

F. Terms of service of the Chairman of the Board – Further to the statements in Note 22C(3) to the Annual Financial Statements of the Bank for 2020 regarding the terms of service of the Chairman of the Board approved by the general meeting of the Bank in October 2020, on March 21, 2021, after the Bank received a reply from the Israel Securities Authority, which was coordinated with the Ministry of Justice and the Bank of Israel, to the preliminary inquiry of the Bank on this matter, the Board of Directors of the Bank resolved that the directives of the law and the guidelines of the supervisory agencies do not preclude the remuneration and terms of service approved for the Chairman of the Board by the aforesaid general meeting. Accordingly, the Bank supplemented the payment to the Chairman of the Board with the balance of the remuneration to which he is entitled as of the beginning of his term of service as Chairman (June 28, 2020) – the difference between the terms of service approved and the directors' remuneration which he received during this period.

Note 9 Capital, Capital Adequacy, Leverage, and Liquidity

A. Dividends

Subject to the statements in this section, below, since the first quarter of 2017, the dividend distribution policy of the Bank is to distribute up to 40% of quarterly net operating profit. Any distribution is subject to a specific resolution of the Board of Directors of the Bank, based on its judgment at the date of the distribution, taking into account business considerations, the directives of all laws, and any constraints on distribution. In light of the uncertainty with respect to the investigation of the United States authorities that existed prior to the approval of the resolutions (see Note 10C), for reasons of conservatism and in coordination with the Bank of Israel, beginning in the second quarter of 2018, the Board of Directors of the Bank has not declared the distribution of dividends from ongoing earnings, with no change to the Bank's dividend distribution policy. In view of the notification of the Banking Supervision Department of March 29, 2020, and its Temporary Order (see Section H below) in connection with the spread of the coronavirus, the Board of Directors of the Bank resolved, on March 31, 2020, that in light of the uncertainty in macroeconomic conditions, and in order to comply with the purpose of the directives and policy of the Banking Supervision Department, until the end of the period of the temporary order and until conditions are clearer, the Bank will continue to refrain from performing distributions from ongoing earnings.

Note 9 Capital, Capital Adequacy, Leverage, and Liquidity (continued)

B. Dividend payments

As a result of the sale of approximately 65.2% of the shares of Isracard in the second quarter of 2019, the Bank accumulated additional capital surplus. In September 2019, the Board of Directors of the Bank declared the distribution of dividends in respect of this capital surplus, in the amount of NIS 1 billion, paid in October 2019. The remaining holdings of the Bank in the shares of Isracard (approximately 33% of the issued and paid-up capital of Isracard) were distributed as a dividend in kind to the shareholders of the Bank on March 9, 2020.

Date of declaration	Date of payment	Dividend per share	Dividend paid in cash
		Agorot	NIS millions
February 2, 2020	March 9, 2020	*53.937	*720
September 24, 2019	October 23, 2019	74.897	1,000

* Distribution of the remaining holdings of the Bank in Isracard (approximately 33%) as a dividend in kind. Approximately 0.0494 shares of Isracard were distributed as a dividend in kind in respect of each share of the Bank. The dividend was calculated based on the Isracard share price on March 8, 2020 (NIS 10.91).

C. Basel 3 directives

The Bank applies the capital measurement and adequacy directives based on the Basel directives, as published by the Banking Supervision Department and as integrated into Proper Conduct of Banking Business Directives 201-211 and the file of questions and answers.

The Basel 3 directives took effect on January 1, 2014. Implementation is gradual, in accordance with the transitional directives established in Proper Conduct of Banking Business Directive 299, "Capital Measurement and Adequacy – Supervisory Capital – Transitional Directives." In accordance with the transitional directives, capital instruments that no longer qualify as supervisory capital were recognized as of January 1, 2014, up to a ceiling of 80% of their balance in the supervisory capital as at December 31, 2013; this ceiling is being lowered by an additional 10% in each subsequent year, until January 1, 2022. Accordingly, the ceiling for instruments qualifying as supervisory capital was 20% and 10%, respectively, in 2020 and 2021.

Note 9 Capital, Capital Adequacy, Leverage, and Liquidity (continued)

D. Capital adequacy in consolidated data

	March 31, 2021	March 31, 2020	December 31, 2020
	Unaudited		Audited
	NIS millions		
1. Capital for the calculation of the capital ratio after supervisory adjustments and deductions			
Common equity Tier 1 capital(1)	**41,012**	38,152	40,070
Additional Tier 1 capital	**244**	488	488
Total Tier 1 capital(1)	**41,256**	38,640	40,558
Tier 2 capital	**10,216**	9,552	10,221
Total overall capital(1)	**51,472**	48,192	50,779
2. Weighted balances of risk-adjusted assets			
Credit risk(2)	**324,431**	313,394	321,149
Market risks	**3,852**	3,226	3,447
Operational risk	**23,090**	23,612	23,166
Total weighted balances of risk-adjusted assets(2)	**351,373**	340,232	347,762
	%		
3. Ratio of capital to risk components			
Ratio of common equity Tier 1 capital to risk components	**11.67%**	11.21%	11.52%
Ratio of Tier 1 capital to risk components	**11.74%**	11.36%	11.66%
Ratio of total capital to risk components	**14.65%**	14.16%	14.60%
Minimum common equity Tier 1 capital ratio required by the Banking Supervision Department(3)	**9.23%**	9.27%	9.24%
Minimum total capital ratio required by the Banking Supervision Department(3)	**12.73%**	12.77%	12.74%

(1) The data are presented in accordance with Proper Conduct of Banking Business Directive 202, "Capital Measurement and Adequacy – Supervisory Capital," and in accordance with the transitional directives established in Proper Conduct of Banking Business Directive 299. The data also include adjustments in respect of the efficiency plans, allocated in equal parts over five years, beginning at the inception date thereof. For additional details regarding the effect of the efficiency plan adjustments, see Section I below.

(2) A total of NIS 503 million as at March 31, 2021, NIS 578 million as at December 31, 2020, and NIS 808 million as at March 31, 2020, was deducted from the total weighted balances of risk-adjusted assets, due to adjustments in respect of the efficiency plans, which, in accordance with the approval of the Banking Supervision Department, are allocated gradually over five years from inception.

(3) The required minimum common equity Tier 1 capital ratio and minimum total capital ratio were 10% and 13.5%, respectively, until March 31, 2020, and stand at 9% and 12.5%, respectively, as of that date and for the duration of the Temporary Order (see Section H below). A capital requirement was added to these ratios at a rate representing 1% of the balance of housing loans at the dates of the financial statements, excluding housing loans granted during the period of the Temporary Order.

Note 9 Capital, Capital Adequacy, Leverage, and Liquidity (continued)

NIS millions

E. Capital components for the calculation of the capital ratio

	March 31, 2021	March 31, 2020	December 31, 2020
	Unaudited		Audited
Common equity Tier 1 capital			
Total capital	**40,858**	37,667	39,899
Differences between total capital and common equity Tier 1 capital	**(13)**	(22)	(16)
Total common equity Tier 1 capital, before supervisory adjustments and deductions	**40,845**	37,645	39,883
Supervisory adjustments and deductions:			
Deferred tax assets	**(27)**	(44)	(62)
Other supervisory adjustments and deductions – common equity Tier 1 capital*	**(184)**	(50)	(185)
Total supervisory adjustments and deductions, before efficiency plan adjustments – common equity Tier 1 capital	**(211)**	(94)	(247)
Total efficiency plan adjustments – common equity Tier 1 capital**	**378**	601	434
Total common equity Tier 1 capital, after supervisory adjustments and deductions	**41,012**	38,152	40,070
Additional Tier 1 capital			
Total additional Tier 1 capital	**244**	488	488
Total Tier 1 capital, after supervisory adjustments and deductions	**41,256**	38,640	40,558
Tier 2 capital			
Tier 2 capital – instruments, before deductions	**6,161**	5,635	6,207
Tier 2 capital – allowance for credit losses, before deductions	**4,055**	3,917	4,014
Total Tier 2 capital	**10,216**	9,552	10,221
Total overall capital	**51,472**	48,192	50,779

* The balance as at March 31, 2021, includes a total of NIS 167 million, and the balance as at December 31, 2020, includes a total of NIS 161 million, resulting from deduction of the credit line for Bank Pozitif, in accordance with the requirement of the Banking Supervision Department. For further details, see the section "Subsidiary of the Bank in Turkey," below.

** Adjustments in respect of the efficiency plans, in accordance with the directives of the Banking Supervision Department (see the section, "Improving operational efficiency," below), are allocated in equal parts over five years from inception.

Note 9 Capital, Capital Adequacy, Leverage, and Liquidity (continued)

F. Effect of efficiency plan adjustments on the common equity Tier 1 capital ratio

	March 31, 2021	March 31, 2020	December 31, 2020
	Unaudited		Audited
	%		
Ratio of capital to risk components			
Ratio of common equity Tier 1 capital to risk components before the effect of the efficiency plan adjustments	**11.55%**	11.01%	11.38%
Effect of efficiency plan adjustments*	**0.12%**	0.20%	0.14%
Ratio of common equity Tier 1 capital to risk components	**11.67%**	11.21%	11.52%

* Adjustments in respect of the efficiency plans, in accordance with the directives of the Banking Supervision Department (see the section, "Improving operational efficiency," below), are allocated in equal parts over five years from inception.

G. Capital components subject to volatility

The Bank manages its capital-adequacy ratio with the aim of complying with the minimum capital requirements of the Banking Supervision Department. The capital of the Bank and the volume of risk-adjusted assets are subject to changes, due to the following factors, among others:

- Actuarial changes resulting from changes in the interest rate for the calculation of the Bank's liabilities, or other actuarial assumptions, such as mortality and departure rates.
- Effects of changes in the interest rate on capital reserves from bonds available for sale.
- Effects of changes in the CPI and in exchange rates on asset balances.

Scale of effect of a decrease in capital and an increase in risk-adjusted assets on the common equity Tier 1 capital ratio as at March 31, 2021:

	Effect of decrease of NIS 100 million in common equity Tier 1 capital	**Effect of increase of NIS 1 billion in total risk-adjusted assets**
	%	
The Bank in consolidated data	**(0.03%)**	**(0.03%)**

Note 9 Capital, Capital Adequacy, Leverage, and Liquidity (continued)

H. Capital-adequacy target

On March 31, 2020, the Banking Supervision Department issued a circular on the subject, "Adjustments to the Proper Conduct of Banking Business Directives for the purpose of coping with the coronavirus crisis (temporary order)" (the "Temporary Order"), in view, according to the statement of the Banking Supervision Department, of the spread of the coronavirus, and in order to ensure the ability of the banks to continue to offer credit. Pursuant to the circular, the Bank, as a banking corporation of significant importance (a banking corporation whose total balance sheet assets on a consolidated basis constitute at least 24% of the total balance sheet assets of the banking system in Israel), is required to maintain a minimum common equity Tier 1 capital ratio of 9% (versus 10% prior to this change), and a minimum total capital ratio of 12.5% (versus 13.5% prior to this change). The Temporary Order was initially in effect for a period of six months; in September 2020, it was extended by an additional six months (until March 31, 2021). The relief in capital requirements will apply until 24 months have elapsed from the end of the period of validity of the Temporary Order, provided that the capital ratios of the banking corporation do not fall below the capital ratios at the end of the validity period of the Temporary Order, or the capital ratios applicable to the Bank prior to the Temporary Order, whichever is lower. On March 22, 2021, the Banking Supervision Department issued a circular extending the period of validity of the Temporary Order until September 30, 2021, and stating that in the six-month period from the end of the period of validity of the Temporary Order, a reduction in capital ratios of up to 0.3 percentage points relative to the minimum capital ratio shall not be considered a breach of the Temporary Order.

A capital requirement was added to the minimum capital ratios at a rate representing 1% of the balance of housing loans at the dates of the financial statements, excluding housing loans granted during the period of the Temporary Order.

Accordingly, the minimum common equity Tier 1 capital ratio and the minimum total capital ratio of the Bank (which is a banking corporation of significant importance) required by the Banking Supervision Department, on a consolidated basis, as at March 31, 2021, and for the duration of the period of the Temporary Order, stand at 9.23% and 12.73%, respectively (instead of 10.29% and 13.79% without the Temporary Order).

In the statement issued by the Banking Supervision Department in connection with the Temporary Order, boards of directors of banks were asked, among other matters, to reexamine their dividend policies, with the intention of using the capital resources released as a result of the reduced capital requirements in order to increase credit, rather than for distribution. In view of the statement of the Banking Supervision Department, and in order to allow realization of the purpose of the directive, the Board of Directors of the Bank resolved on March 31, 2020, to adjust the minimum target common equity Tier 1 capital ratio to 9.5%. The Board of Directors further resolved that, taking into consideration the existing distribution policy of the Bank (distribution of up to 40% of quarterly net operating profit), in light of the uncertainty in macroeconomic conditions, and in order to comply with the purpose of the Temporary Order and the policy of the Banking Supervision Department, until the end of the period of the Temporary Order and until conditions are clearer, the Bank will continue to refrain from performing distributions from ongoing earnings.

Note 9 Capital, Capital Adequacy, Leverage, and Liquidity (continued)

I. Improving operational efficiency

The circulars of the Banking Supervision Department grant reliefs to banks that apply improvements in efficiency, with respect to personnel and to real estate.

Since the reliefs were granted, the Bank has announced personnel efficiency plans at a total volume of NIS 1,114 million, net of tax effect.

The effect of the aforesaid plans was allocated to capital, and, for the purposes of calculation of the capital ratio and leverage ratio, deducted from supervisory capital over a period of five years from the date of beginning of implementation of each plan.

The remaining effect of the reliefs in respect of the efficiency plans on the common equity Tier 1 capital ratio is estimated at approximately 0.12% as at March 31, 2021.

J. The subsidiary of the Bank in Turkey

In view of the economic and political situation in Turkey, and within the strategic plan of the Bank, a decision was made to act to sell the investment in Bank Pozitif. Accordingly, the Bank is working to gradually reduce the credit portfolio of Bank Pozitif.

In February 2021, the Bank, together with the minority shareholder, entered into an agreement for the sale of the full holdings of the parties (100%) in Bank Pozitif to a buyer. The deal is subject to the receipt of regulatory approvals by June 30, 2021. In response to the request of the Bank for approval of the transaction by the Banking Supervision Department, the Banking Supervision Department gave notice on March 10, 2021, that subject to the receipt of approvals in Turkey and the completion of the transaction, it sees no cause to prevent revocation of the control permit of the Bank with respect to Bank Pozitif. The approval of the competition authority in Turkey for the transaction was received in May 2021; approval by the banking supervision authority in Turkey is also required.

In January 2019, a letter was received from the Bank of Israel concerning the subsidiary of the Bank in Turkey, Bank Pozitif. In the letter, the Bank of Israel stated that the activity of the Bank in Turkey exposes it to significant risks, and therefore, until the realization of the full holdings of the Bank in Bank Pozitif, the Bank is required to increase the risk weighting rates of risk-adjusted assets in respect of the activity of Bank Pozitif, in the calculation of the consolidated capital ratio only, as follows:

- Beginning January 1, 2020, risk-adjusted assets in respect of the activity of Bank Pozitif would be weighted at a rate of at least 300%.
- Beginning January 1, 2021, risk-adjusted assets in respect of the activity of Bank Pozitif would be weighted at a rate of at least 600%.

Accordingly, beginning January 1, 2020, the Bank weighted risk-adjusted assets in respect of Bank Pozitif at 300%. The effect on the financial statements for the first quarter of 2020 was a decrease of approximately 0.04% in the common equity Tier 1 capital ratio. Beginning January 1, 2021, the Bank has weighted risk-adjusted assets in respect of Bank Pozitif at 600%. The effect at the transition date is an additional decrease of approximately 0.04% in the common equity Tier 1 capital ratio.

Note 9 Capital, Capital Adequacy, Leverage, and Liquidity (continued)

In April 2021, the Bank renewed a credit line for Bank Pozitif in the amount of approximately USD 50 million, at an interest rate below market terms. The date of repayment of the credit line was set at the earlier of December 2021 or the date of completion of the sale of Bank Pozitif. In accordance with a requirement of the Banking Supervision Department, due to the aforesaid pricing, the balance of the credit line was deducted from supervisory capital.

K. Effect of the expected implementation of accounting rules concerning estimated credit losses on supervisory capital

Banking corporations are required to allocate the effect of the initial implementation of accounting rules concerning estimated credit losses to retained earnings on January 1, 2022. In December 2020, the Banking Supervision Department issued a circular pursuant to which, if the initial implementation causes a decrease in the common equity Tier 1 capital of a banking corporation, net of tax effect, the banking corporation is permitted to include this decrease gradually, over the course of three years.

The Bank is preparing to implement this directive; at this stage, it is not possible to estimate its effect. For further details, see Note 1D above.

L. Implementation of external credit ratings

Beginning in the first quarter of 2021, the Bank transitioned to the use of a single rater for capital-adequacy measurement purposes (as permitted by the directives of the Bank of Israel), instead of the Bank's previous practice of using the lower of the ratings of two raters. The rating agency to remain in use is S&P (Standard & Poor's). The effect of the transition to a single rater, at the transition date, is an increase of approximately 0.12% in the common equity Tier 1 capital ratio and an increase of approximately 0.16% in the total capital ratio.

M. Leverage ratio

The Bank applies Proper Conduct of Banking Business Directive 218, "Leverage Ratio" (hereinafter: the "Directive"). The Directive establishes a simple, transparent, non-risk-based leverage ratio, which serves as a complementary measurement to risk-based capital requirements, and which is designed to limit the accumulation of leverage at banking corporations.

The leverage ratio is expressed as a percentage, and is defined as the ratio of the capital measurement to the exposure measurement. Capital, for the purpose of measurement of the leverage ratio, is Tier 1 capital, as defined in Proper Conduct of Banking Business Directive 202, taking into consideration the transitional arrangements that have been established. The total exposure measurement is the total of balance sheet exposures, exposures to derivatives and to securities financing transactions, and off-balance sheet items.

Pursuant to the Directive, banking corporations shall maintain a leverage ratio of no less than 5% on a consolidated basis. Banking corporations whose total balance sheet assets on a consolidated basis constitute 24% or more of the total balance sheet assets in the banking system shall maintain a leverage ratio of no less than 6%. Based on the foregoing, the minimum required leverage ratio for the Bank is 6%.

Note 9 Capital, Capital Adequacy, Leverage, and Liquidity (continued)

On November 15, 2020, the Banking Supervision Department issued a circular updating Proper Conduct of Banking Business Directive 250 concerning the leverage ratio. Banking corporations must maintain a leverage ratio of no less than 4.5% on a consolidated basis. Banking corporations whose total balance sheet assets on a consolidated basis constitute 24% or more of the total balance sheet assets in the banking system (the Bank is such a banking corporation) shall maintain a leverage ratio of no less than 5.5% (instead of 6%). Implementation of the directive begins on the date of its publication. When the Temporary Order expires, the relief will continue to apply for an additional 24 months, provided that the leverage ratio does not fall below the lower of the leverage ratio at the end of the period of the order, and the minimum leverage ratio applicable to the banking corporation prior to the Temporary Order. On March 22, 2021, the Banking Supervision Department issued a circular extending the period of validity of the Temporary Order until September 30, 2021.

	March 31, 2021	March 31, 2020	December 31, 2020
	Unaudited		Audited
	NIS millions		
a. Consolidated data			
Tier 1 capital*	**41,256**	38,640	40,558
Total exposures*	**620,054**	541,421	597,837
	%		
Leverage ratio	**6.65%**	7.14%	6.78%
Minimum leverage ratio required by the Banking Supervision Department**	**5.50%**	6.00%	5.50%

* These data include adjustments in respect of the efficiency plans, in accordance with the directives of the Banking Supervision Department (see the section "Improving operational efficiency," above). The effect of the reliefs in respect of the efficiency plans on the leverage ratio as at March 31, 2021, estimated at approximately 0.06%, is allocated in equal parts over five years, beginning at the inception date thereof.

** Pursuant to the circular of the Banking Supervision Department, the minimum leverage ratio is 5.5% during the period of the Temporary Order. For further details, see the section "Leverage ratio," above.

	Effect of decrease of NIS 100 million in Tier 1 capital	**Effect of increase of NIS 1 billion in total exposures**
	%	
b. Effects on the leverage ratio as at March 31, 2021		
The Bank in consolidated data	**(0.02%)**	**(0.01%)**

Note 9 Capital, Capital Adequacy, Leverage, and Liquidity (continued)

N. Liquidity coverage ratio

The Bank calculates its stand-alone and consolidated liquidity ratios daily, with a division into NIS and foreign currency, and monitors this ratio at its subsidiaries (which are required to comply with internal liquidity limits adapted to the nature of their activity). These ratios are reported as an average of the daily observations. The number of observations used to calculate the averages in the reported quarter is 62.

	For the three months ended March 31, 2021	For the three months ended March 31, 2020	For the three months ended December 31, 2020
	Unaudited		Audited
		%	
a. Consolidated data			
Liquidity coverage ratio	**139%**	126%	140%
Minimum liquidity coverage ratio required by the Banking Supervision Department	**100%**	100%	100%
b. Bank data			
Liquidity coverage ratio	**139%**	125%	139%
Minimum liquidity coverage ratio required by the Banking Supervision Department	**100%**	100%	100%

Note 10 Contingent Liabilities and Special Commitments

NIS millions

A. Contingent liabilities and other special commitments

	March 31		December 31
	2021	2020	2020
	Unaudited		Audited
1. Commitment to purchase securities	**653**	599	571
2. Construction and acquisition of buildings and equipment	**27**	28	7

3. Credit selling activity

The following table summarizes the credit selling activity of the Bank:

	For the three months ended March 31		For the year ended December 31
	2021	2020	2020
	Unaudited		Audited
Book value of credit sold	**-**	-	34
Consideration received in cash	**-**	-	55
Total net profit from sale of credit	**-**	-	21

4. The Bank and its subsidiaries, from time to time, under commonly accepted conditions and circumstances and during the ordinary course of business, grant letters of indemnity, with limited amount and period or unlimited amount and period, including within transactions for the sale of holdings in the companies of the Group, contractual engagements with suppliers, etc.

B. Legal proceedings

The Bank Group (the Bank and its consolidated subsidiaries) is a party to legal proceedings, including petitions to certify class actions, taken against it by its customers, former customers, and various third parties. The causes of the claims against the Bank Group are varied and wide-ranging.

The additional exposure in respect of claims filed against the Bank on various matters, as at March 31, 2021, that have a "reasonably possible" probability of materialization amounts to approximately NIS 340 million.

In the opinion of the Bank's Board of Management, based on the opinion of the management of relevant consolidated companies and based on legal opinions with regard to the likely outcome of pending claims, including petitions to certify class actions, the financial statements include sufficient provisions, in accordance with generally accepted accounting principles, to cover possible damages resulting from all claims, where such provisions are necessary.

Note 10 Contingent Liabilities and Special Commitments (continued)

B. Legal proceedings (continued)

a. For details concerning claims and petitions to certify claims as class actions in material amounts, see Note 25C(a) to the Financial Statements as at December 31, 2020 (hereinafter: the "2020 Annual Report"). As at the date of publication of the financial statements, no material changes have occurred relative to the information in the aforesaid Note 25C(a), with the following exceptions:

1. With regard to the claim filed on March 29, 2012, against the Bank and Hapoalim Switzerland, by Attorney Irving Pickard, in the amount of approximately USD 27.5 million, with the Bankruptcy Court, described in Note 25C(a)(1) to the Annual Financial Statements for 2020 – in a hearing on March 18, 2021, before the Bankruptcy Court, an affidavit was submitted for the case, according to which, as pertains to transfers from the Kingate Fund, consideration was received from another source in respect of redemptions withdrawn from the fund. Accordingly, the amount of the exposure will be reduced by approximately USD 5.88 million, to a total of approximately USD 21.76 million. In addition, with regard to the additional claim described in Note 25C(a)(1) to the Annual Financial Statements for 2020, of August 16, 2010, filed by Fairfield Sentry Ltd. through its liquidators – as a result of clarification obtained in the procedure with respect to the amount of the exposure, the amount stands at a total of approximately USD 22.8 million (instead of USD 27 million). Most of the sums in connection with the aforesaid claims are overlapping. With regard to the ruling on the motion to dismiss described in the annual report, the fund and the defendants filed notices of appeal and motions to appeal, respectively, following the ruling.

2. With regard to the class-action suit in the amount of NIS 3,860 million against Psagot Provident and Pension Funds Ltd., as described in Note 25C(a)(2) to the Annual Financial Statements for 2020, in its capacity as the manager of the Gadish provident fund (which it acquired in the past from the Bank), concerning the management of monies in accounts of deceased members, and the contentions of Psagot towards the Bank in connection thereto – on April 20, 2021, a settlement agreement was signed between the Bank and Psagot, pursuant to which, without admitting to any contention, the Bank shall pay Psagot a total amount of NIS 2 million in respect of this proceeding and of the additional claim described in Section 3 below, and an absolute and irrevocable waiver shall be formulated of any contention of Psagot towards the Bank and/or anyone acting on its behalf in connection with the factual and/or legal issues that were the subject of this claim and of the additional claim described in Section 3 below.

3. With regard to the class-action suit in the amount of NIS 1 billion against Psagot Provident and Pension Funds Ltd., as described in Note 25C(a)(3) to the Annual Financial Statements for 2020, in connection with risk-type collective life insurance acquired by Psagot, or by its predecessors, as manager of various provident funds, financed by the members, and the contentions of Psagot towards the Bank in connection thereto – on April 20, 2021, a settlement agreement was signed between the Bank and Psagot, as detailed in Section 2 above.

4. With regard to the class-action suit described in Note 25C(a)(4) to the 2020 Annual Report, in which the amount of damage was stated at approximately NIS 500 million, concerning the allegation of collection of fees not consistent with the price list applicable to a small business, further to the hearing of April 6, 2021, the case was scheduled for evidentiary hearings during the course of 2023.

Note 10 Contingent Liabilities and Special Commitments (continued)

B. Legal proceedings (continued)

5. With regard to the class-action suit described in Note 25C(a)(6) to the 2020 Annual Report, in which the amount of the damage was stated at a total of NIS 1.15 billion, concerning the violation by the Bank of the Law for the Prohibition of Discrimination in Products, Services, and Entrance to Entertainment Venues and Public Places, 2000 – a preliminary hearing of the case was held on April 7, 2021, and subsequently the petitioner filed a motion to add affidavits, on which a ruling has not yet been given.

b. Also pending against the Bank Group are claims, including petitions to certify class actions, as detailed below, the probable outcome of which cannot be assessed at this stage, in the opinion of the Bank's Board of Management, based on legal opinions; accordingly, no provision has been made in respect thereof:

1. A claim and a petition to certify the claim as a class action against the Bank and against past and present officers of the Bank were filed with the District Court of Tel-Aviv-Jaffa on May 5, 2020 (the "Certification Petition"). The petition contains allegations of flaws, deficiencies, and misleading statements in the reports of the Bank pursuant to the Securities Law, since 2015, pertaining to the tax investigation of the United States authorities and the management of the internal investigation conducted by the Bank, and in particular, flaws in the reports of the Bank pertaining to the non-appointment of an Independent Examiner and external accounting firm at an early stage of the investigation; pertaining to the position of the DOJ with regard to the findings of the internal self-investigation and its demand to appoint an Independent Examiner and repeat the investigation, or part thereof; and pertaining to the damage caused to the Bank as a result of the lack of a timely appointment of an Independent Examiner. According to the petitioner, the amount of the personal claim and the amount of the class action cannot be estimated at this stage. The class which the petitioner seeks to represent consists of anyone who purchased shares of the Bank between March 1, 2015, and April 30, 2020. The Bank has not yet submitted a response to the Certification Petition. In the proceeding, two motions were filed pursuant to Section 7 of the Class Action Law, 2006 (the "Section 7 Motions"), by the petitioner in this proceeding and by a petitioner in another proceeding (described in Section 2 below; the "Additional Proceeding"), in which each petitioner seeks expungement of the opposing motion. On August 10, 2020, the Attorney General gave notice that at this stage he does not find it appropriate to participate in the proceedings. On August 10, 2020, the court ruled to expunge the Additional Proceeding and retain the hearing of this Certification Petition. On September 10, 2020, the petitioner in the Additional Proceeding filed an appeal of the court ruling on the Section 7 Motions (the "Appeal"). A hearing of the Appeal has been scheduled for December 6, 2021. A motion of the Bank to extend the deadline for submission of its reply to the Certification Petition until after the receipt of the findings of the independent committee in connection with the American matter (see Section C below), or after the final ruling on the Section 7 Motions, was denied. The Bank must submit its response to the Certification Petition by May 16, 2021.

Note 10 Contingent Liabilities and Special Commitments (continued)

B. Legal proceedings (continued)

2. A claim and a petition to certify the claim as a class action against the Bank and against past and present officers of the Bank were filed with the District Court of Tel-Aviv-Jaffa on May 5, 2020 (the "Certification Petition"). The petition contains allegations that the Bank violated disclosure duties pursuant to the Securities Law in connection with the tax investigation of the US authorities. According to the petitioner, the Bank acted to obstruct the investigation of the DOJ, including through concealment of data from the United States authorities and submission of unreliable data, conduction of an independent internal investigation that failed to meet appropriate standards, and failure to appoint a supervising accountant. The petitioner alleges that the Bank did not disclose these actions in its reports and that it acted to obstruct the investigation by performing such actions. This petition was also filed against the former controlling shareholder of the Bank (Arison Holdings (1998) Ltd.). The class which the petitioner seeks to represent consists of anyone who purchased shares of the Bank from November 23, 2017, to April 30, 2020, and held shares at that date (with the exception of the respondents and anyone acting on their behalf). According to the petitioner, the damage caused to the members of the represented class, in total, stands at approximately 2.34% of the amount for which the class members purchased the shares which they purchased during the aforesaid period and held on April 30, 2020. The Bank has not yet submitted a response to the Certification Petition. In connection with this petition, two motions pursuant to Section 7 of the Class Action Law, 2006, were submitted, by the petitioner in this proceeding and by the petitioner in the proceeding described in Section 1 above (the "Section 7 Motions"). On August 10, 2020, the court ruled to expunge the Certification Petition and retain the hearing of the certification petition described in Section 1 above. On September 10, 2020, the petitioner filed an appeal of the court ruling on the Section 7 Motions. A hearing of the Appeal has been scheduled for December 6, 2021. The summations of the appellant were submitted on February 22, 2021. The submission of summations by the Bank has been scheduled for June 1, 2021.

3. A claim statement and a petition to certify the claim as a class action against the Bank and two additional banks were filed with the District Court of Tel Aviv on May 17, 2020 (the "Certification Petition"). The petition alleges, among other matters, that the Bank transfers personal information of its customers, in violation of privacy and banking secrecy, through its use of online advertising tools (such as Google and Facebook), and through online services that process information in the cloud, which are used by the Bank to provide services to its customers. The arguments against the Bank refer to the digital platforms: the website of the Bank, the Account Management application, and the Bit application. It is also alleged that the privacy protection policy and the terms of use published on these platforms include provisions constituting discriminatory provisions in a uniform contract. The petition does not state the amount of damage to the group. The amount of the personal claim has been set at a total of NIS 1,000. The reply of the Bank to the certification petition was submitted on February 16, 2021. The case is scheduled for a hearing on July 15, 2021.

Note 10 Contingent Liabilities and Special Commitments (continued)

B. Legal proceedings (continued)

4. A claim statement and a petition to certify the claim as a class action against the Bank, filed with the Center District Court, concerning inactive deposits, as defined in the Banking Ordinance, were received on May 21, 2020. The petition alleges, among other matters, that the Bank violated its duty to find and report to the owners of the accounts with regard to these accounts, collected fees, and obtained unjust enrichment. Among other matters, it is argued that the Bank must pay the amounts of the deposits, according to the real value thereof, with the addition of the fees that have been collected. The claim does not state the amount of damage to the group. A motion was filed to amend the certification petition by the addition of two affidavits (petitioners) to the petition, in which it was argued that it constituted no change in the contentions of the petitioner and in the contentions presented within the certification petition. The court accepted the amendment motion, and the Bank submitted its reply to the certification petition on February 7, 2021. The parties notified the court of their consent to move this case into a mediation proceeding, and the first mediation session was scheduled for May 13, 2021.

5. A claim statement and a petition to certify a class action were received on December 9, 2020, filed against seven banks, including the Bank, with the District Court of Jerusalem. The petition alleges, among other matters, violation by the Bank of the provisions of the Credit Data Law, 2016, and the regulations enacted thereunder, due to the submission of reports to the credit data repository regarding the existence of legal proceedings against customers, in a manner inconsistent with the provisions of the law and which impaired the customers' ability to receive credit, infringed on their privacy, and caused damage to their reputation. The petition does not state the amount of damage to the group.

6. A claim statement and a petition to certify a class action were received on February 15, 2021, filed against the Bank and three additional banks with the District Court of Tel Aviv (the "Petition"). The Petition alleges, among other matters, that due to a failure and/or defect in automatic bank devices placed at branches, customers of the Bank are required to perform several deposit transactions in order to deposit the full amount of cash in their possession, and that the Bank charges a fee for each deposit transaction, without providing disclosure and unlawfully. The amount of the damage to the group is estimated at NIS 385 million, of which the part attributed to the Bank is of NIS 245 million.

7. A claim statement and a petition to certify a class action were received on April 22, 2021, filed against the Bank and an additional bank with the District Court of Tel Aviv. The petition argues, among other matters, that the collection of a line-item fee (a transaction recording fee or a transaction management fee, as defined in the certification petition), with regard to customers defined as large businesses, is in contravention of the law and of the directives of the price list, and constitutes excessive collection, and that no disclosure is provided in respect thereof. Alternatively, it is argued that the price of the fee is excessive. The petition does not state the amount of damage to the group.

Note 10 Contingent Liabilities and Special Commitments (continued)

B. Legal proceedings (continued)

c. Other proceedings and petitions to certify derivative claims

For details regarding other proceedings and petitions to certify derivative claims, see Note 25C(c) of the 2020 Annual Report. As at the date of publication of the financial statements, no material changes have occurred relative to Note 25C(c), with the following exceptions:

1. With regard to the petition to certify a derivative claim described in Note 25C(c)(7) to the 2020 Annual Report, which concerns, among other matters, allegations of failures of the Bank in granting credit to companies in the group of Mr. Eliezer Fishman, and the ruling of the court, which granted partial assent to the disclosure motion filed for this case (the "Ruling"), the period for completion of the disclosure of documents has been extended until June 15, 2021. Concurrently, a petition was filed for extension of the period for filing a motion for permission to appeal the Ruling.

2. With regard to the motion for disclosure and perusal of documents pursuant to Section 198A of the Companies Law described in Note 25C(c)(9) to the 2020 Annual Report, which concerns, among other matters, allegations of the granting of credit in the amount of approximately NIS 1 billion for the purpose of trading in high-risk speculative financial instruments to companies in the Yedioth Ahronoth Group and to the controlling shareholder of the group, Mr. Arnon (Noni) Mozes, and the motion to amend the disclosure motion filed for the case (the "Amendment Motion"), the reply of the Bank to the Amendment Motion was submitted on March 21, 2021, and the response of the petitioner to the reply of the Bank was submitted on April 8, 2021. A hearing of the Amendment Motion was held on April 12, 2021. A ruling has not yet been given on the Amendment Motion.

3. With regard to the motion for disclosure of documents pursuant to Section 198A of the Companies Law described in Note 25C(c)(10) to the 2020 Annual Report, concerning two transactions entered into by the receivers appointed at the request of the Bank for shares of Yedioth Ahronoth (which were pledged in favor of the Bank and served as collateral for debt of companies in the Fishman Group to the Bank), the reply of the Bank was submitted on April 11, 2021. A preliminary hearing has been scheduled for May 23, 2021.

C. As described in Note 25D to the Annual Financial Statements for 2020, on April 30, 2020, resolutions with the United States authorities in connection with the tax investigation were announced and entered into force, as follows:

A Deferred Prosecution Agreement ("DPA") between the Bank and the DOJ, with respect to the Bank's activity and dealings with its US customers during the period that was the subject of the investigation (2002-2014); a Plea Agreement between the DOJ and Hapoalim Switzerland Ltd. (formerly Bank Hapoalim (Switzerland) Ltd.) ("Hapoalim Switzerland") that relates to the activity and dealings of Hapoalim Switzerland with its US customers during the period that was the subject of the investigation (2002-2014); a Consent Order issued by the New York State Department of Financial Services (the "NYDFS"); and a Cease and Desist Order issued by the Board of Governors of the Federal Reserve System (the "Fed"). In total, under the said resolutions, the Bank Group paid the aforesaid three United States authorities an aggregate sum of approximately USD 874 million.

Note 10 Contingent Liabilities and Special Commitments (continued)

As part of the DPA, the Bank accepted responsibility under US laws for assisting US customers in evading their obligations under US tax laws, as detailed in the Statement of Facts attached to the DPA, to which the Bank has admitted. Pursuant to the DPA, as approved by a federal court in the State of New York, the charges against the Bank are being deferred for a period of three years, such that if the Bank meets the conditions of the agreement during the said period, the charges (detailed in the Information document attached to the resolution) will be dismissed with no criminal conviction. In the event that the Bank breaches the agreement, the DOJ will have the right, among others, to extend the deferral period for a period of one additional year, and to take other measures against the Bank, including canceling the agreement and prosecuting the Bank. The resolutions with the DOJ include various undertakings by the Bank and Hapoalim Switzerland to continue to cooperate fully with the US authorities in connection with the issues that are the subject of the investigations, including, among other matters, to continue providing assistance and various types of information to the DOJ, and to submit a periodic report to the DOJ regarding loans granted by the Bank's branches in the US that are guaranteed by accounts held with branches of the Bank outside the US, as well as related internal controls. The resolutions with the United States authorities and the attachments thereto are available for reading on the Bank's website, at https://www.bankhapoalim.co.il/he/node/757.

In accordance with the requirement of the Banking Supervision Department, the Board of Directors of the Bank decided that an independent committee, headed by Supreme Court Justice (Retired) Prof. Yoram Danziger (the "Committee"), would examine the managerial and supervisory processes that allowed the actions that are the subject of the Tax Investigation in its entirety, while addressing corporate governance aspects and the conduct of the senior management and the Board of Directors. Pursuant to the decision of the Board of Directors, the Committee will examine exhausting the Bank's rights in connection with the Tax Investigation, including whether the best interests of the Bank justify initiating legal proceedings or other measures towards any third party, and/or reaching other arrangements. The Committee will form recommendations regarding the course of action that would optimally serve the best interests of the Bank, in view of all of the circumstances, and will submit its recommendations to the Board of Directors of the Bank. The Committee began its work near the date of approval of the resolutions with the United States authorities. The members of the Committee are: the Honorable Justice (Retired) Prof. Yoram Danziger (chairperson of the Committee), the Honorable Justice (Retired) Yosef Alon, Prof. Gideon Parchomovsky, and Ms. Ronit Abramson-Rokach (an external director of the Bank). The Committee has held dozens of meetings and interviews, and is also aided by additional external experts.

The Board of Directors of the Bank has established a committee of the Board of Directors to monitor the implementation of the resolutions of the Bank with the US authorities and to supervise the implementation of the requirements and obligations of the Bank included in the resolutions. The committee monitors the reports submitted to the United States authorities and the actions required according to the resolutions with them. The Bank is in compliance with the requirements and planned schedules.

Note 10 Contingent Liabilities and Special Commitments (continued)

D. As described in Note 25E to the Annual Financial Statements for 2020, on April 30, 2020, a Non Prosecution Agreement ("NPA") was signed and entered into force between the DOJ and the Bank and Hapoalim Switzerland with respect to the FIFA investigation. The NPA does not involve criminal charges, an indictment, or a criminal conviction. Pursuant to the NPA the Bank admitted, among other things, that certain employees of the Bank Group participated in a scheme to launder funds constituting bribes paid to soccer officials, as detailed in the Statement of Facts attached to the NPA, which details the acts and omissions that the Bank and Hapoalim Switzerland have admitted and for which they accepted responsibility in accordance with the laws of the United States. According to the NPA, the Bank Group paid the United States government a sum of approximately USD 30 million in respect of forfeiture of funds transferred or attempted to be transferred through the Bank Group as part of the FIFA matter, and a penalty.

The NPA includes different undertakings by the Bank and Hapoalim Switzerland, including an undertaking to continue to cooperate fully with the US authorities in connection with the issues that are the subject of the said investigation.

The NPA and its attachments are available for reading on the Bank's website at https://bankhapoalim.co.il/he/node/757.

In June 2020, the Board of Directors of the Bank, at the demand of the Banking Supervision Department, resolved to expand the mandate of the Committee headed by Justice (Retired) Danziger (see Section C above) to also encompass an examination of the FIFA affair. Accordingly, the Committee will also examine the possible courses of action of the Bank to exhaust its rights in the FIFA affair, including in view of the proceeding for the disclosure of documents prior to filing a derivative claim (see Note 25C(c)(2) to the Annual Financial Statements for 2020). In this context, the Committee will examine, among other matters, whether the best interests of the Bank justify initiating legal proceedings or other measures with any third party, and/or reaching other arrangements. The Committee will also examine the managerial and supervisory processes that allowed the actions that are the subject of the FIFA affair, while addressing corporate governance aspects and the conduct of senior management and the Board of Directors. The Committee will form recommendations regarding the course of action that would optimally serve the best interests of the Bank, in view of all of the circumstances, and will submit its recommendations to the Board of Directors of the Bank.

Note 11 Activity in Derivative Instruments – Volume, Credit Risks, and Maturity Dates

Unaudited
NIS millions

A. Nominal amount of derivative instruments

	March 31, 2021		
	Derivatives not held for trading	Derivatives held for trading	Total
Interest contracts			
Future and forward contracts	**3,038**	**24,025**	**27,063**
Options written	**-**	**3,890**	**3,890**
Options bought	**100**	**3,890**	**3,990**
Swaps(1)	**17,539**	**301,860**	**319,399**
Total(2)	**20,677**	**333,665**	**354,342**
Of which: hedging derivatives	**12,013**	**-**	**12,013**
Foreign-currency contracts			
Future and forward contracts	**12,278**	**266,315**	**278,593**
Options written	**-**	**23,725**	**23,725**
Options bought	**290**	**22,228**	**22,518**
Swaps	**278**	**34,943**	**35,221**
Total(3)	**12,846**	**347,211**	**360,057**
Of which: hedging derivatives	**-**	**-**	**-**
Share-related contracts			
Future and forward contracts	**-**	**28,122**	**28,122**
Options written	**1,675**	**20,237**	**21,912**
Options bought(4)	**481**	**20,237**	**20,718**
Swaps	**897**	**29,158**	**30,055**
Total	**3,053**	**97,754**	**100,807**
Commodity and other contracts			
Future and forward contracts	**-**	**36**	**36**
Options written	**-**	**3**	**3**
Options bought	**-**	**3**	**3**
Total	**-**	**42**	**42**
Total nominal amount	**36,576**	**778,672**	**815,248**

(1) Of which: swaps for which the banking corporation pays a fixed rate of interest, in the amount of NIS 167,337 million.
(2) Of which: NIS-CPI swap contracts in the amount of NIS 28,398 million.
(3) Of which: foreign-currency spot swap contracts in the amount of NIS 21,528 million.
(4) Of which: traded on the stock exchange in the amount of NIS 20,237 million.

Note 11 Activity in Derivative Instruments – Volume, Credit Risks, and Maturity Dates (continued)

Unaudited
NIS millions

A. Nominal amount of derivative instruments (continued)

	March 31, 2020		
	Derivatives not held for trading	Derivatives held for trading	Total
Interest contracts			
Future and forward contracts	3,038	30,140	33,178
Options written	-	18,017	18,017
Options bought	107	16,823	16,930
Swaps(1)	21,234	435,188	456,422
Total(2)	24,379	500,168	524,547
Of which: hedging derivatives	13,561	-	13,561
Foreign-currency contracts			
Future and forward contracts	10,538	243,164	253,702
Options written	-	32,332	32,332
Options bought	242	31,391	31,633
Swaps	403	31,656	32,059
Total(3)	11,183	338,543	349,726
Of which: hedging derivatives	-	-	-
Share-related contracts			
Future and forward contracts	-	12,187	12,187
Options written	1,996	11,426	13,422
Options bought(4)	534	11,426	11,960
Swaps	1,138	13,922	15,060
Total	3,668	48,961	52,629
Commodity and other contracts			
Future and forward contracts	-	354	354
Options written	-	169	169
Options bought	-	265	265
Total	-	788	788
Total nominal amount	39,230	888,460	927,690

(1) Of which: swaps for which the banking corporation pays a fixed rate of interest, in the amount of NIS 241,943 million.
(2) Of which: NIS-CPI swap contracts in the amount of NIS 28,914 million.
(3) Of which: foreign-currency spot swap contracts in the amount of NIS 16,872 million.
(4) Of which: traded on the stock exchange in the amount of NIS 11,426 million.

Note 11 Activity in Derivative Instruments – Volume, Credit Risks, and Maturity Dates (continued)

Audited
NIS millions

A. Nominal amount of derivative instruments (continued)

	December 31, 2020		
	Derivatives not held for trading	Derivatives held for trading	Total
Interest contracts			
Future and forward contracts	3,187	21,327	24,514
Options written	-	1,667	1,667
Options bought	96	1,667	1,763
Swaps(1)	21,141	302,300	323,441
Total(2)	24,424	326,961	351,385
Of which: hedging derivatives	15,432	-	15,432
Foreign-currency contracts			
Future and forward contracts	7,578	245,286	252,864
Options written	-	17,816	17,816
Options bought	253	16,266	16,519
Swaps	262	34,691	34,953
Total(3)	8,093	314,059	322,152
Of which: hedging derivatives	-	-	-
Share-related contracts			
Future and forward contracts	-	23,927	23,927
Options written	1,741	19,546	21,287
Options bought(4)	487	19,546	20,033
Swaps	875	24,895	25,770
Total	3,103	87,914	91,017
Commodity and other contracts			
Future and forward contracts	-	177	177
Options written	-	125	125
Options bought	-	105	105
Total	-	407	407
Total nominal amount	35,620	729,341	764,961

(1) Of which: swaps for which the banking corporation pays a fixed rate of interest, in the amount of NIS 172,938 million.
(2) Of which: NIS-CPI swap contracts in the amount of NIS 27,411 million.
(3) Of which: foreign-currency spot swap contracts in the amount of NIS 12,511 million.
(4) Of which: traded on the stock exchange in the amount of NIS 19,546 million.

Note 11 Activity in Derivative Instruments – Volume, Credit Risks, and Maturity Dates (continued)

Unaudited
NIS millions

B. Gross fair value of derivative instruments

	March 31, 2021					
	Gross assets in respect of derivatives			Gross liabilities in respect of derivatives		
	Derivatives not held for trading	Derivatives held for trading	Total	Derivatives not held for trading	Derivatives held for trading	Total
Interest contracts	**416**	**4,567**	**4,983**	**662**	**4,824**	**5,486**
Of which: hedging derivatives	**212**	**-**	**212**	**436**	**-**	**436**
Foreign-currency contracts	**95**	**4,874**	**4,969**	**39**	**4,475**	**4,514**
Share-related contracts	**50**	**1,362**	**1,412**	**49**	**1,356**	**1,405**
Commodity and other contracts	**-**	**2**	**2**	**-**	**2**	**2**
Total gross assets (liabilities) in respect of derivatives[(1)]	**561**	**10,805**	**11,366**	**750**	**10,657**	**11,407**
Amounts offset in the balance sheet	**-**	**-**	**-**	**-**	**-**	**-**
Balance sheet balance	**561**	**10,805**	**11,366**	**750**	**10,657**	**11,407**
Of which: not subject to a netting arrangement or similar arrangements	**85**	**1,197**	**1,282**	**177**	**952**	**1,129**

(1) Of which, net fair value of liabilities in respect of embedded derivatives in the amount of NIS 44 million.

Note 11 Activity in Derivative Instruments – Volume, Credit Risks, and Maturity Dates (continued)

Unaudited
NIS millions

B. Gross fair value of derivative instruments (continued)

	March 31, 2020					
	Gross assets in respect of derivatives			Gross liabilities in respect of derivatives		
	Derivatives not held for trading	Derivatives held for trading	Total	Derivatives not held for trading	Derivatives held for trading	Total
Interest contracts	397	6,683	7,080	1,316	6,995	8,311
Of which: hedging derivatives	*47	*-	47	*1,096	*-	1,096
Foreign-currency contracts	125	5,306	5,431	89	5,152	5,241
Share-related contracts	31	2,268	2,299	29	2,260	2,289
Commodity and other contracts	-	136	136	-	136	136
Total gross assets (liabilities) in respect of derivatives[(1)]	553	14,393	14,946	1,434	14,543	15,977
Amounts offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance	553	14,393	14,946	1,434	14,543	15,977
Of which: not subject to a netting arrangement or similar arrangements	98	2,415	2,513	170	1,559	1,729

* Reclassified.
(1) Of which, net fair value of liabilities in respect of embedded derivatives in the amount of NIS 20 million.

Note 11 Activity in Derivative Instruments – Volume, Credit Risks, and Maturity Dates (continued)

Audited
NIS millions

B. Gross fair value of derivative instruments (continued)

	December 31, 2020					
	Gross assets in respect of derivatives			Gross liabilities in respect of derivatives		
	Derivatives not held for trading	Derivatives held for trading	Total	Derivatives not held for trading	Derivatives held for trading	Total
Interest contracts	347	5,678	6,025	1,052	6,128	7,180
Of which: hedging derivatives	*73	*-	73	*862	*-	862
Foreign-currency contracts	63	6,831	6,894	53	7,650	7,703
Share-related contracts	42	1,883	1,925	42	1,872	1,914
Commodity and other contracts	-	46	46	-	45	45
Total gross assets (liabilities) in respect of derivatives(1)	452	14,438	14,890	1,147	15,695	16,842
Amounts offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance	452	14,438	14,890	1,147	15,695	16,842
Of which: not subject to a netting arrangement or similar arrangements	76	1,310	1,386	145	1,703	1,848

* Reclassified.
(1) Of which, net fair value of liabilities in respect of embedded derivatives in the amount of NIS 38 million.

Note 11 Activity in Derivative Instruments – Volume, Credit Risks, and Maturity Dates (continued)

NIS millions

C. Accounting hedges

1. Effect of accounting hedges

	For the three months ended March 31		For the year ended December 31
	2021	2020	2020
	Interest income (expenses)		
	Unaudited		Audited
Profit (loss) from fair-value hedges			
Hedged items	**(554)**	585	301
Hedging derivatives	**570**	(601)	(300)

2. Items hedged in fair-value hedges

	Balance as at March 31, 2021		Balance as at March 31, 2020		Balance as at December 31, 2020	
	Book value	Cumulative fair-value adjustments that increased the book value	Book value	Cumulative fair-value adjustments that increased the book value	Book value	Cumulative fair-value adjustments that increased the book value
	Unaudited				Audited	
Securities	**12,620**	**202**	10,948	1,040	15,678	756

3. Effect of derivatives not designated as hedging instruments on the statement of profit and loss

	For the three months ended March 31		For the year ended December 31
	2021	2020	2020
	Profit (loss) recognized in income (expenses) from activity in derivative instruments(1)		
	Unaudited		Audited
Interest contracts	**33**	(55)	(74)
Foreign-currency contracts	**1,584**	1,435	(990)
Share-related contracts	**29**	4	25
Commodity and other contracts	**-**	-	2
Total	**1,646**	1,384	(1,037)

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

Note 11 Activity in Derivative Instruments – Volume, Credit Risks, and Maturity Dates (continued)

Unaudited
NIS millions

D. Credit risk in respect of derivative instruments, by contract counterparty

	March 31, 2021					
	Stock exchanges	Banks	Dealers/ brokers	Governments and central banks	Others	Total
Positive gross fair value of derivative instruments	**203**	**5,359**	**1,900**	**126**	**3,778**	**11,366**
Gross amounts not offset in the balance sheet:						
Credit risk mitigation in respect of financial instruments	**-**	**(4,908)**	**(1,580)**	**(7)**	**(1,316)**	**(7,811)**
Credit risk mitigation in respect of cash collateral received	**-**	**(440)**	**(97)**	**(119)**	**(1,404)**	**(2,060)**
Net total assets in respect of derivative instruments	**203**	**11**	**223**	**-**	**1,058**	**1,495**
Off-balance sheet credit risk in respect of derivative instruments(1)	**406**	**4,052**	**2,252**	**104**	**5,321**	**12,135**
Off-balance sheet credit risk mitigation	**-**	**(2,232)**	**(695)**	**(3)**	**(1,510)**	**(4,440)**
Total gross credit risk in respect of derivative instruments	**609**	**9,411**	**4,152**	**230**	**9,099**	**23,501**
Balance sheet balance of liabilities in respect of derivative instruments(2)	**236**	**5,748**	**2,094**	**7**	**3,322**	**11,407**
Gross amounts not offset in the balance sheet:						
Financial instruments	**-**	**(4,908)**	**(1,580)**	**(7)**	**(1,316)**	**(7,811)**
Cash collateral pledged	**-**	**(603)**	**(388)**	**-**	**(807)**	**(1,798)**
Net total liabilities in respect of derivative instruments	**236**	**237**	**126**	**-**	**1,199**	**1,798**

(1) Off-balance sheet credit risk in respect of derivative instruments (including derivative instruments with negative fair value) as calculated for the purpose of restrictions on the indebtedness of a borrower.
(2) Of which, negative fair value of embedded derivative instruments in the amount of NIS 44 million (March 31, 2020: NIS 20 million; December 31, 2020: NIS 38 million).

Note 11 Activity in Derivative Instruments – Volume, Credit Risks, and Maturity Dates (continued)

Unaudited
NIS millions

D. Credit risk in respect of derivative instruments, by contract counterparty (continued)

	March 31, 2020					
	Stock exchanges	Banks	Dealers/ brokers	Governments and central banks	Others	Total
Positive gross fair value of derivative instruments	512	6,330	2,013	566	5,525	14,946
Gross amounts not offset in the balance sheet:						
Credit risk mitigation in respect of financial instruments	-	(6,068)	(1,794)	(62)	(1,742)	(9,666)
Credit risk mitigation in respect of cash collateral received	-	(249)	(76)	-	(2,719)	(3,044)
Net total assets in respect of derivative instruments	512	13	143	504	1,064	2,236
Off-balance sheet credit risk in respect of derivative instruments(1)	277	3,746	1,651	133	4,357	10,164
Off-balance sheet credit risk mitigation	-	(2,008)	(663)	(35)	(1,059)	(3,765)
Total gross credit risk in respect of derivative instruments	789	10,076	3,664	699	9,882	25,110
Balance sheet balance of liabilities in respect of derivative instruments(2)	189	8,774	2,853	62	4,099	15,977
Gross amounts not offset in the balance sheet:						
Financial instruments	-	(6,068)	(1,794)	(62)	(1,742)	(9,666)
Cash collateral pledged	-	(1,957)	(1,059)	-	(399)	(3,415)
Net total liabilities in respect of derivative instruments	189	749	-	-	1,958	2,896

(1) Off-balance sheet credit risk in respect of derivative instruments (including derivative instruments with negative fair value) as calculated for the purpose of restrictions on the indebtedness of a borrower.
(2) Of which, negative fair value of embedded derivative instruments in the amount of NIS 44 million (March 31, 2020: NIS 20 million; December 31, 2020: NIS 38 million).

Note 11 Activity in Derivative Instruments – Volume, Credit Risks, and Maturity Dates (continued)

Audited
NIS millions

D. Credit risk in respect of derivative instruments, by contract counterparty (continued)

	December 31, 2020					
	Stock exchanges	Banks	Dealers/ brokers	Governments and central banks	Others	Total
Positive gross fair value of derivative instruments	188	7,791	2,484	414	4,013	14,890
Gross amounts not offset in the balance sheet:						
Credit risk mitigation in respect of financial instruments	-	(6,300)	(1,985)	-	(1,278)	(9,563)
Credit risk mitigation in respect of cash collateral received	-	(1,244)	(179)	(414)	(1,136)	(2,973)
Net total assets in respect of derivative instruments	188	247	320	-	1,599	2,354
Off-balance sheet credit risk in respect of derivative instruments(1)	376	3,667	2,042	113	4,872	11,070
Off-balance sheet credit risk mitigation	-	(1,773)	(664)	-	(1,524)	(3,961)
Total gross credit risk in respect of derivative instruments	564	11,458	4,526	527	8,885	25,960
Balance sheet balance of liabilities in respect of derivative instruments(2)	218	7,351	2,841	-	6,432	16,842
Gross amounts not offset in the balance sheet:						
Financial instruments	-	(6,300)	(1,985)	-	(1,278)	(9,563)
Cash collateral pledged	-	(616)	(504)	-	(3,033)	(4,153)
Net total liabilities in respect of derivative instruments	218	435	352	-	2,121	3,126

(1) Off-balance sheet credit risk in respect of derivative instruments (including derivative instruments with negative fair value) as calculated for the purpose of restrictions on the indebtedness of a borrower.
(2) Of which, negative fair value of embedded derivative instruments in the amount of NIS 44 million (March 31, 2020: NIS 20 million; December 31, 2020: NIS 38 million).

Note 11 Activity in Derivative Instruments – Volume, Credit Risks, and Maturity Dates (continued)

NIS millions

E. Details of maturity dates (nominal value amounts)

	March 31, 2021				
	Up to 3 months	Over 3 months up to 1 year	Over 1 year up to 5 years	Over 5 years	Total
	Unaudited				
Interest contracts					
NIS-CPI	**2,764**	**4,375**	**15,834**	**5,425**	**28,398**
Other	**25,819**	**73,355**	**165,950**	**60,820**	**325,944**
Foreign-currency contracts	**199,025**	**115,469**	**32,757**	**12,806**	**360,057**
Share-related contracts	**73,639**	**21,727**	**5,244**	**197**	**100,807**
Commodity and other contracts (including credit derivatives)	**5**	**6**	**31**	**-**	**42**
Total	**301,252**	**214,932**	**219,816**	**79,248**	**815,248**

	March 31, 2020				
	Unaudited				
Total	341,104	228,508	262,221	95,857	927,690

	December 31, 2020				
	Audited				
Total	271,757	192,451	221,538	79,215	764,961

F. Derivative financial instruments – risk control

(1) The Bank executes transactions in derivative financial instruments as part of its financial risk management (linkage base, interest rate, and liquidity exposures) and as a service to its customers. From time to time, the Bank designates some of the derivative instruments as hedging instruments in fair-value hedges or cash-flow hedges.

(2) The principal types of transactions in which the Bank operates are:

- Forward

A contract between two parties for the purchase and sale of a defined quantity of commodities, currencies, interest rates, or other financial instruments (hereinafter: underlying assets), to be transacted at a future date and at a predefined price.

- Future

A future contract traded on stock markets, for the purchase or sale of a quantity of standard units of underlying assets, to be transacted at a future date and at a predefined price.

Note 11 Activity in Derivative Instruments – Volume, Credit Risks, and Maturity Dates (continued)

- Swap

A contract for the exchange at the time of the transaction of a defined quantity of underlying assets, with a mutual obligation to re-exchange the exchanged items at a future date.

- Option

A contract that confers, for the payment of a premium, the right to purchase (call) or sell (put) underlying assets at a price, quantity, and time denoted in advance.

- Spot

An exchange transaction between two currencies on the basis of a pre-agreed rate, for transaction within two days.

(3) Activity in derivative financial instruments involves a number of risks, as detailed below:

Credit risk – The maximum amount of loss to the Bank if the counterparty does not comply with the terms of the contract.

Market risk – Risk arising from fluctuations in the value of a derivative financial instrument as a result of a change in market prices, such as exchange rates, interest rates, etc.

Liquidity risk – Risk deriving from the inability to close a position rapidly by clearing in cash or by creating a reverse position.

Operational risk – Risk deriving from the erroneous operation of transactions, from the time that they are formed until the end of account settlement in respect thereof, due to human error or as a result of a mechanical failure in operation.

Market and liquidity risks arising from this activity are managed and measured routinely in specialized automated systems known in the international markets for these purposes, such as Summit, Devon, and Algorithmics, and in automated systems developed by the Bank.

Credit risk arising from transactions in derivative financial instruments with respect to the counterparty to the transactions is usually measured by applying conservative coefficients to the nominal amounts of the transactions, and using the scenarios approach.

The operational issues arising from this activity are examined and controlled routinely by a specialized unit.

The use of derivative instruments as part of the management of the Bank's current (non-trading) activity is aimed at achieving objectives and complying with limits as approved by the Board of Directors (linkage base, interest rate, and liquidity exposures).

The Bank provides comprehensive service to its customers for hedging and investing in derivative financial instruments via the dealing rooms.

Activity in financial instruments in the areas of trading is designed to respond to customers' needs while undertaking limited and controlled risk in accordance with authorizations.

The authorizations for activity and risk are measured, as relevant, in terms of sensitivity to risk factors (such as vega); theoretical loss in different scenarios, including an extreme scenario; in terms of VaR; and in terms of nominal amounts.

In certain cases, the procedure also prescribes limiting losses by means of a stop-loss order.

Note 12 Supervisory Activity Segments

Assignment of customers to the supervisory activity segments

The reporting on segments of activity is in accordance with the format and classifications established in the Public Reporting Directive of the Banking Supervision Department, as detailed in Note 28 to the Annual Financial Statements for 2020.

Information regarding supervisory activity segments

	For the three months ended March 31, 2021		
	Activity in Israel		
	Households		
	Total	Of which: housing loans	Of which: credit cards
Interest income from externals	**1,078**	**650**	**4**
Interest expenses for externals	**(56)**	**-**	**-**
Net interest income:			
From externals	**1,022**	**650**	**4**
Inter-segmental	**(314)**	**(382)**	**-**
Total net interest income	**708**	**268**	**4**
Non-interest income:			
Non-interest financing income	**1**	**-**	**-**
Fees and other income	**294**	**12**	**40**
Total non-interest income	**295**	**12**	**40**
Total income	**1,003**	**280**	**44**
Provision (income) for credit losses	**(305)**	**(68)**	**-**
Operating and other expenses:			
For externals	**873**	**91**	**45**
Inter-segmental	**-**	**-**	**-**
Total operating and other expenses	**873**	**91**	**45**
Profit (loss) from continued operations before taxes	**435**	**257**	**(1)**
Provision for taxes (tax benefit) on profit (loss) from continued operations	**176**	**105**	**-**
Profit (loss) from continued operations after taxes	**259**	**152**	**(1)**
The Bank's share in profits of equity-basis investees	**-**	**-**	**-**
Net profit (loss) from continued operations	**259**	**152**	**(1)**
Loss from a discontinued operation	**-**	**-**	**-**
Net profit (loss) before attribution to non-controlling interests	**259**	**152**	**(1)**
Loss (profit) attributed to non-controlling interests	**-**	**-**	**-**
Net profit (loss) attributed to shareholders of the Bank	**259**	**152**	**(1)**

Unaudited
NIS millions

	For the three months ended March 31, 2021									
	Activity in Israel								Activity overseas	Total
	Private banking	Small businesses and microbusinesses	Mid-sized businesses	Large businesses	Institutional entities	Financial management	Other	Total activity in Israel	Total activity overseas	
	1	**505**	**227**	**397**	**5**	**231**	**-**	**2,444**	**147**	**2,591**
	(21)	**(14)**	**(17)**	**(23)**	**(47)**	**(148)**	**-**	**(326)**	**(32)**	**(358)**
	(20)	**491**	**210**	**374**	**(42)**	**83**	**-**	**2,118**	**115**	**2,233**
	30	**(1)**	**(18)**	**(89)**	**55**	**339**	**-**	**2**	**(2)**	**-**
	10	**490**	**192**	**285**	**13**	**422**	**-**	**2,120**	**113**	**2,233**
	-	**3**	**3**	**12**	**10**	**413**	**-**	**442**	**7**	**449**
	39	**218**	**69**	**113**	**25**	**35**	**96**	**889**	**10**	**899**
	39	**221**	**72**	**125**	**35**	**448**	**96**	**1,331**	**17**	**1,348**
	49	**711**	**264**	**410**	**48**	**870**	**96**	**3,451**	**130**	**3,581**
	-	**(26)**	**(44)**	**(141)**	**2**	**-**	**-**	**(514)**	**6**	**(508)**
	44	**457**	**99**	**143**	**38**	**96**	**39**	**1,789**	**130**	**1,919**
	-	**-**	**-**	**-**	**-**	**3**	**(3)**	**-**	**-**	**-**
	44	**457**	**99**	**143**	**38**	**99**	**36**	**1,789**	**130**	**1,919**
	5	**280**	**209**	**408**	**8**	**771**	**60**	**2,176**	**(6)**	**2,170**
	2	**107**	**86**	**173**	**3**	**245**	**22**	**814**	**12**	**826**
	3	**173**	**123**	**235**	**5**	**526**	**38**	**1,362**	**(18)**	**1,344**
	-	**-**	**-**	**-**	**-**	**7**	**-**	**7**	**-**	**7**
	3	**173**	**123**	**235**	**5**	**533**	**38**	**1,369**	**(18)**	**1,351**
	-	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	3	**173**	**123**	**235**	**5**	**533**	**38**	**1,369**	**(18)**	**1,351**
	-	**-**	**-**	**-**	**-**	**2**	**-**	**2**	**1**	**3**
	3	**173**	**123**	**235**	**5**	**535**	**38**	**1,371**	**(17)**	**1,354**

Note 12 Supervisory Activity Segments (continued)

Information regarding supervisory activity segments (continued)

	For the three months ended March 31, 2021		
	Activity in Israel		
	Households[4]		
	Total	Of which: housing loans	Of which: credit cards
Average balance of assets[1]	129,852	99,077	3,489
Of which: investments in equity-basis investees[1]	-	-	-
Average balance of gross credit to the public[1]	131,332	99,864	3,489
Balance of gross credit to the public at the end of the reported period	134,155	100,994	4,628
Balance of impaired debts	709	-	-
Balance of debts in arrears of more than 90 days	666	631	-
Average balance of liabilities[1]	157,042	-	-
Of which: average balance of deposits from the public[1]	157,039	-	-
Balance of deposits from the public at the end of the reported period	159,088	-	-
Average balance of risk-adjusted assets[1][2]	94,510	57,870	4,474
Balance of risk-adjusted assets at the end of the reported period[2]	94,107	58,288	4,363
Average balance of assets under management[1][3]	65,671	-	-
Segmentation of net interest income:			
Spread from credit granting activity	654	268	4
Spread from deposit taking activity	54	-	-
Other	-	-	-
Total net interest income	708	268	4

(1) Average balances are calculated based on the balance at the beginning of a quarter or at the beginning of a month.
(2) Risk-weighted assets – as calculated for the purposes of capital adequacy (Proper Conduct of Banking Business Directive 201).
(3) Assets under management – including assets of provident funds, study funds, mutual funds, and securities of customers.
(4) Includes housing loans in the amount of NIS 18.3 billion to individuals whose business activity is classified into the Small Businesses and Microbusinesses Segment.

Unaudited
NIS millions

	For the three months ended March 31, 2021									
	Activity in Israel								Activity overseas	Total
	Private banking	Small businesses and microbusinesses	Mid-sized businesses	Large businesses	Institutional entities	Financial management	Other	Total activity in Israel	Total activity overseas	
	504	53,156	30,829	65,057	3,612	235,796	106	518,912	25,881	544,793
	-	-	-	-	-	561	-	561	-	561
	511	54,143	31,562	67,059	3,212	-	-	287,819	15,292	303,111
	563	54,678	32,400	73,468	1,528	-	-	296,792	14,988	311,780
	-	943	323	1,263	-	-	-	3,238	760	3,998
	-	82	4	-	-	-	-	752	25	777
	33,716	80,998	28,890	56,086	68,801	60,230	9	485,772	19,403	505,175
	33,716	80,894	28,808	55,966	68,754	-	-	425,177	18,391	443,568
	34,216	83,920	30,339	57,245	71,414	-	-	436,222	19,172	455,394
	1,196	66,029	45,289	92,521	6,242	20,140	4,649	330,576	18,992	349,568
	1,127	66,556	46,326	93,332	6,186	19,315	5,159	332,108	19,265	351,373
	48,632	37,772	19,569	83,936	350,679	43,941	4,148	654,348	-	654,348
	1	470	186	276	2	687	-	2,276	140	2,416
	9	20	6	9	8	(280)	-	(174)	(36)	(210)
	-	-	-	-	3	15	-	18	9	27
	10	490	192	285	13	422	-	2,120	113	2,233

Note 12 Supervisory Activity Segments (continued)

Information regarding supervisory activity segments (continued)

	For the three months ended March 31, 2020*		
	Activity in Israel		
	Households		
	Total	Of which: housing loans	Of which: credit cards
Interest income from externals	909	383	6
Interest expenses for externals	(51)	-	-
Net interest income:			
From externals	858	383	6
Inter-segmental	(49)	(149)	(1)
Total net interest income	809	234	5
Non-interest income:			
Non-interest financing income	2	-	-
Fees and other income	342	15	57
Total non-interest income	344	15	57
Total income	1,153	249	62
Provision (income) for credit losses	152	32	-
Operating and other expenses:			
For externals	824	74	46
Inter-segmental	-	-	-
Total operating and other expenses	824	74	46
Profit (loss) from continued operations before taxes	177	143	16
Provision for taxes on profit from continued operations	76	62	5
Profit (loss) from continued operations after taxes	101	81	11
The Bank's share in profits of equity-basis investees	-	-	-
Net profit (loss) from continued operations	101	81	11
Loss from a discontinued operation	-	-	-
Net profit (loss) before attribution to non-controlling interests	101	81	11
Loss (profit) attributed to non-controlling interests	-	-	-
Net profit (loss) attributed to shareholders of the Bank	101	81	11

* Reclassified. For additional information, see Note 28 to the Annual Financial Statements for 2020.

Unaudited
NIS millions

	For the three months ended March 31, 2020*									
	Activity in Israel								Activity overseas	Total
	Private banking	Small businesses and microbusinesses	Mid-sized businesses	Large businesses	Institutional entities	Financial management	Other	Total activity in Israel	Total activity overseas	
	1	562	218	373	10	236	-	2,309	233	2,542
	(47)	(33)	(21)	(40)	(56)	(20)	-	(268)	(82)	(350)
	(46)	529	197	333	(46)	216	-	2,041	151	2,192
	79	16	(4)	(54)	66	(18)	-	36	(36)	-
	33	545	193	279	20	198	-	2,077	115	2,192
	-	6	3	28	23	224	-	286	20	306
	44	221	72	105	28	32	31	875	10	885
	44	227	75	133	51	256	31	1,161	30	1,191
	77	772	268	412	71	454	31	3,238	145	3,383
	-	206	79	325	8	1	-	771	38	809
	42	399	87	115	42	83	119	1,711	205	1,916
	-	-	-	-	-	7	(3)	4	(4)	-
	42	399	87	115	42	90	116	1,715	201	1,916
	35	167	102	(28)	21	363	(85)	752	(94)	658
	13	71	47	(14)	8	166	-	367	(4)	363
	22	96	55	(14)	13	197	(85)	385	(90)	295
	-	-	-	-	-	1	-	1	-	1
	22	96	55	(14)	13	198	(85)	386	(90)	296
	-	-	-	-	-	-	(109)	(109)	-	(109)
	22	96	55	(14)	13	198	(194)	277	(90)	187
	-	-	-	-	-	2	-	2	3	5
	22	96	55	(14)	13	200	(194)	279	(87)	192

Note 12 Supervisory Activity Segments (continued)

Information regarding supervisory activity segments (continued)

	For the three months ended March 31, 2020*		
	Activity in Israel		
	Households[4]		
	Total	Of which: housing loans	Of which: credit cards
Average balance of assets[1]	124,419	90,133	4,153
Of which: investments in equity-basis investees[1]	-	-	-
Average balance of gross credit to the public[1]	125,477	90,578	4,153
Balance of gross credit to the public at the end of the reported period	128,815	92,176	4,574
Balance of impaired debts	760	2	-
Balance of debts in arrears of more than 90 days	778	708	-
Average balance of liabilities[1]	137,342	-	-
Of which: average balance of deposits from the public[1]	137,339	-	-
Balance of deposits from the public at the end of the reported period	149,897	-	-
Average balance of risk-adjusted assets[1][2]	94,004	53,016	5,255
Balance of risk-adjusted assets at the end of the reported period[2]	93,935	54,015	4,841
Average balance of assets under management[1][3]	71,093	-	-
Segmentation of net interest income:			
Spread from credit granting activity	698	234	5
Spread from deposit taking activity	111	-	-
Other	-	-	-
Total net interest income	809	234	5

* Reclassified. For additional information, see Note 28 to the Annual Financial Statements for 2020.
(1) Average balances are calculated based on the balance at the beginning of a quarter or at the beginning of a month.
(2) Risk-weighted assets – as calculated for the purposes of capital adequacy (Proper Conduct of Banking Business Directive 201).
(3) Assets under management – including assets of provident funds, study funds, mutual funds, and securities of customers.
(4) Includes housing loans in the amount of NIS 13.7 billion to individuals whose business activity is classified into the Small Businesses and Microbusinesses Segment.

Unaudited
NIS millions

For the three months ended March 31, 2020*									
Activity in Israel								Activity overseas	Total
Private banking	Small businesses and microbusinesses	Mid-sized businesses	Large businesses	Institutional entities	Financial management	Other	Total activity in Israel	Total activity overseas	
550	51,173	28,362	67,165	2,174	157,473	138	431,454	30,331	461,785
-	-	-	-	-	192	-	192	-	192
555	52,067	29,620	68,169	1,804	-	-	277,692	15,362	293,054
586	52,605	30,868	73,769	1,811	-	-	288,454	16,363	304,817
-	1,025	251	1,699	-	-	-	3,735	504	4,239
-	87	1	-	-	-	-	866	7	873
31,751	58,685	24,023	43,336	49,208	59,636	11	403,992	19,898	423,890
31,750	58,532	23,884	43,168	49,140	-	-	343,813	16,962	360,775
34,983	68,691	25,571	47,020	41,671	-	-	367,833	20,733	388,566
1,189	63,941	41,646	86,305	5,738	21,067	4,793	318,683	19,627	338,310
1,165	63,908	41,523	86,898	6,889	21,166	4,868	320,352	19,880	340,232
49,417	31,557	17,437	95,987	399,730	42,214	3,574	711,009	174	711,183
1	485	174	256	6	472	-	2,092	216	2,308
32	60	19	23	12	(462)	-	(205)	(116)	(321)
-	-	-	-	2	188	-	190	15	205
33	545	193	279	20	198	-	2,077	115	2,192

Note 12 Supervisory Activity Segments (continued)

Information regarding supervisory activity segments (continued)

	For the year ended December 31, 2020		
	Activity in Israel		
	Households		
	Total	Of which: housing loans	Of which: credit cards
Interest income from externals	4,053	2,108	20
Interest expenses for externals	(226)	-	-
Net interest income:			
From externals	3,827	2,108	20
Inter-segmental	(815)	(1,117)	(2)
Total net interest income	3,012	991	18
Non-interest income:			
Non-interest financing income	5	-	-
Fees and other income	1,210	57	193
Total non-interest income	1,215	57	193
Total income	4,227	1,048	211
Provision (income) for credit losses	763	316	-
Operating and other expenses:			
For externals	3,457	303	189
Inter-segmental	-	-	-
Total operating and other expenses	3,457	303	189
Profit (loss) from continued operations before taxes	7	429	22
Provision for taxes (tax benefit) on profit (loss) from continued operations	3	165	8
Profit (loss) from continued operations after taxes	4	264	14
The Bank's share in profits of equity-basis investees	-	-	-
Net profit (loss) from continued operations	4	264	14
Loss from a discontinued operation	-	-	-
Net profit (loss) before attribution to non-controlling interests	4	264	14
Loss (profit) attributed to non-controlling interests	-	-	-
Net profit (loss) attributed to shareholders of the Bank	4	264	14

Audited
NIS millions

For the year ended December 31, 2020									
Activity in Israel								Activity overseas	Total
Private banking	Small businesses and microbusinesses	Mid-sized businesses	Large businesses	Institutional entities	Financial management	Other	Total activity in Israel	Total activity overseas	
9	2,118	886	1,541	33	912	-	9,552	708	10,260
(137)	(94)	(73)	(112)	(186)	(394)	-	(1,222)	(241)	(1,463)
(128)	2,024	813	1,429	(153)	518	-	8,330	467	8,797
204	(10)	(54)	(309)	213	825	-	54	(54)	-
76	2,014	759	1,120	60	1,343	-	8,384	413	8,797
-	14	10	66	57	896	1	1,049	39	1,088
146	818	271	416	91	121	183	3,256	35	3,291
146	832	281	482	148	1,017	184	4,305	74	4,379
222	2,846	1,040	1,602	208	2,360	184	12,689	487	13,176
2	602	108	338	4	(3)	-	1,814	129	1,943
171	1,686	365	503	165	323	199	6,869	632	7,501
-	-	-	-	-	29	(12)	17	(17)	-
171	1,686	365	503	165	352	187	6,886	615	7,501
49	558	567	761	39	2,011	(3)	3,989	(257)	3,732
18	213	234	315	20	799	13	1,615	(25)	1,590
31	345	333	446	19	1,212	(16)	2,374	(232)	2,142
-	-	-	-	-	10	-	10	-	10
31	345	333	446	19	1,222	(16)	2,384	(232)	2,152
-	-	-	-	-	-	(109)	(109)	-	(109)
31	345	333	446	19	1,222	(125)	2,275	(232)	2,043
-	-	-	-	-	9	-	9	4	13
31	345	333	446	19	1,231	(125)	2,284	(228)	2,056

Note 12 Supervisory Activity Segments (continued)

Information regarding supervisory activity segments (continued)

	For the year ended December 31, 2020		
	Activity in Israel		
	Households[4]		
	Total	Of which: housing loans	Of which: credit cards
Average balance of assets[1]	127,219	93,619	3,784
Of which: investments in equity-basis investees[1]	-	-	-
Average balance of gross credit to the public[1]	128,554	94,218	3,784
Balance of gross credit to the public at the end of the reported period	132,753	99,173	4,597
Balance of impaired debts	739	1	-
Balance of debts in arrears of more than 90 days	671	626	-
Average balance of liabilities[1]	149,745	-	-
Of which: average balance of deposits from the public[1]	149,742	-	-
Balance of deposits from the public at the end of the reported period	156,024	-	-
Average balance of risk-adjusted assets[1][2]	94,284	54,827	4,966
Balance of risk-adjusted assets at the end of the reported period[2]	94,927	57,451	4,585
Average balance of assets under management[1][3]	63,468	-	-
Segmentation of net interest income:			
Spread from credit granting activity	2,720	991	18
Spread from deposit taking activity	292	-	-
Other	-	-	-
Total net interest income	3,012	991	18

(1) Average balances are calculated based on the balance at the beginning of a quarter or at the beginning of a month.
(2) Risk-weighted assets – as calculated for the purposes of capital adequacy (Proper Conduct of Banking Business Directive 201).
(3) Assets under management – including assets of provident funds, study funds, mutual funds, and securities of customers.
(4) Includes housing loans in the amount of NIS 17.6 billion to individuals whose business activity is classified into the Small Businesses and Microbusinesses Segment.

Audited
NIS millions

For the year ended December 31, 2020									
Activity in Israel								Activity overseas	Total
Private banking	Small businesses and microbusinesses	Mid-sized businesses	Large businesses	Institutional entities	Financial management	Other	Total activity in Israel	Total activity overseas	
557	51,393	28,950	65,679	1,902	191,933	140	467,773	29,250	497,023
-	-	-	-	-	385	-	385	-	385
563	52,455	29,576	67,559	1,505	-	-	280,212	15,307	295,519
626	54,614	30,866	71,118	3,935	-	-	293,912	14,061	307,973
-	1,052	369	1,295	-	-	-	3,455	505	3,960
-	29	2	-	-	-	-	702	26	728
33,908	69,878	25,672	47,420	53,136	59,048	9	438,816	20,146	458,962
33,907	69,741	25,551	47,290	53,075	-	-	379,306	18,193	397,499
33,941	79,370	27,540	56,036	64,109	-	-	417,020	18,197	435,217
1,171	64,487	42,730	87,479	5,925	21,334	4,611	322,021	19,036	341,057
1,263	65,500	44,249	91,707	6,295	20,964	4,139	329,044	18,718	347,762
45,017	30,648	16,147	77,601	357,657	42,813	3,778	637,129	114	637,243
6	1,891	720	1,071	17	2,417	-	8,842	613	9,455
70	123	39	49	33	(1,357)	-	(751)	(291)	(1,042)
-	-	-	-	10	283	-	293	91	384
76	2,014	759	1,120	60	1,343	-	8,384	413	8,797

Note 12A Segments of Activity Based on Management Approach

Unaudited
NIS millions

The Bank Group operates in Israel and abroad, and provides a wide range of banking and financial services to its customers. 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 makers of the Bank (the Board of Management of the Bank and the Board of Directors) use 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.

A. Information regarding activity segments

	For the three months ended March 31, 2021								
	Retail activity			Business activity					
	Private customers	Small businesses	Housing loans	Commercial	Corporate	International activity	Financial management(1)	Adjustments(2)	Total
Net interest income:									
From externals	**388**	**305**	**651**	**310**	**442**	**101**	**36**	**-**	**2,233**
Inter-segmental	**108**	**12**	**(383)**	**(28)**	**(86)**	**(1)**	**378**	**-**	**-**
Non-interest financing income	**2**	**1**	**-**	**3**	**21**	**6**	**416**	**-**	**449**
Total net financing profit	**498**	**318**	**268**	**285**	**377**	**106**	**830**	**-**	**2,682**
Fees and other income	**365**	**139**	**12**	**103**	**147**	**9**	**33**	**91**	**899**
Total income	**863**	**457**	**280**	**388**	**524**	**115**	**863**	**91**	**3,581**
Provision (income) for credit losses	**(229)**	**(45)**	**(68)**	**(39)**	**(135)**	**6**	**2**	**-**	**(508)**
Operating and other expenses:									
From externals	**908**	**243**	**125**	**129**	**164**	**128**	**184**	**38**	**1,919**
Inter-segmental	**12**	**79**	**(34)**	**7**	**6**	**-**	**(68)**	**(2)**	**-**

(1) The Financial Management Segment includes, among other matters, activity with institutional entities, most of which are presented in the information regarding supervisory activity segments as a separate segment.
(2) This section includes the results of activities of the Bank Group with negligible volumes, each of which does not constitute a reportable segment.

Note 12A Segments of Activity Based on Management Approach (continued)

Unaudited
NIS millions

A. Information regarding activity segments (continued)

	For the three months ended March 31, 2021								
	Retail activity			Business activity					
	Private customers	Small businesses	Housing loans	Commercial	Corporate	International activity	Financial management[1]	Adjustments[2]	Total
Profit (loss) from continued operations before taxes	**172**	**180**	**257**	**291**	**489**	**(19)**	**745**	**55**	**2,170**
Provision for taxes (tax benefit) on profit (loss) from continued operations	**68**	**73**	**102**	**119**	**199**	**8**	**236**	**21**	**826**
Profit (loss) from continued operations after taxes	**104**	**107**	**155**	**172**	**290**	**(27)**	**509**	**34**	**1,344**
The Bank's share in profits of equity-basis investees, after taxes	**-**	**-**	**-**	**-**	**-**	**-**	**7**	**-**	**7**
Net profit (loss) from continued operations	**104**	**107**	**155**	**172**	**290**	**(27)**	**516**	**34**	**1,351**
Loss from a discontinued operation	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Net profit (loss):									
Before attribution to non-controlling interests	**104**	**107**	**155**	**172**	**290**	**(27)**	**516**	**34**	**1,351**
Attributed to non-controlling interests	**-**	**-**	**-**	**-**	**-**	**1**	**2**	**-**	**3**
Attributed to shareholders of the Bank	**104**	**107**	**155**	**172**	**290**	**(26)**	**518**	**34**	**1,354**
Net credit to the public at the end of the reported period	**37,225**	**31,139**	**100,650**	**43,832**	**78,102**	**13,502**	**1,667**	**-**	**306,117**
Deposits from the public at the end of the reported period	**224,406**	**57,368**	**-**	**40,670**	**59,979**	**18,844**	**54,127**	**-**	**455,394**

(1) The Financial Management Segment includes, among other matters, activity with institutional entities, most of which are presented in the information regarding supervisory activity segments as a separate segment.
(2) This section includes the results of activities of the Bank Group with negligible volumes, each of which does not constitute a reportable segment.

Note 12A Segments of Activity Based on Management Approach (continued)

A. Information regarding activity segments (continued)

Net interest income:
From externals
Inter-segmental
Non-interest financing income
Total net financing profit
Fees and other income
Total income
Provision (income) for credit losses
Operating and other expenses:
From externals
Inter-segmental
Profit (loss) from continued operations before taxes
Provision for taxes on profit from continued operations
Profit (loss) from continued operations after taxes
The Bank's share in profits of equity-basis investees, after taxes
Net profit (loss) from continued operations
Loss from a discontinued operation
Net profit (loss):
Before attribution to non-controlling interests
Attributed to non-controlling interests
Attributed to shareholders of the Bank
Net credit to the public at the end of the reported period
Deposits from the public at the end of the reported period

* Reclassified.

(1) The Financial Management Segment includes, among other matters, activity with institutional entities, most of which are presented in the information regarding supervisory activity segments as a separate segment.

(2) This section also includes the results of activities of the Bank Group with negligible volumes, each of which does not constitute a reportable segment, and expenses allocated in Israel pertaining to the investigation of the Bank Group's business with American customers.

Unaudited
NIS millions

For the three months ended March 31, 2020*								
Retail activity			Business activity					
Private customers	Small businesses	Housing loans	Commercial	Corporate	International activity	Financial management[1]	Adjustments[2]	Total
433	360	384	305	428	134	145	3	2,192
222	17	(149)	(24)	(82)	(29)	45	-	-
3	2	-	6	45	19	229	2	306
658	379	235	287	391	124	419	5	2,498
406	151	15	102	137	14	28	32	885
1,064	530	250	389	528	138	447	37	3,383
131	140	32	175	288	38	5	-	809
843	205	114	112	137	202	166	137	1,916
12	90	(40)	7	10	1	(68)	(12)	-
78	95	144	95	93	(103)	344	(88)	658
37	41	60	41	42	(5)	157	(10)	363
41	54	84	54	51	(98)	187	(78)	295
-	-	-	-	-	-	1	-	1
41	54	84	54	51	(98)	188	(78)	296
-	-	-	-	-	-	-	(109)	(109)
41	54	84	54	51	(98)	188	(187)	187
-	-	-	-	-	3	2	-	5
41	54	84	54	51	(95)	190	(187)	192
39,410	30,168	92,058	40,596	82,029	13,708	1,579	-	299,548
210,088	50,119	-	27,153	52,345	20,651	28,210	-	388,566

Note 12A Segments of Activity Based on Management Approach (continued)

A. Information regarding activity segments (continued)

Net interest income:
From externals
Inter-segmental
Non-interest financing income
Total net financing profit
Fees and other income
Total income
Provision (income) for credit losses
Operating and other expenses:
From externals
Inter-segmental
Profit (loss) from continued operations before taxes
Provision for taxes (tax benefit) on profit (loss) from continued operations
Profit (loss) from continued operations after taxes
The Bank's share in profits of equity-basis investees, after taxes
Net profit (loss) from continued operations
Loss from a discontinued operation
Net profit (loss):
Before attribution to non-controlling interests
Attributed to non-controlling interests
Attributed to shareholders of the Bank
Net credit to the public at the end of the reported period
Deposits from the public at the end of the reported period

(1) The Financial Management Segment includes, among other matters, activity with institutional entities, most of which are presented in the information regarding supervisory activity segments as a separate segment.
(2) This section also includes the results of activities of the Bank Group with negligible volumes, each of which does not constitute a reportable segment, and expenses allocated in Israel pertaining to the investigation of the Bank Group's business with American customers.

Audited
NIS millions

For the year ended December 31, 2020								
Retail activity			Business activity					
Private customers	Small businesses	Housing loans	Commercial	Corporate	International activity	Financial management[1]	Adjustments[2]	Total
1,643	1,329	2,113	1,226	1,764	409	307	6	8,797
604	34	(1,120)	(130)	(356)	(38)	1,006	-	-
8	5	-	14	131	37	889	4	1,088
2,255	1,368	993	1,110	1,539	408	2,202	10	9,885
1,432	550	57	392	519	52	120	169	3,291
3,687	1,918	1,050	1,502	2,058	460	2,322	179	13,176
505	397	317	297	295	129	3	-	1,943
3,531	889	453	463	595	619	705	246	7,501
76	343	(150)	32	25	3	(269)	(60)	-
(425)	289	430	710	1,143	(291)	1,883	(7)	3,732
(145)	107	160	281	451	(37)	752	21	1,590
(280)	182	270	429	692	(254)	1,131	(28)	2,142
-	-	-	-	-	-	10	-	10
(280)	182	270	429	692	(254)	1,141	(28)	2,152
-	-	-	-	-	-	-	(109)	(109)
(280)	182	270	429	692	(254)	1,141	(137)	2,043
-	-	-	-	-	4	9	-	13
(280)	182	270	429	692	(250)	1,150	(137)	2,056
37,233	31,371	98,737	42,290	78,103	12,521	1,573	-	301,828
218,490	56,303	-	35,499	59,981	17,701	47,243	-	435,217

Note 12A Segments of Activity Based on Management Approach (continued)

B. Pro-forma data regarding the effect of expenses pertaining to the business of the Bank Group in Israel with American customers on the segments of activity

The expenses allocated at Hapoalim Switzerland and at the New York branch pertaining to the investigation of the Bank Group's business with American customers were attributed, within the disclosure of segments of activity based on the management approach, to the International Activity Segment.

The expenses allocated in Israel pertaining to the Bank Group's business with American customers include a provision in respect of customers with certain American indications at the branches of the Bank in Israel, as well as a provision in respect of exposure to amounts for other United States authorities (other than the DOJ), in respect of customers in Israel and overseas. These expenses were allocated, within the disclosure of segments of activity based on the management approach, to the Adjustments Segment.

If the expenses allocated in Israel, in the three months ended March 31, 2020, and in the year ended December 31, 2020, were allocated equally to the Retail Banking Segment and to the International Activity Segment (rather than to the Adjustments Segment), the net profit of retail banking would total approximately NIS 151 million and approximately NIS 159 million, respectively; the loss of the International Activity Segment for the period would total approximately NIS 123 million and approximately NIS 264 million, respectively; and a loss in the amount of approximately NIS 131 million and approximately NIS 110 million, respectively, would be recorded in the Adjustments Segment.

Note 13 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses

NIS millions

A. Debts* and off-balance sheet credit instruments

Allowance for credit losses

1. Change in allowance for credit losses

	For the three months ended March 31, 2021					
	Credit to the public				Banks and governments	Total
	Commercial	Housing	Other private	Total		
Allowance for credit losses at beginning of year (audited)	**5,142**	**758**	**1,026**	**6,926**	**5**	**6,931**
Provision (income) for credit losses(1)	**(203)**	**(68)**	**(237)**	**(508)**	**-**	**(508)**
Charge-offs	**(119)**	**(1)**	**(87)**	**(207)**	**-**	**(207)**
Recoveries of debts charged off in previous years	**99**	**1**	**84**	**184**	**-**	**184**
Net charge-offs	**(20)**	**-**	**(3)**	**(23)**	**-**	**(23)**
Allowance for credit losses as at March 31, 2021(2) (unaudited)	**4,919**	**690**	**786**	**6,395**	**5**	**6,400**
(1) Of which: in respect of off-balance sheet credit instruments	**(18)**	**-**	**(31)**	**(49)**	**-**	**(49)**
(2) Of which: in respect of off-balance sheet credit instruments	**682**	**-**	**50**	**732**	**-**	**732**

	For the three months ended March 31, 2020					
	Credit to the public				Banks and governments	Total
	Commercial	Housing	Other private	Total		
Allowance for credit losses at beginning of year (audited)	4,007	446	790	5,243	8	5,251
Provision (income) for credit losses(1)	656	32	120	808	1	809
Charge-offs	(181)	(1)	(158)	(340)	-	(340)
Recoveries of debts charged off in previous years	70	1	82	153	-	153
Net charge-offs	(111)	-	(76)	(187)	-	(187)
Allowance for credit losses as at March 31, 2020(2) (unaudited)	4,552	478	834	5,864	9	5,873
(1) Of which: in respect of off-balance sheet credit instruments	51	-	8	59	-	59
(2) Of which: in respect of off-balance sheet credit instruments	548	-	47	595	1	596

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

Note 13 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

Unaudited
NIS millions

A. Debts* and off-balance sheet credit instruments (continued)

Allowance for credit losses (continued)

2. Additional information regarding the method of calculating the allowance for credit losses in respect of debts* and regarding the underlying debts*

	March 31, 2021					
	Credit to the public				Banks and governments	Total
	Commercial**	Housing	Other private	Total		
Recorded debt balance of debts:*						
Examined on an individual basis	**150,253**	**-**	**896**	**151,149**	**16,772**	**167,921**
Examined on a collective basis(1)	**26,861**	**101,285**	**32,485**	**160,631**	**-**	**160,631**
Total debts*	**177,114**	**101,285**	**33,381**	**311,780**	**16,772**	**328,552**
(1) Of which: allowance for which was calculated according to the extent of arrears	**55**	**101,174**	**-**	**101,229**	**-**	**101,229**
Allowance for credit losses in respect of debts:*						
Examined on an individual basis	**3,725**	**-**	**105**	**3,830**	**5**	**3,835**
Examined on a collective basis(2)	**512**	**690**	**631**	**1,833**	**-**	**1,833**
Total allowance for credit losses	**4,237**	**690**	**736**	**5,663**	**5**	**5,668**
(2) Of which: allowance for which was calculated according to the extent of arrears***	**-**	**690**	**-**	**690**	**-**	**690**

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

** The balance of commercial debts includes the balance of housing loans, in the amount of approximately NIS 55 million, of commercial borrowers, or granted to purchasing groups in the process of construction (March 31, 2020: NIS 84 million; December 31, 2020: NIS 52 million).

*** Includes the allowance beyond the amount required according to the method of the extent of arrears, calculated on a collective basis, in the amount of approximately NIS 542 million (March 31, 2020: NIS 344 million; December 31, 2020: NIS 609 million).

Note 13 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

Unaudited
NIS millions

A. Debts* and off-balance sheet credit instruments (continued)

Allowance for credit losses (continued)

2. Additional information regarding the method of calculating the allowance for credit losses in respect of debts* and regarding the underlying debts* (continued)

	March 31, 2020					
	Credit to the public				Banks and governments	Total
	Commercial**	Housing	Other private	Total		
Recorded debt balance of debts:*						
Examined on an individual basis	150,821	2	909	151,732	30,076	181,808
Examined on a collective basis(1)	24,668	92,450	35,967	153,085	-	153,085
Total debts*	175,489	92,452	36,876	304,817	30,076	334,893
(1) Of which: allowance for which was calculated according to the extent of arrears	84	92,296	-	92,380	-	92,380
Allowance for credit losses in respect of debts:*						
Examined on an individual basis	3,470	-	133	3,603	8	3,611
Examined on a collective basis(2)	534	478	654	1,666	-	1,666
Total allowance for credit losses	4,004	478	787	5,269	8	5,277
(2) Of which: allowance for which was calculated according to the extent of arrears***	-	478	-	478	-	478

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

** The balance of commercial debts includes the balance of housing loans, in the amount of approximately NIS 55 million, of commercial borrowers, or granted to purchasing groups in the process of construction (March 31, 2020: NIS 84 million; December 31, 2020: NIS 52 million).

*** Includes the allowance beyond the amount required according to the method of the extent of arrears, calculated on a collective basis, in the amount of approximately NIS 542 million (March 31, 2020: NIS 344 million; December 31, 2020: NIS 609 million).

Note 13 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

Audited
NIS millions

A. Debts* and off-balance sheet credit instruments (continued)

Allowance for credit losses (continued)

2. Additional information regarding the method of calculating the allowance for credit losses in respect of debts* and regarding the underlying debts* (continued)

	December 31, 2020					
	Credit to the public				Banks and governments	Total
	Commercial**	Housing	Other private	Total		
Recorded debt balance of debts:*						
Examined on an individual basis	147,900	1	952	148,853	13,618	162,471
Examined on a collective basis(1)	26,743	99,442	32,935	159,120	-	159,120
Total debts*	174,643	99,443	33,887	307,973	13,618	321,591
(1) Of which: allowance for which was calculated according to the extent of arrears	52	99,311	-	99,363	-	99,363
Allowance for credit losses in respect of debts:*						
Examined on an individual basis	3,942	-	118	4,060	5	4,065
Examined on a collective basis(2)	500	758	827	2,085	-	2,085
Total allowance for credit losses	4,442	758	945	6,145	5	6,150
(2) Of which: allowance for which was calculated according to the extent of arrears***	-	758	-	758	-	758

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

** The balance of commercial debts includes the balance of housing loans, in the amount of approximately NIS 55 million, of commercial borrowers, or granted to purchasing groups in the process of construction (March 31, 2020: NIS 84 million; December 31, 2020: NIS 52 million).

*** Includes the allowance beyond the amount required according to the method of the extent of arrears, calculated on a collective basis, in the amount of approximately NIS 542 million (March 31, 2020: NIS 344 million; December 31, 2020: NIS 609 million).

Note 13 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

Unaudited
NIS millions

B. Debts*

1. Credit quality and arrears

	March 31, 2021					
	Non-problematic	Problematic[1]		Total	Unimpaired debts** – additional information	
		Unimpaired	Impaired[2]		In arrears of 90 days or more[3]	In arrears of 30 to 89 days[4]
Borrower activity in Israel						
Public – commercial						
Construction and real estate – construction	**32,941**	**156**	**207**	**33,304**	**8**	**15**
Construction and real estate – real-estate activities	**22,398**	**321**	**162**	**22,881**	**1**	**4**
Financial services	**18,406**	**142**	**6**	**18,554**	**2**	**4**
Commercial – other	**78,927**	**2,816**	**2,154**	**83,897**	**75**	**53**
Total commercial	**152,672**	**3,435**	**2,529**	**158,636**	**86**	**76**
Private individuals – housing loans[5]	**100,158**	**631**	**-**	**100,789**	**631**	**563**
Private individuals – other	**32,567**	**56**	**709**	**33,332**	**35**	**78**
Total public – activity in Israel	**285,397**	**4,122**	**3,238**	**292,757**	**752**	**717**
Banks in Israel	**92**	**-**	**-**	**92**	**-**	**-**
Israeli government	**934**	**-**	**-**	**934**	**-**	**-**
Total activity in Israel	**286,423**	**4,122**	**3,238**	**293,783**	**752**	**717**

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

** For this purpose, "unimpaired debts" include non-problematic debts.

(1) Credit risk that is impaired, substandard, or under special supervision, including in respect of housing loans for which an allowance based on the extent of arrears exists, and housing loans for which an allowance based on the extent of arrears does not exist, which are in arrears of 90 days or more.

(2) In general, impaired debts do not accrue interest income. For information regarding certain impaired debts restructured in troubled debt restructuring, see Note 13B(2)(c) below.

(3) Classified as unimpaired problematic debts accruing interest income.

(4) Accruing interest income. Debts in arrears of 30 to 89 days in the amount of approximately NIS 42 million (March 31, 2020: NIS 178 million; December 31, 2020: NIS 123 million) were classified as unimpaired problematic debts.

(5) Includes a balance of housing loans, arranged in a settlement with the borrower, in the amount of approximately NIS 59 million (March 31, 2020: NIS 60 million; December 31, 2020: NIS 59 million).

Note 13 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

Unaudited
NIS millions

B. Debts* (continued)

1. Credit quality and arrears (continued)

	March 31, 2021					
	Non-problematic	Problematic(1)		Total	Unimpaired debts** – additional information	
		Unimpaired	Impaired(2)		In arrears of 90 days or more(3)	In arrears of 30 to 89 days(4)
Borrower activity overseas						
Public – commercial						
Construction and real estate	5,694	450	381	6,525	-	-
Commercial – other	10,155	1,420	378	11,953	-	13
Total commercial	15,849	1,870	759	18,478	-	13
Private individuals	519	25	1	545	25	9
Total public – activity overseas	16,368	1,895	760	19,023	25	22
Banks overseas	14,570	-	-	14,570	-	10
Governments overseas	1,176	-	-	1,176	-	-
Total activity overseas	32,114	1,895	760	34,769	25	32
Total public	301,765	6,017	3,998	311,780	777	739
Total banks	14,662	-	-	14,662	-	10
Total governments	2,110	-	-	2,110	-	-
Total	318,537	6,017	3,998	328,552	777	749

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

** For this purpose, "unimpaired debts" include non-problematic debts.

(1) Credit risk that is impaired, substandard, or under special supervision, including in respect of housing loans for which an allowance based on the extent of arrears exists, and housing loans for which an allowance based on the extent of arrears does not exist, which are in arrears of 90 days or more.

(2) In general, impaired debts do not accrue interest income. For information regarding certain impaired debts restructured in troubled debt restructuring, see Note 13B(2)(c) below.

(3) Classified as unimpaired problematic debts accruing interest income.

(4) Accruing interest income. Debts in arrears of 30 to 89 days in the amount of approximately NIS 42 million (March 31, 2020: NIS 178 million; December 31, 2020: NIS 123 million) were classified as unimpaired problematic debts.

Note 13 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

Unaudited
NIS millions

B. Debts* (continued)

1. Credit quality and arrears (continued)

	March 31, 2020					
	Non-problematic	Problematic[1]		Total	Unimpaired debts** – additional information	
		Unimpaired	Impaired[2]		In arrears of 90 days or more[3]	In arrears of 30 to 89 days[4]
Borrower activity in Israel						
Public – commercial						
Construction and real estate – construction	27,667	219	259	28,145	11	52
Construction and real estate – real-estate activities	20,951	795	263	22,009	14	18
Financial services	21,154	99	30	21,283	1	3
Commercial – other	80,019	2,350	2,422	84,791	61	130
Total commercial	149,791	3,463	2,974	156,228	87	203
Private individuals – housing loans[5]	91,269	708	2	91,979	708	715
Private individuals – other	35,935	121	759	36,815	70	168
Total public – activity in Israel	276,995	4,292	3,735	285,022	865	1,086
Banks in Israel	398	-	-	398	-	-
Israeli government	1,514	-	-	1,514	-	-
Total activity in Israel	278,907	4,292	3,735	286,934	865	1,086

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").
** For this purpose, "unimpaired debts" include non-problematic debts.
(1) Credit risk that is impaired, substandard, or under special supervision, including in respect of housing loans for which an allowance based on the extent of arrears exists, and housing loans for which an allowance based on the extent of arrears does not exist, which are in arrears of 90 days or more.
(2) In general, impaired debts do not accrue interest income. For information regarding certain impaired debts restructured in troubled debt restructuring, see Note 13B(2)(c) below.
(3) Classified as unimpaired problematic debts accruing interest income.
(4) Accruing interest income. Debts in arrears of 30 to 89 days in the amount of approximately NIS 42 million (March 31, 2020: NIS 178 million; December 31, 2020: NIS 123 million) were classified as unimpaired problematic debts.
(5) Includes a balance of housing loans, arranged in a settlement with the borrower, in the amount of approximately NIS 59 million (March 31, 2020: NIS 60 million; December 31, 2020: NIS 59 million).

Note 13 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

Unaudited
NIS millions

B. Debts* (continued)

1. Credit quality and arrears (continued)

	March 31, 2020					
	Non-problematic	Problematic[1]		Total	Unimpaired debts** – additional information	
		Unimpaired	Impaired[2]		In arrears of 90 days or more[3]	In arrears of 30 to 89 days[4]
Borrower activity overseas						
Public – commercial						
Construction and real estate	5,750	177	199	6,126	1	17
Commercial – other	12,474	361	300	13,135	-	62
Total commercial	18,224	538	499	19,261	1	79
Private individuals	522	7	5	534	7	8
Total public – activity overseas	18,746	545	504	19,795	8	87
Banks overseas	26,971	-	-	26,971	-	-
Governments overseas	1,193	-	-	1,193	-	-
Total activity overseas	46,910	545	504	47,959	8	87
Total public	295,741	4,837	4,239	304,817	873	1,173
Total banks	27,369	-	-	27,369	-	-
Total governments	2,707	-	-	2,707	-	-
Total	325,817	4,837	4,239	334,893	873	1,173

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

** For this purpose, "unimpaired debts" include non-problematic debts.

(1) Credit risk that is impaired, substandard, or under special supervision, including in respect of housing loans for which an allowance based on the extent of arrears exists, and housing loans for which an allowance based on the extent of arrears does not exist, which are in arrears of 90 days or more.

(2) In general, impaired debts do not accrue interest income. For information regarding certain impaired debts restructured in troubled debt restructuring, see Note 13B(2)(c) below.

(3) Classified as unimpaired problematic debts accruing interest income.

(4) Accruing interest income. Debts in arrears of 30 to 89 days in the amount of approximately NIS 42 million (March 31, 2020: NIS 178 million; December 31, 2020: NIS 123 million) were classified as unimpaired problematic debts.

Note 13 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

Audited
NIS millions

B. Debts* (continued)

1. Credit quality and arrears (continued)

	December 31, 2020					
	Non-problematic	Problematic[1]		Total	Unimpaired debts** – additional information	
		Unimpaired	Impaired[2]		In arrears of 90 days or more[3]	In arrears of 30 to 89 days[4]
Borrower activity in Israel						
Public – commercial						
Construction and real estate – construction	29,531	161	245	29,937	5	15
Construction and real estate – real-estate activities	22,082	806	164	23,052	3	13
Financial services	20,191	162	6	20,359	1	32
Commercial – other	78,203	2,923	2,302	83,428	22	46
Total commercial	150,007	4,052	2,717	156,776	31	106
Private individuals – housing loans[5]	98,329	626	1	98,956	626	775
Private individuals – other	33,033	68	737	33,838	45	71
Total public – activity in Israel	281,369	4,746	3,455	289,570	702	952
Banks in Israel	188	-	-	188	-	-
Israeli government	954	-	-	954	-	-
Total activity in Israel	282,511	4,746	3,455	290,712	702	952

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

** For this purpose, "unimpaired debts" include non-problematic debts.

(1) Credit risk that is impaired, substandard, or under special supervision, including in respect of housing loans for which an allowance based on the extent of arrears exists, and housing loans for which an allowance based on the extent of arrears does not exist, which are in arrears of 90 days or more.

(2) In general, impaired debts do not accrue interest income. For information regarding certain impaired debts restructured in troubled debt restructuring, see Note 13B(2)(c) below.

(3) Classified as unimpaired problematic debts accruing interest income.

(4) Accruing interest income. Debts in arrears of 30 to 89 days in the amount of approximately NIS 42 million (March 31, 2020: NIS 178 million; December 31, 2020: NIS 123 million) were classified as unimpaired problematic debts.

(5) Includes a balance of housing loans, arranged in a settlement with the borrower, in the amount of approximately NIS 59 million (March 31, 2020: NIS 60 million; December 31, 2020: NIS 59 million).

Note 13 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

Audited
NIS millions

B. Debts* (continued)

1. Credit quality and arrears (continued)

	December 31, 2020					
	Non-problematic	Problematic(1)		Total	Unimpaired debts** – additional information	
		Unimpaired	Impaired(2)		In arrears of 90 days or more(3)	In arrears of 30 to 89 days(4)
Borrower activity overseas						
Public – commercial						
Construction and real estate	5,277	644	215	6,136	-	16
Commercial – other	10,313	1,129	289	11,731	-	60
Total commercial	15,590	1,773	504	17,867	-	76
Private individuals	508	27	1	536	26	15
Total public – activity overseas	16,098	1,800	505	18,403	26	91
Banks overseas	11,233	-	-	11,233	-	10
Governments overseas	1,243	-	-	1,243	-	-
Total activity overseas	28,574	1,800	505	30,879	26	101
Total public	297,467	6,546	3,960	307,973	728	1,043
Total banks	11,421	-	-	11,421	-	10
Total governments	2,197	-	-	2,197	-	-
Total	311,085	6,546	3,960	321,591	728	1,053

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

** For this purpose, "unimpaired debts" include non-problematic debts.

(1) Credit risk that is impaired, substandard, or under special supervision, including in respect of housing loans for which an allowance based on the extent of arrears exists, and housing loans for which an allowance based on the extent of arrears does not exist, which are in arrears of 90 days or more.

(2) In general, impaired debts do not accrue interest income. For information regarding certain impaired debts restructured in troubled debt restructuring, see Note 13B(2)(c) below.

(3) Classified as unimpaired problematic debts accruing interest income.

(4) Accruing interest income. Debts in arrears of 30 to 89 days in the amount of approximately NIS 42 million (March 31, 2020: NIS 178 million; December 31, 2020: NIS 123 million) were classified as unimpaired problematic debts.

Note 13 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

Credit quality – the status of debts in arrears

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 are treated as nonperforming debts (debts not accruing interest income) after 90 days in arrears, as is any debt that has undergone troubled debt restructuring and has resumed accruing interest when it is 30 days in arrears relative to the new terms of the debt. With regard to debts evaluated on a collective basis, the status of arrears affects the classification of the debt (the classification is more severe for more extensive arrears); debts are charged off by the Bank after 150 days in arrears. 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.

Concessions and troubled debt restructuring

The policy of the Bank regarding concessions takes a range of factors into account in order to maximize repayment to the Bank: management of the relationship with the customer, maximization of opportunities, prevention of default, foreclosures, public aspects, etc.

Concessions are granted in cases where customers have demonstrated the intention to repay the loans and are expected to meet their obligations.

In cases where, for economic or legal reasons related to financial difficulties of the borrower, the Bank grants a concession to a debtor that it would not grant under other conditions, the debt is considered a troubled debt restructuring.

Troubled debt restructuring may constitute a change in the terms of the debt, leading to reduction or postponement of cash payments required of the debtor in the near future; a reduction of the rate of interest; a reduction of payments on principal; consolidation of debts; etc.

The Bank can consent to receive assets or an interest in the equity capital of the debtor, in cash, as repayment of the debt, even if the value obtained is lower than the amount of the debt, if the Bank reaches the conclusion that this would maximize the recovery of its investment.

For details regarding the instructions of the Banking Supervision Department on coping with the coronavirus, see Note 1C above.

Note 13 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

Unaudited
NIS millions

B. Debts** (continued)

2. Additional information regarding impaired debts

a. Impaired debts and individual allowance

	March 31, 2021				
	Balance[1] of impaired debts for which an individual allowance exists[2]	Individual allowance[2]	Balance[1] of impaired debts for which no individual allowance exists[2]	Total balance[1] of impaired debts	Balance of contractual principal of impaired debts
Borrower activity in Israel					
Public – commercial					
Construction and real estate – construction	**105**	**27**	**102**	**207**	**1,449**
Construction and real estate – real-estate activities	**91**	**9**	**71**	**162**	**1,017**
Financial services	**5**	**1**	**1**	**6**	**275**
Commercial – other	**1,865**	**1,082**	**289**	**2,154**	**5,104**
Total commercial	**2,066**	**1,119**	**463**	**2,529**	**7,845**
Private individuals – other	**708**	**100**	**1**	**709**	**1,587**
Total public – activity in Israel	**2,774**	**1,219**	**464**	**3,238**	**9,432**
Borrower activity overseas					
Public – commercial					
Construction and real estate	**174**	**121**	**207**	**381**	**423**
Commercial – other	**93**	**58**	**285**	**378**	**637**
Total commercial	**267**	**179**	**492**	**759**	**1,060**
Private individuals	**1**	**-**	**-**	**1**	**4**
Total public – activity overseas	**268**	**179**	**492**	**760**	**1,064**
Total public*	**3,042**	**1,398**	**956**	**3,998**	**10,496**
* Of which:					
Measured at the present value of cash flows	**2,856**	**1,321**	**530**	**3,386**	**-**
Debts in troubled debt restructuring	**2,090**	**967**	**505**	**2,595**	**-**

** Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

(1) Recorded debt balance.

(2) Individual allowance for credit losses.

Note 13 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

Unaudited
NIS millions

B. Debts** (continued)

2. Additional information regarding impaired debts (continued)

a. Impaired debts and individual allowance (continued)

	March 31, 2020				
	Balance[(1)] of impaired debts for which an individual allowance exists[(2)]	Individual allowance[(2)]	Balance[(1)] of impaired debts for which no individual allowance exists[(2)]	Total balance[(1)] of impaired debts	Balance of contractual principal of impaired debts
Borrower activity in Israel					
Public – commercial					
Construction and real estate – construction	182	46	77	259	1,486
Construction and real estate – real-estate activities	87	7	176	263	1,259
Financial services	4	2	26	30	371
Commercial – other	2,165	1,175	257	2,422	5,536
Total commercial	2,438	1,230	536	2,974	8,652
Private individuals – housing loans	-	-	2	2	2
Private individuals – other	756	127	3	759	1,593
Total public – activity in Israel	3,194	1,357	541	3,735	10,247
Borrower activity overseas					
Public – commercial					
Construction and real estate	170	104	29	199	265
Commercial – other	108	65	192	300	581
Total commercial	278	169	221	499	846
Private individuals	5	4	-	5	7
Total public – activity overseas	283	173	221	504	853
Total public*	3,477	1,530	762	4,239	11,100
* Of which:					
Measured at the present value of cash flows	3,229	1,444	462	3,691	-
Debts in troubled debt restructuring	1,147	239	335	1,482	-

** Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").
(1) Recorded debt balance.
(2) Individual allowance for credit losses.

Note 13 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

Audited
NIS millions

B. Debts** (continued)

2. Additional information regarding impaired debts (continued)

a. Impaired debts and individual allowance (continued)

	December 31, 2020				
	Balance(1) of impaired debts for which an individual allowance exists(2)	Individual allowance(2)	Balance(1) of impaired debts for which no individual allowance exists(2)	Total balance(1) of impaired debts	Balance of contractual principal of impaired debts
Borrower activity in Israel					
Public – commercial					
Construction and real estate – construction	159	34	86	245	1,495
Construction and real estate – real-estate activities	103	11	61	164	1,033
Financial services	5	1	1	6	274
Commercial – other	2,084	1,124	218	2,302	5,437
Total commercial	2,351	1,170	366	2,717	8,239
Private individuals – housing loans	-	-	1	1	1
Private individuals – other	735	111	2	737	1,625
Total public – activity in Israel	3,086	1,281	369	3,455	9,865
Borrower activity overseas					
Public – commercial					
Construction and real estate	172	120	43	215	267
Commercial – other	85	52	204	289	557
Total commercial	257	172	247	504	824
Private individuals	1	-	-	1	3
Total public – activity overseas	258	172	247	505	827
Total public*	3,344	1,453	616	3,960	10,692
* Of which:					
Measured at the present value of cash flows	3,029	1,371	331	3,360	-
Debts in troubled debt restructuring	2,203	1,004	507	2,710	-

** Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").
(1) Recorded debt balance.
(2) Individual allowance for credit losses.

Note 13 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

Unaudited
NIS millions

B. Debts* (continued)

2. Additional information regarding impaired debts (continued)

b. Average balance and interest income

	For the three months ended March 31, 2021			For the three months ended March 31, 2020		
	Average balance** of impaired debts	Interest income recorded***(1)	Of which: recorded on a cash basis	Average balance** of impaired debts	Interest income recorded***(1)	Of which: recorded on a cash basis
Borrower activity in Israel						
Public – commercial						
Construction and real estate – construction	**226**	**3**	**-**	265	1	-
Construction and real estate – real-estate activities	**170**	**-**	**-**	271	-	-
Financial services	**6**	**-**	**-**	30	-	-
Commercial – other	**2,228**	**5**	**3**	2,453	4	2
Total commercial	**2,630**	**8**	**3**	3,019	5	2
Private individuals – housing loans	**1**	**-**	**-**	2	-	-
Private individuals – other	**723**	**11**	**2**	758	12	3
Total public – activity in Israel	**3,354**	**19**	**5**	3,779	17	5
Borrower activity overseas						
Public – commercial						
Construction and real estate	**295**	**1**	**-**	236	-	-
Commercial – other	**312**	**3**	**-**	305	-	-
Total commercial	**607**	**4**	**-**	541	-	-
Private individuals	**2**	**-**	**-**	6	-	-
Total public – activity overseas	**609**	**4**	**-**	547	-	-
Total public	**3,963**	**23**	**5**	4,326	17	5

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").
** Average recorded debt balance of impaired debts in the reported period.
*** Interest income recorded in the reported period in respect of the average balance of impaired debts, during the period in which the debts were classified as impaired.
(1) Had the impaired debts accrued interest according to the original terms, interest income in the amount of NIS 83 million would have been recorded (March 31, 2020: NIS 87 million).

Note 13 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

Unaudited
NIS millions

B. Debts* (continued)

2. Additional information regarding impaired debts (continued)

c. Troubled debt restructuring

	March 31, 2021				
	Recorded debt balance				
	Not accruing interest income	Accruing[(1)], in arrears of 90 days or more	Accruing[(1)], in arrears of 30 to 89 days	Accruing[(1)], not in arrears	Total[(2)]
Borrower activity in Israel					
Public – commercial					
Construction and real estate – construction	**30**	**-**	**-**	**22**	**52**
Construction and real estate – real-estate activities	**8**	**-**	**-**	**5**	**13**
Financial services	**4**	**-**	**-**	**2**	**6**
Commercial – other	**1,370**	**-**	**-**	**165**	**1,535**
Total commercial	**1,412**	**-**	**-**	**194**	**1,606**
Private individuals – other	**244**	**-**	**-**	**429**	**673**
Total public – activity in Israel	**1,656**	**-**	**-**	**623**	**2,279**
Borrower activity overseas					
Public – commercial					
Construction and real estate	**195**	**-**	**-**	**-**	**195**
Commercial – other	**28**	**-**	**-**	**93**	**121**
Total commercial	**223**	**-**	**-**	**93**	**316**
Total public	**1,879**	**-**	**-**	**716**	**2,595**

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

(1) Accruing interest income.

(2) Included in impaired debts.

Commitments to grant additional credit to debtors who have undergone troubled debt restructuring with changes to the terms of the credit totaled approximately NIS 62 million as at March 31, 2021 (March 31, 2020: NIS 12 million; December 31, 2020: NIS 74 million).

Note 13 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

Unaudited
NIS millions

B. Debts* (continued)

2. Additional information regarding impaired debts (continued)

c. Troubled debt restructuring (continued)

	March 31, 2020				
	Recorded debt balance				
	Not accruing interest income	Accruing[1], in arrears of 90 days or more	Accruing[1], in arrears of 30 to 89 days	Accruing[1], not in arrears	Total[2]
Borrower activity in Israel					
Public – commercial					
Construction and real estate – construction	43	-	-	19	62
Construction and real estate – real-estate activities	45	-	-	26	71
Financial services	2	-	-	2	4
Commercial – other	432	-	-	144	576
Total commercial	522	-	-	191	713
Private individuals – other	316	-	1	397	714
Total public – activity in Israel	838	-	1	588	1,427
Borrower activity overseas					
Public – commercial					
Construction and real estate	10	-	-	-	10
Commercial – other	45	-	-	-	45
Total public – activity overseas	55	-	-	-	55
Total public	893	-	1	588	1,482

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").
(1) Accruing interest income.
(2) Included in impaired debts.
Commitments to grant additional credit to debtors who have undergone troubled debt restructuring with changes to the terms of the credit totaled approximately NIS 62 million as at March 31, 2021 (March 31, 2020: NIS 12 million; December 31, 2020: NIS 74 million).

Note 13 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

Audited
NIS millions

B. Debts* (continued)

2. Additional information regarding impaired debts (continued)

c. Troubled debt restructuring (continued)

	December 31, 2020				
	Recorded debt balance				
	Not accruing interest income	Accruing[1], in arrears of 90 days or more	Accruing[1], in arrears of 30 to 89 days	Accruing[1], not in arrears	Total[2]
Borrower activity in Israel					
Public – commercial					
Construction and real estate – construction	33	-	-	42	75
Construction and real estate – real-estate activities	10	-	-	5	15
Financial services	3	-	-	2	5
Commercial – other	1,465	-	-	158	1,623
Total commercial	1,511	-	-	207	1,718
Private individuals – other	273	-	-	425	698
Total public – activity in Israel	1,784	-	-	632	2,416
Borrower activity overseas					
Public – commercial					
Construction and real estate	172	-	-	22	194
Commercial – other	2	-	-	98	100
Total commercial	174	-	-	120	294
Total public	1,958	-	-	752	2,710

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

(1) Accruing interest income.

(2) Included in impaired debts.

Commitments to grant additional credit to debtors who have undergone troubled debt restructuring with changes to the terms of the credit totaled approximately NIS 62 million as at March 31, 2021 (March 31, 2020: NIS 12 million; December 31, 2020: NIS 74 million).

Note 13 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

Unaudited
NIS millions

B. Debts* (continued)

2. Additional information regarding impaired debts (continued)

c. Troubled debt restructuring (continued)

	Debts restructured					
	In the three months ended March 31, 2021			In the three months ended March 31, 2020		
	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring
Borrower activity in Israel						
Public – commercial						
Construction and real estate – construction	**35**	**4**	**3**	67	7	7
Construction and real estate – real-estate activities	**7**	**1**	**1**	9	1	1
Financial services	**3**	**2**	**2**	5	-	-
Commercial – other	**182**	**48**	**27**	342	173	165
Total commercial	**227**	**55**	**33**	423	181	173
Private individuals – other	**1,070**	**50**	**49**	1,777	98	90
Total public – activity in Israel	**1,297**	**105**	**82**	2,200	279	263
Borrower activity overseas						
Public – commercial						
Private individuals	**4**	**-**	**-**	4	-	-
Total public	**1,301**	**105**	**82**	2,204	279	263

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

Note 13 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

Unaudited
NIS millions

B. Debts** (continued)

2. Additional information regarding impaired debts (continued)

c. Troubled debt restructuring (continued)

	Failed restructured debts*			
	In the three months ended March 31, 2021		In the three months ended March 31, 2020	
	Number of contracts	Recorded debt balance	Number of contracts	Recorded debt balance
Borrower activity in Israel				
Public – commercial				
Construction and real estate – construction	**29**	**1**	74	4
Construction and real estate – real-estate activities	**4**	**-**	2	-
Financial services	**-**	**-**	1	-
Commercial – other	**151**	**12**	262	17
Total commercial	**184**	**13**	339	21
Private individuals – other	**733**	**11**	1,109	22
Total public – activity in Israel	**917**	**24**	1,448	43
Borrower activity overseas				
Public – commercial				
Private individuals	**3**	**-**	1	-
Total public	**920**	**24**	1,449	43

* Debts that became debts in arrears of 30 days or more during the reporting period, and underwent troubled debt restructuring during the 12 months preceding the date on which they became debts in arrears.

** Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

Note 13 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

NIS millions

B. Debts** (continued)

3. Additional information regarding housing loans – private individuals

End of period balances by financing ratio (LTV)*, repayment type, and interest type

		March 31, 2021			
		Balance of housing loans – private individuals			Off-balance sheet credit risk
		Total	Of which: bullet and balloon	Of which: floating interest rate	
		Unaudited			
First lien: financing rate	Up to 60%	**63,526**	**1,453**	**40,488**	**4,042**
	Over 60%	**36,833**	**403**	**24,392**	**3,580**
Secondary lien or no lien		**926**	**31**	**566**	**288**
Total		**101,285**	**1,887**	**65,446**	**7,910**

		March 31, 2020			
		Balance of housing loans – private individuals			Off-balance sheet credit risk
		Total	Of which: bullet and balloon	Of which: floating interest rate	
		Unaudited			
First lien: financing rate	Up to 60%	59,118	1,681	37,813	2,511
	Over 60%	32,502	443	21,945	2,136
Secondary lien or no lien		832	45	480	1,067
Total		92,452	2,169	60,238	5,714

		December 31, 2020			
		Balance of housing loans – private individuals			Off-balance sheet credit risk
		Total	Of which: bullet and balloon	Of which: floating interest rate	
		Audited			
First lien: financing rate	Up to 60%	62,645	1,511	39,950	3,872
	Over 60%	35,959	423	23,935	3,634
Secondary lien or no lien		839	36	484	218
Total		99,443	1,970	64,369	7,724

* Ratio of the approved credit facility, when the facility was granted, to the value of the asset, as approved by the Bank when the facility was granted.

** Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

Note 13 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

Credit quality – LTV ratio

The LTV ratio provides another indication of credit quality for the Bank. The LTV ratio is the ratio of the amount of the loan to the estimated value of the financed asset, as approved by the Bank when the credit facility was granted. The LTV ratio is calculated at the time of approval of the credit, with the following exceptions:

1. Granting of additional credit secured by the same asset.
2. The borrower receives a loan from another corporation with a joint pari-passu lien on the asset.
3. Transfer of a mortgage.
4. A part of a credit facility that has not been utilized.
5. Substantial early repayment (10% or more).

The note presents balances of debt in respect of housing loans, with segmentation by ranges of LTV ratios and levels of liens.

C. Information regarding debt sales

For information regarding credit sale transactions, see Note 10A(3).

Note 13 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

NIS millions

D. Off-balance sheet financial instruments

	March 31		December 31,	March 31		December 31,
	2021	2020	2020	**2021**	2020	2020
	Contract balances*			Allowance for credit losses		
	Unaudited		Audited	Unaudited		Audited
Transactions the balance of which represents a credit risk:						
Documentary credit	**1,300**	1,110	828	**9**	5	5
Credit guarantees	**5,621**	5,741	5,762	**37**	45	42
Guarantees to purchasers of homes**	**25,547**	19,487	22,680	**61**	51	58
Guarantees and other commitments***	**23,590**	25,617	23,771	**175**	157	181
Unutilized credit-card credit facilities under the Bank's responsibility	**13,110**	15,838	15,744	**46**	48	67
Unutilized revolving overdraft and other credit facilities in on-demand accounts	**50,258**	40,548	47,997	**146**	112	154
Irrevocable commitments to grant credit approved but not yet drawn****	**44,975**	30,412	43,008	**182**	110	195
Commitments to issue guarantees	**29,206**	24,468	28,768	**76**	68	79

* Contract balances or the nominal amounts thereof at year end, before the effect of the allowance for credit losses.

** Beginning December 31, 2020, also includes certain guarantees provided within financing for evacuation and construction projects, National Outline Plan (TAMA) 38 (Type 2) projects, or combination transactions, in respect of which reduced conversion coefficients can be applied according to the circular of the Banking Supervision Department.

*** Includes the Bank's liabilities in respect of its share in the risk fund of the Maof Clearing House, in the amount of NIS 83 million (March 31, 2020: NIS 94 million; December 31, 2020: NIS 91 million).

**** Includes commitments to grant credit given to customers in loans "approved in principle with a hold on the interest rate," under Proper Conduct of Banking Business Directive 451, "Procedures for Granting Housing Loans."

E. Guarantees

The Bank provides a wide range of guarantees and indemnities for its customers, in order to enable them to complete a wide variety of transactions. The maximum amount of potential future payments is established according to the nominal amount of the guarantees, without taking into consideration possible reimbursements or collateral held or pledged. To the extent necessary, the Bank customarily receives collateral or commitments of various kinds, such as deposits, securities, real estate, financial ratios, etc. Most of the guarantees at the Bank are assigned the rating at which the credit was granted.

Note 13 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

NIS millions

E. Guarantees (continued)

	March 31, 2021					
	Contract balances or nominal amounts					
	Expiring in 1 year or less	Expiring in 1 year to 3 years	Expiring in more than 3 years up to 5 years	Expiring in more than 5 years	No expiration date	Total
	Unaudited					
Credit guarantees	**4,244**	**609**	**136**	**614**	**18**	**5,621**
Guarantees to purchasers of homes	**3,981**	**-**	**-**	**2**	**21,564**	**25,547**
Guarantees and other commitments	**11,355**	**6,749**	**1,417**	**4,069**	**-**	**23,590**
Commitments to issue guarantees	**8,821**	**16,158**	**3,587**	**640**	**-**	**29,206**
Total	**28,401**	**23,516**	**5,140**	**5,325**	**21,582**	**83,964**

	March 31, 2020					
	Contract balances or nominal amounts					
	Expiring in 1 year or less	Expiring in 1 year to 3 years	Expiring in more than 3 years up to 5 years	Expiring in more than 5 years	No expiration date	Total
	Unaudited					
Credit guarantees	3,961	850	87	806	37	5,741
Guarantees to purchasers of homes	2,558	-	-	-	16,929	19,487
Guarantees and other commitments	11,307	7,708	1,627	4,975	-	25,617
Commitments to issue guarantees	8,767	11,909	3,723	69	-	24,468
Total	26,593	20,467	5,437	5,850	16,966	75,313

	December 31, 2020					
	Contract balances or nominal amounts					
	Expiring in 1 year or less	Expiring in 1 year to 3 years	Expiring in more than 3 years up to 5 years	Expiring in more than 5 years	No expiration date	Total
	Audited					
Credit guarantees	4,268	705	152	611	26	5,762
Guarantees to purchasers of homes	2,709	-	-	2	19,969	22,680
Guarantees and other commitments	11,759	6,662	1,002	4,348	-	23,771
Commitments to issue guarantees	8,558	16,140	3,196	874	-	28,768
Total	27,294	23,507	4,350	5,835	19,995	80,981

Note 14 Assets and Liabilities by Linkage Base

Unaudited
NIS millions

	March 31, 2021						
	Israeli currency		Foreign currency[1]			Non-monetary items*	Total
	Unlinked	CPI-linked	USD	EUR	Other		
Assets							
Cash and deposits with banks	**145,218**	**-**	**14,165**	**236**	**324**	**-**	**159,943**
Securities	**37,776**	**296**	**21,057**	**2,462**	**404**	**2,803**	**64,798**
Securities borrowed or purchased under agreements to resell	**892**	**-**	**-**	**-**	**-**	**-**	**892**
Net credit to the public[2]	**226,640**	**50,273**	**21,618**	**4,170**	**2,251**	**1,165**	**306,117**
Credit to governments	**256**	**-**	**693**	**1,157**	**-**	**-**	**2,106**
Investments in equity-basis investees	**62**	**-**	**-**	**-**	**-**	**504**	**566**
Buildings and equipment	**-**	**-**	**-**	**-**	**-**	**3,245**	**3,245**
Assets in respect of derivative instruments	**5,299**	**568**	**3,834**	**464**	**450**	**751**	**11,366**
Other assets	**4,149**	**7**	**71**	**29**	**13**	**1,096**	**5,365**
Total assets	**420,292**	**51,144**	**61,438**	**8,518**	**3,442**	**9,564**	**554,398**
Liabilities							
Deposits from the public	**328,702**	**10,567**	**100,074**	**11,192**	**3,637**	**1,222**	**455,394**
Deposits from banks	**5,714**	**-**	**939**	**277**	**12**	**-**	**6,942**
Deposits from the government	**337**	**2**	**217**	**-**	**-**	**-**	**556**
Securities lent or sold under agreements to repurchase	**-**	**-**	**-**	**-**	**3**	**-**	**3**
Bonds and subordinated notes	**242**	**21,173**	**-**	**-**	**-**	**-**	**21,415**
Liabilities in respect of derivative instruments	**5,126**	**857**	**3,656**	**576**	**442**	**706**	**11,363**
Other liabilities	**12,053**	**4,565**	**523**	**67**	**183**	**476**	**17,867**
Total liabilities	**352,174**	**37,164**	**105,409**	**12,112**	**4,277**	**2,404**	**513,540**
Surplus assets (liabilities)	**68,118**	**13,980**	**(43,971)**	**(3,594)**	**(835)**	**7,160**	**40,858**
Effect of non-hedging derivatives:							
Derivative instruments (excluding options)	**(44,726)**	**(4,602)**	**45,707**	**3,175**	**446**	**-**	**-**
Options in the money, net (in terms of underlying asset)	**2,195**	**-**	**(2,232)**	**83**	**(46)**	**-**	**-**
Options out of the money, net (in terms of underlying asset)	**91**	**-**	**(739)**	**476**	**172**	**-**	**-**
Overall total	**25,678**	**9,378**	**(1,235)**	**140**	**(263)**	**7,160**	**40,858**
Options in the money, net (nominal present value)	**2,365**	**-**	**(3,251)**	**647**	**239**	**-**	**-**
Options out of the money, net (nominal present value)	**823**	**-**	**(3,010)**	**1,346**	**841**	**-**	**-**

* Including derivative instruments whose underlying asset refers to a non-monetary item.
(1) Including linked to foreign currency.
(2) After deduction of allowances for credit losses attributed to the linkage bases.

Note 14 Assets and Liabilities by Linkage Base (continued)

Unaudited
NIS millions

	March 31, 2020						
	Israeli currency		Foreign currency[1]			Non-monetary items*	Total
	Unlinked	CPI-linked	USD	EUR	Other		
Assets							
Cash and deposits with banks	61,628	-	25,377	440	2,030	-	89,475
Securities	52,263	2,404	17,824	399	112	1,498	74,500
Securities borrowed or purchased under agreements to resell	369	-	-	-	-	-	369
Net credit to the public[2]	220,187	48,065	23,612	4,529	2,002	1,153	299,548
Credit to governments	696	-	1,078	927	-	-	2,701
Investments in equity-basis investees	49	-	-	-	-	143	192
Buildings and equipment	-	-	-	-	-	3,202	3,202
Assets in respect of derivative instruments	6,735	357	6,142	453	338	921	14,946
Other assets	4,445	178	100	80	58	1,665	6,526
Total assets	346,372	51,004	74,133	6,828	4,540	8,582	491,459
Liabilities							
Deposits from the public	273,717	12,270	87,688	10,551	3,150	1,190	388,566
Deposits from banks	2,940	-	760	265	15	-	3,980
Deposits from the government	318	1	82	-	-	-	401
Securities lent or sold under agreements to repurchase	-	-	-	-	3	-	3
Bonds and subordinated notes	584	23,737	159	-	11	-	24,491
Liabilities in respect of derivative instruments	6,884	466	6,997	376	333	901	15,957
Other liabilities	10,811	4,545	3,976	178	490	394	20,394
Total liabilities	295,254	41,019	99,662	11,370	4,002	2,485	453,792
Surplus assets (liabilities)	51,118	9,985	(25,529)	(4,542)	538	6,097	37,667
Effect of non-hedging derivatives:							
Derivative instruments (excluding options)	(26,974)	(995)	26,492	2,577	(1,100)	-	-
Options in the money, net (in terms of underlying asset)	814	-	(2,285)	1,455	16	-	-
Options out of the money, net (in terms of underlying asset)	(858)	-	413	390	55	-	-
Overall total	24,100	8,990	(909)	(120)	(491)	6,097	37,667
Options in the money, net (nominal present value)	797	-	(3,338)	2,473	68	-	-
Options out of the money, net (nominal present value)	(4,215)	-	2,364	1,780	71	-	-

* Including derivative instruments whose underlying asset refers to a non-monetary item.
(1) Including linked to foreign currency.
(2) After deduction of allowances for credit losses attributed to the linkage bases.

Note 14 Assets and Liabilities by Linkage Base (continued)

Audited
NIS millions

	December 31, 2020						
	Israeli currency		Foreign currency[1]			Non-monetary items*	Total
	Unlinked	CPI-linked	USD	EUR	Other		
Assets							
Cash and deposits with banks	126,917	-	11,341	231	222	-	138,711
Securities	42,035	482	24,036	2,535	412	2,385	71,885
Securities borrowed or purchased under agreements to resell	368	-	-	-	-	-	368
Net credit to the public[2]	221,460	49,669	23,401	3,927	2,017	1,354	301,828
Credit to governments	274	-	748	1,171	-	-	2,193
Investments in equity-basis investees	53	-	-	-	-	503	556
Buildings and equipment	-	-	-	-	-	3,319	3,319
Assets in respect of derivative instruments	9,630	423	2,180	999	577	1,081	14,890
Other assets	4,523	6	93	36	11	1,183	5,852
Total assets	405,260	50,580	61,799	8,899	3,239	9,825	539,602
Liabilities							
Deposits from the public	315,181	10,290	93,939	10,948	3,453	1,406	435,217
Deposits from banks	4,368	-	1,928	282	13	-	6,591
Deposits from the government	275	2	484	-	-	-	761
Securities lent or sold under agreements to repurchase	-	-	-	-	6	-	6
Bonds and subordinated notes	596	22,881	13	-	-	-	23,490
Liabilities in respect of derivative instruments	10,126	710	3,000	1,230	694	1,044	16,804
Other liabilities	11,116	4,594	537	86	176	325	16,834
Total liabilities	341,662	38,477	99,901	12,546	4,342	2,775	499,703
Surplus assets (liabilities)	63,598	12,103	(38,102)	(3,647)	(1,103)	7,050	39,899
Effect of non-hedging derivatives:							
Derivative instruments (excluding options)	(41,328)	(3,125)	40,825	3,262	366	-	-
Options in the money, net (in terms of underlying asset)	2,388	-	(2,867)	138	341	-	-
Options out of the money, net (in terms of underlying asset)	111	-	(581)	209	261	-	-
Overall total	24,769	8,978	(725)	(38)	(135)	7,050	39,899
Options in the money, net (nominal present value)	1,801	-	(2,327)	329	197	-	-
Options out of the money, net (nominal present value)	1,162	-	(3,784)	1,271	1,351	-	-

* Including derivative instruments whose underlying asset refers to a non-monetary item.
(1) Including linked to foreign currency.
(2) After deduction of allowances for credit losses attributed to the linkage bases.

Note 15 Balances and Fair-Value Estimates of Financial Instruments

Fair value of financial instruments

This note includes information concerning the assessment of the fair value of financial instruments.
A "market price" cannot be quoted for the majority of financial instruments at the Bank because no active market exists in which they are traded. Fair value is therefore estimated by means of accepted pricing models, such as the present value of future cash flows discounted by a discounting interest rate that reflects the level of risk inherent in the financial instrument. An estimate of fair value by means of an assessment of future cash flows and the setting of a discounting interest rate is subjective. Therefore, for the majority of financial instruments, the following assessment of fair value is not necessarily an indication of the disposal value of the financial instrument on the reporting date. The fair value is assessed on the basis of the interest rates valid at the reporting date, and does not take interest-rate volatility into account. Under the assumption of different interest rates, fair values would be obtained that may differ materially. This mainly applies to financial instruments that bear a fixed rate of interest or that do not bear interest. In addition, the assessment of fair value does not take into consideration fees to be received or paid in the course of business activity, and does not include the effect of non-controlling interests or tax effects. Moreover, the difference between the balance sheet balance and fair value balances may not be realized, because in the majority of cases the financial instrument may be held to maturity by the Bank. Due to all of these factors, it should be emphasized that data included in this note are insufficient to indicate the value of the banking corporation as a going concern. In addition, due to the broad spectrum of assessment techniques and estimates that can be applied in assessing fair value, caution should be exercised when comparing fair values between different banks.

Principal methods and assumptions used to estimate the fair value of financial instruments

Deposits with banks, nonmarketable bonds and loans, and credit to the government – By discounting future cash flows according to the interest rates at which the Bank executed similar transactions at the reporting date.

Marketable securities – According to market value in the principal market.

Credit to the public – The fair value of the balance of credit to the public is estimated using the method of the present value of future cash flows, discounted by a suitable discount rate. The balance of credit was segmented into homogeneous categories. In each category, the flow of future receipts (principal and interest) was calculated. These receipts were discounted by an interest rate reflecting the level of risk inherent in the credit in that category.

This interest rate was usually determined according to the interest rate at which similar transactions were executed at the Bank at the reporting date.

The fair value of impaired debts was calculated using discount rates reflecting the high credit risk inherent in such debts. In any case, these discount rates were not lower than the highest interest rate used by the Bank in its transactions at the reporting date.

Future cash flows for impaired debts and other debts were calculated after the deduction of the effects of charge-offs and of allowances for credit losses in respect of the debts.

Note 15 Balances and Fair-Value Estimates of Financial Instruments (continued)

Charge-offs and allowances for credit losses were attributed to the periods in which the debt was classified, where possible (e.g. when an allowance was calculated on an individual basis according to the present value of a cash flow). In the absence of such data, charge-offs and the allowance are attributed proportionally to the balance of credit, according to the term to maturity at the end of the period.

The calculation of fair value includes assumptions regarding early repayment of housing loans, in accordance with the estimates of the Bank, based on an examination of the historical data regarding early repayment in relation to parameters that explain such repayment. The effect of these assumptions on fair value resulted in an increase of the fair value by NIS 184 million.

Deposits, bonds, and notes – By discounting future cash flows according to the interest rates at which the corporation raises similar deposits or the Bank issues similar bonds and notes (if a price quoted in an active market is not available) at the reporting date. With regard to bonds and subordinated notes traded as an asset in an active market, fair value is based on quoted market prices or on quotes from traders for an identical liability traded as an asset in an active market.

Inter-customer lending – Presented as credit and deposits, and measured according to the value of the loaned securities on the stock market.

Derivative financial instruments – Derivative financial instruments that have an active market were assessed at the market value established in the principal market.

Derivative financial instruments not traded in an active market were assessed on the basis of models used by the Bank in its routine operations, taking into account the risks inherent in the financial instrument.

The measurement of the fair value of derivative instruments takes the credit risk inherent in such transactions into account, among other factors.

Estimates of the fair value of assets in respect of derivative instruments also reflect the credit risk of the counterparty, and estimates of the fair value of liabilities in respect of derivative instruments also reflect the credit risk of the Bank.

Off-balance sheet financial instruments in which the balance represents credit risk – Fair value is presented according to the balance sheet balance of the fees in the aforesaid transactions, which constitute an approximation of the fair value.

Assets and liabilities for which fair value is measured based on Level 3 data – Items for which fair value is determined based on an indicative price from an independent entity, indicative price of a counterparty to the transaction, or evaluation models in which some of the significant inputs are unobservable; and items for which fair value is determined based on internal calculators or service bureaus, some of the inputs of which are unobservable.

Note 15 Balances and Fair-Value Estimates of Financial Instruments (continued)

Unaudited
NIS millions

A. Balances and fair-value estimates of financial instruments

	March 31, 2021				
	Balance sheet balance	Fair value(1)			Total
		Level 1	Level 2	Level 3	
Financial assets					
Cash and deposits with banks	**159,943**	**3,838**	**-**	**156,137**	**159,975**
Securities*	**64,798**	**48,406**	**13,971**	**2,429**	**64,806**
Securities borrowed or purchased under agreements to resell	**892**	**-**	**-**	**892**	**892**
Net credit to the public***	**306,117**	**3,555**	**-**	**304,825**	**308,380**
Credit to governments	**2,106**	**-**	**-**	**2,112**	**2,112**
Assets in respect of derivative instruments	**11,366**	**746**	**7,718**	**2,902**	**11,366**
Other financial assets	**468**	**7**	**-**	**458**	**465**
Total financial assets	****545,690**	**56,552**	**21,689**	**469,755**	**547,996**
Financial liabilities					
Deposits from the public***	**455,394**	**3,962**	**-**	**453,164**	**457,126**
Deposits from banks	**6,942**	**-**	**-**	**6,876**	**6,876**
Deposits from the government	**556**	**-**	**-**	**567**	**567**
Securities lent or sold under agreements to repurchase	**3**	**-**	**-**	**3**	**3**
Bonds and subordinated notes	**21,415**	**20,015**	**1,554**	**793**	**22,362**
Liabilities in respect of derivative instruments	**11,363**	**748**	**7,625**	**2,990**	**11,363**
Other financial liabilities	**10,518**	**7**	**-**	**10,511**	**10,518**
Total financial liabilities	****506,191**	**24,732**	**9,179**	**474,904**	**508,815**
Off-balance sheet financial instruments					
Transactions in which the balance represents credit risk	**-**	**-**	**-**	**224**	**224**

* Includes shares and options for which no fair value is available, which are stated at cost, in the amount of NIS 1,748 million. For further details regarding the balance sheet balance and fair value of securities, see Note 5.

** Of which: assets and liabilities in the amount of NIS 81,354 million and in the amount of NIS 25,887 million, respectively, whose balance sheet balance is identical to their fair value (instruments presented at fair value in the balance sheet). For further information regarding instruments measured at fair value on a recurring basis and on a nonrecurring basis, see Sections B-F.

*** Of which, a total of NIS 44 million in respect of embedded derivative instruments is included in the balance of deposits from the public.

(1) Level 1 – Fair-value measurements using quoted prices on an active market.
Level 2 – Fair-value measurements using other significant observable inputs.
Level 3 – Fair-value measurements using significant unobservable inputs.

Note 15 Balances and Fair-Value Estimates of Financial Instruments (continued)

Unaudited
NIS millions

A. Balances and fair-value estimates of financial instruments (continued)

	March 31, 2020				
	Balance sheet balance	Fair value(1)			Total
		Level 1	Level 2	Level 3	
Financial assets					
Cash and deposits with banks	89,475	3,119	-	86,418	89,537
Securities*	74,500	60,601	12,230	1,673	74,504
Securities borrowed or purchased under agreements to resell	369	-	-	369	369
Net credit to the public***	299,548	2,561	-	297,965	300,526
Credit to governments	2,701	-	-	2,706	2,706
Assets in respect of derivative instruments	14,946	956	9,016	4,974	14,946
Other financial assets	1,442	14	-	1,495	1,509
Total financial assets	**482,981	67,251	21,246	395,600	484,097
Financial liabilities					
Deposits from the public***	388,566	5,195	-	384,239	389,434
Deposits from banks	3,980	-	-	3,972	3,972
Deposits from the government	401	-	-	418	418
Securities lent or sold under agreements to repurchase	3	-	-	3	3
Bonds and subordinated notes	24,491	22,523	1,554	274	24,351
Liabilities in respect of derivative instruments	15,957	958	11,590	3,409	15,957
Other financial liabilities	13,626	14	-	13,613	13,627
Total financial liabilities	**447,024	28,690	13,144	405,928	447,762
Off-balance sheet financial instruments					
Transactions in which the balance represents credit risk	-	-	-	201	201

* Includes shares and options for which no fair value is available, which are stated at cost, in the amount of NIS 1,110 million. For further details regarding the balance sheet balance and fair value of securities, see Note 5.

** Of which: assets and liabilities in the amount of NIS 93,759 million and in the amount of NIS 21,186 million, respectively, whose balance sheet balance is identical to their fair value (instruments presented at fair value in the balance sheet). For further information regarding instruments measured at fair value on a recurring basis and on a nonrecurring basis, see Sections B-F.

*** Of which, a total of NIS 20 million in respect of embedded derivative instruments is included in the balance of deposits from the public.

(1) Level 1 – Fair-value measurements using quoted prices on an active market.
Level 2 – Fair-value measurements using other significant observable inputs.
Level 3 – Fair-value measurements using significant unobservable inputs.

Note 15 Balances and Fair-Value Estimates of Financial Instruments (continued)

Audited
NIS millions

A. Balances and fair-value estimates of financial instruments (continued)

	December 31, 2020				
	Balance sheet balance	Fair value(1)			Total
		Level 1	Level 2	Level 3	
Financial assets					
Cash and deposits with banks	138,711	3,082	-	135,665	138,747
Securities*	71,885	51,749	18,177	1,967	71,893
Securities borrowed or purchased under agreements to resell	368	-	-	368	368
Net credit to the public***	301,828	3,085	-	300,850	303,935
Credit to governments	2,193	-	-	2,205	2,205
Assets in respect of derivative instruments	14,890	1,049	10,617	3,224	14,890
Other financial assets	652	6	-	642	648
Total financial assets	**530,527	58,971	28,794	444,921	532,686
Financial liabilities					
Deposits from the public***	435,217	3,465	-	433,368	436,833
Deposits from banks	6,591	-	-	6,570	6,570
Deposits from the government	761	-	-	773	773
Securities lent or sold under agreements to repurchase	6	-	-	6	6
Bonds and subordinated notes	23,490	21,784	1,552	803	24,139
Liabilities in respect of derivative instruments	16,804	1,051	9,862	5,891	16,804
Other financial liabilities	9,894	6	-	9,888	9,894
Total financial liabilities	**492,763	26,306	11,414	457,299	495,019
Off-balance sheet financial instruments					
Transactions in which the balance represents credit risk	-	-	-	104	104

* Includes shares and options for which no fair value is available, which are stated at cost, in the amount of NIS 1,368 million. For further details regarding the balance sheet balance and fair value of securities, see Note 5.

** Of which: assets and liabilities in the amount of NIS 91,248 million and in the amount of NIS 30,201 million, respectively, whose balance sheet balance is identical to their fair value (instruments presented at fair value in the balance sheet). For further information regarding instruments measured at fair value on a recurring basis and on a nonrecurring basis, see Sections B-F.

*** Of which, a total of NIS 38 million in respect of embedded derivative instruments is included in the balance of deposits from the public.

(1) Level 1 – Fair-value measurements using quoted prices on an active market.
Level 2 – Fair-value measurements using other significant observable inputs.
Level 3 – Fair-value measurements using significant unobservable inputs.

Note 15 Balances and Fair-Value Estimates of Financial Instruments (continued)

Unaudited
NIS millions

B. Items measured at fair value on a recurring basis

	March 31, 2021			
	Fair value measurements using			Total fair value
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Assets				
Bonds available for sale				
Israeli government bonds	34,338	7,417	-	41,755
Foreign government bonds	9,801	864	-	10,665
Bonds of foreign financial institutions	-	2,861	172	3,033
Bonds of foreign others	15	2,770	-	2,785
Total bonds available for sale	44,154	13,912	172	58,238
Investments in tradable shares not held for trading	1,018	37	-	1,055
Securities held for trading				
Israeli government bonds	3,232	22	-	3,254
Foreign government bonds	2	-	-	2
Total securities held for trading	3,234	22	-	3,256
Assets in respect of derivative instruments				
NIS-CPI contracts	-	240	116	356
Other interest contracts	-	4,228	399	4,627
Foreign-currency contracts	47	2,780	2,142	4,969
Share contracts	699	470	243	1,412
Commodity and other contracts	-	-	2	2
Total assets in respect of derivative instruments	746	7,718	2,902	11,366
Credit in respect of inter-customer lending	3,594	-	-	3,594
Assets in respect of activity in the Maof market	7	-	-	7
Total assets	52,753	21,689	3,074	77,516
Liabilities				
Liabilities in respect of derivative instruments				
NIS-CPI contracts	-	265	72	337
Other interest contracts	-	4,917	232	5,149
Foreign-currency contracts	47	2,257	2,212	4,516
Share contracts	701	186	472	1,359
Commodity and other contracts	-	-	2	2
Liabilities in respect of embedded derivatives	-	24	20	44
Total liabilities in respect of derivative instruments	748	7,649	3,010	11,407
Deposits in respect of inter-customer lending	3,594	-	-	3,594
Liabilities in respect of activity in the Maof market	7	-	-	7
Liabilities in respect of securities lending	368	-	-	368
Total liabilities	4,717	7,649	3,010	15,376

Note 15 Balances and Fair-Value Estimates of Financial Instruments (continued)

Unaudited
NIS millions

B. Items measured at fair value on a recurring basis (continued)

	March 31, 2020			
	Fair value measurements using			Total fair value
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Assets				
Bonds available for sale				
Israeli government bonds	39,015	4,556	-	43,571
Foreign government bonds	5,679	376	-	6,055
Bonds of foreign financial institutions	154	4,899	185	5,238
Bonds of foreign others	27	2,273	-	2,300
Total bonds available for sale	44,875	12,104	185	57,164
Investments in tradable shares not held for trading	260	126	-	386
Securities held for trading				
Israeli government bonds	15,279	-	-	15,279
Foreign government bonds	185	-	-	185
Tradable shares	2	-	-	2
Total securities held for trading	15,466	-	-	15,466
Assets in respect of derivative instruments				
NIS-CPI contracts	-	309	222	531
Other interest contracts	-	5,852	696	6,548
Foreign-currency contracts	83	2,700	2,649	5,432
Share contracts	873	113	1,313	2,299
Commodity and other contracts	-	42	94	136
Credit in respect of inter-customer lending	2,664	-	-	2,664
Assets in respect of activity in the Maof market	14	-	-	14
Total assets	64,235	21,246	5,159	90,640
Liabilities				
Liabilities in respect of derivative instruments				
NIS-CPI contracts	-	411	39	450
Other interest contracts	-	7,386	475	7,861
Foreign-currency contracts	78	2,411	2,751	5,240
Share contracts	880	1,294	96	2,270
Commodity and other contracts	-	88	48	136
Liabilities in respect of embedded derivatives	-	10	10	20
Deposits in respect of inter-customer lending	2,664	-	-	2,664
Liabilities in respect of activity in the Maof market	14	-	-	14
Liabilities in respect of securities lending	2,531	-	-	2,531
Total liabilities	6,167	11,600	3,419	21,186

Note 15 Balances and Fair-Value Estimates of Financial Instruments (continued)

Audited
NIS millions

B. Items measured at fair value on a recurring basis (continued)

	December 31, 2020			
	Fair value measurements using			Total fair value
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Assets				
Bonds available for sale				
Israeli government bonds	35,878	7,457	-	43,335
Foreign government bonds	9,563	999	-	10,562
Bonds of foreign financial institutions	-	4,893	165	5,058
Bonds of foreign others	15	3,889	-	3,904
Total bonds available for sale	45,456	17,238	165	62,859
Investments in tradable shares not held for trading	78	939	-	1,017
Securities held for trading				
Israeli government bonds	6,213	-	-	6,213
Foreign government bonds	2	-	-	2
Total securities held for trading	6,215	-	-	6,215
Assets in respect of derivative instruments				
NIS-CPI contracts	-	275	199	474
Other interest contracts	-	5,155	396	5,551
Foreign-currency contracts	12	4,355	2,527	6,894
Share contracts	1,037	810	78	1,925
Commodity and other contracts	-	22	24	46
Total assets in respect of derivative instruments	1,049	10,617	3,224	14,890
Credit in respect of inter-customer lending	3,179	-	-	3,179
Assets in respect of activity in the Maof market	6	-	-	6
Total assets	55,983	28,794	3,389	88,166
Liabilities				
Liabilities in respect of derivative instruments				
NIS-CPI contracts	-	362	30	392
Other interest contracts	-	6,510	278	6,788
Foreign-currency contracts	12	2,963	4,729	7,704
Share contracts	1,039	6	830	1,875
Commodity and other contracts	-	21	24	45
Liabilities in respect of embedded derivatives	-	20	18	38
Total liabilities in respect of derivative instruments	1,051	9,882	5,909	16,842
Deposits in respect of inter-customer lending	3,179	-	-	3,179
Liabilities in respect of activity in the Maof market	6	-	-	6
Liabilities in respect of securities lending	286	-	-	286
Total liabilities	4,522	9,882	5,909	20,313

Note 15 Balances and Fair-Value Estimates of Financial Instruments (continued)

Unaudited
NIS millions

C. Items measured at fair value on a nonrecurring basis

	March 31, 2021				
	Fair value measurements using				Total profit (loss) in respect of changes in value in the period ended March 31, 2021
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value	
Assets measured at fair value on a nonrecurring basis					
Impaired credit the collection of which is contingent on collateral	**-**	**-**	**612**	**612**	(1)**7**
Investments in shares	**-**	**-**	**185**	**185**	(2)**120**
Total	**-**	**-**	**797**	**797**	**127**

	March 31, 2020				
	Fair value measurements using				Total profit (loss) in respect of changes in value in the period ended March 31, 2020
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value	
Assets measured at fair value on a nonrecurring basis					
Impaired credit the collection of which is contingent on collateral	-	-	548	548	(1)(5)
Investments in shares	-	-	-	-	(2)_
Total	-	-	548	548	(5)

(1) Losses included in the statement of profit and loss under the item "provision for credit losses."
(2) Losses included in the statement of profit and loss under the item "non-interest financing income."

Note 15 Balances and Fair-Value Estimates of Financial Instruments (continued)

Audited
NIS millions

C. Items measured at fair value on a nonrecurring basis (continued)

	December 31, 2020				
	Fair value measurements using			Total fair value	Total profit (loss) in respect of changes in value in the period ended December 31, 2020
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)		
Assets measured at fair value on a nonrecurring basis					
Impaired credit the collection of which is contingent on collateral	-	-	600	600	[(1)](36)
Investments in shares	-	-	28	28	[(2)](29)
Total	-	-	628	628	(65)

(1) Losses included in the statement of profit and loss under the item "provision for credit losses."
(2) Losses included in the statement of profit and loss under the item "non-interest financing income."

Note 15 Balances and Fair-Value Estimates of Financial Instruments (continued)

Unaudited
NIS millions

D. Changes in items measured at fair value on a recurring basis included in Level 3

	For the three months ended March 31, 2021								
	Fair value as at December 31, 2020	Gains (losses) included in statement of profit and loss[(1)(3)]	Gains (losses) included in equity[(2)]	Acquisitions	Extinguishment	Transfers to Level 3	Transfers from Level 3	Fair value as at March 31, 2021	Unrealized gains (losses) in respect of instruments held as at March 31, 2021
Assets									
Bonds available for sale									
Bonds of foreign financial institutions	**165**	**7**	**-**	**-**	**-**	**-**	**-**	**172**	[(2)]**-**
Net balances in respect of derivative instruments									
NIS-CPI contracts	**169**	**(117)**	**-**	**-**	**(8)**	**-**	**-**	**44**	[(3)]**(111)**
Other interest contracts	**118**	**65**	**-**	**2**	**(18)**	**-**	**-**	**167**	[(3)(1)]**55**
Foreign-currency contracts	**(2,202)**	**1,409**	**-**	**76**	**647**	**-**	**-**	**(70)**	[(3)]**995**
Share contracts	**(752)**	**(168)**	**-**	**4**	**687**	**-**	**-**	**(229)**	[(3)]**(15)**
Commodity and other contracts	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	[(3)]**-**
Embedded derivatives	**(18)**	**(4)**	**-**	**-**	**2**	**-**	**-**	**(20)**	[(3)]**(3)**
Total	**(2,520)**	**1,192**	**-**	**82**	**1,310**	**-**	**-**	**64**	**921**

(1) Gains (losses) included in the statement of profit and loss under the item "interest income."
(2) Gains (losses) included in equity under the item "adjustments for presentation of securities available for sale at fair value."
(3) Gains (losses) included in the statement of profit and loss under the item "non-interest financing income."

Note 15 Balances and Fair-Value Estimates of Financial Instruments (continued)

Unaudited
NIS millions

D. Changes in items measured at fair value on a recurring basis included in Level 3 (continued)

	For the three months ended March 31, 2020								
	Fair value as at December 31, 2019	Gains (losses) included in statement of profit and loss(1)(3)	Gains (losses) included in equity(2)	Acquisitions	Extinguishment	Transfers to Level 3	Transfers from Level 3	Fair value as at March 31, 2020	Unrealized gains (losses) in respect of instruments held as at March 31, 2020
Assets									
Bonds available for sale									
Bonds of foreign financial institutions	177	5	3	-	-	-	-	185	(2)3
Net balances in respect of derivative instruments									
NIS-CPI contracts	113	71	-	-	(1)	-	-	183	(3)70
Other interest contracts	645	(385)	-	7	(46)	-	-	221	(3)(1)(358)
Foreign-currency contracts	464	(505)	-	121	(182)	-	-	(102)	(3)(307)
Share contracts	(206)	1,336	-	-	87	-	-	1,217	(3)772
Commodity and other contracts	9	47	-	(4)	(6)	-	-	46	(3)16
Embedded derivatives	(17)	1	-	(1)	7	-	-	(10)	(3)(9)
Total	1,185	570	3	123	(141)	-	-	1,740	187

(1) Gains (losses) included in the statement of profit and loss under the item "interest income."
(2) Gains (losses) included in the statement of comprehensive income under the item, "net adjustments for presentation of bonds available for sale at fair value."
(3) Gains (losses) included in the statement of profit and loss under the item "non-interest financing income."

Note 15 Balances and Fair-Value Estimates of Financial Instruments (continued)

Audited
NIS millions

D. Changes in items measured at fair value on a recurring basis included in Level 3 (continued)

	For the year ended December 31, 2020								
	Fair value as at December 31, 2019	Gains (losses) included in statement of profit and loss(1)(3)	Gains (losses) included in equity(2)	Acquisitions	Extinguishment	Transfers to Level 3	Transfers from Level 3	Fair value as at December 31, 2020	Unrealized gains (losses) in respect of instruments held as at December 31, 2020
Assets									
Bonds available for sale									
Bonds of foreign financial institutions	177	(16)	4	-	-	-	-	165	(2)4
Net balances in respect of derivative instruments									
NIS-CPI contracts	113	95	-	-	(39)	-	-	169	(3)62
Other interest contracts	645	(316)	-	8	(219)	-	-	118	(3)(1)(209)
Foreign-currency contracts	464	(2,533)	-	333	(466)	-	-	(2,202)	(3)11
Share contracts	(206)	(770)	-	-	224	-	-	(752)	(3)67
Commodity and other contracts	9	(1)	-	1	(9)	-	-	-	(3)_
Embedded derivatives	(17)	(8)	-	-	7	-	-	(18)	(3)(8)
Total	1,185	(3,549)	4	342	(502)	-	-	(2,520)	(73)

(1) Gains (losses) included in the statement of profit and loss under the item "interest income."
(2) Gains (losses) included in the statement of comprehensive income under the item, "net adjustments for presentation of bonds available for sale at fair value."
(3) Gains (losses) included in the statement of profit and loss under the item "non-interest financing income."

E. During the period, there were no transfers of items measured at fair value from Level 3 measurement to Level 2 measurement, with the exception of transfers due to transaction counterparty risk.

Note 15 Balances and Fair-Value Estimates of Financial Instruments (continued)

Unaudited

F. Additional information regarding significant unobservable inputs and assessment techniques used in the measurement of the fair value of items classified as Level 3

	March 31, 2021			
	Fair value	Assessment technique	Unobservable inputs	Range (weighted average by relative fair value)
	NIS millions			
1. Items measured at fair value on a recurring basis				
Assets				
Bonds of foreign financial institutions	**172**	Quote from transaction counterparty		
Net balances in respect of derivative instruments				
NIS-CPI contracts	**44**	Currency and interest-rate derivatives pricing model	Transaction counterparty risk	0.04%-4.09% (1.10%)
Other interest contracts	**167**	Interest-rate derivatives pricing model	Transaction counterparty risk	0.04%-14.94% (1.53%)
Foreign-currency contracts	**(70)**	Option pricing model	Transaction counterparty risk	0.04%-14.15% (0.41%)
Share contracts	**(249)**	Share derivatives pricing model	Transaction counterparty risk	0.04%-13.96% (0.46%)
Share contracts	**20**	Option pricing model	Quote from counterparty	-
Share contracts(1)	**-**	Option pricing model	Standard deviation	112.38%-112.38% (112.38%)
			Dividend yield	0.00%-0.00% (0.00%)
			Unlinked NIS interest rate	0.21%-0.21% (0.21%)
Foreign-currency contracts	**-**	Option pricing model	Quote from counterparty	-
Commodity and other contracts	**-**	Currency derivatives pricing model	Transaction counterparty risk	0.76%-0.76% (0.76%)
Embedded derivatives(2)	**(20)**	Option pricing model	Quote from counterparty	-
2. Items measured at fair value on a nonrecurring basis				
Investment in non-tradable shares	**185**	Valuation		
Impaired credit the collection of which is contingent on collateral	**612**	Tradable assets – market value less an appropriate safety coefficient		
		Non-tradable assets – discounted cash flow less an appropriate safety coefficient		

Sensitivity analysis of fair-value measurements classified as Level 3:

(1) An increase (decrease) in the standard deviation would lead to a significantly higher (lower) fair-value measurement. Conversely, an increase (decrease) in the dividend yield or in the discounting interest rate would lead to a significantly lower (higher) fair-value measurement.

(2) An increase (decrease) in the discounting interest rate would lead to a significantly lower (higher) fair-value measurement.

Note 15 Balances and Fair-Value Estimates of Financial Instruments (continued)

Unaudited

F. Additional information regarding significant unobservable inputs and assessment techniques used in the measurement of the fair value of items classified as Level 3 (continued)

	March 31, 2020			
	Fair value	Assessment technique	Unobservable inputs	Range (weighted average by relative fair value)
	NIS millions			
1. Items measured at fair value on a recurring basis				
Assets				
Bonds of foreign financial institutions	185	Quote from transaction counterparty		
Net balances in respect of derivative instruments				
NIS-CPI contracts	183	Currency and interest-rate derivatives pricing model	Transaction counterparty risk	0.72%-9.70% (3.22%)
Other interest contracts	221	Interest-rate derivatives pricing model	Transaction counterparty risk	0.70%-19.84% (2.78%)
Foreign-currency contracts	(102)	Option pricing model	Transaction counterparty risk	0.73%-19.74% (3.20%)
Share contracts	1,205	Share derivatives pricing model	Transaction counterparty risk	0.81%-19.65% (1.39%)
Share contracts	11	Option pricing model	Quote from counterparty	-
Share contracts(1)	-	Option pricing model	Standard deviation	80.82%-80.82% (80.82%)
	-		Dividend yield	0.00%-0.00% (0.00%)
			Unlinked NIS interest rate	0.34%-0.34% (0.34%)
Foreign-currency contracts	16	Option pricing model	Quote from counterparty	-
Commodity and other contracts	46	Currency derivatives pricing model	Transaction counterparty risk	0.81%-9.65% (5.67%)
Embedded derivatives(2)	10	Option pricing model	Quote from counterparty	-
2. Items measured at fair value on a nonrecurring basis				
Investment in non-tradable shares	-	Valuation		
Impaired credit the collection of which is contingent on collateral	548	Tradable assets – market value less an appropriate safety coefficient		
		Non-tradable assets – discounted cash flow less an appropriate safety coefficient		

Sensitivity analysis of fair-value measurements classified as Level 3:

(1) An increase (decrease) in the standard deviation would lead to a significantly higher (lower) fair-value measurement. Conversely, an increase (decrease) in the dividend yield or in the discounting interest rate would lead to a significantly lower (higher) fair-value measurement.

(2) An increase (decrease) in the discounting interest rate would lead to a significantly lower (higher) fair-value measurement.

Note 15 Balances and Fair-Value Estimates of Financial Instruments (continued)

Audited

F. Additional information regarding significant unobservable inputs and assessment techniques used in the measurement of the fair value of items classified as Level 3 (continued)

	December 31, 2020			
	Fair value	Assessment technique	Unobservable inputs	Range (weighted average by relative fair value)
	NIS millions			
1. Items measured at fair value on a recurring basis				
Assets				
Bonds of foreign financial institutions	165	Quote from transaction counterparty	Quote from transaction counterparty	
Net balances in respect of derivative instruments				
NIS-CPI contracts	169	Currency and interest-rate derivatives pricing model	Transaction counterparty risk	0.23%-4.84% (1.68%)
Other interest contracts	118	Interest-rate derivatives pricing model	Transaction counterparty risk	0.23%-15.52% (2.04%)
Foreign-currency contracts	(2,208)	Option pricing model	Transaction counterparty risk	0.23%-15.78% (0.51%)
Share contracts	(770)	Share derivatives pricing model	Transaction counterparty risk	0.23%-2.76% (0.29%)
Share contracts	18	Option pricing model	Quote from counterparty	-
Share contracts(1)	-	Option pricing model	Standard deviation	107.95%-107.95% (107.95%)
			Dividend yield	0.00%-0.00% (0.00%)
			Unlinked NIS interest rate	0.10%-0.10% (0.10%)
Foreign-currency contracts	6	Option pricing model	Quote from counterparty	-
Commodity and other contracts	-	Currency derivatives pricing model	Transaction counterparty risk	0.23%-14.62% (0.88%)
Embedded derivatives(2)	(18)	Option pricing model	Quote from counterparty	-
2. Items measured at fair value on a nonrecurring basis				
Investment in non-tradable shares	28	Valuation		
Impaired credit the collection of which is contingent on collateral	600	Tradable assets – market value less an appropriate safety coefficient		
		Non-tradable assets – discounted cash flow less an appropriate safety coefficient		

Sensitivity analysis of fair-value measurements classified as Level 3:

(1) An increase (decrease) in the standard deviation would lead to a significantly higher (lower) fair-value measurement. Conversely, an increase (decrease) in the dividend yield or in the discounting interest rate would lead to a significantly lower (higher) fair-value measurement.

(2) An increase (decrease) in the discounting interest rate would lead to a significantly lower (higher) fair-value measurement.

Note 16 Regulatory Initiatives

The coronavirus crisis and the banking system

The coronavirus crisis began in Israel in February 2020. In view of the crisis and the adjustments necessary in the activity of the banking system, the Bank of Israel issued a series of regulatory reliefs during the course of 2020 aimed at coping with the crisis. Most of the reliefs granted have been extended until the end of September 2021, in accordance with the update of Proper Conduct of Banking Business Directive 250, as issued by the Banking Supervision Department on March 22, 2021.

Among other matters, these include reliefs in the area of credit and reliefs permitting the availability of remote banking services, such as:

Proper Conduct of Banking Business Directive 315, "Industry Indebtedness Limit" – Expansion of the limit on total credit (net of indebtedness for national infrastructures) for the construction and real-estate sector from 20% to 22% of total indebtedness of the public (the limit including indebtedness for national infrastructures has been expanded from 24% to 26%). This relief has been extended until 24 months have elapsed from December 31, 2025.

Proper Conduct of Banking Business Directive 325, "Management of Credit Facilities in Current Accounts" – In view of the estimate that more customers will encounter cash-flow problems due to the crisis, the amendments to the directive are aimed at allowing banks to accept debits of customers who deviate from the credit facility granted to them, and to provide unilateral additional credit facilities at a volume of NIS 5,000 for private customers and NIS 100,000 for commercial customers, for three days from the date of formation of the deviation.

Proper Conduct of Banking Business Directive 329, "Limits on Issuing Housing Loans" – Banks are permitted to grant all-purpose loans secured by a mortgage on a residence at a financing rate of up to 70%, versus the present rate of 50%. Loans will be granted according to this relief subject to a declaration of the borrower that the loan is not for the purpose of purchasing a residence as an investment. The bank can also rely on the income of the borrower prior to the period of the coronavirus, under certain conditions.

Proper Conduct of Banking Business Directive 367, "E-Banking," and Proper Conduct of Banking Business Directive 420, "Sending Notices via Means of Communication" – In order to support the accessibility of existing communication channels to customers, with an emphasis on possibilities for remote activities, it has been agreed that banks are permitted to proactively send their customers messages through e-banking channels proposing registration for these services and guiding them on how to do so, even without having the customer sign an e-banking agreement. An update has also been issued raising the volume of activity to which the reliefs with regard to identification and verification apply, from NIS 50,000 to NIS 100,000, subject to compliance with all relevant laws and with the terms specified in the Temporary Order.

Proper Conduct of Banking Business Directive 439, "Debits by Authorization" – The Bank of Israel allows banks to receive orders from customers to cancel debits by authorization or account debit authorizations via telephone, rather than only by written notice, provided that the call is documented.

Note 16 Regulatory Initiatives (continued)

Amendment to Insolvency and Economic Rehabilitation Law (Amendment No. 4) (Stay of Proceedings for the Formulation and Approval of a Debt Arrangement) (Temporary Order – Novel Coronavirus), 2021. The bill passed in the second and third readings on March 1, 2021. The purpose of the law is to create a trajectory for coping with the increase in the number of debtors who seek debt arrangement procedures or insolvency procedures as a result of the period of the coronavirus pandemic, and to apply adaptations to the specific characteristics of these debtors, by delaying the possibility for creditors to initiate insolvency proceedings and by encouraging debtors to seek debt arrangement proceedings.

The stay of proceedings is permitted for a period of one year. Debtors will retain control over their assets during the period of the stay of proceedings. A stay of proceedings for the purpose of formulation and approval of a debt arrangement is permitted for a period of up to three months, at the discretion of the court.

Regulatory reforms for increased competition in the banking system

Several regulatory initiatives have been formulated over the last few years, with the primary aim of increasing competition in the banking system in Israel; several additional regulatory initiatives are in preliminary stages.

Law for Increasing Competition and Reducing Concentration in the Banking Market in Israel

The Law for Increasing Competition and Reducing Concentration in the Banking Market in Israel (Legislative Amendments), 2017, was published in January 2017, on the basis of the report of the public committee appointed by the Minister of Finance and the Governor of the Bank of Israel (the Strum Committee).

- In accordance with the Law for the Protection of Competition, the Bank completed its separation from the Isracard Group on March 9, 2020.
- As part of the infant competitor protections for the credit-card companies, the Bank was required to reduce its credit facilities by 50%, relative to the credit facilities it allocated in 2015, by February 2021. Subsequently, the Bank would not be permitted to enlarge its credit facilities for three additional years. The Order for Increasing Competition and Reducing Concentration in the Banking Market in Israel (Legislative Amendments) (Change in Rate and Amounts with Regard to the Reduction of Credit Facilities Pursuant to Section 9(c) of the Law) (Temporary Order), 2020, passed on November 11, 2020, states that in light of the coronavirus crisis and the financial distress of many customers, from the end of January 2021 to the end of January 2022 the cutback will stand at 45% of the credit facility of the customer in 2015, and up to a minimum of NIS 7,500 per month, instead of the originally established minimum of NIS 5,000. The Bank has acted to reduce the credit facilities, as required, and is in compliance with this requirement as of the date noted.

Law for Online Bank Account Switching

The law for the establishment of an automatic bank account switching system, based on the CASS (Current Account Switch Service) established in England, was passed by the Knesset in February 2018, as part of the economic plan (the Arrangements Law) for 2018. According to the law, banks will be required to allow secure online transfers for customers, within seven business days, at no cost to the customer.

Note 16 Regulatory Initiatives (continued)

In June 2019, the Governor of the Bank of Israel issued initial rules pursuant to the law, concerning the types of accounts for which the banks will be required to allow switching within the system. According to the data of the Bank of Israel, approximately 80% of current accounts of households will be transferable using the system. In June 2019, the Banking Supervision Department issued a draft of rules regarding the types of products transferable using the system. On December 16, 2019, the Bank of Israel issued the Banking Rules (Service to Customers) (Transferring the Financial Activity of Customers Between Banks), and Proper Conduct of Banking Business Directive 448, "Online Transfers of the Financial Activity of Customers Between Banks," which regulates the series of actions required of the receiving bank and the transferring bank when switching banks, and specifies the obligations applicable to each bank (the transferring bank and the receiving bank). Deferral of the inception of the law by six months, to September 22, 2021, was approved on June 30, 2020.
In a related and supplementary legislative procedure, the Bill for Electronic Clearing of Checks and Checks Without Cover (Legislative Amendments), 2021, passed in the second and third readings on February 8, 2021. This law contains the required adjustments in this area in all matters related to check clearing.
A memorandum of law on the subject, "Responsibility of a Receiving Bank," was issued in February 2021 with the aim of completing the legislative process and determining the arrangements for the responsibility applicable to bank account switching. The memorandum of law proposes establishing a "single point of contact" for the customer, which would be the party responsible for completing the switching procedure, remedying flaws and errors in the process, and providing compensation in the event of damage.

Reduction of entry barriers for new banks

IT services bureau – In September 2018, the Ministry of Finance issued rules for grants for the establishment of an IT bureau; in March 2019, TCS was selected as the winning supplier to receive a grant from the Ministry of Finance for the establishment of an IT bureau, which will set up IT infrastructures and provide comprehensive banking IT services to financial entities. In August 2019, the Banking Supervision Department instructed the banks to prepare to connect to the IT services bureau during 2020. The Bank is preparing to comply with the directive as required. The IT services bureau became operational on March 1, 2021.

Open API

Within the Law for Increasing Competition in the Banking System, the Bank of Israel initiated the Open Banking Procedure. The procedure establishes rules for viewing of the financial information of a customer by a third party. The procedure states that access to the information of consenting customers will be granted using open API (open banking). The banks will allow third parties a secure connection to their databases, and, after receiving authorization from the customer, the third parties will be able to provide cost comparison and financial information collection services.
In practice, the Bank is obligated to allow the transfer of information regarding customers' accounts to third parties providing customers with consulting, cost comparison, and financial information summation services. Such transfer shall be subject to the customer's approval, and shall be performed using open API.

Note 16 Regulatory Initiatives (continued)

An updated schedule was issued by the Bank of Israel on April 5, 2021: Phase 1, which includes the consent model and current-account balances and transactions, became operational on April 18, 2021. The implementation of Phase 2 was postponed by approximately four months, to January 31, 2022; this phase encompasses transaction statements for bank and non-bank charge cards, and access to the issuance of orders to transfer payment from the customer's bank account. Phase 3, postponed by two months to May 31, 2022, includes access to additional information of customers – credit and loans, deposits, and savings. A schedule has not yet been set for Phase 4, which includes information regarding the customer's securities portfolio.
In addition, a draft Proper Conduct of Banking Business Directive on the subject, "Relationships of Banking Corporations with Cost Comparison Service Providers," was issued on March 3, 2021, aimed at regulating key aspects of the manner and procedure of engagement of banking corporations with cost comparison service providers.

Additional material directives and initiatives since the beginning of 2021

- **Proper Conduct of Banking Business Directive 311A, "Consumer Credit Management" –** Proper Conduct of Banking Business Directive 311A concerning the management of consumer credit was issued on February 4, 2021. The purpose of the directive is to establish minimum standards and norms of conduct expected in the activity of the banking system with households, including:
  - Restriction of the scope of retail credit to the financial capability of the customer, and avoidance of granting credit that may constitute an excessive burden on the household.
  - Strict adherence to appropriate marketing processes towards customers.
  - Strict adherence to relevant and complete disclosure to customers.
  - Ensuring that remuneration mechanisms at the Bank do not encourage unfair conduct.
- **New Proper Conduct of Banking Business Directive 443, "Inactive Deposits and Accounts of Deceased Owners" –** A Proper Conduct of Banking Business Directive issued on November 15, 2020, specifying the obligations of banks, with respect to inactive deposits, to attempt to contact the owner of an inactive deposit, near the maturity date of the deposit. The obligation to find the owner specified in the procedure establishes, among other matters, a hierarchy of required actions, according to the circumstances, which the bank must apply in order to contact the owner of an inactive deposit, by using the information in the bank's records and by contacting the Population Registry, as relevant. This Proper Conduct of Banking Business Directive will take effect on November 15, 2021.

Note 16 Regulatory Initiatives (continued)

- **Proper Conduct of Banking Business Directive on the subject, "Implementation of the CECL Rules in Housing Loans," issued January 17, 2021 –** Further to the letter of the Banking Supervision Department of March 28, 2018, concerning the adoption of US GAAP on the subject of allowances for current expected credit losses (CECL), the Banking Supervision Department issued directives concerning the implementation of the financial reporting rules expected to apply to housing loans. Pursuant to the amendments, banking corporations are required to deduct amounts from common equity Tier 1 capital in respect of housing loans classified as nonaccruing loans over a long period. The amendments are being applied in view of the elimination of the minimum allowance based on the extent of arrears in respect of housing loans (which was a minimum rate of 0.35% up to this point), the unique characteristics of collection of housing loans in Israel, and the requirements established in Regulation 2019/630 of the European Union regarding minimum loss coverage for non-performing exposures. The Bank is preparing to implement this standard, which is expected to take effect beginning with the publication of the financial statements for the first quarter of 2022.
- **Update of Proper Conduct of Banking Business Directive 329, "Limits on Issuing Housing Loans," of December 27, 2020 –** Removes the Prime limit which applied until now. Section 7 of the directive establishes two limits: first, that the part of the loan at a Prime interest rate shall not exceed one-third of the total loan, and second, that the overall part of the loan at a floating rate of interest shall not exceed two-thirds of the total loan. The update removes the first limit (the Prime rate limit), but retains the limit on the floating rate, which states that at least one-third of the total mortgage must be granted at a fixed rate of interest, and up to the remaining two-thirds can be granted at a floating rate of interest. The amendment took effect on January 17, 2021, with respect to new mortgage takers, and on February 28, 2021, with respect to mortgage refinancing.

Bills published in the Official Gazette of the Israeli Government taking effect in the near future

- **The Checks Without Cover Law (Amendment 14), 2020,** passed in the second and third readings on August 18, 2020, and was published in the Official Gazette of the Israeli Government. The law, which is slated to take effect in August 2021, states that banks must notify customers that a check they have given is designated for rejection, and the customers must be given one business day to deposit money in their account in order for the check to clear. Implementation of the law requires significant preparations and extensive developments. The Bank of Israel issued an update of Proper Conduct of Banking Business Directive 420, on February 25, 2021, regulating the preparation of the banks for compliance with the amendment to the law.

Note 16 Regulatory Initiatives (continued)

- **The Equal Pay for Male and Female Workers Law (Amendment – Mandatory Publication of Annual Report), 2020,** passed in the second and third readings on August 25, 2020, and was published in the Official Gazette of the Israeli Government. The amendment states than an employer with more than 518 employees must collect data and prepare an internal report, once a year, detailing the average wages of male and female employees, with specifics of the gaps in average wages between men and women in each segment of employees in the workplace. Once annually, the employer must provide information to every employee in the workplace regarding the segment of employees to which the employee belongs, the types of positions included in that segment, and the wage gap in that segment. The inception date of the law is sixty days from the date of publication. The first report pursuant to the directives of the law is to be prepared by June 1, 2022, with reference to the preceding year.
- **Credit Data Regulations (Amendment 1), 2020 –** On January 6, 2021, the Economics Committee passed Amendment 1 to the Credit Data Regulations, containing reliefs for the public. The goal of the amendment is to ensure that credit service providers receive clear, documented consent from customers for the transfer of their credit data. The amendment will take effect six months from the approval of the regulations.

These regulatory initiatives affect the business of the Bank Group in the future. The Bank is examining the legal and operational implications, both in the immediate range, for implementation purposes, and the longer-term impacts. Such effects cannot always be quantified when they initially arise, and depend, among other matters, on consumer behavior patterns, additional related regulatory changes, and the conduct of other market players.

Note 17 Effects of the Coronavirus Crisis

The coronavirus began to spread rapidly around the world during the first quarter of 2020; in response, governments, including in Israel, took defensive measures such as restriction of international travel, quarantines, reduction of congregation and movement, lockdowns, restrictions of the activity of private businesses and of government and municipal services, and more. In Israel, the early part of the first quarter of 2021 was affected by high numbers of coronavirus cases and by government-imposed lockdowns and restrictions. These restrictions were gradually removed beginning in February, in light of the rapid vaccination of the population and the sharp drop in the volume of cases. At the same time, some parts of the world are experiencing significant case numbers, limited availability of vaccines, and various restrictions. The state of the global pandemic and the concern over vaccine-resistant variants are generating a certain degree of uncertainty regarding the continuation and implications of the health crisis.

Despite the improvement in the first quarter of 2021, the crisis of the spread of the coronavirus has had a negative effect on economic activity in Israel, to which the activity of the Bank is exposed, and it has and is expected to have impacts on the business of the Bank, including due to an increase in credit risk and in liquidity problems of borrowers, in both the corporate and private sectors. The reduction of short-term interest rates by the central banks also has the effect of reducing financing income and interest income of the Bank. This adds to the risk of decreases in prices of tradable assets and changes in bond spreads, which may have an adverse effect on the value of the tradable assets of the Bank, and additional effects.

In view of the crisis of the spread of the coronavirus, and in order to ensure the ability of the banks to continue to offer credit, the Banking Supervision Department reduced credit requirements for banks, under a temporary order (which has been extended until September 30, 2021); for further details, see the note, "Capital, capital adequacy, leverage, and liquidity" above.

From the beginning of the crisis to December 31, 2020, the Bank recorded an increase in the collective provision for credit losses in the amount of approximately NIS 1.6 billion, in addition to individual provisions in respect of specific identified borrowers. For further details, see the Financial Statements as at December 31, 2020.

In the first quarter of 2021, the Bank recorded income from credit losses in a total amount of approximately NIS 508 million (of which, income in the amount of approximately NIS 476 million is recorded in the collective allowance). The decrease in the collective allowance was recorded in view of the improvement in macroeconomic parameters, and the continued decrease in the volume of debts in deferral of payments.

Due to the coronavirus crisis, as at March 31, 2021, loan payments (principal and/or interest) in the amount of approximately NIS 633 million were deferred, of the total loans in deferral of payments.

It is not possible to estimate the scope of the future spread of the virus, or the responses of governments and central banks, in terms of the restrictions to be imposed on the economy as well as the measures to support and stimulate economic activity, or the reaction of the economies and the markets. It is also not possible to estimate or quantify the duration and extent of the crisis, or its future impact on the global economy, the Israeli economy, the customers of the Bank, and the Bank itself.

Bank Hapoalim

Corporate Governance,
Additional Information and Appendices
as at March 31, 2021

Q1

Contents

List of Tables

5. Corporate governance

5.1. Internal audit

Details regarding the Group's internal auditing, including the professional standards under which internal audit operates and the considerations involved in formulating the annual and multi-year work plans, are provided in the Annual Report for 2020. No material changes occurred in this information during the reported period.

5.2. Other matters

Further to the statements in Note 22C(3) to the Annual Financial Statements of the Bank for 2020 regarding the terms of service of the Chairman of the Board approved by the general meeting of the Bank in October 2020, on March 21, 2021, after the Bank received a reply from the Israel Securities Authority, which was coordinated with the Ministry of Justice and the Bank of Israel, to the preliminary inquiry of the Bank on this matter, the Board of Directors of the Bank resolved that the directives of the law and the guidelines of the supervisory agencies do not preclude the remuneration and terms of service approved for the Chairman of the Board by the aforesaid general meeting. Accordingly, the Bank supplemented the payment to the Chairman of the Board with the balance of the remuneration to which he is entitled as of the beginning of his term of service as Chairman (June 28, 2020; the difference between the terms of service approved and the directors' remuneration which he received during this period). In light of the position of the Israel Securities Authority, Mr. Krupik will continue to serve as an external director pursuant to the provisions of Proper Conduct of Banking Business Directive 301, and will not be classified as an independent director pursuant to the provisions of the Companies Law. In addition, he will continue to be subject to the eligibility conditions included in the Banking Ordinance, which apply to all directors at the Bank, including maintaining independence and the requirement for a lack of affinity to the Bank.

In response to the request of the Bank, in April 2021 the Committee for the Appointment of Directors at Banking Corporations issued a notice to the public regarding the submission of applications for service as a director at the Bank. In advance of the annual meeting for 2021, the committee will propose candidates to the general meeting for three positions: two external directors pursuant to Directive 301 (for the office of Ruben Krupik, whose second term of service ends in February 2022, and one additional position), and one "other" director (for the office of Richard Kaplan, whose first term of service ends in October 2021).

Decentralization of the controlling core of the Bank and transition to a bank without a controlling core

Until November 2018, Ms. Shari Arison held the permit for control of the Bank, through Arison Holdings (1998) Ltd. ("Arison Holdings"). On November 22, 2018, Ms. Arison's control permit was replaced by a permit to hold means of control, which she received from the Bank of Israel (a "holding permit"), allowing the control of the Bank to be decentralized, and the Bank became a banking corporation without a controlling core. Pursuant to the terms of the holding permit, Ms. Arison, who holds approximately 11.35% of the shares of the Bank at the date of publication of this statement, is required to sell her holdings in the Bank in excess of 5% within several years (by November 2022, with possible extension by an additional two years, with the approval of the Supervisor of Banks). For additional information regarding the holding permit, the change in the structure of control of the Bank, and the consequences thereof, see Section 6.6 in the Corporate Governance section of the Annual Financial Statements of the Bank for 2018.

Imposition of monetary sanctions by the Israel Securities Authority

On January 5, 2021, the Bank received notice from the Israel Securities Authority (the "ISA") of a demand for the payment of a monetary sanction in the amount of NIS 480 thousand, pursuant to Section 38A of the Law for Regulation of the Occupation of Investment Advising, Investment Marketing, and Investment Portfolio Management, 1995 (the "Advising Law").

The monetary sanction was imposed due to deficiencies at the Bank in connection with the execution of an annual procedure for elucidation of its customers' needs in accordance with the directives of the ISA, including documentation of conversations on updates of needs with customers, by two investment advisors at the Bank, without actually conducting the conversations, and failure to conduct conversations on updates of needs for more than one year with certain customers of the aforesaid two investment advisors.

This is the amount of the monetary sanction after a reduction of 40%, which was decided upon by the ISA due, among other matters, to arguments made by the Bank.

Head Office structure

The Bank is examining alternatives for the relocation of Head Office units and the concentration of these units in a single building with advanced infrastructures and work environments. Within this process, the Bank is conducting talks for the acquisition of a suitable property, and is in advanced negotiations with an entrepreneur establishing one of the alternatives.

6. Additional information regarding the business of the corporation and the management thereof

6.1. Segments of activity based on management approach

6.1.1. Private Customer Segment

General information and segment structure

The Bank provides a wide range of services to private customers, including routine account-management services, credit granting for various purposes, deposits, savings plans, and capital-market activity. In addition, the Bank offers services and solutions to customers with complex financial needs, through advanced products, global asset management, and a professional service package, which includes meetings, proactively initiated telephone calls, and an advanced advisory system aided by decision support tools.

Services are provided to customers through a network of 184 branches, in addition to five Platinum Centers for selected customers, a mobile branch, and five advising centers, as well as through direct channels, including self-service stations at branches and on customer premises, Poalim Online, Poalim Mobile, the Poalim by Telephone call center, the Connect center for digitally oriented customers, the interactive voice response (IVR) system for information and transactions, and social media.

As part of the Bank's approach to service and social responsibility, the Bank considers accessibility to people with disabilities an essential issue and its duty as a business; accordingly, all of the Bank's services have been made accessible to people with disabilities.

There has been an ongoing trend over the last few years of growth in banking activity through unstaffed channels (self-service automatic teller machines, the website, applications, the mobile site, and the automatic voice response at the Poalim by Telephone call center).

In addition to this trend, the Bank has increased the use of the service for scheduling appointments with bankers and added channels for scheduling appointments, allowing customers a high-quality, professional, individual encounter.

Actions taken by the Bank to cope with the spread of the coronavirus

Greeters and attendants have been posted at branches open to the public, to assist customers in operating digital means and self-service devices, while adhering to the instructions of the Ministry of Health.

Customers are advised to schedule appointments with the personal, private, and business banking departments.

Appointments scheduled in advance are recommended for customers interested in cash services from a teller. Service is provided without a scheduled appointment for specified population groups: customers over the age of 65, pregnant women, people with disabilities, customers without Israeli means of identification, and exceptional cases.

The Bank has made it easier for customers to receive service at the call centers, and added new transactions and options available through the automated voice response system and through bankers.

The age threshold of the dedicated line for elderly customers has been lowered from 70 to 65 (customers who call this line receive service from a human banker, with high availability, sensitivity, and professionalism).

As part of the effort to cope with this complex and challenging situation, the Bank has introduced several products and processes aimed at providing relief to its customers, including:

- Allowing spreading of loan payments for private customers and deferral of principal payments for business clients.
- Proposals for customers of the Bank to receive credit with preferred terms through digital means.
- An online course for customers of the Bank on the possibilities and advantages of the direct channels.
- Extension of the grace period for Instant Credit and multi-channel loans (from three months to six months).
- Reliefs regarding deviation from credit facilities, following the relief granted by the Bank of Israel within Proper Conduct of Banking Business Directive 325, "Management of Credit Facilities in Current Accounts," in the Temporary Order, due to the coronavirus crisis. In view of the estimate that more customers will encounter cash-flow problems due to the crisis, the temporary reliefs are aimed at allowing banks to accept debits of customers who deviate from the credit facility granted to them, and to provide unilateral additional credit facilities at a volume of NIS 5,000 for private customers and NIS 100,000 for commercial customers, for three days from the date of formation of the deviation. This relief has been extended until the end of September 2021.
- New products launched in early October 2020: the Thinking Ahead package, for customers hurt by the coronavirus period.
- A multi-channel loan for professional development, to finance professional studies.
- Loans to finance tuition for students, with an option for a grace period of up to three years (principal or principal and interest).
- A loan designated for spreading of loan payments for up to 96 months, with a grace period of up to one year (at a branch, after exploration of needs).
- A loan for miscellaneous purposes during the coronavirus period, in effect until the end of the first quarter of 2021.
- Certain banking services available remotely through the direct and digital channels, including for customers who have not yet signed an e-banking agreement. This availability is possible due to the reliefs granted by the Bank of Israel in the Temporary Order (Proper Conduct of Banking Business Directive 250), which are in effect, as noted above, until the end of September 2021.

Deferral of payments for customers of the Bank

One of the first economic measures taken at the onset of the crisis to enable people harmed by the pandemic to bridge the cash-flow gap, and to help them navigate the period of uncertainty, was the formulation of a trajectory for the deferral of loan payments, with the Bank of Israel, which was adopted by the banking system. The trajectory allowed customers to defer payments on bank loans in three activity segments: mortgages, consumer credit, and credit for businesses. This trajectory was approved by the Board of Management and implemented at the divisions of the Bank.

The trajectory was extended and expanded by the Bank of Israel several times. Another trajectory applied as of January 1, 2021, allows households to defer mortgage and consumer loan payments for a relatively long period (up to 36 months), with flexible spreading; in contrast to the previous trajectory, the emphasis is on borrowers resuming payment on an easier schedule. The payment deferral trajectories join a long series of policy measures applied by the Bank of Israel since the beginning of the crisis, alongside government assistance for businesses, including state-backed funds, which form a broad package helping many businesses cope with the impacts of the crisis.

Loan payment deferral helped customers and businesses whose income was harmed by the crisis at the time of need, by allowing them to reduce their monthly expenses and come through the crisis successfully. At this time, regular payment has resumed on most of the deferred loans, without arrears.

Another measure promoted at the level of the Israeli economy to assist and support customers harmed by the coronavirus crisis is the amendment to the Insolvency and Economic Rehabilitation Law (Amendment No. 4) (Stay of Proceedings for the Formulation and Approval of a Debt Arrangement) (Temporary Order – Novel Coronavirus), 2021. The bill passed in the second and third readings on March 1, 2021. The purpose of the law is to create a trajectory for coping with the increase in the number of debtors who seek debt arrangement procedures or insolvency procedures as a result of the period of the coronavirus pandemic, and to apply adaptations to the specific characteristics of these debtors, by delaying the possibility for creditors to initiate insolvency proceedings and by encouraging debtors to seek debt arrangement proceedings.

The stay of proceedings is permitted for a period of one year, during which debtors will retain control over their assets. A stay of proceedings for the purpose of formulation and approval of a debt arrangement is permitted for a period of up to three months, at the discretion of the court.

Pension advising

The successful vaccination rollout in Israel, which contributed to a decrease in coronavirus cases, and the rising pace of vaccination overseas, have also made their mark on the capital market, with positive returns on pension assets in the first quarter of 2021.

Collection

Work processes have been adjusted in view of the coronavirus crisis, with the aim of helping customers cope with the economic difficulties of this period:

- Time limits for working with customers have been expanded at Poalim Recovery, the collection centers, and external law firms, with the aim of exhausting the possibilities for settling debts without legal procedures, to the extent possible.
- Collection activities are conducted according to the regulations of the various judicial authorities concerning emergency procedures due to the spread of the coronavirus.
- Evictions from residential properties are not performed (with the exception of realizations with customer consent).

Technological changes that may have a material impact on the segment

Digital wallets

The Bank has launched a digital wallet for smartphones running on Android operating systems, administered within the Bit application.

The Bit Wallet is based on contactless EMV proximity-based payment technology, for the execution of transactions with businesses using charge cards by tapping the smartphone to the point of sale (the payment terminal). The Bit Wallet is an "open" wallet, meaning that Bit users can use it with charge cards of the Bank as well as with cards issued to them by other issuers who have consented to such use. The Bit Wallet can also be used by users who register for Bit with charge cards whose issuers have not consented to the use of the Bit Wallet, through a non-bank club card, the Bitcard, issued for this purpose by Cartisei Ashrai LeIsrael Ltd. (CAL).

On May 5, 2021, Apple launched its digital wallet, Apple Pay. The entry of the Apple wallet into the Israeli market (as in other parts of the world) is expected to significantly boost the use of digital wallets, and consequently also the readiness of businesses to acquire the capability to accept payment in this manner. The launch is also expected to have a favorable impact on the use of the Bit Wallet of the Bank, as the arrival of Apple has the power to support the market's transition to this new form of payment. In addition, Bank customers' use of their bank card with the Apple wallet reinforces the customer relationship.

Regulatory changes – legislative restrictions, standards, and special constraints applicable to the segment

Heightened regulation has been evident in recent years, as part of the plan to increase competition in the banking market:

- The law for the establishment of an online system for moving accounts from bank to bank, based on the CASS (Current Account Switch Service) established in England, was passed by the Knesset in February 2018, as part of the economic plan (the Arrangements Law) for 2018. Pursuant to the law, banks shall allow customers a safe, online transfer within seven business days, at no cost to the customer. On December 16, 2019, the Banking Supervision Department issued rules regarding the types of products transferable using the system, including authorizations to debit an account, management of negative balances in NIS and in foreign currency, management of securities, and more. A Proper Conduct of Banking Business Directive was also issued on December 16, 2019, regulating the series of actions required of the receiving bank and the transferring bank when switching banks, which specifies the obligations applicable to each bank (the transferring bank and the receiving bank), among other matters. Deferral of the inception of the law by six months, to September 22, 2021, was approved on June 30, 2020. In a related and supplementary legislative procedure, the Bill for Electronic Clearing of Checks and Checks Without Cover (Legislative Amendments), 2021, passed in the second and third readings on February 8, 2021. This law contains the required adjustments in this area in all matters related to check clearing. A memorandum of law on the subject, "Responsibility of a Receiving Bank," was issued in February 2021 with the aim of completing the legislative process and determining the arrangements for the responsibility applicable to bank account switching. The memorandum of law proposes establishing a "single point of contact" for the customer, which would be the party responsible for completing the switching procedure, remedying flaws and errors in the process, and providing compensation in the event of damage.

- **Update of the Checks Without Cover Law –** In Amendment 14 to the Checks Without Cover Law, issued on August 18, 2020, it was decided that banks are required to send notification to customers before returning a check due to insufficient funds. This update will take effect within one year. The bank will send notices to the owner of the account on which the check is drawn, to inform them of the need to deposit money into the account, thereby preventing the refusal of the check, up to 2.5 hours before the end of the business day. If monies allowing the check to be drawn are not deposited by the deadline, the check will be returned due to insufficient funds.
- **Proper Conduct of Banking Business Directive 443, "Inactive Deposits and Accounts of Deceased Owners" –** A new directive issued on November 15, 2020, specifying the obligations of banks with respect to inactive deposits and the methods of contacting the owner of an inactive deposit near the maturity date of the deposit. The obligation to find the owner specified in the procedure establishes, among other matters, a hierarchy of required actions, according to the circumstances, which the bank must apply in order to contact the owner of an inactive deposit, by using the information in the bank's records and by contacting the Population Registry, as relevant. This Proper Conduct of Banking Business Directive will take effect on November 15, 2021.
- **Strum Committee implementation – reduction of credit facilities –** The Order for Increasing Competition and Reducing Concentration in the Banking Market in Israel (Legislative Amendments) (Change in Rate and Amounts for the Reduction of Credit Facilities Pursuant to Section 9(c) of the Law) (Temporary Order), 2020, passed on November 11, 2020, states that in light of the coronavirus crisis and the financial distress of many customers, from the end of January 2021 to the end of January 2022 the cutback will stand at 45% of the credit facility of the customer in 2015, and up to a minimum of NIS 7,500 per month, instead of the originally established minimum of NIS 5,000. The Bank has acted and continues to act in accordance with the directives of the law.

These regulatory initiatives sometimes have an adverse effect on the income and expenses of the Bank, and may sometimes have an adverse effect on the business of the Bank Group in the future. The Bank is reviewing the overall implications of the foregoing for the Bank's income, as well as additional long-term business and operational implications. These effects cannot be quantified at this stage, and depend on customers' behavior, additional regulatory changes, and the activity of competitors, among other factors.
For additional information regarding regulatory initiatives that may have an impact on the activity of the segment, including information regarding the Law for Increasing Competition and Reducing Concentration in the Banking Market in Israel (the "Strum Committee"), see Note 16 to the Condensed Financial Statements.

Table 6-1: Results of operations and principal data of the Private Customer Segment

	For the three months ended March 31	
	2021	2020*
	NIS millions	
Total net interest income	**496**	655
Non-interest financing income	**2**	3
Total net financing profit	**498**	658
Fees and other income	**365**	406
Total income	**863**	1,064
Provision (income) for credit losses	**(229)**	131
Total operating and other expenses	**920**	855
Profit (loss) from continued operations before taxes	**172**	78
Provision for taxes (tax benefit) on profit (loss) from continued operations	**68**	37
Net profit (loss) attributed to shareholders of the Bank	**104**	41
Net credit to the public at the end of the reported period	**37,225**	39,410
Deposits from the public at the end of the reported period	**224,406**	210,088

* Reclassified.

Principal changes in net profit and balance sheet balances

Net profit attributed to shareholders of the Bank in the Private Customer Segment totaled NIS 104 million in the first quarter of 2021, compared with net profit in the amount of NIS 41 million in the same quarter last year. The increase mainly resulted from the recognition of income from credit losses, compared with a provision for credit losses in the same quarter last year. By contrast, net financing profit and income from fees decreased.

Net financing profit totaled NIS 498 million in the first quarter of 2021, compared with NIS 658 million in the same quarter last year. The decrease resulted from a decrease in credit balances and spreads, and from a decrease in spreads on deposits, due to a decrease in the dollar and shekel interest rates.

Income from fees totaled NIS 365 million in the first quarter of 2021, compared with NIS 406 million in the same quarter last year. The decrease mainly resulted from a decrease in credit-card fees and in account-management fees.

Income in respect of credit losses totaled NIS 229 million in the first quarter of 2021, compared with a provision in the amount of NIS 131 million in the same quarter last year. The change mainly resulted from a decrease in the collective allowance, due to the improvement in macroeconomic parameters and the continued decrease in the volume of debts in deferral of payments, which led to a decrease in collective allowance rates, in addition to the continued downward trend in automatic charge-offs.

Operating and other expenses of the segment totaled NIS 920 million in the first quarter of 2021, compared with NIS 855 million in the same quarter last year. The increase mainly resulted from an increase in salary expenses, due to the increase in the provision for bonuses, as a result of differences in returns.

Net credit to the public totaled approximately NIS 37.2 billion as at March 31, 2021, similar to the balance as at December 31, 2020.

Deposits from the public totaled approximately NIS 224.4 billion as at March 31, 2021, compared with approximately NIS 218.5 billion as at December 31, 2020. The increase mainly resulted from the continued monetary expansion applied by the Bank of Israel and the enlargement of the monetary base, and from a continued increase in savings of the public.

For additional information regarding credit risk with respect to private individuals, see "Credit risk" in the section "Review of risks" in the Report of the Board of Directors and Board of Management.

6.1.2. Small Business Segment

General information and segment structure

The Bank provides a range of banking services and financial products to small businesses. The segment's activities are conducted through the Bank's nationwide branch network and through the direct channels (see the section "Private Customer Segment" above). The branch network also provides necessary services to business customers of the Corporate and Commercial Segments.

Services for the segment's customers include routine account management, alongside extensive efforts aimed at support for and growth of this segment, including targeted credit tailored to customers' needs through a wide range of products.

Solutions for customers during the crisis

In addition to the information in the Private Customer Segment, the Bank introduced several products and processes to provide relief to business clients, including:

- Designated loans for small businesses in amounts of up to NIS 400,000 per borrower, for periods of up to sixty months, with a grace period of up to twelve months.
- State-backed loans in amounts derived from customers' business turnover.
- An option to defer loan payments for periods of up to six months, in accordance with the trajectory of the Bank of Israel.

Technological changes that may have a material impact on the segment

When the coronavirus crisis began, the Bank took a series of measures aimed at helping small businesses continue their banking activities, including remotely, while offering new services to provide relief to customers during this period:

- Establishment of a designated loan fund for self-employed individuals – In April 2020, the Bank and the organization Lahav founded a loan fund targeted to the self-employed, at a volume of NIS 0.5 billion, with interest rates similar to those offered in state-backed loans. Loan applications are submitted in a quick, convenient process on the website or application.

Regulatory changes – legislative restrictions, standards, and special constraints applicable to the segment

See "Private Customer Segment," above.

Table 6-2: Results of operations and principal data of the Small Business Segment

	For the three months ended March 31	
	2021	2020*
	NIS millions	
Total net interest income	**317**	377
Non-interest financing income	**1**	2
Total net financing profit	**318**	379
Fees and other income	**139**	151
Total income	**457**	530
Provision (income) for credit losses	**(45)**	140
Total operating and other expenses	**322**	295
Profit (loss) from continued operations before taxes	**180**	95
Provision for taxes (tax benefit) on profit (loss) from continued operations	**73**	41
Net profit (loss) attributed to shareholders of the Bank	**107**	54
Net credit to the public at the end of the reported period	**31,139**	30,168
Deposits from the public at the end of the reported period	**57,368**	50,119

* Reclassified.

Principal changes in net profit and balance sheet balances

Net profit attributed to shareholders of the Bank in the Small Business Segment totaled NIS 107 million in the first quarter of 2021, compared with NIS 54 million in the same quarter last year. The increase mainly resulted from the recognition of income from credit losses, compared with a provision for credit losses in the same quarter last year, offset by a decrease in net financing profit and an increase in operating and other expenses.

Net financing profit totaled NIS 318 million in the first quarter of 2021, compared with NIS 379 million in the same quarter last year. The decrease resulted from a decrease in financial spreads on credit and from a decrease in spreads of deposits, due to a decrease in the dollar and shekel interest rates.

Income from fees totaled NIS 139 million in the first quarter of 2021, compared with NIS 151 million in the same quarter last year. The decrease mainly resulted from a decrease in account-management fees, partly offset by an increase in capital-market fees.

Income in respect of credit losses in the amount of approximately NIS 45 million was recorded in the first quarter of 2021, compared with a provision in the amount of approximately NIS 140 million in the same quarter last year. Most of the change resulted from a decrease in the collective allowance, due to the improvement in macroeconomic parameters, which led to a decrease in collective allowance rates, in addition to the continued downward trend in automatic charge-offs.

Operating and other expenses of the segment totaled NIS 322 million in the first quarter of 2021, compared with NIS 295 million in the same quarter last year. The increase mainly resulted from an increase in salary expenses, due to the increase in the provision for bonuses, as a result of differences in returns.

Net credit to the public totaled approximately NIS 31.1 billion as at March 31, 2021, compared with approximately NIS 31.4 billion as at December 31, 2020.

Deposits from the public totaled approximately NIS 57.4 billion as at March 31, 2021, compared with approximately NIS 56.3 billion as at December 31, 2020.

6.1.3. Housing Loan Segment

General information and segment structure

The Bank offers housing loans to private customers, from Bank funds as well as through government assistance programs, at Mishkan representative offices within branches located nationwide.

Competition

Mortgages are a price-oriented product: a mortgage is a significant economic transaction for households, and customers therefore tend to conduct market surveys and compare prices. This market is therefore characterized by a high level of competition.

Regulatory changes – legislative restrictions, standards, and special constraints applicable to the segment

Extensive, dedicated regulation applies to housing loans, in addition to the general regulation applicable to credit granted by the Bank.

- **Update of Proper Conduct of Banking Business Directive 329,** "Limits on Issuing Housing Loans," of December 27, 2020 – Removes the Prime limit which applied until now. Section 7 of the directive establishes two limits: first, that the part of the loan at a Prime interest rate shall not exceed one-third of the total loan, and second, that the overall part of the loan at a floating rate of interest shall not exceed two-thirds of the total loan. The update removes the first limit (the Prime rate limit), but retains the limit on the floating rate, which states that at least one-third of the total mortgage must be granted at a fixed rate of interest, and up to the remaining two-thirds can be granted at a floating rate of interest. The amendment took effect on January 17, 2021, with respect to new mortgage takers, and on February 28, 2021, with respect to mortgage refinancing.
- **The validity of Proper Conduct of Banking Business Directive 250** in connection with directives relevant to limits on housing loans has been extended until September 30, 2021, according to a directive issued by the Banking Supervision Department on March 22, 2021.

Table 6-3: Results of operations and principal data of the Housing Loan Segment

	For the three months ended March 31	
	2021	2020
	NIS millions	
Total net interest income	**268**	235
Fees and other income	**12**	15
Total income	**280**	250
Provision (income) for credit losses	**(68)**	32
Total operating and other expenses	**91**	74
Profit (loss) from continued operations before taxes	**257**	144
Provision for taxes (tax benefit) on profit (loss) from continued operations	**102**	60
Net profit (loss) attributed to shareholders of the Bank	**155**	84
Net credit to the public at the end of the reported period	**100,650**	92,058

Principal changes in net profit and balance sheet balances

Net profit attributed to shareholders of the Bank in the Housing Loan Segment totaled NIS 155 million in the first quarter of 2021, compared with NIS 84 million in the same quarter last year. The increase mainly resulted from the recognition of income from credit losses, compared with a provision for credit losses in the same quarter last year, and from an increase in net financing profit.

Net financing profit totaled NIS 268 million in the first quarter of 2021, compared with NIS 235 million in the same quarter last year. The increase resulted from an increase in credit volumes and from an continued increase in the average spread.

Income in respect of credit losses in the amount of approximately NIS 68 million was recorded in the first quarter of 2021, compared with a provision in the amount of approximately NIS 32 million in the same quarter last year. The change mainly resulted from a decrease in the collective allowance, due to the improvement in macroeconomic parameters and the continued decrease in the volume of debts in deferral of payments, which led to a decrease in collective allowance rates.

Operating and other expenses of the segment totaled NIS 91 million in the first quarter of 2021, compared with NIS 74 million in the same quarter last year. The increase mainly resulted from an increase in salary expenses, due to the increase in the provision for bonuses, as a result of differences in returns.

Net credit to the public totaled approximately NIS 100.7 billion as at March 31, 2021, compared with approximately NIS 98.7 billion as at December 31, 2020. The increase resulted from an increase in the volume of activity.

For additional information regarding risks in the housing-loan portfolio, see Section 3.2.6 in the chapter "Review of risks" in the Report of the Board of Directors and Board of Management.

6.1.4. Commercial Segment

General information and segment structure

The Commercial Segment provides a wide range of banking services to middle-market business clients. The segment operates through business centers for established customers and business centers for growing customers. Operational services for the segment's customers are provided by service centers.

Customers

The main areas of activity of the segment's customers are industry, commerce, and construction and real estate. These customers primarily operate in the domestic market; the segment also serves customers engaged in import and export activities. Most of the growth in this segment stems from the construction and real-estate sector.

As the coronavirus vaccination rate rose, the level of COVID-19 cases in Israel decreased, leading to the lifting of restrictions. As a result, business activity began to accelerate in the late first quarter, as reflected in an increase in credit-card purchases and growth in leisure and commerce activities. The absence of incoming tourists from overseas to Israel still has an impact on service sectors such as aviation, tourism services, and restaurants, which have not resumed full activity yet. The broad unemployment rate decreased to approximately 12%, still high; the residential real-estate market continues to show rising levels of purchases of new homes, as well as rising prices.

For further details regarding the effects of the coronavirus, see the section "Review of risks" in the Report of the Board of Directors and Board of Management.

Competition

The segment is characterized by a high level of competition. The main competitors are the banking corporations. In the area of credit, competition is reflected both in interest rates and fees offered to customers by the competing banks, and in related terms such as the financing rates which competitors are willing to approve. In addition, alternatives to bank credit are available in the market to some of the segment's customers, such as public and private offerings and credit granted by non-bank financial institutions.

Technological changes

The segment makes use of technological systems to manage processes of analysis of customers' condition, control, and marketing. The Bank applies an ongoing process of improvement in these systems. This process also includes components relevant to serving the segment's customers. The enhancement of the quality and sophistication of the Bank's systems is an important factor in improving the level of service for the segment's customers and in creating additional possibilities for expanding activities with them. The CRM system, introduced about a year ago, is a significant tool for the management of customers and business activities with them.

Regulatory changes – legislative restrictions, standards, and special constraints applicable to the segment

See the section "Corporate Segment," below.

Table 6-4: Management approach activity segments – results of operations and principal data of the Commercial Segment

	For the three months ended March 31	
	2021	2020*
	NIS millions	
Total net interest income	**282**	281
Non-interest financing income	**3**	6
Total net financing profit	**285**	287
Fees and other income	**103**	102
Total income	**388**	389
Provision (income) for credit losses	**(39)**	175
Total operating and other expenses	**136**	119
Profit (loss) from continued operations before taxes	**291**	95
Provision for taxes (tax benefit) on profit (loss) from continued operations	**119**	41
Net profit (loss) attributed to shareholders of the Bank	**172**	54
Net credit to the public at the end of the reported period	**43,832**	40,596
Deposits from the public at the end of the reported period	**40,670**	27,153

* Reclassified.

Principal changes in net profit and balance sheet balances

Net profit attributed to shareholders of the Bank in the Commercial Segment totaled NIS 172 million in the first quarter of 2021, compared with NIS 54 million in the same quarter last year. The increase mainly resulted from the recognition of income from credit losses, compared with a provision for credit losses in the same quarter last year.

Income in respect of credit losses totaled NIS 39 million in the first quarter of 2021, compared with a provision in the amount of NIS 175 million in the same quarter last year. Most of the change resulted from a decrease in the collective allowance, due to the improvement in macroeconomic parameters, which led to a decrease in collective allowance rates.

Operating and other expenses of the segment totaled NIS 136 million in the first quarter of 2021, compared with NIS 119 million in the same quarter last year. The increase mainly resulted from an increase in salary expenses, due to the increase in the provision for bonuses, as a result of differences in returns.

Net credit to the public totaled approximately NIS 43.8 billion as at March 31, 2021, compared with approximately NIS 42.3 billion as at December 31, 2020.

Deposits from the public totaled approximately NIS 40.7 billion as at March 31, 2021, compared with approximately NIS 35.5 billion as at December 31, 2020. The increase resulted from the monetary expansion applied by the Bank of Israel, which has enlarged the monetary base and deposits from the public. Concurrently, the increase in corporate credit in the economy, including in initial offerings, contributed to an increase in balances of deposits of companies.

6.1.5. Corporate Segment

General information and segment structure

The Corporate Segment specializes in providing financial services to large corporations in Israel. Credit granting constitutes its principal area of activity. The segment operates through three sectors, each of which contains specialist Customer Relationship Managers (CRMs):

- Real estate;
- Industry, commerce, and hotels;
- Infrastructures and energy.

The sector also specializes in complex financing products, including foreign-trade financing, financing of working capital, financing of assets overseas, complex financing transactions, syndication, and credit-risk sales.

Also operating within the Corporate Banking Division is the Special Credit Area, which coordinates the handling of customers experiencing financial difficulties in the Corporate and Commercial Segments and endeavors to assist them in restructuring by providing business support.

For details regarding the effect of the coronavirus outbreak, see Section 6.1.4, "Commercial Segment," above.

Products and services

Services offered to customers of the segment include financing of routine operations, financing of investments, financing of infrastructure projects based on the BOT/PFI method, financial services, foreign-trade transactions, and transactions in financial derivatives. Services provided to customers operating in the construction and real-estate sector include financing of construction projects, granting credit to customers, and issuing various types of guarantees, including guarantees to buyers of homes pursuant to the Sale Law.

The segment has complementary activities identical in essence to those provided by the Commercial Segment. For further details, see the section "Commercial Segment," above.

Marketing and distribution

Banking products are marketed and distributed to customers of this segment through Customer Relationship Managers in the Corporate Area, in collaboration with the headquarters of the division. As a key element of this sales platform, product experts, working closely with the CRMs, are at the disposal of the segment's customers, in the areas of the dealing room, investment advising, foreign trade, foreign currency, current accounts, and more. CRMs are in continuous contact with the customers they serve, in order to respond to their banking needs, market the Bank's products, and tailor financing solutions to various transactions.

The communication channels commonly used in local banking are available to customers, such as branches, Poalim by Telephone, the website, etc.

Customers

Customers of the segment are large corporations in Israel, mainly operating in the areas of real estate, industry, the capital market, communications, commerce, hotels, infrastructure, and energy.

Competition

The level of competition in this area is high; competition is reflected in service, prices, financing terms, and rapid response. The Bank Group is contending with growing competition in the Israeli banking system, including from foreign banks with representative offices in Israel. Alternatives to bank credit are available in the market to some of the segment's customers, such as public and private offerings and credit granted by institutional entities and non-bank financial institutions.
2020 was characterized by a higher average level of bond issues compared with the average issues in 2019.

Regulatory changes – legislative restrictions, standards, and special constraints applicable to the segment

- In view of the spread of the coronavirus and its possible impacts on the condition of the economy and of borrowers, with the aim of encouraging banking corporations to act to stabilize borrowers who fail or are likely to fail to fulfill their contractual payment obligations due to the coronavirus, the Banking Supervision Department issued a trajectory, which was updated from time to time, aimed at reducing risks for borrowers, for the banking system, and for the economy as a whole in the long term. Among other matters, the trajectory establishes conditions for deferral and reliefs regarding the classification of debts the terms of which have been changed as troubled debt restructuring.
  For further details regarding the effects of the payment deferral trajectory, see Section 3.2.1 in the chapter on risks in the Report of the Board of Directors and Board of Management.
- On January 7, 2021, the Bank of Israel issued additional adjustments of Proper Conduct of Banking Business Directive 250 (Temporary Order on Coping with the Coronavirus Crisis), which also addresses Proper Conduct of Banking Business Directive 315, "Industry Indebtedness Limit." The update states that the limit on credit for the construction and real-estate sector, excluding indebtedness for national infrastructures, will rise from 20% to 22% of total indebtedness of the public, and the limit on credit for the construction and real-estate sector will rise from 24% to 26% of total indebtedness of the public. The period of the relief was extended to 24 months from December 31, 2025, provided that the rate does not exceed the rate on December 31, 2025, or the rate of the industry limit as established in Proper Conduct of Banking Business Directive 315, whichever is higher. In addition, the update states that industry indebtedness against which the banking corporation has acquired credit protection that qualifies for credit risk mitigation, as stated in Directive 203, shall be classified according to the sector of activity of the provider of the protection. The update will allow taking into consideration credit and guarantees backed by insurance policies for the purpose of calculating the industry limit.

It is emphasized that in addition to the limits established in the directives of the Banking Supervision Department, the Board of Directors sets additional limits on credit concentration from time to time. As at the reporting date, the Bank is in compliance with the established limits.

Limits on joint loan arrangements (consortium arrangements)

Over the last few years, the Competition Commissioner issued a number of letters establishing several conditions for entering into loan arrangements the parties to which are banking corporations or institutional entities or similar entities incorporated outside of Israel. The validity period of the letters was extended from time to time. The most recent letter was in effect until June 14, 2018, the inception date of the Restrictive Trade Practices Rules (Type Exemption for Joint Loan Arrangements) (Temporary Order), 2018 (the "Type Exemption"). The aforesaid Type Exemption establishes the conditions under which a bank is exempt from applying to the Authority for approval of a joint loan arrangement (i.e. granting credit to a corporation jointly with another lender or other lenders included in the definition of a "lender" in the exemption directive).

In light of the Type Exemption, in any case in which the Bank intends to grant a loan to any corporation, jointly with banking corporations or financial institutions or similar entities incorporated outside Israel, the Bank must examine the fulfillment of the conditions established in the exemption directives, according to the various alternatives and the circumstances of each transaction. The directives of the Type Exemption are in effect for three years (i.e. until June 2021), and do not apply to joint loan arrangements signed before the inception date of the Type Exemption and proceeding properly. However, if any material change occurs in a joint loan arrangement signed based on the aforesaid letters of the Authority prior to the inception of the Type Exemption, the relevant arrangement must be reexamined in its entirety in light of the new legislation. The Competition Authority recently requested various data from the banks in order to consider renewal of the Type Exemption.

Table 6-5: Management approach activity segments – results of operations and principal data of the Corporate Segment

	For the three months ended March 31	
	2021	2020*
	NIS millions	
Total net interest income	**356**	346
Non-interest financing income	**21**	45
Total net financing profit	**377**	391
Fees and other income	**147**	137
Total income	**524**	528
Provision (income) for credit losses	**(135)**	288
Total operating and other expenses	**170**	147
Profit (loss) from continued operations before taxes	**489**	93
Provision for taxes (tax benefit) on profit (loss) from continued operations	**199**	42
Net profit (loss) attributed to shareholders of the Bank	**290**	51
Net credit to the public at the end of the reported period	**78,102**	82,029
Deposits from the public at the end of the reported period	**59,979**	52,345

* Reclassified.

Principal changes in net profit and balance sheet balances

Net profit attributed to shareholders of the Bank in the Corporate Segment totaled NIS 290 million in the first quarter of 2021, compared with NIS 51 million in the same quarter last year. The increase mainly resulted from the recognition of income from credit losses, compared with a provision for credit losses in the same quarter last year, partly offset by an increase in operating and other expenses.

Net financing profit totaled NIS 377 million in the first quarter of 2021, compared with NIS 391 million in the same quarter last year. The decrease resulted from a decrease in income from the activity of the dealing room, due to a decrease in the volume of transactions compared with the same period last year, which was influenced by the volatility in the markets.

Income from fees totaled NIS 147 million in the first quarter of 2021, compared with NIS 137 million in the same quarter last year. The increase mainly resulted from an increase in fees from financing transactions, partly offset by a decrease in capital-market fees.

Income in respect of credit losses totaled NIS 135 million in the first quarter of 2021, compared with a provision in the amount of NIS 288 million in the same quarter last year. Most of the change resulted from a decrease in the collective allowance, a decrease in the provision recorded on an individual basis, and an increase in debt recovery.

Operating and other expenses of the segment totaled NIS 170 million in the first quarter of 2021, compared with NIS 147 million in the same quarter last year. The increase mainly resulted from an increase in salary expenses, due to the increase in the provision for bonuses, as a result of differences in returns.

Net credit to the public totaled approximately NIS 78.1 billion as at March 31, 2021, similar to the balance as at December 31, 2020. Credit balances of customers of the segment increased in most economic sectors. However, a decrease in the amount of approximately NIS 1.8 billion occurred in the financial services sector, due to a change in balances of cash collateral in respect of derivative instruments and in securities lending balances.

Deposits from the public totaled approximately NIS 60.0 billion as at March 31, 2021, similar to the balance as at December 31, 2020.

6.1.6. International activity

General information

The international activity of the Bank Group includes the New York branch and representative offices in the United States, and Bank Pozitif in Turkey, as well as relationships with banks around the world.

Most of the international business banking activity of the Bank is conducted through the New York branch, which focuses on providing comprehensive banking services to Israeli companies operating in the United States, as well as to local companies and clients, including credit, foreign trade, deposits, and dealing-room services. The New York branch also offers its customers FDIC deposit insurance. The branch also grants credit through the acquisition of participations.

Activity with banks includes trading through dealing rooms, cooperation in foreign trade and international trade financing, project financing, clearing of payments, and capital-market services (see the section "Credit exposure to foreign financial institutions").

In the area of global private banking, the Bank is completing the process of discontinuing its operations overseas and closing its subsidiaries, as detailed below.

Legislative restrictions, standards, and special constraints applicable to international activity

The activity of the International Banking Segment in the various countries is subject to standards relevant to the nature of the activity of the Group in the countries in which its business is conducted (cross-border regulations), and to regulatory supervision by various government agencies in the countries in which the overseas offices of the Bank operate, including requirements concerning capital, holdings of liquid assets, compliance, the prohibition of money laundering, etc.

In addition, rules and limits are imposed by the Bank of Israel on the international activity of the Bank Group, pursuant to legislation and regulations, as well as the provisions of permits granted by the Bank of Israel for the acquisition of subsidiaries and/or opening of branches abroad.

Main international banking units

New York branch

Most of the Bank Group's international business banking is conducted through the New York branch and through representative offices, as well as through relationships maintained with banks around the world. The New York branch has activity in the middle-market sector in the United States, through the development of relationships with and granting of direct credit to local commercial clients. The branch also operates in the syndication market, as a complementary activity.

Hapoalim (Switzerland) Ltd. (Hapoalim Switzerland)

In September 2017, the Bank decided to act to discontinue the activity of Hapoalim Switzerland; since then, its global private banking customer assets have been sold or transferred. At present, there are no remaining customers at Hapoalim Switzerland. The Bank is acting to return the banking license.

Activity of the Bank in Turkey

The Bank Group currently operates in Turkey through Bank Pozitif Kredi Ve Kalkinma Bankasi Anonim Sirketi (hereinafter: "Bank Pozitif"), which specializes in corporate banking. The Bank's stake in Bank Pozitif stands at 69.8%.

Within the strategic plan, the Bank is acting to sell its investment in Bank Pozitif. Concurrently, the Bank is working to gradually reduce the credit portfolio of Bank Pozitif.

In February 2021, the Bank, together with the minority shareholder, entered into an agreement for the sale of the full holdings of the parties (100%) in Bank Pozitif to a buyer. For further details, see Section 2.6 in the Report of the Board of Directors and Board of Management.

Table 6-6: Results of operations and principal data of the International Activity Segment

	For the three months ended March 31	
	2021	2020
	NIS millions	
Total net interest income	**100**	105
Non-interest financing income	**6**	19
Total net financing profit	**106**	124
Fees and other income	**9**	14
Total income	**115**	138
Provision (income) for credit losses	**6**	38
Total operating and other expenses	**128**	203
Profit (loss) from continued operations before taxes	**(19)**	(103)
Provision for taxes (tax benefit) on profit (loss) from continued operations	**8**	(5)
Net profit (loss):		
Before attribution to non-controlling interests	**(27)**	(98)
Attributed to non-controlling interests	**1**	3
Net profit (loss) attributed to shareholders of the Bank	**(26)**	(95)
Net credit to the public at the end of the reported period	**13,502**	13,708
Deposits from the public at the end of the reported period	**18,844**	20,651

Principal changes in net profit and balance sheet balances

The loss attributed to shareholders of the Bank in the International Activity Segment totaled NIS 26 million in the first quarter of 2021, compared with a loss in the amount of NIS 95 million in the same quarter last year. The decrease in loss mainly resulted from the update of the provision in connection with the investigation of the Bank Group's business with American customers in the first quarter of 2020, and from a decrease in the associated legal expenses. In addition, the provision for credit losses decreased.

The principal changes in the results of international activity are set out below:

- The profit of the New York branch totaled approximately NIS 12 million in the first quarter of 2021, compared with net profit of approximately NIS 0 million in the same quarter last year. The increase in profit mainly resulted from a decrease in the provision for credit losses.
- The loss of Hapoalim Switzerland totaled approximately NIS 41 million in the first quarter of 2021, compared with a loss in the amount of approximately NIS 104 million in the same quarter last year. The decrease in loss resulted from a decrease in expenses attributed to the investigation of the Bank Group's business with American customers, and a decrease in the associated legal expenses.

Total credit to the public in international activity amounted to approximately NIS 13.5 billion as at March 31, 2021, compared with approximately NIS 12.5 billion as at December 31, 2020.

- Credit to the public at the New York branch totaled approximately NIS 13.2 billion as at March 31, 2021, compared with approximately NIS 12.3 billion as at December 31, 2020. Credit in middle-market activity totaled approximately NIS 12.3 billion, of which a total of approximately NIS 5.3 billion in respect of syndication transactions, compared with approximately NIS 11.2 billion as at December 31, 2020, of which a total of approximately NIS 5.0 billion in respect of syndication transactions.
- Credit to the public at Bank Pozitif in Turkey totaled approximately NIS 0.3 billion as at March 31, 2021, similar to December 31, 2020.

Total deposits from the public in international activity amounted to approximately NIS 18.8 billion as at March 31, 2021, compared with approximately NIS 17.7 billion as at December 31, 2020, mostly originating with the New York branch. In middle-market activity, deposits totaled approximately NIS 8.7 billion, compared with approximately NIS 6.8 billion as at December 31, 2020. The balance of brokered CD deposits from the public totaled approximately NIS 10.1 billion, compared with approximately NIS 10.9 billion as at December 31, 2020.

6.1.7. Financial Management Segment

General information and structure

The activity of this segment includes:

- Activity in the banking book – Management of assets and liabilities, including the management of market and liquidity risks (for details regarding these risks, see the section "Review of risks" in the Report of the Board of Directors and Board of Management), through the establishment of internal transfer prices, investment portfolio management, issuance of bonds and notes, and the execution of transactions in derivative financial instruments. The segment's activity in the banking book is mostly conducted through the Asset and Liability Management (ALM) units in Israel and abroad, and through the Nostro Investment Management Unit, which is responsible for managing the portfolio of government and corporate bonds and the portfolio of shares, and for coordination of activity at the level of the Group.
- Activity in the trading books – Market making and trading activity in the dealing rooms in the areas of foreign currency, interest rates, government bonds, and OTC derivatives. Bank Hapoalim is the largest market maker in the world in NIS/foreign-currency trading.
- Trading activity with customers, in two areas:
  - Transactions in securities and in tradable derivatives, through two dealing rooms: a dealing room for Israeli securities and a dealing room for foreign securities, as well as securities custody services.
  - OTC transactions in derivative financial instruments in NIS, foreign currency, interest rates, indices, and commodities through the dealing room. Service is provided to a range of customers including institutional entities, business firms, selected private customers, and foreign customers, through dedicated desks providing personal service.
- The activity of this segment with customers also includes support for the development and pricing of sophisticated financial products. Awareness of the activities offered by the dealing room has grown steadily in recent years, leading the Bank to offer a broader range of products with a higher level of sophistication, such as derivatives, including interest-rate options in NIS, exotic options, and sophisticated interest-rate products.

Table 6-7: Management approach activity segments – results of operations and principal data of the Financial Management Segment[1]

	For the three months ended March 31	
	2021	2020*
	NIS millions	
Total net interest income	**414**	190
Non-interest financing income	**416**	229
Total net financing profit	**830**	419
Fees and other income	**33**	28
Total income	**863**	447
Provision (income) for credit losses	**2**	5
Total operating and other expenses	**116**	98
Profit (loss) from continued operations before taxes	**745**	344
Provision for taxes (tax benefit) on profit (loss) from continued operations	**236**	157
Profit (loss) from continued operations after taxes	**509**	187
The Bank's share in profits of equity-basis investees, after taxes	**7**	1
Net profit (loss):		
Before attribution to non-controlling interests	**516**	188
Attributed to non-controlling interests	**2**	2
Net profit (loss) attributed to shareholders of the Bank	**518**	190
Net credit to the public at the end of the reported period	**1,667**	1,579
Deposits from the public at the end of the reported period	**54,127**	28,210

* Reclassified.
(1) The Financial Management Segment includes, among other matters, activity with institutional entities, most of which are presented in the information regarding supervisory activity segments as a separate segment.

Principal changes in net profit and balance sheet balances

Net profit attributed to shareholders of the Bank in the Financial Management Segment totaled NIS 518 million in the first quarter of 2021, compared with NIS 190 million in the same quarter last year. The increase mainly resulted from an increase in net financing profit.

Net financing profit of the segment totaled NIS 830 million in the first quarter of 2021, compared with NIS 419 million in the same quarter last year. The increase mainly resulted from an increase in profits from investment in shares. In addition, income from linkage differentials increased due to changes in the rate of the known CPI between the periods. Increases also occurred in profits from investment in bonds, and in profits resulting from a change in the differences between the fair value of derivatives that are part of the asset and liability management of the Bank and the measurement of the same assets on an accrual basis. By contrast, income from exchange-rate differences decreased, mainly due to hedging of currency exposures of non-monetary items, and income from dealing-room activity decreased, whereas in the same period last year the volume of transactions increased, due to volatility in the market as a result of the crisis of the spread of the coronavirus.

Income from fees totaled NIS 33 million in the first quarter of 2021, compared with NIS 28 million in the same quarter last year. The increase mainly resulted from an increase in capital-market fees.

Net credit to the public totaled approximately NIS 1.7 billion as at March 31, 2021, compared with approximately NIS 1.6 billion as at December 31, 2020.

Deposits from the public totaled approximately NIS 54.1 billion as at March 31, 2021, compared with approximately NIS 47.2 billion as at December 31, 2020. The increase mainly resulted from the continued monetary expansion applied by the Bank of Israel and the enlargement of the monetary base.

For details regarding the effect of the spread of the coronavirus on foreign financial institutions, see the section "Credit risk" in the "Review of Risks" in the Report of the Board of Directors and Board of Management.

6.1.8. Adjustments

This section includes activities of the Bank Group with negligible volumes, each of which does not form a reportable segment. This includes, among other things: (1) the results of the subsidiaries Poalim Sahar Ltd. and Peilim Investment Portfolio Management Ltd.; (2) capital gains from the sale of buildings and equipment; (3) legal and other provisions and expenses in connection with the investigation of the Bank Group's business with American customers not attributed to international activity; (4) adjustments of inter-segmental activities. The segment also includes the activity of the Isracard Group, which was classified as a discontinued operation, until its distribution as a dividend in kind in March 2020.

Principal changes in net profit and balance sheet balances

Profit attributed to shareholders of the Bank in the Other Segment totaled NIS 34 million in the first quarter of 2021, compared with a loss in the amount of NIS 187 million in the same quarter last year.

Profit from continued operations attributed to shareholders of the Bank in the segment totaled NIS 34 million in the first quarter of 2021, compared with a loss in the amount of NIS 78 million in the same quarter last year. The change mainly resulted from a decrease in legal expenses in connection with the investigation of the Bank Group's business with American customers, and from an increase in capital gains from the sale of branches.

In addition, in the same quarter last year the Other Segment included a loss attributed to a discontinued operation in the amount of NIS 109 million, which resulted from recognition of loss from impairment of the investment in Isracard, in the amount of approximately NIS 109 million (after tax effect), due to the decrease in the share price to a level lower than the balance of the investment in the Bank's books as at December 31, 2019, compared with the price immediately prior to its distribution as a dividend in kind to the shareholders in March 2020.

6.2. Ratings of the Bank

The following ratings have been assigned to the Bank by rating agencies in Israel and abroad:

Table 6-8: Ratings

	Rating agency	Long-term foreign currency	Short-term foreign currency	Rating outlook	Last update
Israel – sovereign rating					
	Moody's	A1		Stable	October 2020
	S&P	AA-	A-1+	Stable	November 2020
	Fitch Ratings	A+	F1+	Stable	January 2021
Bank Hapoalim					
	Moody's	A2	P-1	Stable	December 2020
	S&P	A	A-1	Stable	December 2020
	Fitch Ratings	A	F1+	Stable	March 2021
	Rating agency	Long-term local currency	Short-term local currency	Rating outlook	Last update
Local rating (in Israel)					
	S&P Maalot	ilAAA		Stable	December 2020
	Midroog	Aaa.il	P-1.il	Stable	December 2020

In May 2020, S&P Maalot affirmed a rating of AA for notes issued by Poalim Hanpakot Ltd., with a mechanism for loss absorption by write-off of principal (CoCo), which will be recognized as Tier 2 capital in accordance with the Basel 3 directives. On the same date, Midroog also affirmed a rating of Aa3 with a Positive outlook for these notes. In August 2020, S&P Maalot affirmed a rating of AA for notes issued by the Bank, with a mechanism for loss absorption by forced conversion into ordinary shares of the Bank (CoCo), which were recognized as Tier 2 capital in accordance with the Basel 3 directives. On the same date, Midroog also affirmed a rating of Aa3 with a Positive outlook for these notes.

6.3. Social involvement and contribution to the community; social responsibility

Bank Hapoalim, alongside its business operations, has been committed for many years to the advancement of the society and community of Israel, and has taken action to reduce inequalities and provide aid to disadvantaged groups.

Based on this approach, the Poalim for the Community Foundation, within the Social Banking Center, focuses on hundreds of initiatives aimed at strengthening employment, education, and financial resilience and lessening inequalities for hundreds of thousands of adults, children, and adolescents from every part of Israel. This extensive activity is conducted through partnerships forged with non-profits and social organizations, public institutions, and government agencies, and takes the form of community engagement, monetary donations, and money-equivalent contributions.

The community engagement of Poalim for the Community in the first three months of 2021 was expressed in a cumulative financial expenditure of approximately NIS 7.5 million.

As part of the endeavors supported by the Bank each year, the Bank granted its support again this year to the Poalim Success scholarship fund, and provided additional scholarships through the Amanina foundation. The Poalim Success scholarship fund provides tuition for approximately 100 students nationwide, with the aim of supporting young people with potential from socially and geographically peripheral regions of Israel and helping to expand the range of their future employment opportunities.

Amanina grants sixty scholarships to Arab students admitted to universities and academic colleges in Israel for undergraduate degrees.

The students selected for the scholarships are required to volunteer with adolescents at Educating for Excellence centers, or in accessibilization of digital literacy for senior citizens in the Arab community.

Poalim Passover for Culture and Business in Israel – To make the culture and heritage of Israel accessible to every segment of Israeli society, Bank Hapoalim invited all Israelis to travel during the holiday of Passover and visit a wide range of sites across the country free of charge. This project, under the leadership of the Bank, has been ongoing for sixteen years. In Passover 2021, after a difficult year of social distancing and lockdowns, over 150,000 people visited dozens of museums and heritage sites that were open to the public at no cost, at the initiative of the Bank and with its full sponsorship.

Good Deeds Day – Although the event was held under coronavirus restrictions, more than 2,000 employees participated in some 140 activities of various kinds: collaboration with the Krembo Wings youth movement; activities and games for children, adolescents, and elderly people with and without disabilities; packaging and distribution of more than 2,000 food boxes; and activities for groups of adolescents conducted via Zoom by the non-profit organization Unistream. Overall, approximately 12,000 people benefited from these activities.

Darom Adom (Red South) Festival – To stimulate employment in southern Israel and support small-business owners by encouraging local patronage, Bank Hapoalim subsidized ticket costs for all visitors to the Darom Adom Festival, over a period of five weeks.

7. Appendices

7.1. Material developments in income and expenses by quarter

Table 7-1: Quarterly developments in total net financing profit

	2021	2020			
	Q1	Q4	Q3	Q2	Q1
	NIS millions				
Interest income	**2,591**	2,579	2,607	2,532	2,542
Interest expenses	**(358)**	(341)	(406)	(366)	(350)
Net interest income	**2,233**	2,238	2,201	2,166	2,192
Non-interest financing income	**449**	254	335	193	306
Total reported financing profit	**2,682**	2,492	2,536	2,359	2,498
Excluding effects not from regular activity:					
Income from realization and adjustments to fair value of bonds	**59**	13	34	95	27
Profit (loss) from investments in shares	**293**	70	86	36	(122)
Adjustment to fair value of investment in affiliate	**6**	4	6	(18)	11
Gains (losses) in respect of loans sold	**-**	-	21	-	-
Adjustments to fair value of derivative instruments(1)	**29**	47	56	(27)	9
Financing income (expenses) from tax hedging of investments overseas(2)	**(43)**	79	(3)	(48)	87
Total financing profit from regular activity(3)	**2,338**	2,279	2,336	2,321	2,486

(1) The effect of the measurement of profit and loss in derivative instruments constituting part of the Bank's asset and liability management strategy on a fair-value basis, versus measurement on an accrual basis.

(2) The effect of hedging the asymmetry in the tax liability in respect of exchange-rate differences in investments in subsidiaries overseas, which are not included in the income base for the calculation of the provision for tax, in contrast to exchange-rate differences in respect of financing sources. The Bank hedges against tax exposure in respect of investments overseas by establishing surplus financing sources against such investments.

(3) Financing profit excluding extraordinary effects, and excluding effects arising mainly from the timing of recording in accounting.
Of which, in respect of the effects of changes in the CPI: income of NIS 12 million in the first quarter of 2021; an expense of NIS 2 million in the fourth quarter of 2020; income of NIS 15 million in the third quarter of 2020; an expense of NIS 36 million in the second quarter of 2020; and an expense of NIS 70 million in the first quarter of 2020.

Table 7-2: Provision for credit losses in respect of debts and in respect of off-balance sheet credit instruments, by quarter**

	2021	2020			
	Q1	Q4	Q3	Q2	Q1
	NIS millions				
Individual provision for credit losses	**89**	111	139	354	324
Decrease in individual allowance for credit losses and recovery of charged off debts	**(144)**	(359)	(288)	(151)	(122)
Net individual provision (income) for credit losses	**(55)**	(248)	(149)	203	202
Net provision (income) in respect of the collective allowance for credit losses and net charge-offs	**(453)**	61	342	925	607
Total provision (income) for credit losses*	**(508)**	(187)	193	1,128	809
* Of which:					
Net provision (income) for credit losses in respect of commercial credit risk	**(203)**	(162)	65	622	656
Net provision (income) for credit losses in respect of housing credit risk	**(68)**	19	22	244	32
Net provision (income) for credit losses in respect of other private credit risk	**(237)**	(40)	105	263	120
Net provision (income) for credit losses in respect of risk of credit to banks and governments	**-**	(4)	1	(1)	1
Total provision (income) for credit losses	**(508)**	(187)	193	1,128	809
Provision as a percentage of total credit to the public:***					
Percentage of individual provision for credit losses	**0.11%**	0.15%	0.19%	0.47%	0.43%
Gross provision for credit losses as a percentage of the average recorded balance of credit to the public****	**(0.47%)**	0.23%	0.64%	1.69%	1.24%
Provision (income) for credit losses as a percentage of the average recorded balance of credit to the public	**(0.66%)**	(0.25%)	0.26%	1.49%	1.07%
Net charge-offs in respect of credit to the public as a percentage of the average recorded balance of credit to the public	**0.03%**	(0.19%)	(0.03%)	0.32%	0.25%
Net charge-offs in respect of credit to the public as a percentage of the allowance for credit losses in respect of credit to the public	**1.62%**	(9.37%)	(1.36%)	16.09%	14.20%

** Including in respect of housing loans examined according to the extent of arrears.
*** Annualized.
**** The gross provision for credit losses is the total provision for credit losses, excluding the decrease in the individual allowance for credit losses and recovery of charged off debts.

Table 7-3: Details of fees and other income, by quarter

	2021	2020			
	Q1	Q4	Q3	Q2	Q1
	NIS millions				
Fees					
Account-management fees	**187**	187	191	184	210
Securities activity	**221**	200	183	197	223
Credit cards, net	**55**	60	67	54	76
Credit processing	**62**	61	43	49	63
Financing transaction fees	**139**	132	128	126	122
Other fees	**153**	151	143	136	169
Total fees	**817**	791	755	746	863
Other income	**82**	54	11	49	22
Total fee income and other income	**899**	845	766	795	885

Table 7-4: Details of operating and other expenses, by quarter

	2021	2020			
	Q1	Q4	Q3	Q2	Q1
	NIS millions				
Wages	**1,096**	923	988	963	962
Maintenance and depreciation of buildings and equipment	**337**	399	336	321	321
Other expenses[(1)(2)]	**486**	586	527	542	633
Total	**1,919**	1,908	1,851	1,826	1,916

(1) In the first quarter of 2021, no legal expenses were included in connection with the investigation of the Bank Group's business with American customers and the investigation concerning FIFA (a total of NIS 48 million in the second quarter of 2020; a total of NIS 66 million in the first quarter of 2020).
(2) Beginning in the third quarter of 2020, no expenses were included in connection with the investigation of the Bank Group's business with American customers and the investigation concerning FIFA (income in the amount of NIS 53 million in the second quarter of 2020; an expense in the amount of NIS 112 million in the first quarter of 2020).

7.2. Rates of interest income and expenses

Table 7-5: Rates of interest income and expenses of the Bank and its consolidated companies, and analysis of changes in interest income and expenses[1]

	For the three months ended March 31					
	2021			2020		
	Average balance[2]	Interest income	Rate of income	Average balance[2]	Interest income	Rate of income
	NIS millions		%	NIS millions		%
A. Average balances and interest rates						
Interest-bearing assets						
Credit to the public[3]:						
In Israel	**282,382**	**2,274**	**3.26%**	270,521	2,118	3.17%
Outside Israel	**14,469**	**142**	**3.98%**	15,521	190	4.99%
Total	**296,851**	**[4]2,416**	**3.30%**	286,042	[4]2,308	3.27%
Credit to governments:						
In Israel	**2,125**	**9**	**1.70%**	2,011	13	2.61%
Outside Israel	**-**	**-**	**-**	-	-	-
Total	**2,125**	**9**	**1.70%**	2,011	13	2.61%
Deposits with banks:						
In Israel	**4,301**	**12**	**1.12%**	6,944	35	2.03%
Outside Israel	**112**	**-**	**-**	138	(4)	(11.10%)
Total	**4,413**	**12**	**1.09%**	7,082	31	1.76%
Deposits with central banks:						
In Israel	**119,801**	**30**	**0.10%**	53,722	33	0.25%
Outside Israel	**7,745**	**2**	**0.10%**	9,049	30	1.33%
Total	**127,546**	**32**	**0.10%**	62,771	63	0.40%
Securities borrowed or purchased under agreements to resell:						
In Israel	**763**	**-**	**-**	416	-	-
Outside Israel	**-**	**-**	**-**	-	-	-
Total	**763**	**-**	**-**	416	-	-

(1) Data presented after the effect of hedging derivative instruments.
(2) Based on monthly opening balances (in the unlinked Israeli currency segment, based on daily balances).
(3) Before deduction of the average balance sheet balance of the allowance for credit losses. Includes impaired debts that do not accrue interest income.
(4) Fees in the amount of NIS 141 million were included in interest income in the period ended March 31, 2021 (March 31, 2020: NIS 158 million).

Table 7-5: Rates of interest income and expenses of the Bank and its consolidated companies, and analysis of changes in interest income and expenses[1] (continued)

	For the three months ended March 31					
	2021			2020		
	Average balance[2]	Interest income	Rate of income	Average balance[2]	Interest income	Rate of income
	NIS millions		%	NIS millions		%
A. Average balances and interest rates (continued)						
Interest-bearing assets (continued)						
Bonds held to maturity and available for sale[3]:						
In Israel	**56,269**	**111**	**0.79%**	45,507	109	0.96%
Outside Israel	**3,209**	**6**	**0.75%**	3,008	11	1.47%
Total	**59,478**	**117**	**0.79%**	48,515	120	0.99%
Bonds held for trading[3]:						
In Israel	**4,848**	**5**	**0.41%**	8,770	7	0.32%
Outside Israel	**2**	**-**	**-**	3	-	
Total	**4,850**	**5**	**0.41%**	8,773	7	0.32%
Other assets:						
In Israel	**347**	**-**	**-**	3,210	-	-
Outside Israel	**-**	**-**	**-**	24	-	-
Total	**347**	**-**	**-**	3,234	-	-
Total interest-bearing assets	**496,373**	**2,591**	**2.10%**	418,844	2,542	2.45%
Non-interest-bearing debtors in respect of credit cards	**6,260**	**-**	**-**	7,012	-	-
Other non-interest-bearing assets[4]	**42,160**	**-**	**-**	35,929	-	-
Total assets	**544,793**	**-**	**-**	461,785	-	-
Total interest-bearing assets attributed to activities outside Israel	**25,537**	**150**	**2.37%**	27,743	227	3.31%

(1) Data presented after the effect of hedging derivative instruments.
(2) Based on monthly opening balances (in the unlinked Israeli currency segment, based on daily balances).
(3) The average balance of unrealized gains (losses) from adjustments to fair value of bonds held for trading and of gains (losses) from bonds available for sale, which are included in equity within accumulated other comprehensive income, in the amount of NIS 458 million for the three months ended March 31, 2021 (March 31, 2020: NIS 315 million), were deducted from (added to) the average balance of bonds available for sale and of bonds held for trading.
(4) Includes derivative instruments and other non-interest-bearing assets; net of the allowance for credit losses.

Table 7-5: Rates of interest income and expenses of the Bank and its consolidated companies, and analysis of changes in interest income and expenses[(1)] (continued)

	For the three months ended March 31					
	2021			2020		
	Average balance[(2)]	Interest expenses	Rate of expense	Average balance[(2)]	Interest expenses	Rate of expense
	NIS millions		%	NIS millions		%
A. Average balances and interest rates (continued)						
Interest-bearing liabilities						
Deposits from the public:						
In Israel	**228,100**	**177**	**0.31%**	193,926	241	0.50%
On demand	**110,650**	**7**	**0.03%**	83,078	18	0.09%
Fixed term	**117,450**	**170**	**0.58%**	110,848	223	0.81%
Outside Israel	**16,770**	**33**	**0.79%**	15,343	80	2.10%
On demand	**6,382**	**7**	**0.44%**	4,730	19	1.62%
Fixed term	**10,388**	**26**	**1.00%**	10,613	61	2.32%
Total	**244,870**	**210**	**0.34%**	209,269	321	0.61%
Deposits from the government:						
In Israel	**725**	**1**	**0.55%**	535	1	0.75%
Outside Israel	**-**	**-**	**-**	-	-	-
Total	**725**	**1**	**0.55%**	535	1	0.75%
Deposits from central banks:						
In Israel	**2,210**	**-**	**-**	3	-	-
Outside Israel	**-**	**-**	**-**	198	1	2.04%
Total	**2,210**	**-**	**-**	201	1	2.00%
Deposits from banks:						
In Israel	**4,501**	**2**	**0.18%**	2,524	1	0.16%
Outside Israel	**144**	**1**	**2.81%**	142	1	2.85%
Total	**4,645**	**3**	**0.26%**	2,666	2	0.30%
Securities lent or sold under agreements to repurchase:						
In Israel	**544**	**-**	**-**	-	-	-
Outside Israel	**5**	**-**	**-**	3	-	-
Total	**549**	**-**	**-**	3	-	-

(1) Data presented after the effect of hedging derivative instruments.
(2) Based on monthly opening balances (in the unlinked Israeli currency segment, based on daily balances).

Table 7-5: Rates of interest income and expenses of the Bank and its consolidated companies, and analysis of changes in interest income and expenses[1] (continued)

	For the three months ended March 31					
	2021			2020		
	Average balance[2]	Interest expenses	Rate of expense	Average balance[2]	Interest expenses	Rate of expense
	NIS millions		%	NIS millions		%
A. Average balances and interest rates (continued)						
Interest-bearing liabilities (continued)						
Bonds:						
In Israel	**23,947**	**144**	**2.43%**	26,503	23	0.35%
Outside Israel	**7**	**-**	**-**	173	2	4.71%
Total	**23,954**	**144**	**2.43%**	26,676	25	0.38%
Other liabilities:						
In Israel	**864**	**-**	**-**	1,009	-	-
Outside Israel	**1**	**-**	**-**	74	-	-
Total	**865**	**-**	**-**	1,083	-	-
Total interest-bearing liabilities	**277,818**	**358**	**0.52%**	240,433	350	0.58%
Non-interest-bearing deposits from the public	**198,698**	**-**	**-**	151,506	-	-
Non-interest-bearing creditors in respect of credit cards	**6,996**	**-**	**-**	7,902	-	-
Other non-interest-bearing liabilities[3]	**21,663**	**-**	**-**	24,049	-	-
Total liabilities	**505,175**	**-**	**-**	423,890	-	-
Total capital means	**39,618**	**-**	**-**	37,895	-	-
Total liabilities and capital means	**544,793**	**-**	**-**	461,785	-	-
Interest spread	**-**	**-**	**1.58%**	-	-	1.87%
Net return on interest-bearing assets[4]						
In Israel	**470,836**	**2,117**	**1.81%**	391,101	2,049	2.11%
Outside Israel	**25,537**	**116**	**1.83%**	27,743	143	2.08%
Total	**496,373**	**2,233**	**1.81%**	418,844	2,192	2.11%
Total interest-bearing liabilities attributed to activities outside Israel	**16,927**	**34**	**0.81%**	15,933	84	2.13%

(1) Data presented after the effect of hedging derivative instruments.
(2) Based on monthly opening balances (in the unlinked Israeli currency segment, based on daily balances).
(3) Includes derivative instruments.
(4) Net return – net interest income divided by total interest-bearing assets.

Table 7-5: Rates of interest income and expenses of the Bank and its consolidated companies, and analysis of changes in interest income and expenses[1] (continued)

	For the three months ended March 31					
	2021			2020		
	Average balance[2]	Interest income / (expenses)	Rate of income / (expense)	Average balance[2]	Interest income / (expenses)	Rate of income / (expense)
	NIS millions		%	NIS millions		%
B. Average balances and interest rates – additional information regarding interest-bearing assets and liabilities attributed to activity in Israel						
Israeli currency unlinked						
Total interest-bearing assets	**377,585**	**1,862**	**1.99%**	304,254	1,981	2.63%
Total interest-bearing liabilities	**179,263**	**(91)**	**(0.20%)**	146,529	(114)	(0.31%)
Interest spread	**-**	**-**	**1.79%**	-	-	2.32%
Israeli currency CPI-linked						
Total interest-bearing assets	**50,272**	**403**	**3.25%**	50,121	112	0.90%
Total interest-bearing liabilities	**33,523**	**(172)**	**(2.07%)**	37,300	8	0.09%
Interest spread	**-**	**-**	**1.18%**	-	-	0.99%
Foreign currency (includes Israeli currency linked to foreign currency)						
Total interest-bearing assets	**42,979**	**176**	**1.65%**	36,726	222	2.44%
Total interest-bearing liabilities	**48,105**	**(61)**	**(0.51%)**	40,671	(160)	(1.58%)
Interest spread	**-**	**-**	**1.14%**	-	-	0.86%
Total activity in Israel						
Total interest-bearing assets	**470,836**	**2,441**	**2.09%**	391,101	2,315	2.39%
Total interest-bearing liabilities	**260,891**	**(324)**	**(0.50%)**	224,500	(266)	(0.47%)
Interest spread	**-**	**-**	**1.59%**	-	-	1.92%

(1) Data presented after the effect of hedging derivative instruments.
(2) Based on monthly opening balances (in the unlinked Israeli currency segment, based on daily balances).

Table 7-5: Rates of interest income and expenses of the Bank and its consolidated companies, and analysis of changes in interest income and expenses[1] (continued)

	For the three months ended March 31, 2021, vs. the three months ended March 31, 2020		
	Increase (decrease) due to change[2]		Net change
	Quantity	Price	
	NIS millions		
C. Analysis of changes in interest income and expenses			
Interest-bearing assets			
Credit to the public:			
In Israel	**96**	**60**	**156**
Outside Israel	**(10)**	**(38)**	**(48)**
Total	**86**	**22**	**108**
Other interest-bearing assets:			
In Israel	**60**	**(90)**	**(30)**
Outside Israel	**(1)**	**(28)**	**(29)**
Total	**59**	**(118)**	**(59)**
Total interest income	**145**	**(96)**	**49**
Interest-bearing liabilities			
Deposits from the public:			
In Israel	**27**	**(91)**	**(64)**
Outside Israel	**3**	**(50)**	**(47)**
Total	**30**	**(141)**	**(111)**
Other interest-bearing liabilities:			
In Israel	**10**	**112**	**122**
Outside Israel	**(3)**	**-**	**(3)**
Total	**7**	**112**	**119**
Total interest expenses	**37**	**(29)**	**8**
Total interest income less interest expenses	**108**	**(67)**	**41**

(1) Data presented after the effect of hedging derivative instruments.
(2) The change attributed to change in quantity was calculated by multiplying the new price by the change in quantity. The change attributed to change in price was calculated by multiplying the old quantity by the change in price.

Active market

A market in which transactions in an asset or liability are executed at a sufficient frequency and volume in order to provide pricing information on a regular basis.

Average duration

Weighted average term to maturity of the principal and interest payments on a bond.

B2B

Business to business

A business activity in which a product is sold or a service is provided by an organization to another organization.

Basel 2/Basel 3

Risk-management regulations for banks, established by the Basel Committee, which supervises and sets standards for supervision of banks worldwide.

Bid-ask spread

The spread between a proposed buying and selling price. Essentially, the difference between the highest price that a buyer is willing to pay for an asset and the lowest price at which the seller is willing to sell it.

Bond

A security that constitutes a certificate of obligation to pay a debt, in which the issuer promises to pay the holder of the bond the amount of principal issued, plus interest/coupon payments, at fixed intervals or upon fulfillment of a particular condition; a financial instrument that can be used by the government and by firms to borrow money from the public.

CPI

Consumer price index

An index published by the Central Bureau of Statistics, measuring monthly changes in the prices of products and services that compose the “consumption basket” of an average family.

CVA

Credit valuation adjustment

Calculation of credit risk in derivatives reflecting the potential expected loss to the bank in the event of default by the counterparty.

Debt

A contractual right to receive money on demand, or at fixed or fixable intervals, recognized in the balance sheet of the banking corporation as an asset (e.g. deposits with banks, bonds, securities purchased or sold in agreements to resell, credit to the public, credit to the government, etc.). Debts do not include deposits with the Bank of Israel or assets in respect of derivative instruments.

Debt contingent on collateral

Debt expected to be repaid exclusively from the collateral, where there are no other available and reliable repayment sources.

Derivative instrument

A financial instrument or future contract, the value of which is derived from the value of an underlying asset, for which a market exists wherein its value can be determined.

Dormant shares

Shares held directly by the company itself. These shares are denied rights to capital or voting in the company.

FATCA

Foreign Accounts Tax Compliance Act

An American law aimed at improving tax enforcement, pursuant to which financial entities outside the United States must report to the US tax authorities on accounts maintained with them and owned by anyone obligated to report to these authorities, even if not a resident of the United States.

FDIC

Federal Deposit Insurance Corporation

The Federal Deposit Insurance Corporation in the United States.

Financial instrument

Any contract that creates a financial asset in one entity and a financial liability or equity instrument in another entity.

FINMA

Swiss Financial Market Supervisory Authority

The government agency that supervises financial institutions in Switzerland.

Fixed-term deposits

Deposits in which the depositor does not have the right or authorization to withdraw funds for at least six days from the date of the deposit.

GRI

Global Reporting Initiative

An international standard for reporting on sustainability and corporate social responsibility.

ICAAP

Internal Capital Adequacy Assessment Process

An internal process to assess capital adequacy and establish strategy to ensure the capital adequacy of banking corporations. The process is designed to ensure that banking corporations hold adequate capital to support all of the risks inherent in their activities, and that they develop and apply appropriate processes to manage risks. Among other elements, the process includes setting capital targets, performing capital planning processes, and examining the condition of capital under a variety of extreme scenarios.

Indebtedness

As defined in Proper Conduct of Banking Business Directive 313.

LDC

Less developed country

A country classified by the World Bank as having low or medium revenue.

LTV

Loan to value ratio

The amount of a loan (including an unutilized approved credit facility) as a percentage of the pledged asset (according to the banking corporation's share in the pledge).

MTM

Mark to market

Revaluation of a derivative instrument based on price quotes from relevant markets, or in the absence thereof, based on alternative evaluation methods.

NPL

Non-performing loan

Impaired credit not accruing interest income.

Obligo

Total indebtedness; total liabilities of the customer to the Bank.

Off-balance sheet credit

Commitments to grant credit and guarantees (excluding derivative instruments).

On-demand deposits

Deposits other than fixed-term deposits.

Option

A contract between two parties (the option writer and the option buyer); the option writer grants the option buyer the right to buy or sell a particular asset for a predetermined price, usually at a predetermined time.

OTC derivative

Over-the-counter derivative

A derivative instrument in which financial institutions contract during the ordinary course of business, for which a market exists where its value can be determined.

Phantom share

An instrument granting cash compensation based on the value of shares of the company, without entitlement to receive the share.

Repurchase/resale agreements

Agreements to purchase or sell securities in consideration for cash or securities, in which, at the time of the transaction, the seller and the buyer agree to perform the reverse transaction at a date and price agreed upon in advance.

Securitization

Non-bank capital raising by a financial entity through special bonds reflecting the expected cash flows in respect of pooled loans.

Subordinated notes

Notes in which rights are subordinate to the claims of all other creditors of the banking corporation, excluding other notes and notes of the same type.

Supervisory capital

Supervisory capital comprises two tiers: Tier 1 capital and Tier 2 capital, as defined in Proper Conduct of Banking Business Directive 202.

Syndication

A transaction in which several lenders jointly grant a loan to a single borrower, but each lender provides a loan to the borrower in a specific amount and has the right to repayment by the borrower. Groups of lenders frequently finance loans together when the amount granted is higher than the amount that any one lender is willing to lend.

Tier 1 capital

Going-concern capital, including common equity Tier 1 capital and additional Tier 1 capital, as defined in Proper Conduct of Banking Business Directive 202.

Tier 2 capital

Gone-concern capital, as defined in Proper Conduct of Banking Business Directive 202.

VaR

Value at risk

A commonly used statistical model for the quantification of market risks. The model uses historical data to assess the maximum expected loss in respect of a particular position or portfolio, for a defined time horizon, at a defined significance