2021

CONDENSED FINANCIAL STATEMENTS

30.06.2021

Q2

ISRAEL DISCOUNT BANK

Board of Directors and Management Report

Internal Control over Financial Reporting

Condensed Financial Statements

Corporate Governance, audit, additional details regarding the business of the banking corporation and management thereof

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Board of Directors and Management Report

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Chapter "A" – General overview, goals and strategy

At the meeting of the Board of Directors held on August 15, 2021, the unaudited consolidated interim financial statements of Israel Discount Bank Ltd. and its subsidiaries for June 30, 2021 were approved (hereinafter: "the condensed financial statements"). The data presented in the report are consolidated data, unless explicitly stated otherwise.

Condensed financial information regarding financial position and operating results

Condensed financial information and main performance indicators over a period of time - consolidated

	First Half 2021	First Half 2020	Year 2020
	In %		
Main performance indicators:			
Return on equity	16.1	4.8	5.1
Return on assets	1.01	0.33	0.35
Ratio of net credit to the public to deposits from the public	82.7	82.6	83.5
Ratio of common equity tier 1 to risk assets	10.28	10.08	10.20
Ratio of total capital to risk assets	13.48	13.02	13.06
Leverage ratio[(1)]	6.3	6.4	6.3
Liquidity coverage ratio[(1)]	138.9	136.9	147.5
Efficiency ratio	64.0	62.2	67.5
Main credit quality indicators:			
Ratio of balance of allowance for credit losses in respect of credit to the public, to balance of credit to the public	1.62	1.82	1.95
Ratio of the balance of impaired credit to the public together with the balance of credit to the public in arrears for 90 days and over, to balance of credit to the public	1.17	1.37	1.36
Ratio of net accounting write-offs in respect of credit to the public to the average balance of credit to the public	(0.02)	0.25	0.19
Ratio of credit loss expenses (expenses release) to the average balance of credit to the public	(0.56)	1.28	0.91
	In NIS millions		
Principal statements of profit and loss data for the reporting period:			
Net Profit Attributed to the Bank's Shareholders	**1,522**	**453**	**975**
Net interest income	3,189	2,918	5,898
Credit loss expense (expenses release)	(557)	1,188	1,718
Non-financing income	1,908	2,090	4,007
Of which: Fees and commissions	1,509	1,389	2,826
Non-financing expenses	3,263	3,114	6,681
Of which: salaries and related expenses	1,631	1,618	3,242
Comprehensive income, attributed to the Bank's shareholders	**1,473**	**381**	**559**
Total earnings per share attributed to Bank's shareholders (in NIS)	1.31	0.39	0.84

For footnote see next page.

Condensed financial information and main performance indicators over a period of time - consolidated (continued)

	First Half 2021	2020	Year 2020
	In NIS millions		
Principal balance sheet data for the end of the reporting period:			
Total assets	**310,734**	**282,100**	**293,969**
Of which:			
Cash and deposits with banks	47,405	39,608	42,936
Securities	46,849	40,037	42,785
Net credit to the public	198,986	183,436	188,718
Total liabilities	**289,388**	**262,577**	**274,242**
Of which:			
Deposits from the public	240,691	222,048	226,118
Deposits from banks	15,291	7,717	13,107
Bonds and Subordinated debt notes	11,203	11,377	10,201
Shareholders' equity	20,704	19,004	19,182
Total equity	**21,346**	**19,523**	**19,727**
Additional data:			
Share price	1,552	1,050	1,236
Dividend per share	-	4.19	4.19
Ratio of fees and commissions to total assets	1.0	1.0	1.0

Footnote:
(1) The ratio is computed in respect of the three months ended at the end of the reporting period.

For details regarding the decision of the Bank's Board of Directors dated August 15, 2020, regarding the distribution of dividends, see Note 18 to the condensed financial statements.

Market share

Based on data relating to the banking industry as of March 31, 2021, published by the Bank of Israel, the Discount Bank Group's share in the banking industry in Israel was as follows

	March 31, 2021(1)	December 31, 2020(1)
	In %	
Total assets	15.4	15.2
Net credit to the public	16.7	16.7
Deposits from the public	15.0	14.6
Net interest income	17.6	18.3
Total non-interest income	21.0	24.2

Footnote:
(1) In the past, comparison had been made with the five large banking groups in Israel. Due to the merger of Union Bank with Mizrahi Tefahot Bank, and in order to enable comparability, this Report presents comparison with data of the whole banking system.

Development of the Discount share

	Closing price at end of the trading day			Change in
	August 11, 2021	June 30, 2021	December 31, 2020	the first half of 2021 in %
Discount share	1,607	1,552	1,236	25.6
The TA 5 Banks index	2,668.14	2,569.50	2,037.01	26.1
The TA 35 index	1,698.92	1,682.94	1,499.05	12.3
Discount market value (in NIS billions)	18.71	18.07	14.39	25.6

Goals and business strategy

In the course of 2020, following the successful implementation of the multi-annual strategic plan introduced in 2014, a new multi-annual strategic plan for the Bank and the Group was introduced for the years 2021-2025.
The new strategic plan directs towards the realization of an ambitious vision **to be the best financial institution for its customers, which creates maximum value to its shareholders over time**. The strategic plan is made up of three central pillars – accelerated evolution of traditional banking, revolution in banking business by way of groundbreaking innovation and maximizing the value of the Group.

First pillar – Accelerated evolution of traditional banking

As part of the changes affecting the banking sector, the Discount Group acts toward accelerating the evolution of banking activity with a view of improving competitive ability and increase its market share and its profitability in banking activity. The said acceleration is to be achieved by way of focusing on five areas:

Winning customer experience

Goal: To be the Bank with the best customer experience in the system

Changing reality requires us to improve customer experience quickly – customers expect another level of service, and the base for comparison is not necessarily other banks but the organizations leading in customer experience provided by them. Discount shall act to create a differentiating competitive advantage by way of a winning customers' experience.
In order to realize this vision and become the best bank for its customers, Discount has introduced a comprehensive strategic project, intended to turn the whole Bank into a customer focused organization. This, by making a significant and extensive effort covering all units of the Bank and leading to a basic and deep change of work processes and of service and behavior principles.
The leading index measuring the success of the change is the customer recommendation index – Net Promoter Score. This index has been successfully implemented by thousands of leading organizations around the world. This index has been proven as directly connected to the increase in income, to attracting new customers and to increasing customer loyalty.
Within the framework of this mechanism, the Bank integrates processes involving attentiveness to customers, deep and methodological analysis of feedback from customers and the ability to translate the messages into effective initiatives with the aim of improving customers' experience at all customers' interface points with the Bank.

Significant growth and increasing market share in focal segments

Goal: Growth at a faster rate than that of competitors in the credit portfolio and in income

- The Bank acts to increase income at a faster pace than market growth, and to maximize the potential of income from interest and fees and commissions, as well as non-interest financing income. The Bank endeavors to increase its credit portfolio at a faster pace than market growth, mainly in the housing and commercial banking fields and in additional focal fields;
- In order to enable the said growth, the Bank implements new operational models in retail and corporate banking areas, which include, inter alia, changes in service, sales and operating layouts.

Innovation

Goal: Positioning at the front of traditional banking innovation

- The Bank will act to enlarge the offer of digital services with a view of maximizing the usefulness of such services, while providing response to expectations of customers and of the period;

- The Bank will leverage advanced data capabilities with the aim of improving value offers to customers and making banking personal, effective and valuable;
- The Bank will continue to intensify relations and cooperation with the fintech community in Israel and abroad, with a view of offering its customers and also customers of all banks, the most advanced services and products, both in banking and related areas.

Banking excellence

Goal: Creating an efficient organizational platform based on efficiency, operational excellence and a high level of performance

- In order to support all the strategic goals of the Bank, it is the Bank's intention to integrate operational excellence that would support customer experience, would reduce errors and operating risks and assist in obtaining real efficiency;
- In this respect, the Bank will introduce automation, digitization and improvement of processes enabling greater efficiency, shortening of reaction time and improvement of measurement and monitoring capabilities, and will integrate new work methods improving central processes;
- The Bank will continue to perform efficiency measures leading to the reduction in manpower of the Discount Group; optimization regarding real estate areas; and savings in purchase expenditure and other expenses.

Winning organizational culture

Goal: Being the best employer for our employees

With the understanding of the importance and centrality of the Bank's employees in providing the best service to customers and the ability to realize the strategic plan, the Bank will act to strengthen its managers and employees and to design an organizational culture that promotes performance, excellence and continuous striving for improvement. Furthermore, the Bank acts to improve the feeling of commitment and organizational bonding of employees and managers and to modify their skills to the changing environment.

Second pillar – groundbreaking innovation

Goal: Being a leading player in the implementation of groundbreaking banking models that create competition

The financial field in general and banking business in particular, is in the midst of an accelerated process of change. The change is motivated by diverse trends headed by an ever growing transition to digital banking, competition encouraging regulation, entry of new players into the traditional banking areas, and growth in expectation of customers for more varied and customized value offers than in the past.

The competitive and singular positioning of the Discount Group which, on the one hand, is large enough in order to lead a change, and on the other hand is small enough in order not to be deterred by the implications of the change, creates for it an important opportunity to establish its position as a leading banking-financial group, which encourages competition in the system, and to increase its market share, inter alia, by forming new initiatives, off-banking, based on extensive cooperation with third parties and fintech companies:

- The Bank will act to form initiatives in cooperation with fintech companies and other third parties, for the creation of products and services designed for customers of all banks;
- The first initiative of the Bank, in cooperation with Shufersal, will develop PayBox so it will be the leading digital wallet in Israel, which combines an open platform on which will be offered products and services of third parties to customers of all banks. For details regarding this strategic cooperation, see "Management's handling of current material issues" below.

Third Pillar – maximizing the value of the Group

Goal: Utilization of the synergies between the Group companies and maximization of their value

- The Bank, as a holding company, will continue the implementation of the unique strategies defined for the central subsidiaries – IDB Bank, MDB, ICC and Discount Capital, with the aim of modifying their operations to the new competitive environment;
- The Bank will act to identify and to utilize possible synergies among the group companies, both in the field of revenues and in the field of expenditure, which may contribute significantly to the Group's economic value;
- The Bank will act to assemble all Head Office units of the Group companies in a joint campus located in the 'Millennium Complex' in Rishon LeTzion, with the aim of accelerating the realization of synergies and work processes, thus achieving noticeable real estate efficiency.

The strategic plan goals

The new strategic plan contains a financial plan for the years 2021 to 2025, as well as internal goals reflecting maximization of return on equity, improvement in the operating efficiency ratio, and a growth in the market share of the Discount Group.
At this time, in view of the continuation of the Corona crisis and the material uncertainty involved therein and in view of the positioning of a new strategic plan, the financial goals stated in the previous plan, are no longer relevant.

Forward-looking information. The aforesaid reflects the plans of the Bank's management and its intentions, taking into consideration the information in its possession at the time of preparing the statements with regard to the development of the banking sector and the uncertainty involved in the long-range planning for several years. Material changes in the economic and regulatory environment or in the geo-political or defense situations, technological developments, actions of competitors operating in the banking sector and other potential competitors, and changes in consumer patterns and customer expectations, which are not under the Bank's control, all these might result in changes in the ability to execute the Bank's plans as they exist at the time of publishing the statements.

For the definition of the term "forward looking information", see "Appendix No. 4 – Glossary".

Chapter "B" – Explication and analysis of the financial results and business position

Material trends, occurrences, developments and changes

Management's handling of current material issues

The first half of 2021 was also overclouded by the Corona crisis. The spread of the virus has led to a major economic crisis in 2020 that has affected the economy, including the banking sector and the Discount Group. A wide scope vaccination effort followed by a halt in the pandemic enabled the removal of the restrictions and in consequence thereof, recovery in economic activity has occured in the second quarter of the year. The Bank's financial base and its capital infrastructure remain stable and are being stringently managed. The ratio of equity capital Tier 1 amounts to 10.28% and the liquidity coverage ratio amounts to 138.87%. This is the capital infrastructure that allows the Group to continue growing.
The central challenges and issues in the first half of 2021 were:

The Corona crisis

General. A new virus of the "Corona" type broke out in the first quarter of 2020, spreading quickly to most countries around the globe, causing widespread morbidity and a significant mortality rate. Following the outbreak of the virus, governments around the world, including Israel, have adopted preventive measures, which included restrictions on passage between countries, isolation means even up to imposing a lockdown, restrictions on different types of activities and businesses, etc. The said measures have led to actual impairment of business activity, to a rise in the rates of unemployment, impairment of the economic survivability of businesses and impairment of income and consumption of households. A significant additional outbreak of morbidity, the third in number, had been noticed in Israel in the months of December 2020 and January 2021. Following this additional outbreak, an additional lockdown was imposed in Israel in the months of January-February 2021, which caused a significant reduction in economic activity and a decline in morbidity. It should be noted that, toward the end of 2020, several drug companies launched vaccines against the virus and vaccination of the population began. The significant vaccination efforts taken since the beginning of 2021, had led since the month of March 2021, to a decline in the rates of morbidity, allowing a gradual removal of most of the restrictions, and in consequence thereof, recovery in economic activity was noted in the second quarter of the year (see below "Principal economic developments"). The rate of the morbidity in Israel started to rise in the second half of June 2021, due to the spreading of the "Delta" variant. In accordance with publications of the Ministry of Health, morbidity indices are high and rising at a fast rate, however, at this stage, existing restrictions do not impair economic activity in Israel. Notwithstanding the above, it is not possible to estimate whether restrictions on activity would be imposed again, and if so, what would be their scope and extent of impairment of economic activity.

Preparations made by the Bank. With the beginning of the crisis, the Bank's Management directed its full administrative attention to the crisis and its implications. Cross-organization work teams, headed by the Bank's President & CEO, managed the different layers of the Bank's operations under the crisis, while closely following developments and adopting measures for the reduction of the different risks and the maintenance of business continuity with the utmost sensitivity to Bank customers. The business divisions increased monitoring and control operations over the condition of the credit portfolio and of the financial assets portfolio of the Bank. Concurrently with the management of the crisis, the management engaged in planning the Bank's preparations for exiting the Corona crisis and the initiation of actions in this field.

Customer support. Since the beginning of the Corona crisis and the restrictions imposed on economic activity, the Bank has prepared to support its customers in confronting the economic uncertainty and traversing the crisis. For additional details see below "Activity of the Group according to Principal Segments of Operation - Principal Quantitative Data and Main Developments".

Operation and business continuity. The branch layout and the supporting units of the Bank and of MDB operated in full capacity in the first half of 2021.

On the background of the decline in the morbidity rates and the high rate of vaccinated employees, the Bank and MDB returned as from April 4, 2021, to a regular work routine at all locations of these banks.

Reduced capital requirements and discontinuation of dividend distribution. On the background of the spreading of the Corona virus and with the aim of supporting the credit requirements of the customers during this period, the Bank's Board of Directors has decided to modify the Common Equity Tier 1 ratio to 8.9% (instead of the previous 9.9%), as permitted by the provisional Directive issued by the Supervisor of Banks. At the same time, the Bank's Board of Directors decided to discontinue, at this stage, the distribution of dividends by the Bank (for additional details, see "Capital and capital adequacy" below). For details regarding the resolution of the Board of Directors dated August 15, 2021, see below "Dividend distribution".

Changes in the level of risk. The Corona crisis and its domestic and global implications, have led to an increase in risk in most of the managed risk areas. For additional details, see the 2020 Annual Report (p. 19). Following the decline in the inherent risk as a result of the return to work at the Bank offices, the strengthening of business continuity and the stabilization of the changes that had followed the retirement process, the evaluation of the effect of the operational risk has been lowered from High to Medium-high, the rating in effect prior to the outbreak of the Corona crisis.

Expenses for credit losses. In the first half of 2021 credit loss expenses release in the amount of 557 million were recorded, compared with expenses of NIS 1,188 million in the corresponding period last year, an increase of 146.9%. The significant decrease in morbidity and the lifting of the third lockdown led to the reopening of the trade and the

economy as a whole, with greater economic activity being evident beginning toward the end of the first quarter. These factors have had a positive impact on the position of businesses and borrowers, as well as on macroeconomic parameters.
(See below "Credit loss expenses" in the section "Developments in income and expenses"; "Credit risk"; and "Allowance for credit losses – allowances on a group basis" in the section "Critical accounting policies and critical accounting estimates").
Continuing uncertainty conditions. The level of uncertainty declined towards the end of the first quarter of 2021 and thereafter, in view of the wide scope vaccination of the population in Israel, the decline in the rates of morbidity and the lifting most of the restrictions that had been imposed on economic activity. However, the overall economic ramifications of the Corona crisis are still not clear and depend on the rate of economic recovery and the return of the various economic sectors to full activity. The uncertainty is also effected by concerns regarding additional waves of the pandemic outbreak and the implications of such additional waves. Included in the above is the spreading of the "Delta" variant, and as a result thereof, the recent noted growth in morbidity rates. The Bank and its principal subsidiaries continue to follow developments in this respect and are studying the possible implications on sectors and customers, which might be affected by this situation. The Bank estimates that the Corona crisis may continue and impact the condition of borrowers and their loan repayment ability, even though, at this stage, as stated, uncertainty exists with respect to the rate of recovery from the crisis and the length of time in which it is expected to have an effect.
Forward looking information. The Bank estimates regarding the possible implications of the crisis, comprise forward looking information, based upon the information existing in the hands of the Bank at date of preparation of this report. Such estimates may not materialize or may materialize in a different manner than that estimated by the Bank.

Strategic cooperation for setting up a digital wallet

On January 19, 2021, the Bank signed a strategic cooperation agreement with Shufersal Ltd. to set up a digital wallet for customers of all the banks, based on the PayBox payments platform that is owned by the Bank. The cooperation will take place using a company controlled by the Bank, with the Bank holding 50.1% of the rights in the company and Shufersal will hold 49.9% of the rights. The Bank will transfer to the company the PayBox assets in their current format. Shufersal will confer on the company an exclusive right to grant monetary benefits that are earmarked for its customers, the holders of a Shufersal card and the members of the Shufersal loyalty club, via PayBox (more than two million customers, of which approx. 641 thousand are holders of a Shufersal loyalty club credit card, according to Shufersal's periodic report for 2020, as of March 3, 2021), as well as a right to match up the Shufersal credit card with the app, the right of presenting digital vouchers at trading houses and of using them for transactions, etc.
Within the framework of the cooperation, the PayBox operation will be expanded, and, in the first stage, it will become possible for approx. 1.5 million of its customers to use a PayBox wallet as a means of payment, to redeem digital purchase coupons, to receive various benefits, and so forth. In addition, the company will offer its customers a virtual credit card that will be ascribed to the PayBox club, including for members of the Shufersal loyalty club who are not holders of a Shufersal loyalty club credit card.
The parties have agreed to take additional measures in the future in order to enable customers of all the banks to conduct additional financial and banking activity within the framework of PayBox, inter alia, by means of a platform on which financial services and products of various suppliers and fintech companies will be offered to customers of all the banks, with this being subject to the provisions of the law.
Consent of the Competition Commissioner to the merger transaction was received on March 1, 2021, within the framework of which PayBox Ltd. (a company in formation) and Shufersal Club Company Ltd. (provisional name) (a company in formation) would be merged.
On June 1, 2021, the Bank received the approval of the Supervisor of Banks (hereinafter: "the Supervisor's approval") permitting it to have the sole control and to directly hold the means of control in the auxiliary corporation PayBox Ltd. (hereinafter: "the auxiliary corporation"), which is to engage in managing a digital wallet platform and in providing digital services. Upon receipt of the Supervisor's approval, the Bank received the regulatory approvals for the completion of the transaction being the subject matter of the agreement dated January 19, 2021. The merger was completed on June 30, 2021, within the framework of which PayBox Ltd. absorbed Shufersal Digital Benefits Ltd. (For additional details, see Note 22 to the condensed financial statements).

Forward-looking information. The aforesaid reflects the assessment of the Bank's Management and its intentions, taking into consideration the information available to it at the time of preparing the reports with regard to the development of the payments field. Statutory and regulatory changes that are not known at the time of publishing the reports, including changes in existing initiatives and drafts, technological developments and/or actions of competitors and changes in consumption habits and customer expectations, as well as macro developments in Israel and around the world, which are not under the control of the Bank, might cause changes in the assessments or in the ability to execute the Bank's plans, as they are at the time of publishing the reports.

Issuance of deferred debt notes (expansion of Series G)

On April 22, 2021, the Bank, through its subsidiary Discount Manpikim Ltd., completed the process of issuing deferred debt notes (expansion of Series G), which include a capital loss absorption mechanism, which are capital instruments classified as Tier 2 capital for the purpose of their inclusion in the Bank's regulatory capital, in a total amount of approx. NIS 932 million. The effective interest rate at issue date was 1.07%.
On June 28, 2021, the Bank, through its subsidiary Discount Manpikim Ltd., completed the process of issuing a private placement of the said deferred debt notes (expansion of Series G), in a total amount of approx. NIS 250 million. The effective interest rate at issue date was 0.76%.

Additional issues

- **Rating.** Moody's rating agency has raised the rating for deposits with the Bank from "A3" to "A2" with a stable outlook. For additional details, see below "Rating of Liabilities of the Bank and some of its Subsidiaries";
- **The 2020 retirement plan.** During the reported period, the Bank's Management worked diligently to complete the implementation of the 2020 retirement plan. For additional details, see below "The 2020 retirement plan";
- **Proceedings in Australia.** In January 2021, compromise arrangements and an arrangement with the Bank's insurers were signed with regard to the proceedings in Australia. For details, see Note 10 section 3.2 to the condensed financial statements. For details regarding the special, independent committee regarding the proceedings in Australia, see below in the chapter "Corporate Governance and Audit";
- **Discount Campus.** Construction work on the campus continued in the reported period. For additional details, see Note 10 section 5 to the condensed financial statements and "Fixed assets and installations" below;
- **Increase in competition and reduction in concentration Act.** The preparation for changes in the financial system is continuing, both at the Bank and at ICC, following the Increase in Competition and Reduction in Centralization in the Banking Market in Israel Act. For additional details, see Note 17 to the condensed financial statements.

Principal economic developments

Presented below are the main economic developments that impacted the economic environment in which the Israeli banking sector, including the Bank, operated in the first half of 2021.
Growth. Economic activity around the world is expanding, The US economy expanded in the second quarter at an annualized rate of 6.5%, and the Eurozone expanded by 8.2%.
In Israel[1], in total for the first quarter, the GDP shrank at an annualized rate of 5.8%, the steep decline resulting to a large extent, from the dramatic regress in the import of passenger cars. After elimination of the net taxes on import, the GDP shrank by 1.8% (annualized rate). The Bank estimates that the growth data for the second quarter will indicate fast growth, on the background of the opening of the economy, alongside a fast growth in the import of motor vehicles. The Bank estimates that growth for the current year would reach approx. 5.5%. This is based on the assumption that the new outbreak of the Corona will not lead to a significant impairment of economic activity.

1 The growth figures in Israel for the second quarter of 2021 were not available at the time the report was submitted to the printing press.

Exchange rates. During the first half, the US dollar gained strength around the world. This, in view of the fast recovery, acceleration in the rate of vaccination of the population and the rise in yields in the US. In total for the first half of the year, the dollar basket ("dollar index") appreciated at a rate of 2.8%.
At the beginning of the year, the shekel continued in its strengthening trend, a fact that had led the Bank of Israel to announce a foreign currency purchase plan in the volume of US$30 billion. During the first half, the Bank of Israel purchased foreign currency in the amount of approx. US$25 billion. In consequence thereof, and concurrently with the strengthening of the dollar around the world, the shekel weakened against the dollar since the beginning of the year by 1.4%, though maintaining stability as against the currency basket.
Inflation. On the background of the recovery in economic activity in Israel, a significant rise in the rate of inflation took place during the half of the year. Indices rose during the half of the year by 1.6%, compared to a decline of -0.8% in the corresponding period last year. In consequence thereof, the annual rate of inflation rose to 1.7%, following a level of -1.1% at the end of the corresponding period last year. Concurrently, a steep rise was recorded in the inflationary expectations for all time ranges, and for the short-term in particular, from approx. 0.3% per annum at the end of 2020, to approx. 1.8% at the end of June (index contract). The Bank estimates that in 2021 an inflation rate of 2.1% is anticipated.
Monetary policy. entral banks around the world, headed by the FED, continue to apply an expansionary policy. This, despite economic recovery and the rise in inflation, and in view of concerns regarding a long-term impairment of the labor market. Central banks around the world believe that the actual rise in inflation is temporary.
During the first half, the Bank of Israel left the interest rate unchanged at a level of 0.1%, and continued to adopt a very expansionary policy, while using the diverse tools at its disposals, including the purchase of foreign currency and bonds. The Bank estimates that the Bank of Israel interest rate would remain at the end of 2021 at the level of 0.1%.
Financial markets. Share indices around the world were traded at rising quotations on the background of acceleration in the pace of vaccination, global economic recovery and the expansionary monetary policy. Concurrently, a rise in yields on US government bonds was recorded during the half of the year, supported mostly, by acceleration in economic activity, by inflation and by inflationary expectations.
Trading in government bonds in Israel was characterized by a moderate rise in yields all through the half of the year. The rise in returns was accompanied by a rise in inflationary expectations, all along the graph.
The third quarter of 2021. The macro-economic data for the month of July indicate the continuing expansion of the global economy, this with the reverting to operation of the global economies and the continuing vaccination trend. The recovery in activity, accompanied by the subdued demand that is being released leading to rising prices, and together with the rise in commodity prices, supports the rise in inflation and in inflationary expectations. Notwithstanding the above, the central banks estimate that the rise in inflation is temporary, and they continue to maintain an expansionary monetary policy.
In Israel, with the return of the economy to an almost full activity and the removal of most restrictions, the expansion in economic activity continued with a decline in the wide unemployment rate. The annual rate of inflation increased to 1.7%, following a downward surprise of the CPI for May, and a rise in agreement with expectations for June, with the continuing upward trend in inflationary expectations, which are grossed-up in the market.
During the period, the Bank of Israel continued its involvement in the foreign currency market. In consequence thereof, the shekel strengthened against the US dollar by approx. 1.2%, and strengthened also against the currency basket by approx. 1.6%.
The local equities market experienced a downward trend, in contrast to the upward trend prevailing in leading indices around the world.
Forward-looking information. The aforesaid includes, inter alia, assessments of the Bank regarding the future development of primary indicators, which are deemed to be forward-looking information. The aforesaid reflects the assessment of the Bank's Management, taking account of information available to it at the time of preparing the quarterly report, with regard to trends in the Israeli and world economies. The aforesaid might not materialize should changes occur in the trends, in Israel and/or in the world, and as a result of various developments in the macro-economic conditions that are not under the control of the Bank.
For further details, see "Main developments in Israel and around the world in the first half of 2021" in "Corporate governance, audit, additional details regarding the business of the banking corporation and management thereof".

Material leading and developing risks

The Bank considers business model risks, cyber and data protection risks, macro environment risk, model risks, privacy protection aspects as well as conduct risks and environment and climate risk, as the most significant developing leading risks. For additional details see the 2020 Annual Report (pp. 22-23).

Initiatives concerning the banking sector and its operations

Increase in competition and reduction in concentration Act. The Increase in Competition and Reduction in Concentration in the Banking Market in Israel (Legislation Amendments) Act, 2017, was published in the Official Gazette on January 31, 2017. The Act constitutes the adoption of the recommendations of the Strum Committee, appointed in June 2015 by the Minister of Finance and by the Governor of the Bank of Israel, in order to recommend, inter alia, of ways for attracting new participants in the competition for the supply of prevalent financial services, including by way of separation from banks of the ownership of credit card companies.

In the first stage, within the framework of implementing the Act, the credit card companies Isracard and MAX (formally: Leumi Card) were separated from Bank Hapoalim and Bank Leumi, respectively, and the separation of ownership of the credit card companies from the banks did not apply to the owners of ICC. Only in the second stage will the issue of the separation of ownership in relation to ICC be re-examined. According to the Act, on February 1, 2021, a two-year period commenced, during which the Minister of Finance may order ICC to be separated from the banks that currently own it. This and more, if in the past the large banks (Poalim, Leumi and Discount) issued to their customers credit cards of the credit card companies owned by them (Isracard, MAX and ICC), so that competition exists now between the companies. Each bank holding control means in a debit card company, is required to divert a part of the business of issuing new cards to its customers to at least one other operating company, with which the bank had no business relations in the past. From the view point of ICC, although there is a reduction in the issue of credit cards to customers of the owner banks, ICC now has the opportunity to compete in the issue of new credit cards to customers of Poalim and Leumi. In the era of post-entry into effect of the new Act, the different participants in the credit card market, banks on the one part and credit card companies on the other part, find themselves in front of an array of moves and action possibilities of each of them and of each of the other participants.

The aforementioned could have a material effect on the banking system, including the Bank itself, on the credit card market and on ICC. Nevertheless, at this stage, prior to clarifying the nature, character, scope and timing of all the measures that will be taken, it is not possible to assess the aforesaid effects either in terms of materiality or in terms of quantity.

The additional tax that may apply, if doubt is raised as to the continued holding of the Bank in ICC, computed in relation to the value of the holdings in ICC stated in the books of the Bank as of June 30, 2021, is estimated at approx. NIS 52 million.

For details regarding the said Act and additional legislation initiatives concerning the banking sector, see "Legislation and Supervision" in the Chapter "Corporate governance, audit and additional details regarding the business and manner of management of a banking corporation" below and in the 2020 Annual Report (pp. 391-396). For details in respect of agreements between ICC and certain banks on the one hand, and between the Bank and MAX on the other hand, see Note 36 B to the financial statements as of December 31, 2020 (pp. 312-313) and Note 17 to the condensed financial statements. For details in the matter of "Changes regarding competition in the credit card market", see "Credit Card Operations" in the 2020 Annual Report (pp. 375-.376).

Continuation of the plan for strengthening competition in the banking market. For further details, see "Legislation and Supervision".

Reduction of the cross-commission rate. The Banking Oder (Customer service)(Supervision over cross-clearing service for transactions made by charge cards and for immediate debit transactions), 2018, was published on November 2, 2018, establishing an outline with respect to the reduction of the cross-commission in deferred charge transactions, from the rate of 0.7% at that date to a rate of 0.5%, this in five stages during the coming years, and an outline with respect to the reduction of the cross-commission regarding immediate charge transactions, from the rate of 0.3% at that date to a rate of 0.25%. The Bank and ICC estimate that the business results of ICC might be materially impaired as a result of the reduction in the commission rate, as stated. For additional details, see Note 17 to the condensed financial statements.

For details regarding the exemption terms for the agreement (a new arrangement in the industry replacing the arrangement expired on December 31, 2018), published by the Competition Commissioner, see the said Note.

Initiatives in view of the Corona crisis. For details regarding regulation in view of the Corona crisis, including regulation moves initiated by the Supervisor of Banks, intended to allow the banking system to fulfill its duty during the period of crisis and thereafter, see "Legislation and supervision" hereunder. For details regarding credit funds established by the State, operated through the banking system for the support of the economy in this period, see below "Activity of the Group according to Principal Segments of Operation - Principal Quantitative Data and Main Developments".

For additional details, see the 2020 Annual Report (p. 24).

The 2020 retirement plan

Efficiency of the Banking Industry - Regulatory expectations. The position of the Supervisor of Banks is that the banking industry in Israel is characterized by low efficiency, as compared with banks in the developed countries. One of the key targets defined by the Supervisor of Banks is improvement in bank efficiency, namely – a reduction in bank expenses in relation to income. The object of the Supervisor is that the efficiency obtained by banks would also reach the customers, namely, would reduce the cost of bank services, lead to the shifting of resources to innovation and improvement of banking service, and to the increase in dividends to bank shareholders, who are mainly the public at large in Israel.

On December 17, 2019, the Supervisor of Banks extended the validity of letters regarding operational efficiency of the banking system dated January 12, 2016 and June 13, 2017, within the framework of which banks had been granted certain relief in the matter of capital adequacy, until December 31, 2021. This, in order to enable the banking corporations to implement additional efficiency plans.

The 2020 retirement plan. On August 26, 2020, the Board of Directors approved a retirement plan for approx. 300 employees, following an outline that had been formed by the Bank's Management, on the background of the Corona crisis and the intention to increase in a significant scope the number of retirees over and above the employees expected to reach natural retirement. In view of the above stated, it has been decided to alter the retirement outline at the Bank, in an exceptional and one-time manner, offering retirees preferential terms compared with the usual retirement terms and the terms that had been offered in previous plans. In October 2020, the retirement plan was enlarged by up to an additional 200 employees.

In accordance with the plan, early retirement at preferential terms was offered to permanent employees of the Bank, belonging to the defined targeted population (ages 50-66). Retirees were offered increased severance pay at the rate of up to 200% (in excess of severance pay in accordance with the law). Within the framework of the plan, additional rewards were offered to the focused population (ages 56-60) in relation to the remaining number of years until retirement, to shift/split-up work employees and employees earning a low salary.

The boards of directors of MDB and of ICC have approved an early retirement plan for approx. 60 employees and approx. 80 employees, accordingly, during 2020-2021, (see Note 23 I to the financial statements as of December 31, 2020, p. 212).

Until March 31, 2021, 776 employees of the Group in Israel retired (including natural retirement of employees). 37 additional employees are expected to reach natural retirement in the second half of 2021.

The stated plans increased the liability stated in the books in 2020 by approx. NIS 555 million (before tax effect; in excess of the cost of the legal severance pay and the surplus balance from a previous plan; NIS 365 million, net of the tax effect, which was charged in 2020 to equity as "Adjustments in respect of employee benefits" as part of "Other comprehensive profit (loss)").

The Banking Supervision Department has granted the Bank and MDB reliefs with regard to the calculation of capital adequacy in respect of the aforementioned retirement plan. The effect of the reliefs on the Common Equity Tier 1 ratio amounts to approx. 0.21% (for further details, see Note 25 section 1 C to the financial statements as of December 31, 2020, pp. 215-216).
The amount of the settlement charged to profit and loss in the first half of 2021, amounted to NIS 122 million (before tax effect). This, in addition to the amount of NIS 413 million (before the tax effect) recorded in the year 2020 (including in respect of previous retirement plans). The balance will be spread over the average duration of the liability, which currently stands at approx. 13 years, in accordance with the accounting principles applicable to the Bank.

Review by the independent auditors

In their review report of the interim consolidated condensed unaudited financial statements for the three and six months periods ended on June 30, 2021, the independent auditors drew attention to Note 10 section 4, regarding different proceedings filed against the Bank and against investee companies.

Material developments in income, expenses and other comprehensive income

Profit and Profitability

Net profit attributed to the Bank's shareholders for the first half of 2021 totalled NIS 1,522 million, compared with NIS 453 million in the corresponding period last year, an increase of 236.0%.
Return on equity net attributed to the Bank's shareholders for the first half of 2021 reached a rate of 16.1%, on an annual basis, compared with a rate of 4.8% for the corresponding period last year, and 5.1% for all of 2020.
The following are the main factors that had an effect on the business results of the Group in the first half of 2021, compared with the corresponding period last year:

a. An increase in net interest income in an amount of NIS 271 million (9.3%), mostly affected by the gap in changes in the CPI (an increase against a decrease);
b. A decrease in credit loss expenses, of NIS 1,745 million (146.9%). The decrease stemmed, mainly, from expenses release regarding the group track, in view of the opening of trade and the economy as a whole and the update of parameters affecting the adjustment rate component as well as from a reduction in the decision rate and by significant debt collection in the specific channel;
c. A decrease in the total non-interest income, of NIS 182 million (8.7%), affected mostly by an increase of NIS 306 million in non-interest financing income (44.2%), mostly a reduction in income from derivatives operations, an increase of NIS 120 million in fees and commissions (8.6%), mainly from an increase in credit card commissions and fees and commissions and fees from operations involving securities and certain derivative instruments.
d. An increase of NIS 149 million in operating and other expenses (4.8%), affected, mainly, from an increase of NIS 93 million in other expenses (9.9%), mostly the effect of the settlement, from a NIS 43 million rise in maintenance and depreciation of buildings and equipment (7.7%), and an increase of NIS 13 million in salaries (0.8%).
e. Tax provision of NIS 846 million on earnings in the first half of 2021, compared with NIS 256 million in the corresponding period last year.

Additional details and explanations are presented below.
Net profit attributable to the Bank's shareholders amounted in the second quarter of 2021 to NIS 860 million, compared to NIS 662 million in the first quarter of the year, a decrease at the rate of 29.9%, and compared to NIS 174 million in the second quarter of 2020, a decrease at the rate of 394.3%.
Net return on equity attributable to the Bank's shareholders reached in the second quarter of 2021 an annualized rate of 18.3%, compared to 14.5% in the first quarter of the year and compared to 3.7% in the second quarter of 2020.

The principal factors affecting the Group's business results in the second quarter of 2021, compared to the previous quarter, are:

a. An increase in net interest income in the amount of NIS 181 million (12.0%).
b. A decrease in credit loss expenses in the amount of NIS 263 million (178.9%).
c. A decrease in non-interest income in the amount of NIS 158 million (15.3%).
d. A decrease in operating and other expenses in the amount of NIS 11 million (2.5%).
e. A provision for taxes on income in the amount of NIS 493 million was recorded in the second quarter of 2021, compared to an amount of NIS 353 million in the preceding quarter.

Developments in Income and Expenses

Developments in certain income statement items in the first half of 2021, compared with the first half of 2020

	For the six months ended June 30,		
	2021	2020	Change in %
	In NIS millions		
Interest income	3,708	3,533	5.0
Interest expenses	519	615	(15.6)
Net interest income	**3,189**	**2,918**	**9.3**
Credit loss expenses (expenses reversal)	(557)	1,188	(146.9)
Net interest income after credit loss expenses	**3,746**	**1,730**	**116.5**
Non-interest Income			
Non-interest financing income	387	693	(44.2)
Fees and commissions	1,509	1,389	8.6
Other income	12	8	50.0
Total non-interest income	**1,908**	**2,090**	**(8.7)**
Operating and other Expenses			
Salaries and related expenses	1,631	1,618	0.8
Maintenance and depreciation of buildings and equipment	602	559	7.7
Other expenses	1,030	937	9.9
Total operating and other expenses	**3,263**	**3,114**	**4.8**
Profit before taxes	2,391	706	238.7
Provision for taxes on profit	846	256	230.5
Profit after taxes	**1,545**	**450**	**243.3**
Bank's share in profit of associates, net of tax effect	16	8	100.0
Net profit attributed to the non-controlling interests in consolidated companies	(39)	(5)	680.0
Net Profit attributed to Bank's shareholders	**1,522**	**453**	**236.0**
Return on shareholders' equity, in %(1)	16.1	4.8	
Efficiency ratio in %	64.0	62.2	
Net Profit attributed to Bank's shareholders - excluding certain components (see below)	**1,616**	**509**	**217.5**
Return on shareholders' equity , in %(1) - excluding certain components (see below)	17.1	5.4	
Efficiency ratio in % - excluding certain components (see below)	61.3	60.5	

Footnote:
(1) On an annual basis.

Profitability - excluding certain components

	For the six months ended June 30		
	2021	2020	Change in %
	in NIS millions		
Net Profit Attributed to the Bank's Shareholders - as reported	1,522	453	236.0
Excluding[1]:			
Effect of settlement	81	10	
Provision for claims, net of insurance income	-	46	
Expenses of vacating the Management Building of IDB New York	13	-	
Net Profit Attributed to the Bank's Shareholders - excluding the above components	**1,616**	**509**	**217.5**

Footnote:
(1) See below "Details regarding eliminated components".

Developments in certain income statement items in the second quarter of 2021, compared with the first quarter of 2021 and compared with the second quarter of 2020

	2021		2020	Change Q2 2021 compared to	
	Q2	Q1	Q2	Q1 2021	Q2 2020
	In NIS millions			in %	
Interest income	1,997	1,711	1,742	16.7	14.6
Interest expenses	312	207	279	50.7	11.8
Net interest income	**1,685**	**1,504**	**1,463**	**12.0**	**15.2**
Credit loss expenses (expenses reversal)	(410)	(147)	532	(178.9)	(177.1)
Net interest income after credit loss expenses	**2,095**	**1,651**	**931**	**26.9**	**125.0**
Non-interest Income					
Non-interest financing income	89	298	276	(70.1)	(67.8)
Fees and commissions	785	724	650	8.4	20.8
Other income	1	11	8	(90.9)	(87.5)
Total non-interest income	**875**	**1,033**	**934**	**(15.3)**	**(6.3)**
Operating and other Expenses					
Salaries and related expenses	830	801	794	3.6	4.5
Maintenance and depreciation of buildings and equipment	308	294	274	4.8	12.4
Other expenses	473	557	515	(15.1)	(8.2)
Total operating and other expenses	**1,611**	**1,652**	**1,583**	**(2.5)**	**1.8**
Profit before taxes	1,359	1,032	282	31.7	381.9
Provision for taxes on profit	493	353	105	39.7	369.5
Profit after taxes	**866**	**679**	**177**	**27.5**	**389.3**
Bank’s share in profit of associates, net of tax effect	16	-	4	-	300.0
Net profit attributed to the non-controlling interests in consolidated companies	(22)	(17)	(7)	29.4	214.3
Net Profit attributed to Bank's shareholders	**860**	**662**	**174**	**29.9**	**394.3**
Return on shareholders' equity, in %[1]	18.3	14.5	3.7		
Efficiency ratio in %	62.9	65.1	66.0		
Net Profit attributed to Bank's shareholders - excluding certain components (see below)	**878**	**738**	**226**	**19.0**	**288.5**
Return on shareholders’ equity, in %[1] - excluding certain components (see below)	18.7	16.2	4.8		
Efficiency ratio in % (see below) - excluding certain components (see below)	61.9	60.6	62.7		

Footnote:
(1) On an annual basis.

Profitability - excluding certain components

	2021		2020	Q2 2021 compared to	
	Q2	Q1	Q2	Q1 2021	Q2 2020
	in NIS millions			Change in %	
Net income attributed to the Bank's shareholders - as reported	860	662	174	29.9	394.3
Excluding[(1)]:					
Effect of settlement	5	76	6		
Provision for claims, net of insurance income	-	-	46		
Expenses of vacating the Management Building of IDB New York	13	-	-		
Net income attributed to the Bank's shareholders - excluding the above components	**878**	**738**	**226**	**19.0**	**288.5**

Footnote:
(1) See below "Details regarding eliminated components".

Details regarding Eliminated Components

Effect of settlement. Acceleration of the amortization of “actuarial profits/losses” (a charge to profit and loss) following the payment of severance pay to retirees, including those who had retired within the framework of the 2020 retirement plan (see the 2020 Annual Report, p. 212 and Note 8 to the condensed financial statements).
Provision for claims net of insurance indemnification. Changes in the provision for proceedings in Australia (net of insurance indemnification), see Note 26 C 11.3 to the financial statements as of December 31, 2020 (pp. 230-231).
Expenses of vacating the Management Building of IDB Bank. Principally the balance of lease improvements in the old Management building, which in the fourth quarter of 2020 and in the second quarter of 2021 it was decided to write it off, due to the vacating of parts of the old building during those quarters, respectively, as well as expenses relating to the vacating of the building and its return to the owners.

As transpires from the data presented in this report, the credit loss expenses release in the first half of 2021 was highly exceptional, both in terms of substance and in terms of volume. The Bank estimates that had the credit loss expense in the said period been at rates prevailing prior to the Corona crisis (in the years 2016-2019, an average rate of 0.37%), then the expense for the first half of 2021 would have amounted to NIS 362 million; net profit excluding the above components would have totaled NIS 1,011 million, and the return on equity excluding the above components would have been 10.6%. (In the second quarter: NIS 183 million, NIS 488 million and 10.1%, respectively).

For details regarding gains in respect of the ZIM shares, see Note 5 J to the condensed financial statements.

Following are details regarding material changes in statement of profit and loss items:
Net interest income. In the first half of 2021, net interest income amounted to NIS 3,189 million compared with NIS 2,918 million in the corresponding period last year, an increase of 9.3%. The rise in the net interest income in the amount of NIS 271 million, is explained by a positive price impact of NIS 64 million, and a positive quantitative effect in the amount of NIS 207 million (see ”Rates of interest income and expenses and analysis of the changes in interest income and expenses” in Appendix No.1).
The interest margin, excluding derivatives, reached a rate of 2.22% in the first half of 2021, compared with 2.25% in the corresponding period last year.
The average balance of interest bearing assets has increased by a rate of approx. 11.0%, from an amount of NIS 244,474 million to NIS 271,319 million, and the average balance of interest bearing liabilities increased by a rate of approx. 4.4%, from an amount of NIS 187,818 million to NIS 196,058 million.

Net interest income according to linkage segments

Distribution of volume of operations according to interest bearing assets, net interest income and interest margin by linkage segments

	For the six months ended June 30					
	2021			2020		
	Volume of activity[(1)] in %	Net interest income in NIS millions	Interest spread in %	Volume of activity[(1)] in %	Net interest income in NIS millions	Interest spread in %
Unlinked shekels	72.4	2,356	2.35	70.2	2,354	2.69
CPI-linked shekels	7.8	304	0.31	8.0	37	(0.30)
Foreign Currency	19.8	529	1.90	21.8	527	1.88
Net interest income and the interest spread	**100.0**	**3,189**	**2.22**	**100.0**	**2,918**	**2.25**

Footnote:
(1) According to the average balance of the interest bearing assets.

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The growth in net interest income, stems, mostly, from the effect of the difference between the rise in the CPI in the first half of 2021, by a rate of 1.4%, and the drop of 0.7% in the corresponding period last year.

Non-interest financing income amounted in the first half of 2021 to NIS 387 million, compared to NIS 693 million in the corresponding period last year, a decrease of 44.2%.

The decline in non-interest financing income stems, mostly, from the decline in income from realization of bonds and from derivatives operations (see below "Analysis of the total net financing income").

Non-interest financing income includes the effect of activity in derivative financial instruments, which constitute an integral part of the management of the Bank's interest exposure and base exposure. Accordingly, for the purpose of analyzing the financing income from current activity, the net interest income and the non-interest financing income need to be aggregated.

Composition of the net financing income

	2021		2020			
	Q2	Q1	Q4	Q3	Q2	Q1
	in NIS millions					
Interest income	1,997	1,711	1,724	1,730	1,742	1,791
Interest expenses	312	207	220	254	279	336
Net interest income	1,685	1,504	1,504	1,476	1,463	1,455
Non-interest financing income	89	298	148	301	276	417
Total net financing income	**1,774**	**1,802**	**1,652**	**1,777**	**1,739**	**1,872**

Analysis of the total net financing income

	2021		2020			
	Q2	Q1	Q4	Q3	Q2	Q1
	in NIS millions					
Financing Income from current operations	1,587	1,544	1,535	1,523	1,552	1,617
Effect of CPI	121	10	-	5	(16)	(24)
Net profit from realization and adjustment to fair value of bonds[(1)]	27	76	41	96	142	178
Profit (loss) from investments in shares[(2)(3)]	[(4)]95	[(4)]100	116	116	7	(8)
Adjustment to fair value of derivative instruments	(72)	2	(42)	14	18	6
Exchange rate differences, options and other derivatives[(1)]	16	70	(1)	23	36	103
Net profit on the sale of loans	-	-	3	-	-	-
Total net financing income	**1,774**	**1,802**	**1,652**	**1,777**	**1,739**	**1,872**
Footnotes:						
(1) Exchange rate differences in respect of trading bonds are included in the exchange rate differences line	(1)	1	(9)	(1)	(7)	55
(2) Of which: income from realizations in Discount Capital in deduction of provision for impairment	26	11	115	18	(3)	-
(3) Of which – income from the realization of VISA Inc. shares.	-	-	-	88	-	-

(4) See Note 5 (J) .

Net financing income, amounted to NIS 3,576 million in the first half of 2021, compared to NIS 3,611 million in the corresponding period last year, a decrease of 0.1%. The decline in financing income stemmed, mostly, from the decline in gains on realization and adjustment to fair value of bonds, and from a decline in income from derivatives, which were offset by a rise in gains on investment in shares.

Rates of income and expenses. In the appendices to the quarterly report – Appendix 1 are presented net interest income, with respect to the balance sheet activity. In order to explain the Bank's overall interest margin, the effects of activity in derivatives not for trading (excluding adjustments to fair value and exchange rate differences) needs to also be added.

Interest margin, including derivatives not for trading reached a rate of 1.99% in the first half of 2021, compared with 1.89% in the corresponding period last year.

Net financing income amounted in the second quarter of 2021 to NIS 1,774 million, compared to NIS 1,739 million in the corresponding quarter last year, an increase at the rate of 2.0%, and compared to NIS 1,802 million in the first quarter of 2021, a decrease at the rate of 1.6%.

The interest spread including non-trading derivatives reached in the second quarter of 2021 a rate of 2.03%, compared to 1.84% in the corresponding quarter last year and compared to 1.97% in the first quarter of 2021.

Development of the net interest income by regulatory operating segments

	For the three months ended June 30,			For the six months ended June 30,		
	2021	2020		2021	2020	
	In NIS millions		Change in %	In NIS millions		Change in %
Domestic operations:						
Households	478	492	(2.8)	946	1,011	(6.4)
Private banking	12	18	(33.3)	24	40	(40.0)
Small and minute businesses	345	362	(4.7)	691	749	(7.7)
Medium businesses	95	93	2.2	183	179	2.2
Large businesses	221	193	14.5	432	388	11.3
Institutional bodies	7	9	(22.2)	17	18	(5.6)
Financial management	316	77	310.4	486	99	390.9
Total Domestic operations	**1,474**	**1,244**	**18.5**	**2,779**	**2,484**	**11.9**
Total International operations	**211**	**219**	**(3.7)**	**410**	**434**	**(5.5)**
Total	**1,685**	**1,463**	**15.2**	**3,189**	**2,918**	**9.3**

Credit loss expenses. In the first half of 2021 credit loss expenses release in the amount of 557 million were recorded, compared with expenses of NIS 1,188 million in the corresponding period last year, a decrease of 146.9%. The significant decrease in morbidity and the lifting of the third lockdown led to the opening of trade and the economy as a whole, and to greater economic activity which began toward the end of the first quarter. These factors have had a positive impact on the position of businesses and borrowers, as well as on macroeconomic parameters.

The allowance for credit loss expenses in the first half have been mostly affected by the following factors:

- Expenses release on a group basis in the amount of NIS 422 million, compared to expenses in the amount of NIS 976 million in the first half of 2020, a decline affected mostly by the decrease in the adjustment coefficient due to the reopening of the economy, the significant uptick in economic activity and updating economic parameters, leading to reversal of allowance in the reporting period as well as by a reduction in the decision rate;
- Expenses release on a specific basis in the amount of NIS 134 million, compared to expenses in the amount of NIS 122 million in the first half of 2020, a reduction affected mostly by the change in the allowance following collections;
- Expenses release in respect of housing loans according to the extent of arrears, in the amount of NIS 1 million, compared to expenses amounting to NIS 90 million, in the first half of 2020, a decrease affected mostly by the reversal of a group allowance applying to mortgage loans the repayment of which had been deferred following the Corona crisis.

It is noted that in the first quarter, the Bank continued making a cross-organizational move to locate and classify groups of borrowers on the basis of economic properties, such as: credit in deferral, period of deferral, decline in turnover and additional risk characteristics. On the other hand, in light of the decrease in the number of deferrals in

the period and in light of the comprehensive classifications made in previous quarters, it was decided in the first half to lift the classification of borrowers that had resumed making three consecutive repayments, that were above the underwriting threshold, and that were not in excess of the number of days in arrears.
It is also noted that the expense in respect of credit losses had been examined, inter alia, in comparison with the calculations made under different scenarios conducted by the Bank from time to time.
For additional details, see below "Credit to the public" and "Credit risks" in Chapter "C" hereunder. For details as to the components of the credit loss expenses, see Note 14 to the condensed financial statements.

Development in the credit loss expenses

	For the six months ended June 30,		For the year ended December 31,
	2021	2020	2020
	In NIS millions		
On a specific basis			
Change in allowance	(97)	69	173
Gross accounting write-offs	156	176	349
Collection	(193)	(123)	(240)
Total on a specific basis	**(134)**	**122**	**282**
On a group basis			
Change in allowance	(437)	891	1,180
Gross accounting write-offs	147	316	544
Collection	(133)	(141)	(288)
Total on a group basis	**(423)**	**1,066**	**1,436**
Total	**(557)**	**1,188**	**1,718**
Rate of credit loss expenses (expenses release) to the average balance of credit to the public(1)	(2)(0.56%)	(2)1.28%	0.91%

Footnotes:
(1) On an annual basis.
(2) Including an expense in an immaterial amount in respect of credit to banks and governments.

Quarterly development in the credit loss expenses

	2021		2020			
	Q2	Q1	Q4	Q3	Q2	Q1
	In NIS millions					
On a specific basis						
Change in allowance	(88)	(9)	86	18	10	59
Gross Accounting Write-offs	65	91	95	78	68	108
Collection	(140)	(53)	(68)	(49)	(67)	(56)
Total on a specific basis	**(163)**	**29**	**113**	**47**	**11**	**111**
On a group basis						
Change in allowance	(249)	(188)	62	227	432	459
Gross Accounting Write-offs	70	77	104	124	151	165
Collection	(68)	(65)	(79)	(68)	(62)	(79)
Total on a group basis	**(247)**	**(176)**	**87**	**283**	**521**	**545**
Total	**(410)**	**(147)**	**200**	**330**	**532**	**656**
Rate of credit loss expenses (expenses release) to the average balance of credit to the public(1):						
The rate in the quarter:	(0.82%)	(2)(0.30%)	0.42%	0.70%	(2)1.14%	1.42%
Cumulative rate since the beginning of the year:	(2)(0.56%)	(2)(0.30%)	(2)0.91%	(2)1.08%	(2)1.28%	1.42%

Footnotes:
(1) On an annual basis.
(2) Including an expense in an immaterial amount in respect of credit to banks and governments.

For additional details, see below "Credit to the public" and "Credit risk" in chapter C hereunder.

Distribution of the fees and commissions

	For the three months ended June 30, 2021	2020	Change in %	For the six months ended June 30, 2021	2020	Change in %
	in NIS millions			in NIS millions		
Account Management fees	108	104	3.8	213	222	(4.1)
Credit cards	373	301	23.9	704	644	9.3
Operations in securities and in certain derivative instruments	102	79	29.1	211	166	27.1
Fees and commissions from the distribution of financial products	38	33	15.2	75	72	4.2
Handling credit	57	46	23.9	99	93	6.5
Conversion differences	33	24	37.5	65	60	8.3
Foreign trade services	13	11	18.2	26	23	13.0
Net income from credit portfolio services	1	1	-	2	2	-
Fees and commissions on financing activities	40	35	14.3	77	71	8.5
Other fees and commissions	20	16	25.0	37	36	2.8
Total fees and commissions	**785**	**650**	**20.8**	**1,509**	**1,389**	**8.6**

Salaries and related expenses amounted to NIS 1,631 million in the first half of 2021, compared with NIS 1,618 million in the corresponding period last year, an increase of 0.8%. Eliminating the effect of certain components as detailed below, a decrease of 7.7% would have been recorded. The decrease was affected mostly by the 2020 retirement plan.

Quarterly developments in salaries and related expenses, detailing the effect of certain components

	2021 Q2	Q1	2020 Q4	Q3	Q2	Q1
	In NIS millions					
Salaries and Related Expenses - as reported	830	801	794	830	794	824
Awards	(118)	(55)	(60)	(24)	(17)	(21)
Subsidiary retirement plan	-	-	7	(38)	-	-
Salaries and Related Expenses - excluding certain components	**712**	**746**	**741**	**768**	**777**	**803**

Payroll costs data, after elimination of certain components, indicate a decline of 4.6% in the second quarter of 2021, as compared to the first quarter of 2021, and 8.4% as compared to the second quarter of 2020.

Other expenses amounted to NIS 1,030 million in the first half of 2021, compared to NIS 937 million in the first half of 2020, an increase of 9.9%. The rise had been mostly affected by an increase of NIS 107 million in settlement, which was affected by the 2020 retirement plan.

Developments in the comprehensive income

Condensed statement of comprehensive income

	For the six months ended June 30, 2021	2020	Change in %
	in NIS millions		
Net Profit attributed to the Bank's shareholders	1,522	453	236.0
Changes in components of other comprehensive loss, attributed to the Bank's shareholders:			
Other comprehensive loss , before taxes[1]	(94)	(129)	
Related tax effect	45	57	
Other comprehensive loss , attributed to the Bank's shareholders, after taxes	(49)	(72)	
Comprehensive income, attributed to the Bank's shareholders	**1,473**	**381**	**286.6**

Footnote:
(1) For details regarding changes in the components of other comprehensive income, see Note 4 to the condensed financial statements.

Other comprehensive loss after taxes amounted to NIS 49 million in the first half of 2021. The main items comprising the other comprehensive income (loss) are:

- Net adjustments in respect of the presentation of available-for-sale bonds at fair value – in the first half of 2021, the yields on the bonds held by the Bank Group increased, which resulted in other comprehensive loss after attribution of tax in the amount of NIS 253 million. Alongside the impact of the aforesaid decline in the fair value, the other comprehensive income was also affected by the realization of bonds at a profit;
- Adjustments from the translation of the New York subsidiary's financial statements – in the first half of 2021, the exchange rate of the shekel against the US dollar depreciated by 1.4%. Accordingly, other comprehensive income was recorded due to an increase in the shekel value of the investments in this subsidiary, in the amount of NIS 50 million;
- Adjustments in respect of employee benefits – employee benefits in respect of their post-retirement rights and other long-term benefits for working employees are calculated, in conformance with the directives of the Supervisor of Banks, using a discount rate derived from the yield of Israeli government bonds plus an average margin of corporate bonds with an (international) rating of AA. In view of the decline recorded in the first half of 2021, in yields on bonds, an actuarial loss from change in the discounting rate was recorded, after tax allocation, in the amount of NIS 19 million. On the other hand, the other comprehensive profit has increased by NIS 174 million.

Structure and developments of assets, liabilities, capital and capital adequacy

Development of Assets and Liabilities

Total assets as at June 30, 2021, amounted to NIS 310,734 million, compared with NIS 293,969 million at the end of 2020, an increase of 5.7%.

Developments in the principal balance sheet items

	June 30, 2021	December 31, 2020	Rate of change in %
	in NIS millions		
Assets			
Cash and deposits with banks	47,405	42,936	10.4
Securities	46,849	42,785	9.5
Net credit to the public	198,986	188,718	5.4
Liabilities			
Deposits from the public	240,691	226,118	6.4
Deposits from banks	15,291	13,107	16.7
Subordinated debt notes	11,203	10,201	9.8
Shareholders' equity	20,704	19,182	7.9
Total equity	21,346	19,727	8.2

Following are details regarding credit to the public, securities and deposits from the public.

Cash and deposits with banks

Cash and deposits with banks increased significantly in the first half of 2021 (10.4%), further to the growth in 2020 (12.2%). In view of the fact that the increase in the balance of credit was lower than the increase in the balance of deposits, the Bank's liquidity surplus increased significantly, part of which was invested in the securities portfolio and the other part increased the Bank's liquidity balances deposited with the Bank of Israel.

Credit to the public

General. Net credit to the public (after allowance for credit losses) as at June 30, 2021 totaled NIS 198,986 million, compared with NIS 188,718 million at the end of 2020, an increase of 5.4%.
For details regarding the credit portfolio, see the 2020 Annual Report (pp. 36-40). For details regarding credit risk management including the Credit risk in housing loans, Credit risk of private individuals and Credit risk in relation to the construction and real estate sector, see "Credit risk" in Chapter C hereunder and in the 2020 Annual Report (pp. 65-85). For details regarding the quality of credit, see Note 14 B 3 to the condensed financial statements and in the 2020 Annual Report (pp. 276-277).

Composition of credit to the public by linkage segments

Data on the composition of net credit to the public by linkage segments

	June 30, 2021		December 31, 2020		
	In NIS millions	% of total credit to the public	In NIS millions	% of total credit to the public	Rate of change in %
Non-linked shekels	146,841	73.8	139,083	73.7	5.6
CPI-linked shekels	19,848	10.0	18,999	10.1	4.5
Foreign currency and foreign currency-linked shekels	32,297	16.2	30,636	16.2	5.4
Total net credit to the public	**198,986**	**100.0**	**188,718**	**100.0**	**5.4**

Credit to the public denominated in foreign currency and in Israeli currency linked thereto increased by 5.4% compared with December 31, 2020. In U.S. dollar terms, credit to the public in foreign currency and foreign currency linked Shekels increased by US$378 million, an increase of 4.0% as compared to December 31, 2020. The total credit to the public, which includes credit in foreign currency and Israeli currency linked to foreign currency, computed in U.S. dollar terms, increased by a rate of 5.2% as compared to December 31, 2020.

Composition of credit to the public by regulatory operating segments

Review of developments in the balance of net credit to the public, by regulatory operating segments

	June 30, 2021	December 31, 2020	change
	In NIS millions		in %
Domestic operations:			
Households*	77,758	72,620	7.1
Private banking*	363	364	(0.3)
Small and minute businesses	36,855	36,439	1.1
Medium businesses	14,180	12,865	10.2
Large businesses	47,267	45,687	3.5
Institutional bodies	614	1,007	(39.0)
Total Domestic operations	**177,037**	**168,982**	**4.8**
Total International operations*	**25,221**	**23,497**	**7.3**
Total credit to the public	**202,258**	**192,479**	**5.1**
Credit loss expenses	(3,272)	(3,761)	(13.0)
Total net credit to the public	**198,986**	**188,718**	**5.4**
*Of which - Mortgages	47,145	42,651	10.5

A trend of steep decline in the demand for credit on the part of households had been noticed during the Corona crisis period. A change in trend was noticed in the first half of 2021.

The increase in credit to the public in the first half of 2021 reflects growth in the focus points determined in the updated strategic plan. Credit to households excluding housing loans grew by NIS 673 million (2.2%). Credit to medium businesses grew by NIS 1,315 million (10.2%). Credit to large businesses grew by NIS 1,580 million (3.5%) and housing credit grew by NIS 4,494 million (10.5%).

Composition of the overall credit to the public risk by economic sectors

Developments of total credit to the public risk, by main economic sectors

	June 30, 2021		December 31, 2020		
Economic Sectors	Total credit to the public risk	Rate from total credit risk	Total credit to the public risk	Rate from total credit risk	Rate of change in %
	in NIS millions	%	in NIS millions	%	
Industry	21,006	6.7	21,365	7.3	(1.7)
Construction and real estate - construction	37,638	12.0	33,302	11.3	13.0
Construction and real estate - real estate activity	24,752	7.9	24,579	8.3	0.7
Commerce	30,896	9.8	29,794	10.0	3.7
Financial services	29,958	9.5	27,070	9.2	10.7
Private individuals - housing loans	55,274	17.6	47,827	16.2	15.6
Private individuals - other	68,679	21.8	67,707	22.9	1.4
Other sectors	46,654	14.8	44,051	14.8	5.9
Total overall credit to the public risk	**314,857**	**100.0**	**295,695**	**100.0**	**6.5**

The data presented above indicates that in the first half of 2021, the overall risk regarding credit to the public increased by 6.5% compared with the end of 2020. This growth applied mostly to credit granted for the following sectors: private individuals – housing loans, construction and real estate – construction, commerce and financial services.

Development of problematic credit risk

Following are details on credit to the public, as specified in Note 14 to the condensed financial statements:

Impaired credit to the public. The balance sheet impaired credit to the public (accruing interest and non- accruing) amounted at June 30, 2021 to NIS 2,017 million, compared to NIS 2,207 million at December 31, 2020, a decrease of 8.6%.

Impaired non-accruing credit to the public. The impaired non-accruing credit to the public which is examined on a specific basis, amounted at June 30, 2021 to NIS 1,449 million, compared to NIS 1,424 million at December 31, 2020, an increase at a rate of 1.8%.

Overall credit risk and the rate of problematic credit risk in principal economic sectors

	June 30, 2021			December 31, 2020		
Economic Sectors	Total credit risk	Of which: Problematic credit risk	Rate of problematic risk	Total credit risk	Of which: Problematic credit risk	Rate of problematic risk
	in NIS millions		%	in NIS millions		%
Industry	21,006	786	3.7	21,365	1,017	4.8
Construction and real estate - construction	37,638	486	1.3	33,302	630	1.9
Construction and real estate - real estate activity	24,752	2,037	8.2	24,579	1,479	6.0
Commerce	30,896	767	2.5	29,794	814	2.7
Financial services	29,958	96	0.3	27,070	409	1.5
Private individuals - housing loans	55,274	284	0.5	47,827	327	0.7
Private individuals - other	68,679	575	0.8	67,707	717	1.1
Hotels, Hotel Services and Food	4,011	1,779	44.4	3,959	1,760	44.5
Transportation and Storage	7,420	417	5.6	7,025	458	6.5
Other Sectors	35,223	851	2.4	33,067	669	2.0
Total Public	**314,857**	**8,078**	**2.6**	**295,695**	**8,280**	**2.8**
Banks	5,952	-	-	7,126	-	-
Governments	39,313	-	-	35,904	-	-
Total	**360,122**	**8,078**	**2.2**	**338,725**	**8,280**	**2.4**

In the first half of 2021, the ratio of problematic credit risk to the total credit risk decreased. The rate of problematic debts increased in the sectors of construction and real estate - real estate activity, while on the other hand, the rate of problematic debts in the financial services, industry, transportation and storage, construction and real estate – construction sectors decreased.

The balances of the allowance for credit losses

The balance of the allowance for credit losses. The balance of the allowance for credit loss, including the allowance on a specific basis and the allowance on a group basis, but not including allowance for off-balance sheet credit risk, totalled NIS 3,272 million as of June 30, 2021. The balance of this allowance constituted 1.62% of the credit to the public, compared with a balance of the allowance in the amount of NIS 3,761 million, constituting 1.95% of the credit to the public as of December 31, 2020.

The balance of the specific allowance for credit losses. The outstanding balance of the specific allowance for credit losses in respect of impaired credit to the public, computed on a specific basis, amounted to NIS 421 million on June 30, 2021, compared with a balance of the allowance in the amount of NIS 505 million as of December 31, 2020.

The balance of the group allowance for credit losses. The outstanding balance of the group allowance for credit losses, excluding housing loans, amounted on June 30, 2021 to NIS 2,596 million, compared to NIS 2,997 million as of December 31, 2020, comprising a decrease in the current allowance in the amount of NIS 401 million, a rate of approx. 13.4%.

The risk characterization of the credit to the public portfolio

The distribution of expenses and the rate of credit loss expenses in the different economic sectors in relation to the outstanding balance of credit to the public in those sectors

	For the six months ended June 30			
	2021		2020	
	Credit loss expense (expense release)	Rate of expense (expense release)	Credit loss expense	Rate of expense
sectors	In NIS millions	%	In NIS millions	%
Industry	(47)	(0.8)	51	0.8
Construction and real estate - construction	(28)	(0.3)	105	1.3
Construction and real estate - real estate activity	(46)	(0.4)	134	1.3
Commerce	(139)	(1.2)	147	1.3
Hotels, hotel services and food	(43)	(2.4)	100	6.2
Transportation and storage	(15)	(0.5)	19	0.7
Financial services	(31)	(0.5)	5	0.1
Other Business Services	(29)	(1.0)	141	4.6
Public and Community Services	(8)	(0.1)	32	0.6
Other Sectors	(45)	(0.6)	20	2.0
Total Commercial	**(431)**	**(0.7)**	**754**	**1.3**
Private Individuals - Housing Loans	(1)	(0.0)	91	0.5
Private Individuals - Other	(127)	(0.8)	329	2.1
Total credit loss expenses (expense release) to the public.	**(559)**	**(0.6)**	**1,174**	**1.3**
Total Banks	-	-	-	-
Total Governments	2	0.1	14	0.7
Total credit loss expenses (expense release)	**(557)**	**(0.6)**	**1,188**	**1.3**

The data presented above indicates that the decrease in credit loss expenses in the first half of 2021, focused mostly on the private individuals – other, commerce, construction and real estate - real estate activity and other business services sectors.

Securities

General. Securities in the Nostro portfolio totaled NIS 46,849 million as of June 30, 2021, compared with NIS 42,785 million at the end of 2020, an increase of 9.5%. In the first half, following the rise recorded in yields on government bonds, the Bank diverted part of the liquidity surplus to the purchase of bonds for the available-for-sale portfolio.
Securities included in the "nostro" portfolio of the Discount Group, the investment in which as of June 30, 2021, amounted to 5% or over of the total amount of the portfolio: "government variable 1130", "shekel government 0330" and the "shekel government 219" and the "shekel government 1026" security types, which amounted to approx. 9.9%, approx. 6.2%, approx. 5.7% and approx. 5.3%, of the total portfolio, respectively.
As of June 30, 2021, approx. 72.2% of the portfolio is invested in Government bonds, and approx. 15.2% of the portfolio is invested in bonds backed by mortgages of different federal agencies (Freddie Mac, Fannie Mae, Ginnie Mae) with an "AAA" rating, (of which - approx. 0.9% of the portfolio is invested in bonds of U.S. Government Supported Enterprises (GSE)). For details regarding the Bank's investments in bonds, according to economic sectors, see "Appendices to the quarterly report", appendix 2, sections 1-3. For details regarding the segmentation of the investment in government bonds according to principal governments, see "Appendices to the quarterly report" – appendix 3, section 2.
For details regarding the Nostro portfolios management policy, see 2020 Annual Report (p. 40).

Composition of the securities portfolio by linkage segments

Composition of the securities portfolio by linkage segments

	June 30, 2021	December 31, 2020	Rate of change in %
	In NIS millions		
Non-linked shekels	27,624	25,814	7.0
CPI-linked shekels	2,078	991	109.7
Foreign currency and foreign currency-linked shekels	15,624	14,887	5.0
Shares - non-monetary items	1,523	1,093	39.3
Total	**46,849**	**42,785**	**9.5**

Securities in foreign currency and in Israeli currency linked to foreign currency increased by 5.0%, compared with December 31, 2020. In U.S. dollar terms, the investment in securities in Israeli currency linked to foreign currency and in foreign currency increased by US$162 million, an increase of 3.5% as compared with December 31, 2020. Total securities, including securities in foreign currency and in Israeli currency linked to foreign currency expressed in U.S. dollar terms, increased by 9.0% as compared with December 31, 2020.

Composition of the securities portfolio according to portfolio classification

In accordance with directives of the Supervisor of Banks, securities have been classified as follows: held-to-maturity bonds, available- for- sale bonds, investment in share not for trading and trading securities.

Composition of investments in securities according to portfolio classification in accordance with directives of the Supervisor of Banks

	June 30,2021			December 31 ,2020		
	Amortized Cost (in shares-cost)	Fair value	Book value	Amortized Cost (in shares-cost)	Fair value	Book value
	in NIS millions					
Bonds						
Held to maturity	9,118	9,301	9,118	7,923	8,233	7,923
Available for sale	34,427	34,758	34,758	31,917	32,633	32,633
Trading	1,453	1,450	1,450	1,130	1,136	1,136
Shares						
Available for sale	1,326	1,519	1,519	1,051	1,092	1,092
Trading	3	4	4	1	1	1
Total Securities	**46,327**	**47,032**	**46,849**	**42,022**	**43,095**	**42,785**

Corporate bonds (excluding mortgages and assets backed bonds). Discount Group's available-for-sale bonds portfolio as of June 30, 2021, includes investments in corporate bonds in the amount of NIS 3,004 million (of which an amount of NIS 435 million is held by IDB Bank), compared with NIS 2,789 million as of December 31, 2020, an increase of 7.7%. For details as to the balance of unrealized profit (losses) included in the balance of the said bonds, see Note 5 to the condensed financial statements.

Investments in mortgage and asset backed securities

General. Discount Group's securities portfolio as of June 30, 2021 includes investment in mortgage-backed and asset-backed securities, in the amount of NIS 8,348 million, compared to an amount of NIS 8,004 million as at December 31, 2020, an increase of 4.3%. The amount includes investment in mortgage-backed and asset-backed securities in the amount of NIS 7,720 million, which are held by IDB Bank, compared to an amount of NIS 7,469 million as at December 31, 2020, an increase at a rate of 3.4%. Approx. 85.5% of the mortgage-backed and asset-backed securities portfolio is

comprised of bonds of various federal agencies (Ginnie Mae, Fannie Mae, Freddie Mac) with an AAA rating in the U.S.. The investment in the said bonds does not include exposure to the subprime market.
As of June 30, 2021, the portfolio of mortgage and assets backed securities included unrealized net gains of NIS 55 million, compared with NIS 148 million as of December 31, 2020.
For details regarding the agencies operating under the auspices of the U.S. Governance, see the 2020 Annual Report (p. 42).
CLO. IDB New-York holds secured bonds of the CLO class in a total amount of approx. NIS 579 million. The said securities are rated AA-AAA. The Bank holds secured bonds of the CLO class in a total amount of NIS 625 million. The said securities are rated AA-AAA. For details, see Note 5 to the condensed financial statements.

Details regarding impairment in value of available-for-sale bonds

For details regarding the review of impairment of available-for-sale bonds, see "Critical accounting policies and critical accounting estimates" in the 2020 Annual Report (pp. 109, 142-143). Based on a review of the impairment of the said bonds as of June 30, 2021, and where relevant, basing itself also on the review made by the relevant subsidiary's Management, the Bank's Management believes that that the impairment is of a temporary nature.
As of June 30, 2021, June 30, 2020 and December 31, 2020, unrealized accumulated losses on available-for-sale mortgage and asset backed securities amounted to total amounts of NIS 47 million, NIS 26 million and NIS 6 million, respectively. For additional details, see Note 5 to the condensed financial statements.

Deposits from banks

The first half of 2021 saw a significant growth in deposits from banks (16.7%), being the result of loans taken by the Bank from the Bank of Israel against credit extended to small businesses, in accordance with terms determined by the Bank of Israel.

Customer assets

Deposits from the public as of June 30, 2021, totalled NIS 240,691 million, compared with NIS 226,118 million at the end of 2020, an increase of 6.4%.

Data on the composition of deposits from the public by linkage segments

	June 30, 2021		December 31, 2020		
	In NIS millions	% of total Deposits from the public	In NIS millions	% of total Deposits from the public	Rate of change in %
Non-linked shekels	166,265	69.1	157,927	69.9	5.3
CPI-linked shekels	4,017	1.7	4,576	2.0	(12.2)
Foreign currency and foreign currency-linked shekels	70,409	29.3	63,615	28.1	10.7
Total deposits from the public	**240,691**	**100.0**	**226,118**	**100.0**	**6.4**

Deposits from the public in foreign currency and in Israeli currency linked to foreign currency increased at the rate of 10.7%, compared with December 31, 2020. In dollar terms the deposits from the public in foreign currency and in Israeli currency linked to foreign currency increased by US$1,811 million, an increase of 9.2% compared with December 31, 2020. The total deposits from the public, including deposits in foreign currency and in Israeli currency linked to foreign currency, expressed in U.S. dollar terms, increased at a rate of 6.0%, compared with December 2020.

Developments in the balance of deposits from the public, by regulatory operating segments

	June 30, 2021	December 31, 2020	Change in %
	In NIS millions		
Domestic operations:			
Households	89,744	88,888	1.0
Private banking	18,744	17,959	4.4
Small and minute businesses	45,809	41,818	9.5
Medium businesses	10,224	9,842	3.9
Large businesses	28,170	25,382	11.0
Institutional bodies	17,205	14,615	17.7
Total Domestic operations	**209,896**	**198,504**	**5.7**
Total International operations	**30,795**	**27,614**	**11.5**
Total deposits from the public	**240,691**	**226,118**	**6.4**

The ratio of total net credit to the public to deposits from the public was 82.7% as at June 30, 2021, compared with 83.5% at the end of 2020.

Deposits from the public of the three largest depositor groups amounted as of June 30, 2021, to NIS 4,249 million.

Securities held for customers. On June 30, 2021, the balance of the securities held for customers at the Bank amounted to approx. NIS 212.54 billion, including approx. NIS 1.72 billion of non-marketable securities, compared to approx. NIS 187.12 billion as at December 31, 2020, including approx. NIS 1.58 billion of non-marketable securities, an increase of approx. 13.6%. For details as to income from security activities, see Note 3 to the condensed financial statements. In addition, the balance of securities held on behalf of customers at the MDB as of June 30, 2021, amounted to NIS 11.53 billion, compared with NIS 10.15 million in December 31, 2020, an increase of 13.6%.

Pension advisory services. The total cumulative assets of customers receiving pension consulting services from the Bank as at June 30, 2021, amounting to approx. NIS 22.6 billion, compared with NIS 21.3 billion as of December 31, 2020, an increase of 6.1%, which stemmed, inter alia, from the increases in the markets in the first half of 2021.

Capital and capital adequacy

The instructions. Instructions regarding "Basel III guidelines", which apply as from January 1, 2014, include a requirement for maintaining a minimal ratio of common equity tier 1 of 9%, and a total capital ratio of 12.5%, as well as detailed reference with respect to transitional instructions. For details regarding the requirement concerning housing loans and for details regarding a temporary relief granted with regard to this, see Note 9 to the condensed financial statements, section 1 (b).

Issues of capital instruments. The capital instruments that are permitted to be issued under the Basel III rules, include "loss absorption" mechanisms, whether by conversion into shares or by elimination (in full or in part) of the capital instrument.

Transitional instructions. In accordance with the transitional instructions, capital instruments not recognized any longer as regulatory capital, were recognized as from January 1, 2014, in an amount of up to 80% of their outstanding balance included in the regulatory capital at December 31, 2013, and in each consecutive year this maximum balance is being reduced by an additional 10% until January 1, 2022. In accordance with the above, the maximum balance in 2021 amounts to 10%. The aforesaid instruments are recognized in the amount of the said maximum balance or in their amortized amount, whichever is lower.

Relief regarding the efficiency plan. The Supervisor of Banks granted the Bank relief regarding its 2016, 2018 and 2020 retirement plans. The Supervisor of Banks also granted MDB relief regarding its 2020 retirement plan. For further details, see the 2020 Annual Report (p. 215) and Note 9 to the condensed financial statements, section 1 (c).

Preparations made by the Bank. The Bank prepared a detailed plan for attaining the capital targets, being at least the level of capital prescribed by the instructions of the Supervisor of Banks and according to the time schedules published by him, and it is acting towards its implementation.

Provisional Instruction mitigating the capital requirements in order to face the Corona crisis. The Supervisor of Banks published on March 31, 2020 a Provisional Instruction, according to which, on the background of the spreading of the Corona virus and in order to secure the ability of banks to continue the granting of credit, the regulatory capital requirements applying to banks, have been reduced so that the minimum Common Equity Tier 1 ratio (excluding the additional capital buffer in respect of residential credit) would be 8% (compared to 9% prior to the change), and the minimum total capital ratio would be 11.5% (compared to 12.5% prior to the change). The Provisional Instruction was in effect for a period of six months. On September 22, 2020, the Supervisor of Banks issued a circular whereby the Provisional instruction was extended for a further six months (through March 31, 2021). On March 16, 2021, the Supervisor of Banks issued a circular whereby the Provisional instruction was extended for a further six months (through September 30, 2021). The mitigated capital requirements will apply for a period of twenty-four months following the end of the temporary directive period (namely, until September 30, 2023), on condition that the Bank's capital ratios shall not be lower than the capital ratios existing at the end of the temporary directive period, or the capital ratios applying to the Bank prior to the temporary directive, whichever is lower. Within the framework of the circular dated March 22, 2021, it was prescribed that a reduction in the capital ratios of up to 0.3 percentage points in the six-month period from the end of the temporary directive's validity (namely, until March 31, 2022) would not be considered a deviation from the regulatory capital requirements.

Issuance of deferred debt notes (expansion of Series G). During April and June 2021, the Bank completed two issuance processes of deferred debt notes, through its subsidiary "Manpikim", in a total amount of approx. NIS 1,182 million. The said issuances increased the total capital ratio by 0.56%.

Early redemption of regulatory capital instruments. In accordance with the terms of the Series "A" and Series "B" capital notes (hybrid tier 1 capital), as detailed in the 2020 Annual Report (pp. 221-222), on January 1, 2022, the Bank, subject to approval by the Supervisor of Banks, is entitled to perform a full early redemption of the principal amount of the said subordinated capital notes. The Bank intends to fully redeem the capital notes under the said terms. Furthermore, in accordance with the terms of the Series "L" subordinated debt notes (which include a loss absorption mechanism), the Bank, subject to approval by the Supervisor of Banks, is entitled to perform a full early redemption of the principal amount of the said subordinated debt notes, in the period between January 10, 2022 and February 10, 2022. The Bank may act in order to perform the early redemption in full of the said debt notes. Had the early redemption of the said regulatory capital instruments been effected on June 30, 2021, the comprehensive capital ratio would have been reduced by 0.38%.

Effect of the credit rating of Israel. The credit rating of Israel has an effect on the capital requirements, in view of the fact that the capital requirement in respect of exposure to governments, to public sector entities (local authorities, for instance) and to banks, derives from the credit rating of the State. According to estimates of the Bank, if and to the extent that the credit rating of the State of Israel would decline, this would have a decrease of 0.22% in the Tier 1 capital ratio, in June 30, 2021 terms.

Common Equity Tier 1 goal and total capital goal

At least once a year, the Board of Directors approves the Bank's capital goals, which comprise a Common Equity Tier 1 goal and a total capital goal. These goals are based on the policy that has been approved by the Board of Directors, which expresses the Bank's appetite for risk, pursuant to which the Bank is required to maintain a higher capital adequacy level than the rate required by the ICAAP result and according to a system stress test.

On December 22, 2019, the Board of Directors adopted a minimum Common Equity Tier 1 goal at a level of 9.9% and a minimum total capital goal at a level of 12.8%, for 2020. It should be noted that these goals take into account, inter alia, the results from the Bank's internal processes for determining the capital goals (the ICAAP results) and the results of the last SREP that was carried out, which includes a dialogue between the Bank and the Banking Supervision Department in relation to the specific risks of the Bank at the time when this process was carried out and the uniform stress tests were conducted[2].

2 For the meaning of the term "uniform stress testing" and for further details, see "Stress testing" in Chapter 3 in the 2020 Annual Report (p. 65-66), as well as "Assessing the capital

On the background of the spreading of the Corona virus and with the aim of supporting the credit needs of customers during this period, the Bank's Board of Directors decided on April 7, 2020, to adjust the goal of the Common Equity Tier 1 ratio to 8.9% (instead of the previous 9.9%), as permitted under the Provisional Instruction published by the Supervisor of Banks (see above). The total capital goal was adjusted accordingly.
On December 20, 2020, the Bank's Board of Directors, based on the ICAAP and the SREP proceedings as stated, including the uniform stress tests that were conducted, and the provisional instruction mitigating the capital requirements in order to confront the Corona crisis, adopted a Common Equity Tier 1 ratio goal at a rate of 8.9%, in effect until the end of the Provisional Instruction. Upon expiry of the period of the Provisional Instruction (October 1, 2021), the Tier 1 capital ratio will revert to the level of 9.9%.
For further details, see the document "Disclosure according to the third pillar of Basel and additional information regarding risks", which had been published within the framework of the 2020 Annual Report.

Capital Planning

As part of the capital planning process, the capital targets of the work plan have been set in the outline, which enables attainment of the Board of Directors' goals while maintaining a capital buffer in the event of unexpected fluctuations affecting the capital ratio, and from these the risk assets budget is derived. The allocation of the risk assets between the business units and the subsidiaries is in line with the strategic plan, while optimizing the Group's return on equity.
The capital outline takes into consideration various parameters that have an effect on the capital ratios, such as: assumption of profitability consistent with the risk assets budget, dividend distribution, changes in the various capital reserves, regulatory adjustments and amortizations in accordance with transitional instructions. The Bank examines a number of scenarios in arriving at the prescribed capital ratios.
As part of the capital management process, the Bank routinely examines its ability to attain the internal capital targets set by the Board of Directors and included in the work plan. Should the forecasted capital ratio differ considerably from that planned (by a predetermined rate), a Management discussion takes place to consider the measures that need to be taken in order to attain the prescribed outline – measures such as reducing risk assets, utilizing the capital buffer, and so forth.
For additional details, see "Capital adequacy" in the document "Disclosure according to the third pillar of Basel and additional information regarding risks" which had been published within the framework of the 2020 Annual Report. The document is available for perusal on the Bank's website together with the Bank's 2020 Annual Report, on the MAGNA site of the Israel Securities Authority, and on the MAYA site of the Tel Aviv Stock Exchange Ltd..

Exposure regarding the investment in Discount Bancorp Inc.

A US dollar exposure (structural position) in the amount of US$1,168 million exists as of June 30, 2021, stemming from the investment in the banking subsidiary in New York (Discount Bancorp Inc.). This exposure prevents material fluctuations in the ratio of capital to risk components caused by the effect of exchange rate of the US dollar on the credit risk. On the other hand, changes in the exchange rate of the dollar affect the shekel value of the investment in the said subsidiary and lead to fluctuations in other comprehensive profit and in the equity capital of the Bank.

adequacy" in the "Disclosure according to the third pillar of Basel and additional information regarding risks" document, which had been published within the framework of the 2020 Annual Report.

Components of capital

Total capital as at June 30, 2021, totalled NIS 21,346 million, compared with NIS 19,727 million at the end of 2020, an increase of 8.2%.

Shareholders' equity as at June 30, 2021, totalled NIS 20,704 million, compared with NIS 19,182 million at the end of 2020, an increase of 7.9%. The change in Shareholders' equity in the first half of 2021 was affected, among other things, by the net earnings during the period, by a decrease of NIS 253 million in the component of net adjustment of available-for-sale bonds presented at fair value, net of the tax effect, and from an increase of NIS 50 million in financial statements transactions adjustments and from the net actuarial gain in the amount of NIS 155 million.

The ratio of total capital, to total assets as at June 30, 2021, stood at 6.9%, compared with 6.7% on December 31, 2020.

Components of the regulatory capital as of June 30, 2021

Ratio of common equity tier 1 as of June 30, 2021, amounted to 10.28%, compared with 10.20% on December 31, 2020.

Total capital ratio as of June 30, 2021, amounted to 13.48%, compared with 13.06% on December 31, 2020.

Components of the regulatory capital as of June 30, 2021

	June 30,		December 31,
	2021	2020	2020
	in NIS millions		
1. Capital for Calculating ratio of capital			
Common equity tier 1 after deductions	21,099	19,391	19,707
Additional tier 1 capital after deductions	178	356	356
Tier 1 capital	**21,277**	**19,747**	**20,063**
Tier 2 capital	6,396	5,296	5,170
Total capital	**27,673**	**25,043**	**25,233**
2. Weighted risk assets balance			
Credit risk(2)	184,968	171,479	173,317
Market risk	3,615	4,127	3,337
CVA risk	1,598	2,235	1,763
Operational risk	15,074	14,514	14,815
Total weighted risk assets balance	**205,255**	**192,355**	**193,232**
3. Ratio of capital to risk assets			
Ratio of common equity tier 1 to risk assets	10.28	10.08	10.20
Ratio of total capital to risk assets	13.48	13.09	13.06
Ratio of minimum capital required by the Supervisor of Banks			
Ratio of common equity tier 1(1)	8.16	8.19	8.18
Total capital ratio	11.50	(3)11.50	(3)11.50

Footnotes:

(1) With an addition of 0.16%, in accordance with the additional capital requirements with respect to housing loans - see Note 9 (b) to the condensed financial statements (June 30, 2020: 0.19%, December 31, 2020: 0.18%).

(2) The total weighted balances of the risk assets have been reduced by NIS 391 million (June 30, 2020 NIS 228 million, December 31,2020: NIS 439 million) due to adjustments in respect to the efficiency plan.

(3) Amended following clarification by the Supervisor of Banks, see Note 9 section 1(b) to the condensed financial statements.

Raising of resources

Subtraction of regulatory capital instruments in 2021. Subordinate capital notes, which under the Basel II instructions had been recognized as hybrid Tier 1 capital or as upper Tier 2 capital, are no longer qualified according to the Basel III instructions, though according to the transitional provisions they would be recognized as additional Tier 1 capital and are gradually eliminated in the years 2014-2022. Furthermore, subordinate debt notes, which under the Basel II instructions had been recognized as Tier 2 capital, are no longer qualified under the Basel III instructions,

though according to the transitional provisions they would be recognized as Tier 2 capital and are gradually eliminated in the years 2014-2022. Regulatory capital instruments, which are to be subtracted in 2021, in accordance with the transitional provisions, amount to NIS 369 million (in accordance with the Basel II instructions an amount of NIS 191 million would have been deducted). NIS 244 million were deducted in the first half of 2021.
The Bank may raise additional regulatory capital instruments, in accordance with the multi-annual work plans of the Bank and market conditions, in order to maintain the total capital targets for 2021.

Additional disclosure according to the third pillar of Basel

Within the framework of the "Additional regulatory disclosures" document, a description is given of the principal characteristics of the issued regulatory capital instruments. Within the framework of the document "Disclosure according to the third pillar of Basel and additional information regarding risks" a disclosure is given of The Regulatory capital and management thereof, including the composition of the regulatory capital. The documents are available for perusal on the Magna website of the Israel Securities Authority, on the Maya website of the Tel Aviv Stock Exchange Ltd. and on the Bank's website.

Dividends distribution

For details regarding the dividend policy approved by the Board of Directors, see the 2020 Annual Report (p. 47).
On April 7, 2020, on the background of Corona virus crisis and with the aim of supporting the credit needs of the customers, the Bank's Board of Directors decided to discontinue at this stage the distribution of dividends until the expiry date of the Provisional Instruction issued by the Supervisor of Banks on March 31, 2020 (see "Capital and capital adequacy" above), and the clarification of the circumstances. The validity of the provisional instruction has been extended to September 30, 2021. (see "Capital and capital adequacy" above).
The Supervisor of Banks issued a clarification on July 15, 2021, according to which, in view of the growing trend of exit from the Corona crisis and in view of the solidity presented by banks in Israel, enabling them to support economic activity, banks are not barred from examining the possibility of the distribution of dividend on the basis of a careful and conservative approach, which takes into account the high uncertainty level regarding the continuation of the Corona crisis and its future implications. The position of the Supervisor of Banks is that a distribution of an amount higher than 30% of the profits of 2020 does not constitutes a careful and conservative planning. Concurrently, the Supervisor published a circular regarding an amendment to Proper Conduct of Banking Business Directive No. 250, which was intended to anchor the clarification in the directives.
Following an examination of the Bank's financial condition and plans, the Board of Directors resolved on August 15, 2021, that as from the date of removal of the limitations imposed by the Supervisor of Banks ("removal of limitations"), the Bank will revert to the quarterly distribution of dividends, in accordance with its dividend policy.
According to the resolution of the Board, following the removal of limitations, the Bank intends to distribute a dividend of 20% of the net distributable profit according to the Bank's consolidated financial statements for the relevant quarter, or a lower rate, in the event that the Supervisor of Banks imposes limitations prohibiting distribution at the said rate.
For details of the dividends paid as from the first quarter of 2018 and regarding the limitations set in the Supervisor of Banks' directives, see the 2020 Annual Report (p. 214).

Activity of the Group according to principal Segments of Operation – principal quantitative data and main developments

General

The regulatory operating segments have been defined by the Bank of Israel in the new directives, based on the characteristics of their customers, such as: the nature of their activity (in relation to private customers), or their business turnover (in case of commercial customers), in a format that connects, on a uniform and single value basis, between the different customers of the banking industry as a whole, and the regulatory operating segments.
According to the instructions, a banking corporation, the operating segments of which, according to the approach of its Management, are materially different from the regulatory operating segments, shall provide in addition, disclosure regarding operating segments according to the Management's approach ("managerial operating segments"), in accordance with the accounting principles accepted by U.S. banks in the matter of operating segments – (ASC 280). However, in accordance with new directives and clarifications of the Banking Supervision Department, the disclosure in the directors' and management report shall relate to regulatory operating segments only. Note 13 to the condensed financial statements present a quantitative disclosure of the managerial operating segments that the Bank has identified.
Concise data regarding operations in the various segments is presented in Notes 12 and 13 to the condensed financial statements.
For details regarding the relevant public reporting instructions and the definition of the segments, and details regarding the principal guidelines, estimates and principles used in the preparation of segment information, see Note 29 to the financial statements as of December 31, 2020 (pp. 245-247).

Household Segment (Domestic operations)

Household segment in the wake of the Corona crisis

Since the outbreak of the Corona crisis and the restrictions imposed on economic activity, the Bank has made arrangements to assist its customers in coping with the economic uncertainty and to beat the crisis. The following are some of the steps that the Bank has led in the Household segment:
- Enlarging and increasing accessibility of banking operations on the online channels and the digital, both intended to ease customers' activities and to reduce personal presence of customers at the branches.
- Assistance loans to households – designated loan channels have been developed in respect of private customers, including bridging loans and all-purpose loans. Moreover, the Bank offered customers the option of loans having a repayment deferral mechanism of principal and interest for a period of up to six months.
- Deferral of mortgage principal and interest payments, or of principal sums only (at the option of the borrower), for a period of up to six months with no need to visit the branch. In addition, the Bank allowed extension of validity of the approval in principle for thirty days. Since March 1, 2021, the Bank has reinstated the validity of the approval in principle for 24 days, as required by the instructions of the Supervisor of Banks.
- Initiated issuance to customers of ATM cards and debit cards helping them to cash National Insurance allowances.

Enlarging support of customers. In 2020, the Bank offered a flexible and singular outline for the staying of mortgage repayments, under the definitions outlined by the Supervisor of Banks in this respect. The outline for the stay in mortgage repayments was terminated on March 31, 2021. Upon termination of the outline, the Bank examines such requests specifically and individually, at its discretion.
Private customers are being offered a range of loans at easy terms and at a flexible repayment period. Inter alia, the Bank offers the "salary complementing" loan to customers on unpaid leave or to customers whose income had been impaired. This loan track offers the customer an amount of up to NIS 6,000 per month, for a period of up to five months.

In the period in which the "salary complementing" loan is being received, the customer does not pay interest payments, namely, the customer benefits both from the deferment in repayment of the loan and from exemption from interest payments. Only upon completion of receiving the funds does the customer begins to repay the loan, at easy terms of between 24 and 36 installments.

Scale of Operations and Net Profit of the Segment

The net profit in the first half of 2021 amounted to NIS 176 million, compared to a loss in the amount of 74 million in the corresponding period last year. The growth in profits was mostly affected by credit loss expenses release.
The credit loss expenses in the first half of 2021 an expenses release has been recorded of NIS 128 million, compared expenses of NIS 414 million in the corresponding period last year, a decrease of 130.9%. The decrease in expenses is due, primarily, to the reduction in the group allowance, against the background of an improvement in macroeconomic indices and in the position of the borrowers.

Principal data regarding the household segment (Domestic operations)

	For the three months ended June 30,		For the six months ended June 30,		For the year ended December 31,
	2021	2020	2021	2020	2020
	in NIS millions				
Total income	904	840	1,751	1,757	3,475
Credit loss expenses (expenses release)	(69)	204	(128)	414	518
Total Operating and other expenses	768	(1)720	1,566	(1)1,459	3,194
Net Profit (Loss) Attributed to the bank's shareholders	111	(57)	176	(74)	(144)

Footnote:
(1) Reclassified - see Note 12 B to the condensed financial statements.

For additional details regarding the household segment (Domestic operations), including details regarding mortgage activity, see in the Chapter "Corporate governance, audit and additional details regarding the business of the banking corporation and the manner of their management".

Private Banking Segment (Domestic operations)

Scale of Operations and Net Profit of the Segment

The net profit in the first half of 2021 amounted to NIS 16 million, compared to a loss in the amount of NIS 27 million in the corresponding period last year. The rise in profit was mainly affected by the increase in provision for claims in the corresponding period last year.

Principal data regarding the Private Banking segment (Domestic operations)

	For the three months ended June 30,		For the six months ended June 30,		For the year ended December 31,
	2021	2020	2021	2020	2020
	in NIS millions				
Total income	33	39	67	80	146
Credit loss expenses	-	1	-	2	1
Total Operating and other expenses	19	(1)94	43	(1)117	162
Net Profit (Loss) Attributed to the bank's shareholders	9	(38)	16	(27)	(20)

Footnote:
(1) Reclassified - see Note 12 B to the condensed financial statements.

For additional details regarding the Private Banking segment, see in the Chapter "Corporate governance, audit and additional details regarding the business of the banking corporation and the manner of their management".

Small and minute businesses Segment (Domestic operations)

Small and minute businesses segment in the wake of the Corona crisis

Since the outbreak of the Corona crisis and the restrictions imposed on economic activity, the Bank has made arrangements to assist customers of the small and minute businesses segment in coping with the economic uncertainty and to beat the crisis. For additional details, see the 2020 Annual Report (pp. 51-52).
Assistance in the confrontation of customers with the crisis was provided in 2021 within the framework of the Fund for small and medium businesses guaranteed by the State, as detailed below. With the aim of providing further assistance to businesses, two possibilities had been added as relief for the repayment of the "Corona Fund" loans:

- Extension of the maximum period for repayment of the credit – possibility of changing the repayment period of existing loans granted for a period of up to five years, by extending them to a period of up to ten years;
- An additional grace period of up to twelve months – the Bank may extend the grace period for the repayment of the principal sum of the loan for an additional period of up to twelve months, so that the overall period for the repayment of the principal sum would be deferred to a period identical with the additional grace period.

Small and Medium Businesses Assistance Fund guaranteed by the Government. The State of Israel by means of the Accountant General at the Ministry of Finance has established a Business Assistance Fund helping businesses to confront the spread of the Corona virus. The State guarantees 85% of each single loan granted in the framework of the Fund, provided that the total amount of the guarantees is limited to a rate of 15% of the total loans extended by a bank within this framework. The Fund grants loans under beneficial terms and in accordance with rules determined by the State.
All the banks within the banking system participate in this Fund. The Bank and MDB have received a NIS 4,028 million allocation from the fund. Through June 30, 2021, the two banks approved 10,305 loans, in a total amount of NIS 3,419 million.
A Fund for businesses having intensified risk. On June 21, 2020, the government decided to provide assistance to additional businesses in Israel, which are being rated at a higher risk level than that typifying businesses which obtain loans from the Bank within the framework of the existing channel, and to add a "intensified channel" Fund. In the intensified channel, the State guarantee is divided into two layers, the total amount of the guarantee being limited to a cumulative rate of 60% of total loans extended by the Bank in this intensified channel. In the first layer, a rate of 85% of each single loan extended within the framework of the fund, but the total amount of the guarantee is limited to up to a rate of 15% of total loans extended by the Bank in this framework. In the second layer, in respect of that part exceeding 15%, as stated, the guarantee of the State amounts to 95%.
The Bank and MDB were allotted by the Fund an amount of NIS 334 million. 418 loans out of the Fund, were approved by the two banks until June 30, 2021, which amounted to NIS 198 million.

Scale of Operations and Net Profit of the Segment

The net profit in the first half of 2021 amounted to 321 million, compared to an amount of NIS 13 million in the corresponding period last year, an increase at a rate of 2369.2%. The growth in profits was mostly affected by credit loss expenses release.
The credit loss expenses in the first half of 2021 an expenses release has been recorded of NIS 175 million, compared to expenses of NIS 371 million in the corresponding period last year, a decrease at a rate of 147.2%. The decrease in expenses is due, primarily, to the reduction in the group allowance, against the background of an improvement in macroeconomic indices and in the position of the borrowers.

Principal data regarding the Small and minute businesses segment (Domestic operations)

	For the three months ended June 30,		For the six months ended June 30,		For the year ended December 31,
	2021	2020	2021	2020	2020
	in NIS millions				
Total income	482	492	966	1,024	1,974
Credit loss expenses (expenses release)	(82)	181	(175)	371	593
Total Operating and other expenses	314	(1)312	646	(1)624	1,329
Net Profit (Loss) Attributed to the bank's shareholders	160	(5)	321	13	28

Footnote:
(1) Reclassified - see Note 12 B to the condensed financial statements.

For additional details regarding the Small and minute businesses segment (Domestic operations), see in the Chapter "Corporate governance, audit and additional details regarding the business of the banking corporation and the manner of their management".

Medium businesses Segment (Domestic operations)

The medium business segment in view of the Corona crisis

Regarding preparations for assistance to customers belonging to this segment, see below "Large business segment". As to loans extended out of the Small Businesses Fund guaranteed by the State, see above "Small and minute businesses segment".

Scale of Operations and Net Profit of the Segment

The net profit in the first half of 2021 amounted to NIS 77 million, compared to a loss in an amount of 3 million in the corresponding period last year. The growth in profits was mostly affected by credit loss expenses release.
The credit loss expenses in the first half of 2021 amounted to expenses release in an amount of NIS 1 million, compared to expenses of NIS 117 million in the corresponding period last year, a decrease at a rate of 100.9%. The decrease in expenses is due, primarily, to the reduction in the group allowance, against the background of an improvement in macroeconomic indices and in the position of the borrowers.

Principal data regarding the Medium businesses segment (Domestic operations)

	For the three months ended June 30,		For the six months ended June 30,		For the year ended December 31,
	2021	2020	2021	2020	2020
	in NIS millions				
Total income	129	124	247	239	477
Credit loss expenses (expenses release)	(4)	65	(1)	117	198
Total Operating and other expenses	66	(1)66	131	(1)126	267
Net Profit (Loss) Attributed to the bank's shareholders	43	(4)	77	(3)	7

Footnote:
(1) Reclassified - see Note 12 B to the condensed financial statements.

For additional details regarding the Medium businesses segment (Domestic operations), see in the Chapter "Corporate governance, audit and additional details regarding the business of the banking corporation and the manner of their management".

Large businesses Segment (Domestic operations)

The large business segment in view of the Corona crisis

Since the outbreak of the Corona crisis and the restrictions imposed on economic activity, the Bank has prepared for assisting customers of the large business segment in confronting the economic uncertainty and in traversing the crisis. For additional details, see the 2020 Annual Report (p. 53).

Large businesses fund guaranteed by the State. The State of Israel, via the Accountant General at the Ministry of Finance has established a support fund for large businesses hit by the Corona crisis, and which comply with the terms determined by the State, including an annual business turnover exceeding NIS 200 million and employing over one-hundred workers in Israel. The State guarantees 75% of each individual loan extended within the framework of the fund, however, the total amount of guarantees is limited to up to 12% of the total amount of the loans granted by the Bank within this framework. The loans granted by the fund are in accordance with the rules determined by the State. Each single loan is limited in amount to 8% of the turnover of the business and to not more than NIS 100 million.

Additional banks in the banking system participate in the fund. Discount Bank was allocated an amount of NIS 450 million within the framework of the fund. Until June 30, 2021, the Bank had approved 8 loans in a total amount of NIS 188 million.

Scale of Operations and Net Profit of the Segment

The net profit in the first half of 2021 amounted to NIS 377 million, compared to an amount of NIS 58 million in the corresponding period last year, an increase of 550.0%. The growth in profits was mostly affected by credit loss expenses release.

The credit loss expenses in the first half of 2021 an expenses release has been recorded of NIS 259 million, compared to expenses of NIS 209 million in the corresponding period last year, a decrease at a rate of 223.9%. The decrease in expenses is due, primarily, to the reduction in the group allowance, against the background of an improvement in macroeconomic indices and in the position of the borrowers.

Principal data regarding the Large businesses segment (Domestic operations)

	For the three months ended June 30,		For the six months ended June 30,		For the year ended December 31,
	2021	2020	2021	2020	2020
	in NIS millions				
Total income	318	276	621	563	1,163
Credit loss expenses (expenses release)	(202)	60	(259)	209	261
Total Operating and other expenses	157	(1)126	304	(1)261	589
Net Profit Attributed to the bank's shareholders	238	55	377	58	202

Footnote:

(1) Reclassified - see Note 12 B to the condensed financial statements.

For additional details regarding the Large businesses segment (Domestic operations), including details regarding construction and real estate activity, see in the Chapter "Corporate governance, audit and additional details regarding the business of the banking corporation and the manner of their management".

Institutional bodies Segment (Domestic operations)

Scale of Operations and Net Profit of the Segment

The net profit of the segment in the first half of 2021 amounted to NIS 11 million, compared to a loss in an amount of NIS 2 million in the corresponding period last year.

Principal data regarding the Institutional bodies segment (Domestic operations)

	For the three months ended June 30,		For the six months ended June 30,		For the year ended December 31,
	2021	2020	2021	2020	2020
	in NIS millions				
Total income	9	11	21	23	47
Credit loss expenses (expenses release)	(25)	(2)	(26)	(1)	2
Total Operating and other expenses	15	(1)12	30	(1)28	59
Net Profit (Loss) Attributed to the bank's shareholders	11	1	11	(2)	(9)

Footnote:
(1) Reclassified - see Note 12 B to the condensed financial statements.

For additional details regarding the Institutional bodies segment (Domestic operations), see in the Chapter "Corporate governance, audit and additional details regarding the business of the banking corporation and the manner of their management".

Financial management Segment (Domestic operations)

Scale of Operations and Net Profit of the Segment

Total income of the segment in the first half of 2021 amounted to NIS 889 million, compared to NIS 748 million in the corresponding period last year, an increase at a rate of 18.9%.
The net profit in the first half of 2021 amounted to NIS 442 million, compared to an amount of NIS 360 million in the corresponding period last year, an increase at a rate of 22.8%.

Principal data regarding the Financial management segment (Domestic operations)

	For the three months ended June 30,		For the six months ended June 30,		For the year ended December 31,
	2021	2020	2021	2020	2020
	in NIS millions				
Total income	417	362	889	748	1,575
Credit loss expenses	-	14	2	14	15
Total Operating and other expenses	87	(1)94	192	(1)180	386
Net Profit Attributed to the bank's shareholders	215	166	442	360	767

Footnote:
(1) Reclassified - see Note 12 B to the condensed financial statements.

For additional details regarding the financial management segment (Domestic operations), including details regarding non-financial companies activity, see in the Chapter "Corporate governance, audit and additional details regarding the business of the banking corporation and the manner of their management".

International operations Segment

Scale of Operations and Net Profit of the Segment

The net profit in the first half of 2021 amounted to NIS 102 million, compared to NIS 128 million in the corresponding period last year, a decrease at a rate of 20.3%.
The credit loss expenses in this segment in the first half of 2021 amounted to NIS 30 million, compared to NIS 62 million in the corresponding period last year, a decrease at a rate of 51.6%.

Principal data regarding the International operations segment

	For the three months ended June 30,		For the six months ended June 30,		For the year ended December 31,
	2021	2020	2021	2020	2020
	in NIS millions				
Total income	268	253	535	574	1,048
Credit loss expenses	(28)	9	30	62	130
Total Operating and other expenses	185	159	351	319	695
Net Profit Attributed to the bank's shareholders	73	56	102	128	144

For additional details regarding the International operations segment, see in the Chapter "Corporate governance, audit and additional details regarding the business of the banking corporation and the manner of their management".

Main Investee Companies

Distribution of Net profit by the Group's structure

	Contribution to the Group's profit				
	For the six months ended June 30				
	2021		2020		
	In NIS millions	% of Net profit	In NIS millions	% of Net profit	Change in %
Banking Activity:					
Commercial banks:					
In Israel - the Bank	923	60.6	198	43.7	366.2
Mercantile Discount Bank	351	23.1	108	23.8	225.0
Overseas - Discount Bancorp	100	6.6	126	27.8	(20.6)
Other Activities:					
Israel Credit Cards	86	5.7	10	2.2	-
Discount Capital	54	3.5	5	1.1	980.0
Other financial services	8	0.5	6	1.4	33.3
Net profit	**1,522**	**100.0**	**453**	**100.0**	**236.0**

The total contribution of both domestic and overseas investee companies to the Bank's business results amounted to earnings of NIS 599 million in the first half of 2021, compared to NIS 255 million in the corresponding period last year, and an income of NIS 554 million in all of 2020.
Following are the major developments in the Bank's main investee companies.

Discount Bancorp, Inc.

Discount Bancorp, Inc. ("Bancorp") is a wholly owned subsidiary of the Bank, which is a bank holding company, incorporated in accordance with the law of the State of Delaware. Bancorp has full ownership and control of Israel Discount Bank of New York (IDB Bank). IDB Bank is the largest Israeli bank operating overseas. The data presented hereunder in this section have been taken from Bancorp's financial statements.

Discount Bancorp, Inc. – principal data

	Second Quarter		First Half		Year
	2021	2020	2021	2020	2020[1]
	In US$ millions				
Principal statements of profit and loss data for the reporting period:					
Net profit attributed to the shareholders	25	21	35	43	58
Net interest income	63	62	122	121	237
Credit loss expenses	(8)	3	9	18	37
Non-financing income	21	11	44	43	72
Non-financing expenses	59	45	111	92	204
Principal balance sheet data for the end of the reporting period:					
Total assets	11,431	10,336	11,431	10,336	11,010
Net credit to the public	7,586	6,639	7,586	6,639	7,155
Securities	2,827	2,637	2,827	2,637	2,746
Deposits from the public	9,812	8,661	9,812	8,661	9,001
Total equity	1,168	1,132	1,168	1,132	1,153
	In %				
Main performance indicators:					
Return on equity	8.7	7.6	6.1	7.9	5.1
Efficiency ratio	70.2	61.6	66.9	56.1	66.0
Ratio of total capital to risk assets	15.0	16.1	15.0	16.1	15.3
Ratio of credit loss expenses (expenses release) to the average balance of credit to the public	(0.46)	0.15	0.24	0.51	0.54
Total net return on interest bearing assets	2.38	2.59	2.33	2.54	2.44

Footnote:
(1) For details regarding the data, after elimination of expenses relating to the evacuation of the Management building, see the 2020 Annual Report (p. 57).

The main factors affecting the first half's results, compared to the corresponding period last year, are: approx. US$9 million decrease in credit loss expenses, US$1 million increase in non-interest income and approx. US$19 million increase in operating and other expenses.

The contribution of Bancorp to the Bank's net results reached a profit of NIS 100 million in the first half of 2021 (after deducting a provision for taxes of NIS 14 million), compared with NIS 126 million in the first half of 2020 (after deducting a provision for taxes of NIS 24 million).

The annual financial statements of Bancorp and of IDB Bank are available for review on the Internet website of IDB Bank (IDB Bank). Annual and quarterly financial data is available for review on the Internet website of FDIC.

Mercantile Discount Bank Ltd.

Mercantile Discount Bank Ltd. ("Mercantile Discount") is a wholly-owned and controlled subsidiary of the Bank.

Mercantile Discount Bank – principal data

	Second Quarter		First Half		Year
	2021	2020	2021	2020	2020[1]
Principal statements of profit and loss data for the reporting period:					
Net profit attributed to the shareholders	201	58	351	107	211
Net interest income	335	299	641	616	1,219
Credit loss expense (expenses release)	(73)	99	(82)	197	320
Non-financing income	141	124	296	222	426
Non-financing expenses	241	235	484	476	999
Principal balance sheet data for the end of the reporting period:					
Total assets	52,952	47,133	52,952	47,133	50,937
Net credit to the public	35,083	32,464	35,083	32,464	33,118
Securities	6,566	4,437	6,566	4,437	6,300
Deposits from the public	41,575	38,036	41,575	38,036	40,842
Total equity	3,539	3,181	3,539	3,181	3,239
			In %		
Main performance indicators:					
Return on equity	26.2	7.5	22.4	6.9	6.6
Efficiency ratio	50.6	55.6	51.7	56.8	60.7
Ratio of total capital to risk assets	14.09	13.68	14.09	13.68	13.72
Ratio of credit loss expenses (expenses release) to the average balance of credit to the public	(0.84)	1.23	(0.48)	1.22	0.98
Total net return on interest bearing assets	2.75	2.81	2.64	2.89	2.71

Footnote:
(1) For details regarding data excluding the effect of the settlement, see the 2020 Annual Report (p. 24 and 58).

The principal factors affecting the business results. The profit in the first half of 2021, compared to the corresponding period last year, was affected, mostly, from a decrease of NIS 279 million in credit loss expenses; from an increase of NIS 25 million in net interest income and from an increase of NIS 74 million in non-interest financing income.

The transition to recording income to credit loss in the first half of 2021, compared to the credit loss expenses of NIS 197 million in the corresponding period last year, is explained primarily by the recording income in the amount of NIS 77 million on a group basis. The reduction in allowances on a group basis is due to a decrease in the scope of balances of credit classified under a "problematic" classification and also to a decrease in the allowance coefficients.

The increase in interest income stemmed from an increase in the average balance of income producing assets, which was partly offset by a decline in the interest margin. The increase in non-interest financing income is explained mostly by a growth of NIS 94 million in unrealized gains on non-marketable shares (in respect of ZIM Company shares, see Note 5 J).

For details regarding Israeli police investigation, see the 2020 Annual Report (pp. 58-59). On April 30, 2021, the employer/employee relations between MDB and the former Head of the Commercial Division of this bank were terminated by mutual consent.

For details regarding the strategic plan of MDB and the main projects to be carried out within the framework thereof, see the 2020 Annual Report (p. 59). Completion of the new strategic plan is expected by the end of September, 2021.

For details regarding lawsuits and motions for approval of the lawsuits as class action suits and for details regarding additional proceedings, see Note 26 C to the financial statements as of December 31, 2020, sections 12.3, 12.4 and 12.5 (pp. 230 and 233) and Note 10 to the condensed financial statements, section 3.2, 3.7 and 4.3.

The annual and quarterly financial statements of Mercantile Discount Bank are available on the MAGNA website of the Israel Securities Authority and on the MAYA website of the Tel Aviv Stock Exchange Ltd. appearing under "Mercantile Issuance", and on the website of Mercantile Discount Bank.

Israel Credit Cards Ltd.

Israel Credit Cards Ltd. ("ICC") is a subsidiary of the Bank. As of June 30, 2021, the Bank owned 71.8% of the equity and 79.0% of the voting rights in ICC, the remainder of the shares held by FIBI.

Israel Credit Cards – principal data

	Second Quarter		First Half		Year
	2021	2020	2021	2020	2020[(2)]
	In NIS millions				
Principal statements of profit and loss data for the reporting period:					
Net profit attributed to the shareholders	79	23	139	16	115
[(1)]The contribution to the Bank's business results	49	14	86	10	70
Income from credit card transactions	346	286	663	616	1,254
Net interest income	133	133	262	267	530
Non-financing income	(1)	(2)	-	6	73
Non-financing expenses	368	387	728	871	1,716
Of which: Credit loss expenses (expenses release)	(15)	59	(19)	164	223
Principal balance sheet data for the end of the reporting period:					
Total assets	19,501	17,885	19,501	17,885	18,535
Interest bearing credit to the public	6,079	6,355	6,079	6,355	5,959
Total equity	2,068	1,835	2,068	1,835	1,930
	In %				
Main performance indicators:					
Return on equity	16.7	5.1	14.6	1.8	6.2
Efficiency ratio	80.1	78.7	80.8	79.5	80.4
Ratio of total capital to risk assets	15.3	14.3	15.3	14.3	14.8
Turnover of credit card transactions – in NIS millions	31,440	24,012	60,143	51,064	107,929
Number of active cards – in thousands	3,052	2,842	3,052	2,842	2,968

Footnotes:
(1) Differences between net income and the contribution to the Bank's business results is derived from
(2) For details regarding the data, after elimination of gains from the sale of VISA Inc. shares and the cost of the retirement plan, see the 2020 Annual Report (p. 59).

The business results of ICC for the reported period, compared to the corresponding period last year, were mainly affected from a decline in credit loss expenses, amounting to an expenses release of NIS 19 million, compared to expenses of NIS 164 million in the corresponding period last year, and from an increase in income in an amount of NIS 36 million (4.0%). It is emphasized that most of the allowances for credit losses, which ICC had recorded following the crisis in prior reporting periods, were not cancelled.
The Corona crisis and its implications may have a material effect on the operations of ICC in the customer club field relating to the tourism and aviation business, and in particular on the FlyCard customer club.
Strategic plan. For details, see the 2020 Annual Report (p. 60).
The Corona crisis. The activity of ICC is directly affected by the activity on the Israeli economy, accordingly, the measures adopted by the Government following the outbreak of the virus, as well as the changes occurring in consumer behavior, have materially affected the volume of transaction turnover of the company. The decline had been felt all the more strongly in the period from April 1 and until April 19, 2020, when strict restrictions on economic activity in Israel entered into effect ("the first lockdown"). Since March 2021, with the reduction of morbidity and of restrictions in its respect, a significant growth was recorded in the scopes of activity in most sectors, although the overseas usage scopes of the company's credit cards are still well below the levels they were at prior to the outbreak of the crisis.
For details regarding activity in the credit card field in Israel, see in the 2020 Annual Report (pp. 309-315, 372-379) in the chapter "Corporate governance, audit and additional details regarding the business of the Banking Corporation and management thereof", and Note 17 to the condensed financial statements.

For details regarding lawsuits and motions to approve them as class action suits filed against ICC, see Note 26 C to the financial statements as of December 31, 2020, sections 11.1, 11.4 and 11.6 (pp. 229-232) and Note 10 sections 3.1, 3.4 and 4.4 to the condensed financial statements.
The annual and quarterly financial statements of ICC are available for review on the Internet website of the company.

Discount Capital Ltd.

Discount Capital Ltd., a wholly owned and controlled subsidiary of the Bank, is engaged in investment in companies, in private investment funds and venture capital funds and mezzanine, investment banking in the field of securities distribution and in the underwriting and management of public offerings of securities (through a subsidiary).

Discount Capital – principal data

	In NIS millions		
Principal statements of profit and loss data for the year:	2021	2020	Change in %
Net profit attributed to the shareholders	67.6	5.1	1,225.5
The contribution to the Bank's business results[1]	53.9	5.4	898.1
Principal balance sheet data for the end of the reporting period:	June 30, 2021	December 31, 2020	
Total assets	1,857.5	1,779.9	4.4
Total equity	1050.6	982.1	7.0

Footnote:
(1) Differences between net income and the contribution to the Bank's business results is derived from differences in the implementation of generally accepted accounting principles

In the first half of 2021, Discount Capital participated, via its subsidiary, in 33 public offerings and in 7 private transactions, amounting to approx. NIS 9.1 billion. This, compared with 23 public offerings and 13 private transactions, amounting to approx. NIS 11.0 billion, in the corresponding period last year.

Chapter "C" - Risks review

General description of the risks and manner of management thereof

For details regarding the risk profile of the Discount Group, see the 2020 Annual Report (pp. 61-63). For details regarding Risk Management Principles, see the 2020 Annual Report (pp. 63-65).

Disclosures in accordance with the third Pillar of Basel

The Basel guidelines broaden the qualitative and quantitative disclosure requirements in the matter of credit risk, market risk and operating risk exposure management, as well as in other fields. Qualitative and quantitative disclosure regarding the various risks above and below in this Chapter, is presented in the 2020 Annual Report (pp. 61-106) and in the document "Disclosure according to the third pillar of Basel and additional information regarding risks". The document is available for perusal on the Bank's website together with the Bank's 2020 annual report together with the Report for the second quarter of 2021 (this report), on the MAGNA site of the Israel Securities Authority, and on the MAYA site of the Tel Aviv Stock Exchange Ltd.

Credit Risks

For details regarding Credit risks, see the 2020 annual report (pp. 65-85).

The Otzar system (new credit and attachments management system). For details, see the 2020 Annual Report (p. 66).

Adoption of updates to the generally accepted accounting principles at banks in the U. S. – Allowances for credit losses

The standard is to be applied as from January 1, 2022 and thereafter. For additional details, see Note 1 to the condensed financial statements below. In the first half of 2021, the Bank started the technological implementation of the chosen solution, which includes establishment of a data base, structuring of interfaces, absorption of the methodology and the conducting of runs for the examination of the calculations made by the system in the different credit segments. The Bank prepares for the start of a parallel run in the coming weeks. At the same time, documentation of the components is being carried out and the audit process over the implementation of the Directive began.

For additional details, see the 2020 Annual Report (p. 70).

Preparations by the Bank in the wake of the Corona crisis – credit risk

The significant decrease in morbidity and the lifting of the third lockdown led to a resurgence in trade and the reopening of the economy as a whole, with greater economic activity being evident toward the end of the first quarter and continuing in the second quarter, and into the third quarter. These factors have had a positive impact on the position of businesses and borrowers, as well as on macroeconomic parameters. Notwithstanding the above, the rates of unemployment have remained at a high level and the recovery of certain sectors of the economy is expected to take a long time. The crisis may affect the condition of borrowers and their repayment ability and at this stage considerable uncertainty still exists as to the length of time in which the crisis is expected to have an effect. Furthermore, on the background of the renewed increase in the level of morbidity, following which, it is possible that certain restrictions would be imposed again, uncertainty exists with respect to the scope of the restrictions that would be imposed and the extent of the damage that would be caused to economic activity, if at all.

This situation requires increased alertness, risk assessment and quick response ability, and therefore the Bank reports, controls and monitors exposure of borrowers in all lines of business of the Bank inter alia, in the different economic sectors, within the framework of specific discussions regarding the condition of sensitive borrowers in difficulty, by means of sectorial reviews and the monitoring of the credit portfolio, while following regulatory developments. Furthermore, the Bank uses advances analysis tools and is studying different scenarios, which are being updated from time to time, as part of the strategy for the preparation and management of credit risk.

Debts whose terms have been changed within the framework of coping with the Corona virus

On April 21, 2020, the Supervisor of Banks issued a letter regarding the main supervisory emphasis with regard to the handling of debts, within the framework of the supervision policy for encouraging banking corporations to operate cautiously in order to support borrowers that are unable or that are likely to be unable to meet their contractual payment obligations due to the impact of the Corona virus outbreak. The letter specifies the terms which, when met, a change in terms for borrowers not in arrears, due to the Corona crisis, will not be considered a troubled debt restructuring. For further details, see Note 1 C 5 (2) to the financial statements as of December 31, 2020 (pp. 135-136). The letter specifies, inter alia, with regard to debts that were in arrears prior to granting a deferral, that the state of the calculated arrears will be frozen for the repayments deferral period, except in the case of a debt classified as an impaired debt or a debt subject to an accounting write-off. In addition, and further to the publication of the

additional outlines for deferring payments, from November 30, 2020 and December 10, 2020, the Banking Supervision Department issued two more letters to the banking corporations in December 2020, titled “The Corona crisis – main points regarding the additional outline for deferring payments” and “The Corona crisis – main points regarding the additional outline for deferring payments for small businesses”, within the framework of which, it was specified that a banking corporation is entitled not to classify, as a troubled debt restructuring, housing loans, other loans to private individuals and loans to small businesses, which were not in arrears for 30 days or more at the time of deferring the payments, with regard to which a payments deferral was granted by March 31, 2021 within the framework of the additional outlines for deferring payments, even if the aggregate deferral exceeds six months.
Within the framework of the letters of the Supervisor of Banks dated December 3 and 17, 2020, it is stated that a banking corporation that had elected not to classify as restructure of a troubled debt, loans that were not in arrears of 30 days or over at date of deferral of repayments, in respect of which deferral of repayments had been granted until March 31, 2021, within the framework of the additional outline for deferment, shall include in the quarterly and annual financial statements to the public in 2021, a pro-forma disclosure presenting the principal effects of implementing the said choice upon the financial statements. The Bank has chosen not to make use of the relief included within the framework of the additional outline. MDB has indeed chosen to make use of the said relief, however, the volume of debts which in accordance with the relief, had not undergone a troubled debt restructure, is not material, even in terms of MDB.
It is noted that, possibly, were it not for the stay in the count of the default days regarding the deferred repayments, as stated above, the balance of debts in arrears as of June 30, 2021, would have been higher. It is further noted that in light of the contribution made by the different Government support measures for households and businesses (such as: unpaid leave, grants and credit) and even the deferral of repayments itself, all in aid of the economic survival of households and businesses, any decline in the scope of such measures may affect the repayment ability of borrowers in the future.

Following are details regarding the number of deferral applications submitted and the volume of loans in respect of which deferral has been approved.

Deferral applications by monthly distribution - 2020

	2020									
	March	April	May	June	July	August	September	October	November	December
Deferral requests,(Number of requests)	48,616	31,861	7,212	4,371	4,601	2,675	4,540	3,623	1,818	1,093
Balance of loans in deferral, in millions(1)	8,861	16,388	17,771	18,371	18,852	19,385	19,445	19,673	19,963	20,124

Note:
(1) The balances are shown in “deferral execution date” terms.

Deferral applications by monthly distribution - 2021

	2021					
	January	February	March	April	May	June
Deferral requests,(Number of requests)	1,380	527	196	184	130	93
Balance of loans in deferral, in millions(1)	20,304	20,588	20,633	21,144	21,159	21,191

Note:
(2) The balances are shown in “deferral execution date” terms.

The data in the above Table indicates that the volume of applications for deferral of repayments declined as from May 2020, both as regard the number of applications and as regard their monetary volume.

Presented below are details regarding the balance of debts whose terms have been changed, in accordance with the Supervisor of Banks’ letters in this matter.

The balance of a debt whose terms have been changed, within the framework of coping with the Corona crisis, which has not been classified as troubled debt restructuring

	June 30, 2021											
	in NIS millions											
	Debts with repayments deferral, as of the reporting date[1][2]			Additional details regarding the recorded amount of debts with repayments deferral					Additional details of debts with repayments deferral, according to the timespan of the repayments deferral[3]		Debts whose repayments deferral period had terminated, as of the reporting date	
					Non-problematic debts				Non-problematic debts			
Credit to the public	Outstanding debt	Number of loans	Amount of deferred repayments	Problematic debts	Debts not in credit granting rating	Debts in credit granting rating, in arrears of 30 days or more	Debts in credit granting rating, not in arrears	Total non-problematic debts	Debts for which a deferral of more than 3 and up to 6 months has been granted	Debts for which a deferral of more than 6 months has been granted	Outstanding debt	Of which: in arrears of 30 days or more
Large businesses	519	10	56	437	2	-	80	82	-	82	692	-
Medium businesses	46	11	13	6	-	-	40	40	38	2	691	-
Small businesses	135	631	61	83	6	-	46	52	4	38	4,130	44
Private individuals without Housing loans	43	895	18	30	1	-	12	13	1	4	1,193	18
Housing loans	718	1,111	52	20	44	5	649	698	100	558	7,306	131
Total Lending Activity in Israel	1,461	2,658	200	[4]576	53	5	827	885	143	684	14,012	193
IDB Bank	607	13	19	599	8	-	-	8	-	8	1,146	-
Total as at 30.6.2021	**2,068**	**2,671**	**219**	**1,175**	**61**	**5**	**827**	**893**	**143**	**692**	**15,158**	**193**
Total Lending Activity in Israel as at 31.3.2021	**2,831**	**6,204**	**287**	**[4]646**	**507**	**5**	**1,673**	**2,185**	**353**	**1,738**	**13,774**	**171**
IDB Bank as at 31.3.2021[5]	**853**	**17**	**29**	**782**	**9**	**-**	**62**	**71**	**-**	**9**	**940**	**-**
Total Lending Activity in Israel as at 31.12.2020	**5,523**	**23,699**	**481**	**1,074**	**802**	**-**	**3,647**	**4,449**	**1,204**	**2,447**	**1,216**	**133**
IDB Bank as at 31.12.2020[5]	**848**	**18**	**26**	**780**	**8**	**-**	**60**	**68**	**-**	**8**	**768**	**25**
Total Lending Activity in Israel as at 30.9.2020	**7,018**	**37,152**	**691**	**706**	**613**	**5**	**5,694**	**6,312**	**3,482**	**1,259**	**11,143**	**124**
IDB Bank as at 30.9.2020[5]	**571**	**14**	**16**	**152**	**304**	**-**	**115**	**419**	**-**	**-**	**822**	**26**
Total Lending Activity in Israel as at 30.6.2020	**15,743**	**73,770**	**1,061**	**259**	**1,438**	**7**	**14,039**	**15,484**	**1,235**	**70**	**2,404**	**10**
IDB Bank as at 30.6.2020	**1,595**	**47**	**27**	**273**	**573**	**-**	**749**	**1,322**	**791**	**220**	**-**	**-**

Footnotes:

(1) Debts – balance of debts before accounting write-offs..

(2) The balance of debts with repayments deferral as of July 31, 2021 amounts to NIS 1,329 million (Of which: IDB Bank amount of NIS 607 million)

(3) The repayments deferral period is the aggregate period of deferrals granted for the debt from the beginning of dealing with Corona virus and does not include deferrals to which the borrower is entitled under the law.

(4) Of which: impaired debts not accruing interest income amount to NIS 66 million (as of December 31, 2020 – NIS 39 million).

(5) Reclassified - following improvement of data.

In the course of the crisis period and until June 30, 2021, the Bank and MDB (domestic activity) allowed the deferral of loan repayments in respect of credit in the amount of NIS 15,473 million, of which, housing loans in the amount of NIS 8,024 million.

Until June 30, 2021, in respect of 91% of all loans (domestic activity), and in respect of 91% of housing loans (domestic activity), the deferral period had ended and repayment of loans has been resumed. Of the outstanding balance of the

loans, the deferral period in respect of which had not ended, loans in the amount of NIS 576 million were classified as problematic – 39.4%. Of the outstanding balance of the debts, the deferral period in respect of which had ended, NIS 193 million which are in arrears of 30 days or more. The segment that has the highest rate of debts classified as problematic and loans in arrears is the large business segment.
As seen from the above data, the volume of debts the repayment of which had been deferred is being constantly reduced, and concurrently, the volume of debts that are being repaid again with no arrears is, respectively growing, with the volume of debts in arrears, out of the total debts in respect of which the repayment deferral period has ended, maintaining a moderate pattern. Notwithstanding the above, the possibility exists that the repayment pattern of debts which still enjoy repayment deferral would be different than the repayment pattern of debts the repayment of which had begun at an earlier stage. In view of the above, and in view of the uncertainty regarding economic developments anticipated upon the exit from the crisis, the possibility exists that the volume of debts found out to be in arrears would be higher than that apparent at this stage.

Monitoring the exposure of the credit portfolio to the Corona crisis

As stated, since the outbreak of the crisis, the business divisions have increased monitoring and control operations regarding the condition of the Bank's credit portfolio. The monitoring and control operations are conducted in congruence with the assessed risk level of customers and the sectors in which they operate. The products of monitoring and control, as stated, serve the Management and the Board of Directors in their discussions regarding the Bank's credit portfolio in the shadow of the Corona crisis.
Recently, following several months of relief in the implications of the crisis, a rise is noted in the level of the Corona morbidity in Israel. This fact demonstrates that a threat still exists which might have an adverse effect on economic recovery in general and on sectors sensitive to restrictions on movement, in particular.

According to estimates of the Bank, the following sectors are of a relatively high vulnerability:

Economic sector	Vulnerability characteristics resulting from the Corona crisis
Commerce	The removal of restrictions and the opening of trade centers contributed to improvement in retail activity, inter alia, as indicated by credit cards purchase data. Such data supports the continuing decline in the level of risk, as compared with that recorded at the outbreak of the crisis, though the strength and length of the recovery period would correspond to the buying power of the consumer, derived, inter alia, from the rate of unemployment.
Hotels, hospitality and catering services	The sector enjoyed high demand during the Spring holidays, when hotels in vacation areas recorded high occupancy and at high prices, thanks to the high local demand, stemming, inter alia, from low activity in outgoing tourism due to the relatively high morbidity around the world. Notwithstanding the above, the sector has not yet fully recovered and occupancy rates of hotels situated in urban areas (in particular those based on foreign tourism) are still low.
Private individuals	The comprehensive unemployment rate (unemployed, on unpaid leave, dismissal on grounds of the crisis) continues to decline from the record level recorded at the height of the crisis (20%). However, when compared with the full employment environment that had prevailed prior to the crisis, the rate of unemployment is still high and may create a risk center, in particular with the cancellation of the unpaid leave allowance, which, in particular, might affect the bottom deciles that were more intensely exposed to the implications of the crisis on the labor market.

It is noted, that the diamond industry, real estate and oil products industry sectors are no longer estimated as having relatively high vulnerability to the effect of the Corona crisis.
Furthermore, in the Bank's opinion, the level of vulnerability of small businesses is relatively higher than that of large businesses.
It is noted that the classification of the different sectors in accordance with the level of vulnerability was based on internal assessments of the Bank. The classification of sectors according to the different levels of vulnerability is used to focus attention on the more vulnerable areas, though, which does not necessarily represent all credit exposure in those sectors.
See below "Credit risk by economic sectors".

Credit quality and problematic credit risk

Problematic credit risk and non performing assets

	June 30, 2021				December 31, 2020			
	Commercial	Housing	Private	Total	Commercial	Housing	Private	Total
	In NIS millions							
Credit risk in Credit Granting Rating[(1)]								
Balance sheet credit risk	126,295	46,277	30,427	202,999	120,945	41,808	28,221	190,974
Off-balance sheet credit risk	52,000	6,712	36,085	94,797	45,594	4,367	35,656	85,617
Total credit risk in Credit Granting Rating	**178,295**	**52,989**	**66,512**	**297,796**	**166,539**	**46,175**	**63,877**	**276,591**
Credit risk not in Credit Granting Rating:								
1. Not problematic	3,733	588	1,324	5,645	4,618	516	2,763	7,897
2. Problematic								
Special Mention[(3)]	3,346	100	220	3,666	3,131	121	365	3,617
Substandard	1,548	180	91	1,819	1,452	204	81	1,737
Impaired	(4)1,809	1	251	(4)2,061	(4)1,959	2	259	(4)2,220
Total problematic[(2)]	**6,703**	**281**	**562**	**7,546**	**6,542**	**327**	**705**	**7,574**
Total balance sheet credit risk	**10,436**	**869**	**1,886**	**13,191**	**11,160**	**843**	**3,468**	**15,471**
Off-balance sheet credit risk	2,173	1,416	281	3,870	2,462	809	362	3,633
Total credit risk not in Credit Granting Rating	**12,609**	**2,285**	**2,167**	**17,061**	**13,622**	**1,652**	**3,830**	**19,104**
Of which: non-impaired debts in arrears of 90 days or more[(3)]	41	276	35	352	65	318	30	413
Total overall credit risk of the public	**190,904**	**55,274**	**68,679**	**314,857**	**180,161**	**47,827**	**67,707**	**295,695**
Additional information concerning nonperforming assets:								
Impaired debts - not accruing interest income	(4) 1,416	1	76	(4) 1,493	(4) 1,362	2	73	(4) 1,437

Footnotes:
(1) Credit risk, the credit rating thereof at date of reporting matches the credit rating for the granting of new credit in accordance with the Bank's policy.
(2) Impaired, Substandard or Special Mention credit risk.
(3) Including in respect of housing loans, in respect of which an allowance is made according to the extent of arrears, and housing loans in respect of which no allowance is made according to the extent of arrears and are in arrears of 90 days or more.
(4) Including non-accruing corporate bonds in the amount of NIS 42 million (December 31, 2020 – non-accruing corporate bonds of NIS 13 million).

Changes in balances of impaired debts

	Three months ended June 30					
	2021			2020		
	Commercial	Private	Total	Commercial	Private	Total
	In NIS millions					
Change in impaired debts (In respect of credit to the public only):						
Balance of impaired debts as of the beginning of the period	2,149	260	2,409	2,109	197	2,306
Debts classified as impaired during the period	220	55	275	178	80	258
Debts no longer classified as impaired	(15)	-	(15)	(59)	-	(59)
Impaired debts written off	(45)	(33)	(78)	(48)	(60)	(108)
Impaired debts settled	(532)	(30)	(562)	(337)	(18)	(355)
Other	(12)	-	(12)	(3)	-	(3)
Balance of impaired debts as of end of the period	**1,765**	**252**	**2,017**	**1,840**	**199**	**2,039**
Of which: movement in restructured troubled debts						
Balance of restructured troubled debts at beginning of the period	1,302	241	1,543	874	155	1,029
Debt restructurings performed during the period	210	24	234	59	30	89
Debts that have again been classified to unimpaired due to a following restructuring	(14)	-	(14)	-	-	-
Restructured troubled debt written off	(6)	(10)	(16)	(7)	(15)	(22)
Restructured troubled debt settled	(403)	(26)	(429)	(127)	(14)	(141)
Other	(9)	-	(9)	(9)	-	(9)
Balance of restructured troubled debts at the end of the period	**1,080**	**229**	**1,309**	**790**	**156**	**946**
Changes in allowances for credit losses on impaired debts:						
Balance of allowance for credit losses as of the beginning of the period	377	128	505	307	67	374
Increase in allowances	75	38	113	89	51	140
Collections and write-offs	(142)	(55)	(197)	(88)	(48)	(136)
Balance of allowance for credit losses as of end of the period	**310**	**111**	**421**	**308**	**70**	**378**

Changes in balances of impaired debts (continued)

	Six months ended June 30					
	2021			2020		
	Commercial	Private	Total	Commercial	Private	Total
	In NIS millions					
Change in impaired debts (In respect of credit to the public only):						
Balance of impaired debts as of the beginning of the year	1,946	261	2,207	1,625	189	1,814
Debts classified as impaired during the period	615	120	735	931	169	1,100
Debts no longer classified as impaired	(16)	-	(16)	(69)	-	(69)
Impaired debts written off	(119)	(61)	(180)	(128)	(121)	(249)
Impaired debts settled	(657)	(68)	(725)	(512)	(38)	(550)
Other	(4)	-	(4)	(7)	-	(7)
Balance of impaired debts as of end of the period	**1,765**	**252**	**2,017**	**1,840**	**199**	**2,039**
Of which: movement in restructured troubled debts						
Balance of restructured troubled debts at beginning of the year	1,154	245	1,399	885	158	1,043
Debt restructurings performed during the period	425	69	494	207	59	266
Debts that have again been classified to unimpaired due to a following restructuring	(14)	-	(14)	(10)	-	(10)
Restructured troubled debt written off	(18)	(21)	(39)	(27)	(33)	(60)
Restructured troubled debt settled	(461)	(64)	(525)	(252)	(28)	(280)
Other	(6)	-	(6)	(13)	-	(13)
Balance of restructured troubled debts at the end of the period	**1,080**	**229**	**1,309**	**790**	**156**	**946**
Changes in allowances for credit losses on impaired debts:						
Balance of allowance for credit losses as of the beginning of the year	373	132	505	241	66	307
Increase in allowances	190	81	271	245	99	344
Collections and write-offs	(253)	(102)	(355)	(178)	(95)	(273)
Balance of allowance for credit losses as of end of the period	**310**	**111**	**421**	**308**	**70**	**378**

Several financial ratios used to evaluate the quality of the credit portfolio

	June 30, 2021	June 30, 2020	December 31, 2020
Ratio of balance of impaired credit to the public to balance of credit to the public	1.00%	1.09%	1.15%
Ratio of balance of non-impaired credit to the public, in arrears for 90 days or more, to balance of credit to the public	0.17%	0.28%	0.21%
Ratio of balance of allowance for credit losses in respect of credit to the public, to balance of credit to the public	1.62%	1.82%	1.95%
The ratio of the balance of the group allowance for credit loss, to the balance of credit to the public	1.28%	1.47%	1.56%
Ratio of balance of allowance for credit losses in respect of credit to the public to balance of impaired credit to the public(1)	162.22%	166.99%	170.41%
Ratio of problematic credit risk in respect of the public to the total credit risk in respect of the public	2.57%	2.06%	2.80%
Ratio of credit loss expenses (expenses release) to the average balance of credit to the public (in annualized terms)(2)	(0.56%)	1.28%	0.91%
Ratio of net accounting write-offs (collections) in respect of credit to the public to the average balance of credit to the public (in annualized terms)(3)	(0.02%)	0.25%	0.19%
Ratio of net accounting write-offs (collections) in respect of credit to the public to the balance of allowance for credit losses in respect of credit to the public (in annualized terms)(3)	(1.41%)	13.39%	9.70%
The ratio of the balance of allowance for credit losses in respect of credit to the public, to the balance of impaired credit to the public together with the balance of credit to the public in arrears for 90 days and over(1)	138.12%	133.16%	143.55%
Ratio of the balance of impaired credit to the public together with the balance of credit to the public in arrears for 90 days and over, to balance of credit to the public	1.17%	1.37%	1.36%
The ratio of the outstanding balance of noninterest bearing impaired credit to the public to total credit to the public	0.72%	0.77%	0.74%

Footnotes:
(1) The decrease in the rates stems from a decline in the balance of the allowance for credit losses.
(2) The decrease in the rate of expenditure in relation to the average balance stems, mostly, from the reversal of expenses during the quarter.
(3) The decrease in the rates stems from a decline in net write-offs as a result of significant debt collections.

Credit risk by economic sectors

Presented below are data regarding credit risk by economic sectors. So that more of the relevant sectors can be examined, against the background of the Corona virus crisis, the format of the table has been expanded in the present quarter.

Credit risk by economic sectors – consolidated

	June 30, 2021							
						Credit Losses[3]		
	Total Credit Risk[1][8][9]	Of Which : Credit Performance Rating[4]	Of Which: Problematic[5]	Non-problematic credit risk, not in credit granting rating	Of Which: Credit Risk Impaired	Periodic Credit Loss Expenses (expense release)	Net Accounting Write-Offs Recognized during the Period	Balance of Allowance for Credit Losses
	in NIS millions							
Industry	15,254	14,246	623	385	272	(29)	23	289
Construction and Real Estate - Construction'[6]	37,501	36,370	486	645	151	(27)	19	297
Construction and Real Estate - Real Estate Activity	13,028	12,528	296	204	116	(40)	(2)	186
Commerce	22,610	21,337	582	691	180	(138)	(62)	487
Hotels, Hotel Services and Food	2,157	1,698	398	61	108	(31)	(1)	73
Transportation and Storage	6,498	5,946	417	135	184	(14)	7	155
Financial Services[7]	18,946	18,704	58	184	1	(30)	(9)	75
Other Business Services	7,784	7,070	279	435	103	(29)	5	199
Public and Community Services	10,721	10,516	63	142	25	(17)	(1)	38
Other Business Services	9,530	9,128	134	268	95	(45)	(19)	133
Total Commercial	**144,029**	**137,543**	**3,336**	**3,150**	**1,235**	**(400)**	**(40)**	**1,932**
Private Individuals - Housing Loans	55,054	52,783	279	1,992	1	(1)	3	251
Private Individuals - Other	66,820	64,703	530	1,587	251	(127)	5	841
Total Public	**265,903**	**255,029**	**4,145**	**6,729**	**1,487**	**(528)**	**(32)**	**3,024**
Banks in Israel and Government of Israel	36,377	36,377	-	-	-	-	-	-
Total Lending Activity in Israel	**302,280**	**291,406**	**4,145**	**6,729**	**1,487**	**(528)**	**(32)**	**3,024**
Total Public - Lending Activity Outside of Israel	**48,954**	**42,767**	**3,933**	**2,254**	**615**	**(31)**	**9**	**503**
Banks and Governments Outside of Israel	8,888	8,888	-	-	-	2	-	17
Total Lending Activity Outside of Israel	**57,842**	**51,655**	**3,933**	**2,254**	**615**	**(29)**	**9**	**520**
Total	**360,122**	**343,061**	**8,078**	**8,983**	**2,102**	**(557)**	**(23)**	**3,544**

Footnotes:

(1) Balance Sheet and Off-Balance Sheet Credit Risk, including in respect of derivative instruments. Including: Debts[2], bonds, securities borrowed or purchased under agreements to resell, assets in respect of derivative instruments, and credit risk in respect of off-balance sheet financial instruments, as calculated for single borrower liability limitation, guarantees and liabilities on account of clients in an amount of NIS 208,906 million, NIS 45,326 million, NIS 1,377 million, NIS 4,671 million, NIS 99,842 million, respectively.

(2) Credit to the Public, Credit to Governments, deposits with banks and other debts, excluding investments in bonds and securities borrowed or purchased under resale and assets in respect of Maof Market operations.

(3) Including in respect of off-balance sheet credit instruments (stated in the balance sheet under "Other liabilities").

(4) Credit risk, the credit rating thereof at date of reporting matches the credit rating for the granting of new credit in accordance with the Bank's policy.

(5) Balance sheet and off-balance sheet credit risk, which is impaired, substandard or under special mention, including in respect of housing loans, in respect of which an allowance is made according to the extent of arrears, and housing loans in respect of which no allowance is made according to the extent of arrears, and are in arrears of 90 days or more.

(6) Includes housing loans in the amount of NIS 214 million, which were granted to acquisition groups, the projects being built by them are in the course of construction.

(7) Including mortgage backed securities in the amount of NIS 6,725 million, issued by GNMA and in the amount of NIS 410 million, issued by FNMA and FHLMC.

(8) Including credit facilities guaranteed by banks outside the Group in the amount of NIS 7,300 million.

(9) The balance of commercial debts includes housing loans in the amount of NIS 257 million, which are combined in the layout of transactions and collateral of commercial borrowers' business, or which were granted to acquisition groups, the projects being built by them are in the course of construction.

Credit risk by economic sectors – consolidated (continued)

	June 30, 2020							
						Credit Losses[3]		
	Total Credit Risk[1][8][9]	Of Which : Credit Performance Rating[4]	Of Which: Problematic[5]	Non-problematic credit risk, not in credit granting rating	Of Which: Credit Risk Impaired	Periodic Credit Loss Expenses	Net Accounting Write-Offs Recognized during the Period	Balance of Allowance for Credit Losses
	in NIS millions							
Industry	14,967	13,857	685	425	175	54	(10)	312
Construction and Real Estate - Construction'[6]	32,483	31,543	561	379	192	106	106	340
Construction and Real Estate - Real Estate Activity	12,686	12,071	241	374	151	69	(4)	163
Commerce	22,719	21,293	517	909	219	153	34	549
Hotels, Hotel Services and Food	2,049	1,802	117	130	43	80	(2)	72
Transportation and Storage	6,143	5,634	284	225	130	16	4	140
Financial Services[7]	15,149	14,225	359	565	302	4	2	94
Other Business Services	7,711	6,966	134	611	72	132	23	196
Public and Community Services	9,156	8,954	123	79	12	18	-	48
Other Business Services	7,986	7,383	436	167	393	19	(85)	150
Total Commercial	**131,049**	**123,728**	**3,457**	**3,864**	**1,689**	**651**	**68**	**2,064**
Private Individuals - Housing Loans	44,090	40,756	408	2,926	2	90	6	290
Private Individuals - Other	65,835	62,443	543	2,849	197	325	128	905
Total Public	**240,974**	**226,927**	**4,408**	**9,639**	**1,888**	**1,066**	**202**	**3,259**
Banks in Israel and Government of Israel	31,153	31,153	-	-	-	-	-	-
Total Lending Activity in Israel	**272,127**	**258,080**	**4,408**	**9,639**	**1,888**	**1,066**	**202**	**3,259**
Total Public - Lending Activity Outside of Israel	**48,358**	**43,734**	**1,544**	**3,080**	**293**	**108**	**26**	**435**
Banks and Governments Outside of Israel	9,026	8,988	38	-	38	14	-	15
Total Lending Activity Outside of Israel	**57,384**	**52,722**	**1,582**	**3,080**	**331**	**122**	**26**	**450**
Total	**329,511**	**310,802**	**5,990**	**12,719**	**2,219**	**1,188**	**228**	**3,709**

Footnotes:

(1) Balance Sheet and Off-Balance Sheet Credit Risk, including in respect of derivative instruments. Including: Debts[2], bonds, securities borrowed or purchased under agreements to resell, assets in respect of derivative instruments, and credit risk in respect of off-balance sheet financial instruments, as calculated for single borrower liability limitation, guarantees and liabilities on account of clients in an amount of NIS 195,374 million, NIS 39,015 million, NIS 832 million, NIS 5,857 million, NIS 88,433 million, respectively.

(2) Credit to the Public, Credit to Governments, deposits with banks and other debts, excluding investments in bonds and securities borrowed or purchased under resale and assets in respect of Maof Market operations.

(3) Including in respect of off-balance sheet credit instruments (stated in the balance sheet under "Other liabilities").

(4) Credit risk, the credit rating thereof at date of reporting matches the credit rating for the granting of new credit in accordance with the Bank's policy.

(5) Balance sheet and off-balance sheet credit risk, which is impaired, substandard or under special mention, including in respect of housing loans, in respect of which an allowance is made according to the extent of arrears, and housing loans in respect of which no allowance is made according to the extent of arrears, and are in arrears of 90 days or more.

(6) Including acquisition groups in an amount of NIS 204 million.

(7) Including mortgage backed securities in the amount of NIS 6,301 million, issued by GNMA and in the amount of NIS 626 million, issued by FNMA and FHLMC.

(8) Including credit facilities guaranteed by banks outside the Group in the amount of NIS 7,293 million.

(9) The balance of commercial debts includes housing loans in the amount of NIS 203 million, which are combined in the layout of transactions and collateral of commercial borrowers' business, or which were granted to acquisition groups, the projects being built by them are in the course of construction.

(10) An amount of approx. NIS 130 million in respect of a certain borrower was repaid subsequently to balance sheet date.

Credit risk by economic sectors – consolidated (continued)

	December 31, 2020							
						Credit Losses[3]		
	Total Credit Risk[(1)(8)(9)]	Of Which : Credit Performance Rating[(4)]	Of Which: Problematic[(5)]	Non-problematic credit risk, not in credit granting rating	Of Which: Credit Risk Impaired	Periodic Credit Loss Expenses	Net Accounting Write-Offs Recognized during the Period	Balance of Allowance for Credit Losses
	in NIS millions							
Industry	15,116	13,900	796	420	234	122	13	346
Construction and Real Estate - Construction'[(6)]	33,119	31,700	630	789	153	115	39	342
Construction and Real Estate - Real Estate Activity	13,186	12,492	356	338	140	137	-	223
Commerce	22,581	21,085	639	857	181	215	49	560
Hotels, Hotel Services and Food	2,126	1,619	393	114	112	83	(3)	102
Transportation and Storage	6,177	5,523	446	208	193	65	10	176
Financial Services[(7)]	16,492	16,050	357	85	299	7	2	96
Other Business Services	7,871	6,930	284	657	73	167	32	235
Public and Community Services	9,884	9,621	131	132	23	24	-	53
Other Business Services	8,665	8,388	130	147	91	30	10	158
Total Commercial	**135,217**	**127,308**	**4,162**	**3,747**	**1,499**	**965**	**152**	**2,291**
Private Individuals - Housing Loans	47,628	45,994	321	1,313	2	69	19	255
Private Individuals - Other	65,857	62,037	711	3,109	259	449	185	973
Total Public	**248,702**	**235,339**	**5,194**	**8,169**	**1,760**	**1,483**	**356**	**3,519**
Banks in Israel and Government of Israel	34,686	34,686	-	-	-	-	-	-
Total Lending Activity in Israel	**283,388**	**270,025**	**5,194**	**8,169**	**1,760**	**1,483**	**356**	**3,519**
Total Public - Lending Activity Outside of Israel	**46,993**	**41,252**	**3,086**	**2,655**	**525**	**221**	**9**	**540**
Banks and Governments Outside of Israel	8,344	8,344	-	-	-	14	-	15
Total Lending Activity Outside of Israel	**55,337**	**49,596**	**3,086**	**2,655**	**525**	**235**	**9**	**555**
Total	**338,725**	**319,621**	**8,280**	**10,824**	**2,285**	**1,718**	**365**	**4,074**

Footnotes:

(1) Balance Sheet and Off-Balance Sheet Credit Risk, including in respect of derivative instruments. Including: Debts[(2)], bonds, securities borrowed or purchased under agreements to resell, assets in respect of derivative instruments, and credit risk in respect of off-balance sheet financial instruments, as calculated for single borrower liability limitation, guarantees and liabilities on account of clients in an amount of NIS 199,508 million, NIS 41,692 million, NIS 1,074 million, NIS 6,399 million, NIS 90,052 million, respectively.

(2) Credit to the Public, Credit to Governments, deposits with banks and other debts, excluding investments in bonds and securities borrowed or purchased under resale and assets in respect of Maof Market operations.

(3) Including in respect of off-balance sheet credit instruments (stated in the balance sheet under "Other liabilities").

(4) Credit risk, the credit rating thereof at date of reporting matches the credit rating for the granting of new credit in accordance with the Bank's policy.

(5) Balance sheet and off-balance sheet credit risk, which is impaired, substandard or under special mention, including in respect of housing loans, in respect of which an allowance is made according to the extent of arrears, and housing loans in respect of which no allowance is made according to the extent of arrears, and are in arrears of 90 days or more.

(6) Includes housing loans in the amount of NIS 214 million, which were granted to acquisition groups, the projects being built by them are in the course of construction.

(7) Including mortgage backed securities in the amount of NIS 6,385 million, issued by GNMA and in the amount of NIS 504 million, issued by FNMA and FHLMC.

(8) Including credit facilities guaranteed by banks outside the Group in the amount of NIS 7,022 million.

(9) The balance of commercial debts includes housing loans in the amount of NIS 212 million, which are combined in the layout of transactions and collateral of commercial borrowers' business, or which were granted to acquisition groups, the projects being built by them are in the course of construction.

Exposure to Foreign Countries - consolidated

	As of June 30						As of December 31		
	2021			2020			2020		
	exposure			exposure			exposure		
The Country	balance sheet(2)	Off-balance sheet(2)(3)	Total	balance sheet(2)	Off-balance sheet(2)(3)	Total	balance sheet(2)	Off-balance sheet(2)(3)	Total
	In NIS millions								
United States	14,461	7,669	22,130	16,025	8,542	24,567	15,148	7,679	22,827
Other	6,927	(5)5,918	12,845	7,867	(5)5,443	13,310	7,108	(5)6,217	13,325
Total exposure to foreign countries(1)	**21,388**	**13,587**	**34,975**	**23,892**	**13,985**	**37,877**	**22,256**	**13,896**	**36,152**
Of which - Total exposure to the PIGS countries(4)	14	206	220	11	168	179	21	213	234
Of which - Total exposure to LDC countries(6)	377	136	513	607	96	703	329	122	451
Of which - Total exposure to countries having liquidity problems	35	16	51	77	18	95	35	17	52

Notes:

(1) Exposure to countries where the total amount of exposure to each of them exceeds 1% of the total consolidated assets or more than 20% of the equity, whichever is the lower. Based on the final risk, net of the effect of guarantees, liquid collateral and credit derivatives. Based on the final risk, net of the effect of guarantees, liquid collateral and credit derivatives.

(2) Balance sheet and off-balance sheet credit risk, Problematic credit risk and impaired debts are presented before the impact of the allowance for credit losses and before the impact of collateral that are deductible for the purpose of a borrower or a group of borrowers liability.

(3) Credit risk of off-balance sheet financial instruments as computed for the purpose of borrower indebtedness limitations.

(4) Portugal, Italy, Greece and Spain.

(5) Including the transfer of credit risk to a consortium of international insurers, as of June 30 2021 in the following countries: Switzerland – an amount of NIS 2,303 million and Germany – an amount of NIS 2,144 million, as of June 30 2020 in the following countries: Switzerland – an amount of NIS 2,160 million and Germany – an amount of NIS 1,991 million, and as of December 31 2020 in the following countries: Switzerland – an amount of NIS 2,291 million and Germany – an amount of NIS 2,188 million.

(6) The item "Total exposure to LDC countries" includes the total exposure to countries defined as less developed countries (LDC) which are countries classified by the world bank as having low or medium income.

Credit Exposure to Foreign Financial Institutions

General. Foreign financial institutions include: banks, investment banks, brokers/dealers, insurance companies, institutional entities and entities controlled by the said entities.

As opposed to the definition of the "financial services" economic sector for the purpose of disclosure in the Management Review concerning the "Overall credit risk according to economic sectors", the exposure in respect of foreign financial institutions presented in the table hereunder includes exposure to foreign banks and to foreign investment banks, which, on the one hand, are not included in credit to the public, and on the other hand, does not include exposure in respect of investment in asset backed securities and in respect of potential off-balance sheet exposure.

The Bank maintains a careful credit policy and is monitoring developments and volume of exposure to key markets and to markets of the countries at risk. This is performed on an ongoing basis and at the Group level, within the framework of an inter-division forum. The Bank's dealing room monitors these markets in order to obtain a comprehensive picture and to react in real time to currency risks in accordance with the risk profile of each customer and the approved credit facilities.

In view of the Corona crisis, the Bank conducts a follow-up of the scope of exposure, and collects the credit exposure in banks having a high rating.

As seen from the data presented above regarding "Exposure to foreign countries", The Bank's direct exposure to countries at risk is not material.

For details regarding the manner of managing credit risk applying to foreign financial institutions, see the 2020 Annual Report (pp. 75-76).

Credit exposure to foreign financial institutions. The Bank's credit exposure to foreign financial institutions comprises mostly of exposure to banks and investment banks. As seen from the data presented hereunder, about 89% of the exposure as of June 30, 2021, is to financial institutions rated "A-"rating or higher, compared with about 91% as of December 31, 2020.

The states in respect of which the Bank has exposure as stated above as of June 30, 2021, include, inter-alia, the United States, Great Britain and Canada.

In the first half of 2021, no loss on impairment of securities was recorded in respect of exposure to financial institutions.

Details of present credit exposure to foreign financial institutions on a consolidated basis

	Balance sheet credit risk(2)(4)(5)	Present off balance sheet credit risk(3)(4)	Present credit exposure(4)
	In NIS millions		
	As of June 30, 2021		
Present credit exposure to foreign financial institutions(1)(6)			
External credit rating(7)			
AAA to AA-	741	11	752
A+ to A-	3,575	632	4,207
BBB+ to BBB-	269	183	452
BB+ to B-	1	35	36
Not rated	115	26	141
Total present credit exposure to foreign financial institutions	**4,701**	**887**	**5,588**
Balance of problematic bonds	-	-	-
	As of December 31, 2020		
Present credit exposure to foreign financial institutions(1)(6)			
External credit rating(7)			
AAA to AA-	550	5	555
A+ to A-	4,500	570	5,070
BBB+ to BBB-	258	71	329
BB+ to B-	4	21	25
Not rated	163	23	186
Total present credit exposure to foreign financial institutions	**5,475**	**690**	**6,165**
Balance of problematic bonds	-	-	-

Notes:
(1) Foreign financial institutions include: banks, investment banks, brokers/dealers, insurance companies, institutional entities and entities controlled by the said entities.
(2) Deposits with banks, credit to the public, investment in bonds, securities borrowed or purchased under agreements to resell and other assets in respect of derivative instruments.
(3) Mainly guarantees, including guarantees securing third party indebtedness.
(4) Credit exposures and problematic credit risk are presented before the effect of allowance for credit losses and before deductions as defined in Section 5 of Proper Conduct of Banking Business Directive No. 313.
(5) For further information regarding the composition of the credit exposure reflected in the table showing derivative instruments in relation to banks/dealers/brokers, see Note 11 to the condensed financial statements.
(6) Credit exposure does not include exposure to financial institutions that have explicit and full government guarantees, and does not include investment in assets backed securities (for additional details regarding assets backed securities, see Note 5 to the condensed financial statements).
(7) According to Moody's rating, and in its absence, the Fitch rating or S&P.

In addition to the exposure presented in the above table, as of June 30, 2021 and December 31, 2020 a potential off-balance sheet exposure exists in respect of derivative instruments of foreign banks (as defined in Section (4)(a) to the definition of indebtedness in Proper Conduct of Banking Business Directive No. 313 regarding "Restrictions on indebtedness of a single borrower and of a group of borrowers"), namely, variable percentage of the outstanding balance of a future transaction, in the amount of NIS 158 million and NIS 115 million, respectively.

Credit risk in housing loans

General. The data presented hereunder relate to all the activity of the Group in this field: the Bank, MDB and IDB Bank (hereinafter will be named together as "the Group"). It is noted though, that the data relating to IDB Bank are negligible (housing credit in the amount of NIS 151 million as of June 30, 2021 and NIS 143 million as of December 31, 2020).

Developments in the field of housing loans. A growth was recorded in recent years in the demand and in the volume housing loans granted. This stemmed from increasing demand in the housing market and from rising prices resulting from the shortage in the supply in residential units in relation to the said demand.

The growth recorded in the volume of housing loans granted by the banking industry, which exceeds the economic growth rates and the growth rates in the standard of living and in household income, together with a scenario of a rise in unemployment and in interest rates, may lead to impairment in the quality of the housing credit portfolio and may increase exposure to credit risk in the banking industry. The growth trend in the volume of housing loans granted by the whole banking system continued in 2021, and despite the Corona crisis, no slowdown in the demand for mortgage loans has been noticed and in the second quarter a record high demand for mortgages was recorded. With the progress made regarding the "price for the house purchaser" plan, a slight decline was noticed in the first quarter of 2021 in the rate of transactions effected in this segment, in relation to the rates recorded in recent quarters by the Bank and by the banking system. On the other hand, an increase was recorded in this segment in the second quarter, both at the Bank and in the system. For details regarding the measures taken by the Group, see 2020 Annual Report (p. 77).

The volume of the Group's housing loan portfolio as of June 30, 2021, amounted to NIS 47,402 million (December 31, 2020 - NIS 42,863 million).

For details regarding the deferral of housing loan payments, against the background of the Corona crisis, see "Preparations by the Bank in the wake of the Corona crisis – credit risk" above.

Certain risk characteristics of the Group's housing loans portfolio

	June 30, 2021	December 31, 2020
	%	
Rate of housing loans financing over 75% of the value of the property	1.3	1.5
Rate of housing loans, the monthly repayment amount of each exceeds 35% of the income of the borrower	8.8	8.5
Rate of housing loans carrying variable interest rate of the total amount of the housing loan portfolio[1]	58.6	58.8

Footnote:

(1) Loans in which the interest rate change frequency exceeds five years were also included in computing the ratio.

Amount of loans and average financing ratios

	June 30,	December 31,
Average amount of loan (in NIS thousands)	897	861
Average financing ratio for housing loans (in %)	55.7	55.0
Average financing ratio for general purpose loans (in %)	27.4	24.4

Division of housing credit balances according to size of credit to borrowers

	June 30, 2021		December 31, 2020	
Credit limit net[(1)(2)] (in NIS thousands)	In NIS millions	% of total Housing Credit	In NIS millions	% of total Housing Credit
Up to 1,200	34,955	74.2	32,608	76.5
Between 1,200 and 4,000	11,466	24.3	9,386	22.0
Over 4,000	726	1.5	610	1.5
Total	**47,147**	**100.0**	**42,604**	**100.0**
Of which:				
Housing loans that were granted abroad	151		143	

Footnotes:

(1) The balance of credit is after deduction of allowance for credit losses in the amount of NIS 255 million (31.12.2020: NIS 259 million).

(2) The outstanding balance of credit to the public includes housing loans in the amount of NIS 257 million, which are integrate in the transactions and security layout of the business of commercial borrowers, or which have been granted to acquisition groups, the projects being constructed by them are in stage of construction (December 31,2020:NIS 212 million).

Volume of problematic debts in housing credit

As at	Balance of credit to the public[(1)(5)]	Balance of problematic credit[(1)]	Balance of allowances for credit losses[(2)(3]	Ratio of problematic debt
	In NIS millions			Change in %
June 30, 2021	47,402	[(4)]281	68	0.6
December 31, 2020	42,863	[(4)] 328	71	0.8

Footnotes:

(1) Recorded amount.

(2) As at June 30, 2021 the balance of the allowance includes an allowance in accordance with the extent of arrears in an amount of NIS 67 million, and also an allowance over the extent of arrears in an amount of NIS 1 million (as of December 31, 2020: NIS 70 million and NIS 1 million, respectively).

(3) Not including group allowance in a percentage of 0.40% from the credit balance in respect of which on allowance in accordance with the extent of arrears was not made, in amount of NIS 186 million as at June 30, 2021.(as at December 31, 2020: NIS 187 million) and not including another group allowance in amount of NIS 1 million, similar to year 2020.

(4) Including an amount of NIS 4 million, defined as problematic credit, which is not in arrears (December 31, 2020: NIS 7 million).

(5) The outstanding balance of credit to the public includes housing loans in the amount of NIS 257 million, which are integrate in the transactions and security layout of the business of commercial borrowers, or which have been granted to acquisition groups, the projects being constructed by them are in stage of construction (December 31,2020:NIS 212 million).

Distribution of housing credit granted, according to financing ratios and as a ratio of credit granted

	For the six months ended June 30,				For the year ended December 31,	
	2021		2020		2020	
Loan to value (LTV) ratio[(1)]	In NIS millions	% of total Housing Credit	In NIS millions	% of total Housing Credit	In NIS millions	% of total Housing Credit
Up to 45%	1,919	26.7	1,235	26.8	2,814	28.0
Between 45% and 60%	2,438	33.9	1,650	35.7	3,433	34.2
Over 60%	2,831	39.4	1,733	37.5	3,790	37.8
Total	**7,188**	**100.0**	**4,618**	**100.0**	**10,037**	**100.0**

Footnote:

(1) The loan to value (LTV) ratio is computed in respect of the purchased asset and does not include additional collateral, if granted.

Data regarding developments in housing credit balances according to linkage segments

	Non-linked credit			CPI linked credit			Foreign currency linked credit			
	Fixed interest	Variable interest		Fixed interest	Variable interest		Fixed interest	Variable interest		
	In NIS millions		% of total Housing Credit	In NIS millions		% of total Housing Credit	In NIS millions		% of total Housing Credit	Total Housing Credit (1)(2)
As at June 30, 2021	14,047	19,039	70.2	4,969	8,940	29.5	45	107	0.3	47,147
As at December 31, 2020	12,386	17,111	69.2	4,698	8,246	30.4	45	118	0.4	42,604

Footnotes:

(1) The outstanding balance of credit to the public includes housing loans in the amount of NIS 257 million, which are integrated in the transactions and security layout of the business of commercial borrowers, or which have been granted to acquisition groups, the projects being constructed by them are in stage of construction (December 31,2020:NIS 212 million).

(2) The balance of credit is after deduction of allowance for credit losses of NIS 255 million (December 31,2020: NIS 259 million).

Most of the loans are granted for an initial period of up to 25 years. The average period of the loan at the Bank is slightly lower than that of the industry.

The outstanding balance as of June 30, 2021 of the housing loans portfolio according to the present period to maturity of over 20 years, amount to NIS 5,299 million, comprising 11.2% of the total housing loans portfolio (as of December 31, 2020, the balance amounted to NIS 4,662 million, comprising 10.9% of the total housing loans portfolio).

Composition of loans granted for housing purposes, divided by the ratio of repayments to earnings

	For the six months ended June 30,				For the year ended December 31,	
	2021		2020		2020	
Ratio of payment to income (PTI)[1]	In NIS millions	% of total Housing Credit	In NIS millions	% of total Housing Credit	In NIS millions	% of total Housing Credit
Up to 40%	6,673	99.8	4,194	99.6	9,049	99.5
Over 40%	14	0.2	18	0.4	43	0.5
Total	**6,687**	**100.0**	**4,212**	**100.0**	**9,092**	**100.0**

Footnote:

(1) The amount of loans granted do not include loans secured by a mortgage on a residential unit, balloon loans and bullet loans.

In accordance with the directives, the repayment ratio is restricted to 50%. The capital allocation required for loans with a repayment ratio in excess of 40% stands at 100%, with this not being connected to the requested financing rate. Against the background of these requirements, the granting of housing loans at a rate in excess of 40% is negligible.

Credit risk of private individuals (excluding housing credit risk)

General. The data presented in his section comprise data of operation in Israel, excluding housing loans, and they include the Bank and MDB. Certain data relating to credit to private individuals at ICC is presented separately hereunder, in accordance with available data of ICC.

Definitions. Following are the definitions used in the preparation of this report:

Amount of income per account – average income of a recurring pattern from salaries, annuities, transfers and deposits, after elimination of exceptional amounts.

Balance-Sheet credit upper limit – in accordance with the reporting to the Supervisor of Banks under Reporting to the Supervisor of Banks Directive No. 836 – current account balances, credit cards and loans. Excluding non-utilized facilities of current account and credit cards.

"Financial assets portfolio" – the financial assets portfolio related to the account of the customer: financial deposits (including current account balance), securities portfolio and other financial assets.

Development in balances

Distribution by customer's fixed income and by financial assets portfolio related to the account

	Balance Sheet Credit Risk				
	Financial assets portfolio				
	Less than NIS 50 thousand	Greater than NIS 50 thousand	Total balance credit risk	Total off-balance credit risk	Total credit risk
	Balance in NIS million				
	June 30, 2021				
Level of income to the account					
Excluding permanent income to the account	1,269	93	1,362	548	1,910
Less than NIS 10 thousand	4,242	1,001	5,243	3,334	8,577
Greater than NIS 10 thousand, but less than NIS 20 thousand	3,778	1,706	5,484	3,478	8,962
Greater than NIS 20 thousand	2,871	2,765	5,636	4,408	10,044
Total	**12,160**	**5,565**	**17,725**	**11,768**	**29,493**
	December 31, 2020				
Level of income to the account					
Excluding permanent income to the account	1,363	104	1,467	473	1,940
Less than NIS 10 thousand	4,134	876	5,010	3,151	8,161
Greater than NIS 10 thousand, but less than NIS 20 thousand	3,874	1,613	5,487	3,462	8,949
Greater than NIS 20 thousand	3,032	2,755	5,787	4,528	10,315
Total	**12,403**	**5,348**	**17,751**	**11,614**	**29,365**

Additional quantitative characteristics

Distribution by the average remaining period to maturity

	June 30, 2021	December 31, 2020[(1)]
	Balance of loans	
Fixed maturity date	in NIS millions	
Up to 1 year	1,352	1,406
Over 1 year and up to 3 years	4,766	4,763
Over 3 years and up to 5 years	4,115	4,119
Over 5 years	2,319	2,242
Total	**12,552**	**12,530**

Footnote:
(1) Reclassified – following improvement of data.

It is noted that the above Table presents the distribution relating only to loans, while the remaining Tables present distribution relating to the maximum balance-sheet credit, which includes also current account balances and credit cards.

Distribution by size of credit to the borrower

	June 30, 2021	December 31, 2020
Balance sheet credit upper limit (NIS thousands)	in NIS million	
Up to 40	3,563	3,589
Between 40 and 150	9,388	9,406
Over 150	4,774	4,756
Total	**17,725**	**17,751**

Distribution by exposure to changes in interest rates

	June 30, 2021	December 31, 2020
	in NIS million	
Fixed interest credit	5,258	5,184
Variable interest credit	12,467	12,567
Total	**17,725**	**17,751**

Distribution of collateral securing the credit

	June 30, 2021	December 31, 2020
	Total collateral	
Type of collateral	in NIS millions	
Liquid financial assets	1,443	1,400
Other collateral	955	910
Total	**2,398**	**2,310**

Development of problematic credit risk in respect of private individuals

	June 30, 2021	December 31, 2020	Change in	Rate from total balance-sheet to credit to the public: June 30, 2021	Rate from total balance-sheet to credit to the public: December 31, 2020
	in NIS million		%	%	
Problematic credit risk	252	387	(34.9)	1.4	2.2
Of which: impaired credit risk	136	124	9.5	0.8	0.7
Debts in arrears of 90 days or more	35	30	16.7	0.2	0.2
Net accounting write-offs (collections)	(4)	73	[1](111.9)	[1]-	0.4
Balance of allowance for credit losses	461	569	(19.0)	2.6	3.2

Footnote:
(1) On an annual basis.

Credit risk regarding the purchase of motor vehicles. The balance of credit granted for the purchase of motor vehicles, pledged (in the Bank and MDB), amounted to NIS 1,189 million at June 30, 2021, as compared to NIS 1,102 million, as of December 31, 2020.

Additional details

Background

Credit products. The credit activity in this field is conducted in three principal channels: current account credit facilities, credit card facilities and loans.
The loans comprise the major part of consumer credit balances, and are usually granted in amounts of less than NIS 50 thousand and for short periods (mostly up to five years). The market share of loan operations conducted outside the branch premises rises gradually year by year and constitutes a central layer of the total consumer credit activity.
Credit underwriting. Over the years, the Bank has developed advanced models for the assessment of risk relating to a customer seeking credit. The underwriting processes in respect of consumer credit at the Bank are accompanied by wide use of the model products and are conducted in accordance with the Bank's credit policy, carefully modifying the product to the needs of the customer.
Credit underwriting at the branches is comprised of two layers: the one – underwriting under authority, performed at the discretion of an authorized factor using indications and products of models as to the risk rating of the customer,

his repayment ability, as well as additional indications required in accordance with the customer's risk and the amount of the loan. The other – automatic underwriting, being performed generally in the case of loans in relatively small amounts and in accordance with the recommendation of the model, which takes into consideration the risk level of the customer, his repayment ability and the past experience of the Bank with the borrower.

Development of the risk

Starting with the previous decade, the credit granted to households doubled its ratio in the credit portfolios of the five large banking groups. At the beginning of 2016, credit to households comprised nearly one half of the total credit portfolio of the banking industry in Israel. Most of the growth in credit to households in Israel stems from housing loans (about two thirds of credit granted to households). At the same time, the credit to households granted by off-banking entities continued to grow, though its share is still low in relation to banking credit.
The Corona virus crisis, which broke out in the first quarter of 2020, caused a fall in product and a significant rise in unemployment. Most of the rise in unemployment came about as a direct result of the lockdowns policy that was intended to reduce the level of morbidity. It should be noted that, even if the effect of the jump in unemployment during the lockdown is ignored, unemployment is still at an extremely high level compared to the last decade. Nevertheless, it is important to emphasize that, compared to the business sector, households enjoyed relatively more significant government support and benefited, almost without exception, from unemployment pay for an extended period. This payment puts the credit risk for households in a better position compared to the business segment, particularly when compared to small businesses.
Looking at the credit risk in 2021, the rates at which the newly unemployed return to work takes on added significance as the economy recovers and the payment of the unemployment allowance ends.

Risk mitigating measures

Determining underwriting thresholds. Within the framework of determining the risk appetite, underwriting thresholds have been set, which reflect the maximum level of risk in which new consumer credit may be provided. Deviation from these rules is possible only in exceptional cases and in limited amounts, while ascending the authorization scale.
Models and analytical tools. The process of determining the consumer credit risk at the Bank is accompanied by statistical models, which calculate the credit risk assessments (LGD and PD) that forecast the customer's risk level and the marginal transaction. The models are based upon variables referring to the characteristics of the customer, his repayment ability, financial stability and his banking past. The models are being updated from time to time in accordance with market changes, state of the borrowers and additional factors.
Effective measurement. All business units at the Bank are being measured on a current basis by the quality of the consumer credit portfolio under their responsibility, and by their adherence to the underwriting rules. All functions related to credit underwriting have defined indices, the aim of which is maintaining the quality of the portfolio and the wide distribution of credit to the extent possible.
Use of information obtained from the credit data base. Credit underwriting if performed using information obtained from the data base, subject to minimum levels of materiality, as defined by the Bank and to limitations set by law.

The fairness principle

In accordance with guidelines of the Supervisor of Banks, criteria for the initiation and marketing of credit to the private individual customer population were defined, in respect thereof the Bank is permitted to initiate offers for the granting of credit. The rules are based upon the risk level of the customer as well as on the advisability of accepting the loan on the part of the customer.
The approach to the customer is made according to conversation scenarios that include proper disclosure of the loan terms, needs of the customer and his characteristics as well as mention of the assets and liabilities stated in the customer's account.

It is noted that the fairness principle as regards the customer, has been defined both as part of the risk appetite of the Discount Group and as part of the credit underwriting policy regarding private customers.
The principle of fairness and decency as regards debtors is being applied both while they are being handled under the responsibility of the managing branch as well as after passing them on for legal proceedings by the law offices engaged by the Bank. The guideline is to try and reach an arrangement with each debtor in default, which meets his capabilities and his repayment ability.
The Bank implements the requirements of the Fair Credit Act. For details regarding this Act, see the 2020 Annual Report (pp. 396-397).

Monitoring and control

The Bank performs on a current basis, control over the quality of underwriting, adherence to policy rules and proper disclosure rules. Control is performed by means of compliance officers in the business units, credit controllers and the internal audit.
Current monitoring is also performed with respect to the quality of the consumer credit portfolio at the Bank.
With the outbreak of the Corona crisis, the Bank increased the monitoring and control of the portfolio, including the ongoing monitoring of the deferral/freezing of loan repayments.
The collection centers have been guided to reduce to the extent possible debt collection operations, including the instigating of collection proceedings against new debtors, to be renewed following the return to normal.

Quantitative data regarding credit granted to private individuals in ICC

An increase at the rate of 2.0% was recorded in the first half of 2021 in the balance of interest bearing credit granted to private individuals, compared to a decrease of 5.5% in 2020. A change in trend took place in the second quarter, in which the outstanding balance of credit increased by 4.6%, compared to a decline of 2.6% in the first quarter. This credit amounted as of June 30, 2021, to NIS 5,256 million, and comprises 58.1% of total credit to private individuals at the responsibility of ICC, most of which is credit carrying variable interest rates regarding credit transactions, revolving credit card transactions, loans, designated credit for the purchase of vehicles and other transactions. The remaining credit to private individuals amounted to NIS 3,787 million, as compared to NIS 3,371 million as of December 31, 2020 (an increase of approx. 12.5%), reflecting balances of regular transactions, installment transaction on account of the trading house and other transactions. The major part of credit losses stems from interest bearing credit.
Credit losses in respect of private individuals amounted in the first half to an expenses release of NIS 15 million, compared to an expense in the amount of NIS 59 million in the corresponding period last year.

Credit risk in relation to the construction and real estate sector

The construction and real estate sectors are a central component in the Bank's credit portfolio, and most of the credit to these sectors is managed by the Real Estate and Infrastructure wing in the Corporate Division, which possesses a high level of expertise and considerable experience in this field. In this area, the Bank operates subject to the regulatory limitation and in accordance with mitigating instructions determined by the Supervisor of Banks, within the framework of the Provisional Instruction, in order to enable confronting the Corona crisis, according to which banks may increase the volume of credit extended to the construction and real estate sector, so that the rate of credit in this sector shall not exceed 26% of total credit, and after deduction of indebtedness of national infrastructure projects, shall rise from 20% to 22%. In order to allow banks to revert to a rate of 20% upon expiry of the Provisional Instruction, the mitigation shall continue to apply for an additional period of 24 months as from December 31, 2025, on condition that the rate of indebtedness shall not exceed the rate existing at date of expiry of the Instruction. The Bank conforms to the said limits and also to internal limits serving as alert levels.

Moreover, the credit policy for the sector focuses on financing activities in Israel, while giving priority to long-established borrowers having a high level of financial strength, with whom the Bank has positive business experience. The financing of entrepreneur residential construction projects and income generating real-estate projects is conducted by the closed loan method, under minimum requirements, including equity capital, minimal estimated profitability, compliance with stress tests (inter alia, price reduction scenarios), price reduction absorption ability, early sales and more – for a fuller explanation, see hereunder "Construction and Real Estate Activity" under "Additional Details Regarding the Business of the Banking Corporation and Management Thereof".

Total credit and percentage of problematic credit in the construction and real estate sector

	June 30, 2021			December 31, 2020		
	Credit for the public[(1)(2)]	Of which: problematic credit[(1)(2)]	Rate of problematic credit	Credit for the public[(1)]	Of which: problematic credit[(1)(2)]	Rate of problematic credit
Sector	in NIS million		%	in NIS million		%
Income generating real estate	12,105	278	2.3	12,262	342	2.8
Construction – general building contracting	2,320	119	5.1	2,538	170	6.7
Residential projects financing	26,674	63	0.2	24,427	201	0.8
Acquisition of building land	9,861	20	0.2	7,418	84	1.1
Subcontracting	2,439	80	3.3	2,388	53	2.2
Civil engineering work	4,201	86	2.1	3,228	150	4.7
Other	5,387	273	5.1	4,531	140	3.1
Total[(2)]	**62,987**	**919**	**1.5**	**56,792**	**1,140**	**2.0**

Footnotes:

(1) Balance-sheet and off-balance-sheet credit to the public, excluding financial derivatives.

(2) The data in this table are more expansive than the data reported according to economic sectors, in conformity with the Bank's internal reporting, and include additional activities correlating largely with the activities in the construction and real estate sector. The data in the table include activity in Israel only.

As shown in the table above, most of the growth is in the residential projects financing and acquisition of building land.

For details regarding the purchase of a policy to insure against credit risk related to Sale Act guarantees and performance guarantees and with respect to the purchase of credit risk insurance in the real estate field, see the 2020 Annual Report (p. 362).

Credit risk in respect of leveraged finance

Definition of leveraged finance. Defined as credit for the finance of capital transactions by corporations, granted at a high financing ratio and credit granted to borrowers typified by a high leverage finance level which significantly exceeds accepted norms in this sector of operations. According to Proper Conduct of Banking Business Directive No. 327 the definition of leveraged loans has been set, and it includes, among other things, transactions for the acquisition of another corporation, purchase of own shares and the distribution of capital.

Credit risk in respect of leveraged finance. The Bank's credit policy determines strict guidelines regarding underwriting and restrictions on the scope of exposure to leveraged finance. In addition, developments in leveraged finance and compliance with the determined limitations are reported once in each quarter to the Bank's Management and the Board of Directors, this, in order to monitor the risks inherent in such financing.

Proper Conduct of Banking Business Directives determined restrictions regarding the finance of capital transactions, which the Bank abides by.

Following are data regarding credit risk pertaining to leveraged finance as of June 30, 2020. The disclosure is focused on exposure leverage transactions, each of which exceeds the threshold set in the Bank's policy and subject to Proper Conduct of Banking Business Directives.

The Bank's exposure to leveraged finance according to economic sector of the acquired corporation

	June 30, 2021				December 31, 2020			
	Balance sheet exposure	Off-Balance sheet exposure	Total exposure	Specific allowance for credit losses	Balance sheet exposure	Off-Balance sheet exposure	Total exposure	Specific allowance for credit losses
Sector	In NIS millions							
Construction and real estate	128	-	128	-	148	-	148	-
Communication and Computer Services	-	-	-	-	161	1	162	-
Public and Community Services	265	-	265	-	-	-	-	-
Total	**393**	**-**	**393**	**-**	**309**	**1**	**310**	**-**

Exposure to leveraged finance as of June 30, 2021 amounted to a total of NIS 393 million, compared to NIS 309 million at December 31, 2020, an increase of approx. 27%. The said increase stemmed, mainly, from changes in financial ratios causing present credit to exit the definition of leveraged finance, alongside a growth in credit agreeing with the definition of leveraged finance.
The balance of exposure presented in the table above, is after accounting write-offs in accordance with the directive regarding impaired debts.
As of June 30, 2021, no off-balance sheet exposure existed in respect of leveraged financing transactions.
For additional details, see "Credit risk" in the document "Disclosure according to the third pillar of Basel and additional information regarding risks", which is available for review on the MAGNA website of the Israel Securities Authority and on the MAYA website of the Tel Aviv Stock Exchange as well as on the Bank's website.

Additional disclosure regarding credit risk in respect of significant exposure to borrower groups

As at June 30, 2021, there is no borrower group whose indebtedness exceeds 15% of the capital, as defined in the Directive.

Market Risks

Market risks are presented in this review on a Group basis that includes the Bank, Mercantile Discount Bank, IDB Bank, ICC and the severance pay fund for the Bank's employees (hereafter in this section: "the Group"). Other Group companies do not have any material market risk.
For general details regarding market risks, see the 2020 Annual Report (pp. 85-94).

Quantitative information regarding interest risk – sensitivity analysis

Net adjusted fair value of financial instruments

	June 30 2021			June 30 2020			December 31 2020		
	Israeli currency	Foreign currency[2]	Total	Israeli currency	Foreign currency[2]	Total	Israeli currency	Foreign currency[2]	Total
	In NIS millions								
Net adjusted fair value[1][3]	12,229	5,114	17,343	9,368	5,571	14,939	9,684	5,442	15,126
Of which: the banking book	10,728	5,292	16,020	8,431	5,958	14,389	8,709	5,590	14,299

Footnotes:
(1) Net fair value of financial instruments, excluding nonfinancial items and net of the effect of liability for employee rights and allocation to periods of on-call deposits.
(2) Including Israeli currency linked to foreign currency.
(3) Not including liabilities in respect of leasing.

The impact of scenarios of changes in interest rates on the net adjusted fair value

	June 30 2021			June 30 2020			December 31 2020		
	Israeli currency	Foreign currency[4]	[5]Total	Israeli currency	Foreign currency[4]	[5]Total	Israeli currency	Foreign currency[4]	[5]Total
	In NIS millions								
Parallel changes									
A parallel increase of 1%	(401)	78	(323)	48	460	508	(107)	354	247
Of which: the banking book	(445)	66	(379)	30	471	501	(127)	347	220
A parallel decrease of 1%	432	(465)	(33)	100	(406)	(306)	229	(391)	(162)
Of which: the banking book	476	(446)	30	116	(416)	(300)	248	(384)	(136)
Non-parallel changes									
Curving[2]	(581)	40	(541)	(321)	134	(187)	(387)	38	(349)
Flattening[3]	477	(56)	421	337	(89)	248	373	(7)	366
Interest rise in the short-term	296	(31)	265	306	101	407	282	128	410
Interest decline in the short-term	(307)	(216)	(523)	(298)	(161)	(459)	(292)	(224)	(516)

Footnotes:
(1) Net fair value of financial instruments, excluding nonfinancial items and net of the effect of liability for employee rights and allocation to periods of on-call deposits.
(2) Curving – decline in interest in the short-term and increase in interest in the long-term.
(3) Flattening – increase in interest in the short-term and decline in interest in the long-term.
(4) Including Israeli currency linked to foreign currency.
(5) After offsetting effects.

Foreign currency - The growth in exposure to the interest rate, under the scenario of rising interest, in the first half of the year, stemmed from the increase in the credit portfolio and in the bond portfolio, as well as from the extension in the average period to maturity of the bond portfolio, following the upward trend in the US interest graph. This change has not been reflected in a scenario of declining interest rates, as a minimum rate of interest exists in the scenario of declining interest. Under this scenario, to the extent that the basic interest rates (interest rates prevailing in the government bond market) are nearer the minimum interest rate than the effect of declining interest in the scenario is smaller. Whereas the basic interest rates in the US recorded an increase in the first quarter, their distance from that minimum interest rate has grown, resulting in a higher impact of declining interest, thus offsetting the growth presented by rising interest rates.

It is noted, that the absence of symmetry between the results of a rising interest scenario and a declining interest scenario, stems, mostly, from the fact that a "minimum interest rate" applies to a part of the deposits with IDB New York, a minimum rate of interest payable on a certain class of deposits irrespective of the prevailing market interest rate. The assumption is that under a scenario of declining interest rates, the interest payable on the said deposits is not reduced and does not reduce the interest expense, thus reducing the effect of declining interest rates on the assets side.

Israeli currency – During the first half of the year, the exposure increased in the rise in the interest rate scenario stemming from purchases of CPI linked government bonds to the "available-for-sale" portfolio and from the growth in the fixed interest credit portfolio.

The impact of scenarios of changes in interest rates on net interest income and on non-interest financing income

	June 30 2021			June 30 2020			December 31 2020		
	Interest income	Non-interest financing income	Total	Interest income	Non-interest financing income	Total	Interest income	Non-interest financing income	Total
	In NIS millions								
Parallel changes									
A parallel increase of 1%	1,066	17	1,083	893	67	960	1,000	48	1,048
Of which: the banking book	1,050	24	1,074	881	65	946	989	55	1,044
A parallel decrease of 1%	(1,288)	(17)	(1,305)	(1,021)	(78)	(1,099)	(1,174)	(51)	(1,225)
Of which: the banking book	(1,272)	(23)	(1,295)	(1,012)	(74)	(1,086)	(1,164)	(58)	(1,222)

Sensitivity of the income is calculated on the basis of various assumptions regarding the effect of a change in interest on the return on assets and the cost of the deposits (Beta) and application of minimum interest levels for pricing.
The rise in sensitivity of the income to changes in interest in the first half of 2021 stemmed from an increase in the volume of current account deposits, which were used to increase credit, to acquire securities and to enlarge liquidity balances.
For additional quantitative and qualitative details about the interest risks, see the "Disclosure according to the third pillar of Basel and additional information regarding risks" document, which is available for perusal on the Bank's website, on the MAGNA website of the Israel Securities Authority and on the MAYA website of the Tel Aviv Stock Exchange Ltd.

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

Fair value of financial instruments. Most of the Bank's balance sheet financial instruments do not have a quoted "market price" as they are not traded on an active market. Accordingly, in accordance with the directive, the fair value is estimated using accepted pricing models, and in particular through the calculation of the present value of the discounted cash flows using a discount interest rate appropriate to the level of risk embodied in the instrument.
The determination of the discount interest rate is subjective. Thus, for most of the financial instruments, the fair value estimate presented below does not necessarily constitute an indication of the realizable value of the financial instruments on the reporting date.
The assessment of the present value of future cash flows was done in accordance with the interest rates in effect on the reporting date, without taking into consideration fluctuations in interest rates. Using different discount rates assumptions, may result in significantly different fair value amounts. This relates particularly to financial instruments bearing a fixed interest rate or non-interest bearing.
It should be further noted, that the differential between the book value of the financial instrument and its fair value, may never be realized, as the Bank usually holds the financial instrument to maturity.
In consequence of the above, it should be stressed that the data included in this Note, is no indication of the Bank's value.
Furthermore, due to the broad spectrum of possible assessment techniques and estimates in implementing the reporting directives with regard to the fair value, care should be taken when examining the fair value data itself as well as when comparing it with the fair value data presented by other banks.
Hybrid financial instruments are debt instruments, in which are embedded derivative components that have not been separated there from. In providing information regarding fair value, the Bank is not required to classify financial instruments as hybrid financial instruments, because, according to the Bank of Israel's guidelines, the interest rate exposure of these instruments included the division of such transactions according to maturity dates, while separating the option component from these instruments. Following are details of the hybrid financial instruments, where in the disclosure regarding exposure to changes in interest rates, the separated option and the host instrument have been treated as standalone instruments (the effect on the financial statements is not material): deposits with the option of a fixed rate of interest or of a variable rate of interest, savings deposits linked to the CPI or linked to foreign currency with an option for changing the linkage base and an option securing the Shekel principal sum deposited, deposits and loans linked to the CPI or linked to foreign currency with an option for securing the Shekel principal sum.
For further details regarding the main methods and assumptions used in assessing the fair value of financial instruments, see Note 34 to the financial statements as of December 31, 2020 (pp. 291-299).
Following are certain updates as of June 30, 2021:
- The fair value of impaired debts - increasing the discount interest rate by 1 basis point would have reduced the fair value of the impaired debts by NIS 0.4 million. Increasing the discount interest rate by 0.1 basis point would have reduced the fair value of the impaired debts by NIS 2 million (compared to NIS 0 million and NIS 2 million, respectively, as of December 31, 2020);
- Cash flows in respect of mortgages have been evaluated on the basis of an early redemption forecast based on a statistical model. Discounting the said cash flows in accordance with expected redemption dates instead of the contractual redemption dates, decreased the fair value of the mortgages, particularly in the CPI linked segment, by NIS 142 million (compared to NIS 131 million as at December 31, 2020);

- The average period to maturity of assets in the CPI-linked segment, based on the original cash flow, which does not take into consideration early redemptions, reached 4.23 years on June 30, 2021, compared to 3.75 years, taking into consideration the forecast for early redemptions (compared to 4.15 years and 3.54 years, respectively, as of December 31, 2020);
- Cash flows in respect of deposits were evaluated on the basis of an early redemption forecast based on a statistical model. Discounting the said cash flows in accordance with expected redemption dates instead of the contractual redemption dates, decreased the fair value of the deposits by NIS 14 million (compared to NIS 18 million at December 31, 2020);
- The average period to maturity of liabilities in the CPI-linked segment, based on the original cash flow, which does not take into consideration early redemptions, reached 2.79 years on June 30, 2021, compared to 2.65 years, taking into consideration the forecast for early redemption (compared to 2.73 years and 2.57 years, respectively, as of December 31, 2020).

For details regarding the effect of changes in interest rates on the fair value of problematic debts, see Note 34 C to the financial statements as of December 31, 2020 (pp. 292).
The net changes in fair value, in the different linkage segments, stem from the active management of the active capital and the decision to move it in accordance with returns expected in the different linkage segments.
No weekly cumulative change occurred in the past ten years, which had it occurred in the reported period would have adversely affected the ”going concern” assumption used at the basis of preparation of the financial statements.

Sensitivity analysis according to data used for interest exposure management (hereinafter: ”economic exposure”)

The data presented above, was computed on the basis of fair value, as required by the public reporting directives of the Supervisor of Banks and in accordance with the calculation of the table “Exposure to interest rate changes”, which is presented within the framework of the document “Disclosure according to the third pillar of Basel and additional information regarding risks”.
The current management of exposure to interest rates applies to all of the Bank’s operations, and takes into consideration additional data that represent the economic approach to the management of exposure of the economic value of the Bank’s equity to changes in interest rates.
The principal differences between the computation of exposure according to accounting fair value and the managed economic exposure are as follows:
(a) The computation of the accounting fair value made use of graphs that take into consideration credit margins. Computation of the economic exposure made use of graphs representing the transfer prices;
(b) Items relating to liabilities for employee rights are included in the economic measurement in the CPI-linked segment, while in the accounting measurement they are presented in the unlinked segment;
(c) Economic exposure takes into consideration expected future cash flows, such as deposits in savings schemes, in contrast to the calculation on the fair value basis, which does not take into account such future deposits;
(d) An impaired non-interest bearing debt is related in economic exposure to the non-linked segment, as it does not carry interest, while in fair value calculations, it is presented in its original segment;
(e) Optional savings schemes are presented at fair value in their principal linkage segment, while in economic exposure each component is presented in its related linkage segment.

Effect of hypothetical changes in interest rates of 100 base points on the Group's economic value

The change in interest rates	Non-linked	CPI linked	US dollar	Other foreign currency	Total
			In NIS millions		
			June 30, 2021		
An increase of 100BP in interest rates	(361)	(238)	7	11	(582)
A decrease of 100BP in interest rates	386	249	(378)	(18)	240
			December 31, 2020		
An increase of 100BP in interest rates	(219)	(164)	294	4	(85)
A decrease of 100BP in interest rates	280	146	(353)	(14)	59

The changes between the effect of the changes in interest in this table and the changes presented in the table "the impact of scenarios of changes in interest rates on the net adjusted fair value" shown above are due mainly to the use of different discounting curves in the two measurements, as set forth above. This effect was mostly reflected in the non-linked segment, due to the fact that a significant gap in results exists in this segment, stemming from capitalization at transfer prices instead of capitalization at the cost of credit, since most of the interest exposure relates to the credit portfolio. In the dollar segment (including foreign currency) there is no material gap between the two tables, since most of the interest exposure in this segment derives from the deposits, which are not affected by the gap between the transfer price and the cost of credit.
In addition to a scenario of a parallel move in the interest graphs, the exposure to non-parallel changes in the various interest graphs is also being studied.

Replacement of foreign interest benchmarks (base rates) and its repercussions

General. On March 20, 2019, the Supervisor of Banks addressed a letter to the banking corporations, in which they are requested to prepare for the anticipated discontinuation of the publication of LIBOR interest benchmarks existing around the world and their replacement with other benchmarks. On February 13, 2020, the Supervisor of Banks published a letter regarding disclosure of the preparations made with respect to the discontinuation of the use of the LIBOR rate, on the background of disclosure guidelines published by the SEC in the matter.
Discontinuation of the use of LIBOR interests. In accordance with the pronouncement made by the UK's Financial Conduct Authority (FCA) in July 2017, it has been decided to gradually terminate the use of the LIBOR interests in stages through the end of 2021. Further to this decision, various work teams have been set up around the world in order to determine interest indices, as an alternative to the LIBOR interest rates. In May 2020, the Bank informed the relevant customers with respect to the anticipated change and the preparations made by the Bank in the matter.
ICE Benchmark Administration Company, the administrator for the dollar LIBOR interest, announced on November 30, 2020, its intention to defer to June 2023, the termination of publishing the US dollar LIBOR interest in respect of the most material tenors (one month and three months).
Furthermore, the International Swaps and Derivatives Association (ISDA), published on October 23, 2020, the ISDA 2020 IBOR Fallbacks protocol, which includes swap mechanisms for LIBOR interest. The Bank adopted the said protocol on February 1, 2021.
The main risks and the Bank's preparations therefor. The discontinuation of the use of LIBOR interests and the transition to alternative interest indices create various risks - operational, IT systems, the Bank-customer relations, financial and legal, that arise from the Bank's operations with its customers. The Bank is making preparations to identify the risks, inter alia, by means of mapping all the relevant forms, contracts and exposures.
The Bank is in the process of examining the expected effect of discontinuing the publication of LIBOR interest's rates, including examination of possible alternatives with respect to each of the relevant currencies, the financial implications likely to result from the transition to using the above alternatives and preparations necessary from the business aspect, from the aspect of the risk management of the new exposures as well as from the legal aspect.
The Bank had examined the expected effect of the termination of publication of the LIBOR interest rates, and is now in the midst of the progressive implementation process of the transition to the new interest bases with respect to each of the relevant currencies. Furthermore, the Bank continues the required preparations in respect of the business aspect, the risk management aspect of the new exposure and the legal aspect together. Inter alia, the pamphlet "General terms for the opening and management of accounts with the Bank" has been updated in a way allowing the definition of an alternative interest base, and a notice in writing has been distributed to relevant customers regarding the expected change and the preparations in the matter. The updating of the alternative interest bases is currently conducted with respect to the other relevant documents being signed by customers, as well as with respect to appropriate notices that would be sent to relevant customers having contracts continuing to apply in periods succeeding the year 2021, this in addition to prior notices that had been sent, as stated.

As part of these preparations, the Bank has established a steering committee and a designated team whose purpose, inter alia, is to develop work processes for the purpose of identifying the risks, examining the effects of each risk, proposing alternatives for mitigating the risks, and monitoring the risks and their effects. The Bank intends to give training to the relevant employees. Regular updates are being provided to Management and the Board of Directors.
Material exposures. The Bank has various contracts that continue beyond 2021 which relate to LIBOR.

Discount's exposure to the LIBOR interest rate in respect to exposures that will continue beyond June 30, 2023 – in US$ currency

	As of June 30, 2021		As of December 31, 2020	
	Number of transactions	Book value in NIS million	Number of transactions	Book value in NIS million
Loans	1,308	8,906	1,457	8,149
Deposits	-	-	-	-
Securities	20	577	35	1,135
Total	**1,328**	**9,483**	**1,492**	**9,284**
Derivatives (volume transactions)	1,197	48,303	1,082	41,441

Discount's exposure to the LIBOR interest rate in respect to exposures that will continue beyond 2021 – in other currencies

	As of June 30, 2021		As of December 31, 2020	
	Number of transactions	Book value in NIS million	Number of transactions	Book value in NIS million
Loans	167	369	210	378
Deposits	-	-	-	-
Securities	-	-	-	-
Total	**167**	**369**	**210**	**378**
Derivatives (volume transactions)	10	463	*10	*463

Footnote:
* The data was amended.

The Tables include data of Discount Bank, MDB and of IDB Bank.
As stated, the publication of Libor dollar interest will continue until June 2023, while publication of the interest in other currencies will be discontinued by the end of 2021. As revealed by the data presented above, most of the exposure relates to the Libor dollar interest.
Draft proper Conduct of Banking Business Directive in the matter of the transition from the LIBOR Interest. The Supervisor of Banks published on August 3, 2021, a draft Proper Conduct of Banking Business Directive in the matter of the transition from the LIBOR interest, in view of the termination of its publication fixed for December 31, 2021 (excluding the termination with respect to the US dollar, for certain periods, fixed for June 30, 2023). The draft proposes principles for the transition, in order to verify the preparations made by banking corporations, their treatment with respect to potential risks, and with respect to aspects of fairness towards customers, including the following issues: completion of the preparations by December 31, 2021 (including with respect to products stated in US dollars), the addition of quantitative comparative data within the framework of the notice provided to existing customers, the need to obtain consent of the customer in certain cases, avoiding the charge of a early repayment commission, publication of information regarding the change on the Bank's website, determination of a policy and the holding of periodic discussions by Management and the Board of Directors (with respect to the preparations and potential risks).

For additional details, see the 2020 Annual Report (p. 91).

Inflation and exchange rate risk

Exposure to base risk is measured in the CPI linked segment and in the foreign currency segment (including Israeli currency linked to foreign currency). For details regarding assets and liabilities according to linkage terms, see Note 15 to the condensed financial statements.

Capital sensitivity to changes in exchange rate. The capital's sensitivity to changes in exchange rate is presented in the following table, which provides details regarding the impact of changes in exchange rates of the major currencies on the capital as of June 30, 2021.

Effect of hedging relations and transactions in derivative instruments on the exposure. The exposure in the CPI-linked segment is created due to an excess of applications in relation to sources in this segment. In order to hedge the exposure in the CPI-linked segment, the Bank makes use of contracts on the consumer price index. As a general rule, the Bank's policy is not to create an exposure to foreign currency exchange rates in its ongoing activity. Coverage of the built-in foreign currency position, which arises from the investment in IDBNY, was canceled several years ago, in order to reduce the sensitivity of the capital ratio to changes in exchange rates (see above "Exposure regarding the investment in Discount Bancorp Inc." in section "Capital and capital adequacy").

The Bank's capital sensitivity of changes in exchange rates

	June 30, 2021			
	in NIS millions			
Segment	10%	5%	-5%	-10%
USD	266	133	(120)	(240)
EUR	21	9	8	18
Other Foreign Currencies	(16)	6	3	10

This effect has been computed on the basis of the expected change in the fair value of the Group in the various currencies, given the scenario determined by the Supervisor of Banks.

Sensitivity of the capital to changes in the CPI. The sensitivity of the capital to changes in the CPI is presented in the following Table, which details the effect of a 3% change on the capital as of June 30, 2021.

Sensitivity of the capital to changes in the CPI

	June 30, 2021	
	in NIS millions	
Scenario	Increase 3%	Decrease 3%
	173	(182)

This effect has been computed as the difference between the net fair value based on the "known" CPI, including off-balance sheet items, and the net fair value after raising/reducing the CPI by 3%.

For quantitative and qualitative details about share price risk, see the 2020 Annual Report (p. 93) and in the "Disclosure according to the third pillar of Basel and additional information regarding risks" document, which is available for perusal on the Bank's website, on the MAGNA site of the Israel Securities Authority and on the MAYA site of the Tel Aviv Stock Exchange Ltd.

Liquidity and financing risks

Liquidity risk is a risk to the stability of the Group, stemming from the inability to provide for its liquidity needs and the difficulty to honor its obligations, due to unexpected developments, as a result of which, the Group would be forced to raise funds and/or dispose of assets in a manner that would cause it a material loss. The Bank has determined the limitation of maximum exposure to liquidity risk. In addition, the regulatory coverage ratio is being examined and managed on a current basis, as required by Proper Conduct of Banking Business Directive No. 221.
No deviation from the said restrictions was recorded in the second quarter of 2021.
For further details regarding the management of the Liquidity and financing risks, see the 2020 Annual Report (pp. 94-96).

Liquidity coverage ratio

The liquidity coverage ratio of the Discount Group, on the basis of 76 observations average, stood as of June 30, 2021, at 138.87%, compared with 147.51% as of December 31, 2020, higher than the minimum requirements according to the instructions.
For additional details, see Note 9 to the condensed financial statements.

Liquidity and the raising of resources in the Bank

Transferability of liquidity within the Group. The transfer of liquidity between the Group companies and the Bank is based on the money price mechanism established at the Bank. As stated, the subsidiary companies may not rely upon the transfer of liquidity where no liquidity framework had been defined which is taken into account in the liquidity model at the counterparty.
During the first half of 2021, the Bank maintained liquid assets in a volume larger than that of its liquid liabilities and its internal liquidity model indicated a significant liquidity surplus.
An analysis of the changes during the quarter in deposits from the public according to linkage bases reveals that most of the growth during the period is due to a rise in the scope of the non-linked and CPI-linked shekel deposits. A growth in retail and wholesale deposits was recorded by the Bank during the first half, stemming, as estimated by the Bank, from the growth in economic activity.

Deposits from the public

	June 30, 2021	June 30, 2020	December 31, 2020	Change compared to June 30, 2020		Change compared to December 31, 2020	
	In NIS millions			In NIS millions	in %	In NIS millions	in %
Non-linked shekels	132,440	121,693	125,367	10,747	8.8	7,073	5.6
CPI-linked shekels	5,644	4,478	4,769	1,166	26.0	875	18.3
Foreign currency and foreign currency linked shekels	37,206	35,802	33,397	1,404	3.9	3,809	11.4
Total	**175,290**	**161,973**	**163,533**	**13,317**	**8.2**	**11,757**	**7.2**
Foreign currency and foreign currency linked shekels - In US$ millions	11,413	10,329	10,388	1,084	10.5	1,025	9.9

Deposits from Banks

	June 30, 2021	June 30, 2020	December 31, 2020	Change compared to June 30, 2020		Change compared to December 31, 2020	
	In NIS millions			In NIS millions	in %	In NIS millions	in %
Non-linked shekels	6,862	2,319	4,958	4,543	195.9	1,904	38.4
CPI-linked shekels	30	35	30	(5)	(14.3)	-	-
Foreign currency and foreign currency linked shekels	634	592	850	42	7.1	(216)	(25.4)
Total	**7,526**	**2,946**	**5,838**	**4,580**	**155.5**	**1,688**	**28.9**

For additional details regarding liquidity risks and the management thereof, see the “Disclosure according to the third pillar of Basel and additional information regarding risks” document, which is available for perusal as stated, and also Note 15 regarding assets and liabilities according to linkage terms.
For additional details regarding financial risk, see the “Disclosure according to the third pillar of Basel and additional information regarding risks” document, which is available for perusal on the Bank’s website, on the MAGNA site of the Israel Securities Authority and on the MAYA site of the Tel Aviv Stock Exchange Ltd.

Operational Risks

For details regarding Operational risks and the manner of management thereof, including in the matter of business continuity, see the 2020 Annual Report (pp. 97-98) and the document ”Disclosure according to the third pillar of Basel and additional information regarding risks” available for perusal as stated.

Environmental Risks

For details regarding the letter of the Supervisor of Banks to banking corporations and credit card companies regarding environmental risk management, see the 2020 Annual Report (p. 100). On February 3, 2021, a questionnaire was sent to the banks with respect to environmental risks, the answers to it will serve as a basis for the continuation of discussions with risk managers at the banking corporations. The Bank has responded to the Supervisor of Banks, and the results of the questionnaire would comprise a basis for discussions with the Supervisor towards the possible future regulation in the matter.

Compliance risks

Prohibition of money laundering and terror financing

Discount Group’s activities with banks acting in the Palestinian Authority. In 2018, the Bank received immunity letter and indemnity letter signed by the State of Israel. Validity of the letters of indemnification and immunity has been extended from time to time. Validity of the letters of indemnification and immunity were extended in July 2021 until July 15, 2022. This on the background of the delay in the start of operations of the Government Correspondence Company.

For further details regarding compliance risks including Discount Group’s activities with banks acting in the Palestinian Authority, see the 2020 Annual Report (pp. 101-102).

Other risks

For additional details regarding other risks, see 2020 Annual Report (including: Cross-border risks – pp. 98-99; Information technology risks – p. 99; Strategic risk - p. 99; Reputation risk - p. 100; Data and cyber protection risks - p. 100; Legal risks - p. 101; Conduct risks – p. 102).

Risk Factors Table

Following the decline in the inherent risk as a result of the return to work at the Bank offices, the strengthening of business continuity and the stabilization of the changes that had followed the retirement process, the evaluation of the effect of the operational risk has been lowered from Medium-high to Medium, the rating in effect prior to the outbreak of the Corona crisis.
For additional details regarding Risk Factors Table, see the 2020 Annual Report (pp. 102-106).

Chapter "D" - Accounting policy and critical accounting estimates, controls and procedures

Critical Accounting Policies and Critical Accounting Estimates

The Bank's financial statements are prepared according to generally accepted accounting principles (summarized in Note 1 to the financial statements as of December 31, 2020, pp. 133-152) and according to instructions and guidelines of the Supervisor of Banks.
The level of regulation regarding the financial reporting of banking corporations is among the highest in the financial reporting fields in Israel. The instructions and guidelines of the Supervisor of Banks are comprehensive, detailed and at times even dictate the wording to be used by banking corporations. Nonetheless, there are areas where implementation of the accounting policy involves a high level of evaluation and assessment performed by management of the banking corporation in the course of the preparation of the financial statements.
Implementation by management of the accounting principles and the instructions and guidelines of the Supervisor of Banks, sometimes requires various assumptions, evaluations and assessments that affect the reported amounts of assets and liabilities, including contingent liabilities, as well as the financial results reported by the Bank. It is possible that when the evaluations and assessments materialize in the future, their results may be different than those anticipated at the time the financial statements were prepared.
Certain of the evaluations and assessments applied involve uncertainty or sensitivity to various variables to a large extent. Such evaluations and assessments, changes in which might have a considerable effect on the reported financial results, are considered evaluations and assessments of "critical" matters.
The Bank's Management believes that the evaluations and assessments used in the preparation of the financial statements are fair and were made in accordance with the best of its knowledge and professional judgment.
A summary review of evaluations and assessments made regarding "critical" matters is included in the 2020 Annual Report (pp. 107-113).

Allowance for credit losses – allowances on a group basis

As stated in the 2020 annual report (pp. 107-108), the process of assessing the loss inherent in the credit portfolio is based on significant assessments involving uncertainty and on subjective assessments. Accordingly, a change in the estimates or assessments might have a significant effect on the allowance for credit losses presented in the Bank's financial statements.

The Corona crisis has created an extreme situation of uncertainty: the force of the crisis and the period of time in which it is expected to have an effect; concerns regarding further waves of the outbreak of the pandemic and its implications, including changes in the form and scope of the preventive measures; long-term changes in the labor market, in consumption patterns and scope; changes in scope of government support (such as: unpaid leave, assistance to households and the business sector); changes in the fiscal policy, etc. The level of uncertainty declined towards the end of the first quarter of 2021 and thereafter, in view of the wide scope vaccination of the population in Israel, the drastic decline in the rates of morbidity and the lifting of most of the restrictions that had been imposed on economic activity. Recently, following several months of relief in the implications of the crisis, a rise is noted in the level of the Corona morbidity in Israel. It is not possible to estimate whether restrictions on activity would be imposed again, and if so, what would be their scope and extent of impairment of economic activity.

In light of the said uncertainty, the evaluation process has become complex and challenging since the outbreak of the Corona crisis. This, inter alia, in view of the lack of valid models and reliable past data, such as those used in the evaluation process in conventional periods. These matters are particularly relevant in relation to the group allowance, due to the necessity to assess the inherent credit losses with respect to borrowers harmed by the crisis but not yet identified – by means of updating the adjustment coefficient, so as to reflect the damage assessment, under exceptional conditions of uncertainty.

Within the framework of the assessment, the parameters used in the calculation were made tighter in 2020, in accordance with the latest macroeconomic data evaluations and with deterioration coefficients that are based on an assessment of the risk of the various economic sectors. Also conducted in the first half of 2020 was a study of the possible effect on segments of business customers and a study of the effect of possible deferral of credit repayments on borrowers, and a certain additional allowance has been recorded regarding the inherent risk, based on a subjective assessment. Furthermore, the Bank conducted in the first half of 2020 and in the first quarter of 2021, a cross-organizational move to locate and classify groups of borrowers on the basis of economic properties, such as: credit in deferral, period of deferral, the rating of the borrower and additional risk characteristics.

In the first quarter and in the second quarter of 2021, in light of the decrease in the number of deferrals and in light of the comprehensive classifications made in previous quarters, it was decided to lift the classification to borrowers that had resumed making three consecutive repayments, and which do not have negative markings.

It is also noted that the expense in respect of credit losses had been examined, inter alia, in comparison with the calculations made under different scenarios conducted by the Bank from time to time.

It is noted that in view of the uncertainty and in order to challenge the allowance, use has been made of scenarios, tested by the Bank in computations for the purpose of capital allocation and credit losses, using a methodology that connects macro-economic indices to losses of the Bank. The basis used by the methodology for the calculation of the loss, is the internal risk assessments of the Bank with the addition of the effect of the change in the macro-economic indices.

It should be noted that the process of determining the allowances for credit losses on a group basis, particularly in the circumstances described above, is sensitive to possible changes in the subjective estimates or assessments, whereby a potential deviation in these factors might cause a significant divergence in the amount of the allowances for credit losses on a group basis.

Over time, as the level of uncertainty diminishes and as additional information regarding the chances of collecting from borrowers becomes available to the Bank, the Bank will continue adjusting the estimates accordingly.

Sensitivity tests. In accordance with the guidelines of the Supervisor of Banks, the Bank has made an assessment of the effect of changes in the principal macro-economic parameters, which may be reasonably assessed, on the computation of the group allowance as of June 30, 2021, with respect to the Bank and the principal subsidiaries in Israel: the model for calculating stress scenarios applying at the overall level of the portfolio, served as a basis for the evaluation.

In computing the allowance actually made, an annual unemployment average rate of 10.3% and growth in the product at a rate of 5.5%[3], had been assumed (this, compared to an unemployment rate of 16% and a decline of 4% in the product, in calculating the allowance as of December 31, 2020).
The Bank estimates that a growth of 2.0% in the rate of unemployment during 2021 and a reduction of 2.0% in the rate of the GDP at the end of 2021, would cause an increase of between NIS 220 and 260 million in the allowance for credit losses.
The Bank estimates that a decrease of 2.0% in the average unemployment rate during 2021 and additional growth of 2.0% in the rate of the GDP at the end of 2021, would cause a reduction of between NIS 230 and 270 million in the allowance for credit losses.
It is emphasized that the actual allowance is affected by many and different variables, sectorial and macro-economic, as well as subjective assumptions. Moreover, sensitivity tests are intended to examine changes in prevalent and normal reality situations, and their validity deteriorates in situations of extreme uncertainty, such as the Corona crisis. In view of the above stated, the forecasting ability of the sensitivity calculation of the allowance required in actual fact, given the economic parameters at the rates stated above, is rather limited. It is further emphasized that these effects are not linear, and therefore it is not possible to draw from the above assessments the effect, which another change in the principal economic parameters mentioned above, might have.
It is further emphasized that in the absence of a defined and uniform model for the assessment of the group allowance required in circumstances of uncertainty, as described above, and in view of the fact that in the circumstances of the matter, the process of determining the allowance involves assessments and subjective assumptions, extra caution should be taken when examining the sensitivity tests presented above and when making a comparison of the matter between banks.

Measurement of financial instruments according to their fair value

The credit risk. In the second quarter of 2021, the Bank updated the method for calculating the potential exposure component in computing the adjustment in respect of the credit risk of derivative instruments. As a result thereof, the adjustment component regarding the credit risk relating to assets in respect of derivative instruments increased by approx. NIS 42 million. In the first half of 2021, the Group recorded an expense in an amount of NIS 39 million with respect to the credit risk coefficient (CVA/DVA), compared to NIS 16 million in the corresponding period last year.

Adjustments made to assets and liabilities in respect of derivative instruments

	June 30, 2021	December 31, 2020
	in NIS millions	
Assets in respect of derivative instruments	4,677	6,410
Adjustment in respect of credit risk regarding assets relating to derivative instruments	(79)	(20)
Liabilities in respect of derivative instruments	4,884	7,375
Adjustment in respect of credit risk regarding liabilities relating to derivative instruments	(4)	16

For additional details regarding the measurement of financial instruments according to their fair value, see the 2020 Annual Report (pp. 110-112).

Employee Rights

Updated actuarial opinion. The Bank has ordered an updated actuarial assessment as of June 30, 2021. For details regarding the computation of the actuarial provision amount that would have been required were the cap rate to be determined in accordance with the Israeli Securities Authority's "deep market" guideline, see the actuarial assessment appended to the annual report for 2020.

3 The rates noted are the rates estimated at date of assessment of the loss inherent in the credit portfolio. It is noted that the Bank updates from time to time the assessment of the parameters in accordance with changes in circumstances.

Presenting the actuary's opinion for perusal. The opinion of the Actuary[4] is available for perusal on the MAGNA website of the Israeli Securities Authority and on the MAYA website of the Tel Aviv Stock Exchange Ltd. together with the 2021 Second Quarter Report (this Report).
The actuarial estimate as of June 30, 2021, as compared with the estimate of December 31, 2020, has been mostly affected by the decrease in the discounting rate. The principal change stemmed from the decrease in the international margin and from a decrease in the rates of yields to redemption of CPI-linked governments bonds.

Controls and Procedures

Disclosure controls and procedures

The Bank's President & CEO and its Chief Accounting Officer have evaluated in conjunction with the Bank's Management, the efficiency of the controls and procedures relating to disclosure at the Bank as of the end of the reporting period. Based on this evaluation, the President & CEO and Chief Accounting Officer have reached the conclusion that as of the end this period, the controls and procedures relating to disclosure at the Bank operate efficiently in order to record, process, summarize and report the information that the Bank is required to disclose in its quarterly report, in accordance with the directives of the Supervisor of Banks in the matter of reporting to the public and at such date indicated therein.

Changes in Internal Control

During the second quarter of 2021, no change has occurred in the Bank's internal control over financial reporting, which materially affected, or is reasonably expected to materially affect, the Bank's internal control over financial reporting.

Shaul Kobrinsky Chairman of the Board of Directors	Uri Levin President & Chief Executive Officer	August 15, 2021

4 The English translation of the Opinion is available for perusal at the Bank's website.

Internal Control over Financial Reporting

Certification

I, Uri Levin, certify that:

1. I have reviewed the quarterly report of Israel Discount Bank Ltd. (hereinafter: "the Bank") as of June 30, 2021 (hereinafter: "the Report").
2. Based on my knowledge, the Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made therein, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by the Report.
3. Based on my knowledge, the interim financial statements, and other financial information included in the Report, fairly present in all material respects the financial condition, results of operations (including the comprehensive income), changes in equity and cash flows of the Bank as of, and for the periods presented in this report.
4. Other officers of the Bank providing this certification and I are responsible for establishing and maintaining disclosure controls and procedures and to the internal control of the Bank over financial reporting (as defined in the public reporting instructions regarding "Directors' Report"), and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Bank, including its consolidated subsidiaries, is made known to us by others within the Bank and those entities, particularly during the period of preparing this report;
   b) We established such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accepted accounting principles and directives and guidelines of the Supervisor of Banks;
   c) Evaluated the effectiveness of the Bank's disclosure controls and procedures and presented in the Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by the Report based on such evaluation;
   d) Disclosed in the Report any change in the Bank's internal control over financial reporting that occurred during this quarter that has materially affected, or is reasonably likely to materially affect, the Bank's internal control over financial reporting; and
5. The other officers of the Bank providing this certification and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Bank's Auditors, to the Board of Directors and to the Audit Committee of the Board of Directors:
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Bank's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Bank's internal control over financial reporting.

Nothing in that stated above derogates my responsibility or the responsibility of any other person under any law.

Uri Levin
President & Chief Executive Officer

August 15, 2021

Certification

I, Joseph Beressi, certify that:

1. I have reviewed the quarterly report of Israel Discount Bank Ltd. (hereinafter: "the Bank") as of June 30, 2021 (hereinafter: "the Report").
2. Based on my knowledge, the Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made therein, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by the Report.
3. Based on my knowledge, the interim financial statements, and other financial information included in the Report, fairly present in all material respects the financial condition, results of operations (including the comprehensive income), changes in equity and cash flows of the Bank as of, and for, the periods presented in this report.
4. Other officers of the Bank providing this certification and I are responsible for establishing and maintaining disclosure controls and procedures and to the internal control of the Bank over financial reporting (as defined in the public reporting instructions regarding "Directors' Report"), and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Bank, including its consolidated subsidiaries, is made known to us by others within the Bank and those entities, particularly during the period of preparing this report;
   (b) We established such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accepted accounting principles and directives and guidelines of the Supervisor of Banks;
   (c) Evaluated the effectiveness of the Bank's disclosure controls and procedures and presented in the Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by the Report based on such evaluation;
   (d) Disclosed in the Report any change in the Bank's internal control over financial reporting that occurred during this quarter that has materially affected, or is reasonably likely to materially affect, the Bank's internal control over financial reporting; and
5. The other officers of the Bank providing this certification and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Bank's Auditors, to the Board of Directors and to the Audit Committee of the Board of Directors:
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Bank's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Bank's internal control over financial reporting.

Nothing in that stated above derogates my responsibility or the responsibility of any other person under any law.

Joseph Beressi
Senior Executive Vice President
Chief Accountant

August 15, 2021

Condensed Financial Statements

Review Report of the independent auditors to the shareholders of Israel Discount Bank Ltd.

Introduction

We have reviewed the accompanying financial information of Israel Discount Bank Ltd. and its subsidiaries (hereinafter: "the Bank") comprising of the condensed consolidated interim balance sheet as at June 30, 2021 and the related condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the three and six months periods then ended. The Board of Directors and management are responsible for the preparation and presentation of the financial data for these interim periods in accordance with Israeli GAAP regarding financial reporting for the interim periods and in accordance with the guidelines and directives of the Supervisor of Banks. Our responsibility is to express a conclusion on the financial information for these interim periods based on our review.

Scope of Review

We have 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 guidelines and directives 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 Israeli GAAP regarding financial reporting for interim periods and in accordance with the instructions and directives of the Supervisor of Banks.

Emphasis of a matter

Without qualifying our above conclusion, we call attention to the Note 10 section 4 regarding different proceedings filed against the Bank and against investee companies.

Somekh Chaikin
Certified Public Accountants (Isr.)

Ziv Haft
Certified Public Accountants (Isr.)

August 15, 2021

Condensed Consolidated statement of profit and loss

		Unaudited				Audited
		For the three months ended June 30,		For the six months ended June 30,		For the year ended December 31,
	Notes	2021	2020	2021	2020	2020
		in NIS millions				
Interest income		1,997	1,742	3,708	3,533	6,987
Interest expenses		312	279	519	615	1,089
Net interest income	2	**1,685**	**1,463**	**3,189**	**2,918**	**5,898**
Credit loss expenses (expenses release)	6,14	(410)	532	(557)	1,188	1,718
Net interest income after credit loss expenses		**2,095**	**931**	**3,746**	**1,730**	**4,180**
Non-interest Income						
Non-interest financing income	3	89	276	387	693	1,142
Fees and commissions		785	650	1,509	1,389	2,826
Other income		1	8	12	8	39
Total non-interest income		**875**	**934**	**1,908**	**2,090**	**4,007**
Operating and other Expenses						
Salaries and related expenses		830	794	1,631	1,618	3,242
Maintenance and depreciation of buildings and equipment		308	274	602	559	1,185
Other expenses		473	515	1,030	937	2,254
Total operating and other expenses		**1,611**	**1,583**	**3,263**	**3,114**	**6,681**
Profit before taxes		1,359	282	2,391	706	1,506
Provision for taxes on profit		493	105	846	256	549
Profit after taxes		**866**	**177**	**1,545**	**450**	**957**
Bank's share in profit of associates, net of tax effect		16	4	16	8	50
Net profit:						
Before attribution to non-controlling interests		882	181	1,561	458	1,007
Attributed to the non-controlling interests		(22)	(7)	(39)	(5)	(32)
Net Profit Attributed to the Bank's Shareholders		**860**	**174**	**1,522**	**453**	**975**
Earnings per share of NIS 0.1 par value attributed to the Bank's shareholders (in NIS)	**3A**	**0.74**	**0.15**	**1.31**	**0.39**	**0.84**

The notes to the condensed financial statements form an integral part thereof.

Shaul Kobrinsky Chairman of the Board of Directors	Uri Levin President & Chief Executive Officer	Joseph Beressi Senior Executive Vice President, Chief Accountant	August 15, 2021

Condensed Consolidated statement of comprehensive Income

	Unaudited				Audited
	For the three months ended June 30,		For the six months ended June 30,		For the year ended December 31,
	2021	2020	2021	2020	2020
	in NIS millions				
Net profit before attribution to non-controlling interests	882	181	1,561	458	1,007
Net profit attributed to non-controlling interests	(22)	(7)	(39)	(5)	(32)
Net profit attributed to the Bank's shareholders	**860**	**174**	**1,522**	**453**	**975**
Other comprehensive income (loss), before taxes:					
Net adjustments, for presentation of available-for-sale bonds at fair value	27	629	(377)	148	157
Adjustments from translation of financial statements	(85)	(104)	50	14	(254)
Adjustments of liabilities in respect of employee benefits[(2)]	40	(635)	234	(292)	(417)
Net loss in respect of cash flows hedge	-	(1)	(1)	-	(1)
Other comprehensive loss, before taxes	**(18)**	**(111)**	**(94)**	**(130)**	**(515)**
Related tax effect	(23)	11	45	57	97
Other comprehensive loss, before attribution to non-controlling interests, after taxes	(41)	(100)	(49)	(73)	(418)
Other comprehensive loss, attributed to non-controlling interests	-	(3)	-	(1)	(2)
Other comprehensive loss, attributed to the Bank's shareholders, after taxes	**(41)**	**(97)**	**(49)**	**(72)**	**(416)**
Comprehensive income, before attribution to non-controlling interests holders	841	81	1,512	385	589
Comprehensive income, attributed to non-controlling interests holders	(22)	(4)	(39)	(4)	(30)
Comprehensive income, attributed to the Bank's shareholders[(1)]	**819**	**77**	**1,473**	**381**	**559**

Footnotes:

(1) See Note 4.

(2) Reflects mostly adjustments in respect of actuarial assessments as of the end of the period of defined benefits pension plans and amortization of amounts recorded in the past in other comprehensive income.

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

Condensed Consolidated Balance Sheet

	Note	Unaudited June 30, 2021	Unaudited June 30, 2020	Audited December 31, 2020
		in NIS millions		
Assets				
Cash and deposits with banks		47,405	39,608	42,936
Securities (of which: 12,837 , 9,586, 10,489 respectively, pledged to lenders)	5	46,849	40,037	42,785
Securities borrowed or purchased under agreements to resell		1,377	832	1,074
Credit to the public	6,14	202,258	186,841	192,479
Allowance for credit losses	6,14	(3,272)	(3,405)	(3,761)
Net credit to the public		**198,986**	**183,436**	**188,718**
Credit to Governments		3,217	4,219	3,473
Investments in associates		345	154	348
Buildings and equipment		3,117	2,648	2,995
Intangible assets and goodwill		164	164	164
Assets in respect of derivative instruments	11	4,670	5,856	6,400
Other assets		4,604	5,146	5,076
Total assets		**310,734**	**282,100**	**293,969**
Liabilities and Equity				
Deposits from the public	7	240,691	222,048	226,118
Deposits from banks		15,291	7,717	13,107
Deposits from the Government		287	232	344
Securities lent or sold under agreements to repurchase		-	174	161
Bonds and Subordinated debt notes		11,203	11,377	10,201
Liabilities in respect of derivative instruments	11	4,876	6,064	7,365
Other liabilities[(1)]		17,040	14,965	16,946
Total liabilities		**289,388**	**262,577**	**274,242**
Equity attributed to the Bank's shareholders		20,704	19,004	19,182
Non-controlling rights		642	519	545
Total equity		**21,346**	**19,523**	**19,727**
Total Liabilities and Equity		**310,734**	**282,100**	**293,969**

Footnote:

(1) Of which NIS 255 million, NIS 289 million and NIS 298 million, as of June 30, 2021, June 30, 2020 and December 31, 2020, respectively, allowance for credit losses in respect of off-balance sheet credit instruments.

The notes to the condensed financial statements form an integral part thereof.

Condensed Statement of Changes in Equity

	Paid up Share capital	Capital reserves		Total paid up share capital and reserves	Accumulated other comprehensive income (loss)	Retained earnings	Shareholders' equity	Non-controlling interests	Total equity
		Share premium	Other						
	in NIS millions								
A. For the three months ended June 30, 2021 and 2020 (unaudited)									
Balance at March 31, 2021	676	4,174	209	5,059	(905)	15,682	19,836	562	20,398
Net Profit for the period	-	-	-	-	-	860	860	22	882
A decrease in the rate of holding in a subsidiary company, with no loss of control	-	-	49	49	-	-	49	58	107
Other comprehensive loss , net after tax effect	-	-	-	-	(41)	-	(41)	-	(41)
Balance at June 30, 2021	**676**	**4,174**	**258**	**5,108**	**(946)**	**16,542**	**20,704**	**642**	**21,346**
Balance at March 31, 2020	676	4,174	211	5,061	(456)	14,324	18,929	515	19,444
Net Profit for the period	-	-	-	-	-	174	174	7	181
Transactions with minority	-	-	-	-	-	-	(2)	-	(2)
Other comprehensive loss , net after tax effect	-	-	-	-	(97)	-	(97)	(3)	(100)
Balance at June 30, 2020	**676**	**4,174**	**211**	**5,061**	**(553)**	**14,498**	**19,004**	**519**	**19,523**
B. For the six months ended June 30, 2021 and 2020 (unaudited)									
Balance at December 31, 2020 (audited)	676	4,174	209	5,059	(897)	15,020	19,182	545	19,727
Net Profit for the period	-	-	-	-	-	1,522	1,522	39	1,561
A decrease in the rate of holding in a subsidiary company, with no loss of control	-	-	49	49	-	-	49	58	107
Other comprehensive loss, net after tax effect	-	-	-	-	(49)	-	(49)	-	(49)
Balance at June 30, 2021	**676**	**4,174**	**258**	**5,108**	**(946)**	**16,542**	**20,704**	**642**	**21,346**
Balance at December 31, 2019 (audited)	676	4,174	215	5,065	(481)	14,094	18,678	515	19,193
Net Profit for the period	-	-	-	-	-	453	453	5	458
Dividend paid	-	-	-	-	-	(49)	(49)	-	(49)
Transactions with minority	-	-	(6)	(6)	-	-	(6)	-	(6)
Other comprehensive loss, net after tax effect	-	-	-	-	(72)	-	(72)	(1)	(73)
Balance at June 30, 2020	**676**	**4,174**	**209**	**5,059**	**(553)**	**14,498**	**19,004**	**519**	**19,523**
C. For the year of 2020 (audited)									
Balance at December 31, 2019	676	4,174	215	5,065	(481)	14,094	18,678	515	19,193
Net Profit for the year	-	-	-	-	-	975	975	32	1,007
Dividend paid	-	-	-	-	-	(49)	(49)	-	(49)
Transactions with minority	-	-	(6)	(6)	-	-	(6)	-	(6)
Other comprehensive loss, net after tax effect	-	-	-	-	(416)	-	(416)	(2)	(418)
Balance at December 31, 2020	**676**	**4,174**	**209**	**5,059**	**(897)**	**15,020**	**19,182**	**545**	**19,727**

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

Condensed Consolidated Statement of Cash Flows

	Unaudited				Audited
	For the three months ended June 30		For the six months ended June 30		For the year ended December 31
	2021	2020	2021	2020	2020
	in NIS millions				
Cash Flows from Operating Activities					
Net profit before attribution to non-controlling interests in consolidated companies	882	181	1,561	458	1,007
Adjustments necessary to present cash flows from current operations:					
Bank's share in undistributed profits of affiliated companies	(17)	(5)	(25)	(9)	(54)
Depreciation of buildings and equipment (including impairment in value)	135	119	266	236	491
Provision for impairment in value of securities	39	9	56	17	29
Credit loss expenses (expenses release)	(410)	532	(557)	1,188	1,718
Gain on sale of credit portfolio, net	-	-	-	-	(3)
Profit on sale of available-for-sale bonds and shares not for trading	(99)	(88)	(197)	(282)	(647)
Realized and non realized loss (gain) from adjustment to fair value of trading securities, net	7	(52)	(1)	(96)	(91)
Non realized gain on adjustment to fair value of shares no for trading	(67)	(8)	(152)	-	(8)
Loss (gain) on realization of buildings and equipment, net	2	(5)	2	(5)	(32)
Net deferred taxes	140	(342)	343	(383)	(353)
Severance pay – increase (decrease) in excess of provision over the deposits	(6)	536	(242)	353	201
Net change in current assets:					
Assets in respect of derivative instruments	429	1,900	1,728	(1,311)	(1,855)
Trading securities	71	1,473	(303)	1,289	1,441
Other assets	392	837	388	123	360
Effect of changes in exchange rate on cash and cash equivalent balances	45	(1)(12)	(26)	(1)69	150
Accrual differences included in investment and financing activities	329	349	324	(64)	1,272
Net change in current liabilities:					
Liabilities in respect of derivative instruments	(42)	(1,813)	(2,489)	1,225	2,526
Other liabilities	(301)	(40)	504	(713)	(1)1,026
Adjustments in respect of exchange rate differences on current assets and liabilities	(18)	(81)	52	53	(143)
Dividends received from affiliated companies	3	2	7	9	18
Net Cash Flows from Operating Activities	**1,514**	**3,492**	**1,239**	**2,157**	**7,053**

Footnote:

(1) Amended following improvement of data.

The notes to the condensed financial statements form an integral part thereof.

Condensed Consolidated Statement of Cash Flows (continued)

	Unaudited				Audited
	For the three months ended June 30		For the six months ended June 30		For the year ended December 31
	2021	2020	2021	2020	2020
	in NIS millions				
Cash Flows to Investing Activities					
Net change in Deposits with banks	(168)	(584)	28	(634)	(372)
Net change in net credit to the public	(3,553)	(1)772	(5,349)	(1)(3,644)	(5,610)
Net change in Credit to the Governments	610	541	817	727	1,931
Net change in Securities borrowed or purchased under agreements to resell	(243)	(344)	(304)	(301)	(543)
Acquisition of held-to-maturity bonds	(122)	(42)	(1,592)	(3,536)	(3,920)
Proceeds from redemption of held-to-maturity bonds	44	29	288	481	556
Purchase of available-for-sale bonds and shares not for trading	(4,860)	(5,019)	(10,352)	(10,462)	(19,086)
Proceeds of sale of available-for-sale bonds and shares not for trading	1,742	5,445	5,969	9,578	13,131
Purchased credit portfolios	(3,013)	(1)(1,793)	(5,270)	(1)(4,075)	(7,926)
Gain on sale of credit portfolio	60	-	93	121	74
Proceeds of redemption of available-for-sale bonds	938	1,204	1,658	2,157	3,543
Purchase of shares in affiliated companies	-	-	-	-	(160)
Proceeds of the sale of investments in associates	23	-	23	-	-
Acquisition of buildings and equipment	(234)	(154)	(422)	(315)	(1)(836)
Proceeds from sale of buildings and equipment	-	9	-	9	60
Net Cash Flows to Investing Activities	**(8,776)**	**64**	**(14,413)**	**(9,894)**	**(19,158)**
Cash Flows from Financing Activities					
Net change in Deposits from banks	3,050	379	2,184	1,299	6,688
Net change in Deposits from the public	375	8,176	14,891	21,393	25,125
Net change in Deposits from the Government	(5)	(4)	(56)	51	163
Net change in Securities borrowed or purchased under agreements to resell	-	(717)	(161)	(172)	(185)
Issuance of subordinated debt notes	1,182	441	1,182	541	540
Redemption of subordinated debt notes	(303)	(2,138)	(389)	(2,285)	(3,438)
Dividend paid to the shareholders	-	(49)	-	(49)	(49)
Net cash flows from Financing Activities	**4,299**	**6,088**	**17,651**	**20,778**	**28,844**
Increase in cash	(2,963)	9,644	4,477	13,041	16,739
Cash balance at beginning of period	49,832	29,074	42,265	25,777	25,777
Effect of changes in exchange rate on cash and cash equivalent balances	(107)	(1)(12)	20	(1)(112)	(251)
Cash balance at end of period	**46,762**	**38,706**	**46,762**	**38,706**	**42,265**
Interest and taxes paid and/or received					
Interest received	1,330	1,479	3,293	3,598	6,947
Interest paid	(134)	(292)	(378)	(723)	(1,260)
Dividends received	4	5	11	15	27
Taxes on income paid	(125)	(259)	(258)	(460)	(1,066)
Taxes on income received	3	-	81	202	207

Footnote:
(1) Amended following improvement of data.

The notes to the condensed financial statements form an integral part thereof.

Appendix A – Non-cash asset and liability activity during the reported period

	Unaudited				Audited
	For the three months ended June 30		For the six months ended June 30		For the year ended December 31
	2021	2020	2021	2020	2020
	in NIS millions				
Recognition of a right-of-use asset in consideration for a leasing liability	2	16	47	761	895
Purchase of fixed assets	13	3	13	3	[(1)] 134
Lending of securities	(915)	113	(254)	(2,009)	(1,574)

Footnote:
(1) Amended following improvement of data.

The notes to the condensed financial statements form an integral part thereof.

Notes to the Condensed Financial Statements

1. Accounting Policies

A. **General.** Israel Discount Bank Ltd. (hereinafter: "the Bank") is a banking corporation incorporated in Israel. The Bank's condensed consolidated interim financial statements (hereinafter: "the interim financial statements") as of June 30, 2021, include the financial statements of the Bank and of its subsidiaries (hereinafter: "the Group") as well as the rights of the Group in associates. The interim financial statements do not include all the information required to be presented in full annual financial statements. These financial statements should be read in conjunction with the annual financial statements as of December 31, 2020 and the accompanying notes. The interim financial statements have been prepared on the basis of the same accounting principles used for the preparation of the audited financial statements as of December 31, 2020 except as detailed in section E hereunder.

B. The interim financial statements were approved for publication by the Bank's Board of Directors on August 15, 2021.

C. **Principles of financial reporting.** The interim financial statements are prepared in accordance with accounting principles determined in directives of the Supervisor of Banks applying to the preparation of an annual financial report of a banking corporation, with required changes in the circumstances of the matter, and in accordance with U.S. GAAP applying to financial reporting for interim periods, and the reporting principles determined in directives and guidelines of the Supervisor of Banks. In most of the subjects, the Supervisor's instructions are based on accounting principles accepted by U.S. banks.

D. **Use of assessments and discretion.** In preparing the interim financial statements in accordance with the rules, instructions and guidelines, as stated, the Management of the Bank and of the investee companies are required to use discretion and apply assessments, evaluations and assumptions that affect the implementation of the accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from such assessments. Discretion of Management in applying the accounting policy and the principal assumptions used in assessments involving uncertainty, are consistent with those applied in the preparation of the annual financial statements.

E. **Initial implementation of accounting standards, updates of accounting standards and Directives of the Supervisor of Banks**

Starting with the period beginning January 1, 2021, the Bank implements accounting standards and instructions as detailed hereunder:

(1) Changes in disclosure requirements for fair value measurements and employee benefits (see section 1 below);

(2) The Corona virus outbreak –supervisory emphasis (see section 2 below).

Following is a description of the changes adopted in these interim financial statements and a description of the manner and effect of the initial implementation, if at all:

1. **Changes in disclosure requirements for fair value measurements and employee benefits.** The U.S. Financial accounting Standards Board ("FASB") published on August 28, 2018, Standards ASU 2018-13 and ASU 2018-14, regarding disclosure framework – changes in disclosure requirements for fair value measurements, comprising an update of Topic 820 of the Codification regarding fair value measurement and defined benefit plans, being an update of subtopic 715-20 of the Codification regarding Compensation—Retirement Benefits—Defined Benefit Plans, respectively. These updates were published as part of the framework project for the review of disclosures of the FASB, which mainly focuses on the improvement of effectiveness of disclosure in notes to financial statements, including the reduction in costs involved in the preparation of the required notes.

   The initial implementation and its effect. The provisions of the amendments were implemented as from January 1, 2021. The implementation of the said provisions did not have a material impact, except for changes in disclosure.

2. **The Corona virus outbreak –supervisory emphasis.** Within the framework of the letters of the Supervisor of Banks dated December 3 and December 17, 2020, in the matter of the Corona crisis – focal points in the matter of the additional outline for the deferment in repayments, it is stated that a banking corporation that had elected not to classify as restructure of a troubled debt, loans that were not in arrears of 30 days or over at date of deferral of repayments, in respect of which deferral of repayments had been granted from January 1, 2021 and until March 31, 2021, within the framework of the additional outline for deferment, shall include in the quarterly and annual financial statements to the public in 2021, a pro-forma disclosure presenting the principal effects of implementing the said choice upon the financial statements. The Bank has chosen not to make use of the relief included within the framework of the additional outline. MDB has indeed chosen to make use of the said relief, however, the volume of debts which in accordance with the relief, had not undergone a troubled debt restructure, is not material, even in terms of MDB.

F. **New accounting standards and new Directives of the Supervisor of Banks in the period prior to their implementation**

1. **Allowances for current expected credit losses (CECL).** On March 28, 2018, the Supervisor of Banks issued a letter in which it is, inter alia, required, to apply the accounting principles accepted by U.S. banks in the matter of allowances for credit losses (ASU 2016-13).

   On November 29, 2020, the Supervisor of Banks issued a circular regarding "Implementation of US GAAP in the matter of expected credit losses", which includes integration of the new rules in the public reporting directives.

1. Accounting Policies (continued)

Banking corporations have to implement the new Standard as from January 1, 2022. A banking corporation is required to start a parallel run at the earliest date possible, but no later than July 1, 2021.

The initial implementation is to be made by the modified retrospective method, by modifying the cumulative effect to be recognized in the retained earnings balance at January 1, 2022. Notwithstanding the above, the implementation would be by the prospective (from now onwards) method in respect of the following: (1) financial assets acquired with deteriorating credit; (2) bonds in respect of which other than temporary impairment (OTTI) had been recognized prior to the adoption of the Standard.

The aim of the new rules is to improve the quality of financial condition reports by banking corporations, by means of recording in advance allowances for credit losses, in a way that strengthens the counter-recurrence in the manner of the allowances for credit losses, supporting a quicker reaction of banks to deterioration in the credit quality of borrowers and the strengthening of the bond between credit risk management and the way such risk is reflected in financial statements.

Within the framework of the implementation of the new guidelines, changes are to take place in measurement and disclosure rules in this matter, including:

- Credit loss allowances will derive from probable credit losses all through the life of the credit portfolio (instead of allowances for the credit losses incurred in the credit portfolio until date of the financial statements, as per the present rules);
- In determining the allowances for credit losses, significant use shall be made of forward looking information reflecting reasonable forecasts regarding future economic events;
- Enlarged disclosure shall be presented regarding the effect of the date of granting the credit upon the quality of the credit portfolio;
- Changes will take place in the rules for recording impairment in bonds held in the available-for-sale securities portfolio.

The circular of the Supervisor of Banks dated December 1, 2020, in the matter of "Regulatory capital – effect of implementation of accounting principles regarding expected credit losses" included a relief, according to which a banking corporation would be entitled to add to the Common Equity Tier 1 the amount of the reduction recorded on date of initial implementation, spread over a period of three years: on January 1, of the first year of implementation – 75%; of the second year – 50%; and of the third year – 25%.

Furthermore, in the months of January and February 2021, the Supervisor of Banks issued circulars that contain updates of the new rules regarding housing loans.

The Bank continues preparations for the implementation of the instructions. Implementation of the new guidelines involves significant methodological updating, as well as material changes in existing data bases and information systems, which, at this stage, are not prepared for reporting in accordance with the new rules. Accordingly, it is not possible to assess at this stage, the effect of implementation of the new guidelines.

2. Interest Income and Expenses

	Unaudited			
	For the three months ended June 30,		For the six months ended June 30,	
	2021	2020	2021	2020
	in NIS millions			
A. Interest Income[2]				
Credit to the public	1,822	1,544	3,388	3,145
Credit to the Governments	17	21	33	41
Deposits with the Bank of Israel and cash	9	7	18	21
Deposits with Banks	3	4	5	15
Bonds[1]	139	162	253	300
Other assets	7	4	11	11
Total interest income	**1,997**	**1,742**	**3,708**	**3,533**
B. Interest Expenses[2]				
Deposits from the public	(155)	(187)	(278)	(433)
Deposits from the Government	-	-	(1)	(1)
Deposits from the Bank of Israel	(2)	-	(3)	-
Deposits from banks	(7)	(14)	(15)	(34)
Securities lent or sold under agreements to repurchase	-	(2)	-	(5)
Bonds and subordinated debt notes	(147)	(76)	(221)	(141)
Other liabilities	(1)	-	(1)	(1)
Total interest expenses	**(312)**	**(279)**	**(519)**	**(615)**
Net interest income	**1,685**	**1,463**	**3,189**	**2,918**
C. Details of the net effect of hedge derivative instruments on interest income and expenses[3]:				
Interest Income	(7)	16	(15)	15
Interest expenses	5	4	11	6
D. Accrual basis, interest income from bonds:				
Held-to-maturity	31	24	54	44
Available-for-sale	102	137	191	250
Trading	6	1	8	6
Total included in interest income	139	162	253	300

Footnotes:

(1) Interest Income generated by mortgage backed securities (MBS) - in US $ millions	9	11	18	22
Interest Income generated by mortgage backed securities (MBS) - in NIS millions	28	38	58	76

(2) Including the impact of hedge relations.

(3) Details of the effect of hedge derivative instruments on subsection A+B.

3. Non-interest Financing Income

	Unaudited			
	For the three months ended June 30,		For the six months ended June 30,	
	2021	2020	2021	2020
	in NIS millions			
A. Non-interest financing income (expenses) from operations not for trading purposes				
From operations in derivative instruments				
Net income (loss) in respect of derivative instruments[4]	(461)	(643)	115	(51)
Total from operations in derivative instruments	**(461)**	**(643)**	**115**	**(51)**
From investments in bonds:				
Gains on sale of available-for-sale bonds[3]	71	87	150	277
Losses on sale of available-for-sale bonds[3]	(11)	(1)	(11)	(1)
Provision for impairment of available-for-sale bonds[3]	(26)	(2)	(35)	(5)
Total from investments in bonds	**34**	**84**	**104**	**271**
Net exchange rate differences	**438**	**691**	**(155)**	**214**
Net profit (loss) from investments in shares:				
Gains on sale from non trading shares	39	3	58	8
Losses on sale from non trading shares	-	(1)	-	(2)
Provision for impairment of non trading shares	(13)	(7)	(21)	(12)
Dividends from non trading shares	1	3	4	6
Unrealized profits [7]	67	8	152	-
Total from investment in shares	**94**	**6**	**193**	**-**
Total non-interest financing income from operations not for trading purposes	**105**	**138**	**257**	**434**
B. Non-interest financing income (expenses) from operations for trading purposes[5]:				
Net income (loss) in respect of non trading derivative instruments	(9)	86	129	163
Net realized and non-realized profit (losses) on adjustment of trading bonds to fair value[1]	(8)	51	(1)	97
Net realized and non-realized profit (losses) on adjustment of trading shares to fair value[2]	1	1	2	(1)
Total from trading operations[6]	**(16)**	**138**	**130**	**259**
Details of non-interest financing income (expenses) from operations for trading purposes, according to risk exposure:				
Interest rate exposure	(29)	124	50	103
Foreign currency exposure	12	14	78	158
Share exposure	1	-	2	(2)
Total according to risk exposure	**(16)**	**138**	**130**	**259**
Total non-interest financing income	**89**	**276**	**387**	**693**

Footnotes:

(1) Of which, a part of the profit (loss) relating to trading bonds that are still on hand at balance sheet date	(1)	29	(3)	14
(2) Of which, a part of the profit (loss) relating to trading shares that are still on hand at balance sheet date	1	(1)	1	(1)
(3) Reclassified from accumulated other comprehensive income, see Note 4:				
Of which, profit from investments in bonds, net	34	84	104	271

(4) Excluding the impact of hedge relations.
(5) Including exchange rate differences from trading operations.
(6) For interest income on investments in trading bonds, see Note 2, above.
(7) Including profits and losses on measurement at fair value of shares with readily determinable fair value, as well as upward or downward adjustments of shares without readily determinable fair value.

3A. Earnings Per Share

	Unaudited				Audited
	For the three months ended June 30,		For the six months ended June 30,		For the year ended December 31,
	2021	2020	2021	2020	2020
	in NIS millions				
Earnings per share					
Total net income attributed to bank's shareholders	860	174	1,522	453	975
	In Thousand				
Earnings per share:					
Weighted average of shares of NIS 0.1 par value:					
Balance at the beginning and end of the period	1,164,017	1,164,017	1,164,017	1,164,017	1,164,017
Weighted average of shares of NIS 0.1 par value, used for earnings per share	**1,164,017**	**1,164,017**	**1,164,017**	**1,164,017**	**1,164,017**
Earnings per share of NIS 0.1 (in NIS)	**0.74**	**0.15**	**1.31**	**0.39**	**0.84**

In the reported period, the Bank did not have securities having a dilutive effect.

4. Accumulated other comprehensive income (loss)

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

	Other comprehensive income (loss), before attribution to non-controlling interests					Other comprehensive (loss) attributed to non-controlling interests	Other comprehensive income (loss) attributed to the Bank's shareholders
	Net adjustments, for presentation of available-for- sale bonds at fair value	Adjustments from translation of financial statements[(1)]	Net profit (loss) in respect of cash flows hedge	Adjustments in respect of employee benefits	Total		
				in NIS millions			
A. For the three months ended June 30, 2021 and 2020 (unaudited)							
Balance at March 31, 2021	216	(463)	-	(671)	(918)	(13)	(905)
Net change during the period	17	(85)	-	27	(41)	-	(41)
Balance at June 30, 2021	**233**	**(548)**	**-**	**(644)**	**(959)**	**(13)**	**(946)**
Balance at March 31, 2020	56	(226)	3	(298)	(465)	(9)	(456)
Net change during the period	423	(104)	(1)	[(2)](418)	(100)	(3)	(97)
Balance at June 30, 2020	**479**	**(330)**	**2**	**(716)**	**(565)**	**(12)**	**(553)**
B. For the six months ended June 30, 2021 and 2020 (unaudited)							
Balance at December 31, 2020 (audited)	486	(598)	1	(799)	(910)	(13)	(897)
Net change during the period	(253)	50	(1)	155	(49)	-	(49)
Balance at June 30, 2021	**233**	**(548)**	**-**	**(644)**	**(959)**	**(13)**	**(946)**
Balance at December 31, 2019 (audited)	374	(344)	2	(524)	(492)	(11)	(481)
Net change during the period	105	14	-	[(2)](192)	(73)	(1)	(72)
Balance at June 30, 2020	**479**	**(330)**	**2**	**(716)**	**(565)**	**(12)**	**(553)**
C. For the year of 2020 (audited)							
Balance at December 31, 2019	374	(344)	2	(524)	(492)	(11)	(481)
Net change during the year	112	(254)	(1)	[(2)](275)	(418)	(2)	(416)
Balance at December 31, 2020	**486**	**(598)**	**1**	**(799)**	**(910)**	**(13)**	**(897)**

Footnotes:

(1) Including adjustments from translation of financial statements of a consolidated subsidiary - Discount Bancorp Inc., the functional currency of which is different from that of the Bank.

(2) Including an amount of NIS 166 million in the first half of 2020, and an amount of NIS 365 million in the whole of 2020, in respect of the 2020 retirement plan, see Note 8 C.

4. Accumulated other comprehensive income (loss) (continued)

B. Changes in other comprehensive income (loss) component before tax effect and after tax effect

	Unaudited					
	For the three months ended					
	June 30, 2021			June 30, 2020		
	Before taxes	Tax effect	After taxes	Before taxes	Tax effect	After taxes
	in NIS millions					
Changes in components of accumulated other comprehensive income (loss), before attribution to non-controlling interests:						
Adjustments for presentation of available-for- sale bonds at fair value						
Net unrealized income from adjustments to fair value	61	(21)	40	713	(234)	479
Income on available-for-sale bonds reclassified to the statement of income[2]	(34)	11	(23)	(84)	28	(56)
Net change during the period	**27**	**(10)**	**17**	**629**	**(206)**	**423**
Translation adjustments						
Adjustments from translation of financial statement [1]	(85)	-	(85)	(104)	-	(104)
Net change during the period	**(85)**	**-**	**(85)**	**(104)**	**-**	**(104)**
Cash flow hedging						
Net loss in respect of cash flow hedging	-	-	-	(4)	1	(3)
Net loss in respect of cash flow hedging reclassified to the statement of income	-	-	-	3	(1)	2
Net change during the period	**-**	**-**	**-**	**(1)**	**-**	**(1)**
Employee benefits						
Net actuarial income (loss)	15	(4)	11	(651)	223	[4](428)
loss reclassified to the statement of income[3]	25	(9)	16	16	(6)	10
Net change during the period	**40**	**(13)**	**27**	**(635)**	**217**	**(418)**
Total net changes during the period	**(18)**	**(23)**	**(41)**	**(111)**	**11**	**(100)**
Changes in components of accumulated other comprehensive loss attributed to non-controlling interests:						
Total net changes during the period	**-**	**-**	**-**	**(4)**	**1**	**(3)**
Changes in components of accumulated other comprehensive loss attributed to the Bank's shareholders:						
Total net changes during the period	**(18)**	**(23)**	**(41)**	**(107)**	**10**	**(97)**

For footnotes see next page.

4. Accumulated other comprehensive income (loss) (continued)

B. Changes in other comprehensive income (loss) component before tax effect and after tax effect (continued)

	Unaudited						Audited		
	For the six months ended						For the year ended		
	2021			2020			2020		
	Before taxes	Tax effect	After taxes	Before taxes	Tax effect	After taxes	Before taxes	Tax effect	After taxes
	in NIS millions								
Changes in components of accumulated other comprehensive income (loss), before attribution to non-controlling interests:									
Adjustments for presentation of available-for- sale bonds at fair value									
Net unrealized income (loss) from adjustments to fair value	(273)	89	(184)	419	(134)	285	560	(169)	391
Income on available-for-sale bonds reclassified to the statement of income[2]	(104)	35	(69)	(271)	91	(180)	(403)	124	(279)
Net change during the period	**(377)**	**124**	**(253)**	**148**	**(43)**	**105**	**157**	**(45)**	**112**
Translation adjustments									
Adjustments from translation of financial statement [1]	50	-	50	14	-	14	(254)	-	(254)
Net change during the period	**50**	**-**	**50**	**14**	**-**	**14**	**(254)**	**-**	**(254)**
Cash flow hedging									
Net income (loss) in respect of cash flow hedging	-	-	-	(2)	1	(1)	2	(1)	1
Net income in respect of cash flow hedging reclassified to the statement of income	(1)	-	(1)	2	(1)	1	(3)	1	(2)
Net change during the period	**(1)**	**-**	**(1)**	**-**	**-**	**-**	**(1)**	**-**	**(1)**
Employee benefits									
Net actuarial (loss) profit	74	(24)	50	(328)	112	[4](216)	(892)	304	[4](588)
loss reclassified to the statement of income[3]	160	(55)	105	36	(12)	24	475	(162)	313
Net change during the period	**234**	**(79)**	**155**	**(292)**	**100**	**(192)**	**(417)**	**142**	**(275)**
Total net change during the period	**(94)**	**45**	**(49)**	**(130)**	**57**	**(73)**	**(515)**	**97**	**(418)**
Changes in components of accumulated other comprehensive loss attributed to non-controlling interests:									
Total net change during the period	**-**	**-**	**-**	**(1)**	**-**	**(1)**	**(2)**	**-**	**(2)**
Changes in components of accumulated other comprehensive loss attributed to the Bank's shareholders:									
Total net change during the period	**(94)**	**45**	**(49)**	**(129)**	**57**	**(72)**	**(513)**	**97**	**(416)**

Footnotes:

(1) Including adjustments from translation of financial statement of a consolidated subsidiary - Discount Bancorp Inc., the functional currency of which is different from that of the Bank.

(2) The pre-tax amount is reported in the of statement of profit and loss in the item "non-interest financing income". For further details see the note on non-interest financing income.

(3) The pre-tax amount has been classified to other expenses.

(4) Including an amount of NIS 166 million in the first half of 2020, and an amount of NIS 365 million in the whole of 2020, in respect of the 2020 retirement plan, see Note 8 C.

5. Securities

A. Composition

	Unaudited				
	June 30,2021				
	Book value	Amortized cost	Unrecognized gains from adjustment to fair value	Unrecognized losses from adjustment to fair value	Fair value[(1)]
	In NIS millions				
(1) Held-to-maturity bonds					
Bonds and loans:					
Of the Israeli Government	8,558	8,558	220	45	8,733
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	427	427	4	2	429
Of others abroad[(5)]	133	133	6	-	139
Total held-to-maturity bonds	**9,118**	**9,118**	**230**	**47**	**9,301**

	Unaudited				
	June 30,2021				
			Accumulated other comprehensive income		
	Book value	Amortized cost	Profits	Losses	Fair value[(1)]
	In NIS millions				
(2) Available- for- sale bonds					
Of the Israeli Government	22,029	21,847	292	110	22,029
Of foreign governments	1,835	1,845	15	25	1,835
Of Israeli financial institutions	131	128	3	-	131
Of foreign financial institutions	401	391	10	-	401
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	7,890	7,838	99	47	7,890
Of others in Israel	549	528	21	-	549
Of others abroad[(5)]	1,923	1,850	74	1	1,923
Total Available- for- sale bonds	**34,758**	**34,427**	[(2)] **514**	[(2)] **183**	**34,758**

	Unaudited				
	June 30,2021				
	Book value	Cost	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value[(1)(3)]
	In NIS millions				
(3) Investment in not for trading shares	1,519	1,326	[(4)]194	[(4)]1	1,519
Of which: shares, the fair value of which is not readily available	1,176	1,176	-	-	1,176
Total not for trading securities	**45,395**	**44,871**			**45,578**

For footnotes see next page.

5. Securities (continued)

A. Composition (Continued)

	Unaudited				
	June 30,2021				
	Book value	Amortized cost (in shares - cost)	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value[(1)]
	In NIS millions				
(4) Trading Securities					
Bonds and loans:					
Of the Israeli Government	1,355	1,356	2	3	1,355
Of foreign governments	44	44	-	-	44
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	31	30	1	-	31
Of others in Israel	20	23	1	4	20
Total bonds	**1,450**	**1,453**	**4**	**7**	**1,450**
Shares	4	3	2	1	4
Total trading securities	**1,454**	**1,456**	**(4)6**	**(4)8**	**1,454**
Total securities	**46,849**	**46,327**			**47,032**

Footnotes:

(1) Fair value data based on market prices, does not necessarily reflect the price that may be obtained on the sale of securities in large volumes.

(2) Included in "Accumulated other comprehensive income".

(3) Regarding shares in this column without readily determinable fair value, are presented cost minus impairment adjusted upwards or downwards to observable prices in orderly transactions for the identical or a similar investment of the same issuer.

(4) Recorded in the statement of profit and loss.

(5) Municipal bonds and bonds of states in the U.S.A.

5. Securities (continued)

A. Composition (continued)

	Unaudited				
	June 30, 2020				
	Book value	Amortized cost	Unrecognized gains from adjustment to fair value	Unrecognized losses from adjustment to fair value	Fair value[(1)]
	In NIS millions				
(1) Held-to-maturity bonds					
Bonds and loans:					
Of the Israeli Government	7,248	7,248	342	-	7,590
Mortgage-backed-securities (MBS) or Assets -backed-securities (ABS)	266	266	8	2	272
Of others abroad[(6)]	177	177	7	2	182
Total held-to-maturity bonds	**[(2)] 7,691**	**7,691**	**357**	**4**	**8,044**

	Unaudited				
	June 30, 2020				
			Accumulated other comprehensive income		
	Book value	Amortized cost	Profits	Losses	Fair value[(1)]
	In NIS millions				
(2) Available- for- sale bonds					
Bonds and loans:					
Of the Israeli Government	17,662	17,202	545	85	17,662
Of foreign governments	693	648	48	3	693
Of Israeli financial institutions	100	100	1	1	100
Of foreign financial institutions	1,126	1,115	19	8	1,126
Mortgage-backed-securities (MBS) or Assets -backed-securities (ABS)	7,703	7,538	191	26	7,703
Of others in Israel	363	361	8	6	363
Of others abroad[(6)]	2,363	2,334	56	27	2,363
Total Available- for- sale bonds	**[(2)] 30,010**	**29,298**	**[(3)] 868**	**[(3)] 156**	**30,010**

	Unaudited				
	June 30, 2020				
	Book value	Cost	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value[(1)(4)]
	In NIS millions				
(3) Investment in not for trading shares	1,021	991	[(5)]31	[(5)]1	1,021
Of which: shares, the fair value of which is not readily available	932	932	-	-	932
Total not for trading securities	**38,722**	**37,980**			**39,075**

For footnotes see next page.

5. Securities (continued)

A. Composition (continued)

	Unaudited				
	June 30, 2020				
	Book value	Amortized cost (in shares - cost)	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value[(1)]
	In NIS millions				
(4) Trading Securities					
Bonds and loans:					
Of the Israeli Government	1,174	1,156	19	1	1,174
Of foreign governments	16	16	-	-	16
Of Israeli financial institutions	1	1	-	-	1
Of foreign financial institutions	2	2	-	-	2
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	54	52	2	-	54
Of others in Israel	57	63	-	6	57
Of others abroad	10	10	-	-	10
Total bonds	**1,314**	**1,300**	**21**	**7**	**1,314**
Shares	1	2	-	1	1
Total trading securities	**1,315**	**1,302**	[(5)]**21**	[(5)]**8**	**1,315**
Total securities	**40,037**	**39,282**			**40,390**

Footnotes:

(1) Fair value data based on market prices, does not necessarily reflect the price that may be obtained on the sale of securities in large volumes.

(2) Including securities sold by overseas consolidated subsidiary under repurchase terms from held to maturity portfolio at an amortized cost of NIS 20 million (approx. US$ 6 million) and from the available for sale portfolio with a market value of NIS 155 million (approx. US$ 45 million).

(3) Included in "Accumulated other comprehensive income".

(4) Regarding shares in this column without readily determinable fair value, are presented cost minus impairment adjusted upwards or downwards to observable prices in orderly transactions for the identical or a similar investment of the same issuer.

(5) Recorded in the statement of profit and loss.

(6) Municipal bonds and bonds of states in the U.S.A.

5. Securities (continued)

A. Composition (continued)

	Audited				
	December 31, 2020				
	Book value	Amortized cost	Unrecognized gains from adjustment to fair value	Unrecognized losses from adjustment to fair value	Fair value[(1)]
	In NIS millions				
(1) Held-to-maturity bonds					
Bonds and loans:					
Of the Israeli Government	7,594	7,594	301	-	7,895
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	165	165	6	1	170
Of others abroad[(5)]	164	164	6	2	168
Total held-to-maturity bonds	**7,923**	**7,923**	**313**	**3**	**8,233**

For footnotes see next page.

	Audited				
	December 31, 2020				
			Accumulated other comprehensive income		
	Book value	Amortized cost	Profits	Losses	Fair value[(1)]
	In NIS millions				
(2) Available- for- sale securities					
Bonds and loans:					
Of the Israeli Government	21,209	20,745	488	24	21,209
Of foreign governments	836	830	25	19	836
Of Israeli financial institutions	138	136	2	-	138
Of foreign financial institutions	475	464	12	1	475
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	7,799	7,657	148	6	7,799
Of others in Israel	379	360	19	-	379
Of others abroad[(5)]	1,797	1,725	74	2	1,797
Total Available- for- sale bonds	**[(6)] 32,633**	**31,917**	**[(2)] 768**	**[(2)] 52**	**32,633**

	Audited				
	December 31, 2020				
	Book value	Cost	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value[(1)(3)]
	In NIS millions				
(3) Investment in not for trading shares	1,092	1,051	[(4)]42	[(4)]1	1,092
Of which: shares, the fair value of which is not readily available	1,000	1,000	-	-	1,000
Total shares	**41,648**	**40,891**			**41,958**

For footnotes see next page.

5. Securities (continued)

A. Composition (continued)

	Audited				
	December 31, 2020				
	Book value	Amortized cost (in shares - cost)	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value[1]
	In NIS millions				
(4) Trading Securities					
Bonds and loans:					
Of the Israeli Government	1,057	1,049	8	-	1,057
Of foreign governments	26	26	-	-	26
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	40	39	1	-	40
Of others in Israel	13	16	1	4	13
Total bonds	**1,136**	**1,130**	**10**	**4**	**1,136**
Shares	1	1	1	1	1
Total trading securities	**1,137**	**1,131**	**[4]11**	**[4]5**	**1,137**
Total securities	**42,785**	**42,022**			**43,095**

Footnotes:

(1) Fair value data based on market prices, does not necessarily reflect the price that may be obtained on the sale of securities in large volumes.

(2) Included in "Accumulated other comprehensive income".

(3) Regarding shares in this column without readily determinable fair value, are presented cost minus impairment adjusted upwards or downwards to observable prices in orderly transactions for the identical or a similar investment of the same issuer.

(4) Recorded in the statement of profit and loss.

(5) Municipal bonds and bonds of states in the U.S.A.

(6) Including securities sold by overseas consolidated subsidiary under repurchase terms from the available for sale portfolio with a market value of NIS 184 million (approx. US$ 57 million).

5. Securities (continued)

B. Amortized cost and unrealized losses, according to the length of the period and rate of impairment of held-to-maturity bonds which are in an unrealized loss position – consolidated

	Unaudited							
	June 30, 2021							
	Less than 12 months				More than 12 months			
		Unrecognized losses from adjustment to fair value				Unrecognized losses from adjustment to fair value		
	Amortized cost	0-20%	20-40%	Total	Amortized cost	0-20%	20-40%	Total
	In NIS millions							
Held-to-maturity bonds								
Bonds and loans:								
Of the Israeli Government	1,888	45	-	45	-	-	-	-
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	270	2	-	2	11	(1)-	-	-
Of others in Israel	1	(1)-	-	-	-	-	-	-
Total held-to-maturity bonds	**2,159**	**47**	**-**	**47**	**11**	**-**	**-**	**-**

	Unaudited							
	June 30, 2020							
	Less than 12 months				More than 12 months			
		Unrecognized losses from adjustment to fair value				Unrecognized losses from adjustment to fair value		
	Amortized cost	0-20%	20-40%	Total	Amortized cost	0-20%	20-40%	Total
	In NIS millions							
Held-to-maturity bonds								
Bonds and loans:								
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	34	1	-	1	36	1	-	1
Of others abroad	-	-	-	-	35	2	-	2
Total held-to-maturity bonds	**34**	**1**	**-**	**1**	**71**	**3**	**-**	**3**

	Audited							
	December 31, 2020							
	Less than 12 months				More than 12 months			
		Unrecognized losses from adjustment to fair value				Unrecognized losses from adjustment to fair value		
	Amortized cost	0-20%	20-40%	Total	Amortized cost	0-20%	20-40%	Total
	In NIS millions							
Held-to-maturity bonds								
Bonds and loans:								
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	34	1	-	1	6	(1)-	-	-
Of others in Israel	1	(1)-	-	-	-	-	-	-
Of others abroad	-	-	-	-	32	2	-	2
Total held-to-maturity bonds	**35**	**1**	**-**	**1**	**38**	**2**	**-**	**2**

Footnote:

(1) An amount lower than NIS 1 million.

5. Securities (continued)

C. Fair value and unrealized losses, according to the length of the period and rate of impairment of available-for-sale bonds which are in an unrealized loss position-consolidated

	Unaudited							
	June 30, 2021							
	Less than 12 months				More than 12 months			
		Unrealized losses				Unrealized losses		
	Fair value	0-20%	20-40%	Total	Fair value	0-20%	20-40%	Total
	In NIS millions							
Available- for-sale bonds								
Bonds and loans:								
Of the Israeli Government	8,984	107	-	107	1,151	3	-	3
Of foreign governments	652	(1)-	-	-	339	25	-	25
Of foreign financial institutions	10	(1)-	-	-	36	(1)-	-	-
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	3,129	47	-	47	20	(1)-	-	-
Of others abroad	175	1	-	1	-	-	-	-
Total available-for-sale bonds	**12,950**	**155**	**-**	**155**	**1,546**	**28**	**-**	**28**

	Unaudited							
	June 30, 2020							
	Less than 12 months				More than 12 months			
		Unrealized losses				Unrealized losses		
	Fair value	0-20%	20-40%	Total	Fair value	0-20%	20-40%	Total
	In NIS millions							
Available- for-sale bonds								
Bonds and loans:								
Of the Israeli Government	2,040	82	-	82	1,107	3	-	3
Of foreign governments	100	3	-	3	-	-	-	-
Of Israeli financial institutions	28	1	-	1	-	-	-	-
Of foreign financial institutions	212	7	-	7	40	1	-	1
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	843	16	-	16	312	10	-	10
Of others in Israel	54	6	-	6	-	-	-	-
Of others abroad	1,072	22	-	22	92	5	-	5
Total available-for-sale bonds	**4,349**	**137**	**-**	**137**	**1,551**	**19**	**-**	**19**

Footnote:
(1) An amount lower than NIS 1 million.

5. Securities (continued)

C. Fair value and unrealized losses, according to the length of the period and rate of impairment of available-for-sale bonds which are in an unrealized loss position-consolidated (continued)

	Audited							
	December 31, 2020							
	Less than 12 months				More than 12 months			
		Unrealized losses				Unrealized losses		
	Fair value	0-20%	20-40%	Total	Fair value	0-20%	20-40%	Total
	In NIS millions							
Available- for-sale bonds								
Bonds and loans:								
Of the Israeli Government	3,959	23	-	23	1,110	1	-	1
Of foreign governments	459	19	-	19	-	-	-	-
Of Israeli financial institutions	15	(1)-	-	-	-	-	-	-
Of foreign financial institutions	50	(1)-	-	-	37	1	-	1
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	936	4	-	4	424	2	-	2
Of others in Israel	30	(1)-	-	-	-	-	-	-
Of others abroad	98	2	-	2	87	(1)-	-	-
Total available-for-sale bonds	**5,547**	**48**	**-**	**48**	**1,658**	**4**	**-**	**4**

Footnote:
(1) An amount lower than NIS 1 million.

D. The securities portfolio, as of June 30, 2021, includes investments in asset backed securities, primarily investment in mortgage-backed-securities (MBS), which are held mainly by a consolidated subsidiary abroad. Details regarding the terms "Mortgage-backed- securities - MBS", A real estate mortgage investment conduit (REMIC), a stripped MBS, "Mortgage Pass - Through" and "Collateralized Mortgage Obligation - CMO" were brought in Note 12 to the financial statements as of December 31, 2020.

E. Most of the unrealized losses as at June 30, 2021 relate to securities rated as "investment grade" and they are attributed to certain factors, including changes in market interest rate subsequent to date of acquisition, an increase in margins occurring in the credit market concerning similar types of securities, the impact of inactive markets and changes in the rating of securities. For debt securities, there are no securities past due or securities for which the Bank and/or it relevant consolidated companies estimates that it is not probable that they will be able to collect all the amounts owed to them pursuant to the investment contracts.

Whereas the Bank and the relevant subsidiaries do not intend to sell securities having an unrealized loss, the Bank and the relevant subsidiaries do not view the impairment in value of these investments to be other than temporarily impaired at June 30, 2021.

F. **Fair value presentation.** The balances of securities as of June 30, 2021, June 30, 2020, and December 31, 2020, include securities amounting to NIS 36,555 million, NIS 31,414 million and NIS 33,862 million, respectively, that are presented at fair value.

5. Securities (continued)

G. Additional details (consolidated) regarding mortgage and asset backed bonds

	Unaudited			
	June 30, 2021			
	Amortized cost	Unrealized gains from adjustment to fair value(1)	Unrealized losses from adjustment to fair value(1)	Fair value
	In NIS millions			
1.Mortgage-backed bonds (MBS):				
Available-for-sale bonds				
Mortgage pass-through bonds:	525	19	-	544
of which:				
Bonds guaranteed by GNMA	329	12	-	341
Bonds issued by FHLMC and FNMA	196	7	-	203
Other mortgage-backed bonds (including CMO, REMIC and STRIPPED MBS):	6,109	76	46	6,139
Of which Bonds issued or guaranteed by FHLMC, FNMA and GNMA	6,109	76	46	6,139
Total available-for-sale MBS bonds	**6,634**	**95**	**46**	**6,683**
Held-to-maturity bonds				
Mortgage pass-through bonds:	13	1	-	14
of which:				
Bonds guaranteed by GNMA	10	1	-	11
Bonds issued by FHLMC and FNMA	3	-	-	3
Other mortgage-backed bonds (including CMO, REMIC and STRIPPED MBS):	414	3	2	415
Of which Bonds issued or guaranteed by FHLMC, FNMA and GNMA	414	3	2	415
Total held-to-maturity MBS bonds	**427**	**4**	**2**	**429**
Trading bonds				
Other mortgage-backed bonds (including CMO, REMIC and STRIPPED MBS):	30	1	-	31
Of which Bonds issued or guaranteed by FHLMC, FNMA and GNMA	30	1	-	31
Total mortgage-backed trading bonds (MBS)	**30**	**1**	**-**	**31**
Total mortgage-backed bonds (MBS)	**7,091**	**100**	**48**	**7,143**
2.Total Asset-backed available-for-sale bonds (ABS)	1,204	4	1	1,207
Of which collaterized bonds CLO	1,201	4	1	1,204
Of which Asset-backed bond (ABS)	3	-	-	3
Total mortgage and asset-backed bonds	**8,295**	**104**	**49**	**8,350**

Footnote:
(1) For available for sale bonds-accumulated other comprehensive income.

5. Securities (continued)

G. Additional details (consolidated) regarding mortgage and asset backed bonds (continued)

	Unaudited			
	June 30, 2020			
	Amortized cost	Unrealized gains from adjustment to fair value[(1)]	Unrealized losses from adjustment to fair value[(1)]	Fair value
	In NIS millions			
1.Mortgage-backed bonds (MBS):				
Available-for-sale bonds				
Mortgage pass-through bonds:	813	22	-	835
of which:				
Bonds guaranteed by GNMA	554	12	-	566
Bonds issued by FHLMC and FNMA	259	10	-	269
Other mortgage-backed bonds (including CMO, REMIC and STRIPPED MBS):	5,604	169	1	5,772
Of which Bonds issued or guaranteed by FHLMC, FNMA and GNMA	5,604	169	1	5,772
Total available-for-sale MBS bonds	**6,417**	**191**	**1**	**6,607**
Held-to-maturity bonds				
Mortgage pass-through bonds:	21	2	-	23
of which:				
Bonds guaranteed by GNMA	16	1	-	17
Bonds issued by FHLMC and FNMA	5	1	-	6
Other mortgage-backed bonds (including CMO, REMIC and STRIPPED MBS):	245	6	2	249
Of which Bonds issued or guaranteed by FHLMC, FNMA and GNMA	245	6	2	249
Total held-to-maturity MBS bonds	**266**	**8**	**2**	**272**
Trading bonds				
Other mortgage-backed bonds (including CMO, REMIC and STRIPPED MBS):	52	2	-	54
Of which Bonds issued or guaranteed by FHLMC, FNMA and GNMA	52	2	-	54
Total mortgage-backed trading bonds (MBS)	**52**	**2**	**-**	**54**
Total mortgage-backed bonds (MBS)	**6,735**	**201**	**3**	**6,933**
2.Total Asset-backed available-for-sale bonds (ABS)	1,121	-	25	1,096
Of which collaterized bonds CLO	1,116	-	25	1,091
Of which Asset-backed bond (ABS)	5	-	-	5
Total mortgage and asset-backed bonds	**7,856**	**201**	**28**	**8,029**

Footnote:

(1) For available for sale bonds-accumulated other comprehensive income.

5. Securities (continued)

G. Additional details (consolidated) regarding mortgage and asset backed bonds (continued)

	Audited			
	December 31 ,2020			
	Amortized cost	Unrealized gains from adjustment to fair value(1)	Unrealized losses from adjustment to fair value(1)	Fair value
	In NIS millions			
1.Mortgage-backed bonds (MBS):				
Available-for-sale bonds				
Mortgage pass-through bonds:	613	20	-	633
of which:				
Bonds guaranteed by GNMA	415	12	-	427
Bonds issued by FHLMC and FNMA	198	8	-	206
Other mortgage-backed bonds (including CMO, REMIC and STRIPPED MBS):	5,931	124	4	6,051
Of which Bonds issued or guaranteed by FHLMC, FNMA and GNMA	5,931	124	4	6,051
Total available-for-sale MBS bonds	**6,544**	**144**	**4**	**6,684**
Held-to-maturity bonds				
Mortgage pass-through bonds:	16	1	-	17
of which:				
Bonds guaranteed by GNMA	12	1	-	13
Bonds issued by FHLMC and FNMA	4	-	-	4
Other mortgage-backed bonds (including CMO, REMIC and STRIPPED MBS):	149	5	1	153
Of which Bonds issued or guaranteed by FHLMC, FNMA and GNMA	149	5	1	153
Total held-to-maturity MBS bonds	**165**	**6**	**1**	**170**
Trading bonds				
Other mortgage-backed bonds (including CMO, REMIC and STRIPPED MBS):	39	1	-	40
Of which Bonds issued or guaranteed by FHLMC, FNMA and GNMA	39	1	-	40
Total mortgage-backed trading bonds (MBS)	**39**	**1**	**-**	**40**
Total mortgage-backed bonds (MBS)	**6,748**	**151**	**5**	**6,894**
2.Total Asset-backed available-for-sale bonds (ABS)	1,113	4	2	1,115
Of which collaterized bonds CLO	1,109	4	2	1,111
Of which Asset-backed bond (ABS)	4	-	-	4
Total mortgage and asset-backed bonds	**7,861**	**155**	**7**	**8,009**

Footnote:
(1) For available for sale bonds-accumulated other comprehensive income.

5. Securities (continued)

H. Additional details (consolidated) regarding mortgage and asset backed securities

Additional details regarding mortgage and asset backed securities in unrealized loss position

	Unaudited			
	June 30, 2021			
	Less than 12 months		12 months and over	
	Fair value	Unrealized losses	Fair value	Unrealized losses
	In NIS millions			
1.Mortgage-backed bonds (MBS):				
Available-for-sale bonds				
Other mortgage-backed bonds (including CMO,REMIC and STRIPPED MBS):				
Bonds issued or guaranteed by FHLMC, FNMA and GNMA	2,845	46	-	-
Total other mortgage-backed bonds	**2,845**	**46**	**-**	**-**
Total available-for-sale MBS	**2,845**	**46**	**-**	**-**
Held-to-maturity bonds				
Other mortgage-backed bonds (including CMO,REMIC and STRIPPED MBS):				
Bonds issued or guaranteed by FHLMC, FNMA and GNMA	268	2	11	(1)-
Total other mortgage-backed bonds	**268**	**2**	**11**	**-**
Total held-to-maturity MBS bonds	**268**	**2**	**11**	**-**
Total mortgage-backed bonds (MBS)	**3,113**	**48**	**11**	**-**
2. Asset-backed available-for-sale bonds (ABS)				
Collaterized bonds CLO	284	1	20	(1)-
Total asset-backed available-for-sale bonds (ABS)	**284**	**1**	**20**	**-**
Total mortgage and asset-backed bonds	**3,397**	**49**	**31**	**-**

Footnote:

(1) Amount lower than NIS 1 million

5. Securities (continued)

H. Additional details (Consolidated) regarding mortgage and asset backed securities (continued)

Additional details regarding mortgage and asset backed securities in unrealized loss position (continued)

	Unaudited			
	June 30, 2020			
	Less than 12 months		12 months and over	
	Fair value	Unrealized losses	Fair value	Unrealized losses
	In NIS millions			
1.Mortgage-backed bonds (MBS):				
Available-for-sale bonds				
Other mortgage backed bonds (including CMO,REMIC and STRIPPED MBS):				
Bonds issued or guaranteed by FHLMC, FNMA and GNMA	35	[1]-	45	1
Total other mortgage backed bonds	**35**	**-**	**45**	**1**
Total available-for-sale MBS bonds	**35**	**-**	**45**	**1**
Held-to-maturity securities				
Other mortgage backed bonds (including CMO,REMIC and STRIPPED MBS):				
Bonds issued or guaranteed by FHLMC, FNMA and GNMA	33	1	35	1
Total other mortgage backed bonds	**33**	**1**	**35**	**1**
Total held-to-maturity MBS bonds	**33**	**1**	**35**	**1**
Total mortgage-backed bonds (MBS)	**68**	**1**	**80**	**2**
2. Asset-backed available-for-sale bonds (ABS)				
Collaterized bonds CLO	803	16	267	9
Of which Asset-backed bond (ABS)	5	[1]-	-	-
Total asset backed available-for-sale bond (ABS)	**808**	**16**	**267**	**9**
Total mortgage and asset backed bond	**876**	**17**	**347**	**11**

Footnote:

(1) Amount lower than NIS 1 million

5. Securities (continued)

H. Additional details (Consolidated) regarding mortgage and asset backed securities (continued)

Additional details regarding mortgage and asset backed securities in unrealized loss position (continued)

	Audited			
	December 31 ,2020			
	Less than 12 months		12 months and over	
	Fair value	Unrealized losses	Fair value	Unrealized losses
	In NIS millions			
1.Mortgage-backed bonds (MBS):				
Available-for-sale bonds				
B. Other Mortgage-Backed Securities (including CMO,REMIC and STRIPPED MBS):				
Bonds issued or guaranteed by FHLMC, FNMA and GNMA	913	4	12	(1)-
Total other mortgage-backed bonds	**913**	**4**	**12**	**-**
Total available-for-sale MBS bonds	**913**	**4**	**12**	**-**
Held-to-maturity bonds				
Other mortgage-backed bonds (including CMO,REMIC and STRIPPED MBS):				
Bonds issued or guaranteed by FHLMC, FNMA and GNMA	33	1	6	(1)-
Total other mortgage-backed bonds	**33**	**1**	**6**	**-**
Total held-to-maturity MBS bonds	**33**	**1**	**6**	**-**
Total mortgage-backed bonds (MBS)	**946**	**5**	**18**	**-**
2.Asset-backed available-for-sale bonds (ABS)				
Collaterized bonds CLO	22	(1)-	412	2
Of which Asset-backed bond (ABS)	1	(1)-	-	-
Total asset-backed available-for-sale bonds(ABS)	**23**	**-**	**412**	**2**
Total mortgage and asset backed bonds	**969**	**5**	**430**	**2**

Footnote:
(1) Amount lower than NIS 1 million

I. Information regarding impaired bonds

	June 30, 2021	June 30, 2020	December 31, 2020
	In NIS millions		
Recorded amount of non-accruing interest income impaired bonds	42	85	13

J. Zim shares

The Bank and MDB hold shares in Zim Integrated Shipping Services Ltd. (hereinafter: "Zim"), which were received in the past within the framework of a debt arrangement and which were recorded at zero cost. As reported by Zim, on February 1, 2021, an offering of Zim shares was concluded on the New York Stock Exchange (NYSE). The aforesaid shares are subject to lockup arrangements for a period of six months from the date of the offering. In the interim financial statements as of June 30, 2021, the shares are presented at their fair value, in an amount of NIS 126 million. In determining the fair value, a discounting coefficient over the market price was taken into consideration in accordance with the length of the remaining lockup period and the standard deviation. The lockup period for the shares terminated on July 26, 2021, and the process of realizing the investment has begun. MDB has realized a part of its holdings for total consideration of approx. NIS 56 million. A pre-tax loss of approx. NIS 8 million will be recorded by this bank in the third quarter of 2021. As of August 11, 2021, the market value of the balance of the shares held by the Bank and by MDB amounts to approx. NIS 57 million. It is emphasized that in view of fluctuations in market prices and in the exchange rate, no certainty exists that the market value necessarily reflects the consideration that would be received upon realization of the shares.

6. Credit risk, credit to the public and allowance for credit losses

General. Debts – in this Note: Credit to the public, credit to Governments, deposits with banks and other debts, excluding bonds, securities borrowed or purchased under agreements to resell and assets in respect of the " Maof" market activity.

It is noted, that Note 14 presents the details included in this Note, as well as an extended discussion thereof.

1. Debts, credit to the public and the balance of allowance for credit losses - consolidated

	Unaudited					
	June 30, 2021					
	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total	Banks and Governments	Total
	In NIS millions					
Recorded amount of debts:						
Examined on a specific basis[1]	94,852	1	627	95,480	5,659	101,139
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	[2]257	46,992	-	47,249	-	47,249
Group - other	27,694	152	31,683	59,529	989	60,518
Total debts*	**122,803**	**47,145**	**32,310**	**202,258**	**6,648**	**208,906**
*** Of which:**						
Restructured troubled debts	1,080	-	229	1,309	-	1,309
Other Impaired debts	685	1	22	708	-	708
Total balance of impaired debts	**1,765**	**1**	**251**	**2,017**	**-**	**2,017**
Debts in arrears of 90 days or more	41	276	35	352	-	352
Other problematic debts	4,779	4	276	5,059	-	5,059
Total Problematic debts	**6,585**	**281**	**562**	**7,428**	**-**	**7,428**
Allowance for Credit Losses in respect of debts:						
Examined on a specific basis[1]	1,844	-	135	1,979	-	1,979
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	[3]1	[3]253	-	254	-	254
Group - other	398	1	640	1,039	17	1,056
Total allowance for Credit Losses	**2,243**	**254**	**775**	**3,272**	**17**	**3,289**
Of which: in respect of impaired debts	310	-	111	421	-	421

Footnotes:

(1) Including credit examined on a specific basis and found not to be impaired in an amount of NIS 99,122 million and the allowance in its respect in an amount of NIS 1,558 million computed on a group basis.

(2) The balance of commercial debts includes housing loans in the amount of NIS 257 million, which are combined in the layout of transactions and collateral of commercial borrowers' business, or which were granted to acquisition groups, the projects being built by them are in the course of construction.

(3) Includes the balance of allowance in excess of that required by the extent of arrears method, computed on a specific basis, in amount of NIS 1 million, computed on a group basis, in amount of NIS 186 million.

6. Credit risk, credit to the public and allowance for credit losses (continued)

1. Debts, credit to the public and the balance of allowance for credit losses - consolidated (continued)

	Unaudited					
	June 30, 2020					
	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total	Banks and Governments	Total
	In NIS millions					
Recorded amount of debts:						
Examined on a specific basis[1]	88,493	2	630	89,125	7,249	96,374
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	[2]203	39,503	-	39,706	-	39,706
Group - other	26,670	201	31,139	58,010	1,284	59,294
Total debts*	**115,366**	**39,706**	**31,769**	**186,841**	**8,533**	**195,374**
*** Of which:**						
Restructured troubled debts	790	-	156	946	-	946
Other Impaired debts	1,050	2	41	1,093	-	1,093
Total balance of impaired debts	**1,840**	**2**	**197**	**2,039**	**-**	**2,039**
Debts in arrears of 90 days or more	79	394	45	518	-	518
Other problematic debts	2,452	21	295	2,768	-	2,768
Total Problematic debts	**4,371**	**417**	**537**	**5,325**	**-**	**5,325**
Allowance for Credit Losses in respect of debts:						
Examined on a specific basis[1]	1,814	-	87	1,901	-	1,901
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	[3]1	[3]290	-	291	-	291
Group - other	461	2	750	1,213	15	1,228
Total allowance for Credit Losses	**2,276**	**292**	**837**	**3,405**	**15**	**3,420**
Of which: in respect of impaired debts	308	-	70	378	-	378

Footnotes:

(1) Including credit examined on a specific basis and found not to be impaired in an amount of NIS 94,335 million and the allowance in its respect in an amount of NIS 1,523 million computed on a group basis.

(2) The balance of commercial debts includes housing loans in the amount of NIS 203 million, which are combined in the layout of transactions and collateral of commercial borrowers' business, or which were granted to acquisition groups, the projects being built by them are in the course of construction.

(3) Includes the balance of allowance in excess of that required by the extent of arrears method, computed on a specific basis in amount of NIS 3 million, computed on a group basis in amount of NIS 211 million.

6. Credit risk, credit to the public and allowance for credit losses (continued)

1. Debts, credit to the public and the balance of allowance for credit losses - consolidated (continued)

	Audited					
	December 31, 2020					
	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total	Banks and Governments	Total
	In NIS millions					
Recorded amount of debts:						
Examined on a specific basis[1]	91,236	2	663	91,901	6,101	98,002
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	[2]212	42,505	-	42,717	-	42,717
Group - other	26,697	144	31,020	57,861	928	58,789
Total debts*	**118,145**	**42,651**	**31,683**	**192,479**	**7,029**	**199,508**
*** Of which:**						
Restructured troubled debts	1,154	-	245	1,399	-	1,399
Other Impaired debts	792	2	14	808	-	808
Total balance of impaired debts	**1,946**	**2**	**259**	**2,207**	**-**	**2,207**
Debts in arrears of 90 days or more	65	318	30	413	-	413
Other problematic debts	4,462	10	413	4,885	-	4,885
Total Problematic debts	**6,473**	**330**	**702**	**7,505**	**-**	**7,505**
Allowance for Credit Losses in respect of debts:						
Examined on a specific basis[1]	2,119	-	148	2,267	-	2,267
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	[3]1	[3]257	-	258	-	258
Group - other	484	1	751	1,236	15	1,251
Total allowance for Credit Losses	**2,604**	**258**	**899**	**3,761**	**15**	**3,776**
Of which: in respect of impaired debts	373	-	132	505	-	505

Footnotes:
(1) Including credit examined on a specific basis and found not to be impaired in an amount of NIS 95,795 million and the allowance in its respect in an amount of NIS 1,762 million computed on a group basis.
(2) The balance of commercial debts includes housing loans in the amount of NIS 212 million, which are combined in the layout of transactions and collateral of commercial borrowers' business, or which were granted to acquisition groups, the projects being built by them are in the course of construction.
(3) Includes the balance of allowance in excess of that required by the extent of arrears method, computed on a specific basis, in amount of NIS 1 million, computed on a group basis, in amount of NIS 187 million.

6. Credit risk, credit to the public and allowance for credit losses (continued)

2. Movement in the balance of allowance for credit losses - consolidated

	Unaudited					
	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total	Banks and Governments	Total
	In NIS millions					
	Three months ended June 30, 2021					
Balance of allowance for credit losses, as at March 31, 2021	2,696	254	925	3,875	17	3,892
Expenses (expense release) for credit loss	(340)	1	(71)	(410)	-	(410)
Accounting write-offs	(66)	(2)	(67)	(135)	-	(135)
Collection of debts written-off in previous years	142	1	65	208	-	208
Net accounting write-offs	76	(1)	(2)	73	-	73
Adjustments from translation of financial statements	(11)	-	-	(11)	-	(11)
Balance of allowance for credit losses, as at June 30, 2021	**2,421**	**254**	**852**	**3,527**	**17**	**3,544**
Of which: In respect of off-balance sheet credit instruments	178	-	77	255	-	255
	Three months ended June 30, 2020					
Balance of allowance for credit losses, as at March 31, 2020	2,199	237	839	3,275	1	3,276
Expenses for credit loss	313	61	144	518	14	532
Accounting write-offs	(93)	(6)	(120)	(219)	-	(219)
Collection of debts written-off in previous years	74	-	55	129	-	129
Net accounting write-offs	(19)	(6)	(65)	(90)	-	(90)
Adjustments from translation of financial statements	(9)	-	-	(9)	-	(9)
Balance of allowance for credit losses, as at June 30, 2020	**2,484**	**292**	**918**	**3,694**	**15**	**3,709**
Of which: In respect of off-balance sheet credit instruments	208	-	81	289	-	289
	Six months ended June 30, 2021					
Balance of allowance for credit losses, as at December 31, 2020 (audited)	2,817	258	984	4,059	15	4,074
Expenses (expenses release) for credit loss	(431)	(1)	(127)	(559)	2	(557)
Accounting write-offs	(166)	(5)	(132)	(303)	-	(303)
Collection of debts written-off in previous years	197	2	127	326	-	326
Net accounting write-offs	31	(3)	(5)	23	-	23
Adjustments from translation of financial statements	4	-	-	4	-	4
Balance of allowance for credit losses, as at June 30, 2021	**2,421**	**254**	**852**	**3,527**	**17**	**3,544**
Of which: In respect of off-balance sheet credit instruments	178	-	77	255	-	255
	Six months ended June 30, 2020					
Balance of allowance for credit losses, as at December 31, 2019 (audited)	1,823	207	717	2,747	1	2,748
Expenses for credit loss	754	91	329	1,174	14	1,188
Accounting write-offs	(231)	(6)	(255)	(492)	-	(492)
Collection of debts written-off in previous years	137	-	127	264	-	264
Net accounting write-offs	(94)	(6)	(128)	(228)	-	(228)
Adjustments from translation of financial statements	1	-	-	1	-	1
Balance of allowance for credit losses, as at June 30, 2020	**2,484**	**292**	**918**	**3,694**	**15**	**3,709**
Of which: In respect of off-balance sheet credit instruments	208	-	81	289	-	289

7. Deposits from the public

A. Type of deposits according to location of raising the deposit and type of depositor

	Unaudited		Audited
	June 30		December 31
	2021	2020	2020
	In NIS millions		
In Israel			
Demand deposits:			
Non-interest bearing	62,427	43,846	51,252
Interest bearing	53,097	53,920	56,454
Total demand deposits	**115,524**	**97,766**	**107,706**
Time deposits	94,372	95,675	90,798
Total deposits in Israel*	**209,896**	**193,441**	**198,504**
* Of which:			
Private individuals deposits	108,488	102,931	106,847
Institutional bodies deposits	17,205	(1)18,797	14,615
Corporations and others deposits	84,203	(1) 71,713	77,042
Outside Israel			
Demand deposits:			
Non-interest bearing	7,049	5,684	5,629
Interest bearing	20,189	16,396	18,246
Total demand deposits	**27,238**	**22,080**	**23,875**
Time deposits	3,557	6,527	3,739
Total deposits outside Israel	**30,795**	**28,607**	**27,614**
Total deposits from the public	**240,691**	**222,048**	**226,118**

Footnote:
(1) Reclassified – improvement in the attribution of the balance of several customers' deposits.

B. Deposits from the public according to size, on a consolidated basis

	Unaudited		Audited
	June 30		December 31
	2021	2020	2020
Deposit limit	Balance		
In NIS millions	In NIS millions		
Up to 1	87,534	81,994	86,723
Over 1 up to 10	64,486	61,539	63,483
Over 10 up to 100	37,688	35,248	35,663
Over 100 up to 500	21,783	22,949	19,226
Over 500	29,200	20,318	21,023
Total	**240,691**	**222,048**	**226,118**

8. Employee Benefits

A. Details regarding the benefits

	Unaudited		Audited
	June 30		December 31
	2021	2020	2020
	in NIS millions		
Severance pay, retirement and pension :			
The liability amount	2,845	3,453	3,133
Fair value of the plan's assets	1,272	1,513	1,318
Excess liabilities over the plan's assets	**1,573**	**1,940**	**1,815**
Excess liabilities of the program included in the item "other liabilities"	**1,573**	**1,940**	**1,815**
Amounts included in the other liabilities item:			
Long-service ("jubilee") awards	268	289	305
Post retirement benefits to retirees	610	653	613
Vacation	180	170	150
Illness	8	8	8
Total Excess liabilities of the program included in the item "other liabilities"	**2,639**	**3,060**	**2,891**
Of which – in respect of benefits to employees abroad	34	27	33

B. Defined benefit plan

1. Commitment and financing status

1.1 CHANGE IN COMMITMENT IN RESPECT OF ANTICIPATED BENEFITS

	Unaudited								Audited	
	For the three months ended June 30,				For the six months ended June 30,				For the year ended December 31,	
	2021	2020	2021	2020	2021	2020	2021	2020	2020	
	Severance pay, retirement and pension payments		Post retirement retiree benefits		Severance pay, retirement and pension payments		Post retirement retiree benefits		Severance pay, retirement and pension payments	Post retirement retiree benefits
	in NIS millions									
Commitment in respect of anticipated benefits at the beginning of the period	2,817	2,843	609	539	3,133	3,213	613	673	3,213	673
Cost of service	26	23	1	2	52	45	3	3	90	6
Cost of interest	14	24	4	4	29	42	8	8	75	16
Actuarial loss (profit)	14	(2)595	4	119	(20)	(2)228	2	(13)	(2)886	(3)
Changes in foreign currency exchange rates	-	-	(1)	(1)	-	(1)	-	-	(1)	(1)
Benefits paid	(26)	(32)	(7)	(10)	(349)	(74)	(16)	(18)	(1,130)	(78)
Commitment at the end of the period in respect of anticipated benefits	**2,845**	**3,453**	**610**	**653**	**2,845**	**3,453**	**610**	**653**	**3,133**	**613**
Commitment at the end of the period in respect of accumulated benefits(1)	**2,422**	**3,041**	**610**	**653**	**2,422**	**3,041**	**610**	**653**	**2,709**	**613**

Footnotes:
(1) The commitment in respect of a cumulative benefit differs from the commitment in respect of a contractual benefit in that it does not include any assumptions with regard to the future remuneration levels.
(2) Including an amount of NIS 257 million in the first half of 2020, and an amount of NIS 555 million in the whole of 2020, in respect of the 2020 retirement plan.

8. Employee Benefits (continued)

B. Defined benefit plan (continued)

1. Commitment and financing status (continued)

1.2 CHANGE IN FAIR VALUE OF THE PLAN'S ASSETS AND FINANCING STATUS OF THE PLAN

	Unaudited				Audited
	For the three months ended June 30,		For the six months ended June 30,		For the year ended December 31,
	2021	2020	2021	2020	2020
	Severance pay, retirement and pension payments				
	in NIS millions				
Fair value of the plan's assets at the beginning of the period	1,239	1,440	1,318	1,625	1,625
Actual return on the plan's assets	49	73	89	(84)	48
Deposits by the Bank to the plan	6	5	11	12	23
Benefits paid	(22)	(5)	(146)	(40)	(378)
Fair value of the program's assets at the end of the period	**1,272**	**1,513**	**1,272**	**1,513**	**1,318**
Financing status - net liability, recognized at the end of the period	**(1,573)**	**(1,940)**	**(1,573)**	**(1,940)**	**(1,815)**

1.3 AMOUNTS RECOGNIZED IN THE CONSOLIDATED BALANCE SHEET

	Unaudited				Audited	
	June 30				December 31	
	2021	2020	2021	2020	2020	
	Severance pay, retirement and pension payments		Post retirement retiree benefits		Severance pay, retirement and pension payments	Post retirement retiree benefits
	in NIS millions					
Amounts recognized in the item "other liabilities"	(1,573)	(1,940)	(610)	(653)	(1,815)	(613)
Net liability at the end of the period	**(1,573)**	**(1,940)**	**(610)**	**(653)**	**(1,815)**	**(613)**

1.4 AMOUNTS RECOGNIZED IN ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS), BEFORE TAX EFFECT

	Unaudited				Audited	
	June 30				December 31	
	2021	2020	2021	2020	2020	
	Severance pay, retirement and pension payments		Post retirement retiree benefits		Severance pay, retirement and pension payments	Post retirement retiree benefits
	in NIS millions					
Net actuarial loss	(912)	(1,037)	(55)	(43)	(1,152)	(53)
Net cost in respect of prior service	-	-	1	3	-	2
Closing balances of accumulated other comprehensive income (loss)	**(912)**	**(1,037)**	**(54)**	**(40)**	**(1,152)**	**(51)**

8. Employee Benefits (continued)

B. Defined benefit plan (continued)

1. Commitment and financing status (continued)

1.5 PLANS IN WHICH THE COMMITMENT IN RESPECT OF CUMULATIVE BENEFITS EXCEEDS THE PLAN'S ASSETS

	Unaudited		Audited
	June 30		December 31
	2021	2020	2020
	Severance pay, retirement and pension payments		
	in NIS millions		
Commitment in respect of cumulative benefits	2,286	2,897	2,561
Fair value of the plan's assets	1,134	1,336	1,146

1.6 PLANS IN WHICH THE COMMITMENT IN RESPECT OF ANTICIPATED BENEFITS EXCEEDS THE PLAN'S ASSETS

	Unaudited		Audited
	June 30		December 31
	2021	2020	2020
	Severance pay, retirement and pension payments		
	in NIS millions		
Commitment in respect of anticipated benefits	2,845	3,453	3,133
Fair value of the plan's assets	1,272	1,513	1,318

8. Employee Benefits (continued)

B. Defined benefit plan (continued)

2. Expense for the period

2.1 COMPONENTS OF NET BENEFIT COSTS RECOGNIZED IN THE STATEMENT OF PROFIT AND LOSS IN RESPECT OF DEFINED BENEFITS PENSION AND DEFINED DEPOSIT PLANS

	Unaudited				Audited
	For the three months ended June 30,		For the six months ended June 30,		For the year ended December,
	2021	2020	2021	2020	2020
	in NIS millions				
Severance pay, retirement and pension payments					
Cost of service	26	23	52	45	90
Cost of interest	14	24	29	42	75
Anticipated return on assets of the plan	(15)	(18)	(30)	(29)	(58)
Amortization of unrecognized amounts:					
Net actuarial loss	18	9	39	23	65
Total amortization of unrecognized amounts	**18**	**9**	**39**	**23**	**65**
Other, including loss from reduction or settlement	7	9	122	15	413
Total net cost of benefits	**50**	**47**	**212**	**96**	**585**
Total expense regarding defined deposits pension plans	**46**	**50**	**93**	**99**	**201**
Total expenses included in respect Severance pay, retirement and pension payments	**96**	**97**	**305**	**195**	**786**
Of which: expenses included in salaries and related expenses	72	73	145	144	291
Of which: expenses included in other expenses	24	24	160	51	495
Post retirement retiree benefits					
Cost of service	1	2	3	3	6
Cost of interest	4	4	8	8	16
Amortization of unrecognized amounts:					
Net actuarial income	-	(2)	-	(2)	(2)
Cost of prior service	-	-	(1)	-	(1)
Total amortization of unrecognized amounts	**-**	**(2)**	**(1)**	**(2)**	**(3)**
Total net cost of benefits	**5**	**4**	**10**	**9**	**19**
Of which: expenses included in salaries and related expenses	1	2	3	3	6
Of which: expenses included in other expenses	4	2	7	6	13

8. Employee Benefits (continued)

B. Defined benefit plan (continued)

2. Expense for the period (continued)

2.2 CHANGES IN ASSETS OF THE PLAN AND IN THE COMMITMENT FOR BENEFITS RECOGNIZED IN OTHER COMPREHENSIVE INCOME (LOSS), BEFORE TAX EFFECT

	Unaudited								Audited	
	For the three months ended June 30,				For the six months ended June 30,				For the year ended December 31,	
	2021	2020	2021	2020	2021	2020	2021	2020	2020	
	Severance pay, retirement and pension payments		Post retirement retiree benefits		Severance pay, retirement and pension payments		Post retirement retiree benefits		Severance pay, retirement and pension payments	Post retirement retiree benefits
	in NIS millions									
Net actuarial loss (income) for the period	(20)	540	4	119	(79)	341	2	(13)	896	(3)
Amortization of actuarial (loss) income	(18)	(9)	-	2	(39)	(23)	-	2	(65)	2
Amortization of credit in respect of prior service	-	-	-	-	-	-	1	-	-	1
Other, including profit from reduction or settlement	(7)	(9)	-	-	(122)	(15)	-	-	(413)	-
Total recognized in other comprehensive loss (income)	**(45)**	**522**	**4**	**121**	**(240)**	**303**	**3**	**(11)**	**418**	**-**
Total net cost of benefits[(1)]	**50**	**47**	**5**	**4**	**212**	**96**	**10**	**9**	**585**	**19**
Total amount recognized in net cost of benefits and in other comprehensive income (loss)	**5**	**569**	**9**	**125**	**(28)**	**399**	**13**	**(2)**	**1,003**	**19**

Footnote:
(1) See item 2.1 above.

3. Assumptions

3.1 ASSUMPTIONS ON THE BASIS OF A WEIGHTED AVERAGE USED IN DETERMINING THE COMMITMENT IN RESPECT OF THE BENEFIT AND IN MEASURING THE NET COST OF THE BENEFIT

3.1.1 PRINCIPAL ASSUMPTIONS USED IN DETERMINING THE COMMITMENT IN RESPECT OF THE BENEFIT

	Unaudited		Audited	Unaudited		Audited
	June 30		December 31	June 30		December 31
	2021	2020	2020	2021	2020	2020
	Severance pay, retirement and pension payments			Post retirement retiree benefits		
Discount rate	-0.12%-0.84%	0.36%-0.95%	0.05%-0.85%	-0.58%-1.09%	0.41%-1.16%	-0.08%-1.05%

3.1.2 PRINCIPAL ASSUMPTIONS USED IN MEASURING THE NET COST OF BENEFIT FOR THE PERIOD

	Unaudited		Audited	Unaudited		Audited
	June 30		December 31	June 30		December 31
	2021	2020	2020	2021	2020	2020
	Severance pay, retirement and pension payments			Post retirement retiree benefits		
Discount rate	0.02%-0.85%	0.96%-1.64%	0.69%-1.34%	-0.26%-1.07%	0.84%-1.83%	0.65%-1.54%

8. Employee Benefits (continued)

B. Defined benefit plan (continued)

3. Assumptions (continued)

3.2 EFFECT OF A ONE PERCENTAGE POINT CHANGE ON THE COMMITMENT FOR ANTICIPATED BENEFITS, BEFORE THE TAX EFFECT

	Unaudited		Audited	Unaudited		Audited	Unaudited		Audited	Unaudited		Audited
	Increase of one percentage point						Decrease of one percentage point					
	Severance pay, retirement and pension payments			Post retirement retiree benefits			Severance pay, retirement and pension payments			Post retirement retiree benefits		
	June 30		December 31	June 30		December 31	June 30		December 31	June 30		December 31
	2021	2020	2020	2021	2020	2020	2021	2020	2020	2021	2020	2020
	in NIS millions											
Discount rate	(251)	(299)	(284)	(41)	(40)	(45)	262	309	300	41	40	46

The said sensitivity analysis relates to the Bank, and to MDB, which comprise more than 90% of the liability in respect of an anticipated benefit.

4. Cash flow

4.1 DEPOSITS

	Unaudited					Audited
	Forecast[(1)]	Actual deposits				
		For the three months ended June 30,		For the six months ended June 30,		For the year ended December 31,
	2021	2021	2020	2021	2020	2021
	Severance pay, retirement and pension payments					
	in NIS millions					
Deposits	13	6	6	11	12	23

Footnote:
(1) Assessment of expected deposits with defined benefit pension plans the remainder of 2021.

C. **The 2020 retirement plan.** Note 23 I to the financial statements as of December 31, 2020, contains a description of the 2020 retirement plan applying to the Bank, MDB and ICC.
75 retirees of the Bank completed the retirement process until the end of the first quarter of 2021, within the framework of the retirement plans. Accordingly, the amount of the settlement charged to profit and loss in the first quarter of 2021, amounted to NIS 115 million (before tax effect). The balance will be spread over the average duration of the liability, which currently stands at approx. 13 years, in accordance with the accounting principles applicable to the Bank.

9. Capital Adequacy, leverage and liquidity in accordance with Directives of the Supervisor of Banks

1. Capital adequacy according to Directives of the Supervisor of Banks

(a) **Adoption of Basel III instructions.** Details in this matter were brought in Note 25, section 1, in the 2020 Annual Report.

(b) **Additional capital requirements in respect of housing loans.** On September 28, 2014 the Supervisor of Banks issued an amendment to Proper Conduct of Banking Business Directive No. 329, in the framework of which, a banking corporation is required to increase their Common equity target by a rate which expresses 1% of the outstanding housing loans. The said requirement increased the total minimum equity capital requirement and the total capital by approx. 0.16%. It is noted that in accordance to the Provisional Instruction from April 27, 2020, the said requirement shall not apply to housing loans approved as from March 19, 2020 and until date of expiry of the Provisional Instruction. Housing loans approved as from the effective date of the provisional instruction, and in respect of which, the additional capital requirement does not apply, as stated, amounted at June 30, 2021 to NIS 15,252 million. In reply to an approach by the Bank, the Supervisor of Banks clarified on June 2, 2021, that the said requirement relates only to the Common Equity Tier 1 goal, and that it is not required to apply it also with respect to the total capital goal. Accordingly, the required minimum total capital ratio has been reduced by approx. 0.2%.

(c) Relief regarding the retirement plan

(1) **Relief regarding the retirement plan 2016.** The Supervisor of Banks granted the Bank relief regarding its 2016 efficiency plan. Costs in a total amount of NIS 372 million (before taxes; on a consolidated basis; an amount of NIS 245 million net of tax) have been eliminated in computing capital adequacy in the report for the third quarter of 2016, and are gradually amortized, as from the fourth quarter of 2016, on a quarterly straight-line basis (5% per quarter) over a period of five years. Costs in the amount of NIS 232 million have been amortized to June 30, 2021. Additional details regarding this matter are given in Note 25 section 1 c (1) to the 2020 annual report.

(2) **Relief regarding the retirement plan 2018.** The Supervisor of Banks granted the Bank a relief regarding its 2018 efficiency plan. Costs in a total amount of approx. NIS 145 million (before taxes; an amount of NIS 95 million net of tax) have been eliminated in computing capital adequacy in the report for the second quarter of 2018, and are gradually amortized, as from the third quarter of 2018, on a quarterly straight-line basis (5% per quarter) over a period of five years. Costs in the amount of NIS 57 million have been amortized to June 30, 2021. Additional details regarding this matter are given in Note 25 section 1 c (2) to the 2020 annual report.

(3) **Relief regarding the retirement plan 2020.** The Supervisor of Banks granted the Bank a relief regarding its 2020 retirement plan. Costs in a total amount of approx. NIS 257 million (before taxes; an amount of NIS 169 million net of tax) have been eliminated in computing capital adequacy in the report for the second quarter of 2020, and are gradually amortized, as from the third quarter of 2020, on a quarterly straight-line basis (5% per quarter) over a period of five years. Costs in the amount of NIS 34 million have been amortized to June 30, 2021. Additional details regarding this matter are given in Note 25 section 1 c (3) to the 2020 annual report.

(4) **Relief regarding the expanding of the retirement plan 2020.** The Supervisor of Banks granted the Bank a relief regarding the expanding of its 2020 retirement plan. Costs in a total amount of approx. NIS 238 million (before taxes; an amount of NIS 157 million net of tax) have been eliminated in computing capital adequacy in the report for the third quarter of 2020, and are gradually amortized, as from the fourth quarter of 2020, on a quarterly straight-line basis (5% per quarter) over a period of five years. Costs in the amount of NIS 28 million have been amortized to June 30, 2021. Additional details regarding this matter are given in Note 25 section 1 c (4) to the 2020 annual report.

(5) **Relief regarding the retirement plan 2020 - MDB.** The Supervisor of Banks granted MDB a relief regarding its 2020 retirement plan. Costs in a total amount of approx. NIS 60 million (before taxes; an amount of NIS 40 million net of tax) have been eliminated in computing capital adequacy in the 2020 annual report, and are gradually amortized, as from the fourth quarter of 2020, on a quarterly straight-line basis (5% per quarter) over a period of five years. Costs in the amount of NIS 4 million have been amortized to June 30, 2021. Additional details regarding this matter are given in Note 25 section 1 c (5) to the 2020 annual report.

9. Capital Adequacy, leverage and liquidity in accordance with Directives of the Supervisor of Banks (continued)

1. Capital adequacy according to Directives of the Supervisor of Banks (continued)

(d) **Provisional Instruction mitigating the capital requirements in order to face the Corona crisis.** The Supervisor of Banks published on March 31, 2020 a Provisional Instruction, according to which, on the background of the spreading of the Corona virus and in order to secure the ability of banks to continue the granting of credit, the regulatory capital requirements applying to banks, have been reduced so that the minimum Common Equity Tier 1 ratio (excluding the additional capital buffer in respect of residential credit) would be 8% (compared to 9% prior to the change), and the minimum total capital ratio would be 11.5% (compared to 12.5% prior to the change). The Provisional Instruction remained in effect for a period of six months, and in September 2020 it was extended for an additional period of six months, until March 31, 2021. On March 22, 2021, the validity of the provisional instruction has been extended to September 30, 2021. The mitigated capital requirements will apply for a period of twenty-four months following the end of the temporary directive period (namely, until September 30, 2023), on condition that the Bank's capital ratios shall not be lower than the capital ratios existing at the end of the temporary directive period, or the capital ratios applying to the Bank prior to the temporary directive, whichever is lower. Within the framework of the circular dated March 22, 2021, it was prescribed that a reduction in the capital ratios of up to 0.3 percentage points in the six-month period from the end of the temporary directive's validity (namely, until March 31, 2022) would not be considered a deviation from the regulatory capital requirements. As from October 1, 2021, with the expiry of the period of the Provisional Instruction, the minimum level of the Common Equity Tier 1 ratio and the minimum level of the total capital ratio will revert to the level of 9% and 12.5%, respectively, subject to that stated above.

E. Capital for calculating ratio of capital

	Unaudited		Audited
	June 30,		December 31,
	2021	2020	2020
	in NIS millions		
Common equity tier 1 after deductions	(1)21,099	(1)19,391	(1)19,707
Additional tier 1 capital after deductions	178	356	356
Tier 1 capital	21,277	19,747	20,063
Tier 2 capital after deductions	6,396	5,296	5,170
Total capital	**27,673**	**25,043**	**25,233**

Footnote:
(1) See item "C" above.

F. Weighted risk assets balance

	Unaudited		Audited
	June 30,		December 31,
	2021	2020	2020
	in NIS millions		
Credit risk[1]	184,968	171,479	173,317
Market Risk	3,615	4,127	3,337
CVA risk	1,598	2,235	1,763
Operational risk	15,074	14,514	14,815
Total weighted risk assets balance	**205,255**	**192,355**	**193,232**

Footnote:
(1) The total weighted balances of the risk assets have been reduced by NIS 391 million (June 30, 2020: NIS 228 million, December 31,2020: NIS 439 million) due to adjustments in respect to the efficiency plan.

9. Capital Adequacy, leverage and liquidity in accordance with Directives of the Supervisor of Banks (continued)

1. Capital adequacy according to Directives of the Supervisor of Banks (continued)

G. Ratio of capital risk assets

	Unaudited		Audited
	June 30,		December 31,
	2021	2020	2020
	In %		
A. Consolidated			
Ratio of common equity tier 1 to risk assets	10.28	10.08	10.20
Ratio of total capital to risk assets	13.48	13.02	13.06
Ratio of minimum common equity tier 1 required by the Supervisor of Banks(3)(5)	8.16	8.19	8.18
Minimum total capital adequacy ratio required by the Supervisor of Banks(5)	11.50	(6)11.50	(6)11.50
B. Significant subsidiaries			
1. Mercantile Discount Bank LTD. and its consolidated companies			
Ratio of common equity tier 1 to risk assets	11.9	11.2	11.4
Ratio of total capital to risk assets	14.1	13.7	13.8
Ratio of minimum common equity tier 1 required by the Supervisor of Banks(4)(5)	8.2	8.2	8.2
Minimum total capital adequacy ratio required by the Supervisor of Banks(5)	11.5	(6)11.5	(6)11.5
2. Discount Bancorp Inc. (1)			
Ratio of common equity tier 1 to risk assets	13.7	14.8	14.1
Ratio of total capital to risk assets	15.0	16.1	15.3
Ratio of minimum common equity tier 1 required in accordance with local regulation(2)	4.5	4.5	4.5
Minimum total capital adequacy ratio required in accordance with local regulation(2)	8.0	8.0	8.0
3. Israel Credit Cards LTD.			
Ratio of common equity tier 1 to risk assets	14.2	13.3	13.8
Ratio of total capital to risk assets	15.3	14.3	14.8
Ratio of minimum common equity tier 1 required by the Supervisor of Banks	8.0	8.0	8.0
Minimum total capital adequacy ratio required by the Supervisor of Banks	11.5	11.5	11.5

Footnotes:

(1) The data in this item was computed in accordance with the rules mandatory in the U.S.A.

(2) IDB New York is subject to the new Basel III capital rules based on the final rules published by the FRB. Capital ratios are as follows: 4.5% CET1 to risk-weighted assets; 6.0% Tier 1 capital to risk-weighted assets; and 8.0% Total capital to risk-weighted assets.

(3) With an addition of 0.16% (June 30, 2020: 0.19%, December 31, 2020: 0.18%), in accordance with the additional capital requirements with respect to housing loans - see item 1 (b) above.

(4) With an addition of 0.18% (June 30, 2020: 0.20%, December 31, 2020: 0.19%), in accordance with the additional capital requirements with respect to housing loans - see item 1 (b) above.

(5) .For details regarding provision instruction mitigating the capital requirements in order to face the Corona crisis, see sections B and D above

(6) Amended, following clarification by the Supervisor of Banks, see section 1(b) above.

9. Capital Adequacy, leverage and liquidity in accordance with Directives of the Supervisor of Banks (continued)

1. Capital adequacy according to Directives of the Supervisor of Banks (continued)

H. Capital components for calculating ratio of capital

	Unaudited		Audited
	June 30,		December 31,
	2021	2020	2020
	in NIS millions		
A. Common Equity Tier 1			
Common equity	21,346	19,523	19,727
Difference between common equity and common equity tier 1	(383)	(226)	(246)
Total common equity tier 1 before supervisory adjustments and deductions	**20,963**	**19,297**	**19,481**
Supervisory adjustments and deductions			
Goodwill and other intangible assets	207	207	207
Supervisory adjustments and other deductions	4	(14)	(16)
Total supervisory adjustments and deductions before adjustments in respect to the efficiency plan	**211**	**193**	**191**
Total adjustments in respect to the efficiency plan	347	287	417
Total common equity tier 1 after supervisory adjustments and deductions	**21,099**	**19,391**	**19,707**
B. Additional tier 1 capital			
Additional tier 1 capital before deductions	178	356	356
Total additional tier 1 capital after deductions	**178**	**356**	**356**
C. Tier 2 capital			
Instruments before deductions	3,981	3,040	2,896
Allowance for credit losses before deductions	2,332	2,171	2,188
Minority interests in a subsidiary	83	85	86
Total tier 2 capital before deductions	6,396	5,296	5,170
Deductions	-	-	-
Total tier 2 capital	**6,396**	**5,296**	**5,170**

I. The effect of the adjustments in respect to the efficiency plan on the ratio of common equity tier 1

	Unaudited		Audited
	June 30,		December 31,
	2021	2020	2020
	In %		
Ratio of common equity tier 1 to risk assets before the effect of the adjustments in respect to the efficiency plan	10.09	9.92	9.96
Effect of the adjustments in respect to the efficiency plan	0.19	0.16	0.24
Ratio of common equity tier 1 to risk assets after the effect of the adjustments in respect to the efficiency plan	10.28	10.08	10.20

9. Capital Adequacy, leverage and liquidity in accordance with Directives of the Supervisor of Banks (continued)

2. Leverage ratio according to Directives of the Supervisor of Banks

Computed according to Proper Conduct of Banking Business Directive No. 218 in the matter of leverage ratio.

Temporary directive for a relaxation in relation to leverage in light of the Corona crisis. On November 15, 2020, the Banking Supervision Department issued an update to Proper Conduct of Banking Business Directive No. 250. The update deals with the relaxation in the leverage ratio for a banking corporation, so that it will amount to 4.5% for a banking corporation whose market share is smaller than 24%. This was done in order to prevent a situation where the leverage ratio would constitute an obstacle to extending bank credit. After being extended, the temporary directive will be in effect through September 30, 2021. The relaxation in the requirement regarding this will be in effect for 24 months once the validity of the temporary directive comes to an end (viz. through September 30, 2023) and provided that the leverage ratio does not fall below the rate on the Directive's termination date or the minimum leverage ratio required of a banking corporation prior to the temporary directive, whichever is the lower.

	Unaudited		Audited
	June 30,		December 31,
	2021	2020	2020
	in NIS millions		
A. Consolidated			
Tier 1 capital[(1)]	21,277	19,747	20,063
Total exposures	340,170	306,712	319,222
	In %		
Leverage ratio	6.3	6.4	6.3
Minimal Leverage ratio required by the Supervisor of Banks	4.5	5.0	4.5
B. Significant subsidiaries			
1. Mercantile Discount Bank LTD. and its consolidated companies			
Leverage ratio	6.4	6.3	6.0
Minimal Leverage ratio required by the Supervisor of Banks	4.5	5.0	4.5
2. Discount Bakcorp Inc.			
Leverage ratio	10.1	10.4	10.3
Minimal Leverage ratio required by the Supervisor of Banks	4.0	4.0	4.0
3. Israel Credit Cards LTD.			
Leverage ratio	8.9	8.4	8.7
Minimal Leverage ratio required by the Supervisor of Banks	4.5	5.0	4.5

Footnote:

(1) For the effect of the adjustments in respect to the efficiency plans, see sections 1 H, I.

9. Capital Adequacy, leverage and liquidity in accordance with Directives of the Supervisor of Banks (continued)

3. Liquidity coverage ratio according to Directives of the Supervisor of Banks

Computed according to Proper Conduct of Banking Business Directive No. 221 in the matter of liquidity coverage ratio.

General. The computation is based on the average of daily observations in the period of ninety days prior to the date of the report (with the exception of ICC, where the computation was based on the average of monthly observations).

	Unaudited		Audited
	For the three months ended		
	June 30,		December 31,
	2021	2020	2020
	In %		
A. Consolidated			
Liquidity coverage ratio	138.9	136.9	147.5
Minimal Liquidity coverage ratio required by the Supervisor of Banks	100.0	100.0	100.0
B. The Bank			
Liquidity coverage ratio	151.4	148.5	165.4
Minimal Liquidity coverage ratio required by the Supervisor of Banks	100.0	100.0	100.0
C. Significant subsidiaries(1)			
Mercantile Discount Bank LTD. and its consolidated companies			
Liquidity coverage ratio	140.9	141.5	155.8
Minimal Liquidity coverage ratio required by the Supervisor of Banks	100.0	100.0	100.0

Footnotes:

(1) The new directive does not apply to credit card companies and thus data relating to ICC are not presented. Likewise, the directive does not apply to IDB New York.

10. Contingent liabilities and special commitments

Contingent liabilities and other special commitments

	Unaudited		Audited
	June 30		December 31
	2021	2020	2020
	in NIS millions		
1. Commitment to acquire buildings and equipment(1)	816	757	(2)661
2. Commitment to invest in private investment funds and in venture capital funds	705	518	708

Footnotes:

(1) Mainly due to the Discount campus establishment, see item 5.

(2) Reclassified – improvement of data.

Contingent liabilities and other special commitments - continued

3. Various actions against the Bank and its consolidated subsidiaries:

   As detailed in Note 26 C 11 to the financial statements as at December 31, 2020, various actions are pending against the Bank and its consolidated subsidiaries, including class action suits and requests to approve actions as class action suits. In the opinion of the Bank's Management, which is based, inter alia, on legal opinions and/or on the opinion of managements of its consolidated subsidiaries, which are based upon the opinion of their legal counsels, respectively, as the - case may be, adequate provisions have been included in the financial statements, where required.

   The total exposure with respect to claims filed against the Bank and its consolidated subsidiaries, whose prospects of materializing, in whole or in part, have been assessed as reasonably possible, amounted to approx. NIS 601 million as of June 30, 2021.

   A description of material legal proceedings being conducted against the Bank and Group companies was brought in Note 26 C sections 11-12 to the financial statements as at December 31, 2020. The criteria under which a legal proceeding will usually be defined by the Bank as material is brought in Note 1 D 16 to the financial statements as at December 31, 2020.

   Following is a summary of significant updates regarding material legal actions against the Bank and its subsidiaries:

10. Contingent liabilities and special commitments (continued)

3.1 Note 26 C 11.1 to the financial statements as of December 31, 2020, described a lawsuit together with a motion for its approval as a class action suit, filed on April 28, 2014, with the District Court Central Region against ICC and other credit card companies. The above motion raises the allegation for two binding arrangements in the field of immediate debit cards ("debit") and pre-paid cards ("pre-paid"). A new motion was filed on June 8, 2016, which assessed the damage in respect of all defendants at approx. NIS 7 billion.

An action requesting declaratory relief was filed with the Competition Tribunal on October 16, 2017, in which the Tribunal is requested to state that upon submission of the verdict which approved the cross-commission arrangement, such arrangement did not include immediate debit cards and rechargeable cards. The credit card companies, including ICC, have filed a motion for the dismissal in limine of the claim. On October 16, 2018, the Competition Tribunal admitted the motions for the in limine dismissal of the motion for the granting of declaratory relief. On December 4, 2018, an appeal against the decision of the Competition Tribunal was submitted. On June 18, 2019, the Supreme Court dismissed the appeal.

On December 23, 2018, the Appellants submitted a motion to the Supreme Court, sitting as a High Court of Justice, against the Competition Commissioner. It is requested in the motion that the Court instructs the Competition Commissioner to act in order to clarify, or annul, or change the verdict of the Competition Court which approved the cross-commission arrangement. A hearing of the Plea was held on July 16, 2020, and on that day the Court ruled for the rejection of the Plea. Accordingly, the proceedings are to continue at the District Court. A pretrial was held on April 12, 2021, in which the parties stated their arguments. In accordance with the suggestion of the Court, the parties informed of their consent to refer the case to mediation, the identity of the mediator has been agreed upon and a mediation meeting was fixed for November 1, 2021.

3.2 Note 26 C 11.3 to the financial statements as of December 31, 2020, described various legal proceedings conducted in Australia and in Israel against the Bank and against MDB, relating to accounts held with these two banks by certain Australian family members and by companies related to them. The essence of the said proceedings is civil lawsuits (fiscal) filed in Australia by Liquidators of the related companies, claiming damage caused to these companies due to amended tax assessments issued by the Australian Tax Authorities. The claims were based on the argument (refuted) that the said banks had provided banking services to customers, assisting them in evading the payment of taxes in Australia. An examination performed at the banks did not identify additional related accounts, in respect of which additional actions, as stated above, might be lodged.

On January 31, 2021, the Bank signed a compromise arrangement in relation to the aforementioned proceedings for the settlement of all claims and actions of the Plaintiffs against the Discount Group, including in relation to the proceedings, the family members and the related companies, with this being without any admission of liability. Concurrently, MDB also signed a compromise arrangement in connection with the matter described in the said Note 26 C 11.3, subsection (3). In accordance with the aforesaid arrangements, the amount of the settlement totals AUD 138 million, equivalent to approx. NIS 343 million.

Concurrently, the Bank has agreed to an arrangement whereby, after the settlement amount was paid by the Bank and by MDB ("the Banks") to the Plaintiffs, the insurers paid the Banks an amount of approx. US$ 55 million, in respect of which an amount of approx. US$ 47.5 million (approx. NIS 151 million) was recorded as income.

3.3 Note 26 C 11.2 to the financial statements as of December 31, 2020, described a lawsuit together with a motion for its approval as a class action suit against the Bank, filed with the Tel Aviv- Jaffa District Court on February 21, 2017. The motion claims that the Bank charges customers entitled to be defined as a "small business", with fees and commissions that are not in agreement with the small business pricelist. It is further claimed that the Bank did not disclose to its business customers the option of being classified as a small business and the practical significance of such classification, a conduct that led to the charging of excess fees and commissions. The Claimants stated the amount of the claim at approx. NIS 261 million.

The Appellants have filed similar legal actions against additional banks. The respondent banks informed the Court that they agree to the consolidation of the hearing though not to the consolidation of the cases, so that a separate clarification of the facts would be required in respect of each of the respondents. The hearing by the District Court in the matter of the consolidated cases was fixed for a pre-trial on April 6, 2021. In the hearing, the Court instructed a technical consolidation only of the actions for the purpose of conducting the hearing of proof, and clarified that each action would be decided on its own merits. In its decision of May 4, 2021, the Court informed the parties that it intends to examine referral to a Regulator, and instructed the parties to submit their position in the matter. The parties have submitted their positions. The case is fixed for the hearing of evidence in the months of March-April 2023.

10. Contingent liabilities and special commitments (continued)

3.4 Note 26 C 11.6 to the financial statements as of December 31, 2020, described a claim and a petition for the claim's approval as a class action filed on July 22, 2018, in the Tel Aviv District Court against ICC and two other credit card companies. The subject of the petition is paperless transactions (mainly telephone transactions) with companies engaged in direct marketing. It is alleged in the petition that the credit card companies have not prevented the companies engaged in direct marketing from exploiting the elderly and stealing their money in respect to illegal transactions, with this being done by charging their credit cards. It is also alleged in the petition that the credit card companies should have prevented this phenomenon at the outset and, prior to entering into an engagement with the direct marketing companies, they should have checked the nature of these companies and their activity and should have verified that they were in full compliance with the law. The petitioners have assessed the amount of their claim in the sum of NIS 900 million for all the members of the group.

The Court decision of June 11, 2021, stated that the Attorney General to the Government has to inform whether he wishes to appear as part of the proceedings.

3.5 Note 26 C 11.5 to the financial statements as of December 31, 2020, described an action together with a motion for approval of the action as a class action suit filed against the Bank on June 21, 2018, with the Central District Court in Lod. As alleged by the Appellant, the Bank violates the provisions of the Custodian General Act, 1978, and the provisions of the Protection of Deposited Assets Act, 1964, in that it does not report to the Custodian General its holding of an "abandoned asset". It is claimed that the Bank does not make reasonable efforts to locate the owners of the "abandoned asset", and causes damage to members of the class in that the Custodian General would have invested these funds in a most beneficial fashion suitable to the type of the abandoned asset, and would have made real efforts to locate the owners. The Appellant stated the amount of the claim for all class members at NIS 300 million.

The response of the Bank was filed in February 10, 2019. A motion for the amendment of the motion for approval was filed on December 25, 2019. On March 17, 2020, the Bank submitted its response, according to which it opposes the motion for the amendment of the motion for approval, which comprises an attempt to broadening the scope claim. On May 26, 2020, the Court resolution was given, according to which the motion for amendment of the motion for approval would be heard at the preliminary hearing meeting. A preliminary hearing was fixed for April 20, 2021 and in continuation, the parties have reached agreement to refer to mediation and a first mediation meeting was held. On August 9, 2021, the Appellant informed the Court that the mediation had failed.

3.6 Note 26 C 12.3 to the financial statements as of December 31, 2020, described a statement of claim and a petition for its approval as a class action against the Bank and against two other banks, filed on May 11, 2020, at the Tel Aviv District Court.

The petitioner alleges that the Bank has breached its duty of banking confidentiality in that it has granted international corporations, such as Facebook and Google, access to its digital platforms and is allowing them to gather private information regarding customers. It is alleged that the banks have made a bargain with these international data corporations whereby they have received cheap and effective tools in return to causing damage to customer privacy. As alleged by the petitioner, the Bank's different documents have been drafted in an all-embracing and sweeping fashion without providing any explanation to customers regarding the nature of the data that is transferred and the customers' signature on these agreements should not be considered as consent to the transfer of information.

The petitioner has stated that the amount of the damage caused to all the class action members cannot be assessed.

The Bank submitted its response on February 14, 2021, and the responses by the Appellants were submitted on June 27, 2021. In the hearing held on July 15, 2021, the Court fixed dates for submission of argument briefs with respect to the motion by the banks for the deletion of items included in the response by the Appellants ("motion for deletion"). It was also stated that following a decision in the matter of the motion for deletion, the argument briefs would be delivered to the Regulator, in order to obtain his position in this case.

For details of a motion for approval of an action as a class action involving a similar issue, filed against ICC and additional Respondents, see section 4.4 below.

3.7 Note 26 C 12.4 to the financial statements as of December 31, 2020, described a claim together with a motion for its approval as a class action against MDB filed on September 16, 2020 at the Jerusalem District Court. The Claimant alleges that as a condition for the grant of a state-guaranteed loan MDB requires to open a deposit from the loan funds, with id pledged to secure the repayment of the loan, namely that the amount of the loan actually received is the amount of the loan, net of the amount of the deposit. The Claimant also alleges that the loan documents do not mention the level of the effective interest, including all fees, interest and other payments that have to be made.

The Claimant has assessed the amount of the action for the whole group in the sum of approx. NIS 817 million, but it was noted that the exact amount will be determined once the material in MDB's possession is received.

The response by MDB was submitted on June 21, 2021; hearing of the case is fixed for November 9, 2021.

10. Contingent liabilities and special commitments (continued)

4. Class action suits and requests to approve certain actions as class action suits as well as other actions are pending against the Bank and its consolidated subsidiaries, which, in the opinion of the Bank's Management, based on legal opinions and/or on the opinion of managements of its consolidated subsidiaries, which are based on the opinions of their legal counsels, respectively, as the case may be, it is not possible at this stage to evaluate their prospects of success, and therefore no provision have been included in respect therewith.

4.1 Note 26 C 12.1 to the financial statements as of December 31, 2020, described a claim brief together with a plea for deferment of the payment of Court fees, filed on December 19, 2019, with the Tel Aviv-Yaffo District Court against the Bank and against five additional defendants. The claim had been filed by a commercial bank in the Ukraine, the Joint Stock Company Commercial Bank, Private Bank, and the cause of action being fraud, embezzlement and deceit perpetrated by former controlling stockholders of the Plaintiff who are being sued in the claim brief.

As argued in the claim brief, the controlling stockholders of the Plaintiff had acted for the granting of loans by the Plaintiff to entities under their control, such loan monies being later transferred through bank accounts in order to hide their source, and finally usurped for the personal benefit of the controlling stockholders. It is further argued that as part of the fraud and embezzlement perpetrated in accordance with the instructions of the controlling stockholders, an amount of US$1.2 billion was smuggled to Israel by way of monetary transfers from a bank account in Cyprus belonging to a company owned by the controlling stockholders to its account with the Bank. As described in the claim brief, the said monetary transfers were made in the years from 2007 to 2011. According to the arguments of the Plaintiff by allowing these monetary transfers to and from the Bank, the Bank has caused damage to the Plaintiff, and this, as argued by the Plaintiff, is in contradiction to the duties applying to him under the Prohibition of Money Laundering Act in Israel.

The amount of the claim against all defendants is stated at NIS 2.1 billion.

The Court fee was paid on January 30, 2020. On March 18, 2020, the Court accepted the plaintiff's motion and granted an order permitting the service of the statement of claim outside its jurisdiction.

On February 17, 2020, the Bank filed a motion for the dismissal in limine of the claim or, alternately, for a stay of proceedings therein due to the parallel proceedings being conducted overseas. On May 17, 2020, the Court ruled to accept the Bank's motion for an extension to the date for filing a statement of defense.

On December 7, 2020, the Court ruled for the rejection of the motion of the Bank for the in limine dismissal of the action. On December 31, 2020, the Bank applied to the Supreme Court for permission to appeal the said decision. On January 26, 2021, the Court granted the Bank an extension for the submission of a defense brief within sixty days from date of the decision of the Supreme Court in the request for permission to appeal. The Supreme Court dismissed on March 25, 2021, the motion for permission to appeal.

At the request of the Claimant, the Court permitted the delivery of the claim brief to a part of the Defendants, whose alleged place of residence is in the Ukraine; and this decision was appealed (not yet decided). Furthermore, at the request of the Bank dated May 26, 2021, the Court has extended the date for submission of the defense brief until after a decision is given in the motion for an Order under the money laundering prohibition laws, submitted by the Bank.

4.2 Note 26 C 12.2 to the financial statements as of December 31, 2020, described four lawsuits against the Bank together with motions for their approval as class action suits filed on January 30, 2020, with the Tel Aviv District Court. The lawsuits refer to a failure in the installation of a server regarding the PayBox payment application, a failure, which, as argued by the plaintiffs, caused them damage.

The amounts of the claims in respect of all members of the class amount in the four motions to NIS 850 million, NIS 500 million, NIS 25 million and NIS 5.2 million, respectively.

On March 4, 2020, the Bank filed motions in all the cases of motions for approval, whereby the Court was asked to use its authority to order the dismissal of three of the four motions for approval. At the request of the Bank, the Court instructed that the Bank's response to the motion for approval would be submitted within ninety days following the decision regarding the request for the dismissal of three of the motions. The four motions for approval in this matter had been fixed for a pretrial hearing on April 12, 2021, during which, the Court instructed the Claimants in the parallel actions to inform the Court within fourteen days as to whether they had reached agreement to consolidate the motions into one motion to be conducted by one representative. The four Appellants informed on June 7, 2021, that they had reached agreement regarding the submission of a consolidated motion for approval. A decision dated June 20, 2021, fixed dates for submission of argument briefs with respect to the consolidated motion. Hearing of the case was fixed for January 24, 2022. At the request of the Appellants, the date for submission of a consolidated motion for approval has been extended to August 20, 2021.

10. Contingent liabilities and special commitments (continued)

4.3 Note 26 C 12.5 to the financial statements as of December 31, 2020, described an action together with a motion for approval of the action as a class action suit, against the Bank, MDB and five additional banks, filed on November 16, 2020 with the Jerusalem District Court. The action brief was delivered to the banks during December 2020. The Claimants argue that the banks are not acting in accordance with the provisions of the Credit Data Act and the Regulations enacted under it, by incorrectly reporting data relating to cases where they have no authority to do so. It is also argued that the banks report legal proceedings in respect of a debt even after a verdict had been given at the conclusion thereof, and this until repayment of the debt had been made in full, or until a debt arrangement had been signed, date of granting exemption, or any other date following the rendering of a verdict.

It is further argued that the banks report also claims in determined amounts submitted to the Debt Execution Office, and this despite the fact that no legal proceedings had been instituted with a Court of Law. The Claimants claim a monetary damage of different amounts in respect of the different class members and a nonmonetary damage in respect of damaged autonomy in the amount of NIS 50,000, with no proof of damage.

The Claimants state that the members of the class number tens of thousands of customers who had suffered considerable damage, though, at this stage and prior to obtaining data, the Claimants are unable to estimate the amount of the damage to the class as a whole. The parties agreed to refer the case to mediation.

4.4 On April 13, 2021, ICC received notice of a motion for approval of a class action. The motion had been filed against fifteen financial bodies, including banks, credit card companies, insurance companies and investment houses.

The subject of the action is the argument made by the Claimants that the Respondents provide to third parties, and to Google and to its advertising services in particular, private, personal and confidential data regarding their customers who are making use of the digital services of the Respondents, or who had done so during the seven years prior to the date of filing the action, without obtaining the consent of the said customers, thus damaging their rights to privacy while violating the duties imposed on the Respondents in accordance with the law.

The damage caused to the group, which the Claimants wish to represent, is estimated by the Claimants at amounts reaching millions of NIS. The Claimants state the amount of the personal damage for each Claimant at NIS 1,000 in respect of non-monetary damage, and NIS 1,000 in respect of the monetary damage.

ICC has until October 10, 2021 to file its response.

For details regarding a motion for approval of an action as a class action in a similar matter, filed against the Bank and additional banks, see section 3.6 above.

5. **Discount Campus.** Details regarding the project are presented in Note 26 C 17 to the annual financial statements as of December 31, 2020. The investment in the project amounted at June 30, 2021, to NIS 508 million. The balance of the commitment in respect of this project amounted at that date to NIS 717 million. Additional liabilities in the amount of approx. NIS 125 million were added subsequent to balance sheet date in respect of engagements for performing a part of the finishing work and engagements in the technological field.

6. **Directors and officers liability insurance.** On March 31, 2021, pursuant to the approval of the Remuneration Committee and the Board of Directors, the Bank took out a collective policy for the insurance of directors and officers, who are currently serving with the Bank or who will serve with it from time to time, including with respect to their service on behalf of the Bank as officers with any other company which is held by the Bank (hereinafter: "the Insurance Policy"), with this being in accordance with Regulation 1B1 of the Companies Regulations (Reliefs in Transactions with Interested Parties), 2000, and in accordance with the Israel Securities Authority's position paper 101-21 (as last updated in August 2020) and with the provisions of the Bank's remuneration policy, as approved by the general meeting of the Bank's shareholders on March 18, 2020 subject to that stated below.

The Insurance Policy will be in effect from April 1, 2021 through March 31, 2022 (hereinafter: "the Insurance Period"). The liability limit insured within the framework of the Insurance Policy is US$115 million per claim and in aggregate for the Insurance Period. The cost of the premium that is to be paid for the Insurance Policy for the Insurance Period amounts to approx. US$4.33 million. In the event of a claim against any of the officers, no deductible shall be applicable to the officers themselves. The Bank will bear the deductible of US$500 thousand per event; with respect to claims relating to securities (Entity-SEC), the Bank will bear a deductible of US$1 million per event, while, with respect to claims relating to labor relations (Entity-EPL), the Bank will bear a deductible of US$500 thousand per event.

11. Derivative Instruments Activity – volume, credit risk and due dates

A. Volume of activity on a consolidated basis

1. Par value of derivative instruments

	Unaudited						Audited		
	June 30, 2021			June 30. 2020			December 31, 2020		
	Non-trading derivatives	Trading derivatives	Total	Non-trading derivatives	Trading derivatives	Total	Non-trading derivatives	Trading derivatives	Total
	In NIS millions								
Interest rate contracts									
Forward and Futures contracts	6,832	7,968	14,800	7,128	11,104	18,232	7,177	5,987	13,164
Options written	19	1,482	1,501	382	3,779	4,161	34	792	826
Options purchased	53	1,464	1,517	440	1,609	2,049	73	892	965
Swaps(1)	8,093	112,396	120,489	13,149	106,340	119,489	9,539	103,393	112,932
Total(2)	**14,997**	**123,310**	**138,307**	**21,099**	**122,832**	**143,931**	**16,823**	**111,064**	**127,887**
Of which: Hedging derivatives(5)	4,555	-	4,555	5,388	-	5,388	4,123	-	4,123
Foreign currency contracts									
Forward and Futures contracts(3)	1,622	47,547	49,169	3,555	30,736	34,291	2,098	33,026	35,124
Options written	35	13,489	13,524	-	14,458	14,458	34	15,646	15,680
Options purchased	35	13,765	13,800	-	13,590	13,590	34	14,813	14,847
Swaps	22,803	79,762	102,565	25,628	66,828	92,456	15,595	76,536	92,131
Total	**24,495**	**154,563**	**179,058**	**29,183**	**125,612**	**154,795**	**17,761**	**140,021**	**157,782**
Contracts on shares									
Options written	93	10,169	10,262	128	5,670	5,798	92	8,194	8,286
Options purchased(4)	97	10,169	10,266	133	5,670	5,803	95	8,194	8,289
Swaps	-	979	979	-	474	474	-	865	865
Total	**190**	**21,317**	**21,507**	**261**	**11,814**	**12,075**	**187**	**17,253**	**17,440**
Commodities and other contracts									
Forward and Futures contracts	-	-	-	-	1,268	1,268	-	371	371
Options written	-	4	4	21	4	25	19	3	22
Options purchased	-	3	3	21	3	24	19	3	22
Total	**-**	**7**	**7**	**42**	**1,275**	**1,317**	**38**	**377**	**415**
Total stated amount	**39,682**	**299,197**	**338,879**	**50,585**	**261,533**	**312,118**	**34,809**	**268,715**	**303,524**

Footnotes:

	June 30, 2021	June 30. 2020	December 31, 2020
(1) Of which: swaps on which the Bank pays a fixed interest	33,793	43,110	35,319
(2) Of which: shekel/CPI swaps	15,038	13,101	13,208
(3) Of which: spot foreign currency swap contracts	2,288	3,696	1,640
(4) Of which: traded on the Stock Exchange	12,024	7,234	11,939

(5) The Bank conducts accounting hedge by way of IRS transactions.

11. Derivative Instruments Activity – volume, credit risk and due dates (continued)

A. Volume of activity on a consolidated basis (continued)

2. Gross fair value of derivative instruments

	Gross amount of assets in respect of derivative instruments			Gross amount of liabilities in respect of derivative instruments		
	Non-trading derivatives	Trading derivatives	Total	Non-trading derivatives	Trading derivatives	Total
	In NIS millions					
	Unaudited					
	June 30, 2021					
Interest rate contracts	170	2,082	2,252	292	2,007	2,299
Of which: Hedging	96	-	96	88	-	88
Foreign currency contracts	444	1,446	1,890	539	1,512	2,051
Contracts on shares	5	530	535	4	530	534
Commodities and other contracts	-	-	-	-	-	-
Total assets/liabilities in respect of derivatives gross(1)	**619**	**4,058**	**4,677**	**835**	**4,049**	**4,884**
Amounts offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance	619	4,058	4,677	835	4,049	4,884
Of which: not subject to net settlement arrangement or similar arrangements	-	525	525	3	535	538
	Unaudited					
	June 30, 2020					
Interest rate contracts	276	3,225	3,501	604	3,215	3,819
Of which: Hedging	46	-	46	345	-	345
Foreign currency contracts	467	1,347	1,814	469	1,241	1,710
Contracts on shares	6	513	519	6	513	519
Commodities and other contracts	-	32	32	-	30	30
Total assets/liabilities in respect of derivatives gross(1)	**749**	**5,117**	**5,866**	**1,079**	**4,999**	**6,078**
Amounts offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance	749	5,117	5,866	1,079	4,999	6,078
Of which: not subject to net settlement arrangement or similar arrangements	-	581	581	22	503	525
	Audited					
	December 31, 2020					
Interest rate contracts	239	2,534	2,773	385	2,549	2,934
Of which: Hedging	64	-	64	150	-	150
Foreign currency contracts	567	2,651	3,218	963	3,061	4,024
Contracts on shares	5	337	342	5	337	342
Commodities and other contracts	-	77	77	-	75	75
Total assets/liabilities in respect of derivatives gross(1)	**811**	**5,599**	**6,410**	**1,353**	**6,022**	**7,375**
Amounts offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance	811	5,599	6,410	1,353	6,022	7,375
Of which: not subject to net settlement arrangement or similar arrangements	5	352	357	27	361	388

Footnote:

(1) Of which: NIS 7 million June 30, 2020: NIS 10 million, December 31, 2020: NIS 10 million) positive gross fair value of assets stemming from embedded derivative instruments.
Of which: NIS 8 million (June 30, 2020: NIS 14 million, December 31, 2020: NIS 10 million) negative gross fair value of liabilities stemming from embedded derivative instruments.

11. Derivative Instruments Activity – volume, credit risk and due dates (continued)

B. Accounting hedge

1. Effect of fair value hedge

	Unaudited				Audited
	For the three months ended June 30		For the six months ended June 30		For the year ended December 31
	2021	2020	2021	2020	2020
	Interest income (expenses)				
	In NIS millions				
Profit (loss) on fair value hedge					
Interest rate contracts					
Hedged items	93	47	(92)	254	24
Hedging derivatives	(100)	(33)	79	(241)	(34)

2. Items hedged by fair value hedge

	Unaudited						Audited		
	June 30, 2021			June 30, 2020			December 31, 2020		
	Book value	Cumulative fair value adjustments increasing (decreasing) the book value		Book value	Cumulative fair value adjustments increasing (decreasing) the book value		Book value	Cumulative fair value adjustments increasing (decreasing) the book value	
		Existing hedge relations	Discontinued hedge relations		Existing hedge relations	Discontinued hedge relations		Existing hedge relations	Discontinued hedge relations
	In NIS millions								
Securities	2,798	32	18	4,528	347	-	2,833	100	-
Credit to the public	-	-	-	(1)347	4	-	(2)322	1	-
Deposits from the public	1,258	12	-	1,100	(42)	-	1,297	(28)	-

Footnote:

(1) Amounts designated for hedge out of the loan portfolio totaling approx. NIS 997 million.

(2) Amounts designated for hedge out of the loan portfolio totaling approx. NIS 908 million.

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

	Unaudited				Audited
	For the three months ended June 30		For the six months ended June 30		For the year ended December 31,
	2021	2020	2021	2020	2020
	Profit (loss) recognized in income (expenses) from activity in derivative instruments[1]				
	In NIS millions				
Interest rate contracts	(521)	18	27	30	34
Foreign currency contracts	51	(574)	216	82	(1,035)
Contracts on shares	-	(1)	1	--	--
Commodities and other contracts	-	-	--	--	--
Total	**(470)**	**(557)**	**- 244**	**- 112**	**-(1,001)**

Footnote:

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

11. Derivative Instruments Activity – volume, credit risk and due dates (continued)

C. Derivative Instruments credit risk based on the counterparty to the contract, on a consolidated basis

	Stock Exchange	Banks	Dealers/ brokers	Governments and central banks	Others	Total
	In NIS millions					
	Unaudited					
	June 30, 2021					
Balance sheet balance of assets in respect of derivative instruments[2]	63	1,744	8	75	2,787	4,677
Gross amounts not offset in the balance sheet:						
Credit risk mitigation in respect of financial instruments[5]	-	(1,384)	(2)	(6)	(1,393)	(2,785)
Credit risk mitigation in respect of cash collateral received	-	(301)	(1)	-	(19)	(321)
Net amount of assets in respect of derivative instruments	**63**	**59**	**5**	**69**	**1,375**	**1,571**
Off-balance sheet credit risk in respect of derivative instruments[1]	304	167	21	35	798	1,325
Total credit risk in respect of derivative instruments[4]	**367**	**1,911**	**29**	**110**	**3,585**	**6,002**
Balance sheet balance of liabilities in respect of derivative instruments[3]	471	2,166	34	6	2,207	4,884
Gross amounts not offset in the balance sheet:						
Financial instruments	-	(1,384)	(2)	(6)	(1,393)	(2,785)
Pledged cash collateral	-	(704)	-	-	(194)	(898)
Net amount of liabilities in respect of derivative instruments	**471**	**78**	**32**	**-**	**620**	**1,201**
	Unaudited					
	June 30, 2020					
Balance sheet balance of assets in respect of derivative instruments[2]	76	2,194	12	96	3,488	5,866
Gross amounts not offset in the balance sheet:						
Credit risk mitigation in respect of financial instruments[5]	-	(1,824)	(6)	-	(1,888)	(3,718)
Credit risk mitigation in respect of cash collateral received	-	(286)	(3)	(5)	(30)	(324)
Net amount of assets in respect of derivative instruments	**76**	**84**	**3**	**91**	**1,570**	**1,824**
Off-balance sheet credit risk in respect of derivative instruments[1]	161	157	64	36	633	1,051
Total credit risk in respect of derivative instruments[4]	**237**	**2,351**	**76**	**132**	**4,121**	**6,917**
Balance sheet balance of liabilities in respect of derivative instruments[3]	407	2,884	76	-	2,711	6,078
Gross amounts not offset in the balance sheet:						
Financial instruments	-	(1,824)	(6)	-	(1,888)	(3,718)
Pledged cash collateral	-	(997)	-	-	(307)	(1,304)
Net amount of liabilities in respect of derivative instruments	**407**	**63**	**70**	**-**	**516**	**1,056**
	Audited					
	December 31, 2020					
Balance sheet balance of assets in respect of derivative instruments[2]	64	2,801	9	120	3,416	6,410
Gross amounts not offset in the balance sheet:						
Credit risk mitigation in respect of financial instruments[5]	-	(2,408)	(3)	-	(1,666)	(4,077)
Credit risk mitigation in respect of cash collateral received	-	(348)	(2)	(118)	(212)	(680)
Net amount of assets in respect of derivative instruments	**64**	**45**	**4**	**2**	**1,538**	**1,653**
Off-balance sheet credit risk in respect of derivative instruments[1]	239	125	12	26	697	1,099
Total credit risk in respect of derivative instruments[4]	**303**	**2,926**	**21**	**146**	**4,113**	**7,509**
Balance sheet balance of liabilities in respect of derivative instruments[3]	272	3,684	50	-	3,369	7,375
Gross amounts not offset in the balance sheet:						
Financial instruments	-	(2,408)	(3)	-	(1,666)	(4,077)
Pledged cash collateral	-	(1,177)	-	-	(715)	(1,892)
Net amount of liabilities in respect of derivative instruments	**272**	**99**	**47**	**-**	**988**	**1,406**

Footnotes:
(1) The difference, if positive, between the total amount in respect of derivative instruments (including derivative instruments with a negative fair value) included in the borrower's indebtedness, as computed for the purpose of limitation on the indebtedness of a borrower, before credit risk mitigation, and between the balance sheet amount of assets in respect of derivative instruments of the borrower.
(2) Of which: a balance sheet balance of standalone derivative instruments in the amount of NIS 4,670 million included in the item assets in respect of derivative instruments June 30, 2020: NIS 5,856 December 31, 2020: NIS 6,400 million).
(3) Of which: a balance sheet balance of standalone derivative instruments in the amount of NIS 4,876 million included in the item liabilities in respect of derivative instruments June 30, 2020: NIS 6,064 December 31, 2020: NIS 7,365 million).
(4) The amount does not include the above deductions. The comparative data has been restated accordingly.
(5) The fair value of derivative instruments subject to netting agreements is in the amount of NIS 2,758 million (as of June 30 2020: NIS 3,600 as of December 31, 2020: NIS 3,972 million).

11. Derivative Instruments Activity – volume, credit risk and due dates (continued)

D. Due dates – Par value: consolidated period end balances

	Up to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years	Total
	Unaudited				
	In NIS millions				
	June 30, 2021				
Interest rate contracts					
Shekel/CPI	721	4,591	7,655	2,071	15,038
Other	6,217	22,847	48,008	46,197	123,269
Foreign currency contracts	84,518	72,691	15,775	6,074	179,058
Contracts on shares	21,076	262	169	-	21,507
Commodities and other contracts	-	-	7	-	7
Total	**112,532**	**100,391**	**71,614**	**54,342**	**338,879**
	Unaudited				
	June 30, 2020				
Total	**106,119**	**83,105**	**68,422**	**54,472**	**312,118**
	Audited				
	December 31, 2020				
Total	**110,852**	**73,216**	**69,030**	**50,426**	**303,524**

12. Regulatory Operating Segments

A. Details regarding the regulatory segments were brought in Note 29 a to the financial statements as of December 31, 2020. The principal assumptions, assessments and reporting principles used in the preparation of the data were detailed in Note 29 D in the financial statements as of December 31, 2020.

For details regarding administrative segments recognized by the Bank were brought in Note 30a to the financial statements as of December 31, 2020.

Whereas, with respect to a part of the customers, the Bank did not have the complete information required for the classification to regulatory operating segment, in accordance with the new instructions, in particular information regarding their business turnover, various actions were taken to obtain such information, and in certain cases, in the absence of information, decisions had been made on the basis of evaluations and estimates. The Bank is acting to complete the improvement of the information, and accordingly, such improvements may in future reporting periods require the reclassification of customers to the operating segments.

B. Reclassification - In the second, third and fourth quarters of 2020, certain improvements were made to the amended expense allocation model, which had been introduced in the first quarter of 2020. The comparative data has been reclassified accordingly.

12. Regulatory Operating Segments (continued)

D. Information regarding regulatory operating segments, consolidated

	Unaudited				
	For the three months ended June 30, 2021				
	Domestic operations				
	Households			Private Banking	Small and minute businesses
	Total	Of which - Housing loans	Of which - Credit cards		
	in NIS millions				
Interest income from external sources	763	445	136	2	380
Interest expenses To external sources	47	-	-	11	15
Net interest income from external sources	716	445	136	(9)	365
Net interest income Intersegmental	(238)	(310)	(5)	21	(20)
Total net Interest income	478	135	131	12	345
Non-interest financing income from external sources	572	4	301	164	294
Non-interest financing income Intersegmental	(146)	-	-	(143)	(157)
Total Non-interest financing income	426	4	301	21	137
Total income	**904**	**139**	**432**	**33**	**482**
Credit loss expenses (expenses release)	(69)	1	(14)	-	(82)
Operating and other expenses	768	58	289	19	314
Profit before taxes	**205**	**80**	**157**	**14**	**250**
Provision for taxes on profit	73	27	51	5	89
Profit after taxes	**132**	**53**	**106**	**9**	**161**
Bank's share in operating income of associates	-	-	-	-	-
Net Profit from ordinary operations before Attributed to the non-controlling interests	132	53	106	9	161
Net Profit (Loss) from ordinary operations Attributed to the non-controlling interests	(21)	-	(21)	-	(1)
Net profit Attributed to the bank's shareholders	**111**	**53**	**85**	**9**	**160**
Average Assets	76,052	44,828	16,642	419	35,370
Of which - Investment in Investee companies	-	-	-	-	-
Of which - Average credit to the public(3)	75,574	45,034	16,408	386	35,331
Balance of credit to the public at the period end (3)	77,758	(4)46,711	16,723	(4)363	36,855
Balance of impaired debts	252	1	115	-	738
Balance of debts (not impaired) in arrear for over ninety days	311	276	-	-	27
Average Liabilities	94,608	114	2,760	18,603	52,378
Of which - Average Deposits from the public	90,507	-	16	18,506	45,191
Balance of deposits from the public at the period end	89,744	-	16	18,744	45,809
Average Risk-assets(1)	55,158	25,892	14,053	512	35,022
Balance of Risk-assets at the period end (1)	56,066	26,562	14,238	511	35,250
Average assets under management(2)	33,832	359	-	24,579	26,326
Net interest income:					
Margin from credit activity to the public	426	135	131	-	323
Margin from deposits activity from the public	52	-	-	12	22
Other	-	-	-	-	-
Total net interest income	**478**	**135**	**131**	**12**	**345**

Footnotes:
(1) Risk weighted assets – as computed for capital adequacy purposes.
(2) Managed assets – including assets of provident funds, further education funds, mutual funds and customer securities.
(3) Outstanding balance of credit to the public- the recorded amount of the debt is presented.
(4) Including housing loans to small and minute business customers with an outstanding credit balance at the end of the period of NIS 3,197 million.

	Medium businesses	Large businesses	Institutional bodies	Financial management	Total Domestic operations	International operations Total International operations	Total
	124	326	5	162	1,762	235	1,997
	4	18	18	175	288	24	312
	120	308	(13)	(13)	1,474	211	1,685
	(25)	(87)	20	329	-	-	-
	95	221	7	316	1,474	211	1,685
	70	200	53	(535)	818	57	875
	(36)	(103)	(51)	636	-	-	-
	34	97	2	101	818	57	875
	129	**318**	**9**	**417**	**2,292**	**268**	**2,560**
	(4)	(202)	(25)	-	(382)	(28)	(410)
	66	157	15	87	1,426	185	1,611
	67	**363**	**19**	**330**	**1,248**	**111**	**1,359**
	23	124	8	133	455	38	493
	44	**239**	**11**	**197**	**793**	**73**	**866**
	-	-	-	16	16	-	16
	44	239	11	213	809	73	882
	(1)	(1)	-	2	(22)	-	(22)
	43	**238**	**11**	**215**	**787**	**73**	**860**
	13,968	46,482	555	96,912	269,760	35,627	305,387
	-	-	-	350	350	-	350
	14,033	46,370	682	-	172,376	24,525	196,901
	14,180	47,267	614	-	177,037	25,221	202,258
	362	361	-	-	1,713	304	2,017
	-	13	-	1,498	1,849	1	1,850
	11,299	29,161	17,876	29,148	253,073	31,975	285,048
	10,269	25,505	17,844	-	207,822	30,773	238,595
	10,224	28,170	17,205	-	209,896	30,795	240,691
	13,948	50,876	1,066	16,660	173,242	29,020	202,262
	14,337	51,983	922	16,762	175,831	29,424	205,255
	7,241	52,824	78,273	403	223,478	14,089	237,567
	90	214	3	-	1,056	155	1,211
	5	7	4	-	102	32	134
	-	-	-	316	316	24	340
	95	**221**	**7**	**316**	**1,474**	**211**	**1,685**

12. Regulatory Operating Segments (continued)

D. Information regarding regulatory operating segments, consolidated (continued)

	Unaudited				
	For the three months ended June 30, 2020				
	Domestic operations				
	Households			Private Banking	Small and minute businesses
	Total	Of which - Housing loans	Of which - Credit cards		
	in NIS millions				
Interest income from external sources	573	231	138	2	389
Interest expenses To external sources	40	-	-	20	22
Net interest income from external sources	533	231	138	(18)	367
Net interest income Intersegmental	(41)	(123)	(5)	36	(5)
Total net Interest income	492	108	133	18	362
Non-interest financing income from external sources	516	3	233	205	312
Non-interest financing income Intersegmental	(168)	-	-	(184)	(182)
Total Non-interest financing income	348	3	233	21	130
Total income	**840**	**111**	**366**	**39**	**492**
Credit loss expenses (expenses release)	204	61	58	1	181
Operating and other expenses	[4]720	[4]42	[4]273	[4]94	[4]312
Profit (Loss) before taxes	**(84)**	**8**	**35**	**(56)**	**(1)**
Provision for taxes (tax savings) on profit	[4](33)	[4]-	[4]5	[4](18)	[4]2
Profit (Loss) after taxes	**(51)**	**8**	**30**	**(38)**	**(3)**
Bank's share in operating income of associates	-	-	-	-	-
Net Profit (Loss) from ordinary operations before Attributed to the non-controlling interests	(51)	8	30	(38)	(3)
Net Profit (Loss) from ordinary operations Attributed to the non-controlling interests	(6)	-	(6)	-	(2)
Net profit (Loss) Attributed to the bank's shareholders	**(57)**	**8**	**24**	**(38)**	**(5)**
Average Assets	69,716	38,521	15,417	385	[7]36,495
Of which - Investment in Investee companies	-	-	-	-	-
Of which- Average credit to the public[3]	68,915	38,621	15,141	329	[7]36,056
Balance of credit to the public at the period end[3]	69,622	[5]39,279	15,432	[5]355	37,029
Balance of impaired debts	199	2	66	-	560
Balance of debts (not impaired) in arrear for over ninety days	439	394	-	-	64
Average Liabilities	88,224	81	2,312	17,598	[7]45,394
Of which - Average Deposits from the public	84,620	-	15	17,488	[7]40,238
Balance of deposits from the public at the period end	84,993	-	15	17,938	40,814
Average Risk-assets[1]	51,644	21,884	13,350	513	34,995
Balance of Risk-assets at the period end [1]	51,769	22,248	13,249	520	34,879
Average assets under management[2]	26,402	365	-	17,826	23,386
Net interest income:					
Margin from credit activity to the public	420	108	133	1	331
Margin from deposits activity from the public	72	-	-	17	31
Other	-	-	-	-	-
Total net interest income	**492**	**108**	**133**	**18**	**362**

Footnotes:
(1) Risk weighted assets – as computed for capital adequacy purposes.
(2) Managed assets – including assets of provident funds, further education funds, mutual funds and customer securities.
(3) Outstanding balance of credit to the public- the recorded amount of the debt is presented.
(4) Reclassified - see B above.
(5) Including housing loans to small and minute business customers with an outstanding credit balance at the end of the period of NIS 2,679 million.
(6) Improvement to the calculation following the correction of a mistake in attributing certain balances.
(7) Reclassified - improvement in the classification of customers with no reported turnover.

					International operations	
Medium businesses	Large businesses	Institutional bodies	Financial management	Total Domestic operations	Total International operations	Total
108	263	6	117	1,458	284	1,742
6	30	15	81	214	65	279
102	233	(9)	36	1,244	219	1,463
(9)	(40)	18	41	-	-	-
93	193	9	77	1,244	219	1,463
81	88	123	(425)	900	34	934
(50)	(5)	(121)	710	-	-	-
31	83	2	285	900	34	934
124	**276**	**11**	**362**	**2,144**	**253**	**2,397**
65	60	(2)	14	523	9	532
(4)66	(4)126	(4)12	(4)94	1,424	159	1,583
(7)	**90**	**1**	**254**	**197**	**85**	**282**
(4)(3)	(4)33	(4)-	(4)95	76	29	105
(4)	**57**	**1**	**159**	**121**	**56**	**177**
-	-	-	4	4	-	4
(4)	57	1	163	125	56	181
-	(2)	-	3	(7)	-	(7)
(4)	**55**	**1**	**166**	**118**	**56**	**174**
(7)13,371	(7)40,261	867	83,567	244,662	36,470	281,132
-	-	-	144	144	-	144
(7)13,352	(7)40,171	713	-	159,536	24,408	183,944
13,539	42,180	638	-	163,363	23,478	186,841
211	672	276	-	1,918	121	2,039
-	-	-	1,029	1,532	15	1,547
(7)9,034	(7)27,924	16,430	24,587	229,191	32,681	261,872
(7)7,986	(7)24,392	16,377	-	191,101	27,904	219,005
8,009	24,640	17,047	-	193,441	28,607	222,048
13,513	44,188	1,308	16,321	162,482	28,545	191,027
13,679	44,815	1,303	17,097	164,062	28,293	192,355
9,938	30,063	63,141	(6)692	171,448	13,495	184,943
88	187	6	-	1,033	162	1,195
5	6	3	-	134	31	165
-	-	-	77	77	26	103
93	**193**	**9**	**77**	**1,244**	**219**	**1,463**

12. Regulatory Operating Segments (continued)

D. Information regarding regulatory operating segments, consolidated (continued)

	Unaudited				
	For the six months ended June 30, 2021				
	Domestic operations				
	Households			Private Banking	Small and minute businesses
	Total	Of which - Housing loans	Of which - Credit cards		
	in NIS millions				
Interest income from external sources	1,371	736	270	3	762
Interest expenses To external sources	82	-	-	21	30
Net interest income from external sources	1,289	736	270	(18)	732
Net interest income Intersegmental	(343)	(474)	(10)	42	(41)
Total net Interest income	946	262	260	24	691
Non-interest financing income from external sources	766	6	561	(25)	231
Non-interest financing income Intersegmental	39	-	-	68	44
Total Non-interest financing income	805	6	561	43	275
Total income	**1,751**	**268**	**821**	**67**	**966**
Credit loss expenses (expenses release)	(128)	(1)	(15)	-	(175)
Operating and other expenses	1,566	111	574	43	646
Profit before taxes	**313**	**158**	**262**	**24**	**495**
Provision for taxes on profit	102	54	88	8	171
Profit after taxes	**211**	**104**	**174**	**16**	**324**
Bank's share in operating income of associates	-	-	-	-	-
Net Profit from ordinary operations before Attributed to the non-controlling interests	211	104	174	16	324
Net Profit (Loss) from ordinary operations Attributed to the non-controlling interests	(35)	-	(35)	-	(3)
Net Profit Attributed to the bank's shareholders	**176**	**104**	**139**	**16**	**321**
Average Assets	74,821	43,790	16,248	412	35,971
Of which - Investment in Investee companies	-	-	-	-	-
Of which - Average credit to the public(3)	74,065	43,961	15,990	363	35,578
Balance of credit to the public at the period end(3)	77,758	(4)46,711	16,723	(4)363	36,855
Balance of impaired debts	252	1	115	-	738
Balance of debts (not impaired) in arrear for over ninety days	311	276	-	-	27
Average Liabilities	93,963	108	2,635	18,246	50,076
Of which - Average Deposits from the public	89,965	-	16	18,149	44,083
Balance of deposits from the public at the period end	89,744	-	16	18,744	45,809
Average Risk-assets(1)	54,134	25,222	13,869	514	34,801
Balance of Risk-assets at the period end(1)	56,066	26,562	14,238	511	35,250
Average assets under management(2)	33,160	360	-	23,512	27,379
Net interest income:					
Margin from credit activity to the public	844	262	260	1	647
Margin from deposits activity from the public	102	-	-	23	44
Other	-	-	-	-	-
Total net interest income	**946**	**262**	**260**	**24**	**691**

Footnotes:
(1) Risk weighted assets – as computed for capital adequacy purposes.
(2) Managed assets – including assets of provident funds, further education funds, mutual funds and customer securities.
(3) Outstanding balance of credit to the public- the recorded amount of the debt is presented.
(4) Including housing loans to small and minute business customers with an outstanding credit balance at the end of the period of NIS 3,197 million.

	Medium businesses	Large businesses	Institutional bodies	Financial management	Total Domestic operations	International operations Total International operations	Total
	226	605	10	267	3,244	464	3,708
	8	37	28	259	465	54	519
	218	568	(18)	8	2,779	410	3,189
	(35)	(136)	35	478	-	-	-
	183	432	17	486	2,779	410	3,189
	42	155	6	608	1,783	125	1,908
	22	34	(2)	(205)	-	-	-
	64	189	4	403	1,783	125	1,908
	247	**621**	**21**	**889**	**4,562**	**535**	**5,097**
	(1)	(259)	(26)	2	(587)	30	(557)
	131	304	30	192	2,912	351	3,263
	117	**576**	**17**	**695**	**2,237**	**154**	**2,391**
	39	196	6	272	794	52	846
	78	**380**	**11**	**423**	**1,443**	**102**	**1,545**
	-	-	-	16	16	-	16
	78	380	11	439	1,459	102	1,561
	(1)	(3)	-	3	(39)	-	(39)
	77	**377**	**11**	**442**	**1,420**	**102**	**1,522**
	13,570	45,669	847	94,998	266,288	35,086	301,374
	-	-	-	350	350	-	350
	13,595	45,617	833	-	170,051	24,168	194,219
	14,180	47,267	614	-	177,037	25,221	202,258
	362	361	-	-	1,713	304	2,017
	-	13	-	1,498	1,849	1	1,850
	11,288	31,068	17,101	28,386	250,128	31,467	281,595
	10,134	26,620	17,068	-	206,019	29,750	235,769
	10,224	28,170	17,205	-	209,896	30,795	240,691
	13,571	49,866	1,209	16,560	170,655	28,616	199,271
	14,337	51,983	922	16,762	175,831	29,424	205,255
	7,641	48,293	75,480	277	215,742	13,632	229,374
	175	421	8	-	2,096	298	2,394
	8	11	9	-	197	65	262
	-	-	-	486	486	47	533
	183	**432**	**17**	**486**	**2,779**	**410**	**3,189**

12. Regulatory Operating Segments (continued)

D. Information regarding regulatory operating segments, consolidated (continued)

	Unaudited				
	For the six months ended June 30, 2020				
	Domestic operations				
	Households			Private Banking	Small and minute businesses
	Total	Of which - Housing loans	Of which - Credit cards		
	in NIS millions				
Interest income from external sources	1,142	441	277	3	798
Interest expenses To external sources	77	-	-	48	52
Net interest income from external sources	1,065	441	277	(45)	746
Net interest income Intersegmental	(54)	(226)	(12)	85	3
Total net Interest income	1,011	215	265	40	749
Non-interest financing income from external sources	742	7	501	48	281
Non-interest financing income Intersegmental	4	-	-	(8)	(6)
Total Non-interest financing income	746	7	501	40	275
Total income	**1,757**	**222**	**766**	**80**	**1,024**
Credit loss expenses (expenses release)	414	90	159	2	371
Operating and other expenses	(4)1,459	(4)86	(4)568	(4)117	(4)624
Profit (Loss) before taxes	**(116)**	**46**	**39**	**(39)**	**29**
Provision for taxes (tax savings) on profit	(4)(46)	(4)17	(4)5	(4)(12)	(4)14
Profit (Loss) after taxes	**(70)**	**29**	**34**	**(27)**	**15**
Bank's share in operating income of associates	-	-	-	-	-
Net Profit (Loss) from ordinary operations before Attributed to the non-controlling interests	(70)	29	34	(27)	15
Net Profit (Loss) from ordinary operations Attributed to the non-controlling interests	(4)	-	(4)	-	(2)
Net Profit (Loss) Attributed to the bank's shareholders	**(74)**	**29**	**30**	**(27)**	**13**
Average Assets	70,243	37,865	16,127	380	36,477
Of which - Investment in Investee companies	-	-	-	-	-
Of which - Average credit to the public[3]	69,378	37,955	15,868	320	36,004
Balance of credit to the public at the period end[3]	69,622	(5)39,279	15,432	(5)355	37,029
Balance of impaired debts	199	2	66	-	560
Balance of debts (not impaired) in arrear for over ninety days	439	394	-	-	64
Average Liabilities	84,810	90	2,524	16,950	44,633
Of which - Average Deposits from the public	80,945	-	16	16,840	39,171
Balance of deposits from the public at the period end	84,993	-	15	17,938	40,814
Average Risk-assets[1]	51,523	21,520	13,452	504	35,110
Balance of Risk-assets at the period end [1]	51,769	22,248	13,249	520	34,879
Average assets under management[2]	31,319	367	-	19,097	26,249
Net interest income:					
Margin from credit activity to the public	848	215	265	2	676
Margin from deposits activity from the public	163	-	-	38	73
Other	-	-	-	-	-
Total net interest income	**1,011**	**215**	**265**	**40**	**749**

Footnotes:
(1) Risk weighted assets – as computed for capital adequacy purposes.
(2) Managed assets – including assets of provident funds, further education funds, mutual funds and customer securities.
(3) Outstanding balance of credit to the public- the recorded amount of the debt is presented.
(4) Reclassified - see B above.
(5) Including housing loans to small and minute business customers with an outstanding credit balance at the end of the period of NIS 2,679 million.
(6) Improvement to the calculation following the correction of a mistake in attributing certain balances.

					International operations	
Medium businesses	Large businesses	Institutional bodies	Financial management	Total Domestic operations	Total International operations	Total
205	538	12	232	2,930	603	3,533
15	59	47	148	446	169	615
190	479	(35)	84	2,484	434	2,918
(11)	(91)	53	15	-	-	-
179	388	18	99	2,484	434	2,918
47	126	22	684	1,950	140	2,090
13	49	(17)	(35)	-	-	-
60	175	5	649	1,950	140	2,090
239	**563**	**23**	**748**	**4,434**	**574**	**5,008**
117	209	(1)	14	1,126	62	1,188
[4]126	[4]261	[4]28	[4]180	2,795	319	3,114
(4)	**93**	**(4)**	**554**	**513**	**193**	**706**
[4](1)	[4]33	[4](2)	[4]205	191	65	256
(3)	**60**	**(2)**	**349**	**322**	**128**	**450**
-	-	-	8	8	-	8
(3)	60	(2)	357	330	128	458
-	(2)	-	3	(5)	-	(5)
(3)	**58**	**(2)**	**360**	**325**	**128**	**453**
13,145	39,521	846	77,877	238,489	34,898	273,387
-	-	-	157	157	-	157
13,109	39,381	711	-	158,903	23,999	182,902
13,539	42,180	638	-	163,363	23,478	186,841
211	672	276	-	1,918	121	2,039
-	-	-	1,029	1,532	15	1,547
8,808	26,629	17,610	23,716	223,156	31,142	254,298
7,711	22,926	17,567	-	185,160	27,050	212,210
8,009	24,640	17,047	-	193,441	28,607	222,048
13,345	43,566	1,314	15,543	160,905	28,795	189,700
13,679	44,815	1,303	17,097	164,062	28,293	192,355
10,462	32,154	69,519	[6]749	189,549	12,866	202,415
169	372	10	-	2,077	320	2,397
10	16	8	-	308	72	380
-	-	-	99	99	42	141
179	**388**	**18**	**99**	**2,484**	**434**	**2,918**

12. Regulatory Operating Segments (continued)

D. Information regarding regulatory operating segments, consolidated (continued)

	Audited				
	For the year ended December 31, 2020				
	Domestic operations				
	Households			Private Banking	Small and minute businesses
	Total	Of which - Housing loans	Of which - Credit cards		
	in NIS millions				
Interest income from external sources	2,356	992	558	6	1,538
Interest expenses To external sources	156	-	-	76	73
Net interest income from external sources	2,200	992	558	(70)	1,465
Net interest income Intersegmental	(225)	(536)	(22)	137	(30)
Total net Interest income	1,975	456	536	67	1,435
Non-interest financing income from external sources	1,846	12	1,020	520	909
Non-interest financing income Intersegmental	(346)	-	-	(441)	(370)
Total Non-interest financing income	1,500	12	1,020	79	539
Total income	**3,475**	**468**	**1,556**	**146**	**1,974**
Credit loss expenses	518	70	215	1	593
Operating and other expenses	3,194	202	1,201	162	1,329
Profit (Loss) before taxes	**(237)**	**196**	**140**	**(17)**	**52**
Provision for taxes (tax savings) on profit	(106)	68	28	3	18
Profit (Loss) after taxes	**(131)**	**128**	**112**	**(20)**	**34**
Bank's share in operating income of associates	-	-	-	-	-
Net Profit (Loss) from ordinary operations before Attributed to the non-controlling interests	(131)	128	112	(20)	34
Net Profit from ordinary operations Attributed to the non-controlling interests	(13)	-	(13)	-	(6)
Net Profit (Loss) Attributed to the bank's shareholders	**(144)**	**128**	**99**	**(20)**	**28**
Average Assets	71,008	39,247	16,101	390	35,759
Of which - Investment in Investee companies	-	-	-	-	-
Of which - Average credit to the public(3)	70,167	39,327	15,853	331	35,287
Balance of credit to the public at the period end(3)	72,620	(4)42,246	16,036	(4)364	36,439
Balance of impaired debts	261	2	136	-	631
Balance of debts (not impaired) in arrear for over ninety days	348	318	-	-	38
Average Liabilities	88,026	100	2,545	17,037	45,243
Of which - Average Deposits from the public	83,966	-	15	16,912	39,546
Balance of deposits from the public at the period end	88,888	-	16	17,959	41,818
Average Risk-assets(1)	51,918	22,336	13,472	499	34,880
Balance of Risk-assets at the period end (1)	52,744	24,097	13,561	519	34,665
Average assets under management(2)	30,551	366	-	19,878	24,084
Net interest income:					
Margin from credit activity to the public	1,696	456	536	3	1,316
Margin from deposits activity from the public	279	-	-	64	119
Other	-	-	-	-	-
Total net interest income	**1,975**	**456**	**536**	**67**	**1,435**

Footnotes:
(1) Risk weighted assets – as computed for capital adequacy purposes.
(2) Managed assets – including assets of provident funds, further education funds, mutual funds and customer securities.
(3) Outstanding balance of credit to the public- the recorded amount of the debt is presented.
(4) Including housing loans to small and minute business customers with an outstanding credit balance at the end of the period of NIS 2,919 million.

						International operations	
	Medium businesses	Large businesses	Institutional bodies	Financial management	Total Domestic operations	Total International operations	Total
	407	1,128	24	445	5,904	1,083	6,987
	26	103	85	319	838	251	1,089
	381	1,025	(61)	126	5,066	832	5,898
	(29)	(220)	99	268	-	-	-
	352	805	38	394	5,066	832	5,898
	245	625	190	(544)	3,791	216	4,007
	(120)	(267)	(181)	1,725	-	-	-
	125	358	9	1,181	3,791	216	4,007
	477	**1,163**	**47**	**1,575**	**8,857**	**1,048**	**9,905**
	198	261	2	15	1,588	130	1,718
	267	589	59	386	5,986	695	6,681
	12	**313**	**(14)**	**1,174**	**1,283**	**223**	**1,506**
	4	107	(5)	449	470	79	549
	8	**206**	**(9)**	**725**	**813**	**144**	**957**
	-	-	-	50	50	-	50
	8	206	(9)	775	863	144	1,007
	(1)	(4)	-	(8)	(32)	-	(32)
	7	**202**	**(9)**	**767**	**831**	**144**	**975**
	12,928	41,971	874	82,958	245,888	34,378	280,266
	-	-	-	200	200	-	200
	12,883	41,841	728	-	161,237	23,850	185,087
	12,865	45,687	1,007	-	168,982	23,497	192,479
	276	567	276	-	2,011	196	2,207
	-	-	2	1,162	1,550	25	1,575
	9,965	28,019	17,703	24,586	230,579	30,629	261,208
	8,823	24,105	17,656	-	191,008	27,707	218,715
	9,842	25,382	14,615	-	198,504	27,614	226,118
	13,263	45,027	1,338	16,071	162,996	28,542	191,538
	12,906	47,854	1,364	15,557	165,609	27,623	193,232
	8,198	37,014	70,140	544	190,409	13,008	203,417
	333	776	21	-	4,145	560	4,705
	19	29	17	-	527	146	673
	-	-	-	394	394	126	520
	352	**805**	**38**	**394**	**5,066**	**832**	**5,898**

13. Managerial Operating Segments

	Unaudited									
	Retail banking	Middle market banking	Corporate banking	Financial management	Discount Capital[1]	Discount Bancorp[1]	Israel Credit Cards[1]	other	Adjustments	Total
	In NIS millions									
	For the three months ended June 30, 2021									
Net interest income	616	162	243	315	4	210	134	-	1	1,685
Non-interest income	293	31	108	28	43	57	345	13	(43)	875
Total income	**909**	**193**	**351**	**343**	**47**	**267**	**479**	**13**	**(42)**	**2,560**
Credit loss expenses	(119)	(43)	(205)	-	-	(28)	(15)	-	-	(410)
Operating and other expenses	755	90	147	75	14	185	[4]384	3	(42)	1,611
Income (loss) before taxes	273	146	409	268	33	110	110	10	-	1,359
Provision for taxes (tax saving) on income	100	51	143	105	14	38	39	3	-	493
Income (loss) after taxes	173	95	266	163	19	72	71	7	-	866
Bank's share in income of associates, net of tax effect	-	-	-	2	15	-	-	-	(1)	16
Net income before attributed to the non-controlling interests	173	95	266	165	34	72	71	7	(1)	882
Net income attributed to the non-controlling interests	-	-	-	-	-	-	(22)	(1)	1	(22)
Net income attributed to the non-controlling interests	**173**	**95**	**266**	**165**	**34**	**72**	**49**	**6**	**-**	**860**
Balance of Assets	90,145	25,712	55,779	101,718	1,857	37,263	19,501	7,772	(29,013)	310,734
Balance of credit to the public	88,409	26,194	52,105	-	32	25,221	18,771	-	(8,474)	202,258
Balance of deposits from the public	150,758	22,136	37,557	6,706	-	30,795	16	-	(7,277)	240,691
	For the three months ended June 30, 2020									
Net interest income	647	163	210	83	3	220	134	-	3	1,463
Non-interest income	250	32	84	265	4	37	284	13	(35)	934
Total income	**897**	**195**	**294**	**348**	**7**	**257**	**418**	**13**	**(32)**	**2,397**
Credit loss expenses	297	96	70	-	-	9	60	-	-	532
Operating and other expenses	[2]798	[2]102	[2]130	[2]83	8	160	327	7	(31)	1,583
Income (loss) before taxes	(198)	(3)	94	265	(1)	88	31	6	(1)	282
Provision for taxes (tax saving) on income	[2](67)	[2]-	[2]35	[2]95	1	31	10	2	(1)	105
Income (loss) after taxes	(131)	(3)	59	170	(2)	57	21	4	-	177
Bank's share in income of associates, net of tax effect	-	-	-	1	4	-	-	-	(1)	4
Net income before attributed to the non-controlling interests	(131)	(3)	59	171	2	57	21	4	(1)	181
Net income attributed to the non-controlling interests	-	-	-	-	-	-	(7)	-	-	(7)
Net income (loss) attributed to the non-controlling interests	**(131)**	**(3)**	**59**	**171**	**2**	**57**	**14**	**4**	**(1)**	**174**
Balance of Assets	83,265	26,427	52,643	86,080	1,601	35,818	17,885	6,813	(28,432)	282,100
Balance of credit to the public	80,004	26,675	47,980	-	39	23,478	17,292	-	(8,627)	186,841
Balance of deposits from the public	138,964	20,726	34,383	6,227	-	28,607	15	-	(6,874)	222,048

footnotes:

(1) The contribution to the Bank's business results.

(2) Reclassified, see Note 12 B.

13. Managerial Operating Segments (continued)

	Unaudited									
	Retail banking	Middle market banking	Corporate banking	Financial management	Discount Capital[1]	Discount Bancorp[1]	Israel Credit Cards[1]	other	Adjustments	Total
	In NIS millions									
	For the six months ended June 30, 2021									
Net interest income	1,222	326	478	481	8	409	263	-	2	3,189
Non-interest income	562	71	191	273	78	125	663	27	(82)	1,908
Total income	**1,784**	**397**	**669**	**754**	**86**	**534**	**926**	**27**	**(80)**	**5,097**
Credit loss expenses (expenses release)	(210)	(49)	(309)	-	-	30	(19)	-	-	(557)
Operating and other expenses	1,559	190	294	160	28	352	748	12	(80)	3,263
Income (loss) before taxes	435	256	684	594	58	152	197	15	-	2,391
Provision for taxes (tax saving) on income	145	88	235	232	17	52	72	5	-	846
Income (loss) after taxes	290	168	449	362	41	100	125	10	-	1,545
Bank's share in income of associates, net of tax effect	1	-	-	4	13	-	-	-	(2)	16
Net income before attributed to the non-controlling interests	291	168	449	366	54	100	125	10	(2)	1,561
Net income attributed to the non-controlling interests	-	-	-	-	-	-	(39)	(2)	2	(39)
Net income attributed to the non-controlling interests	**291**	**168**	**449**	**366**	**54**	**100**	**86**	**8**	**-**	**1,522**
Balance of Assets	90,145	25,712	55,779	101,718	1,857	37,263	19,501	7,772	(29,013)	310,734
Balance of credit to the public	88,409	26,194	52,105	-	32	25,221	18,771	-	(8,474)	202,258
Balance of deposits from the public	150,758	22,136	37,557	6,706	-	30,795	16	-	(7,277)	240,691
	For the six months ended June 30, 2020									
Net interest income	1,338	332	426	111	6	432	268	1	4	2,918
Non-interest income	532	67	182	585	8	141	622	26	(73)	2,090
Total income	**1,870**	**399**	**608**	**696**	**14**	**573**	**890**	**27**	**(69)**	**5,008**
Credit loss expenses	550	177	235	-	-	62	164	-	-	1,188
Operating and other expenses	[2]1,507	[2]204	[2]259	[2]159	15	319	707	14	(69)	3,114
Income (loss) before taxes	(187)	18	114	537	(1)	192	19	13	-	706
Provision for taxes (tax saving) on income	[2](60)	[2]8	[2]42	[2]191	2	66	4	5	(1)	256
Income (loss) after taxes	(127)	10	72	346	(3)	126	15	8	1	450
Bank's share in income of associates, net of tax effect	1	-	-	2	8	-	-	-	(3)	8
Net income before attributed to the non-controlling interests	(126)	10	72	348	5	126	15	8	(2)	458
Net income attributed to the non-controlling interests	-	-	-	-	-	-	(5)	(1)	1	(5)
Net income (loss) attributed to the non-controlling interests	**(126)**	**10**	**72**	**348**	**5**	**126**	**10**	**7**	**(1)**	**453**
Balance of Assets	83,265	26,427	52,643	86,080	1,601	35,818	17,885	6,813	(28,432)	282,100
Balance of credit to the public	80,004	26,675	47,980	-	39	23,478	17,292	-	(8,627)	186,841
Balance of deposits from the public	138,964	20,726	34,383	6,227	-	28,607	15	-	(6,874)	222,048

footnotes:

(1) The contribution to the Bank's business results.

(2) Reclassified, see Note 12 B.

13. Managerial Operating Segments (continued)

	Audited									
	For the year ended December 31, 2020									
	In NIS millions									
	Retail banking[2]	Middle market banking	Corporate banking	Financial management	Discount Capital[1]	Discount Bancorp[1]	Israel Credit Cards[1]	other	Adjustments	Total
	For the year ended December 31, 2020									
Net interest income	2,582	665	890	381	14	829	530	2	5	5,898
Non-interest income	1,059	136	360	829	175	218	1,327	52	(149)	4,007
Total income	**3,641**	**801**	**1,250**	**1,210**	**189**	**1,047**	**1,857**	**54**	**(144)**	**9,905**
Credit loss expenses	733	319	313	-	-	130	223	-	-	1,718
Operating and other expenses	3,227	420	571	324	41	695	1,493	54	(144)	6,681
Income (loss) before taxes	(319)	62	366	886	148	222	141	-	-	1,506
Provision for taxes (tax saving) on income	(116)	22	126	338	54	78	40	8	(1)	549
Income (loss) after taxes	(203)	40	240	548	94	144	101	(8)	1	957
Bank’s share in income of associates, net of tax effect	1	-	-	2	50	-	1	-	(4)	50
Net income before attributed to the non-controlling interests	(202)	40	240	550	144	144	102	(8)	(3)	1,007
Net income attributed to the non-controlling interests	-	-	-	-	-	-	(32)	(3)	3	(32)
Net income attributed to the non-controlling interests	**(202)**	**40**	**240**	**550**	**144**	**144**	**70**	**(11)**	**-**	**975**
Balance of Assets	86,759	25,889	53,970	92,236	1,777	35,394	18,534	6,356	(26,946)	293,969
Balance of credit to the public	83,293	26,278	49,612	-	39	23,497	17,901	-	(8,141)	192,479
Balance of deposits from the public	146,487	22,589	29,949	5,630	-	27,614	16	-	(6,167)	226,118

footnote:

(1) The contribution to the Bank's business results.

14. Additional information regarding credit risk, credit to the public and allowance for credit losses

General. Debts – in this Note: Credit to the public, credit to Governments, deposits with banks and other debts, excluding bonds, securities borrowed or purchased under agreements to resell and assets in respect of the "Maof" market activity.

A. Debts and off-balance sheet credit instruments

1. Change in the balance of the allowance for credit losses - Consolidated

	Unaudited					
	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total	Banks and Governments	Total
	In NIS millions					
	Three months ended June 30, 2021					
Balance of allowance for credit losses, as at March 31, 2021	2,696	254	925	3,875	17	3,892
Expenses (expenses release) for credit loss	(340)	1	(71)	(410)	-	(410)
Accounting write-offs	(66)	(2)	(67)	(135)	-	(135)
Collection of debts written-off in previous years	142	1	65	208	-	208
Net accounting write-offs	76	(1)	(2)	73	-	73
Adjustments from translation of financial statements	(11)	-	-	(11)	-	(11)
Balance of allowance for credit losses, as at June 30, 2021	**2,421**	**254**	**852**	**3,527**	**17**	**3,544**
Of which: In respect of off-balance sheet credit instruments	178	-	77	255	-	255
	Three months ended June 30, 2020					
Balance of allowance for credit losses, as at March 31, 2020	2,199	237	839	3,275	1	3,276
Expenses for credit loss	313	61	144	518	14	532
Accounting write-offs	(93)	(6)	(120)	(219)	-	(219)
Collection of debts written-off in previous years	74	-	55	129	-	129
Net accounting write-offs	(19)	(6)	(65)	(90)	-	(90)
Adjustments from translation of financial statements	(9)	-	-	(9)	-	(9)
Balance of allowance for credit losses, as at June 30, 2020	**2,484**	**292**	**918**	**3,694**	**15**	**3,709**
Of which: In respect of off-balance sheet credit instruments	208	-	81	289	-	289
	Six months ended June 30, 2021					
Balance of allowance for credit losses, as at December 31, 2020 (audited)	2,817	258	984	4,059	15	4,074
Expenses (expense release) for credit loss	(431)	(1)	(127)	(559)	2	(557)
Accounting write-offs	(166)	(5)	(132)	(303)	-	(303)
Collection of debts written-off in previous years	197	2	127	326	-	326
Net accounting write-offs	31	(3)	(5)	23	-	23
Adjustments from translation of financial statements	4	-	-	4	-	4
Balance of allowance for credit losses, as at June 30, 2021	**2,421**	**254**	**852**	**3,527**	**17**	**3,544**
Of which: In respect of off-balance sheet credit instruments	178	-	77	255	-	255
	Six months ended June 30, 2020					
Balance of allowance for credit losses, as at December 31, 2019 (audited)	1,823	207	717	2,747	1	2,748
Expenses for credit loss	754	91	329	1,174	14	1,188
Accounting write-offs	(231)	(6)	(255)	(492)	-	(492)
Collection of debts written-off in previous years	137	-	127	264	-	264
Net accounting write-offs	(94)	(6)	(128)	(228)	-	(228)
Adjustments from translation of financial statements	1	-	-	1	-	1
Balance of allowance for credit losses, as at June 30, 2020	**2,484**	**292**	**918**	**3,694**	**15**	**3,709**
Of which: In respect of off-balance sheet credit instruments	208	-	81	289	-	289

14. Additional information regarding credit risk, credit to the public and allowance for credit losses (continued)

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

2. Additional information regarding the mode of computing the allowance for credit losses in respect of the debts and regarding the debts for which the allowance is computed – consolidated

	Unaudited					
	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total	Banks and Governments	Total
	In NIS millions					
	June 30, 2021					
Recorded amount of debts:						
Examined on a specific basis[1]	94,852	1	627	95,480	5,659	101,139
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	[2]257	46,992	-	47,249	-	47,249
Group - other	27,694	152	31,683	59,529	989	60,518
Total debts	**122,803**	**47,145**	**32,310**	**202,258**	**6,648**	**208,906**
Allowance for Credit Losses in respect of debts:						
Examined on a specific basis[1]	1,844	-	135	1,979	-	1,979
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	[3]1	[3]253	-	254	-	254
Group - other	398	1	640	1,039	17	1,056
Total allowance for Credit Losses	**2,243**	**254**	**775**	**3,272**	**17**	**3,289**
	June 30, 2020					
Recorded amount of debts:						
Examined on a specific basis[1]	88,493	2	630	89,125	7,249	96,374
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	[2]203	39,503	-	39,706	-	39,706
Group - other	26,670	201	31,139	58,010	1,284	59,294
Total debts	**115,366**	**39,706**	**31,769**	**186,841**	**8,533**	**195,374**
Allowance for Credit Losses in respect of debts:						
Examined on a specific basis[1]	1,814	-	87	1,901	-	1,901
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	[3]1	[3]290	-	291	-	291
Group - other	461	2	750	1,213	15	1,228
Total allowance for Credit Losses	**2,276**	**292**	**837**	**3,405**	**15**	**3,420**

Footnotes:

(1) Including credit examined on a specific basis and found not to be impaired in an amount of NIS 99,122 million (June 30, 2020 - NIS 94,335 million) and the allowance in its respect in an amount of NIS 1,558 million (June 30, 2020 - NIS 1,523 million) computed on a group basis.

(2) The balance of commercial debts includes housing loans in the amount of NIS 257 million, which are combined in the layout of transactions and collateral of commercial borrowers' business, or which were granted to acquisition groups, the projects being built by them are in the course of construction (as of June 30, 2020 – an amount of NIS 203 million).

(3) Includes the balance of allowance in excess of that required by the extent of arrears method, computed on a specific basis, in amount of NIS 1 million (June 30, 2020 - NIS 3 million), and computed on a group basis, in an amount of NIS 186 million (June 30, 2020 - NIS 211 million).

14. Additional information regarding credit risk, credit to the public and allowance for credit losses (continued)

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

2. Additional information regarding the mode of computing the allowance for credit losses in respect of the debts and regarding the debts for which the allowance is computed – consolidated (continued)

	Audited					
	December 31, 2020					
	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total	Banks and Governments	Total
	In NIS millions					
Recorded amount of debts:						
Examined on a specific basis[1]	91,236	2	663	91,901	6,101	98,002
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	[2]212	42,505	-	42,717	-	42,717
Group - other	26,697	144	31,020	57,861	928	58,789
Total debts	**118,145**	**42,651**	**31,683**	**192,479**	**7,029**	**199,508**
Allowance for Credit Losses in respect of debts:						
Examined on a specific basis[1]	2,119	-	148	2,267	-	2,267
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	[3]1	[3]257	-	258	-	258
Group - other	484	1	751	1,236	15	1,251
Total allowance for Credit Losses	**2,604**	**258**	**899**	**3,761**	**15**	**3,776**

Footnotes:

(1) Including credit examined on a specific basis and found not to be impaired in an amount of NIS 95,795 million and the allowance in its respect in an amount of NIS 1,762 million computed on a group basis.

(2) The balance of commercial debts includes housing loans in the amount of NIS 212 million, which are combined in the layout of transactions and collateral of commercial borrowers' business, or which were granted to acquisition groups, the projects being built by them are in the course of construction.

(3) Includes the balance of allowance in excess of that required by the extent of arrears method, computed on a specific basis, in amount of NIS 1 million, and computed on a group basis, in an amount of NIS 187 million.

14. Additional information regarding credit risk, credit to the public and allowance for credit losses (continued)

B. Debts

1. Credit quality and arrears - consolidated

	Unaudited					
	June 30, 2021					
		Problematic[1]			Unimpaired debts – additional information	
	Non-problematic	Unimpaired	Impaired[2]	Total	In Arrears of 90 Days or More[3]	In Arrears of 30 to 89 Days[4]
	In NIS millions					
Lending Activity in Israel						
Public - Commercial						
Construction and Real Estate - Construction	18,336	240	122	18,698	6	22
Construction and Real Estate - Real Estate Activity	11,234	153	116	11,503	-	6
Financial Services	10,314	56	2	10,372	-	1
Commercial - Other	52,122	1,322	949	54,393	34	55
Total Commercial	**92,006**	**1,771**	**1,189**	**94,966**	**40**	**84**
Private Individuals - Housing Loans	46,659	[5]275	1	46,935	271	82
Private Individuals - Other Loans	30,472	268	251	30,991	35	108
Total Public - Activity in Israel	**169,137**	**2,314**	**1,441**	**172,892**	**346**	**274**
Banks in Israel	1,081	-	-	1,081	-	-
Government of Israel	1,389	-	-	1,389	-	-
Total Activity in Israel	**171,607**	**2,314**	**1,441**	**175,362**	**346**	**274**
Lending Activity Abroad						
Public - Commercial						
Construction and Real Estate	8,925	1,459	206	10,590	-	-
Commercial - Other	15,287	1,590	370	17,247	1	4
Total Commercial	**24,212**	**3,049**	**576**	**27,837**	**1**	**4**
Private Individuals	1,481	48	-	1,529	5	-
Total Public - Activity Abroad	**25,693**	**3,097**	**576**	**29,366**	**6**	**4**
Foreign banks	2,350	-	-	2,350	-	-
Foreign governments	1,828	-	-	1,828	1,498	-
Total Activity Abroad	**29,871**	**3,097**	**576**	**33,544**	**1,504**	**4**
Total public	**194,830**	**5,411**	**2,017**	**202,258**	**352**	**278**
Total banks	**3,431**	**-**	**-**	**3,431**	**-**	**-**
Total governments	**3,217**	**-**	**-**	**3,217**	**1,498**	**-**
Total	**201,478**	**5,411**	**2,017**	**208,906**	**1,850**	**278**

For footnotes see page 166.

14. Additional information regarding credit risk, credit to the public and allowance for credit losses (continued)

B. Debts (continued)

1. Credit quality and arrears – consolidated (continued)

	Unaudited					
	June 30, 2020					
		Problematic[1]			Unimpaired debts – additional information	
	Non-problematic	Unimpaired	Impaired[2]	Total	In Arrears of 90 Days or More[3]	In Arrears of 30 to 89 Days[4]
	In NIS millions					
Lending Activity in Israel						
Public - Commercial						
Construction and Real Estate - Construction	16,088	195	117	16,400	7	13
Construction and Real Estate - Real Estate Activity	10,807	72	151	11,030	1	2
Financial Services	7,821	56	302	8,179	-	-
Commercial - Other	51,917	1,160	985	54,062	56	71
Total Commercial	**86,633**	**1,483**	**1,555**	**89,671**	**64**	**86**
Private Individuals - Housing Loans	39,048	[5]406	2	39,456	388	98
Private Individuals - Other Loans	29,889	340	197	30,426	45	121
Total Public - Activity in Israel	**155,570**	**2,229**	**1,754**	**159,553**	**497**	**305**
Banks in Israel	667	-	-	667	-	-
Government of Israel	2,649	-	-	2,649	-	-
Total Activity in Israel	**158,886**	**2,229**	**1,754**	**162,869**	**497**	**305**
Lending Activity Abroad						
Public - Commercial						
Construction and Real Estate	9,850	430	212	10,492	15	66
Commercial - Other	14,512	618	73	15,203	-	2
Total Commercial	**24,362**	**1,048**	**285**	**25,695**	**15**	**68**
Private Individuals	1,584	9	-	1,593	6	-
Total Public - Activity Abroad	**25,946**	**1,057**	**285**	**27,288**	**21**	**68**
Foreign banks	3,633	-	-	3,633	-	-
Foreign governments	1,584	-	-	1,584	1,029	-
Total Activity Abroad	**31,163**	**1,057**	**285**	**32,505**	**1,050**	**68**
Total public	**181,516**	**3,286**	**2,039**	**186,841**	**518**	**373**
Total banks	**4,300**	**-**	**-**	**4,300**	**-**	**-**
Total governments	**4,233**	**-**	**-**	**4,233**	**1,029**	**-**
Total	**190,049**	**3,286**	**2,039**	**195,374**	**1,547**	**373**

For footnotes see next page.

14. Additional information regarding credit risk, credit to the public and allowance for credit losses (continued)

B. Debts (continued)

1. Credit quality and arrears – consolidated (continued)

	Audited					
	December 31, 2020					
		Problematic[1]			Unimpaired debts – additional information	
	Non-problematic	Unimpaired	Impaired[2]	Total	In Arrears of 90 Days or More[3]	In Arrears of 30 to 89 Days[4]
	In NIS millions					
Lending Activity in Israel						
Public - Commercial						
Construction and Real Estate - Construction	16,655	231	113	16,999	6	51
Construction and Real Estate - Real Estate Activity	11,171	185	138	11,494	1	8
Financial Services	9,496	58	300	9,854	6	1
Commercial - Other	51,309	1,720	870	53,899	27	90
Total Commercial	**88,631**	**2,194**	**1,421**	**92,246**	**40**	**150**
Private Individuals - Housing Loans	42,136	[5]319	2	42,457	312	66
Private Individuals - Other Loans	29,695	443	259	30,397	30	99
Total Public - Activity in Israel	**160,462**	**2,956**	**1,682**	**165,100**	**382**	**315**
Banks in Israel	849	-	-	849	-	-
Government of Israel	1,755	-	-	1,755	-	-
Total Activity in Israel	**163,066**	**2,956**	**1,682**	**167,704**	**382**	**315**
Lending Activity Abroad						
Public - Commercial						
Construction and Real Estate	8,858	869	185	9,912	-	-
Commercial - Other	14,183	1,464	340	15,987	25	97
Total Commercial	**23,041**	**2,333**	**525**	**25,899**	**25**	**97**
Private Individuals	1,471	9	-	1,480	6	-
Total Public - Activity Abroad	**24,512**	**2,342**	**525**	**27,379**	**31**	**97**
Foreign banks	2,707	-	-	2,707	-	-
Foreign governments	1,718	-	-	1,718	1,162	34
Total Activity Abroad	**28,937**	**2,342**	**525**	**31,804**	**1,193**	**131**
Total public	**184,974**	**5,298**	**2,207**	**192,479**	**413**	**412**
Total banks	**3,556**	**-**	**-**	**3,556**	**-**	**-**
Total governments	**3,473**	**-**	**-**	**3,473**	**1,162**	**34**
Total	**192,003**	**5,298**	**2,207**	**199,508**	**1,575**	**446**

Footnotes:

(1) Impaired, substandard or under special mention credit risk, including housing loans for which an allowance according to the extent of arrears exists and including housing loans in arrears for ninety days or over for which an allowance according to the extent of arrears does not exist.

(2) As a general rule, interest income is not accrued in respect of impaired debts. For information regarding impaired debt restructured under problematic debt restructuring, see B.2.c. below.

(3) Classified as unimpaired problematic debts. Accruing interest income.

(4) Debts in arrears for between 30 and 89 days which accrue interest income, in amount of NIS 89 million are classified as unimpaired problematic debts (June 30, 2020 - NIS 173 million, December 31, 2020 - NIS 182 million).

(5) Including housing loans in amount of NIS 8 million with an allowance according to the extent of arrears, for which an arrangement was made for the repayment of overdue amounts, which included a change in the repayment schedule for the balance of the loan not yet due (June 30, 2020 - NIS 9 million, December 31, 2020 - NIS 8 million).

14. Additional information regarding credit risk, credit to the public and allowance for credit losses (continued)

B. Debts (continued)

2. Additional information regarding impaired debts – consolidated

A. IMPAIRED DEBTS AND SPECIFIC ALLOWANCE

	Unaudited				
	June 30, 2021				
	Balance[1] of impaired debts in respect of which specific allowance exist[2]	Balance of specific allowance[2]	Balance[1] of impaired debts for which specific allowance do not exist[2]	Total balance[1] of Impaired Debts	Contractual principal amount of impaired debts[3]
	In NIS millions				
Lending Activity in Israel					
Public - Commercial					
Construction and Real Estate - Construction	90	18	32	122	996
Construction and Real Estate - Real Estate Activity	58	5	58	116	525
Financial Services	2	1	-	2	91
Commercial - Other	844	249	105	949	2,735
Total Commercial	**994**	**273**	**195**	**1,189**	**4,347**
Private Individuals - Housing Loans	1	[4]-	-	1	1
Private Individuals - Other Loans	226	111	25	251	571
Total Public - Activity in Israel	**1,221**	**384**	**220**	**1,441**	**4,919**
Total Activity in Israel	**1,221**	**384**	**220**	**1,441**	**4,919**
Lending Activity Abroad					
Public - Commercial					
Construction and Real Estate	15	15	191	206	564
Commercial - Other	219	22	151	370	422
Total Commercial	**234**	**37**	**342**	**576**	**986**
Private Individuals	-	-	-	-	-
Total Public - Activity Abroad	**234**	**37**	**342**	**576**	**986**
Total Activity Abroad	**234**	**37**	**342**	**576**	**986**
Total public	**1,455**	**421**	**562**	**2,017**	**5,905**
Total	**1,455**	**421**	**562**	**2,017**	**5,905**
Of which:					
Measured according to present value of cash flows	1,117	370	87	1,204	
Debts under troubled debt restructurings	970	240	339	1,309	

For footnotes see page 169.

14. Additional information regarding credit risk, credit to the public and allowance for credit losses (continued)

B. Debts (continued)

2. Additional information regarding impaired debts – consolidated (continued)

A. IMPAIRED DEBTS AND SPECIFIC ALLOWANCE (CONTINUED)

	Unaudited				
	June 30, 2020				
	Balance[1] of impaired debts in respect of which specific allowance exist[2]	Balance of specific allowance[2]	Balance[1] of impaired debts for which specific allowance do not exist[2]	Total balance[1] of Impaired Debts	Contractual principal amount of impaired debts[3]
	In NIS millions				
Lending Activity in Israel					
Public - Commercial					
Construction and Real Estate - Construction	77	22	40	117	1,017
Construction and Real Estate - Real Estate Activity	84	5	67	151	890
Financial Services	302	30	-	302	399
Commercial - Other	747	216	238	985	3,072
Total Commercial	**1,210**	**273**	**345**	**1,555**	**5,378**
Private Individuals - Housing Loans	2	[4]-	-	2	2
Private Individuals - Other Loans	151	70	46	197	557
Total Public - Activity in Israel	**1,363**	**343**	**391**	**1,754**	**5,937**
Total Activity in Israel	**1,363**	**343**	**391**	**1,754**	**5,937**
Lending Activity Abroad					
Public - Commercial					
Construction and Real Estate	134	35	78	212	582
Commercial - Other	-	-	73	73	137
Total Commercial	**134**	**35**	**151**	**285**	**719**
Private Individuals - Housing Loans	2	[4]-	-	2	2
Private Individuals	-	-	-	-	-
Total Public - Activity Abroad	**134**	**35**	**151**	**285**	**719**
Total Activity Abroad	**134**	**35**	**151**	**285**	**719**
Total public	**1,497**	**378**	**542**	**2,039**	**6,656**
Total	**1,497**	**378**	**542**	**2,039**	**6,656**
Of which:					
Measured according to present value of cash flows	1,340	354	223	1,563	
Debts under troubled debt restructurings	753	161	193	946	

For footnotes see next page.

14. Additional information regarding credit risk, credit to the public and allowance for credit losses (continued)

B. Debts (continued)

2. Additional information regarding impaired debts – consolidated (continued)

A. IMPAIRED DEBTS AND SPECIFIC ALLOWANCE (CONTINUED)

	Audited				
	December 31, 2020				
	Balance[1] of impaired debts in respect of which specific allowance exist[2]	Balance of specific allowance[2]	Balance[1] of impaired debts for which specific allowance do not exist[2]	Total balance[1] of Impaired Debts	Contractual principal amount of impaired debts[3]
	In NIS millions				
Lending Activity in Israel					
Public - Commercial					
Construction and Real Estate - Construction	85	27	28	113	996
Construction and Real Estate - Real Estate Activity	67	7	71	138	867
Financial Services	300	20	-	300	393
Commercial - Other	773	251	97	870	2,805
Total Commercial	**1,225**	**305**	**196**	**1,421**	**5,061**
Private Individuals - Housing Loans	2	[4]-	-	2	2
Private Individuals - Other Loans	244	132	15	259	593
Total Public - Activity in Israel	**1,471**	**437**	**211**	**1,682**	**5,656**
Total Activity in Israel	**1,471**	**437**	**211**	**1,682**	**5,656**
Lending Activity Abroad					
Public - Commercial					
Construction and Real Estate	136	50	49	185	558
Commercial - Other	182	18	158	340	399
Total Commercial	**318**	**68**	**207**	**525**	**957**
Private Individuals	-	-	-	-	-
Total Public - Activity Abroad	**318**	**68**	**207**	**525**	**957**
Total Activity Abroad	**318**	**68**	**207**	**525**	**957**
Total public	**1,789**	**505**	**418**	**2,207**	**6,613**
Total	**1,789**	**505**	**418**	**2,207**	**6,613**
Of which:					
Measured according to present value of cash flows	1,449	428	66	1,515	
Debts under troubled debt restructurings	1,133	271	266	1,399	

Footnotes:
(1) Recorded amount.
(2) Specific allowance for credit losses.
(3) The contractual balance of the principal amount includes accrued unpaid interest at date of the initial implementation of the instruction in respect of impaired debts, not yet written off or collected.
(4) An amount lower than NIS 1 million.

14. Additional information regarding credit risk, credit to the public and allowance for credit losses (continued)

B. Debts (continued)

2. Additional information regarding impaired debts – consolidated (continued)

B. AVERAGE BALANCE AND INTEREST INCOME

	Unaudited					
	Three months ended June 30					
	2021			2020		
	Average balance of Impaired Debts[1]	Recorded Interest Income[2]	Of which: recorded on cash basis	Average balance of Impaired Debts[1]	Recorded Interest Income[2]	Of which: recorded on cash basis
	In NIS millions					
Lending Activity in Israel						
Public - Commercial						
Construction and Real Estate - Construction	133	3	2	122	-	-
Construction and Real Estate - Real Estate Activity	128	1	-	154	2	2
Financial Services	149	-	-	362	2	-
Commercial - Other	1,006	6	5	1,100	4	3
Total Commercial	**1,416**	**10**	**7**	**1,738**	**8**	**5**
Private Individuals - Housing Loans	1	-	-	3	-	-
Private Individuals - Other Loans	272	4	2	205	2	-
Total Public - Activity in Israel	**1,689**	**14**	**9**	**1,946**	**10**	**5**
Total Activity in Israel	**1,689**	**14**	**9**	**1,946**	**10**	**5**
Lending Activity Abroad						
Public - Commercial						
Construction and Real Estate	218	2	1	218	1	-
Commercial - Other	380	1	-	89	-	-
Total Commercial	**598**	**3**	**1**	**307**	**1**	**-**
Total Public - Activity Abroad	**598**	**3**	**1**	**307**	**1**	**-**
Total Activity Abroad	**598**	**3**	**1**	**307**	**1**	**-**
Total	**2,287**	[3] **17**	**10**	**2,253**	[3] **11**	**5**

For footnotes see next page.

14. Additional information regarding credit risk, credit to the public and allowance for credit losses (continued)

B. Debts (continued)

2. Additional information regarding impaired debts – consolidated (continued)

B. AVERAGE BALANCE AND INTEREST INCOME (CONTINUED)

	Unaudited					
	Six months ended June 30					
	2021			2020		
	Average balance of Impaired Debts(1)	Recorded Interest Income(2)	Of which: recorded on cash basis	Average balance of Impaired Debts(1)	Recorded Interest Income(2)	Of which: recorded on cash basis
	In NIS millions					
Lending Activity in Israel						
Public - Commercial						
Construction and Real Estate - Construction	135	3	2	129	-	-
Construction and Real Estate - Real Estate Activity	139	2	-	174	2	2
Financial Services	199	2	1	370	4	-
Commercial - Other	1,057	10	8	1,144	8	5
Total Commercial	**1,530**	**17**	**11**	**1,817**	**14**	**7**
Private Individuals - Housing Loans	2	-	-	3	-	-
Private Individuals - Other Loans	279	9	5	215	4	1
Total Public - Activity in Israel	**1,811**	**26**	**16**	**2,035**	**18**	**8**
Total Activity in Israel	**1,811**	**26**	**16**	**2,035**	**18**	**8**
Lending Activity Abroad						
Public - Commercial						
Construction and Real Estate	207	2	1	227	2	-
Commercial - Other	388	3	1	85	1	-
Total Commercial	**595**	**5**	**2**	**312**	**3**	**-**
Total Public - Activity Abroad	**595**	**5**	**2**	**312**	**3**	**-**
Total Activity Abroad	**595**	**5**	**2**	**312**	**3**	**-**
Total	**2,406**	**(3) 31**	**18**	**2,347**	**(3) 21**	**8**

Footnotes:

(1) Average recorded amount of Impaired debts during the reported period.

(2) Interest income recognized in the reported period, in respect of the average balance of impaired debts, during the time period in which these debts had been classified as impaired.

(3) Total interest income that would have been recognized had such credit accrued interest according to its original terms is in amount of NIS 21 million and NIS 45 million for the three and six months ended June 30, 2021 (NIS 23 million and NIS 48 million for the three and six months ended June 30, 2020), respectively.

14. Additional information regarding credit risk, credit to the public and allowance for credit losses (continued)

B. Debts (continued)

2. Additional information regarding impaired debts – consolidated (continued)

C. RESTRUCTURED TROUBLED DEBTS - CONSOLIDATED

	Unaudited				
	June 30, 2021				
	Recorded amount				
	Not accruing interest income	Accruing debts[1], in arrears for 90 days or more	Accruing debts[1], in Arrears for 30 to 89 Days	Accruing debts[1] not in arrears	Total[2]
	In NIS millions				
Lending Activity in Israel					
Public - Commercial					
Construction and Real Estate - Construction	17	-	-	26	43
Construction and Real Estate - Real Estate Activity	18	-	-	20	38
Financial Services	-	-	-	-	-
Commercial - Other	362	-	1	167	530
Total Commercial	**397**	**-**	**1**	**213**	**611**
Private Individuals - Other Loans	54	-	1	174	229
Total Public - Activity in Israel	**451**	**-**	**2**	**387**	**840**
Total Activity in Israel	**451**	**-**	**2**	**387**	**840**
Lending Activity Abroad					
Public - Commercial					
Construction and Real Estate	70	-	-	45	115
Commercial - Other	220	-	-	134	354
Total Commercial	**290**	**-**	**-**	**179**	**469**
Total Public - Activity Abroad	**290**	**-**	**-**	**179**	**469**
Total Activity Abroad	**290**	**-**	**-**	**179**	**469**
Total	**741**	**-**	**2**	**566**	**1,309**

Footnotes:

(1) Accruing interest income.

(2) Included in impaired debts.

Commitment to grant additional credit to borrowers, in respect of which a troubled debt restructurings was performed, within the framework of which the credit terms had been changed, amounts at June 30, 2021, to NIS 34 million (June 30, 2020 - NIS 19 million; December 31, 2020 – NIS 23 million).

14. Additional information regarding credit risk, credit to the public and allowance for credit losses (continued)

B. Debts (continued)

2. Additional information regarding impaired debts – consolidated (continued)

C. RESTRUCTURED TROUBLED DEBTS – CONSOLIDATED (CONTINUED)

	Unaudited				
	June 30, 2020				
	Recorded amount				
	Not accruing interest income	Accruing debts[1], in arrears for 90 days or more	Accruing debts[1], in Arrears for 30 to 89 Days	Accruing debts[1] not in arrears	Total[2]
	In NIS millions				
Lending Activity in Israel					
Public - Commercial					
Construction and Real Estate - Construction	28	-	-	10	38
Construction and Real Estate - Real Estate Activity	35	-	-	20	55
Financial Services	-	-	-	276	276
Commercial - Other	190	-	-	111	301
Total Commercial	**253**	**-**	**-**	**417**	**670**
Private Individuals - Other Loans	71	-	1	84	156
Total Public - Activity in Israel	**324**	**-**	**1**	**501**	**826**
Total Activity in Israel	**324**	**-**	**1**	**501**	**826**
Lending Activity Abroad					
Public - Commercial					
Construction and Real Estate	-	-	-	53	53
Commercial - Other	28	-	-	39	67
Total Commercial	**28**	**-**	**-**	**92**	**120**
Total Public - Activity Abroad	**28**	**-**	**-**	**92**	**120**
Total Activity Abroad	**28**	**-**	**-**	**92**	**120**
Total	**352**	**-**	**1**	**593**	**946**

Footnotes:
(1) Accruing interest income.
(2) Included in impaired debts.

14. Additional information regarding credit risk, credit to the public and allowance for credit losses (continued)

B. Debts (continued)

2. Additional information regarding impaired debts – consolidated (continued)

C. RESTRUCTURED TROUBLED DEBTS – CONSOLIDATED (CONTINUED)

	Audited				
	December 31, 2020				
	Recorded amount				
	Not accruing interest income	Accruing debts[1], in arrears for 90 days or more	Accruing debts[1], in Arrears for 30 to 89 Days	Accruing debts[1] not in arrears	Total[2]
	In NIS millions				
Lending Activity in Israel					
Public - Commercial					
Construction and Real Estate - Construction	23	-	1	14	38
Construction and Real Estate - Real Estate Activity	18	-	-	20	38
Financial Services	1	-	-	276	277
Commercial - Other	277	-	-	146	423
Total Commercial	**319**	**-**	**1**	**456**	**776**
Private Individuals - Other Loans	59	-	2	184	245
Total Public - Activity in Israel	**378**	**-**	**3**	**640**	**1,021**
Total Activity in Israel	**378**	**-**	**3**	**640**	**1,021**
Lending Activity Abroad					
Public - Commercial					
Construction and Real Estate	41	-	-	-	41
Commercial - Other	197	-	-	140	337
Total Commercial	**238**	**-**	**-**	**140**	**378**
Total Public - Activity Abroad	**238**	**-**	**-**	**140**	**378**
Total Activity Abroad	**238**	**-**	**-**	**140**	**378**
Total	**616**	**-**	**3**	**780**	**1,399**

Footnotes:

(1) Accruing interest income.

(2) Included in impaired debts.

14. Additional information regarding credit risk, credit to the public and allowance for credit losses (continued)

B. Debts (continued)

2. Additional information regarding impaired debts – consolidated (continued)

C. RESTRUCTURED TROUBLED DEBTS - CONSOLIDATED (CONTINUED)

	Unaudited					
	Three months ended June 30					
	2021			2020		
	Debt restructuring performed					
	Number of contracts	Recorded amount before restructuring	Recorded amount after restructuring	Number of contracts	Recorded amount before restructuring	Recorded amount after restructuring
	In NIS millions					
Lending Activity in Israel						
Public - Commercial						
Construction and Real Estate - Construction	44	14	13	60	8	8
Construction and Real Estate - Real Estate Activity	12	10	10	11	3	3
Financial Services	2	(1)-	(1)-	2	(1)-	(1)-
Commercial - Other	355	68	67	283	45	45
Total Commercial	**413**	**92**	**90**	**356**	**56**	**56**
Private Individuals - Other Loans	1,385	43	43	1,381	31	31
Total Public - Activity in Israel	**1,798**	**135**	**133**	**1,737**	**87**	**87**
Total Activity in Israel	**1,798**	**135**	**133**	**1,737**	**87**	**87**
Lending Activity Abroad						
Public - Commercial						
Construction and Real Estate	2	78	78	-	-	-
Commercial - Other	1	6	6	-	-	-
Total Commercial	**3**	**84**	**84**	**-**	**-**	**-**
Private Individuals	-	-	-	2	(1)-	(1)-
Total Public - Activity Abroad	**3**	**84**	**84**	**2**	**(1)-**	**(1)-**
Total Activity Abroad	**3**	**84**	**84**	**2**	**(1)-**	**(1)-**
Total	**1,801**	**219**	**217**	**1,739**	**87**	**87**

Footnote:
(1) An amount lower than NIS 1 million.

14. Additional information regarding credit risk, credit to the public and allowance for credit losses (continued)

B. Debts (continued)

2. Additional information regarding impaired debts – consolidated (continued)

C. RESTRUCTURED TROUBLED DEBTS - CONSOLIDATED (CONTINUED)

	Unaudited					
	Six months ended June 30					
	2021			2020		
	Debt restructuring performed					
	Number of contracts	Recorded amount before restructuring	Recorded amount after restructuring	Number of contracts	Recorded amount before restructuring	Recorded amount after restructuring
	In NIS millions					
Lending Activity in Israel						
Public - Commercial						
Construction and Real Estate - Construction	98	18	17	118	19	19
Construction and Real Estate - Real Estate Activity	25	20	20	14	3	3
Financial Services	3	(1)-	(1)-	2	(1)-	(1)-
Commercial - Other	568	207	206	567	101	101
Total Commercial	**694**	**245**	**243**	**701**	**123**	**123**
Private Individuals - Other Loans	2,808	90	89	2,828	61	60
Total Public - Activity in Israel	**3,502**	**335**	**332**	**3,529**	**184**	**183**
Total Activity in Israel	**3,502**	**335**	**332**	**3,529**	**184**	**183**
Lending Activity Abroad						
Public - Commercial						
Construction and Real Estate	2	78	78	-	-	-
Commercial - Other	4	58	58	1	65	65
Total Commercial	**6**	**136**	**136**	**1**	**65**	**65**
Private Individuals	1	(1)-	(1)-	3	(1)-	(1)-
Total Public - Activity Abroad	**7**	**136**	**136**	**4**	**65**	**65**
Total Activity Abroad	**7**	**136**	**136**	**4**	**65**	**65**
Total	**3,509**	**471**	**468**	**3,533**	**249**	**248**

Footnote:

(1) An amount lower than NIS 1 million.

14. Additional information regarding credit risk, credit to the public and allowance for credit losses (continued)

B. Debts (continued)

2. Additional information regarding impaired debts – consolidated (continued)

C. RESTRUCTURED TROUBLED DEBTS - CONSOLIDATED (CONTINUED)

	Unaudited			
	Three months ended June 30			
	2021		2020	
	Failure of restructured debts[1]			
	Number of contracts	Recorded amount	Number of contracts	Recorded amount
	In NIS millions			
Lending Activity in Israel				
Public - Commercial				
Construction and Real Estate - Construction	20	1	17	2
Construction and Real Estate - Real Estate Activity	-	-	2	1
Financial Services	2	[2]-	-	-
Commercial - Other	81	8	83	3
Total Commercial	**103**	**9**	**102**	**6**
Private Individuals - Other	605	3	789	4
Total Public - Activity in Israel	**708**	**12**	**891**	**10**
Total Activity in Israel	**708**	**12**	**891**	**10**
Lending Activity Abroad				
Total Activity Abroad	**-**	**-**	**-**	**-**
Total	**708**	**12**	**891**	**10**

For footnotes see next page.

14. Additional information regarding credit risk, credit to the public and allowance for credit losses (continued)

B. Debts (continued)

2. Additional information regarding impaired debts – consolidated (continued)

C. RESTRUCTURED TROUBLED DEBTS - CONSOLIDATED (CONTINUED)

	Unaudited			
	Six months ended June 30			
	2021		2020	
	Failure of restructured debts[1]			
	Number of contracts	Recorded amount	Number of contracts	Recorded amount
	In NIS millions			
Lending Activity in Israel				
Public - Commercial				
Construction and Real Estate - Construction	41	5	52	4
Construction and Real Estate - Real Estate Activity	1	[2]-	3	1
Financial Services	3	[2]-	-	-
Commercial - Other	185	14	229	13
Total Commercial	**230**	**19**	**284**	**18**
Private Individuals - Other	1,288	8	1,781	11
Total Public - Activity in Israel	**1,518**	**27**	**2,065**	**29**
Total Activity in Israel	**1,518**	**27**	**2,065**	**29**
Lending Activity Abroad				
Public - Commercial				
Commercial - Other	-	-	1	57
Total Commercial	**-**	**-**	**1**	**57**
Total Public - Activity Abroad	**-**	**-**	**1**	**57**
Total Activity Abroad	**-**	**-**	**1**	**57**
Total	**1,518**	**27**	**2,066**	**86**

Footnotes:

(1) Debts, which in the reported year turned into debts in arrears for 30 days or over, which had been restructured under troubled debt restructurings during the period of twelve months prior to their having become debts in arrears.

(2) An amount lower than NIS 1 million.

3. Additional disclosure regarding the quality of credit

(A) Risk characteristics according to credit segments

(1) Business credit

- Sensitivity to the domestic economic cycle in Israel. In addition, in view of material overseas investments by large Israeli corporations, the level of exposure to global crises increased;
- Sensitivity to changes in private consumption;
- Exposure to foreign competition, in particular to the effect of E-commerce;
- In view of the high concentration of the ownership and control structure of corporations in the Israeli market – credit is typified by high concentration at the large borrower groups' level;
- The Corona pandemic, which broke out in the first quarter of 2020, has a significant impact upon the global economy in general, and upon economic activity in Israel in particular, including on the actual ability of businesses to operate and on the demand for their products. In consequence thereof, the business-commercial credit risk has grown, which would be particularly affected by the length of time and the type of restrictions on economic activity that would remain, and the pace of recovery in exiting the crisis.

(2) Credit to private individuals – housing loans

- Loans involving a high finance ratio carry risk in the event of impairment in the value of collateral below the balance of the loan. The Bank's underwriting policy limits the ratio of finance when granting a loan.

14. Additional information regarding credit risk, credit to the public and allowance for credit losses (continued)

B. Debts (continued)

3. Additional disclosure regarding the quality of credit (continued)

(3) Credit to private individuals – other

- Exposure to retail credit is affected by macro-economic factors.
- The growth in competition in recent years, whether within the banking industry or against off-banking institutions, may lead to erosion of the spreads, to a decline in the quality of borrowers, and as a result thereof to increased credit risk. The present credit policy examines thoroughly the risk involved in the underwriting of loans to existing and new customers using models and tools developed for sales points, thus reducing such risk.

(4) Implications of the Corona crisis on credit to private individual (mortgages and others)

- The severe effects of the Corona crisis upon unemployment in the market and on the free income of households, may implicate the quality of credit in this segment. The pace of recovery of the economy, scope of State assistance and the reduction in unemployment will have a decisive impact upon the repayment ability of borrowers. The Bank follows and conducts the monitoring of sectors and customers, the vulnerability of which has grown as a result of the crisis, and is assisting customers in economic distress having a potential for recovery.

(B) INDICATION OF CREDIT QUALITY

	Unaudited				Audited			
	June 30, 2021				December 31, 2020			
		Private Individuals				Private Individuals		
	Commercial	Housing Loans	Other Loans	Total	Commercial	Housing Loans	Other Loans	Total
Ratio of the balance of non-problematic credit to the public to the balance of credit to the public	94.7%	99.4%	98.2%	96.3%	94.5%	99.2%	97.8%	96.1%
Ratio of the balance of problematic unimpaired credit to the public to the balance of credit to the public	3.9%	0.6%	1.0%	2.7%	3.8%	0.8%	1.4%	2.8%
Ratio of the balance of impaired credit to the public to the balance of credit to the public	1.4%	-	0.8%	1.0%	1.7%	-	0.8%	1.1%
Ratio of the balance of allowance to credit losses in respect of credit to the public to the balance of credit to the public	1.8%	0.5%	2.4%	1.6%	2.2%	0.6%	2.8%	2.0%
Ratio of the balance of allowance to credit losses in respect of credit to the public to the balance of problematic credit risk (excluding derivatives and bonds)	31.7%	89.4%	134.8%	41.2%	36.4%	78.9%	125.4%	45.9%

The number of days in which a debt is in arrears is a central factor in determining the classification of the Bank's debts, and accordingly affects the allowance for credit losses and the accounting write-offs. A debt that is examined on a specific basis, is classified as an impaired debt when the repayment of capital or interest thereon is in arrears for 90 days or more, except where the debt is well secured and in the process of collection. Notwithstanding the above, during the Corona crisis, in view of the outline for the deferral of loan repayments that had been granted to many borrowers, additional parameters have been taken into account for the classification of borrowers, such as: condition of the borrower, exposure to the crisis, impairment to income, and more.
A central indication regarding the quality of the credit portfolio is the ratio of performing debts to the problematic debts at the Bank.

14. Additional information regarding credit risk, credit to the public and allowance for credit losses (continued)

B. Debts (continued)

4. Additional information regarding housing loans

BALANCES FOR THE YEAR END, ACCORDING TO LOAN-TO-VALUE (LTV)[1] RATIO, MANNER OF REPAYMENT AND TYPE OF INTEREST

		Balance of housing loans			
		Total	Of which: Bullet and Balloon debts	Of which: variable interest	Total Off-Balance Sheet Credit Risk
		In NIS millions			
		Unaudited			
		June 30, 2021			
First degree pledge: financing ratio	Up to 60%	29,974	385	17,772	660
	Over 60%	15,947	116	9,553	367
Second degree pledge or without pledge		1,224	155	538	7,101
Total		**(2)47,145**	**656**	**27,863**	**8,128**
		Unaudited			
		June 30, 2020			
First degree pledge: financing ratio	Up to 60%	25,659	394	15,332	508
	Over 60%	12,970	126	7,902	252
Second degree pledge or without pledge		1,077	131	440	3,879
Total		**(2)39,706**	**651**	**23,674**	**4,639**
		Audited			
		December 31, 2020			
First degree pledge: financing ratio	Up to 60%	27,409	394	16,309	519
	Over 60%	14,121	125	8,538	294
Second degree pledge or without pledge		1,121	132	456	4,364
Total		**(2) 42,651**	**651**	**25,303**	**5,177**

Footnotes:

(1) The ratio between the authorized credit line at the time the credit line was granted and the value of the asset, as confirmed by the Bank at the time the credit line was granted. The LTV ratio is another indication of the bank as to the assessment of the customer risk when the facility was granted.

(2) The balance of housing loans not includes the balance of commercial debts in the amount of NIS 257 million, which are combined in the layout of transactions and collateral of commercial borrowers' business, or which were granted to acquisition groups, the projects being built by them are in the course of construction (June 30, 2020 - NIS 203 million, December 31, 2020 - NIS 212 million).

14. Additional information regarding credit risk, credit to the public and allowance for credit losses (continued)

C. Information regarding the purchase and sale of debts

Details regarding the consideration paid or received for the acquisition or sale of loans

	Unaudited									
	Credit to the public					Credit to the public				
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	Credit to governments	Total	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	Credit to governments	Total
	In NIS millions									
	For the three months ended June 30, 2021					For the three months ended June 30, 2020				
Loans acquired	2,705	-	-	308	3,013	(1) 1,438	-	-	355	1,793
Loans sold	(2) 60	-	-	-	60	-	-	-	-	-
	For the six months ended June 30, 2021					For the six months ended June 30, 2020				
Loans acquired	4,691	-	-	579	5,270	(1) 2,643	-	-	1,432	4,075
Loans sold	(2) 93	-	-	-	93	121	-	-	-	121

Footnotes:
(1) Reclassification following a renewed examination of certain transactions.
(2) Problematic credit.

For details regarding profit (loss) net in respect of loans sold, see Note 3.

14. Additional information regarding credit risk, credit to the public and allowance for credit losses (continued)

D. Off balance Sheet Financial Instruments[3]

	Unaudited		Unaudited		Audited	
	Balance[1]	Provision[2]	Balance[1]	Provision[2]	Balance[1]	Provision[2]
	June 30, 2021		June 30, 2020		December 31, 2020	
			in NIS millions			
Transactions in which the balance represents credit risk:						
Letters of credit	1,630	4	935	6	1,248	7
Credit guarantees	2,344	38	2,403	36	2,256	42
Guarantees for home purchasers	13,509	3	11,738	4	11,169	4
Other guarantees and obligations	10,745	44	9,416	81	10,801	59
Unutilized facilities for transactions in derivative instruments	3,348	-	2,478	-	2,054	-
Unutilized facilities credit line for credit cards	34,203	59	32,996	65	33,537	67
Unutilized current loan account facilities and other credit facilities in on-call accounts	10,317	40	10,165	44	10,584	47
Irrevocable commitments to extend credit approved but not yet granted[3]	29,445	63	23,045	48	23,199	67
Commitment to issue guarantees	6,275	4	6,447	5	6,119	5

Footnotes:

(1) Contract balance or their stated amounts at period end before of allowance for credit loss.

(2) Balance of allowance for credit losses at period end.

(3) Including commitments to customers for granting credit within the framework of "an approval in principle and maintaining interest rates" in accordance with Proper Management Directive No. 451 "Procedures for the granting of housing loans".

15. Assets and liabilities according to linkage terms - consolidated

	Unaudited						
	June 30, 2021						
	Israeli currency		Foreign currency[1]				
	Non-linked	Linked to the CPI	In US$	In Euro	In other currencies	Non monetary items	Total
	in NIS millions						
Assets							
Cash and deposits with banks	43,326	25	3,281	386	387	-	47,405
Securities	27,624	2,078	14,894	729	1	1,523	46,849
Securities borrowed or purchased under agreements to resell	1,377	-	-	-	-	-	1,377
Net credit to the public	146,841	19,848	29,709	2,238	350	-	198,986
Credit to the Government	692	249	1,476	800	-	-	3,217
Investments in associates	1	-	-	-	-	344	345
Buildings and equipment	-	-	-	-	-	3,117	3,117
Intangible assets and goodwill	-	-	-	-	-	164	164
Assets in respect of derivative instruments	1,724	195	1,795	115	317	524	4,670
Other assets	2,008	25	961	64	92	1,454	4,604
Total assets	**223,593**	**22,420**	**52,116**	**4,332**	**1,147**	**7,126**	**310,734**
Liabilities							
Deposits from the public	166,265	4,017	62,616	6,051	1,742	-	240,691
Deposits from banks	13,177	-	1,984	114	16	-	15,291
Deposits from the Government	142	4	141	-	-	-	287
Bonds and Subordinated debt notes	4,607	6,579	-	17	-	-	11,203
Liabilities in respect of derivative instruments	1,884	233	1,731	178	326	524	4,876
Other liabilities	15,390	755	666	10	28	191	17,040
Total liabilities	**201,465**	**11,588**	**67,138**	**6,370**	**2,112**	**715**	**289,388**
Difference	22,128	10,832	(15,022)	(2,038)	(965)	6,411	21,346
Effect of non-hedging derivative instruments:							
Derivative instruments (except for options)	(19,860)	(2,759)	19,374	2,383	862	-	-
Net options in the money (in terms of underlying asset)	1,366	-	(1,066)	(319)	19	-	-
Net options out of the money (in terms of underlying asset)	50	-	(8)	(65)	23	-	-
Total	**3,684**	**8,073**	**3,278**	**(39)**	**(61)**	**6,411**	**21,346**
Net options in the money (discounted par value)	1,130	-	(1,141)	(31)	42	-	-
Net options out of the money (discounted par value)	(117)	-	273	(340)	184	-	-

Footnote:
(1) Includes those linked to foreign currency.

15. Assets and liabilities according to linkage terms – consolidated (continued)

	Unaudited						
	June 30, 2020						
	Israeli currency		Foreign currency[1]				
	Non-linked	Linked to the CPI	In US$	In Euro	In other currencies	Non monetary items	Total
	in NIS millions						
Assets							
Cash and deposits with banks	34,488	33	4,207	437	443	-	39,608
Securities	21,167	1,112	16,020	715	1	1,022	40,037
Securities borrowed or purchased under agreements to resell	832	-	-	-	-	-	832
Net credit to the public	135,316	18,112	27,647	1,953	408	-	183,436
Credit to the Government	1,604	275	1,521	819	-	-	4,219
Investments in associates	-	-	-	-	-	154	154
Buildings and equipment	-	-	-	-	-	2,648	2,648
Intangible assets and goodwill	-	-	-	-	-	164	164
Assets in respect of derivative instruments	1,910	63	2,901	195	282	505	5,856
Other assets	2,376	31	889	59	558	1,233	5,146
Total assets	**197,693**	**19,626**	**53,185**	**4,178**	**1,692**	**5,726**	**282,100**
Liabilities							
Deposits from the public	150,830	4,394	59,048	5,553	2,223	-	222,048
Deposits from banks	5,753	-	1,860	104	-	-	7,717
Deposits from the Government	129	8	95	-	-	-	232
Securities lent or sold under agreements to repurchase	-	-	174	-	-	-	174
Bonds and Subordinated debt notes	5,225	6,122	-	30	-	-	11,377
Liabilities in respect of derivative instruments	1,962	142	2,956	231	266	507	6,064
Other liabilities	13,219	825	459	22	249	191	14,965
Total liabilities	**177,118**	**11,491**	**64,592**	**5,940**	**2,738**	**698**	**262,577**
Difference	20,575	8,135	(11,407)	(1,762)	(1,046)	5,028	19,523
Effect of non-hedging derivative instruments:							
Derivative instruments (except for options)	(15,333)	(4,481)	16,871	2,117	826	-	-
Net options in the money (in terms of underlying asset)	923	-	(697)	(278)	52	-	-
Net options out of the money (in terms of underlying asset)	430	-	(257)	(193)	20	-	-
Total	**6,595**	**3,654**	**4,510**	**(116)**	**(148)**	**5,028**	**19,523**
Net options in the money (discounted par value)	717	-	(395)	(375)	53	-	-
Net options out of the money (discounted par value)	1,365	-	(241)	(1,130)	6	-	-

Footnote:

(1) Includes those linked to foreign currency.

15. Assets and liabilities according to linkage terms - consolidated (continued)

	Audited						
	December 31, 2020						
	Israeli currency		Foreign currency[1]				
	Non-linked	Linked to the CPI	In US$	In Euro	In other currencies	Non monetary items	Total
	in NIS millions						
Assets							
Cash and deposits with banks	[2]38,367	[2]24	3,854	342	349	-	42,936
Securities	25,814	991	14,122	764	1	1,093	42,785
Securities borrowed or purchased under agreements to resell	1,074	-	-	-	-	-	1,074
Net credit to the public	139,083	18,999	27,908	2,425	303	-	188,718
Credit to the Government	868	255	1,445	905	-	-	3,473
Investments in associates	-	-	-	-	-	348	348
Buildings and equipment	-	-	-	-	-	2,995	2,995
Intangible assets and goodwill	-	-	-	-	-	164	164
Assets in respect of derivative instruments	3,363	66	1,840	386	417	328	6,400
Other assets	2,665	30	954	70	108	1,249	5,076
Total assets	**211,234**	**20,365**	**50,123**	**4,892**	**1,178**	**6,177**	**293,969**
Liabilities							
Deposits from the public	157,927	4,576	56,063	5,773	1,779	-	226,118
Deposits from banks	9,745	1	3,315	46	-	-	13,107
Deposits from the Government	136	6	202	-	-	-	344
Securities lent or sold under agreements to repurchase	-	-	161	-	-	-	161
Bonds and Subordinated debt notes	[2]4,681	[2]5,487	-	31	-	2	10,201
Liabilities in respect of derivative instruments	4,201	136	1,933	381	385	329	7,365
Other liabilities	14,875	823	686	10	371	181	16,946
Total liabilities	**191,565**	**11,029**	**62,360**	**6,241**	**2,535**	**512**	**274,242**
Difference	19,669	9,336	(12,237)	(1,349)	(1,357)	5,665	19,727
Effect of non-hedging derivative instruments:							
Derivative instruments (except for options)	(16,120)	(3,660)	17,009	1,414	1,357	-	-
Net options in the money (in terms of underlying asset)	1,051	-	(1,155)	100	4	-	-
Net options out of the money (in terms of underlying asset)	267	-	(90)	(189)	12	-	-
Total	**4,867**	**5,676**	**3,527**	**(24)**	**16**	**5,665**	**19,727**
Net options in the money (discounted par value)	855	-	(1,000)	171	(26)	-	-
Net options out of the money (discounted par value)	1,968	-	(1,037)	(993)	62	-	-

Footnotes:

(1) Includes those linked to foreign currency.

(2) Improvement of the data.

16. Balances and fair value estimates of financial instruments

A. Composition - consolidated

	Unaudited				
	June 30, 2021				
	Book	Fair value			
	value	Level 1[1]	Level 2[1]	Level 3[1]	Total
	in NIS millions				
Financial assets					
Cash and deposits with banks	47,405	18,938	-	28,421	47,359
Securities[2]	46,849	31,736	14,120	1,176	47,032
Securities borrowed or purchased under agreements to resell	1,377	-	-	1,377	1,377
Net credit to the public	198,986	2,110	-	198,615	200,725
Credit to Governments	3,217	-	-	3,249	3,249
Assets in respect of derivative instruments	4,670	538	3,090	1,042	4,670
Other financial assets	1,373	1	7	1,365	1,373
Total financial assets	**[3]303,877**	**53,323**	**17,217**	**235,245**	**305,785**
Financial liabilities					
Deposits from the public	240,691	28,640	173,788	38,947	241,375
Deposits from banks	15,291	913	4,042	10,258	15,213
Deposits from the Government	287	-	198	92	290
Securities lent or sold under agreements to repurchase	-	-	-	-	-
Bonds and Subordinated debt notes	11,203	10,275	55	1,200	11,530
Liabilities in respect of derivative instruments	4,876	538	4,020	318	4,876
Other financial liabilities [4]	12,953	1,319	8	11,626	12,953
Total financial liabilities	**[3]285,301**	**41,685**	**182,111**	**62,441**	**286,237**
Off-balance sheet financial instruments					
Transactions in which the balance represents credit risk	132	-	-	132	132

Footnotes:

(1) Level 1 - fair value measurements using quoted prices in an active market. Level 2 - fair value measurements using other significant observable inputs. Level 3 - fair value measurements using significant unobservable inputs.

(2) For further details of the stated balance sheet amount and the fair value of securities, see Note 5.

(3) Of which: assets and liabilities in the amount of NIS 65,011 million and NIS 158,684 million, respectively, the stated balance sheet amounts of which are identical to their fair value (instruments stated in the balance sheet at their fair value). For additional information regarding instruments measured at fair value on a recurrent basis and on a non-recurrent basis, see items B and C below.

(4) Not including liabilities in respect of leasing.

16. Balances and fair value estimates of financial instruments (continued)

A. Composition - consolidated (continued)

	Unaudited				
	June 30, 2020				
	Book value	Fair value			
		Level 1[1]	Level 2[1]	Level 3[1]	Total
	in NIS millions				
Financial assets					
Cash and deposits with banks	39,608	16,262	-	23,377	39,639
Securities[2]	40,037	22,989	16,469	932	40,390
Securities borrowed or purchased under agreements to resell	832	-	-	832	832
Net credit to the public	183,436	1,767	-	181,645	183,412
Credit to Governments	4,219	-	-	4,247	4,247
Assets in respect of derivative instruments	5,856	486	3,966	1,404	5,856
Other financial assets	1,744	13	10	1,721	1,744
Total financial assets	**[3]275,732**	**41,517**	**20,445**	**214,158**	**276,120**
Financial liabilities					
Deposits from the public	222,048	23,300	159,799	39,515	222,614
Deposits from banks	7,717	[5]313	[5]4,389	3,018	7,720
Deposits from the Government	232	-	150	84	234
Securities lent or sold under agreements to repurchase	174	-	-	174	174
Bonds and Subordinated debt notes	11,377	10,136	69	1,311	11,516
Liabilities in respect of derivative instruments	6,064	487	5,238	339	6,064
Other financial liabilities[4]	10,199	657	14	9,528	10,199
Total financial liabilities	**[3]257,811**	**34,893**	**169,659**	**53,969**	**258,521**
Off-balance sheet financial instruments					
Transactions in which the balance represents credit risk	119	-	-	119	119

Footnotes:

(1) Level 1 - fair value measurements using quoted prices in an active market. Level 2 - fair value measurements using other significant observable inputs. Level 3 - fair value measurements using significant unobservable inputs.

(2) For further details of the stated balance sheet amount and the fair value of securities, see Note 5.

(3) Of which: assets and liabilities in the amount of NIS 58,370 million and NIS 128,128 million, respectively, the stated balance sheet amounts of which are identical to their fair value (instruments stated in the balance sheet at their fair value). For additional information regarding instruments measured at fair value on a recurrent basis and on a non-recurrent basis, see items B and C below.

(4) Not including liabilities in respect of leasing.

(5) Reclassified - Improvement in the calculation of the data.

16. Balances and fair value estimates of financial instruments (continued)

A. Composition – consolidated (continued)

	Audited				
	December 31, 2020				
	Book value	Fair value			
		Level 1[1]	Level 2[1]	Level 3[1]	Total
	in NIS millions				
Financial assets					
Cash and deposits with banks	42,936	16,716	-	26,163	42,879
Securities[2]	42,785	27,884	14,211	1,000	43,095
Securities borrowed or purchased under agreements to resell	1,074	-	-	1,074	1,074
Net credit to the public	188,718	2,387	-	187,121	189,508
Credit to Governments	3,473	-	-	3,459	3,459
Assets in respect of derivative instruments	6,400	340	4,600	1,460	6,400
Other financial assets	1,701	7	10	1,684	1,701
Total financial assets	**(3)287,087**	**47,334**	**18,821**	**221,961**	**288,116**
Financial liabilities					
Deposits from the public	226,118	25,593	164,914	36,224	226,731
Deposits from banks	13,107	(5)1,856	(5)4,771	6,435	13,062
Deposits from the Government	344	-	252	97	349
Securities lent or sold under agreements to repurchase	161	-	-	161	161
Bonds and Subordinated debt notes	10,201	9,211	59	1,247	10,517
Liabilities in respect of derivative instruments	7,365	340	6,710	315	7,365
Other financial liabilities [4]	12,224	821	10	11,393	12,224
Total financial liabilities	**(3)269,520**	**37,821**	**176,716**	**55,872**	**270,409**
Off-balance sheet financial instruments					
Transactions in which the balance represents credit risk	121	-	-	121	121

Footnotes:

(1) Level 1 - fair value measurements using quoted prices in an active market. Level 2 - fair value measurements using other significant observable inputs. Level 3 - fair value measurements using significant unobservable inputs.

(2) For further details of the stated balance sheet amount and the fair value of securities, see Note 5.

(3) Of which: assets and liabilities in the amount of NIS 62,418 million and NIS 145,027 million, respectively, the stated balance sheet amounts of which are identical to their fair value (instruments stated in the balance sheet at their fair value). For additional information regarding instruments measured at fair value on a recurrent basis and on a non-recurrent basis, see items B and C below.

(4) Not including liabilities in respect of leasing.

(5) Reclassified - Improvement in the calculation of the data.

16. Balances and fair value estimates of financial instruments (continued)

B. Items measured at fair value – Consolidated

1. Items measured at fair value on a recurring basis

	Unaudited				
	June 30, 2021				
	Fair value measurements using -				
	Quoted prices in an active market (level 1)	Other significant observable inputs (level 2)	Significant unobservable inputs (level 3)	Influence of deduction agreements	Total fair value
	In NIS millions				
Assets					
Available-for-sale bonds and shares not for trading					
Israeli Government bonds	19,128	2,901	-	-	22,029
Foreign Governments bonds	1,806	29	-	-	1,835
Israeli financial institutions bonds	110	21	-	-	131
Foreign financial institutions bonds	-	401	-	-	401
Bonds backed by assets (ABS) or by mortgage (MBS)	1	7,889	-	-	7,890
Bonds of others in Israel	373	176	-	-	549
Bonds of others abroad	-	1,923	-	-	1,923
Shares not for trading	330	13	-	-	343
Total available-for-sale bonds and shares not for trading	**21,748**	**13,353**	**-**	**-**	**35,101**
Trading Securities					
Israeli Government bonds	1,246	109	-	-	1,355
Foreign Governments bonds	44	-	-	-	44
Israeli financial institutions bonds	-	-	-	-	-
Foreign financial institutions bonds	-	-	-	-	-
Bonds backed by assets (ABS) or by mortgage (MBS)	-	31	-	-	31
Bonds of others in Israel	20	-	-	-	20
Bonds of others abroad	-	-	-	-	-
Trading Shares	3	1	-	-	4
Total trading securities	**1,313**	**141**	**-**	**-**	**1,454**
Credit to the public in respect of securities loaned	2,110	-	-	-	2,110
Assets in respect of derivative instruments					
Shekel/CPI Interest Rate Contracts	-	-	202	-	202
Other Interest Rate Contracts	-	1,875	175	-	2,050
Foreign Currency Contracts	14	1,204	665	-	1,883
Shares Contracts	524	11	-	-	535
Commodity and other Contracts	-	-	-	-	-
Total assets in respect of derivative instruments	538	3,090	1,042	-	4,670
Other	-	7	-	-	7
Assets in respect of the "Maof" market operations	1	-	-	-	1
Total assets	**25,710**	**16,591**	**1,042**	**-**	**43,343**
Liabilities					
Deposits from the public in respect of securities borrowed	1,402	-	-	-	1,402
Deposits from banks in respect of securities borrowed	164	-	-	-	164
CLN deposits	-	-	17	-	17
Liabilities in respect of derivative instruments					
Shekel/CPI Interest Rate Contracts	-	-	166	-	166
Other Interest Rate Contracts	-	2,132	-	-	2,132
Foreign Currency Contracts	14	1,884	152	-	2,050
Shares Contracts	524	4	-	-	528
Commodity and other Contracts	-	-	-	-	-
Total liabilities in respect of derivative instruments	538	4,020	318	-	4,876
Other	-	8	-	-	8
Commitments in respect of the "Maof" market operations	1	-	-	-	1
Short sales of securities	1,318	-	-	-	1,318
Total liabilities	**3,423**	**4,028**	**335**	**-**	**7,786**

16. Balances and fair value estimates of financial instruments (continued)

B. Items measured at fair value - Consolidated (continued)

1. Items measured at fair value on a recurring basis (continued)

	Unaudited				
	June 30, 2020				
	Fair value measurements using -				
	Quoted prices in an active market (level 1)	Other significant observable inputs (level 2)	Significant unobservable inputs (level 3)	Influence of deduction agreements	Total fair value
	In NIS millions				
Assets					
Available-for-sale bonds and shares not for trading					
Israeli Government bonds	13,510	4,152	-	-	17,662
Foreign Governments bonds	494	199	-	-	693
Israeli financial institutions bonds	68	32	-	-	100
Foreign financial institutions bonds	-	1,126	-	-	1,126
Bonds backed by assets (ABS) or by mortgage (MBS)	1	7,702	-	-	7,703
Bonds of others in Israel	266	97	-	-	363
Bonds of others abroad	-	2,363	-	-	2,363
Shares not for trading	77	12	-	-	89
Total available-for-sale bonds and shares not for trading	**14,416**	**15,683**	**-**	**-**	**30,099**
Trading Securities					
Of the Israeli Government	908	266	-	-	1,174
Of foreign governments	16	-	-	-	16
Of Israeli financial institutions	1	-	-	-	1
Of foreign financial institutions	-	2	-	-	2
Mortgage-backed-securities (MBS) or Assets -backed-securities (ABS)	-	54	-	-	54
Of others in Israel	57	-	-	-	57
Of others abroad	-	10	-	-	10
Shares	1	-	-	-	1
Total trading securities	**983**	**332**	**-**	**-**	**1,315**
Credit to the public in respect of securities loaned	1,767	-	-	-	1,767
Assets in respect of derivative instruments					
Shekel/CPI Interest Rate Contracts	-	-	277	-	277
Other Interest Rate Contracts	-	2,904	320	-	3,224
Foreign Currency Contracts	15	995	794	-	1,804
Shares Contracts	470	49	-	-	519
Commodity and other Contracts	1	18	13	-	32
Total assets in respect of derivative instruments	486	3,966	1,404	-	5,856
Other	-	10	-	-	10
Assets in respect of the "Maof" market operations	13	-	-	-	13
Total assets	**17,665**	**19,991**	**1,404**	**-**	**39,060**
Liabilities					
Deposits from the public in respect of securities borrowed	1,220	-	-	-	1,220
Deposits from banks in respect of securities borrowed	162	-	-	-	162
CLN deposits	-	-	32	-	32
Liabilities in respect of derivative instruments					
Shekel/CPI Interest Rate Contracts	-	-	185	-	185
Other Interest Rate Contracts	1	3,630	-	-	3,631
Foreign Currency Contracts	15	1,540	154	-	1,709
Shares Contracts	470	40	-	-	510
Commodity and other Contracts	1	28	-	-	29
Total liabilities in respect of derivative instruments	487	5,238	339	-	6,064
Other	-	14	-	-	14
Commitments in respect of the "Maof" market operations	13	-	-	-	13
Short sales of securities	644	-	-	-	644
Total liabilities	**2,526**	**5,252**	**371**	**-**	**8,149**

16. Balances and fair value estimates of financial instruments (continued)

B. Items measured at fair value - Consolidated (continued)

1. Items measured at fair value on a recurring basis (continued)

	Audited				
	December 31, 2020				
	Fair value measurements using -				
	Quoted prices in an active market (level 1)	Other significant observable inputs (level 2)	Significant unobservable inputs (level 3)	Influence of deduction agreements	Total fair value
	In NIS millions				
Assets					
Available-for-sale bonds and shares not for trading					
Israeli Government bonds	17,925	3,284	-	-	21,209
Foreign Governments bonds	772	64	-	-	836
Israeli financial institutions bonds	110	28	-	-	138
Foreign financial institutions bonds	-	475	-	-	475
Bonds backed by assets (ABS) or by mortgage (MBS)	1	7,798	-	-	7,799
Bonds of others in Israel	256	123	-	-	379
Bonds of others abroad	-	1,797	-	-	1,797
Shares not for trading	79	13	-	-	92
Total available-for-sale bonds and shares not for trading	**19,143**	**13,582**	**-**	**-**	**32,725**
Trading Securities					
Of the Israeli Government	852	205	-	-	1,057
Of foreign governments	26	-	-	-	26
Of Israeli financial institutions	-	-	-	-	-
Of foreign financial institutions	-	-	-	-	-
Mortgage-backed-securities (MBS) or Assets -backed-securities (ABS)	-	40	-	-	40
Of others in Israel	12	1	-	-	13
Of others abroad	-	-	-	-	-
Shares	1	-	-	-	1
Total trading securities	**891**	**246**	**-**	**-**	**1,137**
Credit to the public in respect of securities loaned	2,387	-	-	-	2,387
Assets in respect of derivative instruments					
Shekel/CPI Interest Rate Contracts	-	-	246	-	246
Other Interest Rate Contracts	-	2,279	248	-	2,527
Foreign Currency Contracts	38	2,241	929	-	3,208
Shares Contracts	302	40	-	-	342
Commodity and other Contracts	-	40	37	-	77
Total assets in respect of derivative instruments	340	4,600	1,460	-	6,400
Other	-	10	-	-	10
Assets in respect of the "Maof" market operations	7	-	-	-	7
Total assets	**22,768**	**18,438**	**1,460**	**-**	**42,666**
Liabilities					
Deposits from the public in respect of securities borrowed	1,718	-	-	-	1,718
Deposits from banks in respect of securities borrowed	190	-	-	-	190
CLN deposits	-	-	31	-	31
Liabilities in respect of derivative instruments					
Shekel/CPI Interest Rate Contracts	-	-	168	-	168
Other Interest Rate Contracts	-	2,765	-	-	2,765
Foreign Currency Contracts	38	3,838	147	-	4,023
Shares Contracts	302	33	-	-	335
Commodity and other Contracts	-	74	-	-	74
Total liabilities in respect of derivative instruments	340	6,710	315	-	7,365
Other	-	10	-	-	10
Commitments in respect of the "Maof" market operations	7	-	-	-	7
Short sales of securities	814	-	-	-	814
Total liabilities	**3,069**	**6,720**	**346**	**-**	**10,135**

16. Balances and fair value estimates of financial instruments (continued)

B. Items measured at fair value – Consolidated (continued)

2. Items measured according to fair value not on a recurring basis

	Unaudited				
	June 30, 2021				
	Level 1	Level 2	Level 3	Total fair value	Profit (Loss) for the six months ended June 30, 2021
	In NIS millions				
Impaired credit the collection of which is collateral dependent	-	-	813	813	47
Not for trading shares	-	-	57	57	(21)

	Unaudited				
	June 30, 2020				
	Level 1	Level 2	Level 3	Total fair value	Loss for the six months ended June 30, 2020
	In NIS millions				
Impaired credit the collection of which is collateral dependent	-	-	476	476	(44)
Not for trading shares	-	-	54	54	(12)

	Audited				
	December 31, 2020				
	Level 1	Level 2	Level 3	Total fair value	Loss for the year ended December 31, 2020
	In NIS millions				
Impaired credit the collection of which is collateral dependent	-	-	692	692	(122)
Not for trading shares	-	-	94	94	(24)

16. Balances and fair value estimates of financial instruments (continued)

C. Changes in items measured at fair value on a recurring basis included in level 3 – Consolidated

	Fair value as at beginning of period	Total realized and unrealized gains (losses) included in the statement of profit and loss	Acquisitions	Settlements	Transfers from level 3	Transfers to level 3	Fair value as at end of period	Unrealized gains (losses) in respect of held instruments as at end of period
	in NIS millions							
	Unaudited							
	For the three months ended June 30, 2021							
Net Assets (Liabilities) in respect of derivative instruments								
Shekel/CPI Interest Rate Contracts	38	[1](7)	-	505	-	-	36	[1](6)
Other Interest Rate Contracts	189	[1](1)	-	(2)	-	(11)	175	[1](1)
Foreign Currency Contracts	690	[1](763)	(33)	127	(7)	(1)	513	[1](797)
Commodity and other Contracts	-	[1]-	-	-	-	-	-	[1]-
Total	**917**	**(771)**	**(33)**	**630**	**(7)**	**(12)**	**724**	**(804)**
Liabilities								
CLN Deposits	(28)	[2]-	-	11	-	-	(17)	[2]-
	For the three months ended June 30, 2020							
Net Assets (Liabilities) in respect of derivative instruments								
Shekel/CPI Interest Rate Contracts	103	[1]23	-	(34)	-	-	92	[1]38
Other Interest Rate Contracts	426	[1](22)	-	(82)	(2)	-	320	[1](13)
Foreign Currency Contracts	1,062	[1](847)	(37)	438	-	24	640	[1](661)
Commodity and other Contracts	15	[1](16)	-	14	-	-	13	[1]20
Total	**1,606**	**(862)**	**(37)**	**336**	**(2)**	**24**	**1,065**	**(616)**
Liabilities								
CLN Deposits	(68)	[2](1)	-	37	-	-	(32)	[2](1)
	For the six months ended June 30, 2021							
Net Assets (Liabilities) in respect of derivative instruments								
Shekel/CPI Interest Rate Contracts	78	[1](28)	-	(14)	-	-	36	[1](25)
Other Interest Rate Contracts	248	[1](45)	-	(27)	(3)	2	175	[1](45)
Foreign Currency Contracts	782	[1](15)	(123)	(122)	(6)	(3)	513	[1]184
Commodity and other Contracts	37	[1]-	-	(37)	-	-	-	[1]-
Total	**1,145**	**(88)**	**(123)**	**(200)**	**(9)**	**(1)**	**724**	**114**
Liabilities								
CLN Deposits	(31)	[2]-	-	14	-	-	(17)	[2]-

16. Balances and fair value estimates of financial instruments (continued)

C. Changes in items measured at fair value on a recurring basis included in level 3 - Consolidated

	Fair value as at beginning of period	Total realized and unrealized gains (losses) included in the statement of profit and loss	Acquisitions	Settlements	Transfers from level 3	Transfers to level 3	Fair value as at end of period	Unrealized gains (losses) in respect of held instruments as at end of period
	in NIS millions							
	Unaudited							
	For the six months ended June 30, 2020							
Net Assets (Liabilities) in respect of derivative instruments								
Shekel/CPI Interest Rate Contracts	75	[1]56	-	(39)	-	-	92	[1]71
Other Interest Rate Contracts	200	[1]161	-	(38)	(8)	5	320	[1]187
Foreign Currency Contracts	253	[1]201	(93)	282	3	(6)	640	[1]463
Commodity and other Contracts	23	[1](23)	-	13	-	-	13	[1]13
Total	**551**	**395**	**(93)**	**218**	**(5)**	**(1)**	**1,065**	**734**
Liabilities								
CLN Deposits	(144)	[2](1)	-	113	-	-	(32)	[2](1)
	Audited							
	For the year ended December 31, 2020							
Net Assets (Liabilities) in respect of derivative instruments								
Shekel/CPI Interest Rate Contracts	75	[1]77	-	(74)	-	-	78	[1]64
Other Interest Rate Contracts	200	[1]169	-	(122)	(8)	9	248	[1]176
Foreign Currency Contracts	253	[1]417	(147)	262	(12)	9	782	[1]687
Commodity and other Contracts	23	[1]7	-	7	-	-	37	[1]36
Total	**551**	**670**	**(147)**	**73**	**(20)**	**18**	**1,145**	**963**
Liabilities								
CLN Deposits	(144)	[2](1)	-	114	-	-	(31)	[2](2)

Footnotes:
(1) Included in the statement of profit and loss in the item "Non-interest financing income".
(2) Included in the statement of profit and loss in the item "Interest income and expenses".

D. Transfers between hierarchy levels of fair value

Immaterial transfers to or from level 3 were made in the second quarter of 2021, due to a clarification of the Supervisor of Banks, according to which, derivative instruments, the credit risk thereof is determined on the basis of unobservable inputs, shall be included in level 3.

16. Balances and fair value estimates of financial instruments (continued)

E. Additional details regarding significant unobservable inputs and valuation techniques used for the measurement of fair value of items classified to level 3

1. Quantitative information regarding the measurement of fair value at level 3

	Unaudited			
	Fair value as at June 30, 2021	Valuation Techniques	Unobservable inputs	Range (Weighted Average)
	In NIS millions			In %
A. Items measured at fair value not on a recurring basis				
Impaired credit the collection of which is collateral dependent	813	Discounted cash flow, assessments and evaluation	Discount rate, real estate market inputs	
Not for trading shares	57	Evaluation	Company value	
B. Items measured at fair value on a recurring basis				
Net Assets in respect of derivative instruments				
Shekel/CPI Interest Rate Contracts	36	Discounted cash flow	Inflationary expectations	From 1.20% to 3.63% (1.71%)
			Counterparty credit risk (CVA)	From 0.00% to 2.43% (0.19%)
Other Interest Rate Contracts	175	Discounted cash flow	Counterparty credit risk (CVA)	From 0.00% to 0.49% (0.02%)
Foreign Currency Contracts	513	Discounted cash flow	Inflationary expectations	From 1.20% to 3.63% (1.78%)
		Discounted cash flow, Models for the pricing of options.	Counterparty credit risk (CVA)	From 0.00% to 37.22% (0.26%)
Commodities and other contracts	-	Rating model	Counterparty credit risk (CVA)	From 0.00% to 0.00% (0.00%)
Liabilities				
CLN Deposits	17	Discounted cash flow	Credit risk of the underlying asset	

	Unaudited			
	Fair value as at June 30, 2020	Valuation Techniques	Unobservable inputs	Range (Weighted Average)
	In NIS millions			In %
A. Items measured at fair value not on a recurring basis				
Impaired credit the collection of which is collateral dependent	476	Discounted cash flow, assessments and evaluation	Discount rate, real estate market inputs	
Not for trading shares	54	Evaluation	Company value, real estate market inputs	
B. Items measured at fair value on a recurring basis				
Net Assets in respect of derivative instruments				
Shekel/CPI Interest Rate Contracts	103	Discounted cash flow	The interest curve in the CPI linked segment	From -0.17% to 1.81% (0.62%)
			Counterparty credit risk (CVA)	From 0.00% to 3.60% (1.07%)
Other Interest Rate Contracts	426	Discounted cash flow	Counterparty credit risk (CVA)	From 0.00% to 6.62% (0.03%)
Foreign Currency Contracts	1,062	Discounted cash flow	The interest curve in the CPI linked segment	From -0.17% to 1.81% (0.76%)
		Discounted cash flow, Models for the pricing of options.	Counterparty credit risk (CVA)	From 0.00% to 91.7% (-0.18%)
Commodities and other contracts	15	Rating model	Counterparty credit risk (CVA)	From 0.00% to 0.00% (0.00%)
Liabilities				
CLN Deposits	32	Discounted cash flow	Credit risk of the underlying asset	

16. Balances and fair value estimates of financial instruments (continued)

E. Additional details regarding significant unobservable inputs and valuation techniques used for the measurement of fair value of items classified to level 3 (continued)

1. Quantitative information regarding the measurement of fair value at level 3 (continued)

	Audited							
	Fair value as at December 31, 2020	Valuation Techniques	Unobservable inputs	Range (Weighted Average)				
	In NIS millions			In %				
A. Items measured at fair value not on a recurring basis								
Impaired credit the collection of which is collateral dependent	692	Discounted cash flow, assessments and evaluation	Discount rate, real estate market inputs					
Not for trading shares	94	Evaluation	Company value					
B. Items measured at fair value on a recurring basis								
Net Assets in respect of derivative instruments								
Shekel/CPI Interest Rate Contracts	78	Discounted cash flow	The interest curve in the CPI linked segment	From	4.74%-	to	1.31%	(0.68%)
			Counterparty credit risk (CVA)	From	0.00%	to	3.16%	(1.00%)
Other Interest Rate Contracts	248	Discounted cash flow	Counterparty credit risk (CVA)	From	0.00%	to	1.81%	(0.01%)
Foreign Currency Contracts	782	Discounted cash flow	The interest curve in the CPI linked segment	From	4.74%-	to	1.31%	(0.83%)
		Discounted cash flow, Models for the pricing of options.	Counterparty credit risk (CVA)	From	0.00%	to	91.65%	(0.20%)
Commodities and other contracts	37	Rating model	Counterparty credit risk (CVA)	From	0.00%	to	0.00%	(0.00%)
Liabilities								
CLN Deposits	31	Discounted cash flow	Credit risk of the underlying asset					

2. Qualitative information regarding the measurement of fair value at level 3

Significant unobservable inputs, which were used to measure the fair value of derivative financial instruments, are the interest graph in the CPI linked segment, and adjustments regarding counterparty credit risk (CVA). As much as the interest graph rises (falls) and the Bank commits to pay the index-linked amount, so the fair value rises (falls). As much as the interest graph rises (falls) and the counterparty to the transaction is obligated to pay the Bank the index-linked amount, so the fair value falls (rises). The counterparty credit risk coefficient (CVA) expresses the probability of credit default of the counterparty to the transaction. A rise in the default probability reduces the fair value of the transaction, and vice versa.

17. Credit card activity

A. **Existing arrangements between credit card companies and between such companies and the banks.** The arrangements were described in Note 36 A to the financial statements as of December 31, 2020.

Reduction of the cross-commission rate. The Governor of the Bank of Israel announced on February 25, 2018 a new outline with respect to the reduction of the cross-commission in deferred charge transactions, from the rate of 0.7% at that date to a rate of 0.5%, this in five phases.

The cross commission level under the outline has been calculated based on the methodology that was approved in 2006 by the Competition Court, as referred to above.

The reduction in the issuer's fee to a level of 0.5% will be implemented in stages, as follows:

- from January 1, 2019, the end of the current arrangement period, through December 31, 2019, the issuer's fee stood at an average rate that did not exceed 0.6%;
- from January 1, 2020, through December 31, 2020, the issuer's fee stood at an average rate that did not exceed 0.575%;
- from January 1, 2021, through December 31, 2021, the issuer's fee will stand at an average rate that shall not exceed 0.55%;
- from January 1, 2022, through December 31, 2022, the issuer's fee will stand at an average rate that shall not exceed 0.525%;
- from January 1, 2023, the issuer's fee will stand at an average rate that shall not exceed 0.5%.

In addition, an outline was established with respect to the reduction of the cross-commission regarding immediate charge transactions, from the rate of 0.3% at that date, to a rate of 0.25%, in two phases. The aforementioned reduction will be carried out in stages, as follows:

- from January 1, 2021 through December 31, 2022, the commission will be at an average rate of not more than 0.275%;
- from January 1, 2023, the commission will be at an average rate of not more than 0.25%.

On November 25, 2018, these rates were recognized in the Banking Order (Customer service) (Supervision over cross-clearing service for charge card transactions and for immediate debit transactions), 2018.

It should be noted that the reducing the rate of the cross commission effects various parameters, including: the scope of the fees collected from trading houses, the scope of the royalties paid to the banks with which the company has entered into a joint-issuing agreement, various operational fees, the scope of the clearing activity, the effects of the changes in the credit card sector as a result of the "Strum Law" etc. Difficulties exist in assessing each of these parameters on its own and in assessing their aggregate impact, particularly in light of the fact that their impact is felt gradually over time. Consequently, ICC is of the opinion that it is not possible to assess the scope of the impact of the reduction in the cross commission rate on its business results. Nevertheless, the Bank and ICC estimate that the business results of ICC might be materially impaired as a result of the reduction in the commission rate, as stated.

B. **Arrangements following the Strum Act.** The arrangements were described in Note 36 B to the financial statements as of December 31, 2020.

C. **Joint distribution agreement with El-Al Company.** Note 36 C to the financial statements as of December 31, 2020 described an agreement in respect of an engagement of ICC with EL AL, regarding the issuance and operation of brand name credit cards, within the framework of which the FlyCard club is being operated.

In accordance with the plan of operation of the agreement, ICC's profitability is expected to be impaired due to expenses relating to operating the club in the first two years of its operation.

Recently, with the rise in the level of morbidity due to the "Delta" variant of the Corona virus, the restrictions on travel of passengers to and from Israel, in relation to many countries around the world, have been renewed. On May 20, 2021, El-Al published its financial report as of March 31, 2021, in which it reported the entry into effect of the agreement for obtaining finance with assistance of the State of Israel, in the amount of US$210 million, to be paid in advance, in respect of flight tickets for personnel engaged in aviation protection. Obtaining of the finance is conditional upon the implementation of an efficiency plan by El-Al, upon the issuance of additional share capital or share options, upon limitations on the distribution of dividends, and upon additional conditions. The report states that whereas the ability of El-Al to fulfill all its financial obligations depends on factors that are not under the control of El-Al, at this stage, significant doubts exist regarding its continuing existence as a going concern.

On July 27, 2021, El-Al announced that in view of changes in the business environment and the impact of the "Delta" variant of the Corona virus, it is conducting negotiations with the Ministry of Finance with respect to deferring its undertaking in the agreement with the State regarding the issuance of share capital, share options, or a mix of the two, to the tune of at least US$105 million, to a date later than that stated in the agreement with the State (up to July 31, 2021). As of date of publication of the said immediate report, El-Al reported that it is conducting negotiations with the Ministry of Finance regarding the terms of the deferral, as stated, and that there is no certainty that the Ministry of Finance would consent to the request for deferral.

17. Credit card activity (continued)

ICC has studied these developments, and according to assessments made, based, inter alia, on the performance of the operation of the Club and the anticipated income there from, ICC has reached the conclusion that, at this stage, no reason exists for a provision for impairment to be recognized in respect of material amounts paid to El Al within the framework of the agreement, which are amortized over their economic lifetime. This conclusion is based on information existing in the hands of ICC at the reporting date, and on the estimates made by ICC, as stated. It is possible that actual developments would be different than those estimated by ICC.

D. **Acquisition of the minority interest in Diners.** In December 2015 ICC acquired all the holdings of Dor-Alon and Blue Square in Diners (49%), so that upon conclusion of the transaction ICC holds all the rights (100%) in Diners. A dispute arose between the parties regarding the entitlement of the sellers to additional consideration, conditional upon fulfillment of conditions precedent. The parties referred to mediation proceeding in the matter, but the mediation proceedings were not successfully concluded.

A monetary action was filed on September 24, 2019 with the Tel Aviv District Court against ICC, in which the Court is requested to order ICC to pay to Dor-Alon and Blue Square an amount of approx. NIS 21 million. On February 9, 2020, ICC submitted a defense brief in respect of this action. Concurrently with the submission of the defense brief, ICC submitted a counterclaim, in which the Court is requested to order the opposite parties to pay ICC an amount of approx. NIS 33 million. On June 15, 2020, the Plaintiffs filed a response brief in which they reiterated their arguments, and on the same day they submitted a counter defense brief, in which the rejected the arguments of the company in the counterclaim. A pretrial was conducted on May 5, 2021. On June 13, 2021, the parties filed motions for disclosure of documents, and the response by the parties to the mutual motions was submitted on July 21, 2021.

E. **Extension of the clearing license of ICC and Diners.** On March 25, 2021, the provisional clearing permit of ICC and Diners was extended to September 30, 2021, or until a permanent permit is obtained, the earlier of the two.

18. Dividends

Details regarding the Bank’s dividend policy and regarding dividends paid up to and including the dividend from the profits of the fourth quarter of 2019 are presented in Note 24 D to the financial statements to December 31, 2020.

On April 7, 2020, on the background of Corona virus crisis and with the aim of supporting the credit needs of the customers, the Bank's Board of Directors decided to discontinue at this stage the distribution of dividends until the expiry date of the Provisional Instruction issued by the Supervisor of Banks on March 31, 2020, and the clarification of the circumstances.

The validity of the provisional instruction has been extended to September 30, 2021 (see Note 9 section 1 above).

The Supervisor of Banks issued a clarification on July 15, 2021, according to which, in view of the growing trend of exit from the Corona crisis and in view of the solidity presented by banks in Israel, enabling them to support economic activity, banks are not barred from examining the possibility of the distribution of dividend on the basis of a careful and conservative approach, which takes into account the high uncertainty level regarding the continuation of the Corona crisis and its future implications. The position of the Supervisor of Banks is that a distribution of an amount higher than 30% of the profits of 2020 does not constitutes a careful and conservative planning. Concurrently, the Supervisor published a circular regarding an amendment to Proper Conduct of Banking Business Directive No. 250, which was intended to anchor the clarification in the directives.

Following an examination of the Bank's financial condition and plans, the Board of Directors resolved on August 15, 2021, that as from the date of removal of the limitations imposed by the Supervisor of Banks ("removal of limitations"), the Bank will revert to the quarterly distribution of dividends, in accordance with its dividend policy.

According to the resolution of the Board, following the removal of limitations, the Bank intends to distribute a dividend of 20% of the net distributable profit according to the Bank's consolidated financial statements for the relevant quarter, or a lower rate, in the event that the Supervisor of Banks imposes limitations prohibiting distribution at the said rate.

19. Taxation

On December 14, 2016, the Director of Value Added Tax ("the Director") issued to ICC assessments for periods from January 2012 to August 2016. The amount charged in these assessments, including interest and linkage, totaled NIS 48 million. ICC disputed the position of the Director, and is of the opinion that it has good arguments in support of its position. Accordingly, ICC filed on March 9, 2017, an appeal. On March 8, 2018, ICC received the decision of the VAT Director rejecting the appeal submitted, as stated, as well as increasing the charge of the tax assessment to NIS 75 million (including interest and linkage increments). To the extent that the position of ICC would not be admitted by the Court, it might be liable with respect to the issues contained in the assessment, also for periods following the date of the assessment. On January 31, 2019, ICC filed an appeal against the said decision with the Central Region District Court. On November 3, 2019, the Supreme Court approved an agreed plea for the consolidation of the hearing of the appeal with the hearing of the appeals filed by competitors of ICC. A pretrial hearing was held on May 24, 2021.
ICC estimates the amount of exposure, in respect of which no provision has been recorded in its financial statements, at approx. NIS 168 million.

20. Issuance of deferred debt notes (expansion of Series G)

On April 22, 2021, the Bank, through its subsidiary Discount Manpikim Ltd., completed the process of issuing deferred debt notes (expansion of Series G), which include a capital loss absorption mechanism, which are capital instruments classified as Tier 2 capital for the purpose of their inclusion in the Bank's regulatory capital, in a total amount of approx. NIS 932 million. On June 28, 2021, the Bank, through its subsidiary Discount Manpikim Ltd., completed the process of issuing a private plavement of the said deferred debt notes (expansion of Series G), in a total amount of approx. NIS 250 million.

21. The Corona crisis

A new virus of the "Corona" type broke out in the first quarter of 2020, spreading quickly to most countries around the globe, causing widespread morbidity and a significant mortality rate. Following the outbreak of the virus, governments around the world, including Israel, have adopted preventive measures, which included restrictions on passage between countries, isolation means including lockdown, restrictions on different types of activities and businesses, etc. The said measures have led to a significant impairment of business activity, to a rise in the rates of unemployment, impairment of the economic survivability of businesses and impairment of income and consumption of households. The significant vaccination efforts taken since the beginning of 2021, had led since the month of March 2021, to a decline in the rates of morbidity, allowing a gradual removal of most of the restrictions and in consequence thereof, recovery in economic activity was noted in the second quarter of the year. The rate of the morbidity in Israel started to rise in the second half of June 2021, due to the spreading of the "Delta" variant. In accordance with publications of the Ministry of Health, morbidity indices are high and rising at a fast rate, however, at this stage, existing restrictions do not impair economic activity in Israel. Notwithstanding the above, it is not possible to estimate whether restrictions on activity would be imposed again, and if so, what would be their scope and extent of impairment of economic activity.
The Corona crisis and its domestic and global implications, have led to an increase in risk in most of the managed risk areas.
The significant decrease in morbidity and the lifting of the third lockdown led to the reopening of the trade and the economy as a whole, with greater economic activity being evident beginning toward the end of the first quarter. These factors have had a positive impact on the position of businesses and borrowers, as well as on macroeconomic parameters. The said improvement supported the reduction in the group allowance in the first half of 2021.
The Bank estimates that the Corona crisis may continue to affect the condition of borrowers and their repayment ability. The level of uncertainty declined towards the end of the first quarter of 2021 and thereafter, in view of the wide scope vaccination of the population in Israel, the decline in the rates of morbidity and the lifting most of the restrictions that had been imposed on economic activity. However, the overall economic ramifications of the Corona crisis are still not clear and depend on the rate of economic recovery and the return of the various economic sectors to full activity. The uncertainty is also effected by concerns regarding additional waves of the pandemic outbreak and the implications of such additional waves. Included in the above is the spreading of the "Delta" variant, and as a result thereof, the recent noted growth in morbidity rates.
The Bank and its principal subsidiaries continue to follow developments in this respect and are studying the possible implications on sectors and customers, which might be affected by this situation. The Bank estimates that the Corona crisis may continue and impact the condition of borrowers and their loan repayment ability, even though, at this stage, as stated, uncertainty exists with respect to the rate of recovery from the crisis and the length of time in which it is expected to have an effect.

22. Cooperation in the establishment of a digital wallet

The cooperation agreement. A strategic cooperation agreement ("the cooperation agreement") was signed on January 19, 2021, by Discount Bank, Shufersal Ltd. ("Shufersal"), Shufersal Club Company Ltd. ("the Club Company") and PayBox Ltd. ("PayBox") (the last two were companies in formation at date of signing the agreement), for the establishment of a digital wallet for use by customers of all banks, on the basis of the payments platform of PayBox, which at that time had been fully owned by the Bank.

The Supervisor's approval. On June 1, 2021, the Bank received the approval of the Supervisor of Banks (hereinafter: "the Supervisor's approval") permitting it to have the sole control and to directly hold the means of control in the auxiliary corporation PayBox Ltd. (hereinafter: "the auxiliary corporation"), which is to engage in managing a digital wallet platform and in providing digital services, including brokerage services for banking services and products of supervised financial bodies, subject to the conditions detailed in the letter of approval. With respect to certain operations, PayBox is required to inform the Supervisor of Banks in writing, at least sixty days prior to the introduction of such operations, and they would be subject to obtaining consent of the Supervisor or his non-objection. The cooperation with and activity of the auxiliary corporation, as well as issues relating to use of use of the data obtained within the framework of providing the services and to cost comparison, may be subject to legislation initiatives or future regulation, if at all.

Upon receipt of the Supervisor's approval, the Bank received the regulatory approvals for the completion of the transaction being the subject matter of the agreement.

Change in structure. In accordance with the said agreement, the Bank had formed a wholly owned company under the name of "PayBox", to which were transferred all the assets of PayBox in their format existing at that date. Concurrently, Shufersal had formed a wholly owned subsidiary under the name of "Shufersal Digital Benefits" ("Shufersal Benefits"), to which were transferred assets entitling exclusive rights to different digital operations in respect of Shufersal customers.

Following the formation of the said companies, PayBox and Shufersal Benefits were merged in the a manner in which PayBox Company allotted 49.9% of its share capital to Shufersal.

On June 30, 2021, the merger of the companies was completed, so that PayBox absorbed Shufersal Benefits, which was then liquidated ceased to exist.

Recording the transferred assets. The assets which the Bank had transferred to PayBox, including software development expenses, were recorded at their value in the books of the Bank at date of transfer. The rights that Shufersal had transferred to Shufersal Benefits, including a payment in advance with respect to services to be received in respect of these rights within the framework of the merger transaction, were primarily recorded at their fair value based on the valuation conducted.

Financing the operations of PayBox. In terms of the cooperation agreement, the Bank and Shufersal agreed to provide PayBox with the funds required for its operation and for the realization of its annual work plan, in the initial years of operation.

Ruling by the Tax Authority regarding the application for change in structure. On June 15, 2021, the ruling by the Tax Authority was obtained in the matter of the change in structure. In accordance with the tax ruling, the change in structure is in agreement with the terms stated in the Income Tax Ordinance, and the date of change in structure was fixed for June 30, 2021. Joint instructions were determined for the split and merger, the tax ruling being subject thereto. This ruling states, inter alia, that Discount Bank, Shufersal and PayBox undertake that during the period of two years following the end of the year of merger, each of these entities shall have a separate independent economic activity, the income there from being subject to tax according to Section 2(1) of the Income Tax Ordinance (New version), 1961 ("the Ordinance"), and that Discount Bank and Shufersal shall continue to own their rights in PayBox for a period of not less than two years, subject to the terms of the Ordinance. It is further stated that in the event that the terms of the tax ruling are not fulfilled, Shufersal, Discount Bank and PayBox shall be charged with the taxes and other compulsory payments, from which they had been exempted, together with interest and linkage differences from date of the split and until the date of payment, according to Section 103(j) of the Ordinance. In such an event, Shufersal, Discount Bank and the absorbing company shall submit to the Tax Assessing Officer, immediately proximate to the date of violation, an expert valuation of the transferred operations immediately following the date of the split, in accordance with the Income Tax Rules (application for a pre-ruling in respect of a merger plan), 1995. It was also confirmed that ownership of all employee benefit funds transferred to the names of the employees moving from Discount Bank to PayBox, and the transfer of the funds deposited with employee provident funds would be exempt from withholding tax, and that continuity of the rights to severance pay shall apply to these employees, as stated in Section 103(p) of the Ordinance.

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Corporate Governance, Audit, Additional Details Regarding the Business of the Banking Corporation and Management Thereof

Corporate Governance and additional details – List of tables

Corporate governance and audit

Board of Directors and Management

Changes in the Board of Directors

Appointment of Directors. The General Meeting of Shareholders held on May 23, 2021, decided to appoint the following persons as Directors for a period of three years: Ms. Yodfat Harel-Buchris (officiating Director being re-elected), as from February 15, 2022, and Prof. Ben-Zion Zilberfarb (officiating Director being re-elected), as from August 1, 2021. The said Meeting decided to appoint Dr. Doron Avital as Director for a period of three years, as from August 1, 2021. It was also decided to appoint Ms. Sigal Barmak as external Director, within the meaning of the term in the Companies Act, 1999, for a period of three years, starting August 1, 2021. All as detailed on the Immediate Report dated May 23, 2021 (Ref. No. 2021-01-088467), the information contained therein regarding the above matters, is presented herein by way of reference.
Ms. Sigal Barmak, took office on August 1, 2021, as external Director of the Bank, replacing Prof. Shalom Hochman, who terminated his office on this date. Dr. Doron Avital, took office on August 1, 2021, as Director of the Bank, replacing Mr. Reuven Adler, who terminated his office on this date. All as detailed in immediate reports dated August 1, 2021 (Ref. Nos. 2021-01-125349, 2021-01-125352, 20201-01-125358 and 2021-01-125361, respectively) the information in the above matters contained therein is presented hereby by way of reference.
The Chairman of the Board, the Board of Directors and the President & CEO thank Prof. Hochman and Mr. Adler for their activity and contribution during their period of office at the Bank and wish Ms. Barmak and Dr. Avital success in fulfilling their office.

Changes in Management

On April 28, 2021, the Board of Directors resolved to promote Mr. Yuval Gavish, the Head of the Corporate Division, from the position of Senior Executive Vice President to the position of Deputy President & CEO.
Mr. Edan Engel took office on July 1, 2021 as Executive Vice President, Head of the Digital, Data and Innovation Division, replacing Mr. Arik Frishman, Executive Vice President, who terminated his office on that date and commenced office as President & CEO of PayBox.
The Chairman of the Board, the Board of Directors and the President & CEO thank Mr. Arik Frishman for his activity and contribution during his period of office at the Bank and wish Mr. Edan Engel and Mr. Frishman success in fulfilling their office.

Meetings of the Board of Directors and its committees

In the first half of 2021, the Board of Directors held 13 meetings. In addition, 43 meetings of committees of the Board of Directors were held.

The Internal Audit in the Group

Details regarding the internal audit in the Group, including the professional standards according to which the internal audit operates, the annual work plans and the considerations at its basis were included in the 2020 Annual Report (pp. 322-324).

Updates. During the second quarter of 2021 the following periodic reports were submitted and discussed:

- The annual report on the activities of the internal audit in 2020 was submitted on March 25, 2021, discussed by the Audit Committee on April 5, 2021 and discussed by the Board of Directors on May 20, 2021;
- The quarterly report on the activities of the internal audit in the first quarter of 2021 was submitted on April 28, 2021, and discussed by the Audit Committee on May 12, 2021.

Transactions with Interested and Related Parties

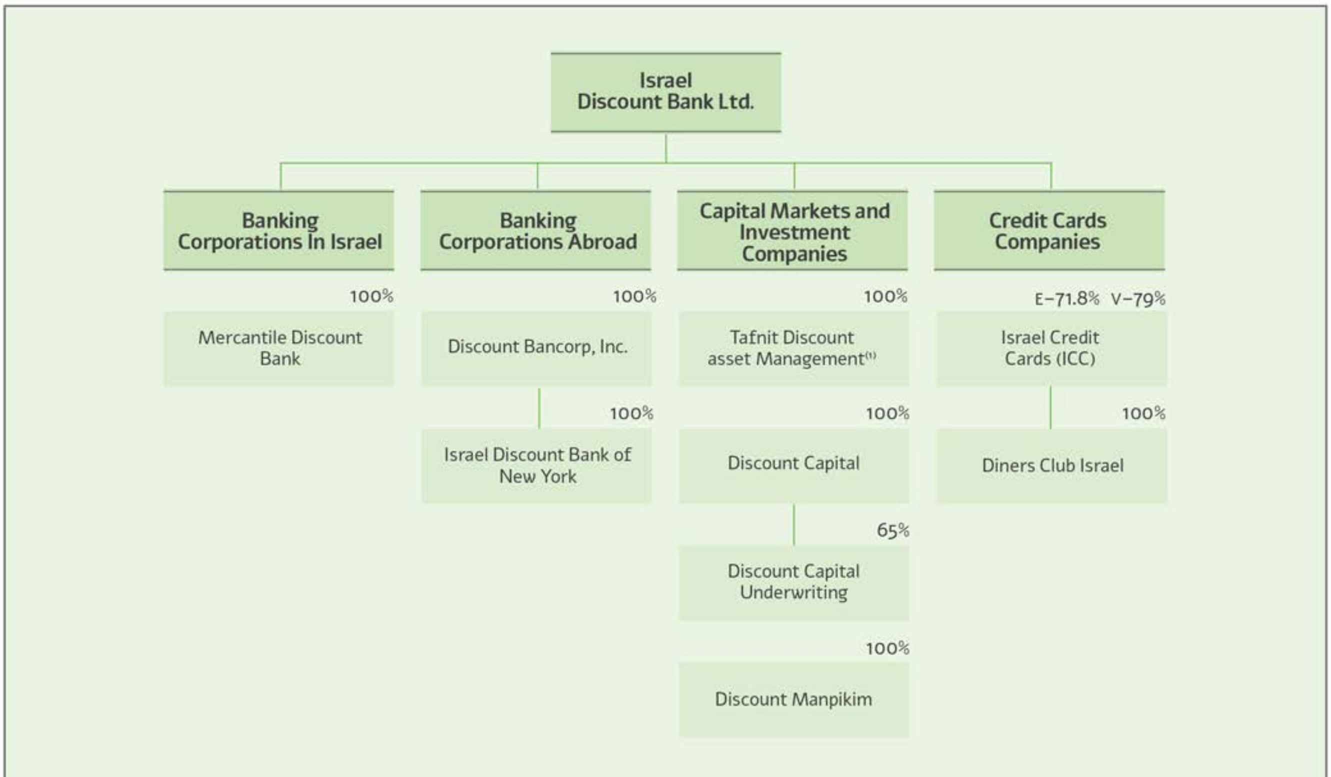
On March 31, 2021, the Bank purchased a collective insurance policy in respect of Directors and Officers, officiating and who may officiate from time to time at the Bank, including in respect of their office on behalf of the Bank in any other company in which the Bank has an interest. For additional details, see Note 10 section 6 to the condensed financial statements. The said insurance policy was purchased in accordance with approvals of the Remuneration Committee and the Board of Directors and Position 101-21 of the Securities Authority. The General Meeting of Shareholders approved on May 23, 2021, an amendment to the remuneration policy, within the framework of which the instructions relating to the insurance of Directors and Officers are to be updated so that the terms of the insurance policy would agree with the instructions of the remuneration policy.

Special and independent committee – proceedings in Australia

Different legal proceedings have been conducted in Australia and in Israel against the Bank and against MDB ("the banks"), relating to accounts held with the banks by certain Australian family members and by companies related to them. The essence of the said proceedings is civil lawsuits (fiscal) filed in Australia by Liquidators of the related companies, claiming damage caused to these companies due to amended tax assessments issued by the Australian Tax Authorities. The claims were based on the argument (refuted) that the said banks had provided banking services to customers, assisting them in evading the payment of taxes in Australia.
On January 31, 2021, the banks signed compromise arrangements in relation to the aforementioned proceedings for the settlement of all claims and actions of the Plaintiffs against the Discount Group, including in relation to the proceedings, the family members and the related companies, with this being without any admission of liability. In accordance with the aforesaid arrangements, the amount of the settlement totals approx. AUD 138 million, equivalent to approx. NIS 343 million.
Concurrently, the Bank has agreed to an arrangement whereby the insurers will pay the banks an amount of approx. US$ 55 million in respect of which an amount of approx. US$ 47.5 million (approx. NIS 151 million) was recorded as income.
For further details, see Note 26 C 11.3 to the financial statements as of December 31, 2020 (pp. 230-231).
As required by the Supervisor of Banks, the Boards of the two banks have decided to establish a joint committee of the two Boards of Directors, which will be a special, independent committee that will be headed by her honor, Retired Judge Hila Gerstel. The committee will examine the administrative and control processes that allowed the conduct of the Banks that led to the proceedings in respect of which the compromise arrangements were signed, while addressing, inter alia, to corporate governance aspects and the conduct of the Board of Directors and the senior Management including drawing conclusions and making general and personal recommendations with regard to officers and employees, where necessary, including in relation to remuneration awards granted to the officers during the relevant period.
The committee will present its conclusions and recommendations to the Boards of Directors of the banks.
The committee's conclusions and recommendations will be notified to the Supervisor of Banks, in response to the latter's request to the banks.
The Committee started its work at the beginning of February 2021.

Additional details regarding the business of the banking corporation and management thereof

Discount Group Structure



(1) Directly and Indirectly.

Fixed Assets and Installations

Buildings and Equipment

Establishment of the Discount Campus. For details, see the 2020 Annual Report (pp. 333-334) and Note 10 section 5 to the condensed financial statements.

Realization of assets as part of the preparations for the relocation of the Head Offices and operation of the Bank to the Discount Campus. As part of the preparations for the relocation of the Head Offices and operation of the Bank to the Discount Campus, the Bank sold on March 21, 2021, the property at 17, Yehuda Halevi Street in Tel-Aviv, which serves one of the Bank's Head Office units. Transfer of the right of possession in the property will take place on December 31, 2021, following which, the property would be leased to the Bank until the planned relocation date to the Discount Campus, in the first half of 2023. Upon the transfer of possession of the property, the Bank is expected to record a profit of approx. NIS 38 million, net of the tax effect.

IDB Bank. The Head Office of the bank was moved in the second quarter of 2021 to a new building, Grace Building. This building houses now the Head Office premises as well as those of the Manhattan Branch.

Information and Computer Systems

For details, see the 2020 Annual Report (pp. 335-337).
ICC. ICC continues the project for replacement of the core system infrastructure, the cost of which at the reporting date is assessed at NIS 220 million. In the reported period, the company transferred the principal computer installations from Givataim to a host location in Modi'in.

The human capital

Human resource management during the Corona crisis

At the beginning of the second quarter, employees of the Bank returned to full format work at the premises of the Bank, subject to green/purple label restrictions, excluding employees of singular organizational units, who continued to work, fully or partially, from home, as decided. After approximately two months, at the beginning of June, concurrently to the lifting of restrictions by the Ministry of Health, all restrictions on movement at the premises of the Bank were removed.
The Bank continues to operate in accordance with guidelines of the Government with respect to the Corona matter, and communicates guidelines to employees. Concurrently, treatment continues with regards to employees found positive with the virus or who are in isolation.

Organizational culture

Organizational Culture project. One of the layers of the Bank's strategic plan is the structuring of organizational potency by means of the integration of a winning organizational culture that supports continuous improvement, performance, excellence and a high level of bonding. Accordingly, the Organizational Culture project was introduced in the third quarter of 2020, within the framework of which, five project teams have been set up dealing with the following issues: employee experience and bonding, empowerment of managers, professional competence, organizational optimization and performance and change culture.
Employee experience review. An employee experience review was first introduced by the Bank in the first quarter. During the second quarter, the findings of the review were analyzed at Bank, division and manager levels, areas focused for improvement were chosen and work plans were constructed.
A new leadership model. The leadership model was introduced in the first quarter of 2021, in a festive gathering which defines a set of conduct expected from managers. The Model was integrated in organizational processes, such as: employee evaluation process, employee experience review, management courses and more. Analysis of the data collected by these processes enables the Bank to focus on areas requiring improvement.

Labor Relations of the Principal Subsidiaries

Declaration of a labor dispute at MDB. On February 15, 2021, MDB was informed by the New General Federation of Labor- MAOF Federation (hereinafter: "the Federation") of the declaration of a labor dispute and a strike at MDB, in accordance with Sections 5, 5A and 5B of the Labor Disputes Settlement Act, 1957. The notice states that the essence of the matters in dispute relate to the transfer of the Head Office of the bank to Rishon LeZion and the effect of such transfer upon the employees. According to the notice, employees of MDB may adopt, as from March 3, 2021 and thereafter, organizational measures (including a strike) in according with guidelines of the Federation. MDB's Management continue to conduct talks with the employees' representatives with the aim of resolving the labor dispute.

Improvement of Service

The handling of complaints. The annual report to the public regarding the handling of complaints in 2020, is available on the Bank's Internet website.
For additional details, see the 2020 Annual Report (p. 346).

Involvement with and Contribution to the Community

"Maala" Rating for 2021. In July 2021, "Maala" published its rating for 2021. The Bank has been rated in the Platinum Plus category (distinguish companies with an absolute score of over 90). ICC has maintained its Platinum rating.

Rating of Liabilities of the Bank and some of its Subsidiaries

Moody's rating agency announced on June 15, 2021, the raising of the rating of deposits with the Bank from "A3" to "A2" with a stable outlook. In its announcement Moody's noted that the ratings upgrade reflects Discount Bank's recent improvements in its profitability, strengthening resiliency in times of stress, given continued focus on efficiencies and robust growth potential and that the ratings upgrade also considered ongoing improvement in the bank's asset risk profile because of growth in low-risk assets, such as residential mortgages in Israel.
All as detailed on the Immediate Report dated June 15, 2021 (Ref. No. 2021-01-101196).
For additional details regarding the rating determined for the Bank and some of its subsidiaries by different rating agencies, see the 2020 Annual Report (p. 349).

Activity of the Group according to regulatory operating segments - additional details

Household Segment (Domestic operations) - additional details

Developments in the segment

Branches. At the end of the second quarter of 2021, the Discount Group has 174 branches in operation in Israel (100 branches of the Bank and 74 branches of MDB). The Ramat-Ilan Branch in Givat Shmuel and the Kiriyat Arieh Branch in Petach Tiqva were closed down during the second quarter.

For additional details, see the 2020 Annual Report (pp. 350-355).

Mortgage Activity

At the present time, the Bank operates 69 branches, countrywide, providing mortgage loan services. The Bank focuses on the granting of mortgage loans as a method for maintaining the business with existing customers and attracting new customers.

Developments in the mortgage market

	June 30, 2021	June 30, 2020	
	in NIS millions		Change in %
Total housing loans granted by the banks, excluding internal recycling of loans	51,686	37,040	39.5
Loans from State funds	259	349	(25.8)

New loans and recycled loans granted for the purchase of a residential unit and secured by a mortgage on a residential unit

	For the six months ended June 30, 2021	For the six months ended June 30, 2020		For the year ended December 31, 2020
	In NIS millions		Change in %	In NIS millions
From bank funds[(1)]	7,188	4,618	55.7	10,037
From Treasury funds[(2)]	23	28	(17.9)	56
Total of new loans	**7,211**	**4,646**	**55.2**	**10,093**
Recycled loans	487	636	(23.4)	1,079
Total granted[(3)]	**7,698**	**5,282**	**45.7**	**11,172**

Footnotes:
(1) Including new loans granted, secured by housing mortgages, in the amount of NIS 141 million in the first six months of 2021, compared to NIS 79 million as at June 30, 2020 and NIS 255 million in 2020.
(2) Including standing loans in the amount of NIS 9 million in the first six months of 2021, compared to NIS 10 million as at June 30, 2020 and NIS 20 million in 2020.
(3) At the Bank and M.D.B.

Legislative restrictions, regulations and special constraints applicable to the operations

Draft amendment of the Q&A file in the matter of restrictions of the granting of hosing loans. On August 9, 2021, the Supervisor of Banks published a draft amendment of the Q&A file, according to which, a banking corporation may not extend a further loan to a borrower intended to serve as equity capital for the purchase of a residential unit, even when the borrower pledges for this purpose another residential unit. In accordance with the draft, the purchasers of an alternative residential unit shall be excluded from this guideline, and would be entitled to a loan of up to 30% of the value of the alternative residential unit, secured by a pledge on an existing residential unit, for a limited period, until the sale of the existing residential unit.

Updates for the guidelines in the matter of housing loans. The Supervisor of Banks published on August 9, 2021, a press release, according to which, after September 30, 2021, no extensions would be granted to the relief enabling the granting of a loan for any purpose in an amount of up to 70% of the value of property (instead of 50%), and to the Provisional Instruction stating that a banking corporation shall not be required to increase the Common Equity Tier 1 target at the rate of 1% in respect of housing loans granted in the period of the provisional Instruction.

Medium businesses segment (Domestic operations)

Service to segment customers

Merger of business centers was made during the first half of the year. In March, the Haifa business center merged with the Sharon business center, and in April the Jerusalem business center merged with the Lowland business center.

For additional details, see the 2020 Annual Report (pp. 359-360).

Large businesses Segment (Domestic operations) - additional details

Legislative Restrictions, Regulations and Special Constraints applicable to the Segment

As of June 30, 2021, no deviations existed from the limitations as set in Proper Conduct of Banking Business Directive No 313. Furthermore, as of June 30, 2021, there were no deviations from the limitations on "related persons". In accordance with a clarification received from the Supervisor of Banks, the investment of the Group in securities of U.S. federal agencies is averaged at 50% for the purpose of computing the liability according to Directive 313.

Developments in the debt of the business sector

The debt of the business sector (excluding banks and insurance companies) amounted at the end of May 2021[5] to NIS 1,016 billion, an increase of 3.5% compared with the end of December 2020 (all the rates of change are in nominal terms and are affected by changes in exchange rates and in the CPI).
The increase in the total debt stems from the increase of 3.5% in the bank debt, a sharp increase in the debt to foreign residents (7%, due mostly to bond issues by corporations abroad) and in the debt to households (bonds, approx. 5.5%). On the other hand, the debt of the business sector to institutional bodies recorded a moderate decrease (approx. 0.5%), in view of the decline in the balance of bonds held by institutional bodies. As a result of the aforesaid trends, the weighting of the bank in the total indebtedness of the business sector remains almost stable and stood at 50.0% at the end of May 2021.
During the first half the business segment, excluding banks and insurance companies, raised bonds in an amount of NIS 19.4 billion (on the Tel-Aviv Stock Exchange and by means of non-listed bonds in Israel), compared to NIS 21.6 billion in the corresponding period last year.
The margin between corporate bonds (included in the Tel-Bond 60 Index) and government bonds as of the end of June 2021 was 1.06%, compared with 1.3% at the end of 2020 and 2.21% at the end of the corresponding half last year. The narrowing of the margins is in line with the positive sentiment in the market and is supported by the Bank of Israel's involvement in the bonds market.

Developments in the Segments' Markets

Towards the end of the first quarter, the economy has returned to the familiar routine of the pre-Corona crisis period. On the other hand, alongside the relative optimism at the domestic level, most of the economic activity around the world is experiencing a setback and is being conducted on the backdrop of high morbidity rates and a significant delay in vaccination. Notwithstanding, a rise in the level of the Corona morbidity in Israel has been noticed recently, a matter serving as a reminder that a threat still exists, which may impair economic recovery in general and sectors sensitive to restrictions on movement in particular.
Following are development directions in the principal economic sectors:

- Industrial sector – Industrial export data for the second quarter of 2021 indicate economic recovery with a growth of approx. 7% compared to the previous quarter, though this is mainly attributed to the high-technology sector (the hi-tech industry) which alone explains approx. 85% of the growth rate in this sector. This trend, in which the high technology sector demonstrates superiority over all the other sectors, even gained strength all through the Corona crisis, within the framework of which, the decline in demand in the different target countries alongside impairment in the chain of supply, led to the shrinking of sub-sectors characterized by a more traditional activity. Looking forward and in relation to other sectors – the Israeli industrial sector may recover at a slower pace on the background of the renewed outbreak of morbidity around the world, to the extent that it would lead to a renewed recession in the volume of demand;

5 The most updated data available at the time of submitting the report to print.

- The tourism sector – With the removal of restrictions and the opening of hotels, a significant increase in occupancy rates is being noticed, a part of the hotels in vacation resorts reporting full occupancy and at high prices. The significant increase in occupancy rates is supported, at least in the short-term, also by the continuing restrictions of foreign travel. Notwithstanding the above, the absence of incoming tourism continues to adversely affect holiday resorts based on foreign tourists;
- The commercial sector - Removal of restrictions and the opening of trade centers support the decrease in the level of risk, as compared to that recorded at the outbreak of the crisis, though the volume and length of recovery would be correlated with the buying power of the consumer, derived, inter alia, from the level of unemployment;
- Real estate sector – for details, see below under "Construction and real estate activity".

Anticipated Developments in the Segments' Markets

According to the updated growth forecast by the Bank of Israel, the GDP is expected to grow by rates of 5.5% and 6.0% in the years 2021 and 2022, respectively. In addition, the rate of unemployment, which had risen to a historical high level, is expected to return by the end of 2021 to a rate of 5.5%. Furthermore, inflation in the coming year is expected to stay at the lower edge of the price stability target range of the Bank of Israel, which would support the present interest environment.

For details regarding the "Large businesses Segment", see the 2020 Annual Report (pp. 360-364).

Construction and Real Estate Activity

Developments in markets of the activity

Residential property. The trends characterizing the residential property market even prior to the Corona crisis, continued in the period of twelve months ended in May 2021, with the acceleration in the annual pace of the general residential property price index up to 7.2%, compared to the corresponding period last year. This acceleration is cross-country, applying in particular to the Central Region characterized by low supply, though also in the Northern and Southern Regions, despite relatively high concentration of construction as part of the "price for the purchaser" program. The stability presented by the residential field is mostly attributed to the base data, headed by the excess demand over supply alongside the return of investors to the market following the reduction in acquisition tax.
Income producing office premises. The office premises field remained relatively stable due to long-term lease agreements. Moreover, the correlation between developments in the hi-tech field with respect to the demand for office space became sharper, with both remaining stable. However, variance exists in the extent of demand between properties having different characteristics, including their location, finishing level, structure of ownership, and the internal division of the floor area.
Income producing commercial real estate. The Corona crisis has caused erosion of the NOI, due to initiated discounts to lessees and waiver of lease payments during lockdown periods. Furthermore, the crisis has sharpened the difference between indoor shopping malls and open-air shopping centers, which were less affected during the social distancing period. Looking forward, the recovery potential is correlated with the performance of retail trading, and in the wider circle with the recovery of the buying power of the Israeli consumer. Furthermore, confrontation with the long-term trends continues, headed by the fast growth in supply and in the online trading, which may gain strength as part of the implications of the crisis and the operating efficiency in logistic processes.
Infrastructures. The growth in volume of activity of the infrastructure sector has continued. Over and above the projects that are already in progress, expectations exist for the beginning of additional significant projects.

Legislative and regulatory limitations and special constraints applying to the activity

The limitations described above applying to the business segment also apply to construction and real-estate operations. In addition, it should be noted that as part of Proper Conduct of Banking Business Directives No. 315, a limitation applies to sectorial credit concentration, where that part of the credit being the responsibility of the

banking corporation (including off-balance sheet credit) granted to a certain sector, as defined in the Directive, exceeds 20% of total credit to the public being the responsibility of the banking corporation. The Bank's sectorial credit concentration in the real estate sector was 18.67% as of June 30, 2021, compared with 19.43% at the end of 2020.
Proper conduct of Banking Business Directive No. 315 in the matter of "limitation on sectorial indebtedness" was updated on January 12, 2020. The update allows a banking corporation to maintain the total indebtedness in respect of "real estate construction and manufacturing and trading in construction products" at 24% of total indebtedness of the public to the banking corporation, and this by a condition that the said total indebtedness, net of indebtedness in respect of the financing of projects jointly executed by the public and private segments, shall not exceed 20%. The amendment to the Directive takes effect on date of publication.
Relief in light of the Corona crisis. The Supervisor of Banks published on January 7, 2021, additional modifications to Proper Conduct of Banking Business Directive No. 250 (Provisional instruction for the confrontation with the Corona crisis) – within the framework of which, reference was made also in respect to Proper Conduct of Banking Business Directive No. 315 – limitation on sectorial indebtedness. The update states that the limitation on credit to the construction and real estate sector, after elimination of indebtedness of national infrastructure projects, shall be increased from a rate of 20% to 22% of total public indebtedness, and that the limitation relating to the construction and real estate sector shall be increased from a rate of 24% to 26% of total public indebtedness. The effect of the relief has been extended until the end of 24 months from December 31, 2025, provided that the rate shall not exceed the rate prevailing on December 31, 2025, or the rate of the sectorial limitation, as stated in Proper Conduct of Banking Business Directive No. 315, whichever is higher.

For additional details, see the 2020 Annual Report (pp. 364-366).

Financial Management Segment (Domestic operations) - additional details

Non-Financial Companies

Legislative restrictions, regulations and special constraints applicable to the sub-segment

As of June 30, 2021, there was no violation of the restriction on investment in non-financial corporations pursuant to Section 23 A (A) of the Banking Law (Licensing). For further details, see the 2020 Annual Report (p. 370).

Non-financial investments portfolio – principal data

Scope of the portfolio. The total value of the non-financial investments portfolio of Discount Capital amounted at June 30, 2021 to NIS 1,587 million. The outstanding investment commitments of Discount Capital amounted on June 30, 2021, to NIS 705 million (US$216.3 million) most of which in Funds the investment period of which has not yet expired.
Income. Discount Capital recorded in the first half of 2021 net income from non-financial investments in a total amount of approx. NIS 66 million (including an amount of approx. NIS 36.8 million from investment in Funds). This, compared to net income in a total amount of approx. NIS 10.2 million in the first half of 2020.
New investments. In the second quarter of 2021 Discount Capital completed 14 investment transactions in investment Funds and in corporations in a total amount of approx. US$86 million.

For additional details, see the 2020 Annual Report (pp. 368-370).

International Operations Segment - Additional Details

Activity in view of the Corona crisis

IDB Bank has implemented several measures intended to maintain business continuity and respond, to the extent possible, to the needs of its customers and employees, and support them in dealing with the crisis. IDB Bank has granted customers mitigating possibilities, including deferral of loan principal and interest payments, and extended loans fully guaranteed by the Government, within the framework of the plan of the Small Businesses Agency for the protection of wages. This plan offers loans to businesses undertaking to continue and engage their employees, and which under certain circumstances would turn into grants. In addition, in view of existing circumstances, IDB Bank has modified its operating model, so that its services to customers continue undisturbed.

Developments in operations

IDB Bank continues to improve its value offer to the hi-tech segment customers, and examines the introduction of new credit products.

Legislative Restrictions, Regulations and Special Constraints applicable to the International Operations

Exposure restriction with regard to overseas extensions. In accordance with guidelines of the Supervisor of Banks, a board of directors of a banking corporation, which operates or intends to operate by means of overseas extensions, is required to discuss and approve a comprehensive policy document with respect to the operations of overseas extensions. Within the framework of the said statement of policy, the Board of the banking corporation is required, among other things, to determine a restriction or a set of restrictions as to the exposure regarding the activities of overseas extensions, which should reflect the risk appetite applying to the operations of the overseas extensions, on condition that the principal part of the operations of the banking corporation and the banking group is located in Israel.
On June 30, 2021, the calculated rate of the Bank's exposure with respect to overseas extensions stood at 14.34% of total risk assets, as compared with 14.3% on December 31, 2020. The said exposure rate complies with the exposure limitations set by the Board of Directors, within the framework of the risk appetite declaration of the Discount Group.
The Bank monitors the development of the risks assets in respect of its operations in overseas extensions.
U.S. legislation. Following the crossing of the US$10 billion line of total assets in 2020, IDB Bank has been defined as a "Large bank" to which different regulatory requirements apply, and accordingly, these are being prepared for by IDB Bank. Among other things, different instructions apply to it with respect to activity in derivatives and to the methodology for computing the deposit insurance. With the crossing of the line, the activity of IDB Bank is subject to supervision by the Consumer Financial Protection Bureau, the authority of which relates to compliance and to different instructions intended for the protection of customers. In addition, there is a change in the frequency and intensity of the regulatory audits of IDB Bank, performed by the FDIC and the NYDFS, making them more extensive and sequential.

For additional details, see the 2020 Annual Report (pp. 371-372).

Additional Segments

For additional details regarding the Small and minute businesses segment (Domestic operations), see the 2020 Annual Report (pp. 357-359). For additional details regarding the Private Banking Segment (Domestic operations), see the 2020 Annual Report (pp. 355-357). For additional details regarding the Institutional bodies segment (Domestic operations), see the 2020 Annual Report (p. 366). For additional details regarding the Financial Management Segment (Domestic Operations), see the 2020 Annual Report (pp. 367-368).

Credit Card Operations

Developments in operations

Strategic cooperation for setting up a digital wallet. For details, see "Management's handling of current material issues" above. The Bank, Shufersal and ICC are conducting negotiations according to which, ICC would serve as the issuer of the virtual charge cards offered within the framework of the digital wallet of PayBox. At this stage, there is no certainty that the said negotiations would result in a binding agreement.
Provision for benefit campaigns to holders of credit cards. In recent years, ICC informed its customers that the validity of certain benefit plans that had been offered to them would be limited to three years. At date of expiry of the benefit period, expected to take place in the third quarter of 2021, the said benefits shall expire and no further use could be made of them. In respect of these benefits, ICC includes a provision in its books, and accordingly, expiry of the benefits is expected to result in a decrease in the said provision.

For additional details see the 2020 Annual Report (pp. 372-379).

Technological improvements and innovation

General. Among the goals of the Bank's strategic plan, is the goal of the implementation of technological means and increasing customer experience.
The Corona crisis, that erupted at the end of the first quarter of 2020, increased the importance of the activity on the digital channels, that allow receiving extensive information and transacting a wide selection of banking operations in an independent, simple, convenient and also secured way, which may be conducted by the customer from his home.
Strategic cooperation for setting up a digital wallet. For details see "Management's handling of current material issues" above.
A new podcast regarding fintech and innovation. At the beginning of August, the Bank introduced a new podcast on matters of fintech and innovation. The podcast, to be produced jointly with the podcast network "Making history", will host the outstanding entrepreneurs in the fintech field in Israel discussing the challenges, successes and advice, which every entrepreneur must hear. Furthermore, the podcast will host additional factors operating in these fields, who will share with the listener insights and recommendations. The podcast will be available on the central platforms, Apple and Spotify, and on the website of the "Making history" group.

Direct channels

The following innovations and updates took place during the current activity in the second quarter of 2021:

Current accounts and foreign currency

A new search area for current account entries. Possibility has been added for sorting current account entries in back periods of up to one year, by free wording, type of entry and date range.
Presentation of similar entries in current account. By choosing a particular entry in current account, it is possible to see similar entries in back periods of up to one year and sort them according to date range.
Authorization to charge an account. In addition to the setting-up of an authorization via the Application, the possibility of cancellation or stay of authorization to charge an account has been added.
Queries regarding dishonored checks. Customers would now be able to receive in real-time full details regarding dishonored checks and to obtain a printout of all dishonored checks, both on the private and on the business+ websites.

Credit

Credit data report. Possibility has been added to the private website and to the Application of viewing credit data reports of a customer, as received from the credit data base of the Bank of Israel.

Credit cards

Relating a credit card for payment through the PayBox wallet. Customers are now able to relate a credit card to the wallet and pay at stores with their Smartphone. For owners of Android phones only.
Relating a credit card for payment through the ApplePay wallet. Customers are now able to relate a credit card to the wallet and pay at stores with their Smartphone. For owners of IOS phones only.

Securities, the capital market

Semi-annual financial statements on the capital market. The operations website of the capital market has added support for the presentation of financial statements also for companies that report semi-annually and not quarterly.

Digital for business

Transfer to accounts of the same party at other banks. Similarly to the website, the Application has also added a "between my accounts" authorization that includes also the same party accounts at other banks, both group and trustee. Customers who have defined accounts of the company at other banks, both group and trustee accounts, as same party accounts at the branch, would be able to order single transfers and RTGS transfers of funds to these accounts, subject to "between my accounts" authorization, and enjoy new designated maximum amounts for such beneficiaries.
Support for transfers to permanent beneficiaries. Similarly to the website, the Application has also widened the support of the new authorization of the single transfer type, and from now on, the customer would be given a designated authorization for transfers to permanent beneficiary and block it from transferring to third party beneficiaries.
Presentation on the Business+ website of the status of a transaction passed to a banker authorization. Transactions in the course of being processed by a banker would be presented under the "follow-up" tab with a designated status allowing follow-up and control of the transaction since its setup and until final approval.
Definitions and services menu on the Business+ website. The "Definitions and services" menu now consolidates information and operations relating to the following matters: definition of accounts, Discount services and communication with the Bank.

Customer experience

Customer assistance page prior to login. With a view of improving customer experience, encouraging self-service and reducing reference to the support center, a link to a Q&A page has been added to the login screen, which shows different ways for obtaining assistance. The page includes several prevalent items: calling the support center, selection of questions and answers, details regarding the customer's branch office and the possibility of ordering an appointment at the branch.
Expanding "My profile". Presentation of information in the personal profile page of the customer has been improved, and a possibility has been added of copying and sharing account and IBAN details.
Expansion of the information menu. The information menu on the Application has been divided into categories and new subjects have been added to the menu. For example: deposit of reports, check queries, prior transfer queries, credit data report and more. Under the tab "Information and reports" a possibility has been added for producing account management forms, bank identity card, year-end tax confirmations and more.

Partners' avenue – a new area on the Application. With the aim of exposing Bank customers to new services and to cooperation entered into by the Bank, a new area has been added to the menu, which provides details of cooperation with the following corporations: PayBox, RiseUp and FIBO.
Appointment for collecting checkbooks. A possibility for fixing an appointment for the collection of checkbooks at the selected branch has been added at the end of the checkbook ordering process.
Reducing cases of transfers made to the wrong beneficiary. Added to the Application is the date of the most recent transfer that had been made to a selected beneficiary, with a view of reducing cases of transfers to a wrong beneficiary or to an old beneficiary no longer relevant.
Exporting entries to Excel sheets. A possibility has been added to the Application, for exporting account entries to Excel sheets for maintenance and sharing.

Opening an account through the Application

Improving the entry screen. The entry screen for the account opening process has been improved to a lighter screen with the possibility of obtaining explanations and wider information.
Blocking foreign customers. Blocking has been added with respect to customers abroad who try to open an account.

Main developments in the Israeli economy and around the world in the first half of 2021

Developments in the Global economy

General. The US economy expanded in the second quarter at a rate of 6.5%, following a speedy expansion in private consumption, in investments and in Government expenditure. At the same time, the economy of the Eurozone grew by 8.2% (annualized rate).
Central banks around the world, headed by the FED, continue to adopt an expansionary policy, despite economic recovery and the rise in inflation, which the banks estimate as temporary. This monetary policy of the banks is being adopted in view of concern regarding a long-term impairment of the labor market.
Financial markets. Share indices around the world continued to rise steeply during the first half of the year, due to the high rate of vaccination, the opening of the economy and the expansionary monetary policy.

The changes in selected share indices recorded in the first half of the years 2020 and 2021

Index	2021	2020
500 S&P	12.3%	(4.0%)
DAX	10.5%	(7.1%)
MSCI Emerging Markets	6.7%	(11.0%)

During the first half of the year, yield on bonds in the US moved in a mixed trend – a steep rise in the first quarter of the year with a certain adjustment in the second quarter, so that at the end of the first half of the year yield on bonds was still trading at a high level in relation to the end of 2020. Concurrently, the rise in inflationary expectations was halted during the second quarter. The yield on 10-year United States bonds was traded at 1.45% at the end of the half, compared to 0.91% at the end of 2020. In Germany, the yield on 10-year bonds rose by 30 basis points and was traded at a negative level of -0.21% at the end of the half.

The yields on government bonds

10Y Government Bond Yields	June 30, 2021	December 31, 2020
U.S.A.	1.5%	0.9%
Germany	(0.21%)	(0.57%)

During the first half, the US dollar was strengthened around the world. This, in view of the economic recovery and the reduction in the interest margin. In total for the first half, the dollar basket (the "dollar index") appreciated at the rate of 2.8%.

Changes in the U.S. dollar against selected currencies in the first half of the years 2020 and 2021

Exchange rate	2021	2020
EUR	2.44%	(0.2%)
JPY	7.69%	(0.6%)
GBP	(0.7%)	6.9%

All through the first half of the year, commodity prices recorded significant increases with the GSCI[6] Index rising by approx. 31%, including prices in the oil segment, recorded significant increases.

Changes in selected commodities indexes in the first half of the years 2020 and 2021

	2021	2020
The commodities index - GSCI	30.9%	(25.4%)
The oil price (BRENT)	45.0%	(37.7%)
The oil price (WTI)	51.4%	(35.7%)
Gold	(6.4%)	17.4%

Main Developments in the Israeli Economy

General

In total for the first quarter, the GDP has shrunk by an annualized rate of 5.8%, the steep decline stemming, to a large extent, from the dramatic setback in the import of passenger cars. With the elimination of net taxes on imports, the GDP has shrunk by 1.8% (annualized rate).
The Bank estimates that the growth data for the second quarter would indicate fast growth, on the background of the opening of the economy, alongside a steep growth in the import of motor vehicles.
In the course of the first half of 2021, to the extent that restrictions had been lifted and the economy had returned to a nearly full activity, the wide unemployment recorded a significant downward trend. This, following the soaring during the crisis. In the second half of January, the wide unemployment amounted to 19.1%, but to the extent that economic activity started to expand significantly, the rate of unemployment declined down to 8.8% in the second half of June. On average, the rate of the wide unemployment amounted to 12.7% in the first half, as compared to 16.5% in the corresponding period last year. Notwithstanding the above, the rate of unemployed persons (namely, severed employee-employer relations) increased from 3.7% in the first half of 2020 to 4.9% in the current year.

Developments in economic sectors

In accordance with a business trend review conducted by the Central Bureau of Statistics, improvement in condition of the business sector is reported in the second quarter, with an increase in optimism. A significant improvement in sales to the domestic market is reported in the services sector, with a transition to the positive field. In the hotel sector, reports regarding occupancy by Israelis, revenues and employment have, for the first time since 2020, moved to the positive field, and at the same time, industrial enterprises report improvement in production, in sales and in the business condition of companies.

6 Goldman Sachs Commodity Index.

Developments in the activity of the Israeli economy with overseas markets

In the period from January to May 2021, growth was recorded in direct investments (through banks) by foreign residents in Israel, as compared with the first half of 2020. At the same time, a leap of almost twice the size was recorded in financial investments by foreign residents in Israeli marketable securities, deriving mostly from a steep increase in financial investments by foreigners in Israeli shares abroad and in government bonds and short-term loans (MAKAM) in Israel. On the other hand, investments by foreigners in government bonds abroad (mainly issues by the Ministry of Treasury abroad) have declined sharply. Concurrently, Israeli residents increased their direct investments abroad, though reduced their financial investments.

Changes recorded in investments of the Israeli economy abroad

Investments in Israel by foreign residents	January-May 2021	January-June 2020
	US$ billion	
Total direct investments through banking system	7,043	5,314
Total financial investments	18,880	9,981
Of which: Government bonds and MAKAM	11,889	15,652
Shares	4,032	(5,939)

Investments abroad by Israeli residents	January-May 2021	January-June 2020
	US$ billion	
Total direct investments through banking system	1,081	373
Total financial investments	8,330	10,068

Developments in inflation and foreign exchange rates

On the background of the recovery of economic activity in Israel, the rate of inflation rose significantly during the first half of the year. In total, indices rose during the first half by 1.6%, compared to a decline of 0.8% in the corresponding period last year. As a result of the above stated, the annual inflation rate rose to 1.7%, following the rate of -1.1% at the end of the corresponding period last year. Concurrently, a sharp rise has been recorded in inflation expectations for all time ranges, and for the short term in particular - from approx. 0.3% per year at the end of 2020 to approx. 1.83% at the end of June (index contract).

At the beginning of the year, the shekel continued its strengthening trend, a fact that led the Bank of Israel to announce a US$30 billion foreign currency purchasing program. During the first half, the Bank of Israel purchased foreign currency to the tune of approx. US$25 billion. Consequently, and concurrently with the dollar's strengthening worldwide, the shekel has weakened since the beginning of the year by 1.4% against the dollar, though it maintained stability against the currency basket.

Fiscal and monetary policy

Fiscal policy. At the end of the first half of 2021, the deficit in the State budget for the last twelve months amounted to NIS 144 billion, comprising 10.1% of GDP. This, compared to 11.5% of GDP at the end of 2020. During the first half, a significant increase (approx. 23%) was recorded in the tax revenues of the State, compared to the corresponding period in 2020. This, compared to the rise of approx. 13% in Government expenditure, due mostly to the assistance program of the Government, which elimination thereof shows a rise in expenditure of only approx. 4%.

Monetary policy. During the first half, the Bank of Israel left interest unchanged, at a level of 0.1%, and continued to follow an extremely expansionary policy, through utilizing the range of tools at its disposal, including the purchase of foreign currency and bonds.

Change in the monetary base. During the first half of 2021, moderate growth was recorded in the M1 money supply (cash held by the public and shekel current-account deposits; 7.6%) as compared with the sharp rise in this supply in the corresponding period last year (approx. 18%), on the background of the outbreak of the crisis. The slowdown in the rate of growth stems from the current account component. On the other hand, cash recorded a relatively fast growth (approx. 7%), with a significant slowdown between quarters – from a growth rate of approx. 5% in the first quarter to approx. 2% in the second.

In the first half of 2021, the rapid rise in the monetary base continued – approx. NIS 23 billion, compared to approx. NIS 17 billion in the corresponding period last year. This increase derives from the government absorption alongside an inflow from the Bank of Israel. The Bank of Israel provided an inflow of approx. NIS 56 billion during said period, primarily through the conversion of foreign currency and also provided inflow through a monetary loan to the commercial banks and through activity on the open market. On the other hand, the central bank continued to absorb money through enlarging the shekel deposit tenders.

Sources for the change in the monetary base

	First six months of		
	2021	2020	change
	In NIS billion		in %
Operations on the Capital Market	7.3	51.9	-
The Shekel deposits tender	(51.0)	(78.0)	-
Foreign currency conversion	81.7	21.3	-
Government activity	(33.5)	16.5	-

Capital market

Similar to the global trend, prices continued to rise on the domestic capital market. For the first half as a whole, the TA-125 Index rose by 8.5%, a moderate increase compared to the S&P 500 Index and the NASDAQ 100 Index.

The changes recorded in selected share indices in the first half of 2020 and 2021

	First half	
Index	2021	2020
TA 35	7.4%	(20.3%)
TA 125	8.5%	(18.0%)
TA banks	19.8%	(29.0%)
TA Global-Blutech	4.1%	13.8%
Real-estate 15	15.7%	(35.8%)

Trading in government bonds in Israel was marked by a moderate rise in yields all through the first half of the year (approx. 40 basis points in shekel bonds for ten years, to approx. 1.25%). As a result of the above, a negative margin was created at the end of June between yields on Israeli bonds for ten years and their US counterpart, at the level of approx. 20 points. The rise in yields was accompanied by a rise in inflation expectations, all along the curve, from approx. 1.5% for 10-year bonds at the end of 2020 to approx. 1.9% at the end of June 2021.

The changes recorded in selected bond indices in the first half of 2020 and 2021

	First half	
Index	2021	2020
General bonds	1.2%	(1.7%)
General Government bonds	(0.3%)	1.5%
Shekel Government bonds	(1.5%)	1.9%
Linked Government bonds	1.5%	0.9%
General Corporate bonds	4.3%	(6.4%)
Linked Corporate bonds	4.5%	(6.3%)
Shekel Tel-Bond	1.1%	(6.4%)

During the half year, the corporate bonds market recorded a decline in margins. This, as a result of the positive sentiment in the market and with the support of the involvement of the Bank of Israel in the bond market. For the first half of 2021 as a whole, a total of approx. NIS 23 billion was raised through corporate bonds of Israeli companies, of which approx. NIS 19 billion excluding banks, insurers and financial entities. This compared to approx. NIS 30 billion and approx. NIS 22 billion in the corresponding period last year, respectively.

The asset portfolio held by the public

The value of the financial assets portfolio held by the public increased in the period from January to May 2021 by approx. 6%, with growth in most linkage segments, amounting at the end of the period to NIS 4.7 trillion. Most of the growth stemmed from growth of approx. 16% in value of shares. In addition, growth was recorded in the foreign currency linked component and in the CPI linked and non-linked assets. The growth in value of foreign shares and in the foreign currency linked component, was affected, inter alia, by the devaluation of the shekel.

Distribution of the asset portfolio held by the public

	May 31, 2021	December 31, 2020
Shares	27.5%	25.2%
Non-linked assets	36.3%	37.9%
CPI linked assets	25.3%	26.1%
Foreign currency linked assets	10.8%	10.8%

Principal economic developments in July and August 2021[7]

Morbidity recorded a renewed growth in the last month. However, it seems that the effect on economic activity would be moderate, in view of the absence of significant limitations on economic activity. The data indicate the continuing expansion of the global economy, with moderation in the rate of activity, due to exhausting the effect of the subdued demand. The rate of inflation remained high, though the central banks continue to believe that the high inflation is only temporary due to the effect of the epidemic.

In Israel, with the return of the economy to a near full activity and the removal of most of the restrictions, economic activity continued to expand. Notwithstanding, the wide unemployment rate increased slightly in the first half of July to a level of 9.0%. Concurrently, the improvement in the budgetary deficit continued, with a decline in July to a level of 9.3% of the GDP (cumulative in the last twelve months).

During the reported period, a significant increase in "Delta" virus morbidity took place in Israel, and therefore, it is possible that this might lead to impairment in economic activity.

Since the end of June, the shekel has strengthened against the US dollar by 1% and by 1.6% against the currency basket. The Bank of Israel continued its involvement in the foreign currency market, though at a reduced scope.

Yields on US government bonds for ten years declined, and a moderate decline was also recorded with respect to yields on Israeli government bonds, down to a level of approx. 1.2%. The decline in the shekel yields was accompanied by the rise of the medium-long range inflationary expectations, while a CPI contract for one year was traded at the end of the period at approx. 1.75%, as compared with approx. 1.9% at the end of June.

Share markets around the world continued at a positive trend, with the NASDAQ Index rising by approx. 4%, and the S&P500 Index rising by approx. 3%. Notwithstanding, the TA125 Index dropped during the period by approx. 1%.

7 All data relate to the period from April 1, 2021 and until May 20, 2021.

Legislation and Supervision

Following is a summary of legislation changes and relevant legislation initiatives during the reviewed period, which affect or might have a significant effect on the Bank's operations.

Regulation in the wake of the Corona crisis

Against the background of the spread of the Corona virus, various measures have been taken by the government and by the various supervisory authorities to cope with its implications and to support economic activity.
For additional details, see the 2020 Annual Report (pp. 390-391).

Directives of the Supervisor of Banks in the wake of the Corona crisis

Since the outbreak of the crisis, the Supervisor of Banks has initiated various regulatory measures aimed at enabling the banking system to fulfill its role during the period of the crisis and thereafter. These measures have been accompanied by additional government steps taken to support economic activity during this period. See the 2020 Annual Report (pp. 390-391).

Legislation for increasing competition in banking and financial services

Strengthening Competition and Reducing Concentration in the Israeli Banking Industry, (legislation amendments) act, 2017

The Act prescribes, inter alia, prohibiting of a bank, the value of its balance sheet assets on a consolidated basis exceeds 20% of the total balance sheet assets of the banking industry ("a bank with Wide-Ranging Activity"), from engaging in operating the issue of debit cards, from clearing of transactions made by debit cards and from controlling or holding means of control in a corporation engaged in the said operations (namely, from February 1, 2021). In the period from the end of four years from the beginning date and until six years from this date, the Minister of Finance is authorized to determine, with the consent of the Governor of the Bank of Israel and with the approval of the Finance Committee of the Knesset, that, restrictions shall apply also to a banking corporation which holds less than 20%, though not under 10%, and this taking into consideration, inter alia, the state of competition existing in the credit market.
The Committee for the examination of competition in the credit market. In accordance with the law, a committee was formed for the examination of competition in the credit market has been determined, which would monitor the implementation of the Act since the beginning date, and until the end of six years since the said date. The duties of the committee are: conduct periodic examinations regarding the state of competition in the credit market and locate barriers in respect of development of competition in this market; to monitor the implementation of the provisions of the Act; to recommend in the matter of activating the authority of the Minister of Finance in respect of extending to additional banking corporations the prohibition on engagement in the operation of issuance and clearing of charge cards, on the control of or on the holding of means of control in a corporation engaged in the said operations.
A measurable test for the measuring success in increasing competition in the banking sector. In accordance with the Law, on October 25, 2017, the Committee for the Examination of Competition in the Credit Market published measurable tests for the examination of success in increasing competition in the banking market. These tests will serve as a basis for a semi-annual analysis and for the report that the Committee will submit to the Economic Committee of the Knesset, and are also expected to serve the Committee when recommending measures for improvement and increase in competition in the market, including also the matter of exercising the authority of the Minister of Finance, under the Strum Act, to change the definition of "a bank with Wide-Ranging Activity". The Committee retains the right to change, add or reduce tests. A set of general tests have been determined, as well as an additional test relating to the Bank and ICC.

The Committee has determined tests of different types, including – tests for the removal of entry barriers and transfer barriers for customers; tests examining the entry of new competitors and customer activity; tests regarding the distribution of market shares, volume and prices; tests regarding means of payment.

A test for the Bank and ICC. The Committee decided to test whether the cumulative rate of change in credit balances (excluding large business and operations abroad) of the Discount group at the end of 2020 would be in the range of 2.5 to 4.5 percentage points over the cumulative rate of change of the other four large banking groups and the two credit card companies that had been separated. This test would be monitored on a semi-annual frequency. It has been clarified that this test, as all other tests, would serve the Committee as indication for a decision regarding the detachment of ICC from the Bank, though in any event, the Committee retains discretion in the matter.

On May 1, 2018, a draft of additional testing was published that dealt with the implementation of the Strum Committee's conclusions regarding the opening of the overdrafts sector to competition.

The second report of the committee for examining competition in the credit market. On April 7, 2020, the report, which was prepared prior to the implications of the Corona crisis being known, was published. According to the report, significant progress has been made in removing the barriers to competition and in recent years certain pro-competition indicators have been noted in the consumer credit market. The report contains reference to a test in respect of Discount Bank and ICC. A final examination of the test will take place after the banks and credit card companies publish their annual financial statements for 2020.

Rate of cumulative change in the actual balances of credit. The Discount Group's credit has grown at a rate of 35.9% during the years 2016 through 2020 (total credit, net of large businesses and overseas), while the four major banking groups and the two separated credit card companies grew at a rate of 18% in the same period. Namely, the rate of cumulative change in the aforesaid credit balances of the Discount Group was 17.9% higher than the system.

Online transfer of financial activity (mobility)

Several legislation and regulations amendments were published in the course of the quarter and until date of publication of the Report, with respect to the completion of the legislative arrangement relating to the online transfer of financial activity, all this towards the entry into effect in September 22, 2021, of the Banking Act Amendment (Customer service) with respect to this matter.

Economic Competition

Provisional permit for the existence of a restrictive agreement between ABS and BCC. On April 11, 2021, the Competition Tribunal decided to grant a provisional permit until January 31, 2022, for the existence of a restrictive agreement between ABS and BCC, subject to terms regarding the gradual separation of the two entities. These terms are intended to create competition between the two entities, which until now operate using a joint infrastructure.

Privacy protection

Draft Opinion for public comment in the matter of the duty to reduce use of personal information. On March 25, 2021, the Privacy Protection Authority published for public comment, a draft document dealing with personal information maintained in data bases of different private and public organizations. The Authority stresses that the maintaining of information not for the purpose for which it had been provided and not for the objective of the data base, or not for the purpose of related vital purposes, increases the risk of damage to privacy and of violation of data protection duties. The document includes recommendations and focal points as to operating in order to reduce the gathering of redundant information, as stated. The Authority notes that avoidance of the reduction of redundant information by the owner of the data base, who finds that such information is being maintained by him, may constitute violation of the provisions of the Data Protection Regulations.

Position document in the matter of privacy regarding advanced payment means for the transfer of funds and payments at trading houses. On April 22, 2021, the Privacy Protection Authority published its position with respect to the use of Applications as means of payment (digital wallets). The Authority states that registration and use processes of these means include the gathering of vast personal and financial data, a fact presenting a challenge to the privacy of users and to their ability to control such data. The Authority has reviewed the privacy policy and terms of use of the "central means of payments" operating at the present time in the Israeli market, and details several principles with respect to obtaining the consent of users to access authorizations and to the use of other technologies; to the gathering and processing of information by way of "cookies", to the rights of the information objects and to aspects pertaining to the maintenance of data and the use thereof following the termination of the engagement with the customer.

Capital market

Circular addressed to banking corporations engaged in investment consultation regarding modifications required with respect to investment consultation for mutual trust funds, following the implementation of an outline dealing with the phenomenon of numerous similar funds that are managed concurrently by the same fund manager. Concurrently with the decision according to which fund managers shall apply an outline dealing with the phenomenon of numerous similar funds that are being managed by the same fund manager, the staff of the Securities Authority stated in a circular dated June 13, 2021, that banking corporations have to apply various modifications to their mutual trust funds rating systems.

Providing pension consultation services by digital means. On July 15, 2021, the Capital Market, Insurance and Savings Authority announced that it would not apply enforcement measures against banking corporations that provide pension consultation services by digital means or by telephone, to existing customers of the pension consultation operation. The non-enforcement position cancels and replaces the non-enforcement position announced in December 2020, in respect of restrictions on operations in view of the confrontation of the State against the Corona virus, and would be in effect for a period of at least three months.

Corporate governance

Draft amendments of Proper Conduct of Banking Business Directive No. 301 in the matter of the board of directors and Proper Conduct of Banking Business Directive No. 301A in the matter of remuneration and the letter of the Supervisor of Banks. A letter by the Supervisor of Banks was received on June 22, 2021, addressed to the Bank's Board of Directors, in the matter of principles for determination of the terms of office of the chairman of the board of a bank having no core control interest, and with respect to the qualifying terms for the appointment of a director of a banking corporation having no core control interest (lack of affinity). Among these, maintaining the principle according to which the duties and authority of the chairman of the board shall not deviate from the duties and authority bestowed upon him by law, and that the organs that approve the terms of office must verify that the remuneration components (including all rights and duties relating to them) do not create an affinity or impair the independence of the chairman of the board. It is further emphasized that the need to establish the status of the chairman of the board and to segregate him from the Management of the bank, including by means of determining remuneration in relation to the other members of the board of directors (and in accordance with Proper Conduct of Banking Business Directive No. 301A), is of double importance in a banking corporation having no core control interest. At the same time, the Supervisor of Banks published draft amendments to Proper Conduct of Banking Business Directive No. 301 in the matter of the board of directors and Proper Conduct of Banking Business Directive No. 301A in the matter of remuneration – the instructions have been updated with respect to the remuneration of office holders in the board of directors, and have been modified according to the legislation requirements applying to chairmen of boards of banking corporations in general and of banking corporations having no core control interest in particular. In addition, instructions have been stated relating to the duties of the chairman of the board and the time resources required for the fulfillment thereof. Amendment of the instructions is intended to allow, inter alia, a banking corporation having no core control interest to pay the chairman of the board appropriate remuneration, on condition that this would not create affinity or impair his independence as regards the banking corporation.

Directives of the Supervisor of Banks

Proper Conduct of Banking Business Directive No. 368 – Implementation of open banking standard in Israel. The Supervisor of Banks issued a circular on April 5, 2021, whereby the entry into effect of parts of the above Directive is being deferred for a number of months.

Activity of banks and credit card companies as consumers of data. On April 14, 2021, the Supervisor of Banks delivered a letter to banking corporations and credit card companies, according to which, in view of the fact that the system is found in an interim period until such time that an Act is passed regulating the cost comparison operation, the Bank of Israel requires the adoption of extra care regarding the use of banks and clearing agents of data in the field of cost comparison involved in brokerage. The Supervisor of Banks notes that the Proper Conduct of Banking Business Directive in the matter would be updated, so that a bank or clearing agent would be required to obtain the prior approval by the Supervisor of Banks in the event of a new operation involving a cost comparison service that includes a financial product brokerage component of the type which the bank or the clearing agent themselves offer to another financial body, and that also an independent legal opinion in the matter of the conflicts of interests might be required. It has been clarified that it is the intention of the Ministry of Finance to promote, within the framework of the coming Arrangements Act, the Bill Memorandum according to the letter of the Minister of Finance. In addition, the position of the Competition Authority was received on April 29, 2021, according to which, the offering of cost comparison services may be considered a restrictive agreement.

Draft amendment of Proper Conduct of Banking Business Directive No. 368 – open banking. The Supervisor of Banks published on August 11, 2021, an updated draft amendment of the Directive, which, inter alia, is intended to apply the Directive also to an auxiliary corporation managing an account on behalf of the customer taking effect as from January 1, 2023, (excluding exceptions), and expands the possibility of accessing information regarding the account of the customer as well as initiate payments with the consent of the customer, also to additional supervised bodies. For additional details, see the 2020 Annual Report (p. 404).

Amendment of Proper Conduct of Banking Business Directive No. 420 – Sending Notices via Means of Communication. An amendment to the Directive was published on June 6, 2021, which expands the possibility of delivering notices via diverse communication channels. In accordance with the amendment, a banking corporation may choose a communication channel suitable for delivering a certain notice to the customer under terms detailed in the Directive. The decision as to whether a certain notice is suitable for delivery via a certain communication channel, shall be taken in accordance with the level of materiality of the data and the required delivery speed, while maintaining a balance between the need to deliver the information to the customer and the need to protect the customer's privacy. Also determined is the duty to deliver to the customer, who had joined the service for delivery of notices regarding certain matters as detailed in the Directive, also via a channel allowing the delivery of information in an immediate and accessible format, such as SMS. The amendments take effect at the end of one year since their publication. An additional letter by the Supervisor of Banks was received on June 29, 2021, which states that, within the framework of the mapping, which a banking corporation has to conduct in order to prepare for the implementation of the amendment, as stated, is included the opportunity of examining the contents of notices in a way which would increase the understanding and effectiveness of notices delivered to customers via communication channels and ordinary mail. The Supervisor suggests that improvement of the effectiveness of disclosure to customers shall be achieved by customer surveys, examination of the text of notices by experts from the field of behavioral economics, and more. Banks were requested to notify the Supervisor how they intend to act in order to improve the effectiveness of disclosure.

The Bank of Israel's guideline regarding a clearing default arrangement. The Bank of Israel has extended the date for implementing the clearing default arrangement, which had been set for April 2021. A new date has not yet been set. For further details, see the 2020 Annual Report (p. 397).

Letter of the Supervisor of Banks in the matter of benefits offered to handicapped persons. On May 6, 2021, the Supervisor of banks approached the banks in the matter of commission benefits offered to handicapped persons. It was noted, that within the framework of the withdrawal arrangement from a class action that had been filed against certain banks, the parties agreed that the banks would publish on their websites the benefit stated in the Banking Rules (Customer service) (Commissions), 2008, which is granted to handicapped customers in respect of commissions charged on transactions effected by means of a bank teller. The Supervisor instructed the banks to make their customers aware of the benefit (by publication on the bank's website, for example), of the requirement to present to the bank confirmation of their disability, as well as information regarding the attachment of such customers to the basic commission track. A bank, which has on its records a confirmation regarding the disability of a customer, even if submitted for another purpose, has to act in order to provide to that customer the commission benefits to which he is entitled.

Draft Bank of Israel Order (Information from certain financial bodies regarding expenditure of individuals)(Provisional instruction), 2021. According to this draft Order, the Bank of Israel intends to issue an Order requiring financial corporations (including banks and clearing agents) to deliver to the Bank of Israel information on a daily basis, regarding expenditure of individuals within the framework of their bank accounts and their activity through other means of payment, for the years 2014-2020. This, for the purpose of outlining of the Bank of Israel's policy regarding several areas and the promotion of efficiency of the payments system. Details of the information required from banks according to the Order are: expenditure by means of credit cards divided according to segments of transactions; use of checks and withdrawal of cash from ATM instruments as well as additional payment operations; and the amount of the Corona grant received by each individual. The data would be kept at a high secrecy level at the highest protection level, and access thereto would be limited. The Order will take effect on date of publication thereof.

Amendment of Proper Conduct of Banking Business Directive No. 336 – pledging the assets of a banking corporation. In view of the growth in scope and diversity of operations requiring banking corporations to pledge their assets (in accordance with the law, regulation or market practice), the Supervisor of Banks published on June 15, 2021, an amendment to the Directive, by which the quantitative limitation on pledged assets had been removed, being replaced by defined requirements for the proper management of the pledging of assets. The amendment takes effect on January 1, 2022.

Amendment of Proper Conduct of Banking Business Directive No. 367 – E-Banking. The Amendment, published on July 26, 2021, abolishes the requirement for an examination by a bank officer as to the correctness and appropriateness of the data provided by a customer when opening a bank account online, as a precondition for activating such account. The customer would now be able to operate the account immediately upon opening it, subject to the bank officer making an examination of a sample of accounts involving high risk as regards prohibition of money laundering and additional accounts.

US legislation

The US Congress passed on January 1, 2021, an amendment to the National Defense Authorization Act, within the framework of which was also enacted the Money Laundering Prohibition Act 2020, which establishes a wide change in the prohibition of money laundering acts and the campaign against the financing of terror in the US. The Bank and MDB both hold correspondents accounts with IDB Bank. Inter alia, an amendment entered into effect, which widens the power of the US Authorities to demand documentation from foreign banks having correspondent accounts in the US. This power is exercisable with respect to any interrogation of violations of the Federal Criminal Act, to civil forfeiture proceedings and to any investigation under the prohibition of money laundering laws, even where the correspondent account had not been used for the potential investigated violation. Additional amendments to the Act shall apply to banks operating in the US and to their customers, and are relevant to the compliance activity of IDBNY with respect to the prohibition of money laundering and the finance of terror.

Miscellaneous subjects

Bill Memorandum of the Economic Efficiency Act (Legislation amendments for attaining the budget goals for the 2021 and 2022 budget years), 2021 - Intensification of tax collection and increasing enforcement. The Ministry of Finance published on August 3, 2021, the said Bill Memorandum. The Memorandum proposes to include in the Income Tax Ordinance the duty to report financial bodies and clearing agents on a semi-annual basis, so that data regarding their customers who conduct business accounts with them, would be reported to the Tax Authority on a current basis. In addition, it is proposed to empower the Director of the Tax Authority to request from a financial body and a clearing agent specific information regarding a group of customers having joint characteristics, which would be based upon the characteristics of the accounts or of the customers being members of the group, and which create suspicion that members of such group had violated any provision of the tax laws, in a manner leading to the loss of tax revenues not immaterial in scope. Concurrently, different mechanisms are being proposed for the protection of privacy of the reported entities and for the protection of the information.

Announcement by the Supervisor of Banks regarding the charge card agreement and the mutual recognition agreement. On May 9, 2021, the Bank received two letters from the Payments and Settlement Systems Department at the Bank of Israel with respect to the intension to declare each of the following: the agreement regarding automated bank machines (mutual recognition agreement) and the charge card agreement (local agreement), as a controlled payment system, as defined by the Payments Systems Act, 2008, this after the said agreement had been examined and it has been found that there is room for the said declaration in respect to each of them. Whereas the agreements have no system "operator", at this stage, the Bank of Israel views all addressees of the above letters as a "system operator" (separately in respect of each agreement) in the matter of the duties and rights stated in the Act.
Prior to the declaration by the Governor as to the agreements being considered as controlled payment systems, the addressees are entitled to present their arguments regarding the declaration, to identify parties to the system, to the extent that there are additional factors that have to be included in the declaration, and regarding the identity of the system operator. To the extent that any of the agreements is declared by the Governor as a controlled payment system, the supervision would apply to the agreement as a system and to the "operator" of the system. Supervision over parties to the system shall apply only in relation to their activity or participation in the agreements (systems). Negotiations in the matter are being held with the Bank of Israel.

For additional details regarding "Legislation and Supervision", see the 2020 Annual Report (pp. 389-407).

Legal Proceedings

Material claims outstanding against the Bank and its consolidated subsidiaries are described in the 2020 Annual Report (pp. 229-234) and Note 10 to the condensed financial statements.

Additional Legal Proceedings

1. **Petition under Section 198A of the Companies Act.** On October 4, 2020, the Bank received notice of a petition requesting the Bank to deliver to the Petitioner documents regarding the "money laundering affair", as defined in the petition. As alleged by the Petitioner, material that had been leaked and published on the Buzzfeed Internet website raises suspicion of global money laundering, within the framework of which, foreign factors including felons and foreign states used different banks, including Israeli banks and the Bank, for the purpose of unlawful money transfers in considerable amounts. A Court verdict was handed on April 11, 2021, admitting the motion of the Bank for the in limine dismissal of the motion. The Appellant had filed an appeal against the verdict. Hearing of the appeal was fixed for March 14, 2022.

2. **Motions for disclosure of documents under Section 198A of the Companies Act.** On December 22 and 23, 2020, two different requests under Section 198A of the Companies Act were delivered to the Bank regarding the disclosure of documents prior to a derivative action concerning the proceedings described in Note 10 to the condensed financial statements, section 4.1. The tow requests are identical in substance. The first request was filed with the Haifa District Court while the second request was filed with the Tel Aviv District Court. On January 11, 2021, the Supreme Court instructed that the hearing of the first request be transferred to the Tel Aviv District Court and be consolidated there with the hearing of the second request. Each of the Petitioners has filed a motion with the Tel Aviv district Court requesting to delete the competing request. At the hearing of the motions held on May 2, 2021, the Court decided that the two Claimants would file a unified motion within thirty days. The Appellants had filed a consolidated motion. Hearing of the motion was delayed by consent of the parties.
3. **Legal proceeding in Belgium.** Within the framework of proceedings for the enforcement of a Court verdict given in Belgium, conducted by the Bank for some time against a Belgian corporation, which is not a customer of the Bank, the said corporation filed on May 13, 2019, a criminal action with a Court of first instance in Antwerp, Belgium, against the Bank and against its former employee, claiming that the Bank had forged and acts on the basis of forged documents. On October 22, 2020, the lawyer representing the Bank in the proceedings updated the Bank that the Court in Belgium had decided in favor of the Bank and rejected the criminal complaint served against the Bank and against an employee of the Bank. The company had filed an appeal of right with the Court of Appeal in Antwerp. On February 2, 2021, the Court dismissed the appeal against the Bank and against the former employee. The Appellants have submitted an additional appeal to the Supreme Court in Belgium. The Supreme Court in Belgium has rejected the appeal.

For additional details, see the 2020 Annual Report (pp. 408-409).

Material Legal Proceedings settled in the first half of 2021

1. For details regarding the proceedings for which a compromise arrangement was signed on January 31, 2021, see Note 26 C to the financial statements as of December 31, 2020, section 11.3 (pp. 230-231) and Note 10 section 3.2 to the condensed financial statements.
2. For details regarding the legal proceeding in Belgium, which was concluded, see above.

Proceedings regarding Authorities

1. **Requests for data by the Competition Authority.** During the first half, the Bank received a request for data regarding the provision of banking services to customers belonging to the Arab sector. On July 7, 2021, ICC received a demand for information by the Competition Authority, in continuation to previous demands in the same matter (see the 2020 Annual Report, p. 410). ICC has delivered the required data and is negotiating with the Authority with respect to the manner of treatment of the demand.
2. **The PayBox case.** The Privacy Protection Authority has consented to the request of the Bank to hold a viva voce hearing. A date for the hearing has not yet been fixed.

For additional details, see the 2020 Annual Report (p. 410).

Appendices to the Quarterly Report

Appendices - List of tables

Appendix no. 1 – Rates of interest Income and Expenses on a consolidated basis and analysis of the changes in interest Income and expenses

Part "A" – Average balances and interest rates – assets

	For the three months ended June 30					
	2021			2020		
	Average balance[2]	Interest income	Rate of income	Average balance[2]	Interest income	Rate of income
	In NIS millions		In %	In NIS millions		In %
Interest bearing assets:						
Credit to the public:[3]						
In Israel	161,692	1,631	4.10	150,674	1,335	3.59
Abroad	24,525	191	3.15	24,406	209	3.47
Total credit to the public	**186,217**	***1,822**	**3.97**	**175,080**	***1,544**	**3.57**
Credit to the Government:						
In Israel	3,282	17	2.09	4,174	21	2.03
Total credit to the Government	**3,282**	**17**	**2.09**	**4,174**	**21**	**2.03**
Deposits with banks:						
In Israel	3,153	3	0.38	3,539	4	0.45
Abroad	500	-	-	380	-	-
Total deposits with banks	**3,653**	**3**	**0.33**	**3,919**	**4**	**0.41**
Deposits with central banks:						
In Israel	34,614	9	0.10	26,246	7	0.11
Abroad	983	-	-	1,122	-	-
Total deposits with central banks	**35,597**	**9**	**0.10**	**27,368**	**7**	**0.10**
Securities borrowed or purchased under resale agreements:						
In Israel	1,289	-	-	605	-	-
Total securities borrowed or purchased under resale agreements	**1,289**	**-**	**-**	**605**	**-**	**-**
Bonds held for redemption and available for sale:[4]						
In Israel	32,738	96	1.18	28,649	91	1.28
Abroad	9,403	37	1.58	9,106	70	3.11
Total bonds held for redemption and available for sale	**42,141**	**133**	**1.27**	**37,755**	**161**	**1.72**
Trading bonds:[4]						
In Israel	1,821	6	1.32	1,887	-	-
Abroad	68	-	-	60	1	6.84
Total trading bonds	**1,889**	**6**	**1.28**	**1,947**	**1**	**0.21**
Other assets:						
Abroad	644	7	4.42	678	4	2.38
Total other assets	**644**	**7**	**4.42**	**678**	**4**	**2.38**
Total interest bearing assets	**274,712**	**1,997**	**2.94**	**251,526**	**1,742**	**2.80**
Debtors in respect of credit card operations	10,553			8,704		
Other non-interest bearing assets[5]	20,122			20,902		
Total assets	**305,387**			**281,132**		
Of which: Total interest bearing assets attributable to operations abroad	36,123	235	2.63	35,752	284	3.22
* Commissions included in interest income from credit to the public		72			73	

For footnotes see page 235.

Appendix no. 1 – Rates of interest Income and Expenses on a consolidated basis and analysis of the changes in interest Income and expenses (continued)

Part "B" – Average balances and interest rates – liabilities and equity

	For the three months ended June 30					
	2021			2020		
	Average balance[(2)]	Interest expenses	Rate of expense	Average balance[(2)]	Interest expenses	Rate of expense
	In NIS millions		In %	In NIS millions		In %
Interest bearing liabilities:						
Deposits from the public:						
In Israel - On call	52,934	1	0.01	53,702	3	0.02
In Israel - Time deposits	95,174	133	0.56	93,938	130	0.55
Total deposits from the public in Israel	**148,108**	**134**	**0.36**	**147,640**	**133**	**0.36**
Abroad - On call	20,211	17	0.34	15,536	31	0.80
Abroad - Time deposits	3,939	4	0.41	7,172	23	1.29
Total deposits from the public outside Israel	**24,150**	**21**	**0.35**	**22,708**	**54**	**0.95**
Total deposits from the public	**172,258**	**155**	**0.36**	**170,348**	**187**	**0.44**
Deposits from the Government:						
In Israel	219	-	-	164	-	-
Abroad	69	-	-	77	-	-
Total deposits from the Government	**288**	**-**	**-**	**241**	**-**	**-**
Deposits from central banks:						
In Israel	7,816	2	0.10	1,044	-	-
Total deposits from central banks	**7,816**	**2**	**0.10**	**1,044**	**-**	**-**
Deposits from banks:						
In Israel	4,358	4	0.37	4,670	6	0.51
Abroad	871	3	1.38	3,266	8	0.98
Total deposits from banks	**5,229**	**7**	**0.54**	**7,936**	**14**	**0.71**
Securities loaned or sold under repurchase agreements:						
Abroad	1	-	-	824	2	0.97
Total securities loaned or sold under repurchase agreements	**1**	**-**	**-**	**824**	**2**	**0.97**
Bonds and subordinated debt notes:						
In Israel	10,789	147	5.56	11,683	76	2.63
Total bonds and subordinated debt notes	**10,789**	**147**	**5.56**	**11,683**	**76**	**2.63**
Other liabilities:						
In Israel	61	1	6.72	57	-	-
Total other liabilities	**61**	**1**	**6.72**	**57**	**-**	**-**
Total interest bearing liabilities	**196,442**	**312**	**0.64**	**192,133**	**279**	**0.58**
Non-interest bearing deposits from the public	66,338			48,655		
Creditors in respect of credit card operations	11,422			9,108		
Other non-interest bearing liabilities[(6)]	10,846			11,976		
Total liabilities	**285,048**			**261,872**		
Total capital resources	**20,339**			**19,260**		
Total liabilities and capital resources	**305,387**			**281,132**		
Interest margin		**1,685**	**2.30**		**1,463**	**2.22**
Net return on interest bearing assets:[(7)]						
In Israel	238,589	1,474	2.49	215,774	1,243	2.32
Abroad	36,123	211	2.36	35,752	220	2.48
Total net return on interest bearing assets	**274,712**	**1,685**	**2.48**	**251,526**	**1,463**	**2.35**
Of which: Total interest bearing liabilities attributable to operations abroad	25,091	24	0.38	26,875	64	0.96

For footnotes see page 235.

Appendix no. 1 – Rates of interest Income and Expenses on a consolidated basis and analysis of the changes in interest Income and expenses (continued)

Part "C" – Average balances and interest rates – additional information regarding interest bearing assets and liabilities attributed to operations in Israel

	For the three months ended June 30					
	2021			2020		
	Average balance[(2)]	Interest income (expense)	Rate of income (expense)	Average balance[(2)]	Interest income (expense)	Rate of income (expense)
	In NIS millions		In %	In NIS millions		In %
Non-linked shekels:						
Total interest bearing assets	197,943	1,264	2.58	176,352	1,254	2.87
Total interest bearing liabilities	(141,413)	(79)	(0.22)	(131,832)	(97)	(0.29)
Interest margin		**1,185**	**2.36**		**1,157**	**2.58**
CPI-linked shekels:						
Total interest bearing assets	22,021	413	7.72	19,679	89	1.82
Total interest bearing liabilities	(10,587)	(188)	(7.29)	(10,999)	(57)	(2.09)
Interest margin		**225**	**0.43**		**32**	**(0.27)**
Foreign Currency (including foreign currency-linked shekels):						
Total interest bearing assets	18,625	85	1.84	19,743	115	2.35
Total interest bearing liabilities	(19,351)	(21)	(0.43)	(22,427)	(61)	(1.09)
Interest margin		**64**	**1.41**		**54**	**1.26**
Total operations in Israel:						
Total interest bearing assets	238,589	1,762	2.99	215,774	1,458	2.73
Total interest bearing liabilities	(171,351)	(288)	(0.67)	(165,258)	(215)	(0.52)
Interest margin		**1,474**	**2.32**		**1,243**	**2.21**

For footnotes see next page.

Appendix no. 1 – Rates of interest Income and Expenses on a consolidated basis and analysis of the changes in interest Income and expenses (continued)

Part "D" – Analysis of changes in interest income and expenses

	For the three months ended June 30		
	2021 Compared to 2020		
	Increase (decrease) due to change(8)		
	Quantity	Price	Net change
	In NIS millions		
Interest bearing assets:			
Credit to the public:			
In Israel	111	185	296
Abroad	1	(19)	(18)
Total credit to the public	**112**	**166**	**278**
Other interest bearing assets:			
In Israel	20	(12)	8
Abroad	1	(32)	(31)
Total other interest bearing assets	**21**	**(44)**	**(23)**
Total interest income	**133**	**122**	**255**
Interest bearing liabilities:			
Credit to the Government:			
In Israel	-	1	1
Abroad	1	(34)	(33)
Total deposits from the public	**1**	**(33)**	**(32)**
Other interest bearing liabilities:			
In Israel	37	35	72
Abroad	(10)	3	(7)
Total other interest bearing liabilities	**27**	**38**	**65**
Total interest expenses	**28**	**5**	**33**
Interest income, net	**105**	**117**	**222**

Footnotes:

(1) The data is presented after the effect of hedge derivative instruments.

(2) Based on monthly opening balances, except for the non-linked shekels segment in respect of which the average balances are based on daily data.

(3) Before deduction of the average stated balance of allowances for credit losses. Including impaired debts that do not accrue interest income.

(4) From the average balance of trading bonds and of available-for-sale bonds was deducted (added) the average balance of non-realized gains (losses) from adjustment to fair value of trading bonds as well as gains (losses) in respect of available-for-sale bonds included in shareholders' equity as part of accumulated other comprehensive income, in the item "Adjustments in respect of available-for-sale securities according to fair value" in the amount of NIS (5) million and NIS 296 million, respectively; 2020 – NIS 6 million and NIS 480 million respectively.

(5) Including derivative instruments and other assets that are not interest bearing and net of allowance for credit losses.

(6) Including derivative instruments.

(7) Net return – net interest income divided by total interest bearing assets.

(8) The quantitative impact has been computed by multiplying the interest margin by the change in the average balance between the periods. The price impact has been calculated by multiplying the average balance for the corresponding period last year by the change in the interest margin between the periods.

Appendix no. 1 – Rates of interest Income and Expenses on a consolidated basis and analysis of the changes in interest Income and expenses (continued)

Part "E" – Average balances and interest rates – assets

	For the six months ended June 30					
	2021			2020		
	Average balance(2)	Interest income	Rate of income	Average balance(2)	Interest income	Rate of income
	In NIS millions		In %	In NIS millions		In %
Interest bearing assets:						
Credit to the public:(3)						
In Israel	159,759	3,010	3.80	149,316	2,677	3.62
Abroad	24,168	378	3.15	23,998	468	3.94
Total credit to the public	**183,927**	***3,388**	**3.72**	**173,314**	***3,145**	**3.66**
Credit to the Government:						
In Israel	3,279	33	2.02	3,886	41	2.12
Total credit to the Government	**3,279**	**33**	**2.02**	**3,886**	**41**	**2.12**
Deposits with banks:						
In Israel	3,354	5	0.30	3,506	15	0.86
Abroad	556	-	-	263	-	-
Total deposits with banks	**3,910**	**5**	**0.26**	**3,769**	**15**	**0.80**
Deposits with central banks:						
In Israel	34,820	18	0.10	23,488	20	0.17
Abroad	836	-	-	684	1	0.29
Total deposits with central banks	**35,656**	**18**	**0.10**	**24,172**	**21**	**0.17**
Securities borrowed or purchased under agreements to resell:						
In Israel	1,212	-	-	634	-	-
Total securities borrowed or purchased under agreements to resell	**1,212**	**-**	**-**	**634**	**-**	**-**
Bonds held for redemption and available for sale:(4)						
In Israel	31,907	170	1.07	27,032	172	1.28
Abroad	9,134	75	1.65	8,814	122	2.79
Total bonds held for redemption and available for sale	**41,041**	**245**	**1.20**	**35,846**	**294**	**1.65**
Trading bonds:(4)						
In Israel	1,588	8	1.01	2,112	5	0.47
Abroad	66	-	-	67	1	3.01
Total trading bonds	**1,654**	**8**	**0.97**	**2,179**	**6**	**0.55**
Other assets:						
Abroad	640	11	3.47	674	11	3.29
Total other assets	**640**	**11**	**3.47**	**674**	**11**	**3.29**
Total interest bearing assets	**271,319**	**3,708**	**2.75**	**244,474**	**3,533**	**2.91**
Debtors in respect of credit card operations	10,152			9,452		
Other non-interest bearing assets(5)	19,903			19,461		
Total assets	**301,374**			**273,387**		
Of which: Total interest bearing assets attributable to operations abroad	35,400	464	2.64	34,500	603	3.53
* Fees and commissions included in interest income from credit to the public		156			156	

For footnotes see page 239.

Appendix no. 1 – Rates of interest Income and Expenses on a consolidated basis and analysis of the changes in interest Income and expenses (continued)

Part "F" – Average balances and interest rates – liabilities and equity

	For the six months ended June 30					
	2021			2020		
	Average balance[2]	Interest expenses	Rate of expense	Average balance[2]	Interest expenses	Rate of expense
	In NIS millions		In %	In NIS millions		In %
Interest bearing liabilities:						
Deposits from the public:						
In Israel - On call	54,028	2	0.01	50,119	8	0.03
In Israel - Time deposits	94,840	228	0.48	94,010	281	0.60
Total deposits from the public in Israel	**148,868**	**230**	**0.31**	**144,129**	**289**	**0.40**
Abroad - On call	19,607	38	0.39	14,654	81	1.11
Abroad - Time deposits	3,916	10	0.51	7,728	63	1.64
Total deposits from the public outside Israel	**23,523**	**48**	**0.41**	**22,382**	**144**	**1.29**
Total deposits from the public	**172,391**	**278**	**0.32**	**166,511**	**433**	**0.52**
Deposits from the Government:						
In Israel	208	1	0.96	160	-	-
Abroad	69	-	-	68	1	2.96
Total deposits from the Government	**277**	**1**	**0.72**	**228**	**1**	**0.88**
Deposits from central banks:						
In Israel	6,977	3	0.09	522	-	-
Total deposits from central banks	**6,977**	**3**	**0.09**	**522**	**-**	**-**
Deposits from banks:						
In Israel	4,522	9	0.40	4,665	14	0.60
Abroad	1,282	6	0.94	2,683	20	1.50
Total deposits from banks	**5,804**	**15**	**0.52**	**7,348**	**34**	**0.93**
Securities lent or sold under agreements to repurchase:						
Abroad	82	-	-	776	5	1.29
Total securities lent or sold under agreements to repurchase	**82**	**-**	**-**	**776**	**5**	**1.29**
Bonds and subordinated debt notes:						
In Israel	10,465	221	4.27	12,376	141	2.29
Total bonds and subordinated debt notes	**10,465**	**221**	**4.27**	**12,376**	**141**	**2.29**
Other liabilities:						
In Israel	62	1	3.25	57	1	3.54
Total other liabilities	**62**	**1**	**3.25**	**57**	**1**	**3.54**
Total interest bearing liabilities	**196,058**	**519**	**0.53**	**187,818**	**615**	**0.66**
Non-interest bearing deposits from the public	63,378			45,698		
Creditors in respect of credit card operations	10,966			9,630		
Other non-interest bearing liabilities[6]	11,193			11,152		
Total liabilities	**281,595**			**254,298**		
Total capital resources	**19,779**			**19,089**		
Total liabilities and capital resources	**301,374**			**273,387**		
Interest spread		**3,189**	**2.22**		**2,918**	**2.25**
Net return on interest bearing assets:[7]						
In Israel	235,919	2,779	2.37	209,974	2,485	2.38
Abroad	35,400	410	2.33	34,500	433	2.53
Total net return on interest bearing assets	**271,319**	**3,189**	**2.36**	**244,474**	**2,918**	**2.40**
Of which: Total interest bearing liabilities attributable to operations abroad	24,956	54	0.43	25,909	170	1.32

For footnotes see page 239.

Appendix no. 1 – Rates of interest Income and Expenses on a consolidated basis and analysis of the changes in interest Income and expenses (continued)

Part ”G” – Average balances and interest rates – additional information regarding interest bearing assets and liabilities attributed to operations in Israel

	For the six months ended June 30					
	2021			2020		
	Average balance(2)	Interest income (expense)	Rate of income (expense)	Average balance(2)	Interest income (expense)	Rate of income (expense)
	In NIS millions		In %	In NIS millions		In %
Non-linked shekels:						
Total interest bearing assets	195,996	2,516	2.58	171,501	2,561	3.01
Total interest bearing liabilities	(141,550)	(160)	(0.23)	(127,974)	(207)	(0.32)
Interest spread		**2,356**	**2.35**		**2,354**	**2.69**
CPI-linked shekels:						
Total interest bearing assets	21,278	561	5.34	19,574	131	1.34
Total interest bearing liabilities	(10,340)	(257)	(5.03)	(11,514)	(94)	(1.64)
Interest spread		**304**	**0.31**		**37**	**(0.30)**
Foreign Currency (including foreign currency-linked shekels):						
Total interest bearing assets	18,645	167	1.80	18,899	238	2.53
Total interest bearing liabilities	(19,212)	(48)	(0.50)	(22,421)	(144)	(1.29)
Interest spread		**119**	**1.30**		**94**	**1.24**
Total operations in Israel:						
Total interest bearing assets	235,919	3,244	2.77	209,974	2,930	2.81
Total interest bearing liabilities	(171,102)	(465)	(0.54)	(161,909)	(445)	(0.55)
Interest spread		**2,779**	**2.23**		**2,485**	**2.26**

For footnotes see next page.

Appendix no. 1 – Rates of interest Income and Expenses on a consolidated basis and analysis of the changes in interest Income and expenses (continued)

Part "H" – Analysis of changes in interest income and expenses

	For the six months ended June 30		
	2021 Compared to 2020		
	Increase (decrease) due to change[8]		
	Quantity	Price	Net change
	In NIS millions		
Interest bearing assets:			
Credit to the public:			
In Israel	197	136	333
Abroad	3	(93)	(90)
Total credit to the public	**200**	**43**	**243**
Other interest bearing assets:			
In Israel	48	(67)	(19)
Abroad	6	(55)	(49)
Total other interest bearing assets	**54**	**(122)**	**(68)**
Total interest income	**254**	**(79)**	**175**
Interest bearing liabilities:			
Deposits from the public:			
In Israel	7	(66)	(59)
Abroad	2	(98)	(96)
Total deposits from the public	**9**	**(164)**	**(155)**
Other interest bearing liabilities:			
In Israel	47	32	79
Abroad	(9)	(11)	(20)
Total other interest bearing liabilities	**38**	**21**	**59**
Total interest expenses	**47**	**(143)**	**(96)**
Net interest income	**207**	**64**	**271**

Footnotes:

(1) The data is presented after the effect of hedge derivative instruments.

(2) Based on monthly opening balances, except for the non-linked shekels segment in respect of which the average balances are based on daily data.

(3) Before deduction of the average stated balance of allowances for credit losses. Including impaired debts that do not accrue interest income.

(4) From the average balance of trading bonds and of available-for-sale bonds was deducted (added) the average balance of non-realized gains (losses) from adjustment to fair value of trading bonds as well as gains (losses) in respect of available-for-sale bonds included in shareholders' equity as part of accumulated other comprehensive income, in the item "Adjustments in respect of available-for-sale securities according to fair value" in the amount of NIS (2) million and NIS 443 million, respectively; 2020 – NIS 9 million and NIS 471 million respectively.

(5) Including derivative instruments and other assets that are not interest bearing and net of allowance for credit losses.

(6) Including derivative instruments.

(7) Net return – net interest income divided by total interest bearing assets.

(8) The quantitative impact has been computed by multiplying the interest spread by the change in the average balance between the periods. The price impact has been calculated by multiplying the average balance for the corresponding period last year by the change in the interest spread between the periods.

Appendix no. 2 - Additional details - securities portfolio

1. Available-for-sale bonds - data according to economic sectors

Details regarding to the distribution of bonds in the available-for-sale portfolio according to economic sectors

	June 30, 2021			
			Accumulated other comprehensive income	
	Amortized cost	Fair value	Gains	Losses
	In NIS millions			
Non government bonds				
Various sectors*	2,378	2,472	95	1
Financial services(1)	8,357	8,422	112	47
Total non government bonds	**10,735**	**10,894**	**207**	**48**
Government bonds				
U.S. government	1,660	1,646	11	25
Israel Government	21,847	22,029	292	110
Other Governments	185	189	4	-
Total government bonds	**23,692**	**23,864**	**307**	**135**
Total bond in the available-for-sale portfolio	**34,427**	**34,758**	**514**	**183**

* Including the investment of IDB New York in the U.S.A. municipal bonds. Of which, the three largest investments are in the amount of NIS 106-165 million, each, in municipal bonds of Washington state, in bonds of the the New York state and City and in bonds of Texas state.

(1) Details regarding bonds in the financial services sector in the available-for-sale portfolio

	June 30, 2021			
			Accumulated other comprehensive income	
	Amortized cost	Fair value	Gains	Losses
	In NIS millions			
Banks and banking holding companies(2)	447	459	12	-
Ginnie Mae	6,299	6,338	84	45
Freddie Mac	180	183	4	1
Fannie Mae	156	162	6	-
Other	1,275	1,280	6	1
Total financial services	**8,357**	**8,422**	**112**	**47**

Appendix no. 2 – Additional details – securities portfolio (continued)

1. Available-for-sale bonds - data according to economic sectors (continued)

(2) Details according to geographical areas of investment in bonds of banks and banking holding companies in the available-for-sale portfolio

	June 30, 2021			
			Accumulated other comprehensive income	
	Amortized cost	Fair value	Gains	Losses
	In NIS millions			
North America	13	13	-	-
Western Europe[3]	165	168	3	-
Israel	102	104	2	-
Australia	167	174	7	-
Total banks and banking holding companies	**447**	**459**	**12**	**-**

(3) Details by countries of investment in bonds of banks and banking holding companies in the available-for-sale portfolio in Western Europe

Britain	21	22	1	-
France	144	146	2	-
Total	**165**	**168**	**3**	**-**

2. Held-to-maturity securities - data according to economic sectors

Details regarding the distribution of bonds in the held-to-maturity securities portfolio according to economic sectors

	June 30, 2021			
	Amortized cost	Fair value	Unrecognized gains from adjustment to fair value	Unrecognized losses from adjustment to fair value
	In NIS millions			
Non government bonds				
Public and community services	133	139	6	-
Financial services*	427	429	4	2
Total non government bonds	**560**	**568**	**10**	**2**
Total Government bonds	**8,558**	**8,733**	**220**	**45**
Total bonds in the held-to-maturity portfolio	**9,118**	**9,301**	**230**	**47**
*Following are details of Held-to-maturity bonds in the financial services sector:				
Ginnie Mae	360	360	2	2
Freddie Mac	38	39	1	-
Fannie Mae	29	30	1	-
Total financial services	**427**	**429**	**4**	**2**

Appendix no. 2 – Additional details – securities portfolio (continued)

3. Trading Bonds – data according to economic sectors

Details regarding the distribution of bonds in the trading securities portfolio according to economic sectors

	June 30, 2021			
	Amortized cost	Fair value	Unrecognized gains from adjustment to fair value	Unrecognized losses from adjustment to fair value
	In NIS millions			
Non government bonds				
Various sectors	23	20	1	4
Financial services	30	31	1	-
Total non government bonds	**53**	**51**	**2**	**4**
Total government bonds	**1,400**	**1,399**	**2**	**3**
Total bonds in the trading portfolio	**1,453**	**1,450**	**4**	**7**

Appendix no. 3 – Additional details

1. Activity in derivative financial instruments

Credit risk involved in financial instruments. The Bank's activity in derivative financial instruments involves special risk factors including credit risks.
The uniqueness of the credit risk in such transactions stems from the fact that the stated amount of the transaction does not necessarily reflect its entailed credit risk. For further details see "General disclosure regarding exposure related to credit risk of a counterparty" under "Credit risk management".
Note 11 to the condensed financial statements presents details of operations in derivative instruments – scope, credit risk and maturities. Part B of the aforementioned Note presents details of credit risk with respect to derivatives by counter party, on a consolidated basis. Following are further details regarding data presented in part B of the aforementioned Note.

(1) Details according to rating of balance-sheet balances of assets derived from transactions in derivative instruments where the counterparty is a bank

	As of June 30	As of December 31
	2021	2020
	In NIS million	
Balance-sheet balances of assets deriving from derivative instruments against foreign banks		
With an AA- rating	87	117
With an A+ rating	1,077	1,670
With an A rating	176	236
With an A- rating	5	3
With a BBB+ rating	35	85
With a B+ rating	-	2
Not rated	68	94
Total against foreign banks	**1,448**	**2,207**
Total against Israeli banks	**296**	**594**
Total Balance-sheet balances of assets deriving from derivative instruments	**1,744**	**2,801**

Appendix no. 3 – Additional details (continued)

1. Activity in derivative financial instruments (continued)

(2) Details according to rating of off balance sheet credit risk in respect of transactions in derivative instruments where the counterparty is a bank

	As of June 30	As of December 31
	2021	2020
	In NIS million	
Off balance sheet balances of assets deriving from derivative instruments against foreign banks		
With an AAA rating	-	2
With an AA- rating	-	-
With an A+ rating	130	111
With an A rating	25	-
With an A- rating	2	-
With an BBB+ rating	1	1
With an B+ rating	-	1
Total against foreign banks	**158**	**115**
Total against Israeli banks	**9**	**10**
Total Off Balance-sheet balances of assets deriving from derivative instruments	**167**	**125**

Appendix no. 3 – Additional details (continued)

1. Activity in derivative financial instruments (continued)

(3) Details of the column "Other" in Note 11 to the condensed financial statements according to the overall credit to the public risk per economic sectors

	As of June 30, 2021	As of June 30, 2020	As of December 31, 2020
		in NIS million	
Agriculture	1	-	1
Industry:			
Machines, electrical and electronic equipment	11	13	19
Mining, chemical industry and oil products	118	107	144
Other	37	57	62
Total industry	166	177	225
Construction and real estate:			
Acquisition of real estate for construction	65	123	123
Real estate holdings	281	496	426
Other	7	20	12
Total Construction and real estate	353	639	561
Electricity and water	359	253	346
Commerce	278	241	349
Hotels, hotel services and food	27	30	30
Transportation and storage	47	41	28
Communications and computer services	28	38	46
Financial services:			
Financial institution (excluding banks)	1,054	1,270	1,048
Private customers active on the capital market	357	505	663
Financial holding institutions	802	761	664
Insurance and provident fund services	-	-	-
Total financial services	2,213	2,536	2,375
Business and other services	34	24	40
Public and community services	74	135	104
Private individuals - housing loans	-	-	-
Private individuals - other	5	7	8
Total credit risk in respect of derivative instruments	**3,585**	**4,121**	**4,113**
Credit risk mitigation in respect of financial instruments and in respect of a cash collateral received.	(1,412)	(1,918)	(1,878)
Total credit risk in respect of derivative instruments (after deduction of financial instruments and in respect of a cash collateral received)	**2,173**	**2,203**	**2,235**

Appendix no. 3 - Additional details (continued)

2. Details of the investment in government bonds

Note 5 to the financial statements includes, among other things, details regarding investments in government bonds included in the "held to maturity" portfolio, the "available-for-sale" portfolio and the "trading" portfolio, divided into bonds and loans of the Government of Israel and bonds and loans of foreign governments.

Details divided by governments with respect to the total securities portfolio

	June 30, 2021		December 31, 2020	
	Book value	Fair value[1]	Book value	Fair value[1]
	In NIS millions			
Of the Israeli Government	31,942	32,117	29,860	30,161
U.S. government	1,690	1,690	797	797
Other governments	189	189	65	65
Total	**33,821**	**33,996**	**30,722**	**31,023**

Footnote:

(1) Fair value data based on market prices, does not necessarily reflect the price that may be obtained on the sale of securities in large volumes.

Appendix no. 4 – Glossary

Option	A contract between two parties within the framework of which one of the parties (the option writer) grants the counterparty a right to acquire or a right to sell an asset specified in the contract, in consideration for a predetermined price on a date set in advance or prior thereto.
Bond	A security that includes a commitment by the issuer to pay the holder of the security (the bond) the principal specified in the bond with the addition of interest, on the dates prescribed or upon fulfillment of a certain condition (in accordance with the terms prescribed in the bond).
Least developed countries - LDC	Countries classified by the World Bank in a low or medium income group.
Regulatory capital	The capital components used in calculating the stability ratios (e.g., capital adequacy) and consisting of two tiers: Tier 1 capital that comprises the accounting common equity after regulatory adjustments (as defined in Proper Conduct of Banking Business Directive No. 202). Tier 2 capital that mainly comprises capital debt instruments and other regulatory adjustments.
Indebtedness	Credit and commitments to provide credit (balance-sheet and off-balance-sheet) as defined in Proper Conduct of Banking Business Directive No. 313.
Special mention debt	A debt that has potential weaknesses for which Management's special attention is required, and which, if not attended to, might adversely affect the repayment of the credit or the position of the Bank as a creditor.
Problematic debt	A debt that is classified as "impaired", "substandard" or under "special mention".
Substandard debt	A debt that is inadequately safeguarded by collateral or by the solvency of the debtor, and in respect of which there is a distinct possibility that the Bank will sustain a loss, if the deficiencies are not rectified.
Impaired debt	A debt in respect of which the Bank expects that it will be unable to collect the amounts due to it from the debtor, on the dates prescribed under the debt agreement.
Collateral dependent debt	An impaired debt whose repayment, in the Bank's opinion, is expected from the realization of only the collateral provided to secure the said debt, since the debtor has no other available resources for its repayment.
Total capital adequacy ratio	The ratio of the total capital resources (Tier 1 and Tier 2) to the Bank's total risk weighted assets.
Recorded amount of a debt	The balance of a debt, including accrued interest that has been recognized, any premium or discount that has not yet been amortized, deferred net fees and commissions or deferred net costs that have been added to the debt balance and have not yet been amortized, net of any part of the debt that has been subject to an accounting write-off.
Basel instructions	The instructions for the management of banks risks that have been prescribed by the Basel Committee that deals with supervision and the setting of standards for the supervision of the world's banks.
Subordinated debt notes	Debt notes, in which the rights conferred thereunder are subordinate to claims by the rest of the Bank's creditors, except for other debt notes of the same class.
Off-balance-sheet credit instruments	Debt instruments such as commitments to provide credit and guarantees (not including derivative instruments).
Derivative instrument	A financial instrument or other contract that contains three cumulative features: a. A basis and nominal value that determine the settlement amount of the instrument. b. The net initial investment required is less than that would be required in other types of contracts that are exposed in a similar manner to changes in market factors (or where no investment is required). c. Its terms require or permit net settlement.

Appendix no. 4 – Glossary (continued)

Forward looking information	Some of the information detailed in the directors' report, which does not relate to historical facts, comprises forward-looking information, as defined in the Securities Law, 1968. The Bank's actual results might differ materially from those indicated in the forward-looking information, due to a large number of factors, including, among other things, macro-economic changes, changes in the geo-political situation, regulatory changes and other changes not under the Bank's control, and which may result in the non-realization of the estimates and/or in changes in the Bank's business plans. Forward-looking information is typified by terms and words like: "believe", "anticipate", "estimate", "intends", "prepares to…", "might" and similar expressions, in addition to nouns such as: "desire", "anticipation", "intention", "expectation", "assessment", "forecast", etc. Such forward-looking expressions involve risks and uncertainties as they are based on evaluations by Management as to future events, which include, among other things, evaluations as to the state of the economy, public preferences, domestic and foreign interest rates, inflation rates, etc. as well as regarding the effects of new legislative and regulatory provisions relating to the banking industry and the capital market and to other fields that have an impact on the Bank's activity and on the environment in which it operates, and that by the nature of things, their realization is uncertain. The information presented below relies, among other things, on information in the Bank's hands, inter-alia, publications by other entities such as the Central Bureau of Statistics, the Ministry of Finance, the Bank of Israel, the Ministry of Housing and other entities that publish data and assessments as to the Israeli and global financial and capital markets. The above reflects the Bank's and its subsidiaries point of view at the time of preparation of the financial statements as to future events, based on evaluations that are uncertain. The evaluations and business plans of the Bank and its subsidiaries are derived from such data and assessments. As stated above, actual results might differ materially and impact the realization of the business plans or bring about changes in these plans.
Financial instrument	Cash, evidence of the rights of ownership in a corporation, or a contract that fulfills the following two conditions: a. The instrument imposes a contractual obligation on one party to transfer cash or another financial instrument to the second party, or to exchange other financial instruments with the second party under terms that might be unfavorable to the first party. b. The instrument grants the second party a contractual right to receive cash or another financial instrument from the first party, or to exchange other financial instruments with the first party under terms that might be beneficial to the second party.
Average maturity	A weighted average of the time to the principal repayment and to the interest payments of interest-bearing financial instruments.
Over-the-counter (OTC) derivative	Derivative instruments which are not traded on an official stock exchange and are created within the framework of an agreement between two counterparties.
Counterparty credit risk - CVA (Credit Valuation Adjustment)	The exposure to a loss that might arise if the counterparty to a derivative instrument transaction does not fulfill the terms of the transaction.
Active market	A market in which transactions in an asset or a liability take place with sufficient frequency and volumes as to provide information regarding the pricing of the assets or liabilities on a current basis.
Financing rate - LTV (Loan To Value Ratio)	The ratio of the approved debt facility, at the time of granting the facility, to the value of the asset that secures the debt, as approved by the Bank at the time of granting the facility, which is used in calculating the "capital adequacy".
ICAAP (Internal Capital Adequacy Assessment Process)	The Bank's internal capital adequacy assessment process. The process combines, among other things, setting capital targets, capital planning measures and examining the capital position under a variety of stress tests.

Appendix no. 5 – Index

Main Office

Tel Aviv, 23 Yehuda Halevi Street
website: www.discountbank.co.il

Subsidiaries In Israel

Banking
Mercantile Discount Bank

Capital Market And Investments
Tafnit Discount Asset Management
Discount Capital
Discount Capital Underwriting
Discount Manpikim

Credit Cards Companies
Israel Credit Cards
Diners Club

Subsidiary Bank Abroad

Israel Discount Bank of New York, USA
website: www.idbbank.com
Head office:
1114 Avenue of the Americas , New York, NY
Staten Island, NY Branch:
201 Edward Curry Avenue, Suite 204
Brooklyn, NY Branch:
705 Avenue U
Short Hills, NJ Branch:
150 JFK Parkway
Beverly Hills, CA Branch:
9401 Wilshire Boulevard, Suite 600
Downtown Los Angeles, CA Branch:
888 South Figueroa Street, Suite 550
Aventura, FL Branch:
Harbour Centre, 18851 NE 29th Avenue,
Suite 600

Representative Offices: Israel /
Chile / Uruguay / Local representative office
in Long Island