2021

CONDENSED FINANCIAL STATEMENTS

31.03.2021

Q1

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

Appendices to the Quarterly Report

Board of Directors and Management Report

Board of Directors and Management Report - List of tables

Board of Directors and Management Report – List of tables (continued)

Chapter "A" – General overview, goals and strategy

At the meeting of the Board of Directors held on May 24, 2021, the unaudited consolidated interim financial statements of Israel Discount Bank Ltd. and its subsidiaries for March 31, 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 Quarter 2021	2020
	In %	
Main performance indicators:		
Return on equity	14.5	6.0
Return on assets	0.89	0.42
Ratio of net credit to the public to deposits from the public	80.3	85.7
Ratio of common equity tier 1 to risk assets	10.20	9.99
Ratio of total capital to risk assets	12.90	13.09
Leverage ratio(1)	6.1	6.5
Liquidity coverage ratio(1)	145.6	128.8
Efficiency ratio	65.1	58.6
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	1.83	1.63
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	1.40	1.49
Ratio of net accounting write-offs in respect of credit to the public to the average balance of credit to the public	0.10	0.30
Ratio of credit loss expenses (expenses release) to the average balance of credit to the public	(0.30)	1.42
	In NIS millions	
Principal statements of profit and loss data for the reporting period:		
Net Profit Attributed to the Bank's Shareholders	**662**	**279**
Net interest income	1,504	1,455
Credit loss expense (expenses release)	(147)	656
Non-financing income	1,033	1,156
Of which: Fees and commissions	724	739
Non-financing expenses	1,652	1,531
Of which: salaries and related expenses	801	824
Comprehensive income, attributed to the Bank's shareholders	**654**	**304**
Total earnings per share attributed to Bank's shareholders (in NIS)	0.57	0.24

For footnote see next page.

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

	First Quarter 2021	2020
	In NIS millions	
Principal balance sheet data for the end of the reporting period:		
Total assets	**306,142**	**276,404**
Of which:		
Cash and deposits with banks	50,307	29,392
Securities	44,212	42,605
Net credit to the public	193,292	183,187
Total liabilities	**285,744**	**256,960**
Of which:		
Deposits from the public	240,787	213,667
Deposits from banks	12,241	7,339
Bonds and Subordinated debt notes	10,136	13,069
Shareholders' equity	19,836	18,929
Total equity	**20,398**	**19,444**
Additional data:		
Share price	1,389	1,050
Dividend per share	-	4.19
Ratio of fees and commissions to total assets	1.0	1.1

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 April 7, 2020, to discontinue at this stage the distribution of dividends, on the background of the Corona crisis, see Note 18 to the condensed financial statements.

Market share

Based on data relating to the banking industry as of December 31, 2020, published by the Bank of Israel, the Discount Bank Group's share in the banking industry in Israel was as follows

	December 31, 2020[1]	December 31, 2019
	In %	
Total assets	15.2	15.6
Net credit to the public	16.7	16.6
Deposits from the public	14.6	15.4
Net interest income	18.3	17.8
Total non-interest income	24.2	22.5

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 Q1 of 2021 in %
	May 19, 2021	March 31, 2021	December 31, 2020	
Discount share	1,605	1,389	1,236	12.4
The TA 5 Banks index	2,622.34	2,362.22	2,037.01	16.0
The TA 35 index	1,650.90	1,604.62	1,499.05	7.0
Discount market value (in NIS billions)	18.68	16.17	14.39	12.4

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 of being **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 will accelerate the evolution of banking activity with a view of improving competitive ability and increase its market share and profitability in banking activity. The said acceleration is to be achieved by way of focusing on five areas:

Winning customer experience

Goal: we shall 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 customer 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 increasing customer loyalty.
Within the framework of this mechanism, the Bank will integrate processes involving attentiveness to customers, deep and methodological analysis of feedback from customers and the ability to translate the messages into effective initiatives for improving customer experience at all his 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 will act 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 shall endeavor 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 are to 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 significant 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 will act 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 a significant 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 as 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, Discount Capital and ICC, with the aim of modifying their operations to the new competitive environment;
- The Bank will act to identify and 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 significant 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, might results 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 quarter of 2021 was also overclouded by the Corona crisis. The spread of the virus has led to a major economic crisis that has affected the economy, including the banking sector and the Discount Group. 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 10.20% and the liquidity coverage ratio amounts to 145.6%. This is the capital infrastructure that allows the Group to continue growing.
The central challenges and issues in the first quarter 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. In March 2020, the World Health Organization announced the Corona virus a "pandemic".
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. 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 a part of the restrictions (see below "Principal economic developments").
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. 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, cross-organization teams, led by the Planning, Strategy and Finance Division, have begun 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 of the Bank and of MDB operated in full capacity in the first quarter 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 its 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).

A rise 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. The Bank estimates that exposure has particularly increased with respect to credit risk and operating risk. For additional details, see the 2020 Annual Report, p. 19.

Expenses for credit losses. In the first three months of 2021 credit loss expenses release in the amount of 147 million were recorded, compared with expenses of NIS 656 million in the corresponding period last year, an increase of 122.4%. 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 into the second 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 quarter have been mostly affected by the following factors:

- Expenses release on a group provision basis in the amount of NIS 174 million, compared to expenses in the amount of NIS 516 million in the first quarter 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 quarter, as well as by a reduction in the decision rate;
- Expenses on a specific basis in the amount of NIS 29 million, compared to NIS 111 million in the first quarter of 2020, a reduction affected mostly by the change in the allowance following repayments;
- Expenses release in respect of housing loans according to the extent of arrears, in the amount of NIS 2 million, compared to expenses amounting to NIS 29 million, in the first quarter 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.

(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 drastic 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. 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 2 million customers, of which approx. 641,000 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, a right to present and redeem digital coupons, etc.

Within the framework of the cooperation, the PayBox operation will be expanded, and, in the first stage, it will become possible for approx. 1,500,000 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.
As of date of publication of the Report, approval by the Bank of Israel for the formation of an auxiliary corporation has not yet been received, and negotiations are being held with the Bank with respect to the format and terms of the approval.
Contingent cooperation agreement – the agreement is contingent upon receiving approvals from third parties, including from the Bank of Israel, and also on reaching accords with Israel Credit Cards Ltd. Accordingly, there is no certainty that the merger transaction will be completed.
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%.

Additional issues

- **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 "Corporate Governance and Audit" chapter;
- **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 quarter of 2021.

Growth. The global economic activity is expanding. However, significant differentiation exists between countries, influenced by the continuing spreading of the Corona pandemic in certain countries and by differences in the vaccination rate of the population. The US economy expanded in the first quarter by an annualized rate of 6.4%, while on the other hand, the Eurozone shrank by 2.4%[1].

The GDP in Israel has shrunk in the first quarter of 2021 by an annualized rate of 6.5%, the steep decline stemming, to a large extent, from the dramatic setback in the import of passenger cars, on the background of advancing imports to the last quarter of last year, due to the change in the taxation policy introduced at the beginning of the year. With the elimination of net taxes on imports, the GDP has shrunk by 2.5% (annualized rate). The Bank estimates that economic growth would reach approx. 5% in the current year.

Exchange rates. The US dollar gained strength during the first quarter, in view of the rapid recovery, the accelerated vaccination rate of the population and the growth in yields in the US. In total for the quarter, the "dollar basket" ("dollar index") appreciated by 3.7%.

At the beginning of the year, the shekel continued its strengthening trend, a fact that had led the Bank of Israel to declare a plan for the purchase of foreign currency in the amount of US$30 billion, and an amount of approx. US$14 billion was purchased during the first quarter. Consequently, and concurrently with the strengthening of the dollar in the world, the shekel was devalued against the dollar by 3.7% since the beginning of the year, and by approx. 1% against the currency basket.

Inflation. On the background of the rise in commodity prices, the accelerated inflation around the world and the recovery in the activity of the economy, a rise has taken place in the rate of inflation. The rate of inflation totaled 0.8% in the first quarter, compared to a decline of 0.1% in the corresponding quarter last year. As a result, the inflationary environment has grown to a level of 0.2% (during the past twelve months), as compared to -0.7% at the end of 2020. Concurrently, the inflationary expectations for all time-ranges have recorded a steep increase, and for the short-term in particular, from approx. 0.3% per year at the end of 2020, to approx. 1.4% at the end of March (index contract). The Bank estimates that an inflation rate of 1.9% is expected for 2021.

Monetary policy. Central banks around the world, headed by the FED, continue to adopt an expansionary policy. This, despite the economic recovery and the rise in inflation, and in view of the concern regarding a long-term setback to the labor market.

During the quarter, the Bank of Israel left unchanged the interest rate at a level of 0.1%, and continued to adopt a very expansionary policy, while using the diverse tools at its disposal. The Bank estimates that the Bank of Israel interest rate would be 0.1% at the end of 2021.

Financial markets. Share indices around the world had been traded with rising prices on the background of the accelerated vaccination rate, global economic recovery and the continuing expansionary monetary policy. At the same time, a steep rise in yields on US government bonds had been recorded during the quarter, supported mostly, by accelerated economic activity, fiscal expansion and the rise in commodity prices. All this, with growing inflationary expectations.

Price increases continued on the local capital market, similarly to the global trend. Trading in government bonds in Israel had been characterized, similarly to the global trend, by growth in yields, though at a more moderate rate relatively to that of US bonds. The rise in yields had been accompanied by inflationary expectations, all along the graph.

The second quarter of 2021. Expansion of the global economy continued supported by accelerated vaccination and return to economic activity. Recovery in activity coupled with strong demand creating pressure on prices, together with the rise in commodity prices, support the rise in inflation and in inflationary expectations. Notwithstanding the above, the central banks estimate that the rise in inflation would be temporary, and continue to maintain their expansionary monetary policy.

In Israel, with the return of the economy to almost full activity, expansion in economic activity continued with a moderate decline in unemployment.

---

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

The CPI for the month of April rose at a more moderate rate than expected, and the annual inflation rate increased to 0.8%, with the continuation of the upward trend in inflationary expectations grossed-up in the market.
The Bank of Israel has continued its involvement in the foreign currency market, resulting in the shekel maintaining stability against the currency basket, but appreciating by approx. 2% as against the US dollar.
The local equities market continued in a positive trend, despite the escalation in the security situation during the month of May.
Tense security situation. Escalation has recently taken place in the security situation. The security tension has calmed down at a date proximate to date of approval of the Report. As of now, the reaction of the financial markets to the events has been moderate.
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 three months of 2020" 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 March 31, 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, following an outline that had been formed by the Bank's Management, on the background of the Corona crisis and the intention to significantly increase 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 accordance with the plan, early retirement at preferential terms was offered to approx. 300 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 are 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.

In light of the success of the retirement plan and the interest shown by many additional employees in retiring in accordance with the terms and conditions of the plan, the Bank's Board of Directors approved, on October 19, 2020, enlarging the retirement plan by up to an additional 200 employees.

The boards of directors of MDB and of ICC have approved an early retirement plan for approx. 60 employees and approx. 80 employees during 2020-2021, accordingly (see Note 23 I to the financial statements as of December 31, 2020, p. 212). Accordingly, as assessed by the Bank's management, up to approx. 800 Group employees in Israel are likely to retire during 2020-2021 (including natural retirement of approx. 150 employees, of whom 99 employees had actually retired as of March 31, 2021).

Until March 31, 2021, 754 employees of the Group in Israel retired (including employees reaching retirement age).

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 quarter of 2021, amounted to NIS 115 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 months period ended on March 31, 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 three months of 2021 totalled NIS 662 million, compared with NIS 279 million in the corresponding period last year, an increase of 137.3%.

Return on equity net attributed to the Bank's shareholders for the first three months of 2021 reached a rate of 14.5%, on an annual basis, compared with a rate of 6.0% 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 three months of 2021, compared with the corresponding period last year:

a. An increase in net interest income in an amount of NIS 49 million (3.4%), mostly affected by the gap in changes in the CPI (an increase against a decrease).

b. A decrease in credit loss expenses, of NIS 803 million (122.4%). The decrease stemmed, mainly, from expenses release regarding the group track, in view of the return to normal and the update of parameters affecting the adjustment rate component as well as from a reduction in the decision rate.

c. A decrease in the total non-interest income, of NIS 123 million (10.6%), affected mostly by an increase of NIS 119 million in non-interest financing income (28.5%), mostly a reduction in income from derivatives operations, a decrease of NIS 15 million in fees and commissions (2.0%), mainly from a decrease in credit card and account management fees and commissions, which was partly offset by an increase in fees and commissions from operations involving securities and certain derivative instruments.

d. An increase of NIS 121 million in operating and other expenses (7.9%), affected, mainly, from an increase of NIS 135 million in other expenses (32.0%), mostly the effect of the settlement, from a NIS 9 million rise in maintenance and depreciation of buildings and equipment (3.2%), which were partly offset by a decrease of NIS 23 million in salaries (2.8%).

e. Tax provision of NIS 353 million on earnings in the first three months of 2021, compared with NIS 151 million in the corresponding period last year.

Additional details and explanations are presented below.

Developments in Income and Expenses

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

	2021	2020		Q1 2021 compared to	
	Q1	Q4	Q1	Q4 2020	Q1 2020
	In NIS millions			in %	
Interest income	1,711	1,724	1,791	(0.8)	(4.5)
Interest expenses	207	220	336	(5.9)	(38.4)
Net interest income	**1,504**	**1,504**	**1,455**	**-**	**3.4**
Credit loss expenses (expenses release)	(147)	200	656	(173.5)	(122.4)
Net interest income after credit loss expenses	**1,651**	**1,304**	**799**	**26.6**	**106.6**
Non-interest Income					
Non-interest financing income	298	148	417	101.4	(28.5)
Fees and commissions	724	739	739	(2.0)	(2.0)
Other income	11	24	-	(54.2)	-
Total non-interest income	**1,033**	**911**	**1,156**	**13.4**	**(10.6)**
Operating and other Expenses					
Salaries and related expenses	801	794	824	0.9	(2.8)
Maintenance and depreciation of buildings and equipment	294	337	285	(12.8)	3.2
Other expenses	557	689	422	(19.2)	32.0
Total operating and other expenses	**1,652**	**1,820**	**1,531**	**(9.2)**	**7.9**
Profit before taxes	1,032	395	424	161.3	143.4
Provision for taxes on profit	353	159	151	122.0	133.8
Profit after taxes	**679**	**236**	**273**	**187.7**	**148.7**
Bank's share in profit of associates, net of tax effect	-	36	4	(100.0)	(100.0)
Net loss (profit) attributed to the non-controlling interests in consolidated companies	(17)	(8)	2	112.5	-
Net Profit attributed to Bank's shareholders	**662**	**264**	**279**	**150.8**	**137.3**
Return on shareholders equity, in %[1]	14.5	5.6	6.0		
Efficiency ratio in %	65.1	75.4	58.6		
Net Profit attributed to Bank's shareholders - excluding certain components (see below)	**738**	**421**	**283**	**75.3**	**160.8**
Return on shareholders' equity, in %[1] - excluding certain components (see below)	16.2	9.1	6.1		
Efficiency ratio in % (see below)	60.6	65.8	58.4		

Footnote:
(1) On an annual basis.

Profitability - excluding certain components

		2021		2020	Q1 2021 compared to	
		Q1	Q4	Q1	Q4 2020	Q1 2020
	Notes	in NIS millions			Change in %	
Net income attributed to the Bank's shareholders - as reported		662	264	279	150.8	137.3
Excluding[1]:						
Subsidiary retirement plan		-	(3)	-		
Effect of settlement		76	246	4		
Provision for claims, net of insurance income		-	(112)	-		
Expenses of vacating the Management Building of IDB New York		-	26	-		
Net income attributed to the Bank's shareholders - excluding the above components		**738**	**421**	**283**	**75.3**	**160.8**

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).
For details regarding components that were eliminated in the fourth quarter of 2020, see the 2020 Annual Report (p. 29).
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 three months of 2021, net interest income amounted to NIS 1,504 million compared with NIS 1,455 million in the corresponding period last year, an increase of 3.4%. The rise in the net interest income in the amount of NIS 49 million, is explained by a negative price impact of NIS 51 million, and a positive quantitative effect in the amount of NIS 100 million (see "Rates of interest income and expenses and analysis of the changes in interest income and expenses" in Appendix No.1).
The interest spread, excluding derivatives, reached a rate of 2.16% in the first three months of 2021, compared with 2.32% in the corresponding period last year.
The average balance of interest bearing assets has increased by a rate of approx. 12.9%, from an amount of NIS 237,422 million to NIS 267,926 million, and the average balance of interest bearing liabilities increased by a rate of approx. 6.6%, from an amount of NIS 183,503 million to NIS 195,674 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 three months ended March 31					
	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	72.5	1,171	2.38	70.2	1,197	2.82
CPI-linked shekels	7.7	79	0.15	8.2	5	(0.37)
Foreign Currency	19.8	254	1.84	21.6	253	1.89
Net interest income and the interest spread	**100.0**	**1,504**	**2.16**	**100.0**	**1,455**	**2.32**

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

The growth in net interest income, stems, mostly, from the effect of the difference between the rise in the CPI in the first three months of 2021, by a rate of 0.1%, and the drop of 0.5% in the corresponding period last year.
Non-interest financing income amounted in the first three months of 2021 to NIS 298 million, compared to NIS 417 million in the corresponding period last year, a decrease of 28.5%.
The decline in non-interest financing income stems, mostly, from the decline in income 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			
	Q1	Q4	Q3	Q2	Q1
	in NIS millions				
Interest income	1,711	1,724	1,730	1,742	1,791
Interest expenses	207	220	254	279	336
Net interest income	1,504	1,504	1,476	1,463	1,455
Non-interest financing income	298	148	301	276	417
Total net financing income	**1,802**	**1,652**	**1,777**	**1,739**	**1,872**

Analysis of the total net financing income

	2021	2020			
	Q1	Q4	Q3	Q2	Q1
	in NIS millions				
Financing Income from current operations	1,544	1,535	1,523	1,552	1,617
Effect of CPI	10	-	5	(16)	(24)
Net profit from realization and adjustment to fair value of bonds[1]	76	41	96	142	178
Profit (loss) from investments in shares[2][3]	[4]100	116	116	7	(8)
Adjustment to fair value of derivative instruments	2	(42)	14	18	6
Exchange rate differences, options and other derivatives[1]	70	(1)	23	36	103
Net profit on the sale of loans	-	3	-	-	-
Total net financing income	**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	(9)	(1)	(7)	55
(2) Of which: income from realizations in Discount Capital in deduction of provision for impairment	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 1,802 million in the first three months of 2021, compared to NIS 1,872 million in the corresponding period last year, a decrease of 3.7%. 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 1.97% in the first three months of 2021, compared with 1.96% in the corresponding period last year.

Development of the net interest income by regulatory operating segments

	For the three months ended March 31,		
	2021	2020	Change in %
	In NIS millions		
Domestic operations:			
Households	468	519	(9.8)
Private banking	12	22	(45.5)
Small and minute businesses	346	387	(10.6)
Medium businesses	88	86	2.3
Large businesses	211	195	8.2
Institutional bodies	10	9	11.1
Financial management	170	22	672.7
Total Domestic operations	**1,305**	**1,240**	**5.2**
Total International operations	**199**	**215**	**(7.4)**
Total	**1,504**	**1,455**	**3.4**

Credit loss expenses. In the first three months of 2021 credit loss expenses release in the amount of 147 million were recorded, compared with expenses of NIS 656 million in the corresponding period last year, a decrease of 122.4%. 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 into the second 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 quarter have been mostly affected by the following factors:

- Expenses release on a group provision basis in the amount of NIS 174 million, compared to expenses in the amount of NIS 516 million in the first quarter 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 quarter as well as by a reduction in the decision rate;
- Expenses on a specific basis in the amount of NIS 29 million, compared to NIS 111 million in the first quarter of 2020, a reduction affected mostly by the change in the allowance following repayments;
- Expenses release in respect of housing loans according to the extent of arrears, in the amount of NIS 2 million, compared to expenses amounting to NIS 29 million, in the first quarter 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 of 2021, 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 quarter and in light of the comprehensive classifications made in previous quarters, it was decided this quarter 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.

Details of the quarterly development in the credit loss expenses

	2021	2020				
	Q1	Total	Q4	Q3	Q2	Q1
	In NIS millions					
On a specific basis						
Change in allowance	(9)	173	86	18	10	59
Gross Accounting Write-offs	91	349	95	78	68	108
Collection	(53)	(240)	(68)	(49)	(67)	(56)
Total on a specific basis	**29**	**282**	**113**	**47**	**11**	**111**
On a group basis						
Change in allowance	(188)	1,180	62	227	432	459
Gross Accounting Write-offs	77	544	104	124	151	165
Collection	(65)	(288)	(79)	(68)	(62)	(79)
Total on a group basis	**(176)**	**1,436**	**87**	**283**	**521**	**545**
Total	**(147)**	**1,718**	**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:	(2)(0.30%)	-	0.42%	0.70%	(2)1.14%	1.42%
Cumulative rate since the beginning of the year:	(2)(0.30%)	(2)0.91%	(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.

Fees and commissions in the first three months of 2021 amounted to NIS 724 million, compared to NIS 739 million in the corresponding period last year, a decrease of 2.0%.

Distribution of the fees and commissions

	For the three months ended March 31, 2021	2020	Change in %
	in NIS millions		
Account Management fees	105	118	(11.0)
Credit cards	331	343	(3.5)
Operations in securities and in certain derivative instruments	109	87	25.3
Fees and commissions from the distribution of financial products	37	39	(5.1)
Handling credit	42	47	(10.6)
Conversion differences	32	36	(11.1)
Foreign trade services	13	12	8.3
Net income from credit portfolio services	1	1	-
Fees and commissions on financing activities	37	36	2.8
Other fees and commissions	17	20	(15.0)
Total fees and commissions	**724**	**739**	**(2.0)**

Credit card fees and commissions. The Corona crisis caused a reduction in credit card activity.
Ledger fees. The decrease in ledger fees is in continuation of the trend of transition to online transaction and a decline in transactions made through tellers, a trend that has been significantly accelerated during the Corona crisis period.
Salaries and related expenses amounted to NIS 801 million in the first three months of 2021, compared with NIS 824 million in the corresponding period last year, a decrease of 2.8%. Eliminating the effect of certain components as detailed below, a decrease of 7.1% would have been recorded. The decrease was affected by the 2020 retirement plan.

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

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

Other expenses amounted to NIS 557 million in the first three months of 2021, compared to NIS 422 million in the first three months of 2020, an increase of 32.0%. The rise had been mostly affected by an increase of NIS 109 million in settlement, which was affected by the 2020 retirement plan, and by an increase in long-term benefits.

Developments in the comprehensive income

Condensed statement of comprehensive income

	For the three months ended March 31, 2021	2020	Change in %
	in NIS millions		
Net Profit attributed to the Bank's shareholders	662	279	137.3
Changes in components of other comprehensive income (loss), attributed to the Bank's shareholders:			
Other comprehensive loss , before taxes[(1)]	(76)	(22)	
Related tax effect	68	47	
Other comprehensive income (loss) , attributed to the Bank's shareholders, after taxes	(8)	25	
Comprehensive income, attributed to the Bank's shareholders	**654**	**304**	**115.1**

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

Other comprehensive loss after taxes amounted to NIS 8 million in the first quarter 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 quarter 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 270 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 quarter of 2021, the exchange rate of the shekel against the US dollar depreciated by 3.7%. 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 135 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 quarter 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 6 million. The other comprehensive profit has increased by NIS 134 million.

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

Development of Assets and Liabilities

Total assets as at March 31, 2021, amounted to NIS 306,147 million, compared with NIS 293,969 million at the end of 2020, an increase of 4.1%.

Developments in the principal balance sheet items

	March 31, 2021	December 31, 2020	Rate of change in %
	in NIS millions		
Assets			
Cash and deposits with banks	50,307	42,936	17.2
Securities	44,212	42,785	3.3
Net credit to the public	193,292	188,718	2.4
Liabilities			
Deposits from the public	240,787	226,118	6.5
Deposits from banks	12,241	13,107	(6.6)
Subordinated debt notes	10,136	10,201	(0.6)
Shareholders' equity	19,836	19,182	3.4
Total equity	20,398	19,727	3.4

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

Cash and deposits with banks

Deposits from the public increased significantly in the first quarter of 2021 (6.5%), further to the growth in 2020 (12.2%) (see below). 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 March 31, 2021 totaled NIS 193,292 million, compared with NIS 188,748 million at the end of 2020, an increase of 2.4%.
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

	March 31, 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	142,154	73.6	139,083	73.7	2.2
CPI-linked shekels	19,579	10.1	18,999	10.1	3.1
Foreign currency and foreign currency-linked shekels	31,559	16.3	30,636	16.2	3.0
Total net credit to the public	**193,292**	**100.0**	**188,718**	**100.0**	**2.4**

Credit to the public denominated in foreign currency and in Israeli currency linked thereto increased by 3.0% compared with December 31, 2020. In U.S. dollar terms, credit to the public in foreign currency and foreign currency linked Shekels decreased by US$63 million, a decrease of 0.7% 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 1.8% 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

	March 31, 2021	December 31, 2020	change
	In NIS millions		in %
Domestic operations:			
Households*	74,653	72,620	2.8
Private banking*	358	364	(1.6)
Small and minute businesses	36,397	36,439	(0.1)
Medium businesses	13,139	12,865	2.1
Large businesses	46,521	45,687	1.8
Institutional bodies	783	1,007	(22.2)
Total Domestic operations	**171,851**	**168,982**	**1.7**
Total International operations*	**25,050**	**23,497**	**6.6**
Total credit to the public	**196,901**	**192,479**	**2.3**
Credit loss expenses	(3,609)	(3,761)	(4.0)
Total net credit to the public	**193,292**	**188,718**	**2.4**
*Of which - Mortgages	44,347	42,651	4.0

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 at the end of the first quarter of 2021 with a beginning of recovery in demand. The increase in credit to the public in the first quarter of 2021 reflects growth in the focus points determined in the updated strategic plan. Credit to households excluding housing loans grew by NIS 352 million (1.2%). Credit to medium businesses grew by NIS 274 million (2.1%). Credit to large businesses grew by NIS 834 million (1.8%) and housing credit grew by NIS 1,696 million (4.0%).

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

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

	March 31, 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 NIS millions	%	in NIS millions	%	in %
Industry	21,399	7.1	21,365	7.3	0.2
Construction and real estate - construction	34,489	11.3	33,302	11.3	3.6
Construction and real estate - real estate activity	24,850	8.2	24,579	8.3	1.1
Commerce	30,195	9.9	29,794	10.0	1.3
Financial services	30,113	9.9	27,070	9.2	11.2
Private individuals - housing loans	50,993	16.7	47,827	16.2	6.6
Private individuals - other	67,805	22.3	67,707	22.9	0.1
Other sectors	44,813	14.6	44,051	14.8	1.7
Total overall credit to the public risk	**304,657**	**100.0**	**295,695**	**100.0**	**3.0**

The data presented above indicates that in the first quarter of 2021, the overall risk regarding credit to the public increased by 3.0% compared with the end of 2020. This growth applied mostly to credit granted for private individuals – housing loans, financial services, construction and real estate – construction, commerce and real estate - real estate activity sectors.

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 March 31, 2021 to NIS 2,409 million, compared to NIS 2,207 million at December 31, 2020, an increase of 9.2%.

Impaired non-accruing credit to the public. The impaired non-accruing credit to the public which is examined on a specific basis, amounted at March 31, 2021 to NIS 1,649 million, compared to NIS 1,424 million at December 31, 2020, an increase at a rate of 15.8%.

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

	March 31, 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	21,399	1,073	5.0	21,365	1,017	4.8
Construction and real estate - construction	34,489	493	1.4	33,302	630	1.9
Construction and real estate - real estate activity	24,850	1,969	7.9	24,579	1,479	6.0
Commerce	30,195	842	2.8	29,794	814	2.7
Financial services	30,113	400	1.3	27,070	409	1.5
Private individuals - housing loans	50,993	299	0.6	47,827	327	0.7
Private individuals - other	67,805	667	1.0	67,707	717	1.1
Hotels, Hotel Services and Food	3,966	1,771	44.7	3,959	1,760	44.5
Transportation and Storage	6,685	469	7.0	7,025	458	6.5
Other Sectors	34,162	923	2.7	33,067	669	2.0
Total Public	**304,657**	**8,906**	**2.9**	**295,695**	**8,280**	**2.8**
Banks	6,415	-	-	7,126	-	-
Governments	36,664	-	-	35,904	-	-
Total	**347,736**	**8,906**	**2.6**	**338,725**	**8,280**	**2.4**

In the first quarter of 2021, the ratio of problematic credit risk to the total credit risk increased. The rate of problematic debts increased in the sectors of construction and real estate - real estate activity, transportation and storage and industry, while on the other hand, the rate of problematic debts in the construction and real estate - construction and financial services 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 3,609 million as of March 31, 2021. The balance of this allowance constituted 1.83% 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 505 million on March 31, 2021, similar to the balance on 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 March 31, 2021 to NIS 2,849 million, compared to NIS 2,997 million as of December 31, 2020, comprising a decrease in the current allowance in the amount of NIS 148 million, a rate of approx. 4.9%.

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 three months ended March 31			
	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	(8)	(0.3)	43	1.4
Construction and real estate - construction	(35)	(0.8)	47	1.2
Construction and real estate - real estate activity	44	0.8	61	1.2
Commerce	(27)	(0.5)	114	1.9
Hotels, hotel services and food	(22)	(2.5)	17	2.1
Transportation and storage	(3)	(0.2)	34	2.4
Financial services	5	0.2	8	0.3
Other Business Services	(11)	(0.7)	57	3.7
Public and Community Services	9	0.3	24	0.8
Other Sectors	(43)	(0.3)	36	2.1
Total Commercial	**(91)**	**(0.3)**	**441**	**1.5**
Private Individuals - Housing Loans	(2)	(0.0)	30	0.3
Private Individuals - Other	(56)	(0.7)	185	2.3
Total credit loss expenses (expense release) to the public.	**(149)**	**(0.3)**	**656**	**1.4**
Total Banks	-	-	-	-
Total Governments	2	0.2	-	-
Total credit loss expenses (expense release).	**(147)**	**(0.3)**	**656**	**1.4**

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

Securities

General. Securities in the Nostro portfolio totaled NIS 44,212 million as of March 31, 2021, compared with NIS 42,785 million at the end of 2020, an increase of 3.3%. Securities included in the "nostro" portfolio of the Discount Group, the investment in which as of December 31, 2020, amounted to 5% or over of the total amount of the portfolio: "government variable 1130", "government variable 0330" and the "shekel government 219" and the "shekel government 1026" security types, which amounted to approx. 8.0%, approx. 6.9%, and approx. 5.2%, of the total portfolio, respectively.

As of March 31, 2021, approx. 70.1% of the portfolio is invested in Government bonds, and approx. 17.7% 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. 1.1% 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

	March 31, 2021	December 31, 2020	Rate of change in %
	In NIS millions		
Non-linked shekels	25,029	25,814	(3.0)
CPI-linked shekels	1,723	991	73.9
Foreign currency and foreign currency-linked shekels	16,046	14,887	7.8
Shares - non-monetary items	1,414	1,093	29.4
Total	**44,212**	**42,785**	**3.3**

Securities in foreign currency and in Israeli currency linked to foreign currency increased by 7.8%, 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$182 million, an increase of 3.9% 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 2.0% 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

	March 31,2021			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	9,026	9,224	9,026	7,923	8,233	7,923
Available for sale	31,951	32,256	32,256	31,917	32,633	32,633
Trading	1,514	1,512	1,512	1,130	1,136	1,136
Shares						
Available for sale	1,287	1,414	1,414	1,051	1,092	1,092
Trading	4	4	4	1	1	1
Total securities	**43,782**	**44,410**	**44,212**	**42,022**	**43,095**	**42,785**

Corporate bonds (excluding mortgages and assets backed bonds). Discount Group's available-for-sale bonds portfolio as of March 31, 2021, includes investments in corporate bonds in the amount of NIS 2,729 million (of which an amount of NIS 438 million is held by IDB Bank), compared with NIS 2,789 million as of December 31, 2020, a decrease of 2.2%. 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 March 31, 2021 includes investment in mortgage-backed and asset-backed securities, in the amount of NIS 8,932 million, compared to an amount of NIS 8,004 million as at December 31, 2020, an increase of 11.6%. The amount includes investment in mortgage-backed and asset-backed securities in the amount of NIS 8,373 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 12.1%. Approx. 87.5% 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 March 31, 2021, the portfolio of mortgage and assets backed securities included unrealized net gains of NIS 77 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 558 million. The said securities are rated AA-AAA. The Bank holds secured bonds of the CLO class in a total amount of NIS 556 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 (p. 109) and Note 1 D 5.7 to the financial statements as of December 31, 2020 (pp. 142-143). Based on a review of the impairment of the said bonds as of March 31, 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 March 31, 2021, March 31, 2020 and December 31, 2020, unrealized accumulated losses on available-for-sale mortgage and asset backed securities amounted to total amounts of NIS 55 million, NIS 113 million and NIS 6 million, respectively. For additional details, see Note 5 to the condensed financial statements.

Customer assets

Deposits from the public as of March 31, 2021, totalled NIS 240,787 million, compared with NIS 226,118 million at the end of 2020, an increase of 6.5%.

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

	March 31, 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	164,909	68.5	157,927	69.9	4.4
CPI-linked shekels	4,689	1.9	4,576	2.0	2.5
Foreign currency and foreign currency-linked shekels	71,189	29.6	63,615	28.1	11.9
Total deposits from the public	**240,787**	**100.0**	**226,118**	**100.0**	**6.5**

Deposits from the public in foreign currency and in Israeli currency linked to foreign currency increased at the rate of 11.9%, 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$1,565 million, an increase of 7.9% 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 5.4%, compared with December 2020.

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

	March 31, 2021	December 31, 2020	Change in %
	In NIS millions		
Domestic operations:			
Households	90,149	88,888	1.4
Private banking	18,115	17,959	0.9
Small and minute businesses	45,012	41,818	7.6
Medium businesses	9,819	9,842	(0.2)
Large businesses	28,649	25,382	12.9
Institutional bodies	17,450	14,615	19.4
Total Domestic operations	**209,194**	**198,504**	**5.4**
Total International operations	**31,593**	**27,614**	**14.4**
Total deposits from the public	**240,787**	**226,118**	**6.5**

The ratio of total net credit to the public to deposits from the public was 80.3% as at March 31, 2021, compared with 83.5% at the end of 2020.

Deposits from the public of the three largest depositor groups amounted as of March 31, 2021, to NIS 4,151 million.

Securities held for customers. On March 31, 2021, the balance of the securities held for customers at the Bank amounted to approx. NIS 199.09 billion, including approx. NIS 1.64 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 6.4%. 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 March 31, 2021, amounted to NIS 10.8 billion, compared with NIS 10.15 million in December 31, 2020, an increase of 6.4%.

Pension advisory services. The total cumulative assets of customers receiving pension consulting services from the Bank as at March 31, 2021, amounting to approx. NIS 21.8 billion, compared with NIS 21.3 billion as of December 31, 2020, an increase of 2.35%, which stemmed, inter alia, from the increases in the markets in the first quarter 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 22, 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). On April 22, 2021, the Bank completed the issuance process of deferred debt notes, through its subsidiary "Manpikim", in a total amount of approx. NIS 932 million. Had the issue been concluded on March 31, 2021, the comprehensive capital ratio would have increased by 0.47%.

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 March 31, 2021, the comprehensive capital ratio would have been reduced by 0.39%.

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 March 31, 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 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.

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 transitional instructions period (October 1, 2021).
For details regarding the extension of the validity of the Temporary Directive, see above. 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$1,148 million exists as of March 31, 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.

Components of capital

Total capital as at March 31, 2021, totalled NIS 20,398 million, compared with NIS 19,727 million at the end of 2020, an increase of 3.4%.

Shareholders' equity as at March 31, 2021, totalled NIS 19,836 million, compared with NIS 19,182 million at the end of 2020, an increase of 3.4%. The change in Shareholders' equity in the first three months of 2021 was affected, among other things, by the net earnings during the period, by a decrease of NIS 270 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 135 million in financial statements transactions adjustments and from the net actuarial gain in the amount of NIS 128 million.

The ratio of total capital, to total assets as at March 31, 2021, stood at 6.7%, similar to December 31, 2020.

Components of the regulatory capital as of March 31, 2021

Ratio of common equity tier 1 as of March 31, 2021, amounted to 10.20%, similar to December 31, 2020.

Total capital ratio as of March 31, 2021, amounted to 12.90%, compared with 13.06% on December 31, 2020.

Components of the regulatory capital as of March 31, 2021

	March 31,		December 31,
	2021	2020	2020
	in NIS millions		
1. Capital for Calculating ratio of capital			
Common equity tier 1 after deductions	20,333	19,218	19,707
Additional tier 1 capital after deductions	178	356	356
Tier 1 capital	**20,511**	**19,574**	**20,063**
Tier 2 capital	5,211	5,588	5,170
Total capital	**25,722**	**25,162**	**25,233**
2. Weighted risk assets balance			
Credit risk(2)	178,806	171,162	173,317
Market risk	4,039	4,542	3,337
CVA risk	1,491	2,216	1,763
Operational risk	14,991	14,379	14,815
Total weighted risk assets balance	**199,327**	**192,299**	**193,232**
3. Ratio of capital to risk assets			
Ratio of common equity tier 1 to risk assets	10.20	9.99	10.20
Ratio of total capital to risk assets	12.90	13.09	13.06
Ratio of minimum capital required by the Supervisor of Banks			
Ratio of common equity tier 1(1)	8.17	8.20	8.18
Total capital ratio(1)	11.67	11.70	11.68

Footnotes:
(1) With an addition of 0.17% (March 31, 2020: 0.20%, December 31, 2020: 0.18%), in accordance with the additional capital requirements with respect to housing loans - see Note 9 (b) to the condensed financial statements.
(2) The total weighted balances of the risk assets have been reduced by NIS 415 million (March 31,2020: NIS 10 million; December 31, 2020: NIS 439 million) due to adjustments in respect to the efficiency plan.

The increased market risk recorded in the first quarter, stemmed mostly from the growth in the allocation in respect of interest risk.

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 204 million were deducted in the first three months of 2021.
The Bank may raise additional regulatory capital instruments in accordance with the Bank's work plan for 2021 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 its 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).
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 repayment of existing loans – upon the request of customers, the Bank has approved deferral/freezing of loan repayments for periods of up to six months with no need to visit the branch.
- 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.
- Possibility of premature withdrawal of deposits without a commission.
- 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 would consider 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 or accumulate interest, 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 three months of 2021 amounted to NIS 52 million, compared to a loss in the amount of 17 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 three months of 2021 an expenses release has been recorded of NIS 59 million, compared expenses of NIS 210 million in the corresponding period last year, a decrease of 128.1%. 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 March 31,		For the year ended December 31,
	2021	2020	2020
	in NIS millions		
Total income	827	917	3,475
Credit loss expenses (expenses release)	(59)	210	518
Total Operating and other expenses	798	(1)739	3,194
Net Profit (Loss) Attributed to the bank's shareholders	52	(17)	(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 three months of 2021 amounted to NIS 7 million, compared to NIS 11 million in the corresponding period last year, a decrease of 36.4%.

Principal data regarding the Private Banking segment (Domestic operations)

	For the three months ended March 31,		For the year ended December 31,
	2021	2020	2020
	in NIS millions		
Total income	34	41	146
Credit loss expenses	-	1	1
Total Operating and other expenses	24	(1)23	162
Net Profit (Loss) Attributed to the bank's shareholders	7	11	(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 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 small and minute businesses segment:

- Use of digital services for businesses without having to go to a branch – payment of salaries, transfers of large amounts, payment of bills, deposit of checks via the app and additional operational reliefs that have been made available to customers;

- Business assistance loans – special loan tracks have been opened for businesses that have encountered cash flow difficulties and, as part of this, bridging loans for the payment of salaries and ongoing expenses, as well as assistance loans with a mechanism for the deferral of principal payments for up to six months;
- Rescheduling and deferment of loan repayments;
- Since the outbreak of the crisis, the Bank assisted its business customers having difficulties in meeting their loan repayments due to the impact of the crisis. Among other things, the Bank allows customers to defer loan repayments and/or spread the debt in order to facilitate the cash flows of the customer during the crisis 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 March 31, 2021, the two banks approved 10,046 loans, in a total amount of NIS 3,436 million. Through May 10, 2021, the two banks approved 10,209 loans, in a total amount of NIS 3,451 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 311 million. 390 loans out of the Fund, were approved by the two banks until March 31, 2021, which amounted to NIS 189 million. 409 loans out of the Fund, were approved by the two banks until May 10, 2021, which amounted to NIS 196 million.

Scale of Operations and Net Profit of the Segment

The net profit in the first three months of 2021 amounted to 162 million, compared to an amount of NIS 18 million in the corresponding period last year, an increase at a rate of 800.0%. The growth in profits was mostly affected by credit loss expenses release.

The credit loss expenses in the first three months of 2021 an expenses release has been recorded of NIS 93 million, compared to expenses of NIS 190 million in the corresponding period last year, a decrease at a rate of 148.9%. 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 Small and minute businesses segment (Domestic operations)

	For the three months ended March 31,		For the year ended December 31,
	2021	2020	2020
	in NIS millions		
Total income	485	532	1,974
Credit loss expenses (expenses release)	(93)	190	593
Total Operating and other expenses	332	(1)312	1,329
Net Profit Attributed to the bank's shareholders	162	18	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 three months of 2021 amounted to NIS 35 million, compared to an amount of 1 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 three months of 2021 amounted to NIS 3 million, compared to NIS 52 million in the corresponding period last year, a decrease at a rate of 94.2%. 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 Medium businesses segment (Domestic operations)

	For the three months ended March 31,		For the year ended December 31,
	2021	2020	2020
	in NIS millions		
Total income	120	115	477
Credit loss expenses	3	52	198
Total Operating and other expenses	65	(1)60	267
Net Profit Attributed to the bank's shareholders	35	1	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 its customers in confronting the economic uncertainty and in traversing the crisis. Among the other steps led by the Bank in the large business segment and in the middle market banking segment, are:

- Activating a service to encourage customers to use digital business services, including support in conducting transactions on the business website without having to visit a branch;
- Deferring repayments of existing loans – at the request of customers, the deferral/freezing of loan repayments has been approved for a period of up to three months;

- Business managers, business centers and business bankers have initiated activity and maintained ongoing communication with customers for the purpose of assisting them during the crisis period, providing adapted solutions.

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 March 31, 2021, the Bank had approved 8 loans in a total amount of NIS 188 million (May 10, 2021 – unchanged).

Scale of Operations and Net Profit of the Segment

The net profit in the first three months of 2021 amounted to NIS 150 million, compared to an amount of NIS 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 three months of 2021 an expenses release has been recorded of NIS 57 million, compared to expenses of NIS 149 million in the corresponding period last year, a decrease at a rate of 138.3%. 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 March 31,		For the year ended December 31,
	2021	2020	2020
	in NIS millions		
Total income	320	287	1,163
Credit loss expenses (expenses release)	(57)	149	261
Total Operating and other expenses	147	(1)135	589
Net Profit Attributed to the bank's shareholders	150	3	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 loss of the segment in the first three months of 2021 amounted to a negligible amount, compared to an amount of NIS 3 million in the corresponding period last year.

Principal data regarding the Institutional bodies segment (Domestic operations)

	For the three months ended March 31,		For the year ended December 31,
	2021	2020	2020
	in NIS millions		
Total income	12	12	47
Credit loss expenses (expenses release)	(1)	1	2
Total Operating and other expenses	15	[(1)]16	59
Loss Attributed to the bank's shareholders	-	(3)	(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 three months of 2021 amounted to NIS 472 million, compared to NIS 386 million in the corresponding period last year, an increase at a rate of 22.3%.
The net profit in the first three months of 2021 amounted to NIS 227 million, compared to an amount of NIS 194 million in the corresponding period last year, an increase at a rate of 17.0%.

Principal data regarding the Financial management segment (Domestic operations)

	For the three months ended March 31,		For the year ended December 31,
	2021	2020	2020
	in NIS millions		
Total income	472	386	1,575
Credit loss expenses	2	-	15
Total Operating and other expenses	105	[(1)]86	386
Net Profit Attributed to the bank's shareholders	227	194	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 three months of 2021 amounted to NIS 29 million, compared to NIS 72 million in the corresponding period last year, a decrease at a rate of 59.7%.
The credit loss expenses in this segment in the first three months of 2021 amounted to NIS 58 million, compared to NIS 53 million in the corresponding period last year, an increase at a rate of 9.4%.

Principal data regarding the International operations segment

	For the three months ended March 31,		For the year ended December 31,
	2021	2020	2020
	in NIS millions		
Total income	267	321	1,048
Credit loss expenses	58	53	130
Total Operating and other expenses	166	160	695
Net Profit Attributed to the bank's shareholders	29	72	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 three months ended March 31				
	2021		2020		
	In NIS millions	% of Net profit	In NIS millions	% of Net profit	Change in %
Banking Activity:					
Commercial banks:					
In Israel - the Bank	423	63.9	159	57.0	166.0
Mercantile Discount Bank	150	22.7	49	17.6	206.1
Overseas - Discount Bancorp	28	4.2	69	24.7	(59.4)
Other Activities:					
Israel Credit Cards	37	5.6	(4)	(1.4)	-
Discount Capital	20	3.0	2	0.7	900.0
Other financial services	4	0.6	4	1.4	-
Net profit	**662**	**100.0**	**279**	**100.0**	**137.3**

The total contribution of both domestic and overseas investee companies to the Bank's business results amounted to earnings of NIS 239 million in the first three months of 2021, compared to NIS 120 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

	Firsth Quarter		Year
	2021	2020	2020[(1)]
	In US$ millions		
Principal statements of profit and loss data for the reporting period:			
Net profit attributed to the shareholders	10	22	58
Net interest income	59	59	237
Credit loss expenses	17	15	37
Non-financing income	23	32	72
Non-financing expenses	52	47	204
Principal balance sheet data for the end of the reporting period:			
Total assets	11,667	10,998	11,010
Net credit to the public	7,354	6,945	7,155
Securities	2,966	2,672	2,746
Deposits from the public	9,928	8,365	9,001
Total equity	1,148	1,081	1,153
	In %		
Main performance indicators:			
Return on equity	3.4	8.1	5.1
Efficiency ratio	63.4	51.6	66.0
Ratio of total capital to risk assets	15.2	14.9	15.3
Ratio of credit loss expenses to the average balance of credit to the public	0.96	0.88	0.54
Total net return on interest bearing assets	2.30	2.51	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 results in the first quarter reflect the recovery in IDB New York's core activity, with growth in credit and income from commissions and fees, and with particularly good performance in income from fees collected from customers' trading activities, which was partly offset by higher allowances for credit loss expenses, due to the continuing effect of the pandemic.
The main factors affecting the quarter's results, compared to the corresponding quarter last year, are: US$2 million increase in credit loss expenses, US$9 million decrease in non-interest income and US$5 million increase in operating and other expenses.
The contribution of Bancorp to the Bank's net results reached a profit of NIS 28 million in the first quarter of 2021 (after deducting a provision for taxes of NIS 5 million), compared with NIS 69 million in the first quarter of 2020 (after deducting a provision for taxes of NIS 11 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

	First Quarter		Year
	2021	2020	2020[1]
	In NIS millions		
Principal statements of profit and loss data for the reporting period:			
Net profit attributed to the shareholders	150	49	211
Net interest income	306	317	1,219
Credit loss expenses (expenses release)	(9)	98	320
Non-financing income	155	98	426
Non-financing expenses	243	241	999
Principal balance sheet data for the end of the reporting period:			
Total assets	51,363	44,781	50,937
Net credit to the public	34,022	31,792	33,118
Securities	5,733	4,715	6,300
Deposits from the public	41,476	35,844	40,842
Total equity	3,337	3,133	3,239
	In %		
Main performance indicators:			
Return on equity	19.9	6.5	6.6
Efficiency ratio	52.7	58.1	60.7
Ratio of total capital to risk assets	13.72	13.76	13.72
Ratio of credit loss expenses (expenses release) to the average balance of credit to the public	(0.10)	1.22	0.98
Total net return on interest bearing assets	2.54	2.99	2.71

Footnote:
For details regarding data excluding the effect of settlement, see the 2020 Annual Report (p. 29, 58)

The principal factors affecting the business results. The profit in the first three months of 2021, compared to the corresponding period last year, was affected, inter alia, from a decrease of NIS 107 million in credit loss expenses; from a decrease of NIS 11 million in net interest income and from an increase of NIS 57 million in non-interest financing income.

The transition to recording income to credit loss in the first quarter of 2021, compared to the credit loss expenses of NIS 98 million in the corresponding period last year, is explained primarily by the recording income in the amount of NIS 26 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 certain decrease in the allowance coefficients.

The decline in interest income stemmed from the decline in the interest margin, partly offset by an increase in the average balance of income producing assets. The increase in non-interest financing income is explained mostly by a growth of NIS 50 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).

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, 4.3 and 4.4.

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 March 31, 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

	First Quarter		Year
	2021	2020	2020[2]
	In NIS millions		
Principal statements of profit and loss data for the reporting period:			
Net profit attributed to the shareholders	60	(7)	115
[1]The contribution to the Bank's business results[1]	37	(4)	70
Income from credit card transactions	317	330	1,254
Net interest income	129	134	530
Non-financing income	1	8	73
Total expenses	360	484	1,716
Of which: Credit loss expenses (expenses release)	(4)	105	223
Principal balance sheet data for the end of the reporting period:			
Total assets	19,385	18,359	18,535
Interest bearing credit to the public	5,822	6,614	5,959
Total equity	1,989	1,823	1,930
	In %		
Main performance indicators:			
Return on equity	12.9	(1.5)	6.2
Efficiency ratio	81.4	80.3	80.4
Ratio of total capital to risk assets	15.0	14.0	14.8
Turnover of credit card transactions – in NIS millions	28,703	27,052	107,929
Number of active cards – in thousands	2,970	2,905	2,968

Footnotes:

(1) Differences between net income and the contribution to the Bank's business results is derived from recognition of current tax liability in respect of the investment in the company.

(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 results of the first quarter were affected, on the one hand by the reduction in credit loss expenses and, on the other hand, by the reduction in fees collected from the activity of Israelis overseas (and, correspondingly, failing to meet the international organizations' targets is possible, depending on the scope of the impact), by the reduction in cross commission due to the lower activity scopes in the impacted sectors and by the reduction in income from clearing the activity of tourists in Israel.

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.

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 4 million, compared to expenses of NIS 105 million in the corresponding period last year, and on the other hand, from a decline in income in an amount of NIS 25 million (5.3%).

Strategic plan. For details, see the 2020 Annual Report (p. 60).

Outbreak of the Corona virus. 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. Since March 2020, due to the outbreak of the Corona virus, activity scopes in the issuance and clearing segments have decreased. 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 4.5 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	27.3	3.8	618.4
The contribution to the Bank's business results[1]	20.1	2.3	773.9
Principal balance sheet data for the end of the reporting period:	March 31, 2021	December 31, 2020	Change in %
Total assets	1,806.8	1,779.9	2.0
Total equity	1011.1	982.1	3.0

Footnote:
(1) Differences between net income and the contribution to the Bank's business results is derived from recognition of current tax liability in respect of the investment in the company.

For details regarding realization of investments, see "Non-financial companies" below under "Activity of the Group by regulatory operating segments – additional details".

In the first three months of 2021, Discount Capital participated, via its subsidiary, in 16 public offerings and in 3 private transactions, amounting to approx. NIS 3.5 billion. This, compared with 11 public offerings and 6 private transactions, amounting to approx. NIS 5.0 billion, in the corresponding period last year.

Chapter "C" - Risks review

General description of the risks and manner of management thereof

Risk Profile of the Discount Group - Risk Environment

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 first 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).
For details regarding the Bank's preparations for the adoption of updates to the generally accepted accounting principles at banks in the U. S. – Allowances for credit losses, 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 into the second 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.
This situation requires increased alertness, risk assessment and quick response ability, and therefore the Bank reports, controls and monitors with increased frequency, 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 from the aspect of the Corona implications, 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. 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 letter of the Supervisor of Banks dated December 3, 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 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 March 31, 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										2021		
	March	April	May	June	July	August	September	October	November	December	January	February	March
Deferral requests (number of loans)	48,616	31,861	7,212	4,370	4,601	2,675	4,540	3,623	1,818	1,093	1,380	527	196
Balance of loans in deferral, in millions	8,861	16,388	17,771	18,371	18,852	19,385	19,445	19,673	19,963	20,124	20,304	20,588	20,633

Note:
(1) 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

	March 31, 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	535	11	42	448	2	-	85	87	-	87	779	-
Medium businesses	64	17	20	-	-	-	64	64	51	10	724	-
Small businesses	259	1,200	83	125	16	-	118	134	33	83	4,488	71
Private individuals without Housing loans	88	2,108	26	24	16	-	48	64	26	30	1,364	24
Housing loans	1,885	2,868	116	49	473	5	1,358	1,836	243	1,528	6,419	76
Total Lending Activity in Israel	2,831	6,204	287	[(4)]646	507	5	1,673	2,185	353	1,738	13,774	171
IDB Bank	853	17	29	782	9	-	62	71	-	9	940	-
Total as at 31.3.2021	**3,684**	**6,221**	**316**	**1,428**	**516**	**5**	**1,735**	**2,256**	**353**	**1,747**	**14,714**	**171**
Total Lending Activity in Israel as at 31.12.2020	**5,523**	**23,699**	**481**	**[(4)]1,074**	**802**	**-**	**3,647**	**4,449**	**1,204**	**2,447**	**12,165**	**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 April 30, 2021 amounts to NIS 2,966 million (Of which: IDB Bank amount of NIS 698 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 39 million (as of December 31, 2020 – NIS 39 million).

(5) Amended following improvement of data.

In the course of the crisis period and until March 31, 2021, the Bank and MDB (domestic activity) allowed the deferral of loan repayments in respect of credit in the amount of NIS 16,605 million, of which, housing loans in the amount of NIS 8,304 million.

Until March 31, 2021, in respect of 83% of all loans (domestic activity), and in respect of 73.3% 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 646 million were classified as problematic – 22.8%. Of the outstanding balance of the debts, the deferral period in respect of which had ended, NIS 171 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.
The Bank estimates that the Crisis has impacted nearly all economic sectors, though there are differences in the level of vulnerability of the different sectors to the Corona crisis.
The economic sectors, in which the Bank is involved, have been classified in accordance with the assessment of their vulnerability to the Corona crisis: high, moderate and low.

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

Economic sector	Vulnerability characteristics resulting from the Corona crisis
Diamond industry	The diamond sector experienced significant impairment at the global and domestic levels due to impairment of the chain of supply, decline in demand and high inventory, which led to fluctuation in prices. Notwithstanding, since the beginning of the fourth quarter of last year, it looks as if recovery had taken place in volumes of exports in relation to the low point recorded at the height of the crisis, and this, inter alia, with the support of the new agreement with the Dubai diamond exchange – one of the largest in the world.
Real estate activity	The office premises field has remained relatively stable due to long-term lease agreements. However, review of public companies' reports for 2020 show that the implications of the crisis had seeped also into this field, with companies recording a decline of 5%-10% in the NOI, in relation to the previous year, being the result of granting relief to tenants and the cumulative effect of the decline in income from parking lots. In the field of commercial centers, the data for 2020 had discerned the difference between indoors shopping malls, recording a decline of 25%-30% in the NOI, in relation to 2019, and open-air centers, recording erosion lower by approximately one half. Also after the return of the economy to routine activity and the significant growth in revenues – the level of risk is higher than that estimated prior to the Corona.
Commerce	The removal of restrictions and the opening of commercial centers support the decrease in risk level compared to that recorded upon the outbreak of the crisis, though the force and period of recovery would be correlated with the buying power of consumers, 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 of 80%-90% (higher than the average for the season) 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 removal of restrictions and the return of the economy to routine activity have supported the decrease in the rate of unemployment to a level below 10%, a fact that is expected to lead to a reduction in Government assistance plans confronting the Corona crisis. However, the rate of unemployment is still high in relation to the full employment environment that had existed prior to the crisis. Thus, the level of uncertainty regarding buying power is still relatively high.
Oil products industry	Since the beginning of 2021, margins have recorded significant recovery that supports activity alongside the additional positive effect reaching from the direction of the US dollar, which, since the beginning of 2021, has maintained relative stability. This, compared to the significant weakening recorded at the end of 2020.

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, within the framework of assessment of credit losses inherent in the credit portfolio with respect to borrowers affected by the crisis but not yet identified, use was made in 2020, inter alia, in deterioration coefficients based on the risk evaluation for the different economic sectors. Furthermore, the Bank conducted in the third and fourth quarters of 2020 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.

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

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, although a given sector may include credit having different levels of vulnerability, a significant part thereof may be different from the estimated level of vulnerability, namely: there are credits of a low risk level in sectors classified as highly vulnerable, while on the other hand, there are credits highly sensitive to the crisis in sectors of a low vulnerability classification.

Concurrently with the sector examination, a specific examination of borrowers has been made from the aspect of exposure to Corona. Borrowers identified as exposed to the Corona impact, had been classified in a similar way according to the estimated exposure level ("Corona watch list"). Further to the above stated, it is noted that there is not necessarily a correlation between the classification of customers in the above manner and the assessed classification of the sectors to which they belong.

See below "Credit risk by economic sectors".

Credit quality and problematic credit risk

Problematic credit risk and non performing assets

	March 31, 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	122,478	43,578	28,950	195,006	120,945	41,808	28,221	190,974
Off-balance sheet credit risk	48,143	5,483	35,456	89,082	45,594	4,367	35,656	85,617
Total credit risk in Credit Granting Rating	**170,621**	**49,061**	**64,406**	**284,088**	**166,539**	**46,175**	**63,877**	**276,591**
Credit risk not in Credit Granting Rating:								
1. Not problematic	5,334	472	2,396	8,202	4,618	516	2,763	7,897
2. Problematic								
Special Mention[3]	3,542	109	313	3,964	3,131	121	365	3,617
Substandard	1,603	186	85	1,874	1,452	204	81	1,737
Impaired	[4]2,239	2	258	[4]2,499	[4]1,959	2	259	[4]2,220
Total problematic[2]	**7,384**	**297**	**656**	**8,337**	**6,542**	**327**	**705**	**7,574**
Total balance sheet credit risk	**12,718**	**769**	**3,052**	**16,539**	**11,160**	**843**	**3,468**	**15,471**
Off-balance sheet credit risk	2,520	1,163	347	4,030	2,462	809	362	3,633
Total credit risk not in Credit Granting Rating	**15,238**	**1,932**	**3,399**	**20,569**	**13,622**	**1,652**	**3,830**	**19,104**
Of which: non-impaired debts in arrears of 90 days or more[3]	32	290	28	350	65	318	30	413
Total overall credit risk of the public	**185,859**	**50,993**	**67,805**	**304,657**	**180,161**	**47,827**	**67,707**	**295,695**
Additional information concerning nonperforming assets:								
Impaired debts - not accruing interest income	[4] 1,651	2	86	[4] 1,739	[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 89 million (December 31, 2020 – non-accruing corporate bonds of NIS 13 million).

It should be noted that the scope of non-problematic credit, which is not classified as performing, expresses the credit risk in light of assessing the effect of the Corona crisis on economic activity in economy.

Changes in balances of impaired debts

	Three months ended March 31					
	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	396	65	461	754	89	843
Debts no longer classified as impaired	(1)	-	(1)	(10)	-	(10)
Impaired debts written off	(74)	(28)	(102)	(80)	(61)	(141)
Impaired debts settled	(125)	(38)	(163)	(176)	(20)	(196)
Other	7	-	7	(4)	-	(4)
Balance of impaired debts as of end of the period	**2,149**	**260**	**2,409**	**2,109**	**197**	**2,306**
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	215	45	260	149	29	178
Debts that have again been classified to unimpaired due to a following restructuring	-	-	-	(10)	-	(10)
Restructured troubled debt written off	(12)	(11)	(23)	(20)	(18)	(38)
Restructured troubled debt settled	(58)	(38)	(96)	(126)	(14)	(140)
Other	3	-	3	(4)	-	(4)
Balance of restructured troubled debts at the end of the period	**1,302**	**241**	**1,543**	**874**	**155**	**1,029**
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	116	43	159	156	48	204
Collections and write-offs	(112)	(47)	(159)	(90)	(47)	(137)
Balance of allowance for credit losses as of end of the period	**377**	**128**	**505**	**307**	**67**	**374**

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

	March 31, 2021	March 31, 2020	December 31, 2020
Ratio of balance of impaired credit to the public to balance of credit to the public	1.22%	1.24%	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	0.18%	0.25%	0.21%
Ratio of balance of allowance for credit losses in respect of credit to the public, to balance of credit to the public	1.83%	1.63%	1.95%
The ratio of the balance of the group allowance for credit loss, to the balance of credit to the public	1.45%	1.30%	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)	149.81%	131.31%	170.41%
Ratio of problematic credit risk in respect of the public to the total credit risk in respect of the public	2.92%	2.13%	2.80%
Ratio of credit loss expenses (expenses release) to the average balance of credit to the public (in annualized terms)(2)	(0.30%)	1.42%	0.91%
Ratio of net accounting write-offs in respect of credit to the public to the average balance of credit to the public (in annualized terms)	0.10%	0.30%	0.19%
Ratio of net accounting write-offs 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)	5.54%	18.23%	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	130.81%	109.00%	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	1.40%	1.49%	1.36%
The ratio of the outstanding balance of noninterest bearing impaired credit to the public to total credit to the public	0.84%	0.92%	0.74%

Footnotes:
(1) The decrease in the rate stems both from a decline in the balance of the allowance for credit losses and from the increase in the balance of impaired credit.
(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 rate stems from a decline in net write-offs.

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.

It should be noted that the increase in the amount of non-problematic credit, which is not classified as performing, is due mainly to giving expression to the higher credit risk in light of assessing the effect of the Corona crisis on economic activity in economy.

Credit risk by economic sectors – consolidated

	March 31, 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	Credit Loss Expenses (expense release)	Net Accounting Write-Offs Recognized during the Period	Balance of Allowance for Credit Losses
	in NIS millions							
Industry	15,103	13,839	778	486	267	(1)	11	331
Construction and Real Estate - Construction[6]	34,299	33,020	493	786	151	(35)	19	290
Construction and Real Estate - Real Estate Activity	13,001	12,377	325	299	140	(7)	-	217
Commerce	22,442	20,938	664	840	199	(22)	1	536
Hotels, Hotel Services and Food	2,175	1,617	396	162	119	(11)	1	91
Transportation and Storage	5,842	5,208	469	165	193	(1)	3	172
Financial Services[7]	18,455	17,594	349	512	298	4	-	101
Other Business Services	7,984	7,030	280	674	97	(10)	4	221
Public and Community Services	10,002	9,750	102	150	25	(9)	-	44
Other Business Services	9,068	8,718	141	209	183	(43)	(13)	129
Total Commercial	**138,371**	**130,091**	**3,997**	**4,283**	**1,672**	**(135)**	**26**	**2,132**
Private Individuals - Housing Loans	50,775	48,876	294	1,605	2	(2)	2	251
Private Individuals - Other	65,933	62,615	620	2,698	258	(57)	3	912
Total Public	**255,079**	**241,582**	**4,911**	**8,586**	**1,932**	**(194)**	**31**	**3,295**
Banks in Israel and Government of Israel	34,249	34,249	-	-	-	-	-	-
Total Lending Activity in Israel	**289,328**	**275,831**	**4,911**	**8,586**	**1,932**	**(194)**	**31**	**3,295**
Total Public - Lending Activity Outside of Israel	**49,578**	**42,506**	**3,995**	**3,077**	**620**	**45**	**19**	**580**
Banks and Governments Outside of Israel	8,830	8,830	-	-	-	2	-	17
Total Lending Activity Outside of Israel	**58,408**	**51,336**	**3,995**	**3,077**	**620**	**47**	**19**	**597**
Total	**347,736**	**327,167**	**8,906**	**11,663**	**2,552**	**(147)**	**50**	**3,892**

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 204,378 million, NIS 42,793 million, NIS 1,135 million, NIS 5,099 million, NIS 94,331 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 206 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 7,340 million, issued by GNMA and in the amount of NIS 474 million, issued by FNMA and FHLMC.

(8) Including credit facilities guaranteed by banks outside the Group in the amount of NIS 6,867 million.

(9) The balance of commercial debts includes housing loans in the amount of NIS 230 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)

	March 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	14,486	13,347	592	547	167	46	2	279
Construction and Real Estate - Construction[6]	31,658	30,848	543	267	200	47	6	307
Construction and Real Estate - Real Estate Activity	12,284	11,455	213	616	137	17	(7)	110
Commerce	22,060	20,443	546	1,071	208	118	19	496
Hotels, Hotel Services and Food	1,946	1,603	136	207	108	13	1	29
Transportation and Storage	6,173	5,396	397	380	144	31	8	145
Financial Services[7]	14,390	13,795	484	111	423	3	1	93
Other Business Services	7,688	6,847	135	706	85	49	11	138
Public and Community Services	9,053	8,868	83	102	12	13	1	42
Other Business Services	8,641	7,979	471	191	389	36	5	168
Total Commercial	**128,379**	**120,581**	**3,600**	**4,198**	**1,873**	**373**	**47**	**1,807**
Private Individuals - Housing Loans	41,846	38,781	386	2,679	5	29	-	234
Private Individuals - Other	67,660	63,753	588	3,319	192	182	63	827
Total Public	**237,885**	**223,115**	**4,574**	**10,196**	**2,070**	**584**	**110**	**2,868**
Banks in Israel and Government of Israel	33,911	33,471	-	439	-	-	-	-
Total Lending Activity in Israel	**271,796**	**256,586**	**4,574**	**10,635**	**2,070**	**584**	**110**	**2,868**
Total Public - Lending Activity Outside of Israel	**48,840**	**44,738**	**1,541**	**2,561**	**340**	**72**	**28**	**407**
Banks and Governments Outside of Israel	7,330	7,294	36	-	36	-	-	1
Total Lending Activity Outside of Israel	**56,170**	**52,032**	**1,577**	**2,561**	**376**	**72**	**28**	**408**
Total	**327,966**	**308,618**	**6,151**	**13,196**	**2,446**	**656**	**138**	**3,276**

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 193,427 million, NIS 41,512 million, NIS 488 million, NIS 7,757 million, NIS 84,782 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 152 million.

(7) Including mortgage backed securities in the amount of NIS 6,549 million, issued by GNMA and in the amount of NIS 700 million, issued by FNMA and FHLMC.

(8) Including credit facilities guaranteed by banks outside the Group in the amount of NIS 7,206 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.

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 March 31						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	15,366	8,117	23,483	18,239	7,418	25,657	15,148	7,679	22,827
Other	7,407	[5]5,705	13,112	7,661	[5]5,527	13,188	7,108	[5]6,217	13,325
Total exposure to foreign countries[1]	**22,773**	**13,822**	**36,595**	**25,900**	**12,945**	**38,845**	**22,256**	**13,896**	**36,152**
Of which - Total exposure to the PIGS countries[4]	16	217	233	13	359	372	21	213	234
Of which - Total exposure to LDC countries[6]	352	186	538	593	65	658	329	122	451
Of which - Total exposure to countries having liquidity problems	30	20	50	25	11	36	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 March 31, 2021 in the following countries: Switzerland – an amount of NIS 2,209 million and Germany – an amount of NIS 2,021 million; as of March 31, 2020 in the following countries: Switzerland – an amount of NIS 2,137 million and Germany – an amount of NIS 1,935 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 92% of the exposure as of March 31, 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 March 31, 2021, include, inter-alia, the United States, Great Britain and Canada.

In the first quarter 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 March 31, 2021		
Present credit exposure to foreign financial institutions(1)(6)			
External credit rating(7)			
AAA to AA-	1,034	13	1,047
A+ to A-	3,628	603	4,231
BBB+ to BBB-	223	74	297
BB+ to B-	1	20	21
Not rated	107	23	130
Total present credit exposure to foreign financial institutions	**4,993**	**733**	**5,726**
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 March 31, 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 84 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 143 million as of March 31, 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. Concurrently, with the progress made regarding the "price for the house purchaser" plan, a slight decline was noticed in 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. 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 March 31, 2021, amounted to NIS 44,577 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

	March 31, 2021	December 31, 2020
	%	
Rate of housing loans financing over 75% of the value of the property	1.4	1.5
Rate of housing loans, the monthly repayment amount of each exceeds 35% of the income of the borrower	8.6	8.5
Rate of housing loans carrying variable interest rate of the total amount of the housing loan portfolio[1]	58.7	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

	For the three months ended March 31,2021	For the year ended December 31,2020
Average amount of loan (in NIS thousands)	855	861
Average financing ratio for housing loans (in %)	55.4	55.0
Average financing ratio for general purpose loans (in %)	25.9	24.4

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

	March 31, 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	33,551	75.7	32,608	76.5
Between 1,200 and 4,000	10,105	22.8	9,386	22.0
Over 4,000	666	1.5	610	1.5
Total	**44,322**	**100.0**	**42,604**	**100.0**
Of which:				
Housing loans that were granted abroad	143		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 230 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 %
March 31, 2021	44,577	[(4)]339	70	0.8
December 31, 2020	42,863	[(4)] 328	71	0.8

Footnotes:

(1) Recorded amount.

(2) As at March 31, 2021 the balance of the allowance includes an allowance in accordance with the extent of arrears in an amount of NIS 69 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 0.42% from the credit balance in respect of which on allowance in accordance with the extent of arrears was not made, in amount of NIS 184 million (as at December 31, 2020: NIS 187 million) as well as NIS 1 million in respect of other group allowance.

(4) Including an amount of NIS 5 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 230 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 three months ended March 31,				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%	825	27.7	633	26.3	2,814	28.0
Between 45% and 60%	1,000	33.6	863	35.9	3,433	34.2
Over 60%	1,154	38.7	908	37.8	3,790	37.8
Total	**2,979**	**100.0**	**2,404**	**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 March 31, 2021	13,065	17,816	69.7	4,784	8,497	30.0	45	115	0.4	44,322
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 230 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 March 31, 2021 of the housing loans portfolio according to the present period to maturity of over 20 years, amount to NIS 4,912 million, comprising 11.1% 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 three months ended March 31,				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%	2,740	99.6	2,164	99.7	9,049	99.5
Over 40%	11	0.4	6	0.3	43	0.5
Total	**2,751**	**100.0**	**2,170**	**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				
	March 31, 2021				
Level of income to the account					
Excluding permanent income to the account	1,382	102	1,484	496	1,980
Less than NIS 10 thousand	4,282	985	5,267	3,274	8,541
Greater than NIS 10 thousand, but less than NIS 20 thousand	3,721	1,688	5,409	3,386	8,795
Greater than NIS 20 thousand	2,723	2,708	5,431	4,215	9,646
Total	**12,108**	**5,483**	**17,591**	**11,371**	**28,962**
	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

	March 31, 2021	December 31, 2020[1]
	Balance of loans	
Fixed maturity date	in NIS millions	
Up to 1 year	1,370	1,406
Over 1 year and up to 3 years	4,780	4,763
Over 3 years and up to 5 years	4,098	4,119
Over 5 years	2,172	2,242
Total	**12,420**	**12,530**

Footnote:
(1) Reclassified – 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

	March 31, 2021	December 31, 2020
Balance sheet credit upper limit (NIS thousands)	in NIS million	
Up to 40	3,580	3,589
Between 40 and 150	9,323	9,406
Over 150	4,688	4,756
Total	**17,591**	**17,751**

Distribution by exposure to changes in interest rates

	March 31, 2021	December 31, 2020
	in NIS million	
Fixed interest credit	5,302	5,184
Variable interest credit	12,289	12,567
Total	**17,591**	**17,751**

Distribution of collateral securing the credit

	March 31, 2021	December 31, 2020
	Total collateral	
Type of collateral	in NIS millions	
Liquid financial assets	1,409	1,400
Other collateral	903	910
Total	**2,312**	**2,310**

Development of problematic credit risk in respect of private individuals

	March 31, 2021	December 31, 2020	Change in	Rate from total balance-sheet to credit to the public March 31, 2021	December 31, 2020
	in NIS million		%	%	
Problematic credit risk	320	387	(17.4)	1.8	2.2
Of which: impaired credit risk	137	124	10.7	0.8	0.7
Debts in arrears of 90 days or more	28	30	(6.7)	0.2	0.2
Net accounting write-offs	(1)	73		-	0.4
Balance of allowance for credit losses	514	569	(9.6)	2.9	3.2

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 1,114 million at March 31, 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

A decline at the rate of 2.6% was recorded in the first quarter of 2021 in the balance of interest bearing credit granted to private individuals, in continuation of a decrease of 5.5% in 2020. This credit amounted as of March 31, 2021, to NIS 5,024 million, and comprises 50.7% 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 3,794 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 quarter to an income of NIS 2 million, compared to an expense in the amount of NIS 85 million in the corresponding quarter 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

	March 31, 2021			December 31, 2020		
Sector	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
	in NIS million		%	in NIS million		%
Income generating real estate	12,023	311	2.6	12,262	342	2.8
Construction – general building contracting	2,325	113	4.9	2,538	170	6.7
Residential projects financing	25,619	77	0.3	24,427	201	0.8
Acquisition of building land	8,685	29	0.3	7,418	84	1.1
Subcontracting	2,387	75	3.2	2,388	53	2.2
Civil engineering work	3,222	93	2.9	3,228	150	4.7
Other	4,538	278	6.1	4,531	140	3.1
Total[(2)]	**58,799**	**977**	**1.7**	**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 March 31, 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

	March 31, 2021			December 31, 2020		
	Balance sheet exposure	Total exposure	Specific allowance for credit losses	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	162	-
Total	**128**	**128**	**-**	**309**	**310**	**-**

Exposure to leveraged finance as of March 31, 2021 amounted to NIS 128 million, compared to NIS 309 million at December 31, 2020, a decrease of 58.6%. The said decrease stemmed, mainly, from changes in financial ratios causing present credit to exit 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 March 31, 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 March 31, 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

	March 31 2021			March 31 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)	10,835	5,329	16,164	10,913	4,723	15,636	9,684	5,442	15,126
Of which: the banking book	10,245	4,447	14,692	11,063	6,191	17,254	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

	March 31 2021			March 31 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%	(276)	73	(203)	(77)	484	407	(107)	354	247
Of which: the banking book	(320)	71	(249)	(77)	510	433	(127)	347	220
A parallel decrease of 1%	277	(414)	(137)	162	(515)	(353)	229	(391)	(162)
Of which: the banking book	323	(409)	(86)	161	(546)	(385)	248	(384)	(136)
Non-parallel changes									
Curving(2)	(479)	(27)	(506)	(327)	295	(32)	(387)	38	(349)
Flattening(3)	401	1	402	288	(201)	87	373	(7)	366
Interest rise in the short-term	281	25	306	215	256	471	282	128	410
Interest decline in the short-term	(294)	(208)	(502)	(251)	(173)	(424)	(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, 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 – a growth in retail and wholesale deposits was recorded by the Bank during the first quarter, stemming, as estimated by the Bank, from the growth in economic activity.

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

	March 31 2021			March 31 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%	1,057	53	1,110	813	84	897	1,000	48	1,048
Of which: the banking book	1,045	59	1,104	806	82	888	989	55	1,044
A parallel decrease of 1%	(1,251)	(55)	(1,306)	(987)	(93)	(1,080)	(1,174)	(51)	(1,225)
Of which: the banking book	(1,239)	(61)	(1,300)	(982)	(89)	(1,071)	(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 quarter 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 March 31, 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 0.5 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 1 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 205 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 4.10 years on March 31, 2021, compared to 3.51 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 41 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 2.74 years on March 31, 2021, compared to 2.60 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		
			March 31, 2021		
An increase of 100BP in interest rates	(345)	(152)	9	11	(476)
A decrease of 100BP in interest rates	273	39	(381)	(19)	(88)
			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 is expressed primarily in the non-linked segment, as there is a significant gap in the results in this segment when use is made of the cost of credit rather than using the transfer price, this is because most of the interest exposure derives from 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 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 is continuing preparations to manage and mitigate the identified risks. Inter alia, the booklet "General conditions for the opening and management of accounts with the Bank", has been updated, so as to allow in the future the definition of the alternative interest base to be determined. The updating of the text of the definition is presently made to all relevant documents signed by customers. Moreover, the Bank mailed a written notice to Bank customers regarding the expected change and the preparations made in respect thereof.

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 March 31, 2021		As of December 31, 2020	
	Number of transactions	Book value in NIS million	Number of transactions	Book value in NIS million
Loans	1,455	8,019	1,457	8,149
Deposits	-	-	-	-
Securities	33	714	35	1,135
Total	**1,488**	**9,733**	**1,492**	**9,284**
Derivatives (volume transactions)	1,155	46,693	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 March 31, 2021		As of December 31, 2020	
	Number of transactions	Book value in NIS million	Number of transactions	Book value in NIS million
Loans	193	269	210	378
Deposits	-	-	-	-
Securities	-	-	-	-
Total	**193**	**269**	**210**	**378**
Derivatives (volume transactions)	301	16,554	206	7,518

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.

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 March 31, 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

	For the first quarter ended on March 31, 2021			
	in NIS millions			
Segment	10%	5%	-5%	-10%
USD	413	206	(197)	(387)
EUR	(12)	(10)	24	53
Other Foreign Currencies	(27)	12	(8)	(13)

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 March 31, 2021.

Sensitivity of the capital to changes in the CPI

	March 31, 2021	
	in NIS millions	
Scenario	Increase 3%	Decrease 3%
	99	(108)

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 first quarter of 2020.

For further details regarding the management of the Liquidity and financing risks, see the 2020 Annual Report (pp. 94-96).

Liquidity coverage ratio

As of the first quarter of 2021, the liquidity coverage ratio of the Discount Group, on the basis of 76 observations average, stood as of March 31, 2021, at 146.61%, 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 quarter 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 quarter, stemming, as estimated by the Bank, from the growth in economic activity.

Deposits from the public

	March 31, 2021	March 31, 2020	December 31, 2020	Change compared to March 31, 2020		Change compared to December 31, 2020	
	In NIS millions			In NIS millions	in %	In NIS millions	in %
Non-linked shekels	131,260	117,640	125,367	13,620	11.6	5,893	4.7
CPI-linked shekels	5,000	5,433	4,769	(433)	(8.0)	231	4.8
Foreign currency and foreign currency linked shekels	37,255	34,189	33,397	3,066	9.0	3,858	11.6
Total	**173,515**	**157,262**	**163,533**	**16,253**	**10.3**	**9,982**	**6.1**
Foreign currency and foreign currency linked shekels - In US$ millions	11,174	9,590	10,388	1,584	16.5	786	7.6

Deposits from Banks

	March 31, 2021	March 31, 2020	December 31, 2020	Change compared to March 31, 2020		Change compared to December 31, 2020	
	In NIS millions			In NIS millions	in %	In NIS millions	in %
Non-linked shekels	6,002	1,813	4,958	4,189	231.1	1,044	21.1
CPI-linked shekels	29	35	30	(6)	(17.1)	(1)	(3.3)
Foreign currency and foreign currency linked shekels	474	642	850	(168)	(26.2)	(376)	(44.2)
Total	**6,505**	**2,490**	**5,838**	**4,015**	**161.2**	**667**	**11.4**

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 indemnification and immunity letters has been extended later on until May 31, 2021.
In January 2021, representatives of the Ministry of Finance and the Bank commenced talks aimed at reviewing the continued provision of the services, with an additional extension of the indemnification letter and of the immunity letter. On May 23, 2021, the Bank received notice that the Political-Security Cabinet had approved by telephone the extension of the indemnification letter and the immunity letter until July 15, 2021.

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; for 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.
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 and second quarters 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 third and fourth quarters of 2020 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 of 2021, 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 quarter and in light of the comprehensive classifications made in previous quarters, it was decided this quarter 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 March 31, 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 11% and growth in the product at a rate of 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.

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.

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 first quarter of 2021, the Group recorded income in a negligible amount with respect to the credit risk coefficient (CVA/DVA), compared to an expense of NIS 25 million in the corresponding period last year.

Adjustments made to assets and liabilities in respect of derivative instruments

	March 31, 2021	December 31, 2020
	in NIS millions	
Assets in respect of derivative instruments	5,106	6,410
Adjustment in respect of credit risk regarding assets relating to derivative instruments	(16)	(20)
Liabilities in respect of derivative instruments	4,928	7,375
Adjustment in respect of credit risk regarding liabilities relating to derivative instruments	19	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 March 31, 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.

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 First Quarter Report (this Report).

The actuarial estimate as of March 31, 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.

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

Changes in Internal Control

During the first 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, except for the implications of the 2020 retirement plan. During the fourth quarter, a retirement plan of unprecedented scope has been deployed at the Bank, within the framework of which, 754 employees retired (including employees reaching retirement age) until March 31, 2021. Included therein, many were middle-grade managers or higher. In the course of preparing for these retirements, efforts were made for a smooth transfer of duties and for the retention of know-how. Moreover, measures were taken to reorganize work processes, to reallocate tasks and – in some instances – to close manpower gaps, both through employee mobility and also through recruiting new employees. As part of the aforesaid, steps were taken to allocate the applicable processes and controls within the framework of these processes.

Shaul Kobrinsky	Uri Levin	
Chairman of the Board of Directors	President & Chief Executive Officer	May 24, 2021

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 March 31, 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.

Mr. Uri Levin
President & Chief Executive Officer

May 24, 2021

Certification

I, Joseph Beressi, certify that:

1. I have reviewed the quarterly report of Israel Discount Bank Ltd. (hereinafter: "the Bank") as of March 31, 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

May 24, 2021

Condensed Financial Statements

KPMG Somekh Chaikin

BDO

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 March 31, 2021 and the related condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the three months period then ended. The Board of Directors and management are responsible for the preparation and presentation of the financial data for this interim period in accordance with Israeli GAAP regarding financial reporting for this interim period 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 this interim period 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	Ziv Haft
Certified Public Accountants (Isr.)	Certified Public Accountants (Isr.)

May 24, 2021

KPMG Somekh Chaikin, an Israeli partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee

Ziv Haft is a member of BDO BDO Ziv Haft

Condensed Consolidated statement of profit and loss

		Unaudited		Audited
		For the three months ended March 31,		For the year ended December 31,
	Notes	2021	2020	2020
		in NIS millions		
Interest income		1,711	1,791	6,987
Interest expenses		207	336	1,089
Net interest income	2	**1,504**	**1,455**	**5,898**
Credit loss expenses (expenses release)	6,14	(147)	656	1,718
Net interest income after credit loss expenses		**1,651**	**799**	**4,180**
Non-interest Income				
Non-interest financing income	3	298	417	1,142
Fees and commissions		724	739	2,826
Other income		11	-	39
Total non-interest income		**1,033**	**1,156**	**4,007**
Operating and other Expenses				
Salaries and related expenses		801	824	3,242
Maintenance and depreciation of buildings and equipment		294	285	1,185
Other expenses		557	422	2,254
Total operating and other expenses		**1,652**	**1,531**	**6,681**
Profit before taxes		1,032	424	1,506
Provision for taxes on profit		353	151	549
Profit after taxes		**679**	**273**	**957**
Bank's share in profit of associates, net of tax effect		-	4	50
Net profit:				
Before attribution to non-controlling interests		679	277	1,007
Attributed to the non-controlling interests		(17)	2	(32)
Net Profit Attributed to the Bank's Shareholders		**662**	**279**	**975**
Earnings per share of NIS 0.1 par value attributed to the Bank's shareholders (in NIS)	**3A**	**0.57**	**0.24**	**0.84**

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

Shaul Kobrinsky Chairman of the Board of Directors	Mr. Uri Levin President & Chief Executive Officer	Joseph Beressi Senior Executive Vice President, Chief Accountant	May 24, 2021

Condensed Consolidated statement of comprehensive Income

	Unaudited		Audited
	For the three months ended March 31		For the year ended December 31,
	2021	2020	2020
	in NIS millions		
Net profit before attribution to non-controlling interests	679	277	1,007
Net loss (profit) attributed to non-controlling interests	(17)	2	(32)
Net profit attributed to the Bank's shareholders	**662**	**279**	**975**
Other comprehensive income (loss), before taxes:			
Net adjustments for presentation of available-for-sale bonds at fair value	(404)	(481)	157
Net adjustments from translation of financial statements	135	118	(254)
Adjustments of liabilities in respect of employee benefits[(2)]	194	343	(417)
Net profit (loss) in respect of cash flows hedge	(1)	1	(1)
Other comprehensive loss, before taxes	**(76)**	**(19)**	**(515)**
Related tax effect	68	46	97
Other comprehensive income (loss), before attribution to non-controlling interests, after taxes	(8)	27	(418)
Other comprehensive income (loss), attributed to non-controlling interests	-	2	(2)
Other comprehensive income (loss) attributed to the Bank's shareholders, after taxes	**(8)**	**25**	**(416)**
Comprehensive income, before attribution to non-controlling interests holders	671	304	589
Comprehensive income, attributed to non-controlling interests holders	(17)	-	(30)
Comprehensive income, attributed to the Bank's shareholders[(1)]	**654**	**304**	**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 March 31, 2021	Unaudited March 31, 2020	Audited December 31, 2020
		in NIS millions		
Assets				
Cash and deposits with banks		50,307	29,392	42,936
Securities (of which:10,461 ,7,920 , 10,489 respectively, pledged to lenders)	5	44,212	42,605	42,785
Securities borrowed or purchased under agreements to resell		1,135	488	1,074
Credit to the public	6,14	196,901	186,215	192,479
Allowance for credit losses	6,14	(3,609)	(3,028)	(3,761)
Net credit to the public		**193,292**	**183,187**	**188,718**
Credit to Governments		3,520	4,406	3,473
Investments in associates		355	152	348
Buildings and equipment		3,012	2,641	2,995
Intangible assets and goodwill		164	164	164
Assets in respect of derivative instruments	11	5,099	7,757	6,400
Other assets		5,046	5,612	5,076
Total assets		**306,142**	**276,404**	**293,969**
Liabilities and Equity				
Deposits from the public	7	240,787	213,667	226,118
Deposits from banks		12,241	7,339	13,107
Deposits from the Government		293	235	344
Securities lent or sold under agreements to repurchase		-	892	161
Bonds and Subordinated debt notes		10,136	13,069	10,201
Liabilities in respect of derivative instruments	11	4,919	7,878	7,365
Other liabilities[(1)]		17,368	13,880	16,946
Total liabilities		**285,744**	**256,960**	**274,242**
Equity attributed to the Bank's shareholders		19,836	18,929	19,182
Non-controlling rights		562	515	545
Total equity		**20,398**	**19,444**	**19,727**
Total Liabilities and Equity		**306,142**	**276,404**	**293,969**

Footnote:

(1) Of which NIS 266 million, NIS 247 million and NIS 298 million, as of March 31, 2021, March 31, 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

	Capital reserves								
	Paid up Share capital	Share premium	Other reserves	Total paid up share capital and reserves	Accumulated other comprehensive income (loss)	Retained earnings	Shareholders' equity	Non-controlling interests	Total equity
	in NIS millions								
A. For the three months ended March 31, 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	-	-	-	-	-	662	662	17	679
Other comprehensive loss, net after tax effect	-	-	-	-	(8)	-	(8)	-	(8)
Balance at March 31, 2021	**676**	**4,174**	**209**	**5,059**	**(905)**	**15,682**	**19,836**	**562**	**20,398**
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	-	-	-	-	-	279	279	(2)	277
Dividend declared	-	-	-	-	-	(49)	(49)	-	(49)
Transactions with minority	-	-	(4)	(4)	-	-	(4)	-	(4)
Other comprehensive income, net after tax effect	-	-	-	-	25	-	25	2	27
Balance at March 31, 2020	**676**	**4,174**	**211**	**5,061**	**(456)**	**14,324**	**18,929**	**515**	**19,444**
B. 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 March 31		For the year ended December 31
	2021	2020	2020
	in NIS millions		
Cash Flows from Operating Activities			
Net profit before attribution to non-controlling interests in consolidated companies	679	277	1,007
Adjustments necessary to present cash flows from current operations:			
Bank's share in undistributed profits of affiliated companies	(8)	(4)	(54)
Depreciation of buildings and equipment (including impairment in value)	131	117	491
Provision for impairment in value of securities	17	8	29
Credit loss expenses	(147)	656	1,718
Gain on sale of credit portfolio, net	-	-	(3)
Profit on sale of available-for-sale bonds and shares not for trading	(98)	(194)	(647)
Realized and non realized gain from adjustment to fair value of trading securities, net	(8)	(44)	(91)
Non realized loss (gain) on adjustment to fair value of shares no for trading	(85)	8	(8)
Gain on realization of buildings and equipment	-	-	(32)
Net deferred taxes	203	(41)	(353)
Severance pay – increase (decrease) in excess of provision over the deposits	(236)	(183)	201
Net change in current assets:			
Assets in respect of derivative instruments	1,299	(3,211)	(1,855)
Trading securities	(374)	(184)	1,441
Other assets	(4)	(714)	360
Effect of changes in exchange rate on cash and cash equivalent balances	(71)	(1)81	150
Accrual differences included in investment and financing activities	(5)	(413)	1,272
Net change in current liabilities:			
Liabilities in respect of derivative instruments	(2,447)	3,038	2,526
Other liabilities	805	(673)	(1)1,026
Adjustments in respect of exchange rate differences on current assets and liabilities	70	134	(143)
Dividends received from affiliated companies	4	7	18
Net Cash Flows from Operating Activities	**(275)**	**(1,335)**	**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 March 31		For the year ended December 31
	2021	2020	2020
	in NIS millions		
Cash Flows to Investing Activities			
Net change in Deposits with banks	196	(50)	(372)
Net change in net credit to the public	(1,796)	(1)(4,416)	(5,610)
Net change in Credit to the Governments	207	186	1,931
Net change in Securities borrowed or purchased under agreements to resell	(61)	43	(543)
Acquisition of held-to-maturity bonds	(1,470)	(3,494)	(3,920)
Proceeds from redemption of held-to-maturity bonds	244	452	556
Purchase of available-for-sale bonds and shares not for trading	(5,492)	(5,443)	(19,086)
Proceeds of sale of available-for-sale bonds and shares not for trading	4,227	4,133	13,131
Purchased credit portfolios	(2,257)	(1)(2,282)	(7,926)
Gain on sale of credit portfolio	33	121	74
Proceeds of redemption of available-for-sale bonds	720	953	3,543
Purchase of shares in affiliated companies	-	-	(160)
Acquisition of buildings and equipment	(188)	(161)	(1)(836)
Proceeds from sale of buildings and equipment	-	-	60
Net Cash Flows to Investing Activities	**(5,637)**	**(9,958)**	**(19,158)**
Cash Flows from Financing Activities			
Net change in Deposits from banks	(866)	920	6,688
Net change in Deposits from the public	14,516	13,217	25,125
Net change in Deposits from the Government	(51)	55	163
Net change in Securities borrowed or purchased under agreements to resell	(161)	545	(185)
Issuance of subordinated debt notes	-	100	540
Redemption of subordinated debt notes	(86)	(147)	(3,438)
Dividend paid to the shareholders	-	-	(49)
Net cash flows from Financing Activities	**13,352**	**14,690**	**28,844**
Increase in cash	7,440	3,397	16,739
Cash balance at beginning of period	42,265	25,777	25,777
Effect of changes in exchange rate on cash and cash equivalent balances	127	(1)(99)	(251)
Cash balance at end of period	**49,832**	**29,075**	**42,265**
Interest and taxes paid and/or received			
Interest received	1,963	2,119	6,947
Interest paid	(244)	(432)	(1,260)
Dividends received	7	10	27
Taxes on income paid	(132)	(201)	(1,066)
Taxes on income received	77	203	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 March 31		For the year ended December 31
	2021	2020	2020
	in NIS millions		
Dividend declared during the period but not yet paid	-	49	-
Recognition of a right-of-use asset in consideration for a leasing liability	45	745	895
Purchase of fixed assets	-	18	(1)134
Lending of securities	661	(2,122)	(1,574)

Footnote:
(1) Improvement of the 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 March 31, 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 May 24, 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 March 31,	
	2021	2020
	in NIS millions	
A. Interest Income[2]		
Credit to the public	1,566	1,601
Credit to the Governments	16	20
Deposits with the Bank of Israel and cash	9	14
Deposits with Banks	2	11
Bonds[1]	114	138
Other assets	4	7
Total interest income	**1,711**	**1,791**
B. Interest Expenses[2]		
Deposits from the public	(123)	(246)
Deposits from the Government	(1)	(1)
Deposits from the Bank of Israel	(1)	-
Deposits from banks	(8)	(20)
Securities lent or sold under agreements to repurchase	-	(3)
Bonds and subordinated debt notes	(74)	(65)
Other liabilities	-	(1)
Total interest expenses	**(207)**	**(336)**
Net interest income	**1,504**	**1,455**
C. Details of the net effect of hedge derivative instruments on interest income and expenses[3]:		
Interest Income	(8)	(1)
Interest expenses	6	2
D. Accrual basis, interest income from bonds:		
Held-to-maturity	23	20
Available-for-sale	89	113
Trading	2	5
Total included in interest income	114	138

Footnotes:

(1) Interest Income generated by mortgage backed securities (MBS) - in US $ millions	9	11
Interest Income generated by mortgage backed securities (MBS) - in NIS millions	30	38

(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 March 31,	
	2021	2020
	in NIS millions	
A. Non-interest financing income (expenses) from operations not for trading purposes		
From operations in derivative instruments		
Net income in respect of derivative instruments[4]	576	592
Total from operations in derivative instruments	**576**	**592**
From investments in bonds:		
Gains on sale of available-for-sale bonds[3]	79	190
Provision for impairment of available-for-sale bonds[3]	(9)	(3)
Total from investments in bonds	**70**	**187**
Net exchange rate differences	**(593)**	**(477)**
Net profit (loss) from investments in shares:		
Gains on sale from non trading shares	19	5
Losses on sale from non trading shares	-	(1)
Provision for impairment of non trading shares	(8)	(5)
Dividends from non trading shares	3	3
Unrealized (losses) profits [7]	85	(8)
Total from investment in shares	**99**	**(6)**
Total non-interest financing income from operations not for trading purposes	**152**	**296**
B. Non-interest financing income (expenses) from operations for trading purposes[5]:		
Net income in respect of non trading derivative instruments	138	77
Net realized and non-realized profit on adjustment of trading bonds to fair value[1]	7	46
Net realized and non-realized profit (losses) on adjustment of trading shares to fair value[2]	1	(2)
Total from trading operations[6]	**146**	**121**
Details of non-interest financing income (expenses) from operations for trading purposes, according to risk exposure:		
Interest rate exposure	79	(21)
Foreign currency exposure	66	144
Share exposure	1	(2)
Total according to risk exposure	**146**	**121**
Total non-interest financing income	**298**	**417**

Footnotes:

(1) Of which, a part of the loss relating to trading bonds that are still on hand at balance sheet date	(2)	(15)
(2) Of which, a part of the profit (loss) relating to trading shares that are still on hand at balance sheet date	-	-
(3) Reclassified from accumulated other comprehensive income, see Note 4:		
Of which, net profit from investments in bonds.	70	187

(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 March 31		For the year ended December 31
	2021	2020	2020
	in NIS millions		
Earnings per share			
Total net income attributed to bank's shareholders	662	279	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
Weighted average of shares of NIS 0.1 par value, used for earnings per share	**1,164,017**	**1,164,017**	**1,164,017**
Earnings per share of NIS 0.1 (in NIS)	**0.57**	**0.24**	**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 March 31, 2021 and 2020 (unaudited)							
Balance at December 31, 2020 (audited)	486	(598)	1	(799)	(910)	(13)	(897)
Net change during the period	(270)	135	(1)	128	(8)	-	(8)
Balance at March 31, 2021	**216**	**(463)**	**-**	**(671)**	**(918)**	**(13)**	**(905)**
Balance at December 31, 2019 (audited)	374	(344)	2	(524)	(492)	(11)	(481)
Net change during the period	(318)	118	1	226	27	2	25
Balance at March 31, 2020	**56**	**(226)**	**3**	**(298)**	**(465)**	**(9)**	**(456)**
B. 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 365 million in respect of the 2020 retirement plan, see Note 23 to the financial statements as of December 31, 2020.

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

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

	Unaudited						Audited		
	For the three 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	(334)	110	(224)	(294)	100	(194)	560	(169)	391
Income on available-for-sale bonds reclassified to the statement of income[2]	(70)	24	(46)	(187)	63	(124)	(403)	124	(279)
Net change during the period	**(404)**	**134**	**(270)**	**(481)**	**163**	**(318)**	**157**	**(45)**	**112**
Translation adjustments									
Adjustments from translation of financial statement [1]	135	-	135	118	-	118	(254)	-	(254)
Net change during the period	**135**	**-**	**135**	**118**	**-**	**118**	**(254)**	**-**	**(254)**
Cash flow hedging									
Net income in respect of cash flow hedging	-	-	-	2	-	2	2	(1)	1
Net income in respect of cash flow hedging reclassified to the statement of income	(1)	-	(1)	(1)	-	(1)	(3)	1	(2)
Net change during the period	**(1)**	**-**	**(1)**	**1**	**-**	**1**	**(1)**	**-**	**(1)**
Employee benefits									
Net actuarial (loss) profit	59	(20)	39	323	(111)	212	(892)	304	[4](588)
loss reclassified to the statement of income[3]	135	(46)	89	20	(6)	14	475	(162)	313
Net change during the period	**194**	**(66)**	**128**	**343**	**(117)**	**226**	**(417)**	**142**	**(275)**
Total net change during the period	**(76)**	**68**	**(8)**	**(19)**	**46**	**27**	**(515)**	**97**	**(418)**
Changes in components of accumulated other comprehensive income (loss) attributed to non-controlling interests:									
Total net change during the period	**-**	**-**	**-**	**3**	**(1)**	**2**	**(2)**	**-**	**(2)**
Changes in components of accumulated other comprehensive loss attributed to the Bank's shareholders:									
Total net change during the period	**(76)**	**68**	**(8)**	**(22)**	**47**	**25**	**(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 365 million in respect of the 2020 retirement plan, see Note 23 to the financial statements as of December 31, 2020.

5. Securities

A. Composition

	Book value	Amortized cost	Unrecognized gains from adjustment to fair value	Unrecognized losses from adjustment to fair value	Fair value[(1)]
	Unaudited				
	March 31,2021				
	In NIS millions				
(1) Held-to-maturity bonds					
Bonds and loans:					
Of the Israeli Government	8,427	8,427	224	37	8,614
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	463	463	6	1	468
Of others abroad[(5)]	136	136	6	-	142
Total held-to-maturity bonds	**9,026**	**9,026**	**236**	**38**	**9,224**

	Book value	Amortized cost	Accumulated other comprehensive income: Profits	Accumulated other comprehensive income: Losses	Fair value[(1)]
	Unaudited				
	March 31,2021				
	In NIS millions				
(2) Available- for- sale bonds					
Of the Israeli Government	19,619	19,406	309	96	19,619
Of foreign governments	1,476	1,557	9	90	1,476
Of Israeli financial institutions	136	133	3	-	136
Of foreign financial institutions	399	390	10	1	399
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	8,432	8,361	126	55	8,432
Of others in Israel	434	415	19	-	434
Of others abroad[(5)]	1,760	1,689	72	1	1,760
Total Available- for- sale bonds	**32,256**	**31,951**	[(2)] **548**	[(2)] **243**	**32,256**

	Book value	Cost	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value[(1)(3)]
	Unaudited				
	March 31,2021				
	In NIS millions				
(3) Investment in not for trading shares	1,414	1,287	[(4)]130	[(4)]3	1,414
Of which: shares, the fair value of which is not readily available	1,138	1,138	-	-	1,138
Total not for trading securities	**42,696**	**42,264**			**42,894**

For footnotes see next page.

5. Securities (continued)

A. Composition (Continued)

	Unaudited				
	March 31,2021				
	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	1,440	1,439	3	2	1,440
Of foreign governments	27	27	-	-	27
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	37	36	1	-	37
Of others in Israel	8	12	-	4	8
Total bonds	**1,512**	**1,514**	**4**	**6**	**1,512**
Shares	4	4	1	1	4
Total trading securities	**1,516**	**1,518**	[4]**5**	[4]**7**	**1,516**
Total securities	**44,212**	**43,782**			**44,410**

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				
	March 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	7,186	7,186	209	11	7,384
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	306	306	8	1	313
Of others abroad[6]	182	182	6	2	186
Total held-to-maturity bonds	**[2] 7,674**	**7,674**	**223**	**14**	**7,883**

	Unaudited				
	March 31,2020				
			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	18,864	18,778	306	220	18,864
Of foreign governments	695	660	44	9	695
Of Israeli financial institutions	186	185	4	3	186
Of foreign financial institutions	842	885	1	44	842
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	7,926	7,852	187	113	7,926
Of others in Israel	428	440	5	17	428
Of others abroad[6]	2,174	2,237	28	91	2,174
Total Available- for- sale bonds	**[2] 31,115**	**31,037**	**[3] 575**	**[3] 497**	**31,115**

	Unaudited				
	March 31,2020				
	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	1,089	1,065	[5]25	[5]1	1,089
Of which: shares, the fair value of which is not readily available	997	997	-	-	997
Total not for trading securities	**39,878**	**39,776**			**40,087**

For footnotes see next page.

5. Securities (continued)

A. Composition (continued)

	Unaudited				
	March 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	2,593	2,601	3	11	2,593
Of Israeli financial institutions	14	15	-	1	14
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	60	58	2	-	60
Of others in Israel	56	64	-	8	56
Total bonds	**2,723**	**2,738**	**5**	**20**	**2,723**
Shares	4	4	1	1	4
Total trading securities	**2,727**	**2,742**	**(5)6**	**(5)21**	**2,727**
Total securities	**42,605**	**42,518**			**42,814**

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 134 million (approx. US$ 38 million) and from the available for sale portfolio with a market value of NIS 831 million (approx. US$ 233 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**

	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
Shares	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							
	March 31, 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	1,864	37	-	37	-	-	-	-
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	127	1	-	1	4	(1)-	-	-
Total held-to-maturity bonds	**1,991**	**38**	**-**	**38**	**4**	**-**	**-**	**-**

	Unaudited							
	March 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:								
Of the Israeli Government	977	11	-	11	-	-	-	-
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	-	-	-	-	50	1	-	1
Of others abroad	-	-	-	-	36	2	-	2
Total held-to-maturity bonds	**977**	**11**	**-**	**11**	**86**	**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							
	March 31, 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	8,645	95	-	95	1,110	1	-	1
Of foreign governments	1,124	90	-	90	-	-	-	-
Of foreign financial institutions	-	-	-	-	36	1	-	1
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	2,510	55	-	55	102	(1)-	-	-
Of others in Israel	52	(1)-	-	-	-	-	-	-
Of others abroad	45	1	-	1	84	(1)-	-	-
Total available-for-sale bonds	**12,376**	**241**	**-**	**241**	**1,332**	**2**	**-**	**2**

	Unaudited							
	March 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	6,812	71	149	220	-	-	-	-
Of foreign governments	108	9	-	9	-	-	-	-
Of Israeli financial institutions	89	3	-	3	-	-	-	-
Of foreign financial institutions	665	42	-	42	40	2	-	2
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	1,009	92	-	92	329	21	-	21
Of others in Israel	324	15	2	17	-	-	-	-
Of others abroad	1,508	82	-	82	89	9	-	9
Total available-for-sale bonds	**10,515**	**314**	**151**	**465**	**458**	**32**	**-**	**32**

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 March 31, 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 March 31, 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 March 31, 2021.

F. **Fair value presentation.** The balances of securities as of March 31, 2021, March 31, 2020, and December 31, 2020, include securities amounting to NIS 34,038 million, NIS 33,934 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			
	March 31, 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:	602	20	-	622
of which:				
Bonds guaranteed by GNMA	383	13	-	396
Bonds issued by FHLMC and FNMA	219	7	-	226
Other mortgage-backed bonds (including CMO, REMIC and STRIPPED MBS):	6,647	101	55	6,693
Of which Bonds issued or guaranteed by FHLMC, FNMA and GNMA	6,647	101	55	6,693
Total available-for-sale MBS bonds	**7,249**	**121**	**55**	**7,315**
Held-to-maturity bonds				
Mortgage pass-through bonds:	14	2	-	16
of which:				
Bonds guaranteed by GNMA	10	2	-	12
Bonds issued by FHLMC and FNMA	4	-	-	4
Other mortgage-backed bonds (including CMO, REMIC and STRIPPED MBS):	449	4	1	452
Of which Bonds issued or guaranteed by FHLMC, FNMA and GNMA	449	4	1	452
Total held-to-maturity MBS bonds	**463**	**6**	**1**	**468**
Trading bonds				
Other mortgage-backed bonds (including CMO, REMIC and STRIPPED MBS):	36	1	-	37
Of which Bonds issued or guaranteed by FHLMC, FNMA and GNMA	36	1	-	37
Total mortgage-backed trading bonds (MBS)	**36**	**1**	**-**	**37**
Total mortgage-backed bonds (MBS)	**7,748**	**128**	**56**	**7,820**
2.Total Asset-backed available-for-sale bonds (ABS)	1,112	5	-	1,117
Of which collaterized bonds CLO	1,109	5	-	1,114
Of which Asset-backed bond (ABS)	3	-	-	3
Total mortgage and asset-backed bonds	**8,860**	**133**	**56**	**8,937**

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			
	March 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:	908	18	-	926
of which:				
Bonds guaranteed by GNMA	624	8	-	632
Bonds issued by FHLMC and FNMA	284	10	-	294
Other mortgage-backed bonds (including CMO, REMIC and STRIPPED MBS):	5,789	169	2	5,956
Of which Bonds issued or guaranteed by FHLMC, FNMA and GNMA	5,789	169	2	5,956
Total available-for-sale MBS bonds	**6,697**	**187**	**2**	**6,882**
Held-to-maturity bonds				
Mortgage pass-through bonds:	22	2	-	24
of which:				
Bonds guaranteed by GNMA	16	2	-	18
Bonds issued by FHLMC and FNMA	6	-	-	6
Other mortgage-backed bonds (including CMO, REMIC and STRIPPED MBS):	284	6	1	289
Of which Bonds issued or guaranteed by FHLMC, FNMA and GNMA	284	6	1	289
Total held-to-maturity MBS bonds	**306**	**8**	**1**	**313**
Trading bonds				
Other mortgage-backed bonds (including CMO, REMIC and STRIPPED MBS):	58	2	-	60
Of which Bonds issued or guaranteed by FHLMC, FNMA and GNMA	58	2	-	60
Total mortgage-backed trading bonds (MBS)	**58**	**2**	**-**	**60**
Total mortgage-backed bonds (MBS)	**7,061**	**197**	**3**	**7,255**
2.Total Asset-backed available-for-sale bonds (ABS)	1,155	-	111	1,044
Of which collaterized bonds CLO	1,150	-	111	1,039
Of which Asset-backed bond (ABS)	5	-	-	5
Total mortgage and asset-backed bonds	**8,216**	**197**	**114**	**8,299**

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			
	March 31, 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	2,424	55	-	-
Total other mortgage-backed bonds	**2,424**	**55**	**-**	**-**
Total available-for-sale MBS	**2,424**	**55**	**-**	**-**
Held-to-maturity bonds				
Other mortgage-backed bonds (including CMO,REMIC and STRIPPED MBS):				
Bonds issued or guaranteed by FHLMC, FNMA and GNMA	126	1	4	(1)-
Total other mortgage-backed bonds	**126**	**1**	**4**	**-**
Total held-to-maturity MBS bonds	**126**	**1**	**4**	**-**
Total mortgage-backed bonds (MBS)	**2,550**	**56**	**4**	**-**
2. Asset-backed available-for-sale bonds (ABS)				
Collaterized bonds CLO	85	(1)-	102	(1)-
Of which Asset-backed bond (ABS)	1	(1)-	-	-
Total asset-backed available-for-sale bonds (ABS)	**86**	**-**	**102**	**-**
Total mortgage and asset-backed bonds	**2,636**	**56**	**106**	**-**

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			
	March 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				
Other mortgage backed bonds (including CMO,REMIC and STRIPPED MBS):				
Bonds issued or guaranteed by FHLMC, FNMA and GNMA	214	1	100	1
Total other mortgage backed bonds	**214**	**1**	**100**	**1**
Total available-for-sale MBS bonds	**214**	**1**	**100**	**1**
Held-to-maturity securities				
Other mortgage backed bonds (including CMO,REMIC and STRIPPED MBS):				
Bonds issued or guaranteed by FHLMC, FNMA and GNMA	-	-	49	1
Total other mortgage backed bonds	**-**	**-**	**49**	**1**
Total held-to-maturity MBS bonds	**-**	**-**	**49**	**1**
Total mortgage-backed bonds (MBS)	**214**	**1**	**149**	**2**
2. Asset-backed available-for-sale bonds (ABS)				
Collaterized bonds CLO	790	91	229	20
Of which Asset-backed bond (ABS)	5	[(1)]-	-	-
Total asset backed available-for-sale bond (ABS)	**795**	**91**	**229**	**20**
Total mortgage and asset backed bond	**1,009**	**92**	**378**	**22**

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

	March 31, 2021	March 31, 2020	December 31, 2020
	In NIS millions		
Recorded amount of non accruing interest income impaired bonds	89	43	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 March 31, 2021, the shares are presented for the first time at their fair value, in an amount of NIS 66 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 fair value of the shares held by the Bank and MDB as of March 19, 2021 (market value, net of a discounting coefficient, as stated) amounts to approx. NIS 129 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					
	March 31, 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]	92,300	2	645	92,947	6,439	99,386
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	[2]230	44,201	-	44,431	-	44,431
Group - other	28,049	144	31,330	59,523	1,038	60,561
Total debts*	**120,579**	**44,347**	**31,975**	**196,901**	**7,477**	**204,378**
*** Of which:**						
Restructured troubled debts	1,302	-	241	1,543	-	1,543
Other Impaired debts	847	2	17	866	-	866
Total balance of impaired debts	**2,149**	**2**	**258**	**2,409**	**-**	**2,409**
Debts in arrears of 90 days or more	32	290	28	350	-	350
Other problematic debts	5,051	49	326	5,426	-	5,426
Total Problematic debts	**7,232**	**341**	**612**	**8,185**	**-**	**8,185**
Allowance for Credit Losses in respect of debts:						
Examined on a specific basis[1]	2,040	-	145	2,185	-	2,185
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	467	1	702	1,170	17	1,187
Total allowance for Credit Losses	**2,508**	**254**	**847**	**3,609**	**17**	**3,626**
Of which: in respect of impaired debts	377	-	128	505	-	505

Footnotes:
(1) Including credit examined on a specific basis and found not to be impaired in an amount of NIS 96,977 million and the allowance in its respect in an amount of NIS 1,680 million computed on a group basis.
(2) The balance of commercial debts includes housing loans in the amount of NIS 230 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 184 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					
	March 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)	87,760	5	637	88,402	6,546	94,948
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	(2)203	38,189	-	38,392	-	38,392
Group - other	27,029	197	32,195	59,421	666	60,087
Total debts*	**114,992**	**38,391**	**32,832**	**186,215**	**7,212**	**193,427**
*** Of which:**						
Restructured troubled debts	874	-	155	1,029	-	1,029
Other Impaired debts	1,235	5	37	1,277	-	1,277
Total balance of impaired debts	**2,109**	**5**	**192**	**2,306**	**-**	**2,306**
Debts in arrears of 90 days or more	57	366	49	472	-	472
Other problematic debts	2,365	24	341	2,730	-	2,730
Total Problematic debts	**4,531**	**395**	**582**	**5,508**	**-**	**5,508**
Allowance for Credit Losses in respect of debts:						
Examined on a specific basis(1)	1,592	-	87	1,679	-	1,679
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	(3)1	(3)235	-	236	-	236
Group - other	422	2	689	1,113	1	1,114
Total allowance for Credit Losses	**2,015**	**237**	**776**	**3,028**	**1**	**3,029**
Of which: in respect of impaired debts	307	-	67	374	-	374

Footnotes:

(1) Including credit examined on a specific basis and found not to be impaired in an amount of NIS 92,642 million and the allowance in its respect in an amount of NIS 1,305 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 4 million, computed on a group basis in amount of NIS 157 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 March 31, 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	(91)	(2)	(56)	(149)	2	(147)
Accounting write-offs	(100)	(3)	(65)	(168)	-	(168)
Collection of debts written-off in previous years	55	1	62	118	-	118
Net accounting write-offs	(45)	(2)	(3)	(50)	-	(50)
Adjustments from translation of financial statements	15	-	-	15	-	15
Balance of allowance for credit losses, as at March 31, 2021	**2,696**	**254**	**925**	**3,875**	**17**	**3,892**
Of which: In respect of off-balance sheet credit instruments	188	-	78	266	-	266
	Three months ended March 31, 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	441	30	185	656	-	656
Accounting write-offs	(138)	-	(135)	(273)	-	(273)
Collection of debts written-off in previous years	63	-	72	135	-	135
Net accounting write-offs	(75)	-	(63)	(138)	-	(138)
Adjustments from translation of financial statements	10	-	-	10	-	10
Balance of allowance for credit losses, as at March 31, 2020	**2,199**	**237**	**839**	**3,275**	**1**	**3,276**
Of which: In respect of off-balance sheet credit instruments	184	-	63	247	-	247

7. Deposits from the public

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

	Unaudited		Audited
	March 31		December 31
	2021	2020	2020
	In NIS millions		
In Israel			
Demand deposits:			
Non-interest bearing	58,967	41,296	51,252
Interest bearing	53,704	52,422	56,454
Total demand deposits	**112,671**	**93,718**	**107,706**
Time deposits	96,523	91,810	90,798
Total deposits in Israel*	**209,194**	**185,528**	**198,504**
* Of which:			
Private individuals deposits	108,264	101,737	106,847
Institutional bodies deposits	17,450	(1)16,524	14,615
Corporations and others deposits	83,480	(1) 67,267	77,042
Outside Israel			
Demand deposits:			
Non-interest bearing	7,091	4,936	5,629
Interest bearing	20,560	15,715	18,246
Total demand deposits	**27,651**	**20,651**	**23,875**
Time deposits	3,942	7,488	3,739
Total deposits outside Israel	**31,593**	**28,139**	**27,614**
Total deposits from the public	**240,787**	**213,667**	**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
	March 31		December 31
	2021	2020	2020
Deposit limit	Balance		
In NIS millions	In NIS millions		
Up to 1	87,681	80,139	86,723
Over 1 up to 10	64,784	60,690	63,483
Over 10 up to 100	37,289	34,367	35,663
Over 100 up to 500	22,718	17,220	19,226
Over 500	28,315	21,251	21,023
Total	**240,787**	**213,667**	**226,118**

8. Employee Benefits

A. Details regarding the benefits

	Unaudited		Audited
	March 31		December 31
	2021	2020	2020
	in NIS millions		
Severance pay, retirement and pension :			
The liability amount	2,817	2,843	3,133
Fair value of the plan's assets	1,239	1,440	1,318
Excess liabilities over the plan's assets	**1,578**	**1,403**	**1,815**
Excess liabilities of the program included in the item "other liabilities"	**1,578**	**1,403**	**1,815**
Amounts included in the other liabilities item:			
Long-service ("jubilee") awards	266	248	305
Post retirement benefits to retirees	609	539	613
Vacation	172	152	150
Illness	8	7	8
Total Excess liabilities of the program included in the item "other liabilities"	**2,633**	**2,349**	**2,891**
Of which – in respect of benefits to employees abroad	35	28	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 March 31,				For the year ended 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					
Commitment in respect of anticipated benefits at the beginning of the period	3,133	3,213	613	673	3,213	673
Cost of service	26	22	2	1	90	6
Cost of interest	15	18	4	4	75	16
Actuarial loss (profit)	(34)	(367)	(2)	(132)	(2)886	(3)
Changes in foreign currency exchange rates	-	(1)	1	1	(1)	(1)
Benefits paid	(323)	(42)	(9)	(8)	(1,130)	(78)
Commitment at the end of the period in respect of anticipated benefits	**2,817**	**2,843**	**609**	**539**	**3,133**	**613**
Commitment at the end of the period in respect of accumulated benefits(1)	**2,414**	**2,487**	**609**	**539**	**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 555 million in respect of the 2020 retirement plan , see Note 23 to the financial statements as of December 31, 2020.

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 March 31,		For the year ended December 31,
	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	1,318	1,625	1,625
Actual return on the plan's assets	40	(157)	48
Deposits by the Bank to the plan	5	7	23
Benefits paid	(124)	(35)	(378)
Fair value of the program's assets at the end of the period	**1,239**	**1,440**	**1,318**
Financing status - net liability, recognized at the end of the period	**(1,578)**	**(1,403)**	**(1,815)**

1.3 AMOUNTS RECOGNIZED IN THE CONSOLIDATED BALANCE SHEET

	Unaudited				Audited	
	March 31				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"	(1,578)	(1,403)	(609)	(539)	(1,815)	(613)
Net liability at the end of the period	**(1,578)**	**(1,403)**	**(609)**	**(539)**	**(1,815)**	**(613)**

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

	Unaudited				Audited	
	March 31				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 profit (loss)	(957)	(515)	(51)	78	(1,152)	(53)
Net cost in respect of prior service	-	-	1	3	-	2
Closing balances of accumulated other comprehensive income (loss)	**(957)**	**(515)**	**(50)**	**81**	**(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
	March 31		December 31
	2021	2020	2020
	Severance pay, retirement and pension payments		
	in NIS millions		
Commitment in respect of cumulative benefits	2,281	2,356	2,561
Fair value of the plan's assets	1,089	1,267	1,146

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

	Unaudited		Audited
	March 31		December 31
	2021	2020	2020
	Severance pay, retirement and pension payments		
	in NIS millions		
Commitment in respect of anticipated benefits	2,817	2,843	3,133
Fair value of the plan's assets	1,239	1,440	1,318

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 March 31,		For the year ended December,
	2021	2020	2020
	in NIS millions		
Severance pay, retirement and pension payments			
Cost of service	26	22	90
Cost of interest	15	18	75
Anticipated return on assets of the plan	(15)	(11)	(58)
Amortization of unrecognized amounts:			
Net actuarial loss	21	14	65
Total amortization of unrecognized amounts	**21**	**14**	**65**
Other, including loss from reduction or settlement	115	6	413
Total net cost of benefits	**162**	**49**	**585**
Total expense regarding defined deposits pension plans	**47**	**49**	**201**
Total expenses included in respect Severance pay, retirement and pension payments	**209**	**98**	**786**
Of which: expenses included in salaries and related expenses	73	71	291
Of which: expenses included in other expenses	136	27	495
Post retirement retiree benefits			
Cost of service	2	1	6
Cost of interest	4	4	16
Amortization of unrecognized amounts:			
Net actuarial income	-	-	(2)
Cost of prior service	(1)	-	(1)
Total amortization of unrecognized amounts	**(1)**	**-**	**(3)**
Total net cost of benefits	**5**	**5**	**19**
Of which: expenses included in salaries and related expenses	2	1	6
Of which: expenses included in other expenses	3	4	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 March 31,				For the year ended 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 (income) for the period	(59)	(199)	(2)	(132)	896	(3)
Amortization of actuarial (loss) income	(21)	(14)	-	-	(65)	2
Amortization of credit in respect of prior service	-	-	1	-	-	1
Other, including profit from reduction or settlement	(115)	(6)	-	-	(413)	-
Total recognized in other comprehensive loss (income)	**(195)**	**(219)**	**(1)**	**(132)**	**418**	**-**
Total net cost of benefits[1]	**162**	**49**	**5**	**5**	**585**	**19**
Total amount recognized in net cost of benefits and in other comprehensive income (loss)	**(33)**	**(170)**	**4**	**(127)**	**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
	March 31		December 31	March 31		December 31
	2021	2020	2020	2021	2020	2020
	Severance pay, retirement and pension payments			Post retirement retiree benefits		
Discount rate	-0.01%-0.85%	1.81%-2.34%	0.05%-0.85%	-0.43%-1.09%	1.80%-2.51%	-0.08%-1.05%

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

	Unaudited		Audited	Unaudited		Audited
	March 31		December 31	March 31		December 31
	2021	2020	2020	2021	2020	2020
	Severance pay, retirement and pension payments			Post retirement retiree benefits		
Discount rate	0.05%-0.85%	0.11%-0.93%	0.69%-1.34%	-0.08%-1.05%	-0.13%-1.15%	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		
	March 31		December 31	March 31		December 31	March 31		December 31	March 31		December 31
	2021	2020	2020	2021	2020	2020	2021	2020	2020	2021	2020	2020
	in NIS millions											
Discount rate	(243)	(242)	(284)	(41)	(23)	(45)	253	251	300	41	23	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 March 31,		For the year ended December 31,
	2021	2021	2020	2021
	Severance pay, retirement and pension payments			
	in NIS millions			
Deposits	19	5	6	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 tier 1 target and the total capital 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. 0.17%. 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 March 31, 2021 to NIS 8,065 million.

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)

(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 220 million have been amortized to March 31, 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 52 million have been amortized to March 31, 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 25 million have been amortized to March 31, 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 16 million have been amortized to March 31, 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 3 million have been amortized to March 31, 2021. Additional details regarding this matter are given in Note 25 section 1 c (5) to the 2020 annual report.

(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.

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)

E. Capital for calculating ratio of capital

	Unaudited		Audited
	March 31,		December 31,
	2021	2020	2020
	in NIS millions		
Common equity tier 1 after deductions	(1)20,333	(1)19,218	(1)19,707
Additional tier 1 capital after deductions	178	356	356
Tier 1 capital	20,511	19,574	20,063
Tier 2 capital after deductions	5,211	5,588	5,170
Total capital	**25,722**	**25,162**	**25,233**

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

F. Weighted risk assets balance

	Unaudited		Audited
	March 31,		December 31,
	2021	2020	2020
	in NIS millions		
Credit risk[1]	178,806	171,162	173,317
Market Risk	4,039	4,542	3,337
CVA risk	1,491	2,216	1,763
Operational risk	14,991	14,379	14,815
Total weighted risk assets balance	**199,327**	**192,299**	**193,232**

Footnote:
(1) The total weighted balances of the risk assets have been reduced by NIS 415 million (March 31, 2020: NIS 10 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
	March 31,		December 31,
	2021	2020	2020
	In %		
A. Consolidated			
Ratio of common equity tier 1 to risk assets	10.20	9.99	10.20
Ratio of total capital to risk assets	12.90	13.09	13.06
Ratio of minimum common equity tier 1 required by the Supervisor of Banks[(3)(5)]	8.17	8.20	8.18
Minimum total capital adequacy ratio required by the Supervisor of Banks[(3)(5)]	11.67	11.70	11.68
B. Significant subsidiaries			
1. Mercantile Discount Bank LTD. and its consolidated companies			
Ratio of common equity tier 1 to risk assets	11.5	11.2	11.4
Ratio of total capital to risk assets	13.7	13.8	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[(4)(5)]	11.7	11.7	11.7
2. Discount Bancorp Inc. [(1)]			
Ratio of common equity tier 1 to risk assets	14.0	13.7	14.1
Ratio of total capital to risk assets	15.2	14.9	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	13.9	13.0	13.8
Ratio of total capital to risk assets	15.0	14.1	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 0.17% (March 31, 2020: 0.20%, 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 0.19% (March 31, 2020: 0.21%, 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

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
	March 31,		December 31,
	2021	2020	2020
	in NIS millions		
A. Common Equity Tier 1			
Common equity	20,398	19,444	19,727
Difference between common equity and common equity tier 1	(259)	(216)	(246)
Total common equity tier 1 before supervisory adjustments and deductions	**20,139**	**19,228**	**19,481**
Supervisory adjustments and deductions			
Goodwill and other intangible assets	207	164	207
Supervisory adjustments and other deductions	(19)	(19)	(16)
Total supervisory adjustments and deductions before adjustments in respect to the efficiency plan	**188**	**145**	**191**
Total adjustments in respect to the efficiency plan	382	135	417
Total common equity tier 1 after supervisory adjustments and deductions	**20,333**	**19,218**	**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	2,870	3,334	2,896
Allowance for credit losses before deductions	2,254	2,167	2,188
Minority interests in a subsidiary	87	87	86
Total tier 2 capital before deductions	5,211	5,588	5,170
Deductions	-	-	-
Total tier 2 capital	**5,211**	**5,588**	**5,170**

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

	Unaudited		Audited
	March 31,		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	9.99	9.92	9.96
Effect of the adjustments in respect to the efficiency plan	0.21	0.07	0.24
Ratio of common equity tier 1 to risk assets after the effect of the adjustments in respect to the efficiency plan	10.20	9.99	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
	March 31,		December 31,
	2021	2020	2020
	in NIS millions		
A. Consolidated			
Tier 1 capital[(1)]	20,511	19,574	20,063
Total exposures	334,052	299,425	319,222
	In %		
Leverage ratio	6.1	6.5	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	6.2	6.6	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	10.7	10.3
Minimal Leverage ratio required by the Supervisor of Banks	4.0	4.0	4.0
3. Israel Credit Cards LTD.			
Leverage ratio	8.6	8.3	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 items 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		
	March 31,		December 31,
	2021	2020	2020
	In %		
A. Consolidated			
Liquidity coverage ratio	145.6	128.8	147.5
Minimal Liquidity coverage ratio required by the Supervisor of Banks	100.0	100.0	100.0
B. The Bank			
Liquidity coverage ratio	161.2	148.2	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	144.5	134.9	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
	March 31		December 31
	2021	2020	2020
	in NIS millions		
1. Commitment to acquire buildings and equipment(1)	647	658	(2)661
2. Commitment to invest in private investment funds and in venture capital funds	751	566	708

Footnotes:

(1) Mainly due to the Discount campus establishment, see item 6 (b).

(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 587 million as of March 31, 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.

10. Contingent liabilities and special commitments (continued)

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

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.

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 until June 1, 2021. 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.

A judicial prehearing was scheduled for June 2, 2021.

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.

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 a response on February 14, 2021 and the Claimants' will file their comments by May 23, 2021. A pre-trial was fixed for July 15, 2021. 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 4.5 below.

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.

10. Contingent liabilities and special commitments (continued)

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.

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 2.5 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. On reaching an agreement, as stated, among only a part of the appellants, the Court granted the parties an additional period for the submission of an updated notice.

4.3 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.

4.4 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.

10. Contingent liabilities and special commitments (continued)

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.

4.5 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 July 13, 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 March 31, 2021, to NIS 440 million. The balance of the commitment in respect of this project amounted at that date to NIS 560 million. Additional liabilities in the amount of approx. NIS 215 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		
	March 31, 2021			March 31, 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	6,025	7,060	13,085	7,332	11,351	18,683	7,177	5,987	13,164
Options written	20	859	879	393	5,312	5,705	34	792	826
Options purchased	54	1,376	1,430	453	2,732	3,185	73	892	965
Swaps[(1)]	6,804	110,685	117,489	15,759	125,687	141,446	9,539	103,393	112,932
Total[(2)]	**12,903**	**119,980**	**132,883**	**23,937**	**145,082**	**169,019**	**16,823**	**111,064**	**127,887**
Of which: Hedging derivatives[(5)]	3,645	-	3,645	5,244	-	5,244	4,123	-	4,123
Foreign currency contracts									
Forward and Futures contracts[(3)]	1,953	38,834	40,787	3,984	30,092	34,076	2,098	33,026	35,124
Options written	34	14,156	14,190	-	17,325	17,325	34	15,646	15,680
Options purchased	35	15,308	15,343	-	16,115	16,115	34	14,813	14,847
Swaps	16,028	83,154	99,182	43,321	41,351	84,672	15,595	76,536	92,131
Total	**18,050**	**151,452**	**169,502**	**47,305**	**104,883**	**152,188**	**17,761**	**140,021**	**157,782**
Contracts on shares									
Forward and Futures contracts	-	-	-	-	-	-	-	-	-
Options written	95	9,167	9,262	159	4,540	4,699	92	8,194	8,286
Options purchased[(4)]	99	9,167	9,266	165	4,540	4,705	95	8,194	8,289
Swaps	-	878	878	-	549	549	-	865	865
Total	**194**	**19,212**	**19,406**	**324**	**9,629**	**9,953**	**187**	**17,253**	**17,440**
Commodities and other contracts									
Forward and Futures contracts	-	5	5	-	1,686	1,686	-	371	371
Options written	3	3	6	21	4	25	19	3	22
Options purchased	3	3	6	21	4	25	19	3	22
Total	**6**	**11**	**17**	**42**	**1,694**	**1,736**	**38**	**377**	**415**
Total stated amount	**31,153**	**290,655**	**321,808**	**71,608**	**261,288**	**332,896**	**34,809**	**268,715**	**303,524**

Footnotes:

	March 31, 2021	March 31, 2020	December 31, 2020
(1) Of which: swaps on which the Bank pays a fixed interest	34,741	43,613	35,319
(2) Of which: shekel/CPI swaps	13,171	12,517	13,208
(3) Of which: spot foreign currency swap contracts	2,047	2,764	1,640
(4) Of which: traded on the Stock Exchange	10,805	5,794	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					
	March 31, 2021					
Interest rate contracts	280	2,155	2,435	278	2,086	2,364
Of which: Hedging	194	-	194	74	-	74
Foreign currency contracts	434	1,680	2,114	378	1,629	2,007
Contracts on shares	5	552	557	5	552	557
Commodities and other contracts	-	-	-	-	-	-
Total assets/liabilities in respect of derivatives gross(1)	**719**	**4,387**	**5,106**	**661**	**4,267**	**4,928**
Amounts offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance	719	4,387	5,106	661	4,267	4,928
Of which: not subject to net settlement arrangement or similar arrangements	-	550	550	1	565	566
	Unaudited					
	March 31, 2020					
Interest rate contracts	308	3,929	4,237	579	4,368	4,947
Of which: Hedging	52	-	52	328	-	328
Foreign currency contracts	778	2,174	2,952	668	1,704	2,372
Contracts on shares	6	530	536	6	530	536
Commodities and other contracts	1	40	41	1	38	39
Total assets/liabilities in respect of derivatives gross(1)	**1,093**	**6,673**	**7,766**	**1,254**	**6,640**	**7,894**
Amounts offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance	1,093	6,673	7,766	1,254	6,640	7,894
Of which: not subject to net settlement arrangement or similar arrangements	-	866	866	23	509	532
	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 (March 31, 2020: NIS 9 million, December 31, 2020: NIS 10 million) positive gross fair value of assets stemming from embedded derivative instruments.
Of which: NIS 9 million (March 31, 2020: NIS 16 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 March 31		For the year ended December 31
	2021	2020	2020
	Interest income (expenses)		
	In NIS millions		
Profit (loss) on fair value hedge			
Interest rate contracts			
Hedged items	(185)	185	24
Hedging derivatives	179	(187)	(34)

2. Items hedged by fair value hedge

	Unaudited					
	March 31, 2021			March 31, 2020		
	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
	In NIS millions					
Securities	2,698	(23)	18	3,385	258	-
Credit to the public	-	-	-	(1)357	-	-
Deposits from the public	1,310	(15)	-	1,306	(44)	-

Footnote:
(1) 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 March 31		For the year ended December 31
	2021	2020	
	Profit (loss) recognized in income (expenses) from activity in derivative instruments[(1)]		
	In NIS millions		
Interest rate contracts	549	12	34
Foreign currency contracts	165	656	(1,035)
Contracts on shares	-	1	-
Commodities and other contracts	-	-	-
Total	**714**	**669**	**(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
	Unaudited					
	In NIS millions					
	March 31, 2021					
Balance sheet balance of assets in respect of derivative instruments(2)	77	1,782	7	57	3,183	5,106
Gross amounts not offset in the balance sheet:						
Credit risk mitigation in respect of financial instruments(5)	-	(1,453)	(3)	(12)	(1,590)	(3,058)
Credit risk mitigation in respect of cash collateral received	-	(299)	(2)	-	(157)	(458)
Net amount of assets in respect of derivative instruments	**77**	**30**	**2**	**45**	**1,436**	**1,590**
Off-balance sheet credit risk in respect of derivative instruments(1)	267	91	12	29	679	1,078
Total credit risk in respect of derivative instruments(4)	**344**	**1,873**	**19**	**86**	**3,862**	**6,184**
Balance sheet balance of liabilities in respect of derivative instruments(3)	463	2,219	32	12	2,202	4,928
Gross amounts not offset in the balance sheet:						
Financial instruments	-	(1,453)	(3)	(12)	(1,590)	(3,058)
Pledged cash collateral	-	(715)	-	-	(198)	(913)
Net amount of liabilities in respect of derivative instruments	**463**	**51**	**29**	**-**	**414**	**957**
	Unaudited					
	March 31, 2020					
Balance sheet balance of assets in respect of derivative instruments(2)	85	2,456	23	377	4,825	7,766
Gross amounts not offset in the balance sheet:						
Credit risk mitigation in respect of financial instruments(5)	-	(2,007)	(14)	-	(3,013)	(5,034)
Credit risk mitigation in respect of cash collateral received	-	(423)	-	-	(55)	(478)
Net amount of assets in respect of derivative instruments	**85**	**26**	**9**	**377**	**1,757**	**2,254**
Off-balance sheet credit risk in respect of derivative instruments(1)	139	141	94	38	536	948
Total credit risk in respect of derivative instruments(4)	**224**	**2,597**	**117**	**415**	**5,361**	**8,714**
Balance sheet balance of liabilities in respect of derivative instruments(3)	389	3,048	91	4	4,362	7,894
Gross amounts not offset in the balance sheet:						
Financial instruments	-	(2,007)	(14)	-	(3,013)	(5,034)
Pledged cash collateral	-	(994)	-	(4)	(758)	(1,756)
Net amount of liabilities in respect of derivative instruments	**389**	**47**	**77**	**-**	**591**	**1,104**
	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 5,099 million included in the item assets in respect of derivative instruments (March 31, 2020: NIS 7,757, December 31, 2020: NIS 6,400 million).

(3) Of which: a balance sheet balance of standalone derivative instruments in the amount of NIS 4,919 million included in the item liabilities in respect of derivative instruments (March 31, 2020: NIS 7,878, 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 3,006 million (as of March 31, 2020: NIS 4,958, 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
			In NIS millions		
			Unaudited		
			March 31, 2021		
Interest rate contracts					
Shekel/CPI	626	3,734	7,170	1,641	13,171
Other	3,136	20,599	49,285	46,692	119,712
Foreign currency contracts	77,236	72,497	13,723	6,046	169,502
Contracts on shares	18,747	450	209	-	19,406
Commodities and other contracts	11	-	6	-	17
Total	**99,756**	**97,280**	**70,393**	**54,379**	**321,808**
			Unaudited		
			March 31, 2020		
Total	**104,006**	**90,217**	**70,823**	**67,850**	**332,896**
			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 March 31, 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	608	291	134	1	382
Interest expenses To external sources	35	-	-	10	15
Net interest income from external sources	573	291	134	(9)	367
Net interest income Intersegmental	(105)	(164)	(5)	21	(21)
Total net Interest income	468	127	129	12	346
Non-interest financing income from external sources	174	2	260	(189)	(62)
Non-interest financing income Intersegmental	185	-	-	211	201
Total Non-interest financing income	359	2	260	22	139
Total income	**827**	**129**	**389**	**34**	**485**
Credit loss expenses (expenses release)	(59)	(2)	(1)	-	(93)
Operating and other expenses	798	53	285	24	332
Profit (loss) before taxes	**88**	**78**	**105**	**10**	**246**
Provision for taxes (tax savings) on profit	22	27	37	3	82
Profit after taxes	**66**	**51**	**68**	**7**	**164**
Bank's share in operating income of associates	-	-	-	-	-
Net Profit from ordinary operations before Attributed to the non-controlling interests	66	51	68	7	164
Net Profit (loss) from ordinary operations Attributed to the non-controlling interests	(14)	-	(14)	-	(2)
Net Profit Attributed to the bank's shareholders	**52**	**51**	**54**	**7**	**162**
Average Assets	73,590	42,752	15,854	405	36,572
Of which - Investment in Investee companies	-	-	-	-	-
Of which - Average credit to the public[3]	72,556	42,888	15,572	340	35,825
Balance of credit to the public at the period end[3]	74,653	[4]43,927	16,682	[4]358	36,397
Balance of impaired debts	260	2	121	-	738
Balance of debts (not impaired) in arrears for over ninety days	318	290	-	-	32
Average Liabilities	93,318	102	2,510	17,889	47,774
Of which - Average Deposits from the public	89,423	-	16	17,792	42,975
Balance of deposits from the public at the period end	90,149	-	16	18,115	45,012
Average Risk-assets[1]	53,110	24,552	13,685	516	34,580
Balance of Risk-assets at the period end [1]	53,476	25,006	13,809	513	34,493
Average assets under management[2]	32,488	361	-	22,445	28,432
Net interest income:					
Margin from credit activity to the public	418	127	129	1	324
Margin from deposits activity from the public	50	-	-	11	22
Other	-	-	-	-	-
Total net interest income	**468**	**127**	**129**	**12**	**346**

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 3,071 million.

					International operations	
Medium businesses	Large businesses	Institutional bodies	Financial management	Total Domestic operations	Total International operations	Total
102	279	5	105	1,482	229	1,711
4	19	10	84	177	30	207
98	260	(5)	21	1,305	199	1,504
(10)	(49)	15	149	-	-	-
88	211	10	170	1,305	199	1,504
(26)	(28)	(47)	1,143	965	68	1,033
58	137	49	(841)	-	-	-
32	109	2	302	965	68	1,033
120	**320**	**12**	**472**	**2,270**	**267**	**2,537**
3	(57)	(1)	2	(205)	58	(147)
65	147	15	105	1,486	166	1,652
52	**230**	**(2)**	**365**	**989**	**43**	**1,032**
17	78	(2)	139	339	14	353
35	**152**	**-**	**226**	**650**	**29**	**679**
-	-	-	-	-	-	-
35	152	-	226	650	29	679
-	(2)	-	1	(17)	-	(17)
35	**150**	**-**	**227**	**633**	**29**	**662**
13,170	44,856	1,139	93,084	262,816	34,545	297,361
-	-	-	350	350	-	350
13,157	44,864	984	-	167,726	23,811	191,537
13,139	46,521	783	-	171,851	25,050	196,901
357	528	274	-	2,157	252	2,409
-	-	-	1,557	1,907	-	1,907
11,277	32,975	16,326	27,624	247,183	30,959	278,142
9,999	27,735	16,292	-	204,216	28,727	232,943
9,819	28,649	17,450	-	209,194	31,593	240,787
13,194	48,856	1,352	16,460	168,068	28,212	196,280
13,482	49,858	1,341	17,362	170,525	28,802	199,327
8,041	43,762	72,687	151	208,006	13,175	221,181
85	207	5	-	1,040	143	1,183
3	4	5	-	95	33	128
-	-	-	170	170	23	193
88	**211**	**10**	**170**	**1,305**	**199**	**1,504**

12. Regulatory Operating Segments (continued)

D. Information regarding regulatory operating segments, consolidated (continued)

	Unaudited				
	For the three months ended March 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	569	210	139	1	409
Interest expenses To external sources	37	-	-	28	30
Net interest income from external sources	532	210	139	(27)	379
Net interest income Intersegmental	(13)	(103)	(7)	49	8
Total net Interest income	519	107	132	22	387
Non-interest financing income from external sources	226	4	268	(157)	(31)
Non-interest financing income Intersegmental	172	-	-	176	176
Total Non-interest financing income	398	4	268	19	145
Total income	**917**	**111**	**400**	**41**	**532**
Credit loss expenses	210	29	101	1	190
Operating and other expenses	(4) 739	(4) 44	(4) 295	(4) 23	(4) 312
Profit (loss) before taxes	**(32)**	**38**	**4**	**17**	**30**
Provision for taxes (tax savings) on profit	(4)(13)	(4) 17	(4)-	(4) 6	(4) 12
Profit (loss) after taxes	**(19)**	**21**	**4**	**11**	**18**
Bank's share in operating income of associates	-	-	-	-	-
Net Profit (loss) from ordinary operations before Attributed to the non-controlling interests	(19)	21	4	11	18
Loss from ordinary operations Attributed to the non-controlling interests	2	-	2	-	-
Net Profit (loss) Attributed to the bank's shareholders	**(17)**	**21**	**6**	**11**	**18**
Average Assets	70,770	37,209	16,837	375	(7)36,459
Of which - Investment in Investee companies	-	-	-	-	-
Of which - Average credit to the public(3)	69,841	37,289	16,595	311	(7)35,952
Balance of credit to the public at the period end(3)	69,345	(5)37,981	15,834	(5)326	(7)36,291
Balance of impaired debts	197	5	61	-	594
Balance of debts (not impaired) in arrears for over ninety days	415	366	-	-	57
Average Liabilities	81,396	99	2,736	16,302	(7)43,872
Of which - Average Deposits from the public	77,270	-	17	16,192	(7)38,104
Balance of deposits from the public at the period end	83,630	-	15	18,107	(7)39,337
Average Risk-assets(1)	51,402	21,156	13,554	495	35,225
Balance of Risk-assets at the period end (1)	51,616	21,530	13,564	502	34,689
Average assets under management(2)	36,236	369	-	20,368	29,112
Net interest income:					
Margin from credit activity to the public	428	107	132	1	345
Margin from deposits activity from the public	91	-	-	21	42
Other	-	-	-	-	-
Total net interest income	**519**	**107**	**132**	**22**	**387**

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 2,683 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
97	275	6	115	1,472	319	1,791
9	29	32	67	232	104	336
88	246	(26)	48	1,240	215	1,455
(2)	(51)	35	(26)	-	-	-
86	195	9	22	1,240	215	1,455
(34)	38	(101)	1,109	1,050	106	1,156
63	54	104	(745)	-	-	-
29	92	3	364	1,050	106	1,156
115	**287**	**12**	**386**	**2,290**	**321**	**2,611**
52	149	1	-	603	53	656
[4] 60	[4] 135	[4] 16	[4] 86	1,371	160	1,531
3	**3**	**(5)**	**300**	**316**	**108**	**424**
[4] 2	[4] -	[4] (2)	[4] 110	115	36	151
1	**3**	**(3)**	**190**	**201**	**72**	**273**
-	-	-	4	4	-	4
1	3	(3)	194	205	72	277
-	-	-	-	2	-	2
1	**3**	**(3)**	**194**	**207**	**72**	**279**
[7]12,919	[7]38,781	825	72,187	232,316	33,326	265,642
-	-	-	170	170	-	170
[7]12,866	[7]38,591	709	-	158,270	23,590	181,860
[7]12,974	[7]41,336	770	-	161,042	25,173	186,215
240	845	274	-	2,150	156	2,306
-	-	-	-	472	-	472
[7]8,582	[7]25,334	18,790	22,845	217,121	29,603	246,724
[7]7,436	[7]21,460	18,757	-	179,219	26,196	205,415
[7]7,652	[7]21,058	15,744	-	185,528	28,139	213,667
13,177	42,944	1,320	14,765	159,328	29,045	188,373
12,747	44,378	1,381	16,717	162,030	30,269	192,299
10,986	34,245	75,897	[6]806	207,650	12,237	219,887
81	185	4	-	1,044	158	1,202
5	10	5	-	174	41	215
-	-	-	22	22	16	38
86	**195**	**9**	**22**	**1,240**	**215**	**1,455**

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 arrears 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

	Retail banking	Middle market banking	Corporate banking	Financial management	Discount Capital[1]	Discount Bancorp[1]	Israel Credit Cards[1]	other	Adjustments	Total
	Unaudited									
	In NIS millions									
	For the three months ended March 31, 2021									
Net interest income	606	164	235	166	4	199	129	-	1	1,504
Non-interest income	269	40	83	245	35	68	318	14	(39)	1,033
Total income	**875**	**204**	**318**	**411**	**39**	**267**	**447**	**14**	**(38)**	**2,537**
Credit loss expenses (expenses release)	(91)	(6)	(104)	-	-	58	(4)	-	-	(147)
Operating and other expenses	804	100	147	85	14	167	364	9	(38)	1,652
Income (loss) before taxes	162	110	275	326	25	42	87	5	-	1,032
Provision for taxes (tax saving) on income	45	37	92	127	3	14	33	2	-	353
Income (loss) after taxes	117	73	183	199	22	28	54	3	-	679
Bank's share in income of associates, net of tax effect	1	-	-	2	(2)	-	-	-	(1)	-
Net income before attributed to the non-controlling interests	118	73	183	201	20	28	54	3	(1)	679
Net income attributed to the non-controlling interests	-	-	-	-	-	-	(17)	(1)	1	(17)
Net income attributed to the non-controlling interests	**118**	**73**	**183**	**201**	**20**	**28**	**37**	**2**	**-**	**662**
Balance of Assets	87,715	25,349	54,442	100,848	1,807	38,894	19,384	6,394	(28,691)	306,142
Balance of credit to the public	85,028	25,822	50,383	-	49	25,050	18,729	-	(8,160)	196,901
Balance of deposits from the public	150,666	21,926	37,149	5,531	-	31,593	16	-	(6,094)	240,787
	For the three months ended March 31, 2020									
Net interest income	691	169	216	28	3	212	134	1	1	1,455
Non-interest income	282	35	98	320	4	104	338	13	(38)	1,156
Total income	**973**	**204**	**314**	**348**	**7**	**316**	**472**	**14**	**(37)**	**2,611**
Credit loss expenses	253	81	165	-	-	53	104	-	-	656
Operating and other expenses	[2]709	[2]102	[2]129	[2]76	7	159	380	7	(38)	1,531
Income (loss) before taxes	11	21	20	272	-	104	(12)	7	1	424
Provision for taxes (tax saving) on income	[2]7	[2]8	[2]7	[2]96	1	35	(6)	3	-	151
Income (loss) after taxes	4	13	13	176	(1)	69	(6)	4	1	273
Bank's share in income of associates, net of tax effect	1	-	-	1	4	-	-	-	(2)	4
Net income before attributed to the non-controlling interests	5	13	13	177	3	69	(6)	4	(1)	277
Net income attributed to the non-controlling interests	-	-	-	-	-	-	2	(1)	1	2
Net income attributed to the non-controlling interests	**5**	**13**	**13**	**177**	**3**	**69**	**(4)**	**3**	**-**	**279**
Balance of Assets	83,340	25,922	54,001	78,792	1,588	39,200	18,359	7,794	(32,592)	276,404
Balance of credit to the public	78,722	26,147	48,406	-	40	25,173	17,761	-	(10,034)	186,215
Balance of deposits from the public	136,382	19,150	30,729	7,112	-	28,139	15	-	(7,860)	213,667

footnotes:

(1) The contribution to the Bank's business results.

(2) Reclassified, see Note 12 B.

13. Managerial Operating Segments (continued)

	Retail banking	Middle market banking	Corporate banking	Financial management	Discount Capital[1]	Discount Bancorp[1]	Israel Credit Cards[1]	other	Adjustments	Total
	Audited									
	In NIS millions									
	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 March 31, 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	(91)	(2)	(56)	(149)	2	(147)
Accounting write-offs	(100)	(3)	(65)	(168)	-	(168)
Collection of debts written-off in previous years	55	1	62	118	-	118
Net accounting write-offs	(45)	(2)	(3)	(50)	-	(50)
Adjustments from translation of financial statements	15	-	-	15	-	15
Balance of allowance for credit losses, as at March 31, 2021	**2,696**	**254**	**925**	**3,875**	**17**	**3,892**
Of which: In respect of off-balance sheet credit instruments	188	-	78	266	-	266
	Three months ended March 31, 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	441	30	185	656	-	656
Accounting write-offs	(138)	-	(135)	(273)	-	(273)
Collection of debts written-off in previous years	63	-	72	135	-	135
Net accounting write-offs	(75)	-	(63)	(138)	-	(138)
Adjustments from translation of financial statements	10	-	-	10	-	10
Balance of allowance for credit losses, as at March 31, 2020	**2,199**	**237**	**839**	**3,275**	**1**	**3,276**
Of which: In respect of off-balance sheet credit instruments	184	-	63	247	-	247

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					
	March 31, 2021					
Recorded amount of debts:						
Examined on a specific basis[(1)]	92,300	2	645	92,947	6,439	99,386
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	[(2)]230	44,201	-	44,431	-	44,431
Group - other	28,049	144	31,330	59,523	1,038	60,561
Total debts	**120,579**	**44,347**	**31,975**	**196,901**	**7,477**	**204,378**
Allowance for Credit Losses in respect of debts:						
Examined on a specific basis[(1)]	2,040	-	145	2,185	-	2,185
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	467	1	702	1,170	17	1,187
Total allowance for Credit Losses	**2,508**	**254**	**847**	**3,609**	**17**	**3,626**
	March 31, 2020					
Recorded amount of debts:						
Examined on a specific basis[(1)]	87,760	5	637	88,402	6,546	94,948
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	[(2)]203	38,189	-	38,392	-	38,392
Group - other	27,029	197	32,195	59,421	666	60,087
Total debts	**114,992**	**38,391**	**32,832**	**186,215**	**7,212**	**193,427**
Allowance for Credit Losses in respect of debts:						
Examined on a specific basis[(1)]	1,592	-	87	1,679	-	1,679
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	[(3)]1	[(3)]235	-	236	-	236
Group - other	422	2	689	1,113	1	1,114
Total allowance for Credit Losses	**2,015**	**237**	**776**	**3,028**	**1**	**3,029**

Footnotes:

(1) Including credit examined on a specific basis and found not to be impaired in an amount of NIS 96,977 million (March 31, 2020 - NIS 92,642 million) and the allowance in its respect in an amount of NIS 1,680 million (March 31, 2020 - NIS 1,305 million) computed on a group basis.

(2) The balance of commercial debts includes housing loans in the amount of NIS 230 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 March 31, 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 (March 31, 2020 - NIS 4 million), and computed on a group basis, in an amount of NIS 184 million (March 31, 2020 - NIS 157 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					
	March 31, 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	17,029	241	122	17,392	4	54
Construction and Real Estate - Real Estate Activity	11,275	157	140	11,572	3	20
Financial Services	9,927	52	297	10,276	-	6
Commercial - Other	51,361	1,618	970	53,949	25	86
Total Commercial	**89,592**	**2,068**	**1,529**	**93,189**	**32**	**166**
Private Individuals - Housing Loans	43,855	[5]290	2	44,147	285	79
Private Individuals - Other Loans	30,093	354	258	30,705	28	116
Total Public - Activity in Israel	**163,540**	**2,712**	**1,789**	**168,041**	**345**	**361**
Banks in Israel	894	-	-	894	-	-
Government of Israel	1,764	-	-	1,764	-	-
Total Activity in Israel	**166,198**	**2,712**	**1,789**	**170,699**	**345**	**361**
Lending Activity Abroad						
Public - Commercial						
Construction and Real Estate	8,997	1,337	235	10,569	-	-
Commercial - Other	14,758	1,678	385	16,821	-	27
Total Commercial	**23,755**	**3,015**	**620**	**27,390**	**-**	**27**
Private Individuals	1,421	49	-	1,470	5	5
Total Public - Activity Abroad	**25,176**	**3,064**	**620**	**28,860**	**5**	**32**
Foreign banks	3,063	-	-	3,063	-	-
Foreign governments	1,756	-	-	1,756	1,557	10
Total Activity Abroad	**29,995**	**3,064**	**620**	**33,679**	**1,562**	**42**
Total public	**188,716**	**5,776**	**2,409**	**196,901**	**350**	**393**
Total banks	**3,957**	**-**	**-**	**3,957**	**-**	**-**
Total governments	**3,520**	**-**	**-**	**3,520**	**1,557**	**10**
Total	**196,193**	**5,776**	**2,409**	**204,378**	**1,907**	**403**

For footnotes see page 155.

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					
	March 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	14,875	164	119	15,158	8	33
Construction and Real Estate - Real Estate Activity	10,663	60	136	10,859	2	22
Financial Services	7,546	57	424	8,027	-	2
Commercial - Other	51,575	1,141	1,099	53,815	47	152
Total Commercial	**84,659**	**1,422**	**1,778**	**87,859**	**57**	**209**
Private Individuals - Housing Loans	37,759	[5]380	5	38,144	360	117
Private Individuals - Other Loans	30,888	390	192	31,470	49	185
Total Public - Activity in Israel	**153,306**	**2,192**	**1,975**	**157,473**	**466**	**511**
Banks in Israel	656	-	-	656	-	-
Government of Israel	2,853	-	-	2,853	-	-
Total Activity in Israel	**156,815**	**2,192**	**1,975**	**160,982**	**466**	**511**
Lending Activity Abroad						
Public - Commercial						
Construction and Real Estate	9,484	451	224	10,159	-	-
Commercial - Other	16,318	549	107	16,974	-	8
Total Commercial	**25,802**	**1,000**	**331**	**27,133**	**-**	**8**
Private Individuals	1,599	10	-	1,609	6	2
Total Public - Activity Abroad	**27,401**	**1,010**	**331**	**28,742**	**6**	**10**
Foreign banks	2,150	-	-	2,150	-	-
Foreign governments	1,553	-	-	1,553	-	-
Total Activity Abroad	**31,104**	**1,010**	**331**	**32,445**	**6**	**10**
Total public	**180,707**	**3,202**	**2,306**	**186,215**	**472**	**521**
Total banks	**2,806**	**-**	**-**	**2,806**	**-**	**-**
Total governments	**4,406**	**-**	**-**	**4,406**	**-**	**-**
Total	**187,919**	**3,202**	**2,306**	**193,427**	**472**	**521**

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 104 million are classified as unimpaired problematic debts (March 31, 2020 - NIS 198 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 (March 31, 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				
	March 31, 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	80	17	42	122	1,021
Construction and Real Estate - Real Estate Activity	73	6	67	140	548
Financial Services	297	22	-	297	391
Commercial - Other	855	261	115	970	2,881
Total Commercial	**1,305**	**306**	**224**	**1,529**	**4,841**
Private Individuals - Housing Loans	2	[4]-	-	2	2
Private Individuals - Other Loans	241	128	17	258	581
Total Public - Activity in Israel	**1,548**	**434**	**241**	**1,789**	**5,424**
Total Activity in Israel	**1,548**	**434**	**241**	**1,789**	**5,424**
Lending Activity Abroad					
Public - Commercial					
Construction and Real Estate	133	51	102	235	630
Commercial - Other	230	20	155	385	437
Total Commercial	**363**	**71**	**257**	**620**	**1,067**
Private Individuals	-	-	-	-	-
Total Public - Activity Abroad	**363**	**71**	**257**	**620**	**1,067**
Total Activity Abroad	**363**	**71**	**257**	**620**	**1,067**
Total public	**1,911**	**505**	**498**	**2,409**	**6,491**
Total	**1,911**	**505**	**498**	**2,409**	**6,491**
Of which:					
Measured according to present value of cash flows	1,648	456	97	1,745	
Debts under troubled debt restructurings	1,276	295	267	1,543	

For footnotes see page 158.

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				
	March 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	79	24	40	119	1,023
Construction and Real Estate - Real Estate Activity	59	3	77	136	876
Financial Services	424	33	-	424	526
Commercial - Other	908	212	191	1,099	3,276
Total Commercial	**1,470**	**272**	**308**	**1,778**	**5,701**
Private Individuals - Housing Loans	5	[(4)]-	-	5	5
Private Individuals - Other Loans	148	67	44	192	550
Total Public - Activity in Israel	**1,623**	**339**	**352**	**1,975**	**6,256**
Total Activity in Israel	**1,623**	**339**	**352**	**1,975**	**6,256**
Lending Activity Abroad					
Public - Commercial					
Construction and Real Estate	141	35	83	224	595
Commercial - Other	-	-	107	107	173
Total Commercial	**141**	**35**	**190**	**331**	**768**
Private Individuals	-	-	-	-	-
Total Public - Activity Abroad	**141**	**35**	**190**	**331**	**768**
Total Activity Abroad	**141**	**35**	**190**	**331**	**768**
Total public	**1,764**	**374**	**542**	**2,306**	**7,024**
Total	**1,764**	**374**	**542**	**2,306**	**7,024**
Of which:					
Measured according to present value of cash flows	1,571	337	103	1,674	
Debts under troubled debt restructurings	721	159	308	1,029	

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 March 31					
	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	123	-	-	127	-	-
Construction and Real Estate - Real Estate Activity	151	1	-	165	-	-
Financial Services	298	2	1	436	2	-
Commercial - Other	1,011	4	3	1,137	4	2
Total Commercial	**1,583**	**7**	**4**	**1,865**	**6**	**2**
Private Individuals - Housing Loans	2	-	-	5	-	-
Private Individuals - Other Loans	275	5	3	202	2	1
Total Public - Activity in Israel	**1,860**	**12**	**7**	**2,072**	**8**	**3**
Total Activity in Israel	**1,860**	**12**	**7**	**2,072**	**8**	**3**
Lending Activity Abroad						
Public - Commercial						
Construction and Real Estate	210	-	-	235	1	-
Commercial - Other	393	2	1	93	1	-
Total Commercial	**603**	**2**	**1**	**328**	**2**	**-**
Total Public - Activity Abroad	**603**	**2**	**1**	**328**	**2**	**-**
Total Activity Abroad	**603**	**2**	**1**	**328**	**2**	**-**
Total	**2,463**	**(3) 14**	**8**	**2,400**	**(3) 10**	**3**

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 24 million and NIS 25 million for the three months ended March 31, 2021 and March 31, 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				
	March 31, 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	23	-	-	14	37
Construction and Real Estate - Real Estate Activity	24	-	-	19	43
Financial Services	1	-	-	274	275
Commercial - Other	380	-	1	143	524
Total Commercial	**428**	**-**	**1**	**450**	**879**
Private Individuals - Other Loans	69	-	1	171	241
Total Public - Activity in Israel	**497**	**-**	**2**	**621**	**1,120**
Total Activity in Israel	**497**	**-**	**2**	**621**	**1,120**
Lending Activity Abroad					
Public - Commercial					
Construction and Real Estate	42	-	-	-	42
Commercial - Other	244	-	-	137	381
Total Commercial	**286**	**-**	**-**	**137**	**423**
Total Public - Activity Abroad	**286**	**-**	**-**	**137**	**423**
Total Activity Abroad	**286**	**-**	**-**	**137**	**423**
Total	**783**	**-**	**2**	**758**	**1,543**

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 March 31, 2021, to NIS 24 million (March 31, 2020 - NIS 15 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				
	March 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	26	-	-	10	36
Construction and Real Estate - Real Estate Activity	32	-	-	21	53
Financial Services	-	-	-	273	273
Commercial - Other	249	-	2	108	359
Total Commercial	**307**	**-**	**2**	**412**	**721**
Private Individuals - Other Loans	71	-	1	83	155
Total Public - Activity in Israel	**378**	**-**	**3**	**495**	**876**
Total Activity in Israel	**378**	**-**	**3**	**495**	**876**
Lending Activity Abroad					
Public - Commercial					
Construction and Real Estate	-	-	32	23	55
Commercial - Other	57	-	-	41	98
Total Commercial	**57**	**-**	**32**	**64**	**153**
Total Public - Activity Abroad	**57**	**-**	**32**	**64**	**153**
Total Activity Abroad	**57**	**-**	**32**	**64**	**153**
Total	**435**	**-**	**35**	**559**	**1,029**

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 March 31					
	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	54	4	4	58	11	11
Construction and Real Estate - Real Estate Activity	13	10	10	3	(1)-	(1)-
Financial Services	1	(1)-	(1)-	-	-	-
Commercial - Other	213	139	139	284	56	56
Total Commercial	**281**	**153**	**153**	**345**	**67**	**67**
Private Individuals - Other Loans	1,423	47	46	1,447	30	29
Total Public - Activity in Israel	**1,704**	**200**	**199**	**1,792**	**97**	**96**
Total Activity in Israel	**1,704**	**200**	**199**	**1,792**	**97**	**96**
Lending Activity Abroad						
Public - Commercial						
Construction and Real Estate	-	-	-	-	-	-
Commercial - Other	3	52	52	1	65	65
Total Commercial	**3**	**52**	**52**	**1**	**65**	**65**
Private Individuals	1	(1)-	(1)-	1	(1)-	(1)-
Total Public - Activity Abroad	**4**	**52**	**52**	**2**	**65**	**65**
Total Activity Abroad	**4**	**52**	**52**	**2**	**65**	**65**
Total	**1,708**	**252**	**251**	**1,794**	**162**	**161**

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 March 31			
	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	21	4	35	2
Construction and Real Estate - Real Estate Activity	1	[2]-	1	[2]-
Financial Services	1	[2]-	-	-
Commercial - Other	104	6	146	10
Total Commercial	**127**	**10**	**182**	**12**
Private Individuals - Other	683	5	992	7
Total Public - Activity in Israel	**810**	**15**	**1,174**	**19**
Total Activity in Israel	**810**	**15**	**1,174**	**19**
Lending Activity Abroad				
Public - Commercial				
Commercial - Other	-	-	1	57
Total Commercial	**-**	**-**	**1**	**57**
Private Individuals	-	-	-	-
Total Public - Activity Abroad	**-**	**-**	**1**	**57**
Total Activity Abroad	**-**	**-**	**1**	**57**
Total	**810**	**15**	**1,175**	**76**

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			
	March 31, 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	94.0%	99.3%	97.9%	95.9%	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	4.2%	0.7%	1.3%	2.9%	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	1.8%	-	0.8%	1.2%	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	2.1%	0.6%	2.6%	1.8%	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)	32.3%	84.9%	127.0%	41.4%	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			
		March 31, 2021			
First degree pledge: financing ratio	Up to 60%	28,351	409	16,818	560
	Over 60%	14,819	113	8,920	339
Second degree pledge or without pledge		1,177	141	496	5,747
Total		**(2)44,347**	**663**	**26,234**	**6,646**
		Unaudited			
		March 31, 2020			
First degree pledge: financing ratio	Up to 60%	24,848	398	14,879	329
	Over 60%	12,471	129	7,627	167
Second degree pledge or without pledge		1,072	119	433	3,208
Total		**(2)38,391**	**646**	**22,939**	**3,704**
		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 230 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 (March 31, 2020 - NIS 203 million, December 31, 2020 - NIS 212 million).

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 March 31, 2021					For the three months ended March 31, 2020				
Loans acquired	1,986	-	-	271	2,257	(1)1,205	-	-	1,077	2,282
Loans sold	33	-	-	-	33	121	-	-	-	121

Footnote:

(1) Reclassification following a renewed examination of certain transactions.

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]
	March 31, 2021		March 31, 2020		December 31, 2020	
	in NIS millions					
Transactions in which the balance represents credit risk:						
Letters of credit	1,514	7	1,092	6	1,248	7
Credit guarantees	2,206	39	2,303	32	2,256	42
Guarantees for home purchasers	11,972	4	11,546	3	11,169	4
Other guarantees and obligations	10,396	46	9,588	77	10,801	59
Unutilized facilities for transactions in derivative instruments	3,275	-	1,872	-	2,054	-
Unutilized facilities credit line for credit cards	33,134	60	32,573	54	33,537	67
Unutilized current loan account facilities and other credit facilities in on-call accounts	10,463	43	9,496	30	10,584	47
Irrevocable commitments to extend credit approved but not yet granted[3]	27,014	63	20,377	40	23,199	67
Commitment to issue guarantees	6,004	4	7,257	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 maintaning 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						
	March 31, 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	44,477	24	4,951	427	428	-	50,307
Securities	25,029	1,723	15,255	790	1	1,414	44,212
Securities borrowed or purchased under agreements to resell	1,135	-	-	-	-	-	1,135
Net credit to the public	142,154	19,579	28,882	2,346	331	-	193,292
Credit to the Government	879	257	1,485	899	-	-	3,520
Investments in associates	-	-	-	-	-	355	355
Buildings and equipment	-	-	-	-	-	3,012	3,012
Intangible assets and goodwill	-	-	-	-	-	164	164
Assets in respect of derivative instruments	1,495	135	2,630	113	179	547	5,099
Other assets	2,485	18	1,043	26	96	1,378	5,046
Total assets	**217,654**	**21,736**	**54,246**	**4,601**	**1,035**	**6,870**	**306,142**
Liabilities							
Deposits from the public	164,909	4,689	63,504	5,931	1,754	-	240,787
Deposits from banks	10,843	-	1,358	40	-	-	12,241
Deposits from the Government	134	5	154	-	-	-	293
Bonds and Subordinated debt notes	4,670	5,438	-	28	-	-	10,136
Liabilities in respect of derivative instruments	1,577	175	2,279	181	159	548	4,919
Other liabilities	15,668	777	700	9	24	190	17,368
Total liabilities	**197,801**	**11,084**	**67,995**	**6,189**	**1,937**	**738**	**285,744**
Difference	19,853	10,652	(13,749)	(1,588)	(902)	6,132	20,398
Effect of non-hedging derivative instruments:							
Derivative instruments (except for options)	(17,738)	(2,546)	17,687	1,732	865	-	-
Net options in the money (in terms of underlying asset)	719	-	(507)	(256)	44	-	-
Net options out of the money (in terms of underlying asset)	(289)	-	267	(30)	52	-	-
Total	**2,545**	**8,106**	**3,698**	**(142)**	**59**	**6,132**	**20,398**
Net options in the money (discounted par value)	777	-	(635)	(234)	92	-	-
Net options out of the money (discounted par value)	(1,031)	-	1,020	(227)	238	-	-

Footnote:

(1) Includes those linked to foreign currency.

15. Assets and liabilities according to linkage terms – consolidated (continued)

	Unaudited						
	March 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	24,599	28	3,825	551	389	-	29,392
Securities	25,217	1,213	14,408	673	1	1,093	42,605
Securities borrowed or purchased under agreements to resell	488	-	-	-	-	-	488
Net credit to the public	133,088	17,792	30,027	1,644	636	-	183,187
Credit to the Government	1,631	286	1,522	967	-	-	4,406
Investments in associates	-	-	-	-	-	152	152
Buildings and equipment	-	-	-	-	-	2,641	2,641
Intangible assets and goodwill	-	-	-	-	-	164	164
Assets in respect of derivative instruments	1,809	61	5,052	130	191	514	7,757
Other assets	2,147	20	1,634	41	545	1,225	5,612
Total assets	**188,979**	**19,400**	**56,468**	**4,006**	**1,762**	**5,789**	**276,404**
Liabilities							
Deposits from the public	144,681	4,460	56,610	5,697	2,219	-	213,667
Deposits from banks	3,668	1	3,548	68	54	-	7,339
Deposits from the Government	126	10	99	-	-	-	235
Securities lent or sold under agreements to repurchase	-	-	892	-	-	-	892
Bonds and Subordinated debt notes	5,626	7,413	-	30	-	-	13,069
Liabilities in respect of derivative instruments	1,574	129	5,288	194	177	516	7,878
Other liabilities	12,161	819	563	9	150	178	13,880
Total liabilities	**167,836**	**12,832**	**67,000**	**5,998**	**2,600**	**694**	**256,960**
Difference	21,143	6,568	(10,532)	(1,992)	(838)	5,095	19,444
Effect of non-hedging derivative instruments:							
Derivative instruments (except for options)	(14,316)	(3,797)	15,048	2,367	698	-	-
Net options in the money (in terms of underlying asset)	1,336	-	(1,075)	(357)	96	-	-
Net options out of the money (in terms of underlying asset)	12	-	155	(122)	(45)	-	-
Total	**8,175**	**2,771**	**3,596**	**(104)**	**(89)**	**5,095**	**19,444**
Net options in the money (discounted par value)	1,721	-	(1,449)	(435)	163	-	-
Net options out of the money (discounted par value)	296	-	637	(772)	(161)	-	-

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				
	March 31, 2021				
	Book value	Fair value Level 1[(1)]	Level 2[(1)]	Level 3[(1)]	Total
	in NIS millions				
Financial assets					
Cash and deposits with banks	50,307	19,457	-	30,782	50,239
Securities[(2)]	44,212	28,331	14,941	1,138	44,410
Securities borrowed or purchased under agreements to resell	1,135	-	-	1,135	1,135
Net credit to the public	193,292	2,983	-	191,584	194,567
Credit to Governments	3,520	-	-	3,473	3,473
Assets in respect of derivative instruments	5,099	544	3,355	1,200	5,099
Other financial assets	1,725	1	7	1,717	1,725
Total financial assets	**[(3)]299,290**	**51,316**	**18,303**	**231,029**	**300,648**
Financial liabilities					
Deposits from the public	240,787	29,517	172,939	38,637	241,093
Deposits from banks	12,241	153	4,175	7,820	12,148
Deposits from the Government	293	-	199	96	295
Securities lent or sold under agreements to repurchase	-	-	-	-	-
Bonds and Subordinated debt notes	10,136	9,228	53	1,236	10,517
Liabilities in respect of derivative instruments	4,919	544	4,092	283	4,919
Other financial liabilities [(4)]	13,247	1,244	9	11,994	13,247
Total financial liabilities	**[(3)]281,623**	**40,686**	**181,467**	**60,066**	**282,219**
Off-balance sheet financial instruments					
Transactions in which the balance represents credit risk	122	-	-	122	122

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 64,577 million and NIS 154,501 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				
	March 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	29,392	14,624	-	14,749	29,373
Securities[(2)]	42,605	26,810	15,007	997	42,814
Securities borrowed or purchased under agreements to resell	488	-	-	488	488
Net credit to the public	183,187	1,800	-	181,230	183,030
Credit to Governments	4,406	-	-	4,400	4,400
Assets in respect of derivative instruments	7,757	479	5,361	1,917	7,757
Other financial assets	2,499	11	9	2,479	2,499
Total financial assets	**[(3)]270,334**	**43,724**	**20,377**	**206,260**	**270,361**
Financial liabilities					
Deposits from the public	213,667	21,820	150,321	42,041	214,182
Deposits from banks	7,339	398	5,166	1,785	7,349
Deposits from the Government	235	-	126	113	239
Securities lent or sold under agreements to repurchase	892	-	-	891	891
Bonds and Subordinated debt notes	13,069	11,511	264	1,365	13,140
Liabilities in respect of derivative instruments	7,878	480	7,087	311	7,878
Other financial liabilities	9,789	407	16	9,366	9,789
Total financial liabilities	**[(3)]252,869**	**34,616**	**162,980**	**55,872**	**253,468**
Off-balance sheet financial instruments					
Transactions in which the balance represents credit risk	117	-	-	117	117

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 62,102 million and NIS 124,321 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.

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	1,666	4,961	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**	**37,631**	**176,906**	**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 144,837 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)

B. Items measured at fair value – Consolidated

1. Items measured at fair value on a recurring basis

	Unaudited				
	March 31, 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	16,358	3,261	-	-	19,619
Foreign Governments bonds	1,430	46	-	-	1,476
Israeli financial institutions bonds	110	26	-	-	136
Foreign financial institutions bonds	-	399	-	-	399
Bonds backed by assets (ABS) or by mortgage (MBS)	1	8,431	-	-	8,432
Bonds of others in Israel	265	169	-	-	434
Bonds of others abroad	-	1,760	-	-	1,760
Shares not for trading	263	13	-	-	276
Total available-for-sale bonds and shares not for trading	**18,427**	**14,105**	**-**	**-**	**32,532**
Trading Securities					
Israeli Government bonds	1,308	132	-	-	1,440
Foreign Governments bonds	27	-	-	-	27
Israeli financial institutions bonds	-	-	-	-	-
Foreign financial institutions bonds	-	-	-	-	-
Bonds backed by assets (ABS) or by mortgage (MBS)	-	37	-	-	37
Bonds of others in Israel	8	-	-	-	8
Bonds of others abroad	-	-	-	-	-
Trading Shares	4	-	-	-	4
Total trading securities	**1,347**	**169**	**-**	**-**	**1,516**
Credit to the public in respect of securities loaned	2,983	-	-	-	2,983
Assets in respect of derivative instruments					
Shekel/CPI Interest Rate Contracts	-	-	186	-	186
Other Interest Rate Contracts	-	2,060	189	-	2,249
Foreign Currency Contracts	24	1,258	825	-	2,107
Shares Contracts	520	37	-	-	557
Commodity and other Contracts	-	-	-	-	-
Total assets in respect of derivative instruments	544	3,355	1,200	-	5,099
Other	-	7	-	-	7
Assets in respect of the "Maof" market operations	1	-	-	-	1
Total assets	**23,302**	**17,636**	**1,200**	**-**	**42,138**
Liabilities					
Deposits from the public in respect of securities borrowed	1,866	-	-	-	1,866
CLN deposits	-	-	28	-	28
Liabilities in respect of derivative instruments					
Shekel/CPI Interest Rate Contracts	-	-	148	-	148
Other Interest Rate Contracts	-	2,215	-	-	2,215
Foreign Currency Contracts	24	1,847	135	-	2,006
Shares Contracts	520	30	-	-	550
Commodity and other Contracts	-	-	-	-	-
Total liabilities in respect of derivative instruments	544	4,092	283	-	4,919
Other	-	9	-	-	9
Commitments in respect of the "Maof" market operations	1	-	-	-	1
Short sales of securities	1,243	-	-	-	1,243
Total liabilities	**3,654**	**4,101**	**311**	**-**	**8,066**

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				
	March 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	15,938	2,926	-	-	18,864
Foreign Governments bonds	502	193	-	-	695
Israeli financial institutions bonds	148	38	-	-	186
Foreign financial institutions bonds	-	842	-	-	842
Bonds backed by assets (ABS) or by mortgage (MBS)	-	7,926	-	-	7,926
Bonds of others in Israel	253	175	-	-	428
Bonds of others abroad	-	2,174	-	-	2,174
Shares not for trading	80	12	-	-	92
Total available-for-sale bonds and shares not for trading	**16,921**	**14,286**	**-**	**-**	**31,207**
Trading Securities					
Of the Israeli Government	2,431	162	-	-	2,593
Of foreign governments	-	-	-	-	-
Of Israeli financial institutions	14	-	-	-	14
Of foreign financial institutions	-	-	-	-	-
Mortgage-backed-securities (MBS) or Assets -backed-securities (ABS)	-	60	-	-	60
Of others in Israel	56	-	-	-	56
Of others abroad	-	-	-	-	-
Shares	4	-	-	-	4
Total trading securities	**2,505**	**222**	**-**	**-**	**2,727**
Credit to the public in respect of securities loaned	1,800	-	-	-	1,800
Assets in respect of derivative instruments					
Shekel/CPI Interest Rate Contracts	-	-	274	-	274
Other Interest Rate Contracts	-	3,537	426	-	3,963
Foreign Currency Contracts	26	1,715	1,202	-	2,943
Shares Contracts	449	87	-	-	536
Commodity and other Contracts	4	22	15	-	41
Total assets in respect of derivative instruments	479	5,361	1,917	-	7,757
Other	-	9	-	-	9
Assets in respect of the "Maof" market operations	11	-	-	-	11
Total assets	**21,716**	**19,878**	**1,917**	**-**	**43,511**
Liabilities					
Deposits from the public in respect of securities borrowed	1,169	-	-	-	1,169
CLN deposits	-	-	68	-	68
Liabilities in respect of derivative instruments					
Shekel/CPI Interest Rate Contracts	-	-	171	-	171
Other Interest Rate Contracts	-	4,772	-	-	4,772
Foreign Currency Contracts	27	2,203	140	-	2,370
Shares Contracts	449	78	-	-	527
Commodity and other Contracts	4	34	-	-	38
Total liabilities in respect of derivative instruments	480	7,087	311	-	7,878
Other	-	16	-	-	16
Commitments in respect of the "Maof" market operations	11	-	-	-	11
Short sales of securities	396	-	-	-	396
Total liabilities	**2,056**	**7,103**	**379**	**-**	**9,538**

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
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	**2,879**	**6,720**	**346**	**-**	**9,945**

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				
	March 31, 2021				
	Level 1	Level 2	Level 3	Total fair value	Profit (Loss) for the three months ended March 31, 2021
	In NIS millions				
Impaired credit the collection of which is collateral dependent	-	-	664	664	7
Not for trading shares	-	-	66	66	(8)

	Unaudited				
	March 31, 2020				
	Level 1	Level 2	Level 3	Total fair value	Loss for the three months ended March 31, 2020
	In NIS millions				
Impaired credit the collection of which is collateral dependent	-	-	632	632	(25)
Not for trading shares	-	-	6	6	(5)

	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 March 31, 2021							
Net Assets (Liabilities) in respect of derivative instruments								
Shekel/CPI Interest Rate Contracts	78	[1]479	-	(519)	-	-	38	[1]481
Other Interest Rate Contracts	248	[1](44)	-	(25)	(3)	13	189	[1](44)
Foreign Currency Contracts	782	[1]248	(90)	(249)	1	(2)	690	[1]481
Commodity and other Contracts	37	[1]-	-	(37)	-	-	-	[1]-
Total	**1,145**	**683**	**(90)**	**(830)**	**(2)**	**11**	**917**	**918**
Liabilities								
CLN Deposits	(31)	[2]-	-	3	-	-	(28)	[2]-
	Unaudited							
	For the three months ended March 31, 2020							
Net Assets (Liabilities) in respect of derivative instruments								
Shekel/CPI Interest Rate Contracts	75	[1]33	-	(5)	-	-	103	[1]33
Other Interest Rate Contracts	200	[1]183	-	44	(6)	5	426	[1]200
Foreign Currency Contracts	253	[1]1,048	(57)	(155)	3	(30)	1,062	[1]1,124
Commodity and other Contracts	23	[1](7)	-	(1)	-	-	15	[1](7)
Total	**551**	**1,257**	**(57)**	**(117)**	**(3)**	**(25)**	**1,606**	**1,350**
Liabilities								
CLN Deposits	(144)	[2]-	-	76	-	-	(68)	[2]-
	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 first 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 March 31, 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	664	Discounted cash flow, assessments and evaluation	Discount rate, real estate market inputs					
Not for trading shares	66	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	38	Discounted cash flow	Inflationary expectations	From	1.50%	to	9.83%	(1.54%)
			Counterparty credit risk (CVA)	From	0.00%	to	2.84%	(0.79%)
Other Interest Rate Contracts	189	Discounted cash flow	Counterparty credit risk (CVA)	From	0.00%	to	0.60%	(0.01%)
Foreign Currency Contracts	690	Discounted cash flow	Inflationary expectations	From	1.50%	to	9.83%	(1.70%)
		Discounted cash flow, Models for the pricing of options.	Counterparty credit risk (CVA)	From	0.00%	to	22.30%	(0.12%)
Commodities and other contracts	-	Rating model	Counterparty credit risk (CVA)	From	0.00%	to	0.00%	(0.00%)
Liabilities								
CLN Deposits	28	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)

	Unaudited							
	Fair value as at March 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	632	Discounted cash flow, assessments and evaluation	Discount rate, real estate market inputs					
Not for trading shares	6	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	103	Discounted cash flow	Inflationary expectations	From	-1.20%	to	1.15%	(0.41%)
			Counterparty credit risk (CVA)	From	0.00%	to	3.11%	(0.81%)
Other Interest Rate Contracts	426	Discounted cash flow	Counterparty credit risk (CVA)	From	0.00%	to	0.56%	(0.01%)
Foreign Currency Contracts	1,062	Discounted cash flow	Inflationary expectations	From	-1.20%	to	1.15%	(0.81%)
		Discounted cash flow, Models for the pricing of options.	Counterparty credit risk (CVA)	From	0.00%	to	16.98%	(-0.41%)
Commodities and other contracts	15	Rating model	Counterparty credit risk (CVA)	From	0.00%	to	0.00%	(0.00%)
Liabilities								
CLN Deposits	68	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	Inflationary expectations	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	Inflationary expectations	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.

The Corona crisis and following restrictions imposed on international travel by many governments around the world and in Israel, resulted in economic impairment to many airline companies, including El Al airlines. On September 16, 2020, El Al announced the completion of the share issue, within the framework of which, it would receive consideration amounting to NIS 506 million. On February 16, 2021, El Al announced the closing of an issue of option warrants, which raised a total of NIS 250 million. On March 25, 2021, El Al published its financial statements as of December 31, 2020. Within the framework of which, El Al reported that it was intending to act to obtain financing with the aid of the State of Israel, in an amount of US$210 million, which will be paid in advance for the purchase of flight tickets for airline security personnel. The receipt of the funding is contingent upon El Al implementing an efficiency plan, upon it issuing share capital or share options, upon it imposing restrictions on the distribution of dividends and upon other conditions. It is noted in the financial statements that, since El Al's ability to meet all its financial obligations is dependent on factors that are not under the control of El Al, there are significant doubts at this stage as to whether it can continue as a going concern. On May 10, 2021, with the fulfillment of the last condition precedent, El-Al reported the entry into effect of the agreement for obtaining finance from the State of Israel.

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.

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 its 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).

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 has been scheduled for 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 161 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.

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. In March 2020, the World Health Organization announced the Corona virus a "pandemic". 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 a part of the restrictions.

The Corona crisis and its domestic and global implications, have led to an increase in risk in most of the managed risk areas. The Bank estimates that exposure has particularly increased with respect to credit risk and operating 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 into the second 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 quarter 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 drastic 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 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.

.

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. The office of Dr. Avital will begin after obtaining the consent or non-objection of the Supervisor of Banks. 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, and subject to obtaining the consent or non-objection of the Supervisor of Banks. 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.

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.

Meetings of the Board of Directors and its committees

In the first three months of 2021, the Board of Directors held 7 meetings. In addition, 23 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 first quarter of 2021 the following periodic reports were submitted and discussed:

- The report on the activities of the internal audit in the fourth quarter of 2020 was submitted on January 20, 2021 and discussed in the Audit Committee on March 8, 2021;
- 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.

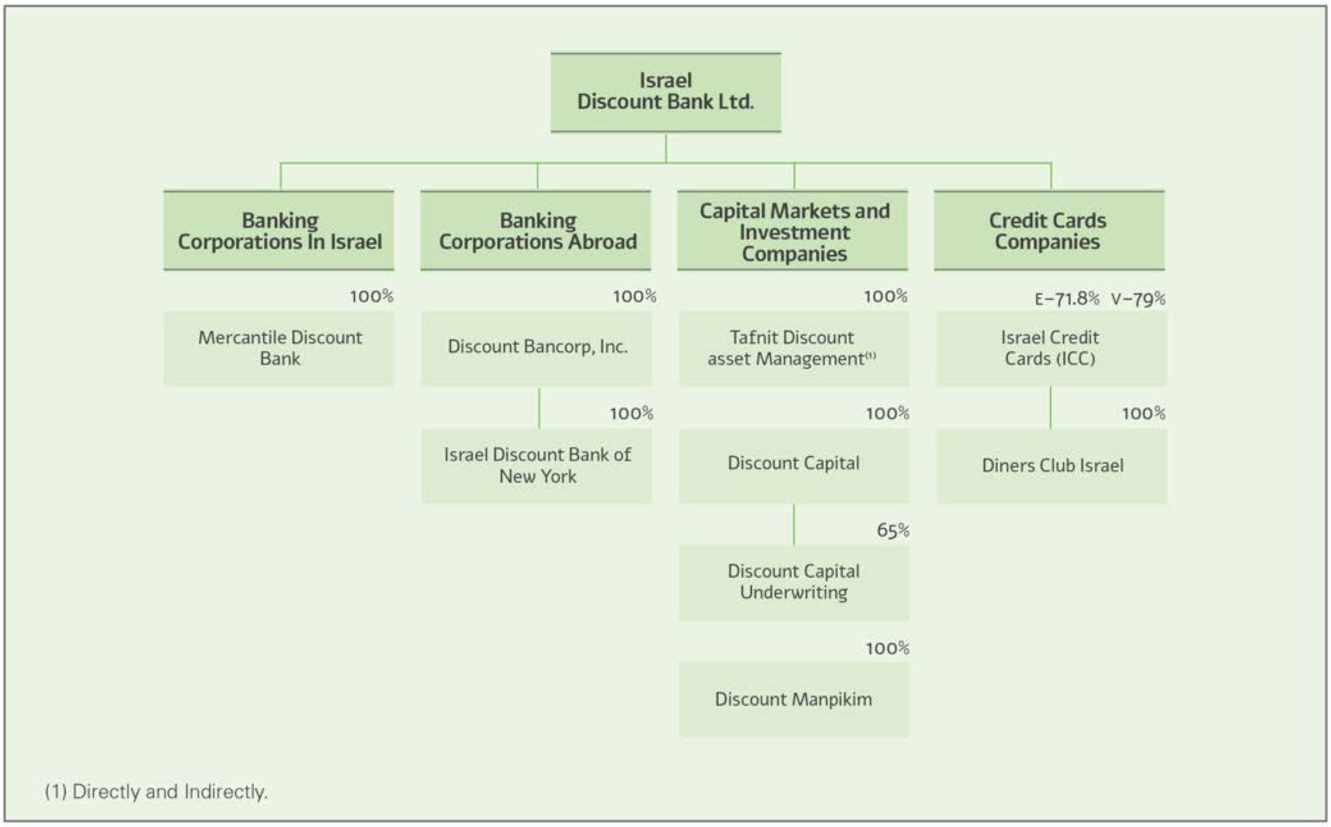
The committee will present its conclusions and recommendations to the Boards of Directors of the banks.

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



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.

Information and Computer Systems

For details, see the 2020 Annual Report (pp. 335-337).

The human capital

Organizational culture

Organizational culture during the period of the Corona crisis. Work in an emergency format has set the challenge of maintaining organizational communication, particularly in the days of the Corona crisis, during which, many employees were prevented from reaching the Bank offices. A "FaceBank reaching you" website, being the employees' "FaceBank" website in a version adapted to the mobile phone, enabled Bank employees to obtain diverse information and upload contents from anywhere and at any time. The Bank's Management took strict action to update employees with the developing situation and to distribute updating announcements to employees through diversified communication channels.

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 introduced in the first quarter of 2021. This review is the result of the wish to listen to feelings of employees regarding different issues, to study the existing situation, to map existing gaps and introduce improvements; all these with the aim of creating a winning employee experience that would promote reaching the Bank's business strategy. In addition, a shortened and focused "partner survey" has been performed in order to examine positions of outsource workers with respect to their experience working for the Bank, and the extent of their bonding to the strategy and to the work centers.

A new leadership model. The leadership model was introduced in the first quarter of 2021, in a festive gathering of all managers. The leadership model defines a set of conduct expected from managers. The leadership model would be integrated into the diverse processes at the Bank and would become a practical and central tool in designing and improving the management quality at the Bank.

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 are conducting 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.

Rating of Liabilities of the Bank and some of its Subsidiaries

For 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 first quarter of 2021, the Discount Group has 176 branches in operation in Israel (102 branches of the Bank and 74 branches of MDB). The Bank's Shalma Road Branch was closed down in the first quarter.

For additional details, see the 2020 Annual Report (pp. 350-355).

Mortgage Activity

At the present time, the Bank operates 68 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

	March 31,		
	2021	2020	
	in NIS millions		Change in %
Total housing loans granted by the banks, excluding internal recycling of loans	22,326	20,868	7.0
Loans from State funds	120	200	(40.0)

New loans and recycled loans granted for the purchase of a residential unit and secured by a mortgage on a residential unit

	For the three months ended March 31,			For the year ended December 31,
	2021	2020		2020
	In NIS millions		Change in %	In NIS millions
From bank funds[1]	2,979	2,404	23.9	10,037
From Treasury funds[2]	12	14	(14.3)	56
Total of new loans	**2,991**	**2,418**	**23.7**	**10,093**
Recycled loans	183	448	(59.2)	1,079
Total granted[3]	**3,174**	**2,866**	**10.7**	**11,172**

Footnotes:

(1) Including new loans granted, secured by housing mortgages, in the amount of NIS 75 million in the first three months of 2021, compared to NIS 41 million as at March 31, 2020 and NIS 255 million in 2020.

(2) Including standing loans in the amount of NIS 4 million in the first three months of 2021, compared to NIS 5 million as at March 31, 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

Adjustments to Proper Conduct of Banking Business Directives for confronting the Corona virus crisis (Provisional Instruction). For details regarding the relief stated by the Supervisor of Banks in the Provisional Instruction, with respect to the granting of loans at the financing rate of up to 70%, see the 2020 Annual Report (p. 353). The said relief had been extended from time to time by the Supervisor, recently until September 30, 2021.

Large businesses Segment (Domestic operations) – additional details

Legislative Restrictions, Regulations and Special Constraints applicable to the Segment

As of March 31, 2021, no deviations existed from the limitations as set in Proper Conduct of Banking Business Directive No 313. Furthermore, as March 31, 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.

Review of developments in the business sector in the first three months of 2021

The GDP shrank in the first quarter at an annualized rate of 6.5%, the steep decline stemming mostly from the dramatic setback in the import of passenger cars, on the background of import being advanced to the last quarter of the previous year, due to the change in tax policy introduced at the beginning of the year. After elimination of net taxes on imports, the GDP shrank by 2.5% (annualized rate). At the same time, a setback of 7.1% was recorded in the business product. The said decline in the import of passenger cars explains a significant part of the decline in investments and the decline in private consumption.
Following are the factors which affected developments in the business product in the first quarter of 2021, as compared to the last quarter of 2020:
- Private consumption shrank by 3%, however, after elimination of motorcar imports, growth was recorded at an annualized rate of approx. 4.5%. Steep increases were recorded in the consumption of services, foodstuffs and a dramatic increase in the purchases of electric and other equipment;
- Public consumption (excluding defense imports) decreased by approx. 23%, with a decrease of approx. 21% in civil consumption and approx. 38% in local defense consumption;
- Investment in fixed assets declined by approx. 14%, stemming from the steep decline in the import of motor vehicles, while imports of machinery and equipment recording a steep increase. Investments in construction recorded a decrease of approx. 1%;
- On the other hand, growth of approx. 23% was recorded in exports (excluding diamonds and startup companies), stemming from growth at an annualized rate of approx. 27% in the export of other services (mostly hi-tech services) and in industrial exports.

As a result of the abovementioned developments, a decrease of approx. 4% was recorded in total applications in the economy. At the same time, the import of goods and services (excluding defense imports, ships, aircraft and diamonds) expanded at the rate of approx. 5%, stemming from an increase of approx. 32% in the import of services, excluding tourism services, while imports of goods recorded a setback.

Developments in the debt of the business sector

The debt of the business sector (excluding banks and insurance companies) amounted at the end of February 2021[5] to NIS 996 billion, an increase of 0.8% 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 total indebtedness is due to an approx. 2% rise in the debt to households (bonds) and to foreign residents and to a 0.5% rise in the debt to banks. On the other hand, debt to institutional bodies fell (-0.5%) in view of a 1.5% decrease in the balance of bonds held by the institutional bodies, while the balance of loans grew (1%). 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 49.6% at the end of February 2021.

5 The most updated data available at the time of submitting the report to print.

During the first quarter the business segment, excluding banks and insurance companies, raised bonds in an amount of NIS 9.6 billion (on the Tel-Aviv Stock Exchange and by means of non-listed bonds), compared to NIS 10.2 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 March 2021 was 1.02%, compared with 1.3% at the end of 2020 and 2.36% at the end of the corresponding quarter 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.
Following are development directions in the principal economic sectors:
- Industrial sector – the sector is experiencing a setback in economic activity of most of the industrial sectors, similarly to the global trend (with the exception of the hi-tech industry, which has demonstrated impressive stability). This, on the background of the effects of the crisis, which, inter alia, included the continuing appreciation of the Shekel alongside the decline in demand in the target countries and the setback to the chain of supply. Looking forward, and in relation to other sectors – recovery is expected to be slower due to the continuing crisis in the target countries, which moderates the volume of demand;
- 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 at weekends and the Spring holidays. 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 6.3% and 5.0% 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 the year to a one-digit rate. Furthermore, in contrast to many previous forecasts, the inflation rate is expected to gather into the targeted stability range. This, due to a significant increase in private savings of household meeting services the consumption of which had been restricted in the past year (restaurants, leisure, tourism), alongside an increase in prices of commodities around the world, stemming from the setback to chains in supply.

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. In the recent twelve months ended March 2021, the trends that had characterized the residential real estate market in the period prior to the Corona crisis, continued with a 4.5% rise in the general residential units price index. Furthermore, during the said period, the total number of new residential units sold increased by approx. 24% (43.1 thousand residential units).

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 has demonstrated relative stability, mostly due to long-term leases. Notwithstanding the above, certain of the properties show signs of decline in occupancy rates and in lease fees. When looking forward, the long-term effects of the crisis are not yet clear and concern still exists with respect to regional excess supply.

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, recording a decline of approx. 30% in the NOI, and open-air shopping malls recording an erosion of about one half of that rate. 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. Moreover, the risk level is affected by consumption habits including the possibilities offered by online trading.

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 17.91% as of March 31, 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 announced on December 7, 2020, that with the aim of continuing the support of the construction and real estate sector during the Corona crisis period and thereafter, the sectional limitation on the construction and real estate sector shall be updated, as follows: Proper Conduct of Banking Business Directives Nos. 250 and 315 in the matter of "limitation on sector indebtedness" – the effect of the relief stated in the Provisional Instruction, which allowed banks to increase exposure to the construction and real estate sector from 20% to 22% (excluding national infrastructure projects) shall be extended to the year 2025; the limitation on exposure to the construction and real estate sector (including national infrastructure projects) was increased from 24% to 26%; and it is determined that credit secured by qualified credit insurance shall be classified in accordance with the insurer sector.

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 March 31, 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 March 31, 2021 to NIS 1,511 million. The outstanding investment commitments of Discount Capital amounted on March 31, 2021, to NIS 755 million (US$226.7 million) most of which in Funds the investment period of which has not yet expired.
Income. Discount Capital recorded in the first quarter of 2021 net income from non-financial investments in a total amount of approx. NIS 21.6 million (including an amount of approx. NIS 11.2 million from investment in Funds). This, compared to net income in a total amount of approx. NIS 5.1 million in the first quarter of 2020.
New investments. In the first quarter of 2021 Discount Capital completed 7 investment transactions in investment Funds and in corporations in a total amount of approx. US$48 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.

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 March 31, 2021, the calculated rate of the Bank's exposure with respect to overseas extensions stood at 14.45% 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 Medium businesses segment (Domestic operations), see the 2020 Annual Report (pp. 359-360). 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

The activity of ICC in view of the Corona crisis. The Board of Directors of ICC and its committees held frequent meetings in recent months dealing with the spreading of the Corona virus and its implications on ICC as regards different aspects, including the business continuity of the activity of the company, its preparation for different scenarios as well as preparation for "the day after". Furthermore, With the outbreak of the crisis, Management of the company directed its full administrative attention to the crisis and its implications. Cross-organization work teams, headed by the company's President & CEO, managed the different segments of the company's operations under the crisis, following developments closely and adopting measures to reduce the different risks and maintaining business continuity. The business divisions increased their monitoring and control operations over the condition of the credit portfolio of the company.

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.

Direct channels

The following innovations and updates took place during the current activity in the first quarter of 2021:

Current accounts and foreign currency

Expanding the presentation of historical entries in current accounts. The presentation of historical entries in current accounts has been extended to up to the past one year (instead of the past six months).

Credit

Repayment in full of loans granted on the private customer website. A possibility has been added for the repayment in full of loans bearing variable interest taken on the digital, with no charge of a premature repayment commission.
Double loan campaigns on the Private Individuals' App. A possibility has been added of offering a number of loan campaigns or loans designated for the same population of customers. For example: a customer eligible for a "student loan" as well as to a "teaching staff loan" may obtain both loans.

Credit cards

Online presentation of credit card transactions. Information regarding credit card transactions made at this instance would be presented immediately upon consummation on the Application and the websites.
Ordering a credit card on the digital. A possibility has been added of ordering a new credit card through the website and the Private Individuals' App. Also added are links to information regarding the different credit cards, commissions and pricelists.

Securities, the capital market

Providing wider information regarding the capital market situation. The content area of the Application regarding the capital market situation has been significantly upgraded offering an up-to-date market image, which includes: a rich list of indices, leading currencies, economic reviews by Discount Bank, daily trends regarding leading indices and a world of news and Stock Exchange announcements.
Presentation of analyst recommendations regarding a foreign security. Viewing of analyst recommendations regarding foreign equities of companies traded on a US Stock Exchange (the recommendations presented are provided by Tipranks Ltd.). The joining of the service is required.
Improving the search mechanism for securities on the Application. Improving experience and the search mechanism for securities, including presentation of the latest securities in which the customer had shown an interest during his capital market activity.
Attachment of files to a request for the transfer of a securities portfolio. A possibility has been added for the attachment of files to a request for the transfer of a securities portfolio.
Tax payment confirmations as of the end of 2020. It is now possible to obtain through the digital tax payment confirmations for the year 2020.

Digital for business

Transfer with approval of a Bank officer. A possibility has been added for the passing of single transaction/wages/suppliers for approval of a Bank officer, also in the case of deviation from the digital limitations list (deviation from daily/monthly limitation and the limit on the amount of a onetime transfer through the digital). In the past, the passing of a transaction for approval of a Bank officer had been possible only in case of exceeding the account balance.
Transfer abroad of foreign currency. Similar to the website, it is possible to transfer abroad foreign currency also through the Business+ Application.
Real Time Gross Settlement (RTGS) transfers. A possibility has been added for the RTGS transfers through the Business+ Application.
Cancellation of a standing payment order. A possibility has been added for the cancellation of a standing payment order directly from the Business+ Application.
A new link menu for the website and the Application. A new link menu presenting the entire communication channels that a business customer has with the Bank. The menu includes the following options: arranging a meeting with a Bank officer, locating branches, telephone number of the Service Center, and more.

Transfer of funds to accounts of the customer with other banks. The authorization for the transfer of funds "between my accounts" has been extended to include the customer's accounts with other banks, with a group and with a Trustee. It is now possible to transact a one-time transfer and an RTGS transfer to accounts described above, thus enjoying authorizations and compositions of "between my accounts", as well as new designated limits concerning such beneficiaries.

Support for a new level of authorization involving transfers to permanent beneficiaries. Support has been added for a new authorization involving permanent beneficiaries in respect of RTGS transfers and a one-time transfer. This authorization enables customers to transfer higher amounts to a closed list of beneficiaries determined in advance.

Management of draft documents on the business website. Customers may decide whether to save or delete draft documents at the end of a transaction. If deletion is elected, the draft would be permanently deleted immediately upon conclusion of the transaction. If saving the draft is elected, the document would be saved in the system for a period of ninety days, thereafter deleted if no further use of it had been made.

Customer experience

A lower menu on the Application. A lower menu has been added to the Application in order to simplify navigation and orientation. The menu is presented on the home page and on the lobby pages. The menu is composed of the following components: communication with the Bank – links to a menu showing the setting up of communication: correspondence, arranging a meeting, phone call and mail. Also provided are details of the customer's branch; plus – a link to the transaction menu; definitions – leading to "my profile" and to registration for services; search – allows the customer to search for any service (transaction or information) existing on the Application/website and "Didi" leads the customer to the correct place; indication of a new insight – when a new insight is introduced to the customer on the Application, it is marked with a red dot, so as to differentiate it from other insights, which the customer have already seen (upon previous entries to the Application, for instance).

Arranging through the websites an appointment with a Bank officer. It is possible to arrange an appointment with a Bank officer. Private customers may elect an appointment with a Bank officer/ a teller/ investment consultant and state the purpose of the appointment. Corporate Division customers may, at this stage, elect only teller services.

Extension of a teller service appointment. A possibility has been added for an appointment at branches having no teller service, for the following transactions: collection of new checkbooks, signing of documents, deposit and withdrawal of foreign currency.

Presentation on the website of the reasons for a dishonored check. In addition to the reasons for dishonoring of a check, a link has been added for obtaining a more detailed explanation.

Opening an account through the Application

Opening an account through the Application also for minors. The service has been extended also for ages of 16-18, including the adaptation of the process to the Regulation with respect to minors.

Digital mortgage website

A new website designed for customers of all banks interested in obtaining a mortgage loan. The website contains divers marketing contents in the matter of a mortgage, as well as a digital portal accompanying the potential customer through the different stages of the process – submission of a digital request for a mortgage loan, observing the status of the request at any time, downloading the necessary documents for the transaction and more.

Main developments in the Israeli economy and around the world in the first three months of 2021

Developments in the Global economy

General. Global economic activity is expanding, although there are significant differences between countries, which is impacted by the continuing spread of the Coronavirus in some countries and gaps in the pace of population vaccination. The US economy expanded in the first quarter at a rate of 6.4%, as a result of rapid growth in private consumption, investments and federal expenditure. On the other hand, the Eurozone contracted by 2.4% in the first quarter (in annual terms).
The world's central banks, and primarily the Fed, continue to follow an expansionary policy, despite the economic recovery and rise in inflation, and in light of concern regarding long-term harm to the labor market.
Financial markets. The world's equity indices have been traded at rising prices against the background of an acceleration in the pace of the vaccine rollout, the global recovery and the continuing expansionary monetary policy.

The changes in selected share indices recorded in the first three months of the years 2020 and 2021

Index	2021	2020
500 S&P	5.8%	(20.0%)
DAX	9.4%	(25.0%)
MSCI Emerging Markets	1.9%	(23.9%)

During the quarter, US government bonds recorded a steep rise in yields, which was supported, primarily, by the acceleration in economic activity, by fiscal expansion and by a rise in commodity prices, this, together with a rise in inflation expectations. The yield on 10-year US bonds was traded at 1.74% at the end of the quarter, 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 -0.29% at the end of the quarter.

The yields on government bonds

10Y Government Bond Yields	March 31, 2021	December 31, 2020
U.S.A.	1.7%	0.9%
Germany	(0.29%)	(0.57%)

Around the world, the dollar strengthened during the first quarter in the wake of the rapid recovery, the acceleration in the pace of population vaccination and the rise in yields in the United State. In conclusion for the first quarter the dollar basket (the "dollar index") appreciated by 3.7%.

Changes in the U.S. dollar against selected currencies in the first three months of the years 2020 and 2021

Exchange rate	2021	2020
EUR	3.90%	1.60%
JPY	6.60%	(1.00%)
GBP	(1.1%)	6.8%

Against the background of the process of recovering from the crisis, commodity prices recorded steep rises, with the price of oil returning to its pre-crisis level.

Changes in selected commodities indexes in the first three months of the years 2020 and 2021

	2021	2020
The commodities index - GSCI	14.2%	(41.4%)
The oil price (BRENT)	22.7%	(65.5%)
The oil price (WTI)	21.9%	(66.5%)
Gold	9.6%	3.9%

Main Developments in the Israeli Economy

General

An accelerated process of vaccination of the population started at the beginning of 2021, a fact leading to optimism. However, in view of imposing a lockdown, a decline in economic activity and a steep rise in unemployment have been recorded. In total for the first quarter, the GDP has shrunk by an annualized rate of 6.5%, the steep decline stemming, to a large extent, from the dramatic setback in the import of passenger cars, on the background of advancing imports to the last quarter of last year, due to the change in the taxation policy introduced at the beginning of the current year. With the elimination of net taxes on imports, the GDP has shrunk by 2.5% (annualized rate).
The said decline in the import of passenger cars explains a significant part of the decline in investments and the decline in private consumption. Thus, after eliminating the import of cars and despite the tight third lockdown at the beginning of the quarter, private consumption has grown at an annualized rate of approx. 4.5%. This, compared to an actual decline of approx. 3%. Additional reductions were recorded in the first quarter of approx. 23% in public consumption (excluding defense imports) and of approx. 14% in investment in fixed assets. On the other hand, exports recorded growth of approx. 23% (excluding diamonds and startup companies).
As stated, in view of the imposed lockdown, a steep rise in unemployment was recorded, and as a result, wide unemployment reached a rate of 19.1% in the second half of January, as compared to 13.7% in the previous month. Subsequently, and concurrently with exiting the lockdown, economic activity in Israel expanded significantly, with a rise in consumer and business optimism and a decrease in unemployment rate to 11.6% in the second half of March. The "broad" unemployment rate stood at an average of 15.9% for the first quarter of 2021 compared to 9.5% in the corresponding quarter last year; the rate of the unemployed (viz., those for whom the employer-employee relationship has been severed) stood at 4.7% in the first quarter of the year, compared to 3.4% in the corresponding quarter last year.

Developments in economic sectors

According to a business trend survey conducted by the Central Bureau of Statistics, Improvement was recorded in March in all the sectors. A significant improvement in sales to the local market is reported for the services sector, with a transition to the positive field, the same being reported for the retail trading sales. In the hotel sector, for the first time since the beginning of 2020, reports returned to the positive field with respect to occupancy by Israelis, revenues and number of employees. At the same time, industrial enterprises report significant improvement in production and sales.

Developments in the activity of the Israeli economy with overseas markets

In January-February 2021, growth was recorded in direct investments (through the banks) by foreign residents in Israel, compared to the first quarter of 2020. At the same time, the financial investments of foreign residents in marketable Israeli securities fell sharply, due almost entirely to a dramatic increase in investments in government bonds. In addition, foreign residents enlarged their investments in equities, compared to the realizations made in the first quarter of 2020. Concurrently, during the aforesaid period, Israeli residents increased their investments in foreign equities at a sharp rate.

Changes recorded in investments of the Israeli economy abroad

Investments in Israel by foreign residents	January-February 2021	January-March 2020
	US$ million	
Total direct investments through banking system	2,323	1,976
Total financial investments	8,954	3,377
Of which: Government bonds and MAKAM	7,988	1,999
Shares	408	(438)

Investments abroad by Israeli residents	January-February 2021	January-March 2020
	US$ million	
Total direct investments through banking system	281	423
Total financial investments	6,701	(1,712)

Developments in inflation and foreign exchange rates

Against the background of the rise in commodity prices, the acceleration in global inflation and the recovery in economic activity, there has been a rise in the rate of inflation. Hence the consumer price indices for the months of January through March showed a surprising upward trend and rose by 0.8% in aggregate, compared to a fall of 0.1% in the corresponding quarter last year. Consequently, the inflation rate environment has risen to a level of 0.2% (during the last 12 months), compared to -0.7% at the end of 2020. 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. 1.4% at the end of March (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 quarter, the Bank of Israel purchased foreign currency to the tune of approx. US$14 billion. Consequently, and concurrently with the dollar's strengthening worldwide, the shekel has weakened since the beginning of the year by 3.7% against the dollar and by approx. 1% against the basket of currencies.

Fiscal and monetary policy

Fiscal policy. During the year that ended in March 2021, the deficit amounted to NIS 169 billion – 12.1% of product, compared to 11.6% at the end of 2020. During the first quarter of 2021, a steep increase in revenues from the collection of taxes was recorded, compared to the corresponding period last year (20%), which includes March 2020, during which the crisis broke out and when tax collections suffered their greatest hit. Uniform tax rates (net of legislative amendments and the advancement of vehicle imports) also recorded an impressive rise (15%), primarily in direct taxes. However, government expenditure rose sharply in the aforesaid period, compared to the first quarter of last year, primarily against the background of expenditure to cope with the crisis.

Monetary policy. During the first quarter, 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.

Change in the monetary base. During the first quarter of 2021, a moderate increase was recorded in the M1 money supply (cash in the hands of the public and shekel current-account deposits) (3.5%) compared with the steep rise in this supply in the corresponding period last year (approx. 11%), against the background of the outbreak of the crisis. The downturn in the rate of increase is due to the current-account deposits component, while the cash component recorded a relatively rapid increase (approx. 5%).

In the first quarter of 2021, the rapid rise in the monetary base continued – approx. NIS 14 billion, compared to approx. NIS 11 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 37 billion during the quarter, 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 three months of	
	2021	2020
	In NIS billion	
Operations on the Capital Market	7.6	22.0
The Shekel deposits tender	(24.0)	(0.0)
Foreign currency conversion	44.4	(6.7)
Government activity	(23.2)	(4.4)

Capital market

Similar to the global trend, prices continued to rise on the domestic capital market. For the quarter as a whole, the TA-125 Index rose by approx. 6%.

The changes recorded in selected share indices in the first three months of 2020 and 2021

Index	2021	2020
TA 35	7.0%	(21.0%)
TA 125	6.1%	(21.0%)
TA banks	15.6%	(24.0%)
TA Global-Blutech	8.8%	(14.4%)
Real-estate	3.2%	(25.6%)

In line with the global trend, trade in Israel in government bonds was characterized by an increase in yields, although, at a relatively moderate rate (approx. 40 basis points in ten years shekel bonds) to approx. 1.3%. As a result, a significant negative differential has developed between 10-year shekel bonds and the corresponding US bonds. 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. 1.8% at the end of March 2021.

The changes recorded in selected bond indices in the first three months of 2020 and 2021

Index	2021	2020
General bonds	0.3%	(4.5%)
General Government bonds	(0.8%)	(1.9%)
Shekel Government bonds	(1.5%)	(1.1%)
Linked Government bonds	0.4%	(3.0%)
General Corporate bonds	2.1%	(8.2%)
Linked Corporate bonds	2.2%	(7.8%)
Shekel Tel-Bond	0.3%	(8.1%)

Margins fell in the corporate bonds market, as part of the positive sentiment on the market and in support of the Bank of Israel's involvement in the bonds market. For the first quarter of 2021 as a whole, a total of approx. NIS 11 billion was raised through corporate bonds of Israeli companies, of which approx. NIS 10 billion excluding banks, insurers and financial entities. This compared to approx. NIS 12 billion and approx. NIS 10 billion in the corresponding quarter last year, respectively.

The asset portfolio held by the public

The value of the portfolio of financial assets held by the public rose by approx. 1% during January-February 2021, with most of the linked segments recording rises, and amounted to approx. NIS 4.5 trillion at the end of the period. Most, if not all, of the increase is due to the increase in the value of overseas equities (an increase of approx. 12%) and a moderate increase in the foreign currency-linked component. The Israeli equities component recorded a decrease. The increase in the value of the foreign equities and the foreign currency-linked component was affected, inter alia, by the devaluation of the shekel.

Distribution of the asset portfolio held by the public

	March 31, 2021	December 31, 2020
Shares	26.0%	25.2%
Non-linked assets	37.2%	37.9%
CPI linked assets	25.8%	26.1%
Foreign currency linked assets	11.0%	10.8%

Principal economic developments in April and May 2021[6]

The macro data for April indicate further expansion in the global economy supported by acceleration in vaccinations throughout the world and returning to activity. The recovery in economic activity is being accompanied by strong demand that is creating price pressures. This, together with a rise in commodity prices, is supporting a rise in inflation and higher inflation expectations. Nevertheless, the central banks are of the opinion that the rise in inflation will only be temporary and are continuing to maintain an expansionary monetary policy.

In Israel, with the return of the economy to almost full activity, expansion in economic activity continued with a moderate decline in the wide unemployment to a level of 10.6% in the second half of April. Concurrently, improvement in the budgetary deficit continued, decreasing to a level of 11.2% of GDP (cumulative for the recent twelve months).

Following three monthly indices, surprising in their upward trend, the CPI for April rose at a more moderate rate than expected, and the annual inflation rate increased to 0.8%.

During the period, the Bank of Israel continued its involvement in the foreign currency market. As a result, and on the background of the weakening of the US dollar on world markets, the shekel appreciated against the dollar by approx. 2%, maintaining stability against the currency basket.

In contrast to the moderate decline in yields on ten years US government bonds, yields on Israeli government bonds (generic) increased by approx. ten basis points to a level of approx. 1.4%. This increase has been supported also by the continuing growth in inflationary expectations all through the graph, in particular for the short-term, with a CPI contract for one year, trading at the end of the period at a level of approx. 1.9%.

The equities market continued in their upward trend, with a rise of approx. 5% in the TA 125 Index during the reviewed period, similarly to the S&P 500 Index, this despite the escalation in the security situation during the month of May.

6 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.

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.

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 conflict 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.
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.

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.
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.
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 quarter of 2021

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.

Proceedings regarding Authorities

Requests for data by the Competition Authority. During the quarter, the Bank received a request for data regarding the provision of banking services to customers belonging to the Arab sector.

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 March 31					
	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	157,826	1,379	3.54	147,958	1,342	3.68
Abroad	23,811	187	3.18	23,590	259	4.46
Total credit to the public	**181,637**	***1,566**	**3.49**	**171,548**	***1,601**	**3.79**
Credit to the Government:						
In Israel	3,276	16	1.97	3,598	20	2.24
Total credit to the Government	**3,276**	**16**	**1.97**	**3,598**	**20**	**2.24**
Deposits with banks:						
In Israel	3,555	2	0.23	3,473	11	1.27
Abroad	612	-	-	146	-	-
Total deposits with banks	**4,167**	**2**	**0.19**	**3,619**	**11**	**1.22**
Deposits with central banks:						
In Israel	35,026	9	0.10	20,730	13	0.25
Abroad	689	-	-	246	1	1.64
Total deposits with central banks	**35,715**	**9**	**0.10**	**20,976**	**14**	**0.27**
Securities borrowed or purchased under agreements to resell:						
In Israel	1,135	-	-	663	-	-
Total securities borrowed or purchased under agreements to resell	**1,135**	**-**	**-**	**663**	**-**	**-**
Bonds held for redemption and available for sale:[(4)]						
In Israel	31,076	74	0.96	25,415	81	1.28
Abroad	8,865	38	1.73	8,522	52	2.46
Total bonds held for redemption and available for sale	**39,941**	**112**	**1.13**	**33,937**	**133**	**1.58**
Trading bonds:[(4)]						
In Israel	1,355	2	0.59	2,337	5	0.86
Abroad	64	-	-	74	-	-
Total trading bonds	**1,419**	**2**	**0.56**	**2,411**	**5**	**0.83**
Other assets:						
Abroad	636	4	2.54	670	7	4.25
Total other assets	**636**	**4**	**2.54**	**670**	**7**	**4.25**
Total interest bearing assets	**267,926**	**1,711**	**2.58**	**237,422**	**1,791**	**3.05**
Debtors in respect of credit card operations	9,751			10,200		
Other non-interest bearing assets[(5)]	19,684			18,020		
Total assets	**297,361**			**265,642**		
Of which: Total interest bearing assets attributable to operations abroad	34,677	229	2.67	33,248	319	3.89
* Fees and commissions included in interest income from credit to the public		84			82	

For footnotes see page 214.

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 March 31					
	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	194,049	1,252	2.61	166,650	1,307	3.17
Total interest bearing liabilities	(141,687)	(81)	(0.23)	(124,116)	(110)	(0.35)
Interest spread		**1,171**	**2.38**		**1,197**	**2.82**
CPI-linked shekels:						
Total interest bearing assets	20,535	148	2.91	19,469	42	0.87
Total interest bearing liabilities	(10,093)	(69)	(2.76)	(12,029)	(37)	(1.24)
Interest spread		**79**	**0.15**		**5**	**(0.37)**
Foreign Currency (including foreign currency-linked shekels):						
Total interest bearing assets	18,665	82	1.77	18,055	123	2.75
Total interest bearing liabilities	(19,073)	(27)	(0.57)	(22,415)	(83)	(1.49)
Interest spread		**55**	**1.20**		**40**	**1.26**
Total operations in Israel:						
Total interest bearing assets	233,249	1,482	2.57	204,174	1,472	2.92
Total interest bearing liabilities	(170,853)	(177)	(0.42)	(158,560)	(230)	(0.58)
Interest spread		**1,305**	**2.15**		**1,242**	**2.34**

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 March 31		
	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	86	(49)	37
Abroad	2	(74)	(72)
Total credit to the public	**88**	**(123)**	**(35)**
Other interest bearing assets:			
In Israel	26	(53)	(27)
Abroad	5	(23)	(18)
Total other interest bearing assets	**31**	**(76)**	**(45)**
Total interest income	**119**	**(199)**	**(80)**
Interest bearing liabilities:			
Deposits from the public:			
In Israel	6	(66)	(60)
Abroad	1	(64)	(63)
Total deposits from the public	**7**	**(130)**	**(123)**
Other interest bearing liabilities:			
In Israel	13	(6)	7
Abroad	(1)	(12)	(13)
Total other interest bearing liabilities	**12**	**(18)**	**(6)**
Total interest expenses	**19**	**(148)**	**(129)**
Net interest income	**100**	**(51)**	**49**

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 1 million and NIS 589 million, respectively; 2020 – NIS 13 million and NIS 462 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

	March 31, 2021			
			Accumulated other comprehensive income	
	Amortized cost	Fair value	Gains	Losses
	In NIS millions			
Non government bonds				
Various sectors*	2,104	2,194	91	1
Financial services[1]	8,884	8,967	139	56
Total non government bonds	**10,988**	**11,161**	**230**	**57**
Government bonds				
U.S. government	1,353	1,271	7	89
Israel Government	19,406	19,619	309	96
Other Governments	204	205	2	1
Total government bonds	**20,963**	**21,095**	**318**	**186**
Total bond in the available-for-sale portfolio	**31,951**	**32,256**	**548**	**243**

* 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 108-166 million, each, in municipal bonds of Washington state, in bonds of 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

	March 31, 2021			
			Accumulated other comprehensive income	
	Amortized cost	Fair value	Gains	Losses
	In NIS millions			
Banks and banking holding companies[2]	445	456	11	-
Ginnie Mae	6,872	6,930	110	52
Freddie Mac	201	203	4	2
Fannie Mae	176	183	7	-
Other	1,190	1,195	7	2
Total financial services	**8,884**	**8,967**	**139**	**56**

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

	March 31, 2021			
			Accumulated other comprehensive income	
	Amortized cost	Fair value	Gains	Losses
	In NIS millions			
North America	37	37	-	-
Western Europe[3]	140	142	2	-
Israel	101	103	2	-
Australia	167	174	7	-
Total banks and banking holding companies	**445**	**456**	**11**	**-**

(3) Details by countries of investment in bonds of banks and banking holding companies in the available-for-sale portfolio in Western Europe

Britain	22	22	-	-
France	118	120	2	-
Total	**140**	**142**	**2**	**-**

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

	March 31, 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	136	142	6	-
Financial services*	463	468	6	1
Total non government bonds	**599**	**610**	**12**	**1**
Total Government bonds	**8,427**	**8,614**	**224**	**37**
Total bonds in the held-to-maturity portfolio	**9,026**	**9,224**	**236**	**38**
*Following are details of Held-to-maturity bonds in the financial services sector:				
Ginnie Mae	378	381	4	1
Freddie Mac	49	50	1	-
Fannie Mae	36	37	1	-
Total financial services	**463**	**468**	**6**	**1**

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

	March 31, 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	12	8	-	4
Financial services	36	37	1	-
Total non government bonds	**48**	**45**	**1**	**4**
Total government bonds	**1,466**	**1,467**	**3**	**2**
Total bonds in the trading portfolio	**1,514**	**1,512**	**4**	**6**

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 March 31	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	98	117
With an A+ rating	1,062	1,670
With an A rating	120	236
With an A- rating	9	3
With a BBB+ rating	45	85
With a B+ rating	-	2
Not rated	63	94
Total against foreign banks	**1,397**	**2,207**
Total against Israeli banks	**385**	**594**
Total Balance-sheet balances of assets deriving from derivative instruments	**1,782**	**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 March 31	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	79	111
With an A rating	1	-
With an A- rating	4	-
With an BBB+ rating	-	1
With an B+ rating	-	1
Total against foreign banks	**84**	**115**
Total against Israeli banks	**7**	**10**
Total Off Balance-sheet balances of assets deriving from derivative instruments	**91**	**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 March 31, 2021	As of March 31, 2020	As of December 31, 2020
	in NIS million		
Agriculture		1	1
Industry:			
Machines, electrical and electronic equipment	14	29	19
Mining, chemical industry and oil products	99	307	144
Other	39	55	62
Total industry	152	391	225
Construction and real estate:			
Acquisition of real estate for construction	82	146	123
Real estate holdings	275	476	426
Other	10	14	12
Total Construction and real estate	367	636	561
Electricity and water	338	203	346
Commerce	204	250	349
Hotels, hotel services and food	29	44	30
Transportation and storage	48	83	28
Communications and computer services	29	65	46
Financial services:			
Financial institution (excluding banks)	1,082	2,082	1,048
Private customers active on the capital market	570	628	663
Financial holding institutions	920	809	664
Insurance and provident fund services	-	-	-
Total financial services	2,572	3,519	2,375
Business and other services	32	23	40
Public and community services	61	139	104
Private individuals - housing loans	-	-	-
Private individuals - other	29	7	8
Total credit risk in respect of derivative instruments	**3,862**	**5,361**	**4,113**
Credit risk mitigation in respect of financial instruments and in respect of a cash collateral received.	(1,747)	(3,068)	(1,878)
Total credit risk in respect of derivative instruments (after deduction of financial instruments and in respect of a cash collateral received)	**2,115**	**2,293**	**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

	March 31, 2021		December 31, 2020	
	Book value	Fair value[1]	Book value	Fair value[1]
	In NIS millions			
Of the Israeli Government	29,486	29,673	29,860	30,161
U.S. government	1,298	1,298	797	797
Other governments	205	205	65	65
Total	**30,989**	**31,176**	**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: 511 Fifth Avenue, New York
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