2021

ANNUAL REPORT

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ISRAEL DISCOUNT BANK

Board of Directors and Management Report

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Statement of the Chairman of the Board of Directors

Dear shareholders,
I have the honor to present to you the financial statements that summarize the year 2021, a year that was characterized by widespread achievement in all spheres of activity and, in particular, in the focus areas of the strategic plan, as is reflected in the results that the Group is presenting. This year too, we have again confronted the challenges of business continuity due to the ongoing effects of the Corona crisis, along with business challenges and complex risk management, against which the Discount Group has continued to demonstrate its resilience and strength while taking advantage of business opportunities and presenting significant growth.
The Group ended the year 2021 with a net profit of NIS 2,773 million and a return on equity of 13.6%. As revealed by the data presented in this report, there was an exceptional reduction in 2021 in the expense for credit losses. As assessed by the Bank, even if the expense for credit losses in 2021 had been at the prevailing pre-Corona crisis rates, and after eliminating additional non-recurring components, the net profit in 2021 would have amounted to NIS 2,070 million and the return on equity would have stood at 10.1%.
All balance sheet items continued to grow during the past year. Credit grew by 12.9% to a total of approx. NIS 213 billion and capital increased by 12.3% to NIS 22 billion. The Common equity Tier 1 ratio reached 10.14% and the liquidity coverage ratio stood at 123.1%, both of which were considerably higher than the regulatory targets. In addition, Discount Bank returned to distributing dividends this year, with the Bank distributing a dividend of 20% of current profits starting from the third quarter.
Our subsidiary companies also conclude a year of multiple achievements, growth and good business performance. IDB Bank showed considerable growth of 17.1% in its credit portfolio and 24.9% in the amount of its deposits and presented a net profit of US$92.1 million. Satisfactory growth of 13.6% was also recorded in the credit portfolio of MDB, which ended 2021 with a net profit of NIS 562 million and a return on equity of 16.2%. ICC continued to grow in its market share and the number of cards and presented a net profit of NIS 271 million and the return on equity of 13.2%. Discount Capital recorded a steep rise in income and a net profit of NIS 212 million by virtue of realizing nonfinancial investments, while completing approx. 20 investment transactions in a total amount of US$220 million.
We are concluding a year of considerable work for the Discount Group, a year during which we continued working vigorously to realize the Bank's strategic plan in order to further and support our ambitious vision – **to be the best financial institution, which creates maximum value for its shareholders over time**. The plan includes three areas of focus: accelerated evolution of traditional banking, disruptive innovation and maximalization of the Group's value.
In 2021, we successfully executed a number of different measures, and many developments were introduced throughout the organization, in all the strategic projects, and the effect of implementing the strategic plan is evident from the Bank's performance. One of the significant strategic projects, whose results are particularly noteworthy this year, is the mortgages project which included, among other things, providing digital access to mortgages, changing the operating approach and work methods, and enlarging the number of mortgage consultants. Due to such measures, the Bank succeeded in increasing the size of its mortgage portfolio by 26.5% in 2021, with the scope of mortgages granted by the Bank rising from a total of NIS 10 billion in 2020 to a total of NIS 17 billion in 2021, a 68.5% increase.
Another significant measure achieved this year is the signing of a groundbreaking collective labor agreement with the employees' representatives and the Labor Federation, which assures the continuation of satisfactory labor relations at the Bank over the coming years. The agreement includes the formation of an innovative employment model, which will give the Bank administrative flexibility along with assuring employees' rights and expanding their employment and promotion horizons at the Bank. In addition, the agreement anchors adjustments to the new work environment and provides the opportunity for hybrid working, which includes working from home, and makes arrangements for the move of head office staff to the Discount Campus, which is currently being built in Rishon LeZion.

This year, we also launched our marketing strategy – **Discount, we want you more**, which is in line with Discount's competitive approach and with our aspiration of being the bank with the best customer experience in the Israeli banking system. The fiercer competition and the changing reality requires us to rapidly enhance the customer experience. Discount, within the framework of the business and marketing measures that it is leading, is working to create a competitive advantage by differentiating itself by means of a winning customer experience.

During the course of the year, we have refined and refreshed the strategic map and have added significant measures that are expected to bring about an acceleration in realizing the goals we have set ourselves in each of the strategic focus areas. Accordingly, we recently updated the multiyear financial plan and set challenging targets for the year 2025 – a return on equity of 12.5%, efficiency ratio of 55% and reaching net profit of over NIS 3.5 billion (see the report below). Looking ahead, during 2022 we will continue working determinedly to implement the strategic plan and to realize its goals.

I wish to thank the employees of Discount for an unusual year of strenuous and top-quality work and for their commitment and great devotion to our customers. Furthermore, I wish to thank the Management of the Group for their professional and responsible leadership in the face of the challenges of the past year, and for the determination that has accompanied and will continue to accompany the work being done on the road to realizing the business goals, for the benefit of Discount, its customers and its employees.

March 8, 2022

Shaul Kobrinsky
Chairman of the Board of Directors

Chapter "A" – General overview, goals and strategy

The meeting of the Board of Directors, held on March 8, 2022, resolved to approve and publish the Bank's 2021 Annual Report.

The Discount Group – Condensed Description and Principal Areas of Operation

Israel Discount Bank Ltd. (hereinafter: "the Bank") was incorporated in Palestine in 1935, as a public company under the Companies Ordinance. The Bank was founded by the late Mr. Leon Recanati. The Bank is a banking corporation having a banking license under the provisions of the Banking Law (Licensing), 1981 (hereinafter: "the Banking Law (Licensing)"). During the eighty-seven years of its operation the Bank has developed a chain of branches and a wide variety of commercial banking activities in all banking spheres.

Domestic Operations

The Discount Group offers its customers comprehensive banking services in all fields of financial activity, by means of a chain of 171 branches in Israel (98 branches of the Bank and 73 branches of Mercantile Discount Bank Ltd.), online banking services and digital banking.
The activities in Israel cover additional fields, including:

- Credit cards – The Bank controls Israel Credit Cards Ltd. ("ICC") and Diners Club Israel Ltd. ("Diners"), which issue, market and operate "VISA", "Diners" and "MasterCard" credit cards, both for domestic and overseas use and clears transactions made by "VISA", "Diners" and "MasterCard" credit cards that are valid in Israel and abroad, and the brand "IsraCard" (in Israel only);
- Securities portfolio management – the subsidiary, Tafnit Discount Asset Management Ltd. ("Tafnit"), which manages securities investment portfolios for private customers, corporations, not-for-profit organizations and institutional bodies;
- Non-financial investments and underwriting – the subsidiary "Discount Capital Ltd." is engaged in investments in companies, in private equity funds, in venture capital funds, in the investment banking field, as well as in initiating and assisting public offerings and private placements and providing underwriting and distribution services by means of a subsidiary company.

International Activity

The international activity of the Discount Group is conducted by the subsidiary company in the United States. IDB Bank is the largest of the Israeli banks operating abroad, and at the present time operates branches in the New York area, Florida and California. This bank has representative offices in Latin America and in Israel.
The international activity is characterized as business-commercial and private banking activity.

Market share

Based on data relating to the banking industry as of September 30, 2021, published by the Bank of Israel, the Discount Bank Group's share in the total of the five largest banking groups in Israel was as follows

	September 30, 2021	December 31, 2020
	In %	
Total assets	15.0	15.3
Net credit to the public	16.7	16.8
Deposits from the public	14.4	14.7
Net interest income	17.5	18.5
Total non-interest income	21.2	24.5

Condensed financial information regarding financial position and operating results

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

			Year		
	2021	2020	2019	2018	2017
			In %		
Main performance indicators:					
Return on equity	13.6	5.1	9.4	9.3	8.4
Return on assets	0.91	0.35	0.70	0.66	0.57
Ratio of net credit to the public to deposits from the public	81.7	83.5	89.6	87.2	84.9
Ratio of common equity tier 1 to risk assets	10.14	10.20	10.31	10.24	10.00
Ratio of total capital to risk assets	13.46	13.06	13.86	13.67	13.92
Leverage ratio(1)	6.0	6.3	6.9	6.9	6.8
Liquidity coverage ratio(1)	123.1	147.5	121.2	124.8	126.7
Net Stable Funding Ratio(2)	126.7	-	-	-	-
Efficiency ratio	65.4	67.5	65.2	68.2	68.3
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	1.41	1.95	1.38	1.36	1.40
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	1.00	1.36	1.25	1.24	1.68
Ratio of net accounting write-offs in respect of credit to the public to the average balance of credit to the public	0.03	0.19	0.23	0.26	0.40
Ratio of credit loss expenses (expenses release) to the average balance of credit to the public	(0.34)	0.91	0.40	0.34	0.39
			In NIS millions		
Principal statements of profit and loss data for the reporting period:					
Net Profit Attributed to the Bank's Shareholders	**2,773**	**975**	**1,702**	**1,505**	**1,259**
Net interest income	6,529	5,898	5,893	5,526	4,975
Credit loss expense (expenses release)	(693)	1,718	690	540	574
Non-financing income	3,962	4,007	3,771	3,494	3,358
Of which: Fees and commissions	3,125	2,826	2,972	2,851	2,676
Non-financing expenses	6,858	6,681	6,299	6,148	5,694
Of which: salaries and related expenses	3,468	3,242	3,343	3,385	3,204
Comprehensive income, attributed to the Bank's shareholders	**2,396**	**559**	**1,782**	**1,661**	**939**
Total earnings per share attributed to Bank's shareholders (in NIS)	2.38	0.84	1.46	1.29	1.09

For footnote see next page.

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

	Year				
	2021	2020	2019	2018	2017
	In NIS millions				
Principal balance sheet data for the end of the reporting period:					
Total assets	**335,088**	**293,969**	**259,823**	**239,176**	**221,221**
Of which:					
Cash and deposits with banks	59,638	42,936	26,044	21,858	28,026
Securities	43,869	42,785	37,745	37,898	32,703
Net credit to the public	213,156	188,718	180,467	164,804	148,757
Total liabilities	**312,940**	**274,242**	**240,630**	**221,507**	**205,153**
Of which:					
Deposits from the public	260,907	226,118	201,450	188,916	175,170
Deposits from banks	12,534	13,107	6,419	6,886	4,804
Bonds and Subordinated debt notes	15,071	10,201	13,129	8,476	7,639
Shareholders' equity	21,483	19,182	18,678	17,151	15,594
Total equity	**22,148**	**19,727**	**19,193**	**17,669**	**16,068**
Additional data:					
Share price	2,094	1,236	1,601	1,156	1,010
Dividend per share (in Agorot)	12.41	4.19	21.92	10.13	-
Average number of positions at the Group during the year	7,957	8,431	8,542	8,668	8,641
The number of positions at the Group at the end of the year	8,036	8,027	8,509	8,550	8,578
Ratio of fees and commissions to total assets	1.0	1.0	1.2	1.2	1.2

Footnotes:

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

(2) The Directive is initially implemented in this report. For details, see Note 25 4 to the financial statements.

For details regarding the decision of the Bank's Board of Directors dated March 8, 2022, to distribute a dividend in the amount of approx. 9.08921 Agorot per share, see below "Dividend distribution" and Note 24 C to the financial statements.

Developments in the market price of the Discount shares

	Closing price at end of the trading day			
	March 3, 2022	December 31, 2021	December 31, 2020	Change in 2021 in %
Discount share	2,000	2,094	1,236	69.4
The TA 5 Banks index	3,393.75	3,420.05	2,037.01	67.9
The TA 35 index	1,943.51	1,978.06	1,499.05	32.0
Discount market value (in NIS billions)	23.28	24.37	14.39	69.4

For details regarding the consolidated statement of profit and loss for the last five years and consolidated balance as of the end of the last five years, see below in Appendices 4 and 5 to the annual report, respectively.

Discount Group Segment of Operations – Condensed Description

The report on segments of operation is presented in relation to segments that had been defined by the Supervisor of Banks (hereunder: "regulatory operating segments"). The regulatory operating segments have been defined by the Supervisor of Banks, based on the characteristics of 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, as follows:

"Household segment" – private individuals, the volume of their financial asset portfolio is lower than NIS 3 million.
"Private banking segment" – private individuals, the volume of their financial asset portfolio exceeds NIS 3 million.
"Minute businesses segment" – businesses, the annual turnover of which is lower than NIS 10 million.
"Small businesses segment" – businesses, the annual turnover of which is equal to or higher than NIS 10 million, but is lower than NIS 50 million.
"Medium businesses segment" – businesses, the annual turnover of which is equal to or higher than NIS 50 million, but is lower than NIS 250 million.
"Large businesses segment" – businesses, the annual turnover of which is equal to or exceeds NIS 250 million.
"Institutional Bodies Segment" – activities with institutional bodies, as these are defined in the Reporting Directives (see Note 29 A to the financial statements).
"Financial management segment" – includes: trading activity, asset and liability management activity, non-financial investment activity and other activities.
"Other segment" – including discontinued operations, profits from reserves and other results relating to employee rights not allocated to other segments and adjustment between the total items attribute to segments and the total items stated in the consolidated financial statements.
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). The Bank has identified the following managerial operating segments: Retail banking, Middle Market banking, Corporate banking, financial operations, Discount Capital, Discount Bancorp, Israel Credit Cards Company, other.
For additional details, see "Activity of the Group according to regulatory segments of operations - principal quantitative data and main developments" in Chapter B hereunder, Notes 29 and 30 to the financial statements and "Activity of the Group according to Regulatory Segments of Operation - Additional Details" in chapter "Corporate Governance, audit, additional details regarding the business of the banking corporation and management thereof".

A Summary Description of the Principal Risks

Risk environment. Risk of impairment in the Group's value and its ability to attain its goals, deriving from factors and events external to the Group, including economic, financial, regulatory, social, political, geopolitical, cyber threats, business continuity events and from internal factors and events.
Overall impact of credit risk. Risk of impairment as stated, as a result of the deterioration in the ability of borrowers to honor their obligations.

- **Quality of borrowers and collaterals risk.** Risk of impairment as stated, as a result of deterioration in the quality of borrowers and/or in the value of the collaterals.
- **Industry concentration risk.** Risk of impairment as stated, as a result of deterioration in the business activity of a certain economic sector.
- **Borrower/groups of Borrowers concentration risk.** Risk of impairment as stated, as a result of the considerable exposure to a single borrower and/or to several borrowers belonging to one business group, which, in the case of changes in the economic situation, might lead to increased severity in the potential impairment of the credit portfolio, inter alia, because of the risk of contagion.

Overall impact of market risks. Risk of impairment as stated, as a result from changes in the economic parameters of the financial markets, and of their volatility that affect both the economic value and also the regulatory capital ratio.

- **Interest rate risk.** Risk of impairment, as stated, due to parallel and non-parallel movements in the return graph, and the effect of the optional terms inherent in the different financial instruments.
- **Inflation and exchange rate risk.** Risk of impairment as stated, as a result of the effect of changes in inflation rates or in exchange rates, including the effect of derivatives and transactions in futures on the gaps between assets and liabilities.

- **Share price and credit spreads risks relating to the holding of securities.** Risk of impairment as stated, as a result of erosion in the value of securities having credit risk and in the value of non-financial investments, including funds, due to fluctuations in prices.

Liquidity risk. Risk to the stability of the Group resulting from the inability to provide its liquidity requirements and the difficulty in honoring its liabilities, due to unexpected developments, as a result thereof, the Group would be obliged to raise funds and/or realize assets in a manner causing it material losses.

Operating risk. Risk of a loss, as a result of impropriety or failure of internal processes, failure of the Group's systems, external events, including business continuity events, human errors, fraud and embezzlements or as a result of the absence of proper control processes.

IT risk. Operational risks affecting IT systems in production, cross-organizational IT processes and new activities: project risks and risks associated with the launch of systems into production. Likewise, a risk of business harm to the value of the Group and to its ability to attain its goals, as a result of lack of technological preparedness, including in business continuity situations.

Data protection and cyber risks. Risks of harm, as a result of events during which an attack is perpetrated on the computer systems and/or on the computer-based infrastructure systems, by, or on behalf of, adversaries (from either outside or inside the corporation).

Legal and regulatory risk. Legal risk is the risk of loss, inter alia, as a result of absence of the possibility to legally enforce fulfillment of a contract, or from exposure to legal proceedings against the Bank, or from exposure to fines or penalties, punitive damages resulting from supervisory activities, as well as from private settlements, etc. Legal risks include regulatory risks of a legal nature, stemming, among other things, from the non-implementation, or incorrect implementation of various regulatory instructions, under the power of which, various duties are imposed on the Bank.

Cross-border risks. Risk of loss, as a result of a statutory or regulatory sanction, or harm to the reputation, as a result of noncompliance with foreign statutory or regulatory provisions, applicable to the cross-border activity of the Group and as result of the Group's responsibility for the cross-border activity of its customers, conducted by means of the services of the Bank.

Compliance, Money Laundering and Financing of Terror risks. Risk of loss, as a result of statutory or regulating sanction, or harm to the reputation, as a result of non-compliance with the provisions of the law or regulation, in the area of Bank/customer relations and/or in the field of prohibition of money laundering and prevention of the finance of terror.

Reputation risk. Risk of impairment in the Group's value and its ability to attain its goals, as a result of damage to image following true or erroneous publications, external events, including events in the competition environment and/or internal events, including mistaken business decisions, material computer failures, strikes, embezzlements, material violation events in the cross-border risks, compliance risks and money laundering fields, etc.

Strategic risk. Business risk, either of action, such as misled business decisions or improper implementation of business decisions, or neglect, such as, lack of response to changes in competition which, if it materializes, could lead to impairment in the Group's value and its ability to attain its goals.

For additional details, see below in Chapter "C" of the Board of Directors and Management report – "Risk review" and in the document "Disclosure according to the third pillar of Basel and additional information regarding risks".

Environmental and climate risks. The risk of loss as a result of the Group's exposure to activities that have the potential to cause environmental damage or that could be impacted by such, as well as the risk of loss as a result of the Group's possible exposure to physical risks or transition risks relating to climate changes and events.

Model risks. The ever-growing use of modeling in banking exposes the Bank to the risk that decision makers will rely on the results of models that are inappropriate or unsuitable to the business and economic environment, such as to possibly have implications on the profitability of the Bank and Group, on the reliability of the financial statements, damage the reputation, and more.

Disclosure in accordance with the 3rd 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. Qualitative and quantitative disclosure regarding the various risks is presented below in Chapter C "Risks Review" 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 2021 annual report (this report), on the MAGNA site of the Israel Securities Authority, and on the MAYA site of the Tel Aviv Stock Exchange Ltd. and is comprising an integral part of the Bank's 2021 annual report.

Goals and business strategy

The new strategic plan, which was formed in the course of 2020, 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: to be the bank with the best customer experience in the system

Changing reality requires us to improve customer experience quickly and qualitatively – 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 integrated processes involving attentiveness to customers, deep and methodological analysis of feedback from customers through translating 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 a qualitative 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 additional 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 innovative 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 continue to 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 continue to promote assembling 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

Subsequent to updating the strategic plan formulated in 2020, which includes a financial plan for the years 2021 through 2025, and in light of the reduction in the level of uncertainty associated with the Corona crisis and the stabilization of the economy during 2021, the Bank's Board of Directors decided on March 8, 2022 to approve the following goals:
- a return on equity goal exceeding 12.5% in 2025;
- an efficiency ratio goal of less than 55% in 2025;
- a net profit goal which will exceed NIS 3.5 billion in 2025;
- a continuation of dividend distributions in accordance with the existing policy, namely, up to a rate of 30%. As progress is made in executing the plan, the possibility of raising the dividend rate will be examined.

Forward-looking information. The aforesaid reflects the plans of the Bank's Management and its intentions, paying attention to information already in its possession at the time of preparing the reports with regard to the development of the banking sector, to the macroeconomic forecast, including in relation to an increase in the rates of interest and inflation and to the uncertainty associated with planning for several years ahead. 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. 8 – Glossary".

Material environmental, social and governance aspects. The Bank conducts examination and evaluation of its policy and goals regarding environmental, social and governance matters, especially with respect to matters of the environment and climate, on the background of the amendment to the public reporting directives of December 2021. Following the completion of the process, projects and/or goals regarding the above matters would be integrated into the strategic plan.

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 year 2021 was also overclouded by the Corona crisis. The spread of the virus has led to a major economic crisis in 2020 that has affected the economy, including the banking sector and the Discount Group. A wide scope vaccination effort followed by a halt in the pandemic enabled the removal of the restrictions and in consequence thereof, recovery in economic activity has occurred during 2021. 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 10.14% and the liquidity coverage ratio amounts to 123.1%. This is the capital infrastructure that allows the Group to continue growing.
The central challenges and issues in 2021 were:

The Corona crisis

General. A new virus of the "Corona" type broke out in the first quarter of 2020, spreading quickly to most countries around the globe, causing widespread morbidity and a significant mortality rate. Following the outbreak of the virus, governments around the world, including Israel, have adopted preventive measures, which included restrictions on passage between countries, isolation means even up to imposing a lockdown, restrictions on different types of activities and businesses, etc. The said measures have led to actual impairment of business activity, to a rise in the rates of unemployment, impairment of the economic survivability of businesses and impairment of income and consumption of households. A significant additional outbreak of morbidity, the third in number, had been noticed in Israel in the months of December 2020 and January 2021. Following this additional outbreak, an additional lockdown was imposed in Israel in the months of January-February 2021, which caused a significant reduction in economic activity and a decline in morbidity. The significant vaccination efforts taken since the beginning of 2021, had led since the month of March 2021, to a decline in the rates of morbidity, allowing a gradual removal of most of the restrictions, and in consequence thereof, recovery in economic activity was noted starting from the second quarter of the year. In the second half of June 2021, the spreading of the "Delta" variant indeed began, however the significant decline in the morbidity situation with the subsiding fourth wave of the Corona pandemic, due to the population being inoculated with the third booster shot with no need for additional lockdowns, brought about a decline in the scope of unemployment and the reduction in Government deficit (see below "Principal economic developments"). An additional considerable outbreak of the pandemic occurred at the beginning of the first quarter of 2022, although the scope of restrictions imposed by the Government on the economic activity in Israel was limited. Following the outbreak of the morbidity, a moderate decline has been noticed in the scope of economic activity in Israel.

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

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

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

Capital requirements and dividend distribution. On the background of the spreading of the Corona virus and with the aim of supporting the credit requirements of the customers during this period, the Bank's Board of Directors has decided to modify the Common Equity Tier 1 ratio to 8.9% (instead of the previous 9.9%), as permitted by the provisional Directive issued by the Supervisor of Banks. At the same time, the Bank's Board of Directors decided that the distribution of dividends by the Bank shall be temporarily discontinued. On November 22, 2021, the Bank's Board of Directors decided to reestablish the goal of the Tier I capital ratio at the targeted range that had been in effect prior to the entry into effect of the Provisional Instruction. On the basis of the ICAAP and the SREP procedures, the Board decided to reduce the said goal by 0.15%, fixing it at the rate of 9.75% (for additional details, see "Capital and capital adequacy" below). The Bank has resumed the distribution of dividends, starting with the profits of the third quarter of 2021, at the rate of 20% (for additional details, see below "Dividend distribution" and Note 24 to the financial statements).

Changes in the level of risk. The Corona crisis and its domestic and global implications, have led to an increase in risk in most of the managed risk areas in 2020. Following the decline in the inherent risk as a result of the return to work at the Bank offices, the strengthening of business continuity and the stabilization of the changes that had followed the retirement process, the evaluation of the effect of the operational risk has been lowered in the second quarter of 2021 from High to Medium-high, the rating in effect prior to the outbreak of the Corona crisis.

Expenses for credit losses. In 2021 credit loss expenses release in the amount of 693 million were recorded, compared with expenses of NIS 1,718 million in the corresponding period last year, a decrease of 140.3%. The significant decrease in morbidity and the lifting of the third lockdown led to the reopening of the trade and the economy as a whole, with greater economic activity being evident beginning toward the end of the first quarter. During the year, the subsiding fourth wave of the Corona pandemic, due to the population being inoculated with the third booster shot with no need for additional lockdowns, brought about a decline in the scope of unemployment and the reduction in Government deficit. These factors have had a positive impact on the position of businesses and borrowers, as well as on macroeconomic parameters.

(See below "Credit loss expenses" in the section "Developments in income and expenses"; "Credit risk"; and "Allowance for credit losses – allowances on a group basis" in the section "Critical accounting policies and critical accounting estimates").

Continuing uncertainty conditions. The level of uncertainty declined during 2021, in view of the wide scope vaccination of the population in Israel, the decline in the rates of morbidity and the lifting most of the restrictions that had been imposed on economic activity. However, the overall economic ramifications of the Corona crisis are still not fully 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. In addition, at this stage, significant uncertainty still exists with respect to the length of time in which the Corona epidemic may continue its significant presence in the world. 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.

Signing of collective labor agreements

On December 23, 2021, special collective labor agreements in the matter of extension of validity of the Labor Charter and industrial peace for five years were signed by the Bank, the Employees Representative Committee and the New General Federation of Labor – MAOF Federation. In addition, special collective labor agreements were signed in the matters of salary and awards for three years, the transfer to the Discount Campus of the Bank's Head Office and additional units, and in the matter of redemption of the Jubilee Award, Jubilee vacation and Jubilee vacation pay (hereinafter: "the agreements").

A. **Extension of validity of the Labor Charter.** The validity of the Labor Charter has been extended to December 31, 2026, subject to changes, the principal of which is the conversion of employees from a "temporary" status to a "stable" status. Employment by the Bank of a "stable" status employee shall be indeterminable in time, but may be terminated by the Bank in accordance with the law. "Stable" status employees would be unionized, but the Labor Charter and all collective labor agreements and arrangements, except for certain collective agreements, shall not apply to them. The number of "stable" employees shall not exceed 2,000 at any given moment in the period of ten years from date of signing the agreements. The Bank is obligated to convert 300 employees to the "tenured employee" status until the end of the said period. Furthermore, additional changes to the Labor Charter had been agreed upon, including the employment of Wing Managers under personal labor agreements and improved mechanism for the mobility of employees.

B. **Transfer to the Discount Campus.** Arrangements have been made for the transfer of employees of the Bank's Head Office and of additional relevant units to the Discount Campus.

C. **Distance work arrangements.** Arrangements have been made for distance work for one day per week.

D. **Salary and awards for the years 2022-2024:**
   - **Wage increases** - the Bank will pay employees a differential wage increase in shekels, as follows:
     - Clerk grade employees will receive, as from the July 2023 salary, an average monthly wage increase of NIS 1,350, gross per employee, in respect of the years 2022-2024.
     - Managerial grade employees will receive a wage increase of an average rate of 3% per employee, not exceeding a total cost of NIS 10 million per year for all employees, in respect of each of the years 2022-2024.
     - "Stable" status employees will receive a wage increase of an average rate of 2.66% per employee, in respect of each of the years 2022-2024, and of a cumulative total rate not exceeding 8% for the whole period.

- **A return based annual bonus** - the Bank will pay employees in respect of each of the years 2022-2024, an annual bonus based on the annual ROE. The bonus grades are commensurate with the improvement in performance of the Bank in a way that, in comparison with the previous wage agreement, a higher return is required at each of the bonus grades. Thus, for instance, at a return of 10%, one monthly salary less would be paid as compared to the previous wage agreement and in order to reach the maximum bonus a return of 14% and over is required.
- **Nonrecurring awards**
  - Consent award regarding the transfer to the Campus – employees who had been employed by the Bank at date of signature of the agreement, will receive in the course of 2022 a nonrecurring award in respect of the consent to the transfer to the Discount Campus and the changes involved in such transfer. The provision in respect of the consent award amounted to approx. NIS 93 million (pre-tax effect).

- Awards in respect of changes made to the Labor Charter –
  - in respect of changes agreed upon by the parties in the agreement for extension of the validity of the Labor Charter, clerk grade employees of the "tenured" employee status, who had been employed by the Bank at date of signature of the agreement, will receive a nonrecurring award.
  - Managerial grade employees will receive a nonrecurring award based on the ROE, to be paid subject to an annual return ratio of 10% in the year preceding the year of payment and at a total cost not exceeding NIS 8 million per year for all employees of this grade, in each of the years 2022-2024.

    The provision in respect of the award regarding changes in the Labor Charter amounted to approx. NIS 101 million (including a return based award for the year 2022 to employees of managerial grade).
- Award to branch employees – in the course of 2022, Bank branch employees will receive an additional nonrecurring award at a cost of NIS 10 million (pre-tax effect).

E. Effect of the agreements on the business results

The new wage outline reflects a wage increase of an average annual rate that is not materially different from the wage outline of the previous wage agreement. Correspondingly, a reduction is expected in the scope of payment of the return-based bonus so that the total salary expense is not expected to change materially.

Management of the Bank estimates that the agreements will not have a material effect on the Bank's profits in the years 2022-2024. The financial statements as of December 31, 2021 include a provision in respect of the nonrecurring awards in an amount of approx. NIS 200 million (pre-tax effect), of which approx. NIS 150 million (pre-tax effect) in the fourth quarter.

Forward looking information. The above stated includes, inter alia, estimates made by the Bank's Management being considered forward looking information. The above stated reflects estimates made by the Bank's Management taking into consideration the information existing in its hands and plans existing at date of preparation of the financial statements. The above stated may not materialize in the event of material changes taking place in the scope of the employee population or its composition, in the starting wage level of new employees due to the situation in the labor market, or in the profitability of the Bank.

For details regarding a special collective agreement signed between MDB, the New General Federation of Labor and the MDB employees' representatives, see "The Human Capital" below.

Strategic cooperation with Shufersal

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 takes place using a company controlled by the Bank, with the Bank holding 50.1% of the rights in the company and Shufersal holding 49.9% of the rights. Within the framework of the cooperation, the PayBox operation will be expanded, and, in the first stage, it will become possible for its customers to use a PayBox wallet as a means of payment, to redeem digital purchase coupons, to receive various benefits, and so forth. In addition, the company will offer its customers a virtual credit card that will be ascribed to the PayBox club, including for members of the Shufersal loyalty club who are not holders of a Shufersal loyalty club credit card.

The parties have agreed to take additional measures in the future in order to enable customers of all the banks to conduct additional financial and banking activity within the framework of PayBox, inter alia, by means of a platform on which financial services and products of various suppliers and fintech companies will be offered to customers of all the banks, with this being subject to the provisions of the law.

Consent of the Competition Commissioner to the merger transaction was received on March 1, 2021, within the framework of which PayBox Ltd. (a company in formation) and Shufersal Club Company Ltd. (provisional name) (a company in formation) would be merged.

On June 1, 2021, the Bank received the approval of the Supervisor of Banks (hereinafter: "the Supervisor's approval") permitting it to have the sole control and to directly hold the means of control in the auxiliary corporation PayBox Ltd. (hereinafter: "the auxiliary corporation"), which is to engage in managing a digital wallet platform and in providing digital services. Upon receipt of the Supervisor's approval, the Bank received the regulatory approvals for the completion of the transaction being the subject matter of the agreement dated January 19, 2021. The merger was completed on June 30, 2021, within the framework of which PayBox Ltd. ("PayBox") absorbed Shufersal Digital Benefits Ltd. (For additional details, see Note 39 to the financial statements).

In August 2021 PayBox Ltd. made accessible on the PayBox Application the purchase vouchers of Shufersal, and at the end of October 2021, the benefits activity of the Shufersal Customers Club.

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.

Data regarding operations. As of December 31, 2021, the number of users of the PayBox Application, whose registration as users includes the addition of means of payment, totaled approx. 1.6 million, growth of approx. 26% as compared to December 31, 2020. The number of active users, who made at least one transaction in the last 90 days, totaled at December 31, 2021 approx. 1,022 thousand users, growth of approx. 32% as compared with December 31, 2020. The turnover of the transfer of funds by means of the Application amounted in 2021 to approx. NIS 3.2 billion, growth of approx. 60% compared to 2020.

The "One-Click Mobility" reform

The Reform allowing rapid transition between banks – "One-Click Mobility" – entered into effect on September 22, 2021, which allows customers to transfer online their entire banking operations from bank to bank at no cost and within seven business days.

With the introduction of the Reform the Bank has implemented a line of infrastructure, business and marketing measures in order to adapt to the needs of customers and to the Regulation instructions. Among these measures is the adaptation of value offers to the different populations and the updating of the Bank's marketing website, in which may be found all the information regarding the rapid transition between banks and regarding the different benefits offered.

The customer may begin the mobility request of his account in a friendly, available and convenient manner on the digital (using the website or the Application) and at each of the Bank's branches. Following the mobility request, current account balances (in shekel and in foreign currency), authorizations to charge the account, standing orders, checks, securities deposits and credit card charges are being transferred automatically.

The Bank views the Reform as a significant milestone in the improvement of service, creation of value and fortification of customers of the banking system, and the increase in competition together with a significant opportunity for growth through attraction of new customers, intensifying operations and retention of customers.

The ratio of new customers to deserting customers was approx. 2.4 in the period since the entry into effect of the Reform (September 22, 2021 to February 27, 2022).

Striving for a winning customer experience

In order to realize the vision and become the best bank for its customers, the Bank had introduced a comprehensive strategic effort intended to turn the whole Bank into a customer focused organization. This, in a significant and wide move that would engulf all units of the Bank and lead to a fundamental and deep change of work procedures and of service and behavioral principles.

The index for the measurement of the success of the change is the Net Promoter Score (NPS). This index has been successfully implemented by thousands of leading organizations around the world. It has been proven that this index is directly related to the growth in income, to attracting new customers and to increasing customer loyalty.

Within the framework of this mechanism, the Bank implements processes of listening to customers, of in-depth and methodological analysis of customer feedback and the ability to translate the messages into effective initiatives improving customer experience at all his interface points with the Bank.

Issuances

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

On June 28, 2021, the Bank, through Manpikim, completed the process of issuing a private placement of the said deferred debt notes (expansion of Series G), in a total amount of approx. NIS 250 million. The effective interest rate at issue date was 0.76%.

Issuance of deferred debt notes – Series H. On November 29, 2021, the Bank, through Manpikim, completed the process of issuing deferred debt notes (Series H), 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 580 million. The effective interest rate at issue date was 1.86%.

Additional Issuances. On November 29, 2021, the Bank, by means of Manpikim, completed the issue of financial instruments intended to respond to the liquidity requirements and strengthen the infrastructure for the accelerated growth strategy for the credit portfolio of the Bank. In this framework, bonds (Series "O") were issued in a total amount of approx. NIS 3.1 billion, and at an effective margin of 0.8% and commercial securities (Series 1) in a total amount of approx. NIS 907 million and at a margin of 0.23% over the Bank of Israel interest rate.

Additional issues

- **Rating.** Moody's rating agency has raised the rating for deposits with the Bank from "A3" to "A2" with a stable outlook. For additional details, see below "Rating of Liabilities of the Bank and some of its Subsidiaries";
- **The 2020 retirement plan.** During the reported period, the Bank's Management worked diligently to complete the implementation of the 2020 retirement plan. For additional details, see below "The 2020 retirement plan";
- **Proceedings in Australia.** In January 2021, compromise arrangements and an arrangement with the Bank's insurers were signed with regard to the proceedings in Australia. For details, see the 2020 Annual Report (p. 230, section 11.3). For details regarding the special, independent committee regarding the proceedings in Australia, see below in the chapter "Corporate Governance and Audit";
- **Discount Campus.** Construction work on the campus continued in the reported period. For additional details, see Note 26 to the financial statements, section C 13 and "Fixed assets and installations" below;
- **Realization of assets as part of the preparations for the relocation of the Head Offices and operation of the Bank to the Discount Campus.** For additional details, see Note 16 to the financial statements, section K;
- **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 including an examination of the separation of ICC from the Bank. For additional details, see Note 36 to the financial statements;
- **Early redemption of regulatory capital instruments.** For details, see below "Capital and Capital Adequacy";
- **Realization of ZIM shares.** For details, see below Note 12 to the financial statements, section L.

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 2021.

Growth. The global economy has recovered at a fast pace in the course of 2021, and in total for the year the US economy recorded a growth at the rate of 5.7%, concurrently with the recovery in the labor market, while the Eurozone economy grew by 5.2%.

The GDP in Israel grew by 8.1%, following a shrinking of 2.2% in 2020. This as a result of accelerated growth in private consumption and in the export of other services (mostly hi-tech).

Exchange rates. The dollar basket ("Dollar Index") strengthened in 2021 by a rate of 6.4%, in view of the margin opening in real yields. Notwithstanding this, and despite foreign currency purchases by the Bank of Israel, the shekel appreciated during 2021 by approx. 3% as against the US dollar and by approx. 8% against the currencies basket.

Inflation. Inflation around the world accelerated sharply in the course of 2021, and as a result thereof, central banks began to reduce the purchases of bonds, some of which even raised the interest rate, and the FED signaled a faster than expected monetary restraint. Also in Israel, inflation has reached high levels, though within the boundaries of the inflationary target. The year 2021 ended with inflation of 2.8%, with the core inflation (excluding energy, fruit and vegetables) reaching 2.7%. At the end of December, Index contracts for one year embodied an inflation rate of 2.35%.

Monetary policy. The Bank of Israel purchased during the year Government bonds to the tune of approx. NIS 40 billion, thus completing its purchases plan of NIS 85 billion, launched in 2020. In addition, the Bank of Israel purchased an amount of approx. US$35 billion, of which, US$30 billion within the framework of the plan announced at the beginning of the year. Furthermore, the Bank of Israel extended loans to banks to the tune of approx. NIS 20 billion, for the purpose of extending loans to small and minute businesses. The interest rate remained stable all along the year, at a level of 0.1%.

Financial markets. In total for the year, most of the leading indices in the developed markets recorded rising prices, on the background of the vaccination trend in the population, recovery of the economies and the continuing expansionary policy of central banks. The share indices of the Tel Aviv Stock Exchange rose steeply during the year, even at a faster rate than the leading rates in the world.

Trading in the US Government bonds was characterized by high fluctuations, though at the end of the year, yields were stabilized at levels significantly higher than the levels at the end of 2020. Trading in Israeli Government bonds was also characterized by fluctuations, when in total for the year, yields grew, though by a more moderate rate when compared to the US bonds.

First quarter of 2022. The spread of the Omicron variant, along with a steep rise in commodity prices and the cost of transporting oil, acceleration in inflation and inflationary expectations, and the anticipation of rapid monetary restraint in the United States, have led to sharp fluctuations in the markets. Equity indices in the leading markets began the year with price falls and steep rises in government bond yields.

Toward the end of February, with the rise in the tension between Russia and Ukraine followed by the Russian invasion of Ukraine, uncertainty has increased considerably, oil and commodity prices have risen and the markets' equity indices have continued to fall. The Western countries' imposition of more severe sanctions on Russia have caused amplifies the damage and isolation of the Russian and Ukraine economy. The continuation of the war creates a high level of uncertainty with regard to the extent of damage that the Russian and global economies will suffer.

In Israel, the year began with the spread of the omicron variant, but the economy continued to function almost fully and additional decrease in unemployment occurred.

Against the background of the steep price falls on the markets and the strengthening of the dollar worldwide, the shekel has weakened since the beginning of the year, against the dollar by approx. 4% and by approx. 2% against the currencies basket.

The pace of inflation continued to rise and in January reached an annual rate of 3.1%.

In its interest announcement at the end of February, the central bank signaled that there would be an interest hike in the coming months and the IRS market raised its Bank of Israel interest forecast, a forecast that was also supported by a steep rise in inflationary expectations, against the background of the steep rise in commodity prices.

Concurrently with the rising global yields, the yield on Israeli government shekel bonds also rose and, following the outbreak of the war, with the rise in risk aversion and the "flight-to-safety", a positive differential has even opened up between Israeli 10-year bonds and their US equivalents. The rise in yields in Israel has been supported by a rise in the real yield all along the curve, together with a rise in inflationary expectations, primarily in the short to medium terms. One-year Index contracts were traded at the end of the period at approx. 3%, compared to approx. 2.35% at the end of 2020.

The falls on the Israeli indices market were considerably more moderate than those on the global markets, and the TA-125 Index fell by approx. 1%, compared to the approx. 9% fall in the S&P 500 Index.

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 annual 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 2021" in "Corporate governance, audit, additional details regarding the business of the banking corporation and management thereof".

Material leading and developing risks

In accordance with the FSB's recommendations, a leading risk is defined as a development occurring in the bank's business environment that could have an adverse effect on its results in the coming year. A developing risk includes a risk, regarding which the timing of its materialization is uncertain, whose occurrence could have a material impact on the bank.
Following are details regarding the most material leading and developing risks.
Business model risks. Changes have taken place in recent years in the operating environment stemming, inter alia, from the acceleration in technical developments, erosion in income sources and increased competition in the banking and off-banking industry and this alongside the continuing effects that the Corona crisis is expected to have on the business results of the banking system.
The dynamism, the competition, the pace of changes, and the ongoing effects of the Corona crisis, alongside the continuation of the low interest environment and the erosion of the margins, lead to a higher business model risk (being part of the strategic risk) and require the Bank and the Group to examine forward looking, advanced and flexible solutions, which would ensure the continued positioning of the Group as a leading banking group also in the future.
Accordingly, the Group updates annually the list of strategic projects, emphasizing the continuation of efforts regarding strategic focal points, alongside consistent examination of changes in international and domestic banking. The Group directs significant efforts to the technology, data, and the digital fields, customer experience, innovation (Fintech) and the development of models for new banking.
Such changes, with an emphasis on innovative and technological projects, naturally lead to an increase in third party risks, especially as regards aspects of supply chain, quality and control protection, exposure to cyber risks, leakage of information and protection of privacy. The Group acts to continuously improve tools supporting risk management, including the updating of policy documents, establishing standardization, contractual regulation and processes as well as introducing "new product" processes to new operations or products.
Furthermore, with the focus intensification on technology-based banking and expertise, so does the need develops for proper management of the transformation required in the workforce and its suitability, along with developing the ability to continue attract and retain personnel in the fields of technology, cyber, models and analysis.
Alongside the initiation of new projects for improving the Group's preparations towards future banking, crosswise and continuous processes are being implemented, supporting and improving traditional banking processes through improving and making accessible the operations with customers and improving the services. Also adopted are steps for increasing efficiency and reducing expenditure, including by means of operational efficiency and digitation of processes.
Cyber risks and data protection. Cyber risk continues to comprise one of the significant and developing threats in the world generally and in the banking system in particular. The level of ingenuity, the complexity of the attack and the variety of methods are increasing and so is the involvement of organized crime factors and of government agencies. The threat is intensifying, because due to business competition, and the aspiration to achieve a position in the technological front, the scope of deployment of computer based services exposed to the cybernetic world has grown (cooperation with third parties, open banking, cloud computer services, use of open code, transition to distance working and more).
With the understanding of the implications of the realization of these threats on the Group's operations, the availability of its services and its reputation, the Bank's Management and Board of Directors allocate abundant resources for the facing of such threats, including their direct involvement. The policy, the methodologies and the

tools supporting management of the risk, are being updated and developed on a current basis, while emphasizing the continuous improvement of monitoring and protection tools used against internal and external threats and the preparations made for providing immediate response to events. This, concurrently with a current dialogue with the Regulator and with the Israel National Cyber Directorate.

Macro environment risk. The macro environment continues to be affected by the Corona crisis implications on the domestic and global economies and markets, and the global and domestic uncertainty continues due to the outbreak of new variants. Implications of the crisis mostly affect credit, cyber and models risks. For additional details, see above "The Corona crisis". In addition, structural changes in the employment market and the effects of the Corona crisis on the employment world as well as the advancement of technology all create a significant challenge regarding employee recruitment and preservation aspects, transformation of capabilities and of employment models.

Model risks. The ever-increasing emphasis on digital banking, along with customers' heightened expectations for value maximalization, for insights and for customized, available and immediate products leads to the fact that organizations in general and in the banking system in particular are becoming more and more data-based and model-based, including the assimilation of sophisticated, AI-based models and machine learning. These aspects create developing challenges in the field of model development, as well as in the fields of validation and model risk management. The Group is working in accordance with a multiyear work program, to develop advanced models, as well as to constantly improve the tools and methodologies that support the model risk management.

Along with the aforesaid, the effects of the Corona crisis and the support granted by the government have negatively impacted the forecasting aptitude of the traditional financial models (credit, market, investments) that, in the main, are calibrated for more normal times. With the outbreak of the crisis, the Group analyzed the immediate effects of the crisis on the models and took immediate steps to mitigate the damage, primarily by utilizing tools other than the models, such as increased reliance on manual underwriting, changes in the authorizations' hierarchy and the underwriting thresholds, updating coefficients, etc.

Notwithstanding, the negative impact in the credit field is expected to continue into even the medium-long term and this will also have an effect on future development and validation processes and the Group is intensifying its efforts to analyze the effects of the crisis on the various models, with a risk-based approach and through aligning the work plan to the development and validation of models and adaptation to a policy that supports management of the risk.

Privacy protection. Privacy protection aspects are garnering ever-more attention and importance in Israel and throughout the world, against the background of greater digital and data use. and the issue was identified by the Group as a developing risk. The Group invests considerable efforts in applying regulation and in the integration of privacy protection aspects into processes, systems, models and in the training of the human resource, including formulating a Group policy on this topic. The Group is acting to maintain the proper balance between the use of information for Bank purposes and maintaining the privacy protection aspects of its customers, its employees and suppliers. The privacy protection aspects constitute an important component in examining new products and/or technologies and/or services and/or models, while ensuring proper protection of sensitive information and protection against the potential of information leakage.

Conduct risk. The importance of the values of fairness, decency and transparency vis-à-vis the Bank's customer including the prevention of prohibited discrimination between customers constitutes, itself, a developing risk that is managed as an integral part of the management of compliance risk at the Bank. The Bank is constantly acting to assimilate these values in the spectrum of relevant processes, working to raise employee awareness regarding their importance and acts in improving the supporting work processes at the Bank.

Environment and climate risk. In recent years, the topic of managing environment and climate risks has become a primary focus of regulatory attention due to an understanding that the materialization of environment and climate risks might have an effect on the banking system and in extreme cases might even lead to global and systemic consequences. Accordingly, various regulators throughout the world, including the Banking Supervision Department, are preparing to map the operations relating to the banking system prior to future regulating of this topic. In light of the regulatory letters of expectation recently sent, the Bank is examining accepted practices throughout the world, in order to review its risk management preparations and their integration as part of the risk management processes with the relevant adjustments.

For additional details, see below in Chapter "C" of the Board of Directors and Management report – "Risk review" and in the document "Disclosure according to the third pillar of Basel and additional information regarding risks", on the MAGNA site of the Israel Securities Authority, on the MAYA site of the Tel Aviv Stock Exchange Ltd. and on the Bank's website.

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. In accordance with the law, a period of two year began on February 1, 2021, ending on February 1, during which the Minister of Finance may order ICC to be separated from the banks that currently own it. To the best knowledge of the Bank, the matter is being examined by the relevant factors.

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), then, competition had intensified between the companies in the transitional period determined in the Act. 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 this context, it should be mentioned that the transitional period ended in January and February 2022, with respect to Discount Bank and Bank Leumi, respectively, and is expected to end in April 2022, with respect to Bank Hapoalim. In the era following the entry into effect of the new Act, and now again, with the ending of the transitional period[1], 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 (according to this term's meaning in generally accepted accounting principles) 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 December 31, 2021, is estimated at approx. NIS 50 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". 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. For details in the matter of "Changes regarding competition in the credit card market", see "Credit Card Operations" below.

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, 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 36 section A 1 to the financial statements.

1 The dates relating to Bank Leumi and Bank Hpoalim are, to the best knowledge of the Bank, based on open information.

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.

Regulation of the open banking API standard in Israel, Financial Information Services Act and the Regulation of the Payment Services Business Bill Memorandum. For further details, see "Legislation and Supervision".

Reform of bank account mobility. For further details, see "Legislation and Supervision".

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. During August and October of 2020, the Board of Directors approved a retirement plan for approx. 500 employees, following an outline that had been formed by the Bank's Management, on the background of the Corona crisis and the intention to increase in a significant scope the number of retirees over and above the employees expected to reach natural retirement. In view of the above stated, it has been decided to alter the retirement outline at the Bank, in an exceptional and one-time manner, offering retirees preferential terms compared with the usual retirement terms and the terms that had been offered in previous plans.

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

Until December 31, 2021, 812 employees of the Group in Israel retired (including natural retirement of employees).

The amount of the settlement charged to profit and loss in 2021, amounted to NIS 143 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.

The retirement of the vast majority of the employees was completed in the first quarter of 2021. During 2021, the Bank continued its reorganization for the day after the conclusion of the retirement campaign, with emphasis on filling gaps in manpower and its training, including internal filling of positions, particularly in those units where the retirement percentage was high and/or where employees defined as key personnel had retired.

Opinion of the Independent Auditors

In the opinion provided by the independent auditors on the financial statements for the year 2021, the independent auditors drew attention to Note 26 C, section 11, regarding class actions and other legal actions that cannot be estimated.

Material developments in income, expenses and other comprehensive income

Profit and Profitability

The Discount Group's Net profit in 2021 amounted to NIS 2,773 million, compared with NIS 975 million in 2020, an increase of 184.4%.

Net return on shareholders' equity for 2021 was 13.6%, compared with 5.1% in 2020.

Net earnings per one share of NIS 0.1 par value amounted in 2021 to NIS 2.38, compared with NIS 0.84 in 2020.

The main factors that had an effect on the business results of the Group in 2021, compared with 2020:

a. A decrease in credit loss expenses, in an amount of NIS 2,411 million (140.3%). The decrease stemmed mostly from expenses release pertaining to the group channel following the resumption of trading and the opening of the economy as a whole and the updating of parameters affecting the adjustment rate component, as well as the reduction in the rate of decision and the significant collections pertaining to the specific channel.

b. A decrease in the total non-interest income, of NIS 45 million (1.1%), primarily a decrease in non-interest financing income in an amount of NIS 377 million (33.0%), mostly stemming from the reduction in income from realization of bonds and from derivatives activity, partly offset by a NIS 299 million decrease in fees and commissions (10.6%), primarily due to an increase in credit card fees and commissions and securities activities and from an increase of NIS 33 million in other income (84.6%), mostly from the realization of properties.

c. An increase of NIS 177 million in operating and other expenses (2.6%), affected, mainly, from an increase of NIS 226 million in salaries and related expenses (7.0%) which was partly offset by a decrease of NIS 51 million in other expenses (2.3%), mostly the effect of the settlement.

d. Tax provision of NIS 1,516 million on earnings in 2021, compared with NIS 549 million in 2020.

Additional details and explanations are presented below.

Net Profit Attributed to the Bank's Shareholders in the fourth quarter of 2021 amounted to NIS 529 million, compared with NIS 722 million in the third quarter of the year, a decrease in a rate of 26.7%, and compared with NIS 264 million in the fourth quarter of 2020, an increase of 100.4%.

The major factors affecting the business results of the Group in the fourth quarter of 2021, compared with the previous quarter, were:

a. An increase in net interest income, in an amount of NIS 26 million (1.6%).

b. A decrease in credit loss expenses release, in an amount of NIS 116 million (92.1%). The decline was affected by a decline in expenses release for group allowance.

c. An increase of NIS 24 million (2.4%) in non-interest income, which was affected mainly by an increase from other income in the amount of NIS 40 million, mainly due to the realization of assets, and from a decrease of NIS 18 million in income from non interest financing income.

d. An increase in operating and other expenses, in an amount of NIS 283 million (17.1%), which was effected by an increase of 103 million in salaries and related expenses (11.9%), from an increase of NIS 1 million in maintenance expenses and depreciation of buildings and equipment (0.3%) and from an increase of NIS 179 million in other expenses (36.0%) (see hereunder).

e. In the fourth quarter of 2021, provision for taxes on the profit was recorded, in the amount of NIS 269 million, compared with NIS 401 million in the previous quarter.

Developments in Income and Expenses

Developments in certain profit and loss statement items in 2019-2021

	For the year ended December 31,			Change in %	
	2021	2020	2019	2021 compared to 2020	2020 compared to 2019
	In NIS millions				
Interest income	7,491	6,987	7,567	7.2	(7.7)
Interest expenses	962	1,089	1,674	(11.7)	(34.9)
Net interest income	**6,529**	**5,898**	**5,893**	**10.7**	**0.1**
Credit loss expenses (expenses release)	(693)	1,718	690	(140.3)	149.0
Net interest income after credit loss expenses	**7,222**	**4,180**	**5,203**	**72.8**	**(19.7)**
Non-interest Income					
Non-interest financing income	765	1,142	742	(33.0)	53.9
Fees and commissions	3,125	2,826	2,972	10.6	(4.9)
Other income	72	39	57	84.6	(31.6)
Total non-interest income	**3,962**	**4,007**	**3,771**	**(1.1)**	**6.3**
Operating and other Expenses					
Salaries and related expenses	3,468	3,242	3,343	7.0	(3.0)
Maintenance and depreciation of buildings and equipment	1,187	1,185	1,098	0.2	7.9
Other expenses	2,203	2,254	1,858	(2.3)	21.3
Total operating and other expenses	**6,858**	**6,681**	**6,299**	**2.6**	**6.1**
Profit before taxes	4,326	1,506	2,675	187.3	(43.7)
Provision for taxes on profit	1,516	549	932	176.1	(41.1)
Profit after taxes	**2,810**	**957**	**1,743**	**193.6**	**(45.1)**
Bank’s share in profit of associates, net of tax effect	20	50	16	(60.0)	212.5
Net profit attributed to the non-controlling interests in consolidated companies	(57)	(32)	(57)	78.1	(43.9)
Net Profit attributed to Bank's shareholders	**2,773**	**975**	**1,702**	**184.4**	**(42.7)**
Return on shareholders' equity, in %	13.6	5.1	9.4		
Efficiency ratio in %	65.4	67.5	65.2		
Net Profit attributed to Bank's shareholders - excluding certain components (see below)	**3,016**	**1,287**	**1,779**	**134.3**	**(27.7)**
Return on shareholders' equity , in %- excluding certain components (see below)	14.8	6.7	9.9		
Efficiency ratio in % excluding certain components (see below)	61.6	62.5	64.0		

Profitability - excluding certain components

	For the year months ended December 31				
	2021	2020	2019	2021 compared to 2020	2020 compared to 2019
	in NIS millions			Change in %	
Net Profit Attributed to the Bank's Shareholders - as reported	2,773	975	1,702	184.4	(42.7)
Excluding[(1)]:					
Gains on the sale of rights in Visa Europe	-	(44)	-		
Realization of assets	(38)	-	-		
Nonrecurring awards	155	-	-		
Subsidiary retirement plan	-	15	-		
Redemption of jubilee awards	19	-	-		
Effect of settlement	94	272	38		
Provision for claims, net of insurance income	-	43	39		
Expenses of vacating the Management Building of IDB New York	13	26	-		
Net Profit Attributed to the Bank's Shareholders - excluding the above components	**3,016**	**1,287**	**1,779**	**134.3**	**(27.7)**

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

Developments in certain profit and loss statement items in the fourth quarter of 2021, compared with the third quarter of 2021 and the fourth quarter of 2020

	2021		2020	Change Q4 2021 compared to	
	Q4	Q3	Q4	Q3 2021	Q4 2020
	In NIS millions			in %	
Interest income	1,871	1,912	1,724	(2.1)	8.5
Interest expenses	188	255	220	(26.3)	(14.5)
Net interest income	**1,683**	**1,657**	**1,504**	**1.6**	**11.9**
Credit loss expenses (expenses release)	(10)	(126)	200	92.1	(105.0)
Net interest income after credit loss expenses	**1,693**	**1,783**	**1,304**	**(5.0)**	**29.8**
Non-interest Income					
Non-interest financing income	180	198	148	(9.1)	21.6
Fees and commissions	809	807	739	0.2	9.5
Other income	50	10	24	400.0	108.3
Total non-interest income	**1,039**	**1,015**	**911**	**2.4**	**14.1**
Operating and other Expenses					
Salaries and related expenses	970	867	794	11.9	22.2
Maintenance and depreciation of buildings and equipment	293	292	337	0.3	(13.1)
Other expenses	676	497	689	36.0	(1.9)
Total operating and other expenses	**1,939**	**1,656**	**1,820**	**17.1**	**6.5**
Profit before taxes	793	1,142	395	(30.6)	100.8
Provision for taxes on profit	269	401	159	(32.9)	69.2
Profit after taxes	**524**	**741**	**236**	**(29.3)**	**122.0**
Bank’s share in profit of associates, net of tax effect	4	-	36	100.0	(88.9)
Net loss (profit) attributed to the non-controlling interests in consolidated companies	1	(19)	(8)	(105.3)	(112.5)
Net Profit attributed to Bank's shareholders	**529**	**722**	**264**	**(26.7)**	**100.4**
Return on shareholders' equity, in %[1]	10.2	14.5	5.6		
Efficiency ratio in %	71.2	62.0	75.4		
Net Profit attributed to Bank's shareholders - excluding certain components (see below)	**674**	**726**	**421**	**(7.2)**	**60.1**
Return on shareholders’ equity, in %[1] - excluding certain components (see below)	13.1	14.6	9.1		
Efficiency ratio in % excluding certain components (see below)	62.1	61.7	65.8		

Footnote:
(1) On an annual basis.

Profitability - excluding certain components

	2021		2020	Q4 2021 compared to	
	Q4	Q3	Q4	Q3 2021	Q4 2020
	in NIS millions			Change in %	
Net income attributed to the Bank's shareholders - as reported	529	722	264	(26.7)	100.4
Excluding[1]:					
Realization of assets	(38)	-	-		
Nonrecurring awards	155	-	-		
Subsidiary retirement plan	-	-	(3)		
Redemption of jubilee awards	19	-	-		
Effect of settlement	9	4	246		
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	**674**	**726**	**421**	**(7.2)**	**60.1**

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

Details regarding Excluded Components

Gain on sale of the VISA Inc. shares. Gain in respect of a part of the shares received by ICC and the Bank in 2016, with respect to the merger transaction between VISA Europe and VISA Inc. (see Note 12 K to the 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. For details, see Note 16 to the financial statements, section K.
Nonrecurring awards. For details, see above "Signing of collective labor agreements" in section "Management's handling of current material issues".
Retirement plan at a subsidiary company. A voluntary retirement plan at ICC, which recognized the total cost of the plan as an expense in the second half of 2020 (see Note 23 H (3) to the financial statements).
Redemption of jubilee awards. For details, see below "The Human Capital".
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 Note 23 H to the financial statements).
Provision for claims net of insurance indemnification. Changes in the provision for proceedings in Australia (net of insurance indemnification), see Note 26 C 11.3 to the financial statements as of December 31, 2020 (pp. 230-231).
Expenses of vacating the Management Building of IDB Bank. Principally the balance of lease improvements in the old Management building, which was written off in the fourth quarter of 2020, and in the second quarter of 2021 it was decided to write it off, due to the vacating of parts of the old building during those quarters, respectively, as well as expenses relating to the vacating of the building and its return to the owners.

As transpires from the data presented in this report, the credit loss expenses release in 2021 was highly exceptional, both in terms of substance and in terms of volume. The Bank estimates that had the credit loss expense in the said period been at rates prevailing prior to the Corona crisis (in the years 2016-2019, an average rate of 0.37%), then the expense for 2021 would have amounted to NIS 745 million; net profit would have totaled NIS 1,827 million, and the return on equity would have been 8.9% (In the fourth quarter: NIS 191 million, NIS 397 million and 7.6%, respectively).
The credit loss expense in the said period been at rates prevailing prior to the Corona crisis, the net profit excluding the above components would have totaled NIS 2,070 million, and the return on equity excluding the above components would have been 10.1% (In the fourth quarter: NIS 542 million and 10.4%, respectively).

For details regarding gains in respect of the ZIM shares in a total amount of NIS 124 million (before tax), see Note 12 to the financial statements, section L.

Details regarding material changes in statement of profit and loss items

Net interest income. In 2021, net interest income, amounted to NIS 6,529 million compared with NIS 5,898 million in 2020, an increase of 10.7%. The rise in the net interest income, in the amount of NIS 631 million, is explained by a positive price impact of approx. NIS 101 million, and from a positive quantitative effect in the amount of approx. NIS 530 million (see "Rates of interest income and expenses and analysis of the changes in interest income and expenses" in Appendix No.1).
The interest margin, excluding derivatives, reached a rate of 2.21% in 2021, similar to the rate in 2020.
The average balance of interest bearing assets has increased by a rate of approx. 11.1%, from an amount of NIS 251,063 million to NIS 278,970 million, and the average balance of interest bearing liabilities has increased by a rate of approx. 4.4%, from an amount of NIS 190,449 million to NIS 198,776 million.

Net interest income according to linkage segments

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

	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	72.6	4,851	2.33	71.1	4,696	2.56
CPI-linked shekels	7.9	587	0.49	7.9	180	(0.04)
Foreign Currency	19.5	1,091	1.91	21.0	1,022	1.83
Net interest income and the interest spread	**100.0**	**6,529**	**2.21**	**100.0**	**5,898**	**2.21**

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

In the non-linked shekel segment, net interest income increased in 2021 at a rate of 3.3%. Income from this segment constituted 74.3% of total net interest income in 2021, compared with 79.6% in 2020.
The average balance of assets in this segment increased in 2021 by 13.4% compared with 2020.
The increase in the segment's profit is due to a rise in the scope of net interest-bearing assets, primarily credit to the public, which was set off by a decrease in the interest spread. The decline in the interest spread was affected, inter alia, by the change in the mix of assets and liabilities and from a decline in the Shekel interest rate.
The CPI-linked Shekel segment, net interest income increased in 2021 at a rate of 226.1% and its proportion of total net interest income in 2021 was 9.0%, compared with 3.1% in 2020. The average asset balance in this segment in 2021 increased by a rate of 11.0% compared with 2020.
The Bank has a surplus of balance-sheet assets over its balance-sheet liabilities and the increase in profits stemmed mostly from the difference between the decrease in the CPI in 2020, at a rate of 0.6% compared to a rise of 2.4% in the Index in 2021, and from an increase in the volume of net interest bearing assets, mostly credit to the public.
In the foreign currency segment, which includes activities in the foreign currency-linked shekel segment, net interest income increased in 2021 by a rate of 6.8%. Its proportion of all net profit was 16.7% in 2021, compared with 17.3% in 2020.
The average balance of assets in this segment increased in 2021 at a rate of 3.4% compared to 2020.
The increase in the segment's profit is due to an increase in the interest spread and an increase in the scope of net interest-bearing assets. The increase in the interest margin was affected, inter alia, by the change in the mix of assets and liabilities and from the decline in the dollar interest rate.
Non-interest financing income decreased in 2021 at a rate of 33.0%, compared with 2020. The decline in non-interest financing income stems, mostly, from the decline in income from realization of bonds and from derivatives operations (see below "Analysis of the total net financing income").
Non-interest financing income includes the effect of activity in derivative financial instruments, which constitute an integral part of the management of the Bank's interest exposure and base exposure. Accordingly, for the purpose of analyzing the financing profit from current activity, the net interest income and the non-interest financing income need to be aggregated.

Composition of net financing income

	Annual	Q4	Q3	Q2	Q1
	in NIS millions				
	2021				
Interest income	7,491	1,871	1,912	1,997	1,711
Interest expenses	962	188	255	312	207
Net interest income	6,529	1,683	1,657	1,685	1,504
Non-interest financing income	765	180	198	89	298
Total net financing income	**7,294**	**1,863**	**1,855**	**1,774**	**1,802**
	2020				
Interest income	6,987	1,724	1,730	1,742	1,791
Interest expenses	1,089	220	254	279	336
Net interest income	5,898	1,504	1,476	1,463	1,455
Non-interest financing income	1,142	148	301	276	417
Total net financing profit	**7,040**	**1,652**	**1,777**	**1,739**	**1,872**

Analysis of the total net financing income

	2021				
	Annual	Q4	Q3	Q2	Q1
	in NIS millions				
Financing Income from current operations	6,407	1,682	1,594	1,587	1,544
Effect of CPI on net interest income	288	28	96	152	12
Effect of CPI on derivative instruments	(62)	(8)	(21)	(31)	(2)
Net profit from realization and adjustment to fair value of bonds(1)	125	2	20	27	76
Profit from investments in shares(2)(3)	398	118	85	95	100
Adjustment to fair value of derivative instruments	(3)	30	37	(72)	2
Exchange rate differences, options and other derivatives(1)	141	11	44	16	70
Total net financing income	**7,294**	**1,863**	**1,855**	**1,774**	**1,802**
Footnotes:					
(1) Exchange rate differences in respect of trading bonds are included in the exchange rate differences line	(16)	(11)	(5)	(1)	1
(2) Of which: income from realizations in Discount Capital in deduction of provision for impairment	194	84	73	26	11
(3) See note 12(I) .					

	2020				
	Annual	Q4	Q3	Q2	Q1
	in NIS millions				
Financing Income from current operations	6,227	1,535	1,523	1,552	1,617
Effect of CPI on net interest income	(55)	1	10	(27)	(39)
Effect of CPI on derivative instruments	20	(1)	(5)	11	15
Net profit from realization and adjustment to fair value of bonds(1)	457	41	96	142	178
Profit (loss) from investments in shares(2)(3)	231	116	116	7	(8)
Adjustment to fair value of derivative instruments	(4)	(42)	14	18	6
Exchange rate differences, options and other derivatives(1)	161	(1)	23	36	103
Net income on the sale of loans	3	3	-	-	-
Total net financing profit	**7,040**	**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	38	(9)	(1)	(7)	55
(2) Of which: income from realizations in Discount Capital.	130	115	18	(3)	-
(3) Of which – income from the realization of VISA Inc. shares.	88	-	88	-	-

Net financing income, increased in 2021 at a rate of 3.6%. The increase stemmed mostly from the effect of the CPI, from the growth in interest income and from current operations and from gains on investment in shares, which have offset the decline in gains from realization and from adjustment to fair value of bonds.

Rates of income and expenses. In Appendix 1 are presented net interest income, with respect to the balance sheet activity. In order to explain the Bank's overall interest spread, the effects of activity in derivatives not for trading (excluding adjustments to fair value and exchange rate differences) needs to also be added.
Interest spread, including derivatives not for trading reached 1.97% in 2021, compared to 1.91% in 2020.
Net financing income, increased in the fourth quarter of 2021, at a rate of 12.8%, compared with the corresponding quarter last year, and increased at a rate of 0.5% compared with the third quarter of 2021.
The interest spread relating to balance-sheet activity reached a rate of 2.22% in the fourth quarter of 2021, as against 2.21% in the corresponding quarter last year and against 2.23% in the third quarter of the year.
Interest spread, including derivatives not for trading reached in the fourth quarter of 2021 a rate of 1.97%, compared to 1.98% in the corresponding quarter last year and compared to 1.95% in the third quarter of the year.

Development of net interest income, by regulatory operating segments

	For the year ended December 31,		
	2021	2020	
	In NIS millions		Change in %
Domestic operations:			
Households	1,972	1,975	(0.2)
Private banking	49	67	(26.9)
Small and minute businesses	1,422	1,435	(0.9)
Medium businesses	374	352	6.3
Large businesses	872	805	8.3
Institutional bodies	29	38	(23.7)
Financial management	963	394	144.4
Total Domestic operations	**5,681**	**5,066**	**12.1**
Total International operations	**848**	**832**	**1.9**
Total	**6,529**	**5,898**	**10.7**

For details regarding income from trading activities, see "Financial Management Segment (Domestic operations)" below.

Credit loss expenses. In 2021 credit loss expenses release in the amount of 693 million were recorded, compared with expenses of NIS 1,718 million in the corresponding period last year, a decrease of 140.3%. The significant decrease in morbidity and the lifting of the third lockdown led to the opening of trade and the economy as a whole, and to greater economic activity which began toward the end of the first quarter. During the year, with the subsiding fourth wave of the Corona pandemic, due to the population being inoculated with the third booster shot with no need for additional lockdowns, brought about a decline in the scope of unemployment and the reduction in Government deficit. 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 2021 have been mostly affected by the following factors:
- Expenses release on a group basis in the amount of NIS 599 million, compared to expenses in the amount of NIS 1,366 million in 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 macro-economic parameters, leading to reversal of allowance in the reporting period as well as by a reduction in the decision rate;
- Expenses release on a specific basis in the amount of NIS 99 million, compared to expenses in the amount of NIS 282 million in 2020, a reduction affected mostly by the change in the allowance following collections;
- Expenses in respect of housing loans according to the extent of arrears, in the amount of NIS 5 million, compared to expenses amounting to NIS 70 million, in 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 half, the Bank continued making a cross-organizational move to locate and classify groups of borrowers on the basis of economic properties, such as: credit in deferral, period of deferral, decline in turnover and additional risk characteristics. On the other hand, in light of the decrease in the number of deferrals in the period and in light of the comprehensive classifications made in previous quarters, it was decided in 2021 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 31 to the financial statements.

Details of the annual development in the credit loss expenses

	2021	2020
	In NIS millions	
On a specific basis		
Change in allowance	(101)	173
Gross accounting write-offs	319	349
Collection	(317)	(240)
Total on a specific basis	**(99)**	**282**
On a group basis		
Change in allowance	(648)	1,180
Gross accounting write-offs	308	544
Collection	(254)	(288)
Total on a group basis	**(594)**	**1,436**
Total	**(693)**	**1,718**
Rate of credit loss expenses (expenses release) to the average balance of credit to the public:	(1)(0.34%)	(1)0.91%

Footnote:
(1) Including an expense in an immaterial amount in respect of credit to banks and governments.

Details of the quarterly development in the credit loss expenses

	2021				2020			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	In NIS millions							
On a specific basis								
Change in allowance	(14)	10	(88)	(9)	86	18	10	59
Gross Accounting Write-offs	88	75	65	91	95	78	68	108
Collection	(59)	(65)	(140)	(53)	(68)	(49)	(67)	(56)
Total on a specific basis	**15**	**20**	**(163)**	**29**	**113**	**47**	**11**	**111**
On a group basis								
Change in allowance	(45)	(166)	(249)	(188)	62	227	432	459
Gross Accounting Write-offs	88	73	70	77	104	124	151	165
Collection	(68)	(53)	(68)	(65)	(79)	(68)	(62)	(79)
Total on a group basis	**(25)**	**(146)**	**(247)**	**(176)**	**87**	**283**	**521**	**545**
Total	**(10)**	**(126)**	**(410)**	**(147)**	**200**	**330**	**532**	**656**
Rate of credit loss expenses (expenses release) to the average balance of credit to the public[1]:								
The rate in the quarter:	(0.02%)	(2)(0.25%)	(0.82%)	(2)(0.30%)	0.42%	0.70%	(2)1.14%	1.42%
Cumulative rate since the beginning of the year:	(2)(0.34%)	(2)(0.46%)	(2)(0.56%)	(2)(0.30%)	(2)0.91%	(2)1.08%	(2)1.28%	1.42%

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

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

Fees and commissions amounted to NIS 3,125 million in 2021, compared with NIS 2,826 million in 2020, an increase of 10.6%. The growth has mostly been affected by the improvement in economic activity, following the gradual exit from the Corona crisis, and by the growth in the capital market activity.

Distribution of fees and commissions

	For the year ended December 31,		
	2021	2020	Change
	in NIS millions		in %
Account Management fees	440	438	0.5
Credit cards	1,502	1,310	14.7
Operations in securities and in certain derivative instruments	407	353	15.3
Fees and commissions from the distribution of financial products	158	142	11.3
Handling credit	188	178	5.6
Conversion differences	137	122	12.3
Foreign trade services	56	50	12.0
Fees and commissions on financing activities	159	156	1.9
Other fees and commissions	78	77	1.3
Total fees and commissions	**3,125**	**2,826**	**10.6**

Salaries and related expenses amounted to NIS 3,468 million in 2021, compared with NIS 3,242 million in 2020, a decrease of 7.0% (for details as to the components of this item, see Note 6 to the financial statements). Eliminating the effect of certain components as detailed below, a decrease of 5.3% would have been recorded, mostly due to the effect of retirement within the framework of the 2020 retirement plan.

Details of the effects of certain components on salaries and related expenses

	For the year ended December 31		
	2021	2020	Change in %
	In NIS millions		
Salaries and Related Expenses - as reported	3,468	3,242	7.0
Awards	(542)	(122)	
Subsidiary retirement plan	-	(31)	
Salaries and Related Expenses - excluding certain components	**2,926**	**3,089**	**(5.3)**

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

	2021				2020			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	In NIS millions							
Salaries and Related Expenses - as reported	970	867	830	801	794	830	794	824
Awards	(222)	(147)	(118)	(55)	(60)	(24)	(17)	(21)
Subsidiary retirement plan	-	-	-	-	7	(38)	-	-
Salaries and Related Expenses - excluding certain components	**748**	**720**	**712**	**746**	**741**	**768**	**777**	**803**

Other expenses amounted to NIS 2,203 million in 2021, compared to NIS 2,254 million in 2020, a decrease of 2.3%. The decrease was principally affected by the decrease in settlements, affected by the 2020 early retirement plan, which was partly offset by an increase in expenses regarding commissions, computer, professional services, marketing and advertising and insurance.

For additional details, see Note 7 to the financial statements.

Investments and Expenses in respect of the Information Technology System

Expenditure in respect of the information technology system includes salaries and related expenses, outsourcing, acquisitions or right of use licenses, depreciation of equipment and buildings and other expenses – communication expenses, buildings and equipment maintenance expenses etc. The total expenditure is presented divided between software, hardware and other – including administration, maintenance and computer services, data protection expenses etc.

The balance of the information technology system assets is presented divided between software, hardware and other – mostly buildings used by the information technology system.

The allocation of salaries and related costs is based upon attribution to subunits. Allocation of building depreciation and maintenance costs is based on area proportions. For details regarding the accounting policy applied with respect to the capitalization of software costs, see Note 1D 12 to the financial statements.

It should be noted that the allocation of acquisition and right of use license costs is based on an estimate, as software components, required for the operations of hardware systems, are integrated within them. It should also be noted that the allocation of indirect and other expenses related to the main components (software, hardware and other) was also based upon an estimate.

Investments and expenses in respect of the information technology system

	December 31, 2021				December 31, 2020			
	Software	Hardware	Other	Total	Software	Hardware	Other	Total
	in NIS millions							
Expenses in respect of the information technology system, as included in the statement of profit and loss:								
Payroll and related expenses	211	77	27	315	(1)171	(1)74	(1)37	282
Acquisitions or license fees not capitalized to assets	169	3	-	172	(1)154	4	-	158
Outsourcing expenses	92	10	13	115	(1)75	(1)6	(1)27	108
Depreciation expenses	348	90	10	448	(1)298	(1)83	8	389
Other expenses	108	29	48	185	(1)93	32	(1)46	171
Total	**928**	**209**	**98**	**1,235**	**791**	**199**	**118**	**1,108**
Additions to assets in respect of information technology system not charged as an expense:								
Salaries and related expenses cost	95	-	-	95	117	-	-	117
Outsourcing costs	233	-	-	233	(1)258	-	-	258
Acquisition or license fee costs	83	118	-	201	(1)214	(1)120	-	334
Equipment, buildings and real estate costs	-	-	6	6	(1)-	(1)-	4	4
Total	**411**	**118**	**6**	**535**	**589**	**120**	**4**	**713**
Balances of assets in respect of the information technology system:								
Total amortized cost	**1,192**	**255**	**163**	**1,610**	**(1)1,219**	**(1)213**	**(1)170**	**1,602**
Of which: in respect of salaries and related expenses	910	2	2	914	(1)881	(1)2	(1)3	886

Footnote:
(1) Amended following improvement of data.

For additional details, see Note 16 to the financial statements.

Developments in the Comprehensive Income

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						
Balance at December 31, 2018	(157)	(61)	(1)	(349)	(568)	(7)	(561)
Net change during the year	531	(283)	3	(175)	76	(4)	80
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)**
Net change during the year	(243)	(113)	(2)	(16)	(374)	3	(377)
Balance at December 31, 2021	**243**	**(711)**	**(1)**	**(815)**	**(1,284)**	**(10)**	**(1,274)**

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.

The comprehensive income amounted in 2021 to NIS 2,396 million, as compared with NIS 559 million in 2020. The difference between the comprehensive income for this year and the net profit, stemmed mostly from losses in the amount of NIS 243 million on available-for-sale bonds, loss in the amount of NIS 113 million on translation adjustments and a loss of NIS 16 million on adjustments relating to employee benefits.

Effect of falling prices at the beginning of 2022. A trend of decline in prices and rising yields on bonds was noticed at the beginning of 2022. According to an assessment made in February 28, 2022, the above stated would have increased the balance of unrealized losses on the available-for-sale portfolio by an amount of approx. NIS 530 million. On the other hand, a reduction in the actuarial liability of approx. NIS 146 million would have been recorded. The net effect on the other comprehensive income, in terms of February 28, 2022, would have totaled a net reduction of approx. NIS 384 million.

Structure and Developments of Assets, Liabilities, Capital and Capital Adequacy

Developments of Assets and Liabilities

Total assets as at December 31, 2021 amounted to NIS 335,088 million, compared with NIS 293,969 million at the end of 2020, an increase of 14.0%.

Developments in the principal balance sheet items

	December 31, 2021	December 31, 2020	Rate of change in %
	in NIS millions		
Assets			
Cash and deposits with banks	59,638	42,936	38.9
Securities	43,869	42,785	2.5
Net credit to the public	213,156	188,718	12.9
Liabilities			
Deposits from the public	260,907	226,118	15.4
Deposits from banks	12,534	13,107	(4.4)
Subordinated debt notes	15,071	10,201	47.7
Shareholders' equity	21,483	19,182	12.0
Total equity	22,148	19,727	12.3

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

Cash and deposits with banks

Cash and deposits with banks increased in 2021 by approx. 40%, comprising an increase of approx. NIS 10 billion. Most of the increase stems from the faster growth of deposits by the public in 2021 than the growth rate of credit, as well as from the issue made by the Bank in November 2021 to the tune of NIS 4.5 billion, which increased the liquidity balances of the Bank.

Credit to the Public

General. Net credit to the public, as at December 31, 2021, amounted to NIS 213,156 million, compared with NIS 188,718 million on December 31, 2020, an increase of 12.9%. The ratio of net credit to the public, to total assets reached 63.6% at the end of 2021, compared with 64.2% at the end of 2020.
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, at the Discount Group, see "Credit risk" in Chapter C hereunder. For details regarding the quality of credit, see Note 31 to the financial statements. Also, see the document "Disclosure according to the third pillar of Basel and additional information regarding risks".

Composition of Credit to the Public by Linkage Segments

Composition of net credit to the public by linkage segments

	December 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	156,869	73.5	139,083	73.7	12.8
CPI-linked shekels	21,435	10.1	18,999	10.1	12.8
Foreign currency and foreign currency-linked shekels	34,852	16.4	30,636	16.2	13.8
Total net credit to the public	**213,156**	**100.0**	**188,718**	**100.0**	**12.9**

Credit to the public denominated in foreign currency and in Israeli currency linked thereto increased by 13.8% compared with December 31, 2020. In U.S. Dollar terms, credit to the public in foreign currency and foreign currency linked Shekels increased by US$1,677 million as compared to December 31, 2020, an increase of 17.6%. The total credit to the public, which includes credit in foreign currency and Israeli currency linked to foreign currency computed in dollar terms, increased by 13.6% as compared to December 31, 2020.

Composition of Credit to the Public by Regulatory Operating Segments

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

	December 31, 2021	December 31, 2020	change
	In NIS millions		in %
Domestic operations:			
Households*	83,635	72,620	15.2
Private banking*	440	364	20.9
Small and minute businesses	39,091	36,439	7.3
Medium businesses	14,770	12,865	14.8
Large businesses	50,393	45,687	10.3
Institutional bodies	1,277	1,007	26.8
Total Domestic operations	**189,606**	**168,982**	**12.2**
International operations:			
Private Individuals*	1,549	1,419	9.2
Business operations	25,041	22,078	13.4
Other	-	-	-
Total International operations*	**26,590**	**23,497**	**13.2**
Total credit to the public	**216,196**	**192,479**	**12.3**
Credit loss expenses	(3,040)	(3,761)	(19.2)
Total net credit to the public	**213,156**	**188,718**	**12.9**
*Of which - Mortgages	53,944	42,651	26.5

The increase in credit to the public in 2021 reflects growth in the focus points determined in the updated strategic plan. Credit to medium businesses grew by NIS 1,905 million (14.8%). Credit to large businesses grew by NIS 4,706 million (10.3%) and housing credit grew by NIS 11,293 million (26.5%). On the other hand, credit to households excluding housing loans declined by NIS 102 million (0.3%). The decline stems from the decline in the balance of receivables in respect of credit card transactions, due to the transition to daily clearing.
As seen from the above table, IDB Bank recorded in 2021 significant growth regarding the credit balances.

Composition of Credit to the Public by Economic Sectors

Developments of overall credit exposure, by major principal sectors

	December 30, 2021		December 31, 2020		
Economic Sectors	Total credit to the public risk	Rate from total credit risk	Total credit to the public risk	Rate from total credit risk	Rate of change
	in NIS millions	%	in NIS millions	%	in %
Industry	20,641	6.1	21,365	7.3	(3.4)
Construction and real estate - construction	43,297	12.9	33,302	11.3	30.0
Construction and real estate - real estate activity	26,048	7.7	24,579	8.3	6.0
Commerce	32,295	9.6	29,794	10.0	8.4
Financial services	33,081	9.8	27,070	9.2	22.2
Private individuals - housing loans	63,954	19.1	47,827	16.2	33.7
Private individuals - other	69,496	20.6	67,707	22.9	2.6
Other sectors	47,605	14.2	44,051	14.8	8.1
Total overall credit to the public risk	**336,417**	**100.0**	**295,695**	**100.0**	**13.8**

The data presented above indicates that in 2021, the overall risk regarding credit to the public increased by 13.8% compared with the end of 2020. This growth applied mostly to credit granted to private individuals – housing loans, construction and real estate – construction, financial services and commerce sectors. On the other hand, a decline occurred in the total credit risk in the industry sector.

Development of Problematic Credit Risk

For details regarding "problematic credit risk and nonperforming assets", see "Credit risk" in Chapter "C" below.
Following are details on credit to the public, as specified in Note 31 to the financial statements:

Impaired credit to the public. The balance sheet impaired credit to the public (interest accruing and non-accruing) amounted at December 31, 2021 to NIS 1,797 million, compared to NIS 2,207 million at December 31, 2020, a decrease at the rate of 18.6%.

Non-accruing interest impaired credit to the public. The non-accruing interest impaired credit to the public amounted at December 31, 2021 to NIS 1,280 million, compared to NIS 1,424 million at December 31, 2020, a decrease at a rate of 10.1%.

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

	December 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	20,641	598	2.9	21,365	1,017	4.8
Construction and real estate - construction	43,297	639	1.5	33,302	630	1.9
Construction and real estate - real estate activity	26,048	1,146	4.4	24,579	1,479	6.0
Commerce	32,295	967	3.0	29,794	814	2.7
Financial services	33,081	95	0.3	27,070	409	1.5
Private individuals - housing loans	63,954	280	0.4	47,827	327	0.7
Private individuals - other	69,496	562	0.8	67,707	717	1.1
Hotels, Hotel Services and Food	4,058	1,272	31.3	3,959	1,760	44.5
Transportation and Storage	7,334	382	5.2	7,025	458	6.5
Other Sectors	36,213	918	2.5	33,067	669	2.0
Total Public	**336,417**	**6,859**	**2.0**	**295,695**	**8,280**	**2.8**
Banks	6,991	-	-	7,126	-	-
Governments	35,313	-	-	35,904	-	-
Total	**378,721**	**6,859**	**1.8**	**338,725**	**8,280**	**2.4**

In 2021 the ratio of problematic credit risk to the overall credit risk decreased, as compared with 2020. The rate of the problematic debt decreased in 2021, mostly in the sectors of hotels, hotel services and food, industry, construction and real estate - real estate activity and financial services. On the other hand, a rise occurred in the rate of the problematic debt in the commerce sector.

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 3,040 million as of December 31, 2021. The balance of this allowance constitutes 1.41% 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 allowance for credit losses in respect of impaired credit to the public, examined on a specific basis amounted to NIS 409 million on December 31, 2021, compared to NIS 505 million on December 31, 2020.

The balance of the group allowance for credit losses. The balance of the group allowance for credit losses excluding housing loans, amounted on December 31, 2021 to NIS 2,373 million, compared to NIS 2,997 million as of December 31, 2020, comprising a decrease in the current allowance in the amount of NIS 624 million, a rate of approx. 20.8%.

The Risk Characterization of the Credit to the Public Portfolio

The distribution of expenses (expense release) and the ratio 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 year ended December 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	(63)	(0.5)	124	1.0
Construction and real estate - construction	14	0.1	112	0.7
Construction and real estate - real estate activity	(67)	(0.3)	253	1.2
Commerce	(150)	(0.6)	197	0.9
Hotels, hotel services and food	(100)	(2.7)	179	5.0
Transportation and storage	(21)	(0.4)	68	1.2
Financial services	(16)	(0.1)	13	0.1
Other Business Services	(67)	(1.1)	165	2.7
Public and Community Services	(16)	(0.1)	38	0.3
Other Sectors	(48)	(0.6)	33	1.5
Total Commercial	**(534)**	**(0.4)**	**1,182**	**1.0**
Private Individuals - Housing Loans	6	0.0	70	0.2
Private Individuals - Other	(172)	(0.5)	452	1.4
Total credit loss expenses (expense release) to the public.	**(700)**	**(0.3)**	**1,704**	**0.9**
Total Banks	-	-	(1)	-
Total Governments	7	0.3	15	0.4
Total credit loss expenses (expense release).	**(693)**	**(0.3)**	**1,718**	**0.9**

The data shown above indicates that the decline in the credit loss expense in 2021 was focused on the private individuals – other, commerce, construction and real estate - real estate activity, hotels, hotel services and food and other business services sectors.

Developments in credit to the public, including off-balance sheet credit risk by borrower size (consolidated)

Approx. 99.1% of borrowers were granted credit of no more than NIS 1.2 million. Credit to this group constituted 35.6% of total credit to the public as at December 31, 2021, compared with 37.9% as at December 31, 2020. The credit bracket between NIS 1.2 million and NIS 200 million constitutes approx. 46.3% of all credit as at December 31, 2021, compared with 45.6% as at December 31, 2020. The 131 largest borrowers, in the credit brackets between NIS 200 million and NIS 6,673 million, were granted credit constituting approx. 18.1% of total credit to the public as at December 31, 2021, compared with 99 borrowers that were granted credit constituting 16.6% of the total credit as at December 31, 2020. For details regarding credit levels in excess of NIS 800 million, see "Appendices to the annual report" – Appendix 7, section 3.
For additional details, see "Credit risks" in Chapter "C" below, and also "Credit risk" in the document "Disclosure according to the third pillar of Basel and additional information regarding risks".

Issue of credit-linked debt notes. The Bank had issued credit-linked notes (CLN), the balance of which at December 31, 2021, amounted to approx. NIS 10 million, which is presented in the section "bonds and subordinated debt notes" (as of December 31, 2020: NIS 31 million).
A credit-linked debt note is a financial instrument that is connected to an asset of the Bank representing a debt of a third party legal entity and which bears the credit risk inherent in that entity. The purchaser of the note accepts the risk inherent in the debt asset. The Bank commits to redeem the amount of the liability (as well as interest in accordance with the terms of the note), when the Bank's liability is contingent on the non-materialization of the risk inherent in the debt asset. The deposit shall not be refunded to the purchaser of the note if the base asset, to which it is linked, would be in an insolvency situation, and the Bank shall only pay to the holder of the note the amounts it manages to collect in respect of the debt asset.
This product is considered collateral which is deductible in calculating the indebtedness of the customer, in accordance with Proper Conduct of Banking Business Directive No.313. It is also considered a qualified financial collateral in accordance with Sections 145 to 147 of Proper Conduct of Banking Business Directive No.203.

Securities

General. Securities in the nostro portfolio amounted to NIS 43,869 million as at December 31, 2021, compared with NIS 42,785 million at the end of 2020, an increase of 2.5%.
Following are securities included in the "nostro" portfolio of the Discount Group, the investment in which as of December 31, 2021, amounted to 5% or over of the total amount of the portfolio: "government variable 1130", the "shekel government 1026" and the "shekel government 219" security types, which amounted to approx. 11.4%, approx. 5.9% and approx. 5.6%, of the total portfolio, respectively.
As of December 31, 2021, approx. 70.2% of the portfolio is invested in Government bonds, and approx. 16.0% of the portfolio is invested in bonds backed by mortgages of different federal agencies (Freddie Mac, Fannie Mae, Ginnie Mae) with an "AAA" rating, (of which - approx. 0.8% 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 annual report", appendix 6, sections 1-3. For details regarding the distribution of the investment in government bonds according to principal governments, see "Appendices to the annual report" – appendix 7, section 4.
Nostro portfolios management policy. The Bank's "nostro" investment portfolios and of its subsidiaries are used as a central tool in the management of linkage base and interest rate risks, the management of the liquidity buffer and the distribution of the credit risks among sectors and countries in which the exposure level of the banking credit portfolio is low. The portfolios are managed with a general overview of the Bank's balance sheet, aiming at maximizing interest income, under risk limitations determined by the Board of Directors and the Boards of Directors of the subsidiaries.
The assets and liabilities management committee is the function approving the interest rate and linkage base exposures in the Bank's balance sheet. Investments that have a credit risk component are managed within the framework of a group investment policy, which has established goals and distribution limitations and has defined areas of expertise for each company in the group.
In 2021, the Bank's securities portfolio increased by 2.5%, stemming mostly from the growth in assets and mortgages backed bonds and from the growth in not for trade shares. Investments were made in accordance with the principles detailed above.

Composition of the Securities Portfolio by Linkage Segments

Composition of the securities portfolio by linkage segments

	December 31, 2021	December 31, 2020	Rate of change in %
	In NIS millions		
Non-linked shekels	24,254	25,814	(6.0)
CPI-linked shekels	1,043	991	5.2
Foreign currency and foreign currency-linked shekels	16,953	14,887	13.9
Shares - non-monetary items	1,619	1,093	48.1
Total	**43,869**	**42,785**	**2.5**

Securities in foreign currency and in Israeli currency linked foreign currency increased by 13.9% compared with December 31, 2020. In U.S. Dollar terms, the securities in Israeli currency and in foreign currency linked Israeli currency increased by US$821 million, an increase of 17.7% 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 3.9% 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 portfolio according to portfolio classification

	December 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	10,197	10,377	10,197	7,923	8,233	7,923
Available for sale	30,733	31,027	31,027	31,917	32,633	32,633
Trading	1,026	1,026	1,026	1,130	1,136	1,136
Shares						
Available for sale	1,513	1,613	1,613	1,051	1,092	1,092
Trading	3	6	6	1	1	1
Total Securities	**43,472**	**44,049**	**43,869**	**42,022**	**43,095**	**42,785**

Corporate bonds (excluding mortgages and assets backed bonds). Discount Group's available-for-sale bonds portfolio as of December 31, 2021, includes investments in corporate bonds in the amount of NIS 3,166 million (of which an amount of NIS 408 million is held by IDB Bank), compared with NIS 2,789 million as of December 31, 2020, an increase of 13.5%. For details as to the balance of unrealized profit (losses) included in the balance of the said bonds, see Note 12 to the financial statements.
Data by economic sectors. For details of the data relating to available-for-sale bonds, bonds held to maturity and trading bonds according to economic sectors, see "Appendices to the annual report" – Appendix 6, sections 1-3.
Impairment of held to maturity bonds. For details regarding unrealized losses on held to maturity bonds that are in a loss position, by period of time and rate of impairment, see Note 12 C to the financial statements.

Investments in Mortgage and Asset Backed Securities

General. Discount Group's securities portfolio as of December 31, 2021 includes investment in mortgage-backed and asset-backed bonds in an amount of NIS 8,190 million, compared with NIS 8,004 million as of December 31, 2020. The amount includes investment in mortgage and asset backed bonds in the amount of NIS 7,607 million, which are held by IDB Bank, compared to an amount of NIS 7,469 million as at December 31, 2020, an increase of 1.8%. Approx. 85.9% of the mortgage and asset backed securities portfolio are comprised of debentures of various federal agencies (Ginnie Mae, Fannie Mae, Freddie Mac) with an AA-AAA rating in the U.S.. The investment in the said bonds does not include exposure to the subprime market.

As of December 31, 2021, the portfolio of mortgage and assets backed securities included unrealized net losses of NIS 58 million, compared with net gains in an amount of NIS 148 million as of December 31, 2020.

U.S. Government Sponsored Enterprises. Fannie Mae and Freddie Mac are Government Sponsored Enterprises (GSE) chartered by the U.S. Congress with mission to provide liquidity and stability to the U.S. housing and mortgage markets. To accomplish their mission, the GSE operate in the secondary mortgage market. Rather than granting home loans directly to the consumers, the GSE work with mortgage banks, brokers, and other primary mortgage market partnerships ensuring they have the funds to lend to home buyers at affordable rates. The GSE fund their mortgage investments primarily by issuing debt securities in the domestic and international markets.

All of the GSE-MBS held by IDB Bank are performing up to their conditions.

In addition to Fannie Mae and Freddie Mac, a third GSE is the Federal Home Loan banks whose mission is to provide liquidity and stability to its U.S. member banks.

CLO. IDB Bank holds secured bonds of the CLO class in a total amount of NIS 576 million. The said securities are rated AA-AAA by at least one rating agency. The Bank holds bonds of the CLO class in the amount of NIS 581 million. The said securities are rated AA-AAA. For details, see Note 12 to the financial statements.

Details regarding Impairment in Value of Available for Sale Securities

General. For details regarding the review of impairment of securities, see below "Critical accounting policies and critical accounting estimates" and Note 1 D 5 to the financial statements.

Based on a review of the impairment of the said securities as of December 31, 2021, and where relevant, basing itself also on the review made by the relevant subsidiary's Management, the Bank's Management believes that the impairment is of a temporary nature.

As of December 31, 2021 and 2020, unrealized accumulated losses on available-for-sale mortgage and assets backed securities amounted to total amounts of NIS 91 million and NIS 6 million, respectively. For details regarding unrealized losses on available-for-sale securities that are in a loss position, by period of time and rate of impairment, see Note 12 D to the financial statements.

Adjustment in respect of the presentation of available-for-sale bonds according to fair value

The balance of the adjustments presented as part of equity, in respect of stating available-for-sale bonds at fair value, including in respect of bonds on loan, amounted at December 31, 2021, to NIS 377 million unrealized gains before tax effect, compared to NIS 727 million (in respect of available-for-sale securities) as of December 31, 2020.

Customer Assets

Deposits from the public as at December 31, 2021, amounted to NIS 260,907 million, compared with NIS 226,118 million at the end of 2020, an increase of 15.4%.

Composition of deposits from the public by linkage segments

	December 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	179,371	68.7	157,927	69.9	13.6
CPI-linked shekels	4,110	1.6	4,576	2.0	(10.2)
Foreign currency and foreign currency-linked shekels	77,426	29.7	63,615	28.1	21.7
Total	**260,907**	**100.0**	**226,118**	**100.0**	**15.4**

Deposits from the public in foreign currency and in Israeli currency linked to foreign currency increased at the rate of 21.7%, compared with December 31, 2020. In dollar terms the deposits from the public in foreign currency and in Israeli currency linked to foreign currency increased by US$5,109 million, an increase of 25.8% compared with December 31, 2020. Total deposits from the public, including deposits in foreign currency and in Israeli currency linked to foreign currency computed in U.S. Dollar terms, increased by 16.5%, as compared with December 31, 2020.

Review of developments in the balance of deposits from the public, by regulatory segments of operations

	December 31, 2021	December 31, 2020	
	In NIS millions		Change in %
Domestic operations:			
Households	89,965	88,888	1.2
Private banking	18,999	17,959	5.8
Small and minute businesses	47,751	(1)41,629	14.7
Medium businesses	13,226	9,842	34.4
Large businesses	35,803	(1)24,884	43.9
Institutional bodies	21,353	(1)15,302	39.5
Total Domestic operations	**227,097**	**198,504**	**14.4**
International operations:			
Private Individuals	8,621	8,514	1.3
Business operations	25,189	19,100	31.9
Total International operations	**33,810**	**27,614**	**22.4**
Total deposits from the public	**260,907**	**226,118**	**15.4**

Footnote:
(1) Reclassified - see Note 29 C (1) to the financial statements.

The ratio of total net credit to the public, to deposits from the public was approx. 81.7% as at December 31, 2021, compared with 83.5% at the end of 2020.

Deposits from the public of the three largest depositor groups amounted as of December 31, 2021, to NIS 6,570 million.

Securities held for customers. On December 31, 2021, the balance of the securities held for customers at the Bank amounted to approx. NIS 235.02 billion, including approx. NIS 1.9 billion of non-marketable securities, compared to approx. NIS 187.12 billion as at December 31, 2020, including approx. NIS 1.58 billion of non-marketable securities, an increase of approx. 25.6%. For details as to income from security activities, see Note 4 to the financial statements. In addition, the balance of securities held on behalf of customers at the MDB as of December 31, 2021, amounted to approx. NIS 12.69 billion, compared with approx. NIS 10.15 billion on December 31, 2020, an increase of 25.0%. The increase shown by the Bank and by MDB stems from the rise in the markets.

Pension advisory services. The total cumulative assets of customers receiving pension consulting services from the Bank as at December 31, 2021, amounting to approx. NIS 23.8 billion, compared with NIS 21.3 billion as of December 31, 2020, an increase of 11.7%, which stemmed, inter alia, from the increases in the markets in 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 common equity tier 1 ratio 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, see Note 25 section 1(b) to the financial statements.

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 was reduced by an additional 10% until January 1, 2022. On December 27, 2021, the Banking Supervision Department published a circular, according to which, with effect from January 1, 2022, the temporary directive will cease to be valid. 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. The balance of the regulatory capital instruments, which had been subject to the transitional instructions, as stated, have been redeemed by full early redemption in January 2022 (see Note 25 section 1 F to the financial statements).

Relief regarding retirement plans. The Supervisor of Banks granted the Bank relief regarding its 2018 and 2020 retirement plans. The Supervisor of Banks also granted MDB relief regarding its 2020 retirement plan. For further details, see Note 25 section 1 C to the financial statements.

Issuance of deferred debt notes (expansion of Series G and issue of Series H). During April, June and November 2021, the Bank completed three issuance processes of deferred debt notes (Coco) through "Manpikim", in a total amount of approx. NIS 1,762 million. The said issuances increased the total capital ratio by 0.81%.

Early redemption of regulatory capital instruments. On January 10, 2022, the Bank redeemed the subordinated debt notes Series L (which include a "loss absorption" mechanism) by way of a full early redemption, in accordance with the terms of the capital notes and after obtaining the Supervisor of Banks' approval, in a total amount of approx. NIS 784 million, including interest and linkage differences. All as set forth in the immediate report dated January 10, 2022 (reference no. 2022-01-005026). Had the aforesaid early redemption taken place on December 31, 2021, the total capital ratio would have been 0.37 lower.

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 policy of the Supervisor of Banks 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 has been extended from time to time, and recently until December 31, 2021. The mitigated capital requirements will apply for a period of twenty-four months following the end of the temporary directive period (namely, until December 31, 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 June 30, 2022) would not be considered a deviation from the regulatory capital requirements.

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 0.167% in the Tier 1 capital ratio, in December 31, 2021 terms.

For details regarding the purchase of credit risk insurance, including guaranties, see "Large business segment (Domestic operations) – additional details".
For further details, see "Basel III" in the document "Disclosure according to the third pillar of Basel and additional information regarding risks".

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. It should be noted that these goals consider, 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].
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 November 22, 2021, the Bank's Board of Directors decided to reestablish the goal of the Tier I capital ratio at the targeted range that had been in effect prior to the entry into effect of the Provisional Instruction. On the basis of the ICAAP and the SREP procedures as stated, including the latest uniform stress tests performed, the Board decided to reduce the said goal by 0.15%, fixing it at the rate of 9.75%.

For further details, see the document "Disclosure according to the third pillar of Basel and additional information regarding risks".

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.

2 For the meaning of the term "uniform stress testing" and for further details, see "Stress testing" in Chapter C below, as well as "Assessing the capital adequacy" in the "Disclosure according to the third pillar of Basel and additional information regarding risks" document.

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". The document is available for perusal on the Bank's website together with the Bank's 2021 Annual Report (this 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$1,158 million exists as of December 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 December 31, 2021, amounted to NIS 22,148 million, compared with NIS 19,727 million at December 31, 2020, an increase of 12.3%. The increase stems, mostly, from the profit for the year.

Shareholders' equity as at December 31, 2021, amounted to NIS 21,483 million, compared with NIS 19,182 million at December 31, 2020, an increase of 12.0%.

The change in shareholders' equity in 2021 was affected, among other things, by the net earnings during the year, by a decrease of NIS 243 million in the component of net adjustment of available-for-sale bonds presented at fair value, net of the tax effect, and from a decrease of NIS 113 million in financial statements transactions adjustments and from the net actuarial loss in the amount of NIS 16 million.

The ratio of total capital, to total assets as at December 31, 2021, stood at 6.6%, compared with 6.7% as of December 31, 2020.

Components of the Regulatory Capital as of December 31, 2021

Ratio of common equity tier 1 on December 31, 2021, amounted to 10.14%, as compared with 10.20% on December 31, 2020.
Total capital ratio as of December 31, 2021, amounted to 13.46%, as compared with 13.06% on December 31, 2020.

Components of the regulatory capital as of December 31, 2021

	December 31,	
	2021	2020
	in NIS millions	
1. Capital for Calculating ratio of capital		
Common equity tier 1 after deductions	21,839	19,707
Additional tier 1 capital after deductions	178	356
Tier 1 capital	**22,017**	**20,063**
Tier 2 capital	6,971	5,170
Total capital	**28,988**	**25,233**
2. Weighted risk assets balance		
Credit risk[2]	194,544	173,317
Market risk	3,738	3,337
CVA risk	1,656	1,763
Operational risk	15,383	14,815
Total weighted risk assets balance	**215,321**	**193,232**
3. Ratio of capital to risk assets		
Ratio of common equity tier 1 to risk assets	10.14	10.20
Ratio of total capital to risk assets	13.46	13.06
Ratio of minimum capital required by the Supervisor of Banks		
Ratio of common equity tier 1[1]	8.16	8.18
Total capital ratio[1]	11.50	[3]11.50

Footnotes:
(1) With an addition of 0.16% (December 31, 2020: 0.18%), in accordance with the additional capital requirements with respect to housing loans - see Note 25 section 1(b) to the financial statements.
(2) The total weighted balances of the risk assets have been reduced by NIS 343 million (December 31,2020: NIS 439 million) due to adjustments in respect to the efficiency plan.
(3) Amended following clarification by the Supervisor of Banks, see Note 25 section 1(b) to the condensed financial statements

Raising of Resources

Issue of regulatory capital instruments. In April, June and November 2021 the Coco bonds issuances in an overall scope of approx. NIS 1,762 million were concluded (expansions of Series G and issue of Series H). For additional details, see Note 25 1 N to the financial statements.
Subtraction of regulatory capital instruments in 2022. Subtraction of regulatory capital instruments is not expected in 2022.
The Bank may raise additional regulatory capital instruments in accordance with the Bank's work plan for 2022 and market conditions, in order to maintain the total capital targets for 2022.

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 Site of the Israel Securities Authority, on the Maya Site of the Tel Aviv Stock Exchange Ltd. and on the Bank's website.

Dividends Distribution

On December 26, 2017 the Bank's Board of directors approved a dividend policy, according to which, starting with the first quarter of 2018, the Bank will distribute in each quarter a dividend at the rate of up to 15% of the net distributable earnings, as reflected in the consolidated financial statements for the preceding quarter. On November 26, 2019, the Bank's Board of Directors approved an update to the Bank's dividend policy, according to which, starting with the third quarter of 2019, the Bank may distribute in each quarter, a dividend of up to 30% of the distributable net earnings according to the consolidated financial statements for the previous quarter, instead of a distribution rate of up to 15%.

The updated dividend policy was approved in view of the Bank attaining its capital outline, the consistent improvement in the business results of the Group, and following the approval by the Supervisor of Banks of the said dividend policy.

It is clarified that this policy should not be deemed a commitment by the Bank for a dividend distribution, and that each dividend distribution in practice shall be subject to approvals required by the law, including a specific approval by the Board of Directors for a dividend distribution based on its judgment and subject to compliance with the provisions of the law applying to dividend distribution, inter alia, in accordance with the Companies Act and directives of the Bank of Israel. It is further noted that the actual distribution of a dividend is subject to compliance with the capital adequacy goals prescribed by the Supervisor of Banks and the internal capital goals, as determined or would be determined by the Bank's Board of Directors. The Board of Directors may examine from time to time the dividend distribution policy and decide at any time, taking into account business considerations and the provisions of the law and regulation applying to the Bank, on changes in the dividend policy, including in the rate of dividend to be distributed. The Board may also decide that no dividend should be distributed at all.

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 Temporary Directive was extended until December 31, 2021 (see "Capital and capital adequacy" above).

A circular amending Proper Conduct of Banking Business Directive No. 250 was published on September 30, 2021, in the framework of which it is stated, inter alia, that despite the increasing processes of exiting the Corona crisis, the level of uncertainty still remains high impacting the ability of banking corporations to predict their middle-term capital requirements, and that, the said uncertainty and risk require the continuation of careful and conservative capital planning. The circular clarifies, inter alia, that the standpoint of the Supervisor of Banks is that a distribution of an amount higher than 30% of the profits of a banking corporation (in the years 2020 and 2021) would not be considered a careful and conservative capital planning.

In accordance with and further to the Bank's dividend policy and to the stated above, the Bank has resumed the distribution of dividends, starting with the profits of the third quarter of 2021, at the rate of 20%. On March 8, 2022 the Bank's Board of Directors decided to make a dividend distribution at the rate of 20% of the profits of the fourth quarter of 2021, in an amount of approx. NIS 105.8 million, representing approx. 9.08921 Agorot per ordinary A share of NIS 0.1 par value. Further details regarding the Board of Directors' decision, including the dates set as the record date and the payment date, are included in the immediate report that the Bank is issuing concurrently with the publication of this report.

For additional details, see Note 24 C (4) to the financial statements. For details of the dividends paid in 2019-2021, see Note 24 C (5) to the financial statements. For details regarding the limitations set in the Supervisor of Banks' directives, see Note 24 C (2) to the financial statements.

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 Supervisor of Banks, 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 business 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 directives and clarifications of the Banking Supervision Department, the disclosure in the directors' and management report shall relate to regulatory operating segments only. Note 30 to the financial statements present a quantitative disclosure of the managerial operating segments that the Bank has identified.

Concise data regarding operations in the various segments, regulatory and managerial, is presented in Notes 29-30 to the financial statements.

A summary description of segments of operation, including the criteria for assigning customers to segments of operation, in general was included above in "Discount Group Segment of operations - Condensed description" under "The Discount Group - Condensed description and principal areas of operation".

Details regarding the distribution of human resources in the Group according to segments of operation are included under "the human capital" below. For details regarding the assumptions, assessments and reporting principles used in the preparations of the data, see Note 29 D to the financial statements.

Allocation of indirect expenses. Indirect expenses are allocated to the different segments in accordance with the model, as detailed in Note 29 D Section 2. The principal variables affecting the allocation are the scope of operations of the customers and the number of employees.

Administrative Structure

The Discount Group operates in Israel and overseas by way of the Bank, subsidiaries, branches and representative offices, in all areas of banking and financial services.

The Bank's business operations in 2021 were conducted by three divisions: Banking Division, Corporate Division and the Financial Markets Division.

The Banking Division conducts business with households and small businesses, digital banking customers and private banking customers (both Israeli and international). The Division is responsible for the operation of the investment consultants operating in investment centers and private banking centers and for mortgage activity, by means of mortgage consultants placed at some of the branches.

The Corporate Division is responsible for conducting business with large business corporations and medium corporations (middle market), as well as building (closed real estate projects) and income producing real estate corporations, major participants in the capital market, institutional bodies and customers operating in the hi-tech field and in the diamond sector. In addition, the Division has a products wing, which incorporates under it the syndication, infrastructure and the complex foreign trade finance units. The operational services to customers of the Corporate Division is principally provided at the Tel Aviv Main Branch. Furthermore, the Foreign Trade unit, providing foreign trade services to all Bank customers, is also subject to the Division.

The Financial Markets Division is responsible for the financial management of the Bank and of the Group, which includes asset and liability management, dealing rooms management, market risks management, transfer prices management, capital management, "Nostro" portfolio management and management of relations with foreign financial institutions and in the management of deposit and securities products.
In addition, alongside the above-mentioned divisions, two additional business activities divisions operate at the Bank:
The Digital, Data and Innovation Division responsible for the online channels area, the data, the CRM, and the innovation. On June 30, 2021, the activity of the PayBox payments Application, which until that date had been operated as part of the Digital, Data and Innovation Division, was transferred to the PayBox Company Ltd. For additional details, see Note 39 to the financial statements.
The Planning, Strategy and Finance Division responsible, among other things, for pension advisory services activity.

Household Segment (Domestic operations)

General

The household segment provides services and diverse financial products to the Group's private individual customers, both at Discount Bank and at MDB. These are provided by means of a chain of 171 branches located all over the country, in addition to a variety of direct channels. The customers are classified into groups according to their age, financial wealth and additional parameters.

The 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. For additional details, see the 2020 Annual Report (p. 49).

Scale of Operations and Net Profit of the Segment

The segment's net profit in 2021 amounted to NIS 325 million, compared to a loss in an amount of NIS 144 million in 2020. The growth in profits was mostly affected by credit loss expenses release.
Credit loss expenses in 2021 an expenses release has been recorded of NIS 162 million, compared expenses of NIS 518 million in 2020, a decrease of 131.3%. 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 Household segment (Domestic operations)

	For the year ended December 31,	
	2021	2020
	in NIS millions	
Total income	3,672	3,475
Credit loss expenses (expenses release)	(162)	518
Total Operating and other expenses	3,268	3,194
Net Profit (Loss) Attributed to the bank's shareholders	325	(144)

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

Net profit of the segment in 2021 amounted to NIS 33 million, compared with a loss of NIS 20 million in 2020. The loss in 2020 was affected, among other thigs, by an increase in the provision of NIS 65 million for claims net of insurance indemnification.

Principal data regarding the Private banking segment (Domestic operations)

	For the year ended December 31,	
	2021	2020
	in NIS millions	
Total income	133	146
Credit loss expenses (expenses release)	(1)	1
Total Operating and other expenses	85	162
Net Profit (Loss) Attributed to the bank's shareholders	33	(20)

For additional details regarding the private banking 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".

Small and minute businesses Segment (Domestic operations)

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

Since the outbreak of the Corona crisis and the restrictions imposed on economic activity, the Bank has made arrangements to assist customers of the small and minute businesses segment in coping with the economic uncertainty and to beat the crisis.

Assistance in the confrontation of customers with the crisis was provided in 2021 within the framework of the Fund for small and medium businesses guaranteed by the State, as detailed below. With the aim of providing further assistance to businesses, two possibilities had been added as relief for the repayment of the "Corona Fund" loans:

- Extension of the maximum period for repayment of the credit – possibility of changing the repayment period of existing loans granted for a period of up to five years, by extending them to a period of up to ten years (until October 31, 2021, the Bank had been allowed to prolong the period of State guaranteed loans for up to ten years. Starting on November 1, 2021, the Bank is required to obtain the approval of the State).
- An additional grace period of up to twelve months – the Bank may extend the grace period for the repayment of the principal sum of the loan for an additional period of up to twelve months, so that the overall period for the repayment of the principal sum would be deferred to a period identical with the additional grace period.

Small and Medium Businesses Assistance Fund guaranteed by the Government. The State of Israel by means of the Accountant General at the Ministry of Finance has established a Business Assistance Fund helping businesses to confront the spread of the Corona virus. The State guarantees 85% of each single loan granted in the framework of the Fund, provided that the total amount of the guarantees is limited to a rate of 15% of the total loans extended by a bank within this framework. The Fund grants loans under beneficial terms and in accordance with rules determined by the State.

All the banks within the banking system participate in this Fund. The Bank and MDB have received a NIS 4,028 million allocation from the fund. Through December 31, 2021, the two banks approved 10,245 loans, in a total amount of NIS 3,395 million. Very few loans were set up in the second half of 2021.

A Fund for businesses having intensified risk. On June 21, 2020, the government decided to provide assistance to additional businesses in Israel, which are being rated at a higher risk level than that typifying businesses which obtain loans from the Bank within the framework of the existing channel, and to add a "intensified channel" Fund. In the intensified channel, the State guarantee is divided into two layers, the total amount of the guarantee being limited to a cumulative rate of 60% of total loans extended by the Bank in this intensified channel. In the first layer, a rate of 85% of each single loan extended within the framework of the fund, but the total amount of the guarantee is limited to up to a rate of 15% of total loans extended by the Bank in this framework. In the second layer, in respect of that part exceeding 15%, as stated, the guarantee of the State amounts to 95%.
The Bank and MDB were allotted by the Fund an amount of NIS 334 million. 423 loans out of the Fund, were approved by the two banks until December 31, 2021, which amounted to NIS 199 million. No new loans were granted from resources of the Fund in the second half of 2021.

Scale of Operations and Net Profit of the Segment

Net profit of the segment in 2021 amounted to NIS 550 million, compared with NIS 28 million in 2020.
The credit loss expenses. In 2021 an expenses release has been recorded of NIS 211 million, compared to expenses in an amount of NIS 593 million in 2020, a decrease of 135.6%. 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 year ended December 31,	
	2021	2020
	in NIS millions	
Total income	1,991	1,974
Credit loss expenses (expenses release)	(211)	593
Total Operating and other expenses	1,372	1,329
Net Profit Attributed to the bank's shareholders	550	28

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 the wake 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

Net profit of the segment in 2021 amounted to NIS 114 million, compared with NIS 7 million in 2020. The growth in profits was mostly affected by credit loss expenses release.
Credit loss expenses amounted to NIS 50 million in 2021, compared to NIS 198 million in 2020. 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 year ended December 31,	
	2021	2020
	in NIS millions	
Total income	499	477
Credit loss expenses	50	198
Total Operating and other expenses	278	267
Net Profit Attributed to the bank's shareholders	114	7

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 the wake 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. For additional details, see the 2020 Annual Report (p. 53).

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

Additional banks in the banking system participate in the fund. Discount Bank was allocated an amount of NIS 450 million within the framework of the fund. Until December 31, 2021, the Bank had approved 8 loans in a total amount of approx. NIS 255 million. No further loans were granted in the fourth quarter of 2021.

Assistance to borrowers in light of the fifth wave's restrictions. Further to the government's announcement regarding an assistance package designated for the tourism sector and an additional two months' extension to the State-guaranteed loan fund, the Banking Supervision Department issued a letter on December 29, 2021 in which it was stated that the Department attaches considerable importance to the banking corporations assisting their customers and to their continuing to act proactively and prudently in order to strengthen borrowers that are unable or that might be unable to meet their contractual commitments. Such action can be taken by the banking corporations utilizing their own resources and/or by utilizing funds from the State-guaranteed loan fund.

Scale of operations and Net Profit of the Segment

Net profit of the segment in 2021 amounted to NIS 610 million, compared with NIS 202 million in 2020, an increase of 202%. The growth in profits was mostly affected by credit loss expenses release.

Credit loss expenses. In 2021 an expenses release has been recorded of NIS 339 million, compared to expenses of NIS 261 million in 2020, a decrease at a rate of 229.9%. The decrease in expenses is due, primarily, to the reduction in the group allowance, against the background of an improvement in macroeconomic indices and in the position of the borrowers.

Principal data regarding the Large businesses segment (Domestic operations)

	For the year ended December 31,	
	2021	2020
	in NIS millions	
Total income	1,266	1,163
Credit loss expenses (expenses release)	(339)	261
Total Operating and other expenses	682	589
Net Profit Attributed to the bank's shareholders	610	202

For additional details regarding the Large Businesses Segment (Domestic operations), including Real Estate activity, see in chapter "Corporate Governance, audit, additional details regarding the business of the banking corporation and management thereof".

Institutional Bodies Segment (Domestic operations)

Scale of operations and Net Profit of the Segment

The net profit of the segment in 2021 amounted to an amount lower than NIS 1 million, compared to a loss in an amount of NIS 9 million in 2020. The growth in profits was mostly affected by credit loss expenses release.
The credit loss expenses in 2021 an expenses release has been recorded of NIS 23 million, compared to expenses of NIS 2 million in 2020. The expenses release in 2021 stems from collections in respect of write offs in prior years.

Principal data regarding the Institutional bodies segment (Domestic operations)

	For the year ended December 31,	
	2021	2020
	in NIS millions	
Total income	39	47
Credit loss expenses (expenses release)	(23)	2
Total Operating and other expenses	64	59
Net Profit (Loss) Attributed to the bank's shareholders	-	(9)

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 2021 amounted to NIS 1,812 million, compared to NIS 1,575 million in 2020, an increase at a rate of 15.0%. The growth in income stemmed mostly from the realization of the ZIM shares (see Note 3 to the financial statements) and additional realizations in 2021 relating to the non-financial investments field, and on the other hand the realization of the VISA shares in 2020.
The segment's net profit in 2021 amounted to NIS 880 million, compared to NIS 767 million in 2020, an increase of 14.7%.

Principal data regarding the Financial management segment (Domestic operations)

	For the year ended December 31,	
	2021	2020
	in NIS millions	
Total income	1,812	1,575
Credit loss expenses	7	15
Total Operating and other expenses	415	386
Net Profit Attributed to the bank's shareholders	880	767

Main Developments in the Segment

Negative interest environment. The Bank continues to charge large businesses customers with interest on current account credit balances in the Euro, following the transition to a negative interest environment.

Income from trading activities

The income from trading activities in the financial management segment amounted to NIS 298 million in 2021, compared with NIS 312 million in 2020 (see Note 29 H to the financial statements). The income from trading activities that was included within the framework of interest income and within the framework of non-interest financing income amounted to NIS 289 million in 2021, compared with NIS 339 million in 2020 (see Notes 2 and 3 to the financial statements).
The gap between income from trading activity in the financial management segment (Note 29 H to the financial statements) and the income from trading activity included within the framework of interest income and within the framework of non-interest financing income (Notes 2 and 3 to the financial statements) is due to overseas activity, which is included only within the framework of the non-interest financing income (NIS 54 million in 2021, compared to NIS 57 million in 2020) and to commission from securities and inter-segment net interest income, which are included only in income from trading activity in the financial management segment (NIS 61 million, net, in 2021, compared to NIS 30 million, net, in 2020).

For additional details regarding the financial management segment (Domestic operations), and details regarding non-financial companies' activity, and details as to the dealing room activity, asset and liability management and Global Treasury, 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 segment in 2021 amounted to NIS 261 million, compared to NIS 144 million in 2020, an increase of 81.3%.
Credit loss expenses. In 2021 an expenses release has been recorded of NIS 14 million, compared to expenses of NIS 130 million in 2020.

Principal data regarding the International operations segment

	For the year ended December 31,	
	2021	2020
	in NIS millions	
Total income	1,079	1,048
Credit loss expenses	(14)	130
Total Operating and other expenses	694	695
Net Profit Attributed to the bank's shareholders	261	144

During 2021, IDB Bank continued the implementation of its five-year strategy, concurrently with conducting the management of the Corona crisis implications.

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

General

The Bank's Group is composed of commercial banks in Israel and overseas and financial services companies. Total investment in the investee companies as at December 31, 2021, amounted to NIS 11,778 million, compared with NIS 10,317 million on December 31, 2020, an increase of 10.5%.

Distribution of Net profit by the Group's structure

	Contribution to the Group's profit				
	For the year ended December 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	1,615	58.2	421	43.2	283.6
Mercantile Discount Bank	562	20.3	211	21.6	166.4
Overseas - Discount Bancorp	259	9.3	144	14.8	79.9
Other Activities:					
Israel Credit Cards	166	6.0	70	7.2	137.1
Discount Capital	172	6.2	144	14.8	19.4
Other financial services	(1)	(0.0)	(15)	(1.5)	(93.3)
Net profit	**2,773**	**100.0**	**975**	**100.0**	**184.4**

At the end of 2021, 22.59% of all assets in the consolidated balance sheet were assets of consolidated companies in Israel, and approx. 11.76% were assets of the overseas consolidated company. The contribution to the net profit by the consolidated companies in Israel amounted to NIS 893 million in 2021 (NIS 436 million in 2020). The contribution to the Net profit by overseas consolidated companies amounted to NIS 261 million in 2021 (NIS 118 million in 2020). The contribution to net profit recorded in 2021 in respect of associates amounted to NIS 4 million in 2021 (no contribution was recorded in 2020).
The total contribution by both domestic and overseas investees companies to the Bank's net profit amounted to NIS 1,158 million in 2021, compared with NIS 554 million in 2020, an increase of 109.0%.
Following are the main developments in principal investee companies.

Discount Bancorp, Inc.

Discount Bancorp, Inc. (hereinafter: "Bancorp") is a fully owned and controlled subsidiary of the Bank, which is a bank holding company, incorporated in accordance with the law of the State of Delaware. Bancorp is the 100% shareholder of Israel Discount Bank of New York (IDB Bank). IDB Bank is a commercial bank that is registered in the State of New York, a member of the FDIC (the Federal Deposit Insurance Corporation), and is the largest Israeli bank operating overseas. Pursuant to Bancorp's Certificate of Incorporation and By-Laws, IDB Bank may not be sold by Bancorp unless the Bank has given its consent.
The data presented hereunder in this section have been taken from Bancorp's audited financial statements.

Discount Bancorp, Inc. – principal data

	Fourth Quarter		Year	
	2021	2020	2021	2020
	In US$ millions			
Principal statements of profit and loss data for the reporting period:				
Net profit attributed to the shareholders	30	1	92	58
Net interest income	71	59	257	237
Credit loss expenses (expenses release)	(5)	10	(5)	37
Non-financing income	22	15	87	72
Non-financing expenses	54	68	222	204
Principal balance sheet data for the end of the reporting period:				
Total assets	12,952	11,010	12,952	11,010
Credit to the public, net	8,421	7,155	8,421	7,155
Securities	2,829	2,746	2,829	2,746
Deposits from the public	11,245	9,001	11,245	9,001
Total equity	1,158	1,153	1,158	1,153
	In %			
Main performance indicators:				
Return on equity	10.4	0.4	7.9	5.1
Efficiency ratio	58.1	91.9	64.5	66.0
Ratio of total capital to risk assets	13.6	15.3	13.6	15.3
Ratio of credit loss expenses (expenses release) to the average balance of credit to the public	(0.23)	0.57	(0.07)	0.54
Total net return on interest bearing assets	2.43	2.39	2.33	2.44

The main factors affecting the results in 2021, compared to 2020, are: approx. US$42.6 million decrease in credit loss expenses, US$19.8 million increase in net interest income, US$14.2 million increase in non-interest income and US$18.0 million increase in operating and other expenses. The said increase stemmed, mostly, from the growth in benefits employee benefits (an increase in salaries and awards) and higher payments to the FDIC (a change in the bank's classification to that of a large bank). On the other hand, the non-recurring expense relating to the vacating of the bank's old head-office in New York City decreased in 2021 (US$ 5.9 million in 2021 compared to US$ 12.4 million in 2020).
The contribution of Bancorp to the Bank's net results reached a profit of NIS 259 million (after deducting a provision for taxes of NIS 28 million) in 2021, compared with NIS 144 million in 2020 (net of provision for taxes in the amount of NIS 41 million).
Distribution of dividend. In 2021 Bancorp distributed dividend to Discount Bank in a total amount of US$43 million (2020– US$15 million).
The annual financial statements of Bancorp and of IDB Bank are available for review on the Internet website of 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. ("MDB") is a fully owned and controlled subsidiary of the Bank. At the end of 2021, MDB operated through 73 branches (compared with 74 branches in 2020).

Mercantile Discount Bank Ltd. – principal data

	Fourth Quarter		Year	
	2021	2020	2021	2020
	In NIS millions			
Principal statements of profit and loss data for the reporting period:				
Net profit attributed to the shareholders	91	40	562	211
Net interest income	342	301	1,324	1,219
Credit loss expenses (expenses release)	(6)	46	(81)	320
Non-financing income	94	90	469	426
Non-financing expenses	309	282	1,021	999
Principal balance sheet data for the end of the reporting period:				
Total assets	59,894	50,937	59,894	50,937
Credit to the public, net	37,636	33,118	37,636	33,118
Securities	6,883	6,300	6,883	6,300
Deposits from the public	48,070	40,842	48,070	40,842
Total equity	3,771	3,239	3,771	3,239
	In %			
Main performance indicators:				
Return on equity	10.2	5.1	16.2	6.6
Efficiency ratio	70.9	72.1	56.9	60.7
Ratio of total capital to risk assets	14.01	13.72	14.01	13.72
Ratio of credit loss expenses (expenses release) to the average balance of credit to the public	(0.06)	0.56	(0.23)	0.98
Total net return on interest bearing assets	2.60	2.54	2.63	2.71

The main factors affecting the business results. The profit in 2021, compared to 2020, was affected, mostly, from a decrease of NIS 401 million in credit loss expenses; while recording income of NIS 81 million, from an increase of NIS 105 million in net interest income and from an increase of NIS 43 million in non-interest income, which were affected by the realization in full of MDB's holdings of shares in ZIM (an amount of NIS 90 million, before tax).

The transition to recording income to credit loss in 2021, compared to the credit loss expenses of NIS 320 million in 2020, is explained primarily by the recording income in the amount of NIS 81 million on a group basis. The decrease in allowances on a group basis stems from the reduction in the allowance coefficients, mainly with respect to the improvement in macro-economic factors.

The increase in interest income stemmed from an increase in the average balance of income producing assets, which was partly offset by a decline in the interest margin. The increase in non-interest financing income is mostly explained by the sale in full of the holdings of MDB in ZIM shares, for total consideration of approx. NIS 90 million, and from the increase in income from adjustment to fair value of derivative financial instruments, which was offset by the reduction in gains on realization of available-for-sale bonds.

The ratio of capital to risk assets. MDB's Board of Directors has set a minimal common equity tier 1 ratio of 9.5% and a minimal total capital ratio of 12.8%, with effect from April 1, 2022 and thereafter.

Distribution of dividend. During 2020-2021 Mercantile Discount Bank did not distribute dividend.

Strategic plan. The Board of Directors of MDB approved in the third quarter of 2021, a multi-annual strategic plan for the years 2022 to 2026, which includes a number of principal directions of action: expansion of the retail activity of the bank (households, housing loans and small businesses), with growth in specific segments of the population; growth in activity regarding commercial customers; increasing activity with local authorities, including activity with suppliers of local authorities and with employees of local authorities; operating efficiency.

Merger of Municipal Bank. On December 1, 2019, the merger of Municipal Bank with and into MDB was concluded. The conversion process of the systems of Municipal Bank to those of MDB was completed on October 22, 2021, and since that date, the operations of the bank are conducted by way of a uniform operational and digital infrastructure.

At date of completion of the conversion process, tests were conducted with respect to both of the aspects of the accounting records and their management and aspects regarding operations and users.

Israeli Police investigation. On October 27, 2020, Israeli police investigators arrived at the offices of MDB, seized documents and computer material, and detained employees for questioning, including a member of Management, who served as the head of the commercial banking division. According to what is known to the Bank, these investigation measures were conducted within the framework of the investigation being conducted, inter alia, also against a member of Management of MDB as stated. No information has been provided to the Bank regarding the details of the investigation, including the substance of the alleged suspicions. Nevertheless, to the best of the Bank's knowledge, no suspicions have been raised against MDB itself and the investigation is not focused on it. Following these developments, the Head of the Commercial Division has been sent on leave, and later, 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 lawsuits and motions for approval of the lawsuits as class action suits filed against MDB, see Note 26 C to the financial statements, sections 10.8 and 10.9.

The annual and quarterly financial statements of Mercantile Discount Bank are available on the MAGNA website of the Israel Securities Authority, 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 December 31, 2021, the Bank owned 71.8% of the equity and 79.0% of the voting rights in ICC. At this date, the First International Bank held the balance of the rights in ICC.

A letter of understanding between the shareholders of ICC. The Bank and FIBI established a letter of understanding between them as shareholders of ICC, which is to regulate several issues, including: the distribution of dividends by ICC, entering into new issuance agreements, actions taken to increase the number of credit cards in use and assisting measures for the sale of the holdings of FIBI in ICC, in the event that FIBI would decide to realize it's holdings.

Israel Credit Cards Ltd. – principal data

	Fourth Quarter		Year	
	2021	2020	2021	2020
	In NIS millions			
Principal statements of profit and loss data for the reporting period:				
Net profit attributed to the shareholders	40	28	271	115
The contribution to the Bank's business results[(1)]	24	18	166	70
Income from credit card transactions	388	323	1,432	1,254
Net interest income	146	128	548	530
Non-financing income	1	(1)	5	73
Non-financing expenses	471	415	1,594	1,716
Of which: Credit loss expenses (expenses release)	9	33	(9)	223
Principal balance sheet data for the end of the reporting period:				
Total assets	16,076	18,535	16,076	18,535
Interest bearing credit to the public	6,717	5,959	6,717	5,959
Total equity	2,216	1,930	2,216	1,930
	In %			
Main performance indicators:				
Return on equity	7.5	6.0	13.2	6.2
Efficiency ratio	86.4	84.9	80.8	80.4
Ratio of total capital to risk assets	16.3	14.8	16.3	14.8
Turnover of credit card transactions – in NIS millions	34,819	28,105	128,864	107,929
Number of active cards – in thousands	3,143	2,968	3,143	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.

The business results of ICC for 2021, compared to 2020, were mainly affected from a decline in credit loss expenses, amounting to an expenses release of NIS 9 million, compared to expenses of NIS 223 million in 2020, and from an increase in income in an amount of NIS 128 million (6.9%).
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 (see also Note 36 to the financial statements).
Balances of credit. The decline in total assets stemmed mostly from the decline in the net balance of receivables in respect of credit card transactions. The decline in the balance of receivables is mostly explained by the entry into effect of the "daily settlement" instructions, following which, banks with whom ICC has joint issue arrangements, had started to transfer to ICC the consideration for transactions immediately.
The Corona crisis. The activity of ICC is directly affected by the activity on the Israeli economy, accordingly, the measures adopted by the Government following the outbreak of the virus, as well as the changes occurring in consumer behavior, have materially affected the volume of transaction turnover of ICC during the report period. Due to the implications stemming from the spreading of the virus and the measures that had been adopted in the wake thereof, the income and profitability of ICC were materially reduced in 2020, as well as at the beginning of 2021.
The scope of operations experienced significant changes in the last two years, depending on the outbreak of the morbidity and the restrictions imposed on economic activity. As of date of publication of this Report, recovery is being noted in the volume of activity in most sectors, though the scope of usage by Israelis staying abroad and by tourists visiting Israel are still at a significantly lower level than the level prior to the outbreak of the crisis.
Distribution of dividend. In 2020-2021 ICC did not distribute a dividend.
Strategic plan. On December 30, 2021, the Board of Directors of ICC approved a strategic plan for the years 2022-2026, which had been formed with the assistance of external consultants. The aim of the plan is providing an appropriate response to challenges and opportunities arising from changing market conditions.
The multi-annual plan had been formed, taking into account the changes taking place in the credit card market around the world, generally, and in Israel in particular, in view of the implications of the Increased Competition and Reduction in Centralization and Conflicts of Interests in the Banking Market in Israel Act, 2016. The plan focuses on moves intended to continue the positioning of ICC as a leader in the off-banking payment and credit activities.
The strategic focal points of ICC are:
- Creation of future growth generators;
- Establishing ICC as the leading credit card company in Israel;
- Modification of the organization to the "new world", including operating excellence, technological and business agility and creation of an advanced data and digital infrastructure.

For details regarding activity in the credit card field in Israel, see in the chapter "Corporate governance, audit and additional details regarding the business of the Banking corporation and management thereof", and in Note 36 to the 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, sections 10.1, 10.3, 10.5 and 11.2.
The annual and quarterly financial statements of ICC are available for review on the Internet website of ICC.

Discount Capital Ltd.

Discount Capital, a fully owned and controlled subsidiary of the Bank, which is engaged in three main areas of operation:
- Investments in companies, private equity funds and in venture capital funds and mezzanine;
- Investment banking, including consulting and management of mergers and acquisitions (M&A), corporate finance consulting and advising in rating processes;
- Initiating and advising public offerings and private placements and providing underwriting and distribution services, by means of the subsidiary, Discount Capital Underwriting Ltd.

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	212.0	161.2	31.5
The contribution to the Bank's business results(1)	171.5	144.0	19.1
Principal balance sheet data for the end of the reporting period:	December 31, 2021	December 31, 2020	Change in %
Total assets	2,329.5	1,779.9	30.9
Total equity	1193.4	982.1	21.5

Footnote:
(1) Differences between net income and the contribution to the Bank's business results is derived from differences in the implementation of generally accepted accounting principles and from current tax liability for the investment on the company.

For details regarding income from the investment portfolio of Discount Capital, see below in ”Financial Management Segment (Domestic operations) – additional details”.
The profit in the years 2020-2021 was affected mainly by different realizations.
During 2021, Discount Capital, through a subsidiary, participated in 77 public offerings of which, two public offerings for the Discount Group and 17 private placements of which, one private placement for the Discount Group, with a total volume of approx. NIS 30.0 billion (in 2020 - 60 public offerings of which, one public offering for the Discount Group and 25 private placements with a total volume of approx. NIS 21.8 billion).
For additional details regarding activity in the investment field, see ”Investments in non-financial corporations”, in the Chapter ”Activity of the Group according to Regulatory Segments of Operation - Additional Details” and Note 30 B to the financial statements.

Chapter ”C” - Risks review

General Description of the Risks and Manner of Management thereof

Risk Profile of the Discount Group - Risk Environment

The Discount Group is engaged in a wide range of financial operations involving risk taking. The Group maintains international presence through IDB Bank only. The complexity of the risk environment (domestic and international, regulatory and internal), as well as the dynamics and pace of changes occurring in the risk environment, create challenges in the risk management field alongside the business challenges. The effect of the Corona crisis and its domestic and global implications continued in 2021. For a wider discussion in the matter of main developments in the economic environment, see above ”Principal economic developments” under ”Material trends, occurrences, developments and changes”.
Following are the major external effects, to which the Group is exposed, are:

- **Intensified competition, profitability risks and the business model.** Growing competition in the digital and in innovation, in view of the detachability of products and services offered by the banking system being offered by a large variety of platforms, channels and new technologies, mostly by nonbanking bodies, and the need for continuing efficiency and diversity of income sources and concurrently, regulation intended to support the growth of competition, innovation and technology as well as with respect to aspects of fairness and privacy protection. Within the framework of the Group’s strategic plan, goals and supporting projects have been determined, including the initiation of new products and services and the promotion of collaborations with third parties, primarily in the fields of innovation and technology;

- **Adaptation of manpower to qualifications and recruitment and staff preservation challenges.** Structural changes in the employment market, the effect of the Corona on the employment world, wage increases affected by the hi-tech sector, and the advance of technology create a significant challenge with respect to aspects of recruitment and staff preservation, transformation in qualifications and employment models.
  In response to the above, efforts are made to strengthen the employer brand, increasing "bench depth" and absorption of hybrid work model. This, alongside the assimilation of new automation and technologies supporting efficiency of the manpower and improvement of processes;
- **Development of digital banking.** Recent years have witnessed a growing trend of shifting activities to digital, which has accelerated due to the crisis. This development, together with regulation, supports competition, such as: the clearing field, mobility reform, Proper Conduct of Banking Business Directives concerning open banking, and so forth, that lead to wider services and growing cooperation with third parties (outsourcing of operations, acquisition of new technologies, cooperation with third parties and technology companies, combining robotics and artificial intelligence in processes and services, the development of open banking etc.). These changes comprise on the one hand business opportunities and on the other hand create new challenges with respect to risk management, with an emphasis on data protection and cyber aspects as well as the supply chain, quality assurance and controls, data leakage and privacy protection and also model development and validation aspects.
  The Group is engaged in the continuous improvement of the risk management processes and of the supporting tools, including improvements in models, updating of policy documents, forming standardization, contractual regulation and processes as well as conducting "new product" processes for new products or operations and the betterment of organizational data. In addition, as the focus on expertise and technology-based banking has intensified, a need is also developing for the correct management of the transformation required in the workforce and in its qualifications, along with developing the capability to continue recruiting and retaining personnel in the technology, cyber, models and analysis fields;
- **Cyber risks.** Intensification of the technological risks, including the increase in the means, sophistication and complexity of cyber-attacks in Israel and globally is leading to an increase of cyber risks and to the regulators and supervisory authorities, in Israel and globally, focusing on regulating such threats and on their supervision, as across the board threats, which, in addition to the technological risk, may develop also into a strategic business risk. The exposure to cyber risks and data security increased in light of the expansion in distance working and the expansion in digital activity. The Group has a cyber policy and strategy as well as a multiannual work plan for improvement of cyber defense, including the strengthening of the network defense and its components, improving forestallment and monitoring tools, identification of irregular activity and upgrading infrastructure. The Group acted in 2021 towards the strengthening the appropriateness of business continuity processes to diverse reference scenarios, including communication aspects in the flow of information during a scenario of this kind;
- **Fairness and decency.** The important values of fairness, decency and transparency vis-à-vis the Bank's customers, including the prevention of prohibited discrimination between customers, are also a developing risk that is managed as an integral part of the Bank's compliance risk management. The Bank works continuously to assimilate these values across the spectrum of relevant processes and is raising employees' awareness to their importance.
- **Protection of privacy.** Privacy protection considerations continue to gain force and importance both in Israel and globally, against the background of increased digital and data use and the matter has been identified by the Group as a developing risk. The Group is investing considerable efforts in implementing the regulations and in integrating privacy protection aspects in the human resources processes, systems, models and training, including by drawing up a Group policy on this matter. The Group is working to maintain a proper balance between the use of information for the Bank's purposes and safeguarding the various aspects of protecting its customers, employees and suppliers' privacy. Privacy protection considerations constitute an important element in examining new products and/or technologies and/or services and/or models, alongside assuring proper protection of sensitive information and protection against potential data leakage.
- **Model risks.** The ever-increasing emphasis on digital banking, alongside customers' higher expectations for value propositions, insights and products that are tailored, timely and readily available, is leading to a situation where organizations in general and the banking system in particular are becoming more and more dependent on data and models, including the integration of sophisticated models based on artificial intelligence and machine learning. These aspects are creating growing challenges both in the field of model development and also in the fields of models validation and risk management. The Group is implementing a multi-year work plan for the development of

sophisticated models, as well as for the constant improvement of the tools and methodologies that support the model risks management. Modifications were made in the course of the crisis to financial models (credit, market, investments), primarily through the use of tools that are not reliant on models, such as greater reliance on manual underwriting, changes in the authorizations hierarchy and in underwriting thresholds, updating coefficients, and so forth.
- **Environmental and climate risk.** In recent years, the subject of Environmental and climate risks management is receiving a high regulatory attention due to the understanding that realization of environmental and climate risks may impact the banking system and in extreme cases even lead to global and systemic effects. Accordingly, regulators around the world, among them also the Supervisor of Banks, prepare for the mapping of activities in the matter within the banking system towards the future regulation of this area. Regulation of environmental risk aspects in the banking system started already in 2009. Following letters issued in the past year by the Supervisor of Banks, the Bank is examining accepted practices in the world, in order to test its preparations for the management of the risk and the integration thereof as part of the risks management processes relating to the relevant derivatives.

The Table of risk factors below presents the principal changes that had occurred in the Group's risk profile.
For details regarding the breakout of the Corona virus and its implications, see above "Management's handling of current material issues" and "Principal economic developments".

Principles of Risk Management

Continuation of the global trend for the recognition of the risk management field as an essential component in the activities of a banking corporation and for emphasizing the need of establishing the risk management concept and its integration in current operations and in the business decision making process. The Bank is studying the various risks to which the Group is exposed from a forward-looking Group standpoint. The Board of Directors and Management apply great importance to risk management aspects and to the absorption by the Bank and its subsidiaries of a proper risk management culture, while allotting the required resources for this purpose and determining focuses in these fields as part of the Group goals.
High-level principles for risk management in the Discount Group:
- Risk management is performed from a Group integrated viewpoint, cross organization, along the management echelon and across the business units, using methodologies and consistent terms with reference to all types of risks to which the group is exposed;
- Group corporate governance, which supports the maintenance of an effective chain of control over the activity of the group, subject to the provisions of the law;
- Responsibility for risk management is hierarchical, where each managerial level bears responsibility for the risks existing in its scope of operation, in a manner ensuring aggregation of risk management at all management levels up to the member of Management in charge of the business line, including the maintenance of proper procedures for identification, measurement, assessment, control, monitoring and reporting of risks;
- A senior officer in the position of member of Management is in charge of each of the material risks to which the Group is exposed. He bears the overall accountability for management of the risk in the first line of defense;
- The risk management concept supports the eligibility and improvement of decision making processes and value maximization from a long-term viewpoint;
- The Bank's activity is conducted in accordance with the Bank's vision and the principles of the code of ethics, which express the core values of the Bank's activity and its interface with stakeholders, customers, suppliers, employees, etc.;
- The organizational culture encourages transparency and an effective intra-organizational communication, while allowing for a proper flow of information, including in respect of violation/failure events, to all the functions involved in the handling of risks.
- Risks are being managed while maintaining the separation of duties and controls between the defenses lines involved in the risk management;
- A dynamic and evolving over time risk management concept in accordance with changes in the requirements of the Bank and the Group, regulatory instructions, accepted practice in Israel and around the world and conditions in the inner and external environment;

- Risk management is conducted on a continuous basis, from a forward looking viewpoint, which includes processes of identification, measurement, assessment, monitoring, control and current reporting of exposure to risks, management thereof and their implications on the risk profile, alongside the identification of materializing and new risks;
- Risk management processes are being integrated as part of the current business activity, and they are integrated into material processes and projects at the Bank and the Group, including "new product" processes, where required and the absorption of risk based indices in the measurement of performance and of remuneration plans;
- The risk management processes include proactive measures for risk management and for the formation of an effective organizational culture and the integration of control culture, with an emphasis on integration of fairness and decency values into operations and processes.

Risk Appetite

The Risk Management Division is responsible for the periodic updating of the risk appetite, in conjunction with the capital planning process, the strategic planning and liquidity planning, in a manner that these processes be integrated, complement one another, with the objective being to marry the Group's return and maintain its stability in a long-term view.

The Discount Group's risk appetite declaration is in line with the requirements of Proper Conduct of Banking Business Directive No. 310 and reflects the risk preferences of the Board of Directors, through setting limits and defining clear and easily assimilated "boundaries" for activity and business directions and for ensuring compliance with regulatory requirements and limitations. The declaration includes quantitative and qualitative statements relating to each of the risk areas being managed, and these constitute the basis for drawing up risk appetite documents for the individual risk areas that include limits, goals and warning thresholds that form the outline for setting the Group's business policy.

The declaration's limits are set, inter alia, based on the use of various scenarios and stress tests, which constitute a central and important tool for assessing the risks and their potential impact on the Group's capital. The declaration includes statements and limits relating to a normal business situation and to a stress situation, and from a forward-looking perspective.

The risk appetite declaration and the individual risk appetite documents drawn up pursuant thereto constitute one of the main tools of the Board of Directors for supervising that the corporation's risk profile correlates with the set appetite, and these are monitored on an ongoing basis and reported periodically to the Board of Directors. In accordance with the declaration, any exception to these limits is reported to the Board of Directors, or to one of its committees, while prescribing an outline for reducing the level of risk and complying with the limits.

The risk appetite declarations of the Group companies correspond to the Group declaration and are in alignment therewith. Once a year, concurrently with the planning processes for the work plan, the capital and the liquidity, a review is carried out of the risk appetite and the Group declaration document is updated and approved by the Board of Directors.

No deviations from regulatory restrictions occurred in 2021. Two cases of deviations from Board of Directors' limitations were recorded during the year with respect to investments. The deviations have been reported and rectified.

Risk Management Policy and Tools

The risk management concept of the Group is established in a series of policy documents for the management of the various risks. These have been approved by the Bank's Board of Directors and their aim is to outline the comprehensive infrastructure for risk management at the Bank and in the Group. This concept includes extensive addressing of corporate governance aspects of risk management, including the definition of authority and responsibility of the functionaries taking part in the risk management processes, definition of the tools, methodologies and models used for the identification, measurement, evaluation, control, monitoring and reporting of exposure to risks, including risk appetite and stress tests.

The risk management policy documents are consistent with the developing regulation in the risk management field within the given business environment, and are delivered for adoption to the major subsidiaries, subject to the required adjustments. For additional details regarding the various tools used in risk management and the integration of the risk culture, see ”Risk management tools” and ”Risk culture and absorption of the usefulness of risk management processes” in the document ”Disclosure according to the third pillar of Basel and additional information regarding risks”.

Assessment of the Risk Profile

The Group conducts a continuous process of self-evaluation of the risk profile, combining the three lines of defense, within the framework of which, the fundamental risk and the residual risk are being assessed based on the quality of management. This process determines also the risk horizon from a forward looking aspect. In addition, the Group maintains the current monitoring of changes in the risk profile of the Bank and of companies in the Group, based on the Group tools and methodologies developed for the support of the monitoring of changes in risk profile, including the implementation of identification, measurement, assessment, monitoring, control and reporting processes, which include also the follow-up of limitations, indicators and various alert limits, including in comparison with the banking industry.

The quarterly risk document summarizes material changes that had taken place in the Group risk profile, with reference to the different risk areas. This document serves as a supporting tool for the Board of Directors and the Management in the monitoring of developments in the risk profile, in line with the risk appetite and with the long-term goals of the Group, while verifying the maintenance of capital appropriateness over a period of time.

In this framework, the Bank also reviews material changes in the quality of risk management, including their impact on the quality and effectiveness of the risk management processes, and subjects and issues are brought up, allowing the focusing of discussions and the passing of risk based resolutions.

The Group conducts a continuous capital adequacy assessment process, intended to verify that the capital of the Group is adequate and supports the entirety of risks inherent in its operations, both in the ordinary course of business and in stress situations. In this framework, the Bank tests also the quantitative effects on the capital of the Group while using different scenarios and stress tests as detailed below.

Stress Tests

One of the main tools for assessing the risks and their potential impact on the capital and the risk appetite is the use of stress tests with a forward looking view point as a complementary tool for the risk management processes.

The use of stress tests is intended to provide management with a warning of unexpected severe results relating to the variety of risks, and to provide indication of the capital that would be required to absorb losses in case of serious upheaval. Furthermore, the importance of stress tests is reflected in challenging the capital planning processes and in determining the risk appetite for vulnerability areas identified by the scenarios.

The Group operates within the framework of an organized methodology, which has been developed over time, and which has been implemented at the Bank and at the Group companies for assessing the impact of the stress tests on credit risks, market risks and on certain components of the statement of profit and loss by means of internal models which enable to examine the effects of changes in macro-economic parameters on the statement of profit and loss items and on the equity and on identified vulnerability areas/specific risk centers. Noted is the increased usefulness of the results of the scenarios and the stress tests as a tool in the hands of the business factors and the risk management division, in determining specific restrictions, in defining the risk appetite and in forming alternative plans for situations in which the risk might materialize.

Since the beginning of the Corona crisis the frequency of running the stress tests has been stepped up, including making use of a platform for estimating the losses, allowances and the changes expected in the portfolio profile, as well as sensitivity analyses that do not constitute a stress situation at the present time. At this stage, preparations are made for conducting a stress test based on a uniform scenario (basic and extreme), subject to the requirements of the Supervisor of Banks.

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. Qualitative and quantitative disclosure regarding the various risks is presented above and below in this Chapter 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 2021 annual report (this report), on the MAGNA site of the Israel Securities Authority, and on the MAYA site of the Tel Aviv Stock Exchange Ltd. and is comprising an integral part of the Bank's 2021 annual report.

Credit Risks

Credit Risks and the manner of Management thereof

The credit risk management concept of the Bank and of the Group is aimed at ensuring a proper balance between the business functions, which directly create exposure to credit risk and managing it, and the functions engaged in supervision, control and the independent evaluation of risks, as well as the functions engaged in audit.

Credit Policy Documents

The core documents relating to credit include the risk appetite and credit policy document of the Discount Group, the Bank's standalone credit policy, the credit risk management policy document and the credit policy documents of each subsidiary, which serve as the infrastructure for credit risk management at the Bank and the Group, as well as the procedures and methodologies in the credit field being an integral part of the management and credit granting framework, according to which operations have to be conducted.

Credit Risks Measurement and Reporting

The Discount Group bases the credit risk concept in accordance with worldwide accepted advanced methods, using models for the assessment of risk (statistical and other) based on banking conduct, financial data and qualitative questionnaires for the assessment of borrower risk (probability of default – PD) and the loss expected there from, inter alia, in view of the scope and quality of the collateral (loss given default – LGD). The Bank and the Group makes use of several measurement and reporting systems supporting credit risk management.

Structure and Organization of the Credit Risks Management Functions

The organizational structure that serves the management of credit risk at the Bank includes the definition of authority and responsibility of the functions involved in managing the risk at the Bank – the Board of Directors, Management and three separate lines of defense:

First line of defense. The business units perform on a current basis processes for mitigating credit risk by means of the economic and business analysis of applications for credit for assessing the credit risk involved in the operations of the borrower, credit rating and current monitoring and control of the credit granted and the quality of the borrower.

The control units are responsible for the credit risks management related to the operations of the business divisions, as well as for the performance of current monitoring and control processes and the writing and updating of methodologies and procedures in the credit field. Among these units may be mentioned the credit risk management department of the Corporate Division and retail credit wings and head office administration at the Banking Division.

The credit committees discuss and take decisions regarding credit issues, both as regards new credit applications and as regards existing indebtedness.

Second line of defense. The risk management division is responsible for the formation and updating of core documents in the credit field, the current evaluation of the credit risk profile of the Bank and the Group, the development and implementation of internal models for credit rating and Group methodologies for the management of credit risk. In addition, the risk management division is responsible for the post factum examination of the manner of credit risk management at all its stages, providing assessments of specific credit quality and the quality of the credit portfolio as a whole, as well as the rendering of opinion regarding credit transactions, determination of credit rating, classification and allowances.

Third line of defense. The internal audit performs sample examinations of credit files, credit granting approval processes and its management, and checks whether work processes comply with the Bank's procedures. In addition, it performs cross-organization audits of credit issues.

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

On March 28, 2018, the Supervisor of Banks published a letter in this matter, according to which, as part of the transition of financial reporting to the full adoption of the accounting principles accepted by U.S. banks, banking corporations and credit card companies are required to make preparations for the application of the updates to accounting principles accepted by U.S. banks regarding allowances for current expected credit losses (CECL) – adoption of the update to accounting standard ASU 2016-13. The standard is applied as from January 1, 2022 and thereafter.

The Bank has appointed the Chief Risk Officer as responsible for the project. Also appointed was a manager for the project and a steering committee has been established headed by the CRO with the participation of the Chief Accounting Officer and representatives of the Bank's divisions and of the Group's companies. In addition, joint internal work teams for the Bank and for MDB have been appointed for the examination of the different aspects relating to its implementation of the Standard.

In 2021, the Bank began the technological implementation of the selected solution, which includes building a database, building interfaces, deploying the methodology and conducting test runs of the system's calculations in the various segments. Concurrently, the Bank has completed the development of the methodology for assessing the qualitative adjustments and the adjustments component for macroeconomic factors. Moreover, the Bank performed the documentation of the components and the process for evaluating the credit losses, and according to the directive, its implementation is being audited.

In the third and fourth quarters, parallel running of the dedicated model that had been developed was conducted in the production environment, which included the databases, the necessary interfaces from the Bank's systems and the calculation of the allowance according to the Bank's defined segments. The Bank analyzed the results, drew conclusions and made revisions where necessary. In the fourth quarter, the parallel running was used to determine the expected effect at the time of applying the directive. The Bank has reported the results of the parallel running to the Banking Supervision Department.

In the coming quarters, the Bank will complete the development of the reporting and the necessary reports and will also continue to improve and develop the process for measuring the allowance for credit losses.

According to the Bank's assessment, the effect of the initial application as of January 1, 2022 is expected to be an increase of approx. NIS 150 million in the allowance for credit losses (approx. NIS 180 million increase in the Bank and MDB's allowance, which is set off by a decrease of approx. NIS 30 million in the subsidiary IDB Bank). The initial application effect arises from the following segments:

- Credit to commercial customers – an increase of approx. NIS 150 million;
- Credit to private individuals not for housing – an increase of approx. NIS 30 million;
- Housing loans – a decrease of approx. NIS 30 million.

As will be recalled, in accordance with the new rules, the aforesaid increase in the allowance for credit losses will be recognized in the balance of retained earnings as of January 1, 2022 and will not affect the current business results. In addition, a relief has been prescribed which permits the effect of the aforesaid increase on the Common Equity Tier 1 to be spread over three years.
The calculation of the allowance includes, alongside the use of advanced models for calculating the risk, also macro components and additional qualitative adjustments, that also include the balance of the funds buffer that was not canceled.
It is noted that application of the new rules requires the formation of a methodology and complex models as well as a new technological application. Naturally, also after the beginning of initial application, improvement and development of the process for the measurement of the credit loss allowances would be continued, and respectively, such activity may require certain changes in the measurement procedure.
It is further noted, that the new rules do not require the application of a uniform methodology, and therefore, banking corporations had determined their own methodology and models used in the implementation of the rules, while using discretion. Care is therefore required in comparing the effects of the initial implementation as reported by the banks.

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

The significant downturn in the morbidity rate as the fourth wave of the corona pandemic dissipated, followed by high rates of infection in the fifth wave (the “Omicron” variant), which broke out in the last quarter of 2021, did not lead to an economic lockdown or to restrictions on movement, largely thanks to the population’s immunization following a third vaccination. As a result of the aforesaid, a reduction in the unemployment rate has been noted. Furthermore, the government deficit has also declined. These factors have had a positive effect on the position of businesses and borrowers, as well as on macroeconomic parameters. Notwithstanding the above, the rates of unemployment have still remained at a high level of certain sectors of the economy and the recovery in these sectors is expected to take a long time. A renewed outbreak might affect the financial situation of borrowers and their repayment ability. At this stage, significant uncertainty still exists with respect to the length of time in which the Corona epidemic may continue its significant presence in the world.
The Bank reports, oversees and monitors the borrower exposures in all the Bank’s business lines, inter alia, in the different economic sectors, within the framework of specific discussions regarding the condition of sensitive borrowers in difficulty, by means of sectorial reviews and the monitoring of the credit portfolio, while following regulatory developments. 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 letters of the Supervisor of Banks dated December 3 and 17, 2020, it is stated that a banking corporation that had elected not to classify as restructure of a troubled debt, loans that were not in arrears of 30 days or over at date of deferral of repayments, in respect of which deferral of repayments had been granted until March 31, 2021, within the framework of the additional outline for deferment, shall include in the quarterly and annual financial statements to the public in 2021, a pro-forma disclosure presenting the principal effects of implementing the said choice upon the financial statements. The Bank has chosen not to make use of the relief included within the framework of the additional outline. MDB has indeed chosen to make use of the said relief, however, the volume of debts which in accordance with the relief, had not undergone a troubled debt restructure, is not material, even in terms of MDB.
It is noted that, possibly, were it not for the stay in the count of the default days regarding the deferred repayments, as stated above, the balance of debts in arrears as of December 31, 2021, would have been higher.
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, and since March 2021, they have declined consistently.
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

	December 31, 2021											
	in NIS millions											
	Debts with repayments deferral, as of the reporting date[1]			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		Debts whose repayments deferral period had terminated, as of the reporting date	
					Non-problematic debts				Non-problematic debts[2]			
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	422	9	49	415	-	-	7	7	7	-	657	1
Medium businesses	2	1	1	-	-	-	2	2	-	2	593	-
Small businesses	70	322	33	20	4	-	46	50	1	45	3,252	39
Private individuals without Housing loans	23	679	16	14	1	-	8	9	-	9	831	19
Housing loans	400	617	24	7	23	-	369	392	105	254	7,012	145
Total Lending Activity in Israel	917	1,628	123	(3)456	28	-	432	460	113	310	12,345	204
IDB Bank	359	4	10	324	36	-	-	36	-	36	1,335	-
Total as at 31.12.2021	**1,276**	**1,632**	**133**	**780**	**64**	**-**	**432**	**460**	**113**	**345**	**13,680**	**204**
Total Lending Activity in Israel as at 30.9.2021	**1,162**	**2,000**	**147**	**486**	**38**	**1**	**637**	**676**	**103**	**527**	**13,251**	**218**
IDB Bank as at 30.9.2021	**421**	**10**	**14**	**365**	**56**	**-**	**-**	**56**	**-**	**-**	**1,218**	**-**
Total Lending Activity in Israel as at 30.6.2021	**2,068**	**2,671**	**219**	**1,175**	**61**	**5**	**827**	**893**	**143**	**692**	**15,158**	**193**
IDB Bank as at 30.6.2021	**607**	**13**	**19**	**599**	**8**	**-**	**-**	**8**	**-**	**8**	**1,146**	**-**
Total Lending Activity in Israel as at 31.3.2021	**2,831**	**6,204**	**287**	**(3)646**	**507**	**5**	**1,673**	**2,185**	**353**	**1,738**	**13,774**	**171**
IDB Bank as at 31.3.2021[4]	**853**	**17**	**29**	**782**	**9**	**-**	**62**	**71**	**-**	**9**	**940**	**-**
Total Lending Activity in Israel as at 31.12.2020	**5,523**	**23,699**	**481**	**1,074**	**802**	**-**	**3,647**	**4,449**	**1,204**	**2,447**	**1,216**	**133**
IDB Bank as at 31.12.2020[4]	**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 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.

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

(4) Reclassified - following improvement of data.

In the course of the crisis period and until December 31, 2021, the Bank and MDB (domestic activity) allowed the deferral of loan repayments in respect of credit in the amount of NIS 13,262 million, of which, housing loans in the amount of NIS 7,412 million.

Until December 31, 2021, in respect of 93% of all loans (domestic activity), and in respect of 95% 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 431 million were classified as problematic – 47%. Of the outstanding balance of the debts, the deferral period in respect of which had ended, NIS 204 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.

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.
As assessed by the Bank, the main sectors having significant level of vulnerability as a result of the corona crisis are the sectors that rely on overseas tourism, including hotels, travel agents, airline companies, and accommodation and catering services.
It is noted, that the commerce, private individuals and diamond industry, real estate and oil products industry sectors are no longer estimated as having relatively high vulnerability to the effect of the Corona crisis.
Furthermore, in the Bank's opinion, the level of vulnerability of small businesses is relatively higher than that of large businesses.
It is noted that the classification of the different sectors in accordance with the level of vulnerability was based on internal assessments of the Bank. The classification of sectors according to the different levels of vulnerability is used to focus attention on the more vulnerable areas, though, which does not necessarily represent all credit exposure in those sectors.

See below "Credit risk by economic sectors".

Credit Quality and Problematic Credit Risk

Problematic Credit Risk and Non-Performing Assets

	December 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	136,398	53,014	29,493	218,905	120,945	41,808	28,221	190,974
Off-balance sheet credit risk	56,904	7,233	37,864	102,001	45,594	4,367	35,656	85,617
Total credit risk in Credit Granting Rating	**193,302**	**60,247**	**67,357**	**320,906**	**166,539**	**46,175**	**63,877**	**276,591**
Credit risk not in Credit Granting Rating:								
1. Not problematic	2,838	650	1,493	4,981	4,618	516	2,763	7,897
2. Problematic								
Special Mention(3)	3,055	117	212	3,384	3,131	121	365	3,617
Substandard	868	163	111	1,142	1,452	204	81	1,737
Impaired	(4)1,569	-	230	(4)1,799	(4)1,959	2	259	(4)2,220
Total problematic(2)	**5,492**	**280**	**553**	**6,325**	**6,542**	**327**	**705**	**7,574**
Total balance sheet credit risk	**8,330**	**930**	**2,046**	**11,306**	**11,160**	**843**	**3,468**	**15,471**
Off-balance sheet credit risk	1,335	2,777	93	4,205	2,462	809	362	3,633
Total credit risk not in Credit Granting Rating	**9,665**	**3,707**	**2,139**	**15,511**	**13,622**	**1,652**	**3,830**	**19,104**
Of which: non-impaired debts in arrears of 90 days or more(3)	43	276	43	362	65	318	30	413
Total overall credit risk of the public	**202,967**	**63,954**	**69,496**	**336,417**	**180,161**	**47,827**	**67,707**	**295,695**
Additional information concerning nonperforming assets:								
Impaired debts - not accruing interest income	(4) 1,210	-	72	(4)1,282	(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 1 million (December 31, 2020 – non-accruing corporate bonds of NIS 13 million).

Changes in Balances of Impaired Debts

	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	885	223	1,108	1,733	376	2,109
Debts no longer classified as impaired	(20)	-	(20)	(71)	-	(71)
Impaired debts written off	(236)	(141)	(377)	(277)	(232)	(509)
Impaired debts settled	(987)	(113)	(1,100)	(1,042)	(72)	(1,114)
Other	(21)	-	(21)	(22)	-	(22)
Balance of impaired debts as of end of the period	**1,567**	**230**	**1,797**	**1,946**	**261**	**2,207**
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	527	105	632	941	194	1,135
Debts that have again been classified to unimpaired due to a following restructuring	(18)	-	(18)	(12)	-	(12)
Restructured troubled debt written off	(27)	(40)	(67)	(50)	(56)	(106)
Restructured troubled debt settled	(694)	(103)	(797)	(567)	(51)	(618)
Other	(31)	(3)	(34)	(43)	-	(43)
Balance of restructured troubled debts at the end of the period	**911**	**204**	**1,115**	**1,154**	**245**	**1,399**
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	402	138	540	488	255	743
Collections and write-offs	(455)	(181)	(636)	(356)	(189)	(545)
Balance of allowance for credit losses as of end of the period	**320**	**89**	**409**	**373**	**132**	**505**

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

	December 31, 2021	December 31, 2020
Ratio of balance of impaired credit to the public to balance of credit to the public	0.83%	1.15%
Ratio of balance of non-impaired credit to the public, in arrears for 90 days or more, to balance of credit to the public	0.17%	0.21%
Ratio of balance of allowance for credit losses in respect of credit to the public, to balance of credit to the public[(1)]	1.41%	1.95%
The ratio of the balance of the group allowance for credit loss, to the balance of credit to the public[(1)]	1.10%	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	169.17%	170.41%
Ratio of problematic credit risk in respect of the public to the total credit risk in respect of the public	2.04%	2.80%
Ratio of credit loss expenses (expenses release) to the average balance of credit to the public[(2)]	(0.34%)	0.91%
Ratio of net accounting write-offs in respect of credit to the public to the average balance of credit to the public[(3)]	0.03%	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[(3)]	1.84%	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	140.81%	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	1.00%	1.36%
The ratio of the outstanding balance of noninterest bearing impaired credit to the public to total credit to the public	0.59%	0.74%

Footnotes:

(1) The decrease in the rates stems from a decline in the balance of the allowance for credit losses.

(2) The decrease in the rate of expenditure in relation to the average balance stems, mostly, from the reversal of expenses during the quarter.

(3) The decrease in the rates stems from a decline in net write-offs as a result of significant debt collections.

Credit risk by economic sectors

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

Credit risk by economic sectors – consolidated

	December 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	Periodic Credit Loss Expenses (expense release)	Net Accounting Write-Offs Recognized during the Period	Balance of Allowance for Credit Losses
	in NIS millions							
Industry	15,204	14,313	526	365	217	(18)	36	282
Construction and Real Estate - Construction(6)	43,155	42,411	639	105	174	43	35	351
Construction and Real Estate - Real Estate Activity	14,237	13,853	356	28	109	(15)	(5)	213
Commerce	22,892	21,938	532	422	202	(190)	(50)	419
Hotels, Hotel Services and Food	2,306	1,946	291	69	77	(51)	(2)	53
Transportation and Storage	6,358	5,889	382	87	180	(19)	18	139
Financial Services(7)	22,375	22,294	54	27	-	(12)	(6)	91
Other Business Services	8,228	7,563	255	410	120	(67)	6	163
Public and Community Services	11,004	10,842	62	100	22	(21)	(2)	35
Other Business Services	9,555	9,307	116	132	86	(57)	(23)	124
Total Commercial	**155,314**	**150,356**	**3,213**	**1,745**	**1,187**	**(407)**	**7**	**1,870**
Private Individuals - Housing Loans	63,655	59,955	275	3,425	-	6	6	255
Private Individuals - Other	67,437	65,339	524	1,574	230	(169)	38	765
Total Public - Activity in Israel	**286,406**	**275,650**	**4,012**	**6,744**	**1,417**	**(570)**	**51**	**2,890**
Banks in Israel and Government of Israel	31,442	31,442	-	-	-	-	-	-
Total Activity in Israel	**317,848**	**307,092**	**4,012**	**6,744**	**1,417**	**(570)**	**51**	**2,890**
Total Public - Activity Outside of Israel	**50,011**	**45,256**	**2,847**	**1,908**	**436**	**(130)**	**5**	**399**
Banks and Governments Outside of Israel	10,862	10,862	-	-	-	7	-	22
Total Activity Outside of Israel	**60,873**	**56,118**	**2,847**	**1,908**	**436**	**(123)**	**5**	**421**
Total Activity in and Outside Israel	**378,721**	**363,210**	**6,859**	**8,652**	**1,853**	**(693)**	**56**	**3,311**

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 222,572 million, NIS 42,251 million, NIS 1,207 million, NIS 5,524 million, NIS 107,167 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 313 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 6,673 million, issued by GNMA and in the amount of NIS 358 million, issued by FNMA and FHLMC.

(8) Including credit facilities guaranteed by banks outside the Group in the amount of NIS 7,633 million.

(9) The balance of commercial debts includes housing loans in the amount of NIS 252 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 - Activity in Israel	**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 Activity in Israel	**283,388**	**270,025**	**5,194**	**8,169**	**1,760**	**1,483**	**356**	**3,519**
Total Public - 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 Activity Outside of Israel	**55,337**	**49,596**	**3,086**	**2,655**	**525**	**235**	**9**	**555**
Total Activity in and Outside Israel	**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 December 31					
	2021			2020		
	exposure			exposure		
The Country	balance sheet[2]	Off-balance sheet[2][3]	Total	balance sheet[2]	Off-balance sheet[2][3]	Total
	In NIS millions					
United States	17,450	7,805	25,255	15,148	7,679	22,827
Other	7,791	[5]7,065	14,856	7,108	[5]6,217	13,325
Total exposure to foreign countries[1]	**25,241**	**14,870**	**40,111**	**22,256**	**13,896**	**36,152**
Of which - Total exposure to the PIGS countries[4]	19	155	174	21	213	234
Of which - Total exposure to LDC countries[6]	491	129	620	329	122	451
Of which - Total exposure to countries having liquidity problems	44	15	59	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.
(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 December 31 2021 in the following countries: Switzerland – an amount of NIS 2,471 million and Germany – an amount of NIS 2,539 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 manner of managing credit risk applying to foreign financial institutions. The Bank's policy with regard to various exposures to foreign banks and financial institutions, has been re-examined, and is reflected in the following items:
- The Bank has adopted a conservative policy as regards management of exposure to foreign banks and financial institutions;
- The allocation of credit facilities to foreign banks is strictly and conservatively conducted, using mathematical auxiliary tools that had been re-examined and which have recently been validated;
- Deposits by the Bank are made on a selective basis, mainly at banks in the U.S. and Britain, having a rating of "BBB+" at the least;
- Close management of the volume of foreign currency deposits abroad;
- The Bank has adopted a policy according to which exposure to financial derivatives requires a signed ISDA or CSA agreement with every financial institution with which the Bank enters into transactions of this kind;
- The clearing risks facilities are individually examined, with the clear aim of significantly reducing clearing risks, while using the CLS tool, being a central tool for mutual dual clearing;

- A policy has been adopted regarding exposure to less developed countries (LDC). This policy defines exposure at low amounts and for relatively short terms;
- A methodical and close management utilizing upgraded monitoring, supervision and control systems, and cooperation of all involved factors at the Bank and the Group;
- An information system that assists in obtaining a picture on a Group basis regarding exposure to foreign banks and financial institutions.

With respect to the management of exposure to foreign financial institutions, it should be noted that:

- A reduction in the rating of a foreign bank, change in market data and/or deterioration in its financial data are weighted into the model, and where necessary, the Bank reduces its credit facility accordingly;
- The financial institutions unit of the Financial Markets Division allocates the credit facilities approved by the Board between members of the Group, and the various units at the Bank, including the Bank's dealing room for which the Financial Markets Division is responsible.

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.

It is noted, that within the framework of updating the policy, the effectiveness of risk management procedures was tested in 2020, and in this framework certain of the internal limitations had been updated. The risk indices of the world's financial institutions fell in 2021 and accordingly, an upward trend exists in bank ratings throughout the world and a drop in the banks' CDS rates.

Distribution of the Bank's exposures in the fourth quarter is not affected by the Corona crisis. The Bank maintains routine monitoring of the scope of exposures, and concentrate the credit exposures at banks with 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.

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 94% of the exposure as of December 31, 2021, is to financial institutions rated "A-"rating or higher.

The states in respect of which the Bank has exposure as stated above as of December 31, 2021, include, inter-alia the United States and Great Britain.

In 2021, impairment of securities was not made with respect to the exposure to financial institutions.

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 December 31, 2021		
Present credit exposure to foreign financial institutions(1)(6)			
External credit rating(7)			
AAA to AA-	1,190	63	1,253
A+ to A-	4,511	672	5,183
BBB+ to BBB-	43	159	202
BB+ to B-	4	35	39
Not rated	110	25	135
Total present credit exposure to foreign financial institutions	**5,858**	**954**	**6,812**
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 28 to the 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 12 to the 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 December 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 262 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 227 million as of December 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. The growth in performance has been caused by both the increased demand in the residential market and the rise in 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 granting housing loans continued in 2021 at the banking system as a whole, including within the framework of the "price for the home purchaser" program.

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.

Measures taken by the Group. The credit policy defines the criteria required for ensuring the quality of credit and reducing the risks derived there from, including the rules for examination of the repayment ability of borrowers and guarantors for the debt, the hierarchy of authority, classes of collateral securing the credit, the pricing of credit as well as the principles of management, monitoring and control over the credit and collateral. Limits and restrictions have also been determined with respect to the repayment ratio, the financing rate, the rating of the transaction, mix of the credit portfolio, bridging loans, and geographical distribution. Furthermore, cross limits have been determined in respect of a part of the said parameters.

In addition, the following actions are taken:

- The Group conducts credit quality control prior to the granting of the credit, by means of a back-office layout, which includes credit underwriting unit, legal underwriting and an examination unit. Mortgage loans having a high risk profile are approved by means of a specialized approval center;
- The use of "safety factors" (durability tests) in the loan approval process. Prior to approval of the loan facility, the Group studies possible implications that might arise from theoretical changes in market variables (principally, an increase of 2-3 basis points in the annual interest rate in loans bearing variable interest rates) on the repayment ability of the borrower.
- Reduction in the volume of credit granted in loan lanes where the interest rates changes in accordance with the restriction determined by the Supervisor of banks (this, until date of entry into effect of the Amendment to the directives intended to mitigate conditions in this respect. See below "Mortgage activity" in the Chapter "Activity of the Group according to regulatory segments of operation – additional details");
- Determination of exposure policy in respect of special segments: acquisition groups, foreign residents, all-purpose loans, etc. In loans financing the purchase of luxury properties, the Bank applies a stringent scale of authority;
- Current use of theoretical scenarios, including stress tests, for the sensitivity analysis of anticipated changes in the Bank's exposure to credit risk, as a derivative of changes in the tested parameters;
- Conducting the monitoring of key risk indicators (KRI's), and additional parameters including, in the case of developments in the housing market, the employment market and the volume of arrears concerning loans granted by the Bank and by the banking industry;
- Entering into specific arrangements with borrowers who meet difficulties in honoring the periodic repayment terms of the original loans;
- Updating credit application rating model for mortgages;
- Use of computerized tools in order to mitigate credit risks and mitigate operational risks.

The volume of the Group's housing loan portfolio as of December 31, 2021, amounted to NIS 54,196 million (December 31, 2020 - NIS 42,863 million).

Certain risk characteristics of the Group's housing loans portfolio

	December 31, 2021	2020
	%	
Rate of housing loans financing over 75% of the value of the property	1.1	1.5
Rate of housing loans, the monthly repayment amount of each exceeds 35% of the income of the borrower	9.3	8.5
Rate of housing loans carrying variable interest rate of the total amount of the housing loan portfolio[1]	58.5	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

	December 31,	
	2021	2020
Average amount of loan (in NIS thousands)	937	861
Average financing ratio for housing loans (in %)	56.0	55.0
Average financing ratio for general purpose loans (in %)	17.5	24.4

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

	December 31,			
	2021		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	38,162	70.8	32,608	76.5
Between 1,200 and 4,000	14,786	27.4	9,386	22.0
Over 4,000	990	1.8	610	1.5
Total	**53,938**	**100.0**	**42,604**	**100.0**
Of which:				
Housing loans that were granted abroad	227		143	

Footnotes:

(1) The balance of credit is after deduction of allowance for credit losses in the amount of NIS 258 million (31.12.2020: NIS 259 million).

(2) The outstanding balance of credit to the public includes housing loans in the amount of NIS 252 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 loans

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
December 31	In NIS millions			Change in %
2021	54,196	[(4)]281	62	0.5
2020	42,863	[(4)] 328	71	0.8

Footnotes:

(1) Recorded amount.

(2) As at December 31, 2021 the balance of the allowance includes an allowance in accordance with the extent of arrears in an amount of NIS 61 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 0.36% from the credit balance in respect of which on allowance in accordance with the extent of arrears was not made, in amount of NIS 195 million as at December 31, 2021 (as at December 31, 2020: NIS 187 million) and not including another group allowance in amount of NIS 1 million, similar to year 2020.

(4) Including an amount of NIS 8 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 252 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

	2021		2020	
Loan to value (LTV) ratio[(1)]	In NIS millions	% of total Housing Credit	In NIS millions	% of total Housing Credit
Up to 45%	4,351	25.7	2,814	28.0
Between 45% and 60%	5,885	34.7	3,433	34.2
Over 60%	6,719	39.6	3,790	37.8
Total	**16,955**	**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.

The average loan period of housing loans at the Bank in 2021, was 22.2 years, compared with 22.8 years in the industry. The amount of credit for a period of over twenty years amounted to 51% of the whole credit portfolio of housing loans.
The data regarding the distribution of extended credit as of December 31, 2021, by period of loan shows that the granting of loans in 2020 for periods of over twenty years reached a rate of 62% of the portfolio.

Developments in housing credit balances according to linkage segments

	Non-linked credit			CPI linked credit			credit			
	Fixed interest	Variable interest		Fixed interest	Variable interest		Fixed interest	Variable interest		
December 31	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)]
2021	16,732	22,068	72.0	5,157	9,857	27.8	23	101	0.2	53,938
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 252 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 258 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 December 31, 2021, of the housing loans portfolio according to the present period to maturity of over 20 years, amount to NIS 22.3 billion, comprising 51.0% of the total housing loans portfolio.

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

	2021		2020	
Ratio of payment to income (PTI)[(1)]	In NIS millions	% of total Housing Credit	In NIS millions	% of total Housing Credit
Up to 40%	15,833	99.7	9,049	99.5
Over 40%	41	0.3	43	0.5
Total	**15,874**	**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 item 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				
	December 31, 2021				
Level of income to the account					
Excluding permanent income to the account	1,116	112	1,228	551	1,779
Less than NIS 10 thousand	4,081	940	5,021	3,258	8,279
Greater than NIS 10 thousand, but less than NIS 20 thousand	3,986	1,700	5,686	3,480	9,166
Greater than NIS 20 thousand	3,397	2,989	6,386	4,787	11,173
Total	**12,580**	**5,741**	**18,321**	**12,076**	**30,397**
	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

	December 31,	
	2021	2020[(1)]
	Balance of loans	
Fixed maturity date	in NIS millions	
Up to 1 year	1,344	1,406
Over 1 year and up to 3 years	4,833	4,763
Over 3 years and up to 5 years	4,040	4,119
Over 5 years	2,546	2,242
Total	**12,763**	**12,530**

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

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

Distribution by size of credit to the borrower

	December 31, 2021	December 31, 2020
Balance sheet credit upper limit (NIS thousands)	in NIS million	
Up to 40	4,826	3,589
Between 40 and 150	9,390	9,406
Over 150	4,105	4,756
Total	**18,321**	**17,751**

Distribution by exposure to changes in interest rates

	December 31, 2021	December 31, 2020
	in NIS million	
Fixed interest credit	5,434	5,184
Variable interest credit	12,887	12,567
Total	**18,321**	**17,751**

Distribution of collateral securing the credit

	December 31, 2021	December 31, 2020
	Total collateral	
Type of collateral	in NIS millions	
Liquid financial assets	1,224	1,400
Other collateral	980	910
Total	**2,204**	**2,310**

Development of problematic credit risk in respect of private individuals

	December 31,			Rate from total balance-sheet to credit to the public December 31,	
	2021	2020	Change in	2021	2020
	in NIS million		%	%	
Problematic credit risk	241	387	(37.7)	1.3	2.2
Of which: impaired credit risk	124	124	(0.2)	0.7	0.7
Debts in arrears of 90 days or more	43	30	43.3	0.2	0.2
Net accounting write-offs	3	73	(95.7)	0.0	0.4
Balance of allowance for credit losses	399	569	(29.8)	2.2	3.2

Credit risk regarding the purchase of motor vehicles. The balance of credit granted for the purchase of motor vehicles (in the Bank and MDB), pledged, amounted to NIS 1,199 million at December 31, 2021, compared with NIS 1,102 million as of December 31, 2020, an increase of 8.8%.

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 also be noted that even after the beginning of the economic recovery process and the increase in economic activity, a high rate of unemployment still exists in relation to the last decade, as a not insignificant part of unemployed that had been added during the Corona period, has not yet returned to the labor market.

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.

For details regarding loans to private individuals portfolio (excluding housing loans), see the risks report.

Quantitative data regarding credit granted to private individuals in ICC

A rise at the rate of 14.0% was recorded in 2021 in the balance of credit granted to private individuals in ICC, compared with a decline at a rate of 4.6% in 2020. This credit amounted on December 31, 2021 to NIS 9,919 million, compared to NIS 8,698 million on December 31, 2020. The interest bearing credit to private individuals as of December 31, 2021, amounted to NIS 5,772 million, compared with NIS 5,159 at the end of 2020 (an increase of 11.9%), and comprises 58.2% 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 4,147 million, as compared to NIS 3,539 million as of December 31, 2020 (an increase of approx. 17.2%). This credit does not carry interest, 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 expenses release in respect of private individuals amounted to NIS 1 million in 2021, compared to expenses of NIS 208 million in the corresponding period last year. Credit loss expenses in the corresponding period, stemmed mostly from the then forecasted implications of the spreading of the Corona virus on the quality of the credit portfolio, whereas, in 2021, a reduction was recorded in the group allowance expenses and in write-offs.

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 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 not exceed

22%. The banks would be required to revert to a rate of 20% during a period of twenty-four months as from December 31, 2025, on condition that the rate of indebtedness during the said two years would not exceed the rate at December 31, 2025. The Bank conforms to the said limits and also to internal limits serving as alert levels.
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 the "Construction and Real Estate Activity" under "Additional Details Regarding the Business of the Banking Corporation and Management Thereof" chapter.
During the year 2021, exposure of the Bank to the construction and real estate sector had grown, with a focus on financing residential building projects and the purchase of land. The Bank monitors and closely follows the growth in exposure, inter alia, in respect of new transactions having increased risk (see below), and where required, the Bank has made adjustments to the group allowance. It is noted, that significant growth regarding this sector was recorded in the banking system as a whole, accompanied by increased competition. It is further noted that the Bank has increased the insurance coverage and that the rate of exposure to credit in the construction and real estate sector dropped in the recent year from 19.41% to 17.12%.

Reinforcement of monitoring and control procedures and expansion of disclosure regarding credit to the construction and real estate sector

The Supervisor of Banks issued on August 19, 2021, a letter in the matter of "Growth in credit risk pertaining to the construction and real estate sector", on the background of the significant growth that had taken place at the banking system during the first half of the year with respect to business credit balances in general and in credit balances to the construction and real estate sector in particular, as well as in view of the increase in competition and the growing risk appetite, and in consequence thereof, an increase in credit risk. The letter requires banking corporations to reinforce their monitoring and control procedures as regards the development of risks, especially with respect to new credit transactions. Within the framework of monitoring and control, as stated, banking corporations are required to determine criteria for credit underwriting defined by them as "increased risk" credit (on the basis of parameters stated in an Annex to the letter). Moreover, banking corporations are required to adjust the computation of the group allowance for credit losses following the fast growth of the credit portfolio and the relaxation in underwriting conditions.
In continuation to that stated above, and on the background of the growth in risks pertaining to the construction and real estate sector, banks were required by the Supervisor of Banks, on October 11, 2021, to expand, as from the report for the third quarter of 2021, the quantitative and qualitative disclosure regarding the construction and real estate sector presented in their Boards of Directors and Managements' reports, and accordingly, a Table was added detailing credit exposure and data regarding credit rated for granting and credit not rated for granting. In a further letter from the Banking Supervision Department, dated December 30, 2021, the banking corporations were required to make an adjustment to the group allowance in the 2021 financial statements in view of the rise in the risk and the level of exposure to the construction and real estate sector, as well as expanding the disclosure on this topic.
A detailed analysis of increased risk transactions conducted at Discount Bank starting from the second quarter of 2021, has disclosed the following finds:
- Most of the growth in credit which in the Bank's opinion meets the criteria of heightened risk, in the second and third quarters, is attributable to a limited number of transactions, mostly the finance of acquisition of land for construction. Most of the growth in credit with heightened risk in the fourth quarter was to finance residential projects, with such credit being granted to high-quality developers and consisting mainly of Sales Act guarantees and other non-monetary guarantees.
- The credit in these transactions that was granted in the last quarters is earmarked in part to finance "Mechir Lamishtaken"/reduced price projects and was extended to borrowers that are not rated as being high risk and, in the estimation of the Bank's Management, the risk in such transactions is reasonable.

  The pricing of such transactions relates, inter alia, both to the nature of the transactions and to the quality of the borrower.

As at December 31, 2021, the balance of credit matching the definition of "increased risk credit" at MDB, in accordance with parameters suggested in the said letter of the Supervisor of Banks was in a negligible scope.
The data presented hereunder relate to operations conducted in Israel (operations by Discount Bank and by MDB).

Development of credit risk relating to the construction and real estate by principal characteristics

Distribution of credit risk and problematic debts in the construction and real estate sector

	December 31, 2021					December 31, 2020					
Sector	Credit for the public	Guarantees	Unutilized facilities	Total Credit Risk	Of which: problematic credit	Credit for the public	Guarantees	Unutilized facilities	Total Credit Risk	Of which: problematic credit	Change in total credit risk
	in NIS million										%
Income generating real estate	11,487	197	1,774	13,458	336	10,800	329	1,246	12,375	342	8.8
Construction – general building contracting	1,019	565	335	1,919	56	(1)1,481	631	196	2,308	111	(16.9)
Residential projects financing	4,899	5,551	10,766	21,216	171	5,449	3,998	6,198	15,645	168	35.6
Acquisition of building land	10,424	347	425	11,196	145	6,734	278	333	7,345	77	52.4
Subcontracting	1,519	1,071	622	3,212	108	1,363	990	719	3,072	75	4.6
Civil engineering work	1,625	1,766	857	4,248	100	1,314	1,596	407	3,317	150	28.1
Other	1,346	382	408	2,136	79	1,454	425	364	2,243	64	(4.8)
Total	**32,319**	**9,879**	**15,187**	**57,385**	**995**	**28,595**	**8,247**	**9,463**	**46,305**	**987**	**23.9**

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

The credit risk relating to the construction and real estate sector grew in 2021 by 24.4%. As shown in the table above, most of the growth is in the residential projects financing and acquisition of building land.

Breakdown by quality of credit portfolio

	December 31, 2021	December 31, 2020	Change in %
	in NIS million		
Impaired debts	239	251	(4.8)
Impaired debts in Arrears of 90 Days or More	7	7	-
Other problematic debts	749	729	2.7
Total problematic debts	**995**	**987**	**0.8**
Non-problematic debts ranked as "performing"	56,263	(2)44,263	27.1
Non-problematic debts not ranked as "performing"	127	1,055	(88.0)
Total Credit	**57,385**	**46,305**	**23.9**
Debts whose settlement date has been deferred, at the customer's request(1)	9	354	(97.5)

Footnotes:
(1) Requests for deferment of loan settlement dates due to the economic crisis that developed as a result of the "Corona virus" event.
(2) Reclassified – following improvement of data.

As shown by the Table, the impaired credit risk for the construction and real estate sector decreased in 2021 by approx. 4.8%, due to debt collection. On the other hand, other problematic debts increased by 2.6% and performing credit which is not at credit rated for granting decreased by approx. 88%.
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 risks report.

Breakdown by type of financing

	December 31, 2021	December 31, 2020	
	in NIS million		Change in %
Housing construction	28,914	20,955	38.0
Industrial and commercial construction	12,926	11,055	16.9
Without real estate collateral	15,545	14,295	8.7
Total	**57,385**	**46,305**	**23.9**

Breakdown by type of collateral

	December 31, 2021	December 31, 2020	
	in NIS million		Change in %
"Gross" land	11,357	7,969	42.5
Real estate under construction	19,266	13,149	46.5
Constructed real estate	11,217	10,892	3.0
Without real estate collateral	15,545	14,295	8.7
Total	**57,385**	**46,305**	**23.9**

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 December 31, 2021. 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 sectors

	December 31, 2021				December 31, 2020			
	Balance sheet exposure	Off-Balance sheet exposure	Total exposure	Specific allowance for credit losses	Balance sheet exposure	Off-Balance sheet exposure	Total exposure	Specific allowance for credit losses
Sector	In NIS millions							
Construction and real estate	118	-	118	-	148	-	148	-
Communication and Computer Services	-	-	-	-	161	1	162	-
Public and Community Services	262	4	266	-	-	-	-	-
Total	**380**	**4**	**384**	**-**	**309**	**1**	**310**	**-**

Exposure to leveraged finance as of December 31, 2021 amounted to NIS 380 million, compared to NIS 309 million at the end of 2020, an increase of 23.0%. The said increase stemmed, mainly, from changes in financial ratios causing present credit to be defined as leveraged finance, alongside a growth in credit agreeing with the definition of leveraged finance.

The balance of exposure presented in the table above, is after accounting write-offs in accordance with the directive regarding impaired debts.
The off-balance sheet exposure in respect of leverage finance transactions as of December 31, 2021, amounted to NIS 4 million (December 31, 2020 – NIS 1 million).
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 December 31, 2021, there is no borrower group whose indebtedness exceeds 15% of the capital, as defined in the Directive.

Market Risks

Market risk is the risk of impairment in the value of the Group and its ability to attain its goals, as a result of changes in economic parameters in the financial markets and their fluctuations, which affect both its economic value and the regulatory capital ratio.

- **Interest risk.** The risk of impairment, as stated, as a result of parallel and non-parallel movements in the return graph, and the impact of the optionality embedded in different financial instruments.
- **Inflation and exchange rate risk.** The risk of impairment, as stated, as a result of the impact of changes in inflation rate or in exchange rates, including the effect of derivatives and future transactions on the difference between the assets and liabilities.
- **Share prices risk and credit margin in the holding of securities risk.** The risk of impairment, as stated, as a result of erosion in value of securities having a credit risk and in the value of non-financial assets, including funds, due to price fluctuations.

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.

Strategy and Policy

The policy document for market risk management constitutes a framework for the management of the market risks at the Bank and the Group and defines the responsibility and authority of the parties involved in the processes for managing the market risks that the Group accepts.
Management of the risk is intended to minimize, as much as possible, the materialization of unexpected risks and harm stemming from the uncontrolled acceptance of risk.
The policy and the principles in the policy document are on a Group basis, with each of the subsidiaries, on an individual basis, adapting the policy to its own administrative structure, to local regulations and to its business environment. The risks are managed from an overall Group standpoint and within a framework of mandatory professional guidance.
As part of the updating of the market risk management policy, the effectiveness of limitations applying to market risk at the Bank and at the Group is reviewed, including in the trading portfolio, intactness of the exposure population is being examined, while identifying vulnerable areas, and comparison is being made with principal risk indices in relation to the system. Within the framework of updating of the policy in 2021, limitations had been updated increasing the risk appetite in accordance with the Bank's strategic insight, including limitations relating to stress tests.

Risk Appetite

The appetite for market risks, as defined in the policy, reflects the willingness of the Bank and the subsidiaries in the Group to accept market risks for the purpose of achieving their strategic goals. The fundamental concept in managing the risk is that the balance sheet will be managed with the aim of maximizing the economic capital from a long-term perspective, given the risk appetite and subject to accounting considerations and to considerations affecting the capital planning.

The policy defines the quantitative and qualitative limitations in relation to the characteristics of the market risks exposure at the Group companies and in the markets and instruments in which they are active through the banking portfolio and the trading portfolio.

The risk appetite is determined taking into consideration the two measurement approaches – accounting and economic, as well as the various management tools – sensitivity analyses, accounting scenario of an ordinary business situation (intermediate testing), historical VAR model and stress tests, while taking into consideration different time spans – short-term and long-term.

In order to effectively manage and analyze the exposures and to display a concise picture to the decision makers, two categories of risk indices have been defined – primary risk indices, which serve the first line of defense in taking ongoing or periodic decisions regarding exposure scopes, and the additional risk indices, which are the remaining risk indices, that complete and set out the risk picture, in respect to some of which the Board of Directors has set limits, in respect to some, limits are set at division head level, and there are also risk indices which are only subject to monitoring without any limits being set.

The Bank and the subsidiaries manage and monitor compliance with the limits for both the primary risk indices and also for the additional risk indices. Details regarding the scope of the exposures and the limits set will be presented below within the framework of the quantitative disclosure.

Structure and Processes

The market risk management policy defines an organizational structure for managing the risks, which ensures a proper balance and non-dependence among the parties involved in managing the risks. Three lines of defense are defined in relation to the market risks, for the purpose of ensuring this balance, as follows:

First line of defense. The collective Group management of interest, is being conducted by means of Global Treasury at the Financial Markets Division. The Group investment risk management is conducted by the investments unit at the Financial Markets Division. The Group management refers to all market risk acceptors at the Group including the asset and liability management activity, the investment activity and the trading activity at the Bank, at IDB Bank and at MDB. Within the framework of the first line of defense, measurement, control and operating units operate independently from the risk acceptors.

Second line of defense. The risk management function is an independent function and its role is to complement the risk management activity performed by the business lines. This function has the necessary standing and authority to enable it to affect decisions that impact on the risk exposure, including involvement in the main strategic processes that affect the risk appetite, risk identification, mandatory professional guidance for the subsidiaries, policy updates and validation of the principal models used in risk management.

Third line of defense. The internal audit function at the Bank and at the Group companies is responsible for conducting an independent self-assessment of the degree of effectiveness of the implementation of the risk management processes at the Bank and at the Bank Group companies, on the basis of findings from the audits conducted in accordance with a work plan that is approved by the boards of directors of the Bank Group companies.

Management supervision. Current management and supervision in the area of market risks management are performed, inter alia, by the following committees: the assets and liabilities management committee (ALM committee), the Group assets and liabilities management committee and the financial forum.

Mechanisms that enable an immediate response to exceptional market developments

The Board of Directors has approved the plan for strengthening capital adequacy in times of crisis and the plan for dealing with a liquidity crisis. In this context, the manner in which such crises are to be identified and dealt with has been defined, as has the forum authorized to deal with the crises and the powers and tools have been defined, available to it in doing so. Inter alia, it was defined that, where exceptional developments take place in the markets, a special financial forum, to be headed by the Head of the Financial Markets Division or by the Bank's President & CEO, depending upon the severity of the incident, will immediately be convened in order to discuss the market developments and the possible courses of action. The emergency plan also includes a contingency plan for fast reduction of the market risk and the scope of the risk assets.
Within the framework of the ongoing management of market risk, the Risk Management Division measures a large number of indicators in order to identify and give warning of changes in market trends (KRIs, "red lights"). This serves as an additional tool for identifying and giving warning of the development of crisis situations in the markets and a possible change in market risk.

Measurement and Reporting

Measurement of exposure to market and liquidity risks, including the calculation of the main risk estimates is performed by the first line of defense at the Bank on a weekly basis, using a designated system for market risk management.
The second line of defense measures and controls the exposures to market risks in accordance with additional risk indices, using an independent calculation, at weekly intervals for the Bank standalone and at monthly intervals for the Group.
The risk management system is used as a data base for financial data, which contains the financial information regarding the range of financial instruments operated by the Bank, including embedded options, for market data (such as indices, exchange rates and interest rates), their volatility level and the statistical correlation between them, as well as financial and behavioral models. In addition, simulations are conducted through the system on all the transactions at the Bank and Group levels and on activities/portfolios (for trade and banking), and a variety of risk indices are calculated, including the interest exposures (it should be noted that the system is also used to measure the fair value for financial reporting purposes).
This system is also used by MDB in computing its exposure to market and liquidity risks.
IDB Bank. Measurement of the exposure to market and liquidity risks is performed by the first line of defense (Treasury) by means of a designated system for the management of market and liquidity risks. This system is an advanced system which increases the analysis capabilities and enables a monthly monitoring of the central risk assessing factors.
The measurement results are reported on a current basis within the framework of the relevant Management and Board of Directors committees.

Models and Risk Indices

Management of market risks is performed by several models and indices. Internal measurement takes into account factors additional to those that are used for disclosure purposes in the reports published for the public. The main indices in managing market risk have been defined by the Board of Directors. Since the models on which the risk indices are based are dependent on assumptions, the Bank has established a corporate governance structure and a framework for managing model risks, including challenging and validation processes.
The main indices used in managing market risks include indices of economic value sensitivity to changes in interest in various scenarios and an index of accounting value sensitivity in intermediate scenarios.
The additional indices and models include the Value at Risk (VaR), the potential losses in high volatility scenarios (IRRBB), and in Stress Tests, an analysis of anticipated interest income – the NII (Net Interest Income) and in the

Earnings at Risk (EaR). In addition, there are models that express assumptions regarding customers' behavior in various scenarios, including a model for spreading current account credit balances having no maturity dates, and models for estimating early repayments of credits and deposits.

All the risk models and indices are regularly reviewed in an organized manner for definition purposes within the framework of cataloging the models and their validation or independent testing by risk management parties. These processes are carried out in accordance with the Bank's policy on the subject of model risk management, including the validation dates and the frequency thereof that are determined in accordance with the level of risk attributed to each model on a specific basis.

Exposure to Interest Rate Risk

The Tables presented in this Chapter have been prepared in accordance with the principles for the preparation of financial statements, and they differ from the data used for the current management of interest rate exposure.

Quantitative information regarding interest risk – sensitivity analysis

Net adjusted fair value of financial instruments - consolidated

	December 31 2021			December 31 2020		
	Israeli currency	Foreign currency(2)	Total	Israeli currency	Foreign currency(2)	Total
	In NIS millions					
Net adjusted fair value(1)(3)	13,578	5,224	18,802	9,684	5,442	15,126
Of which: the banking book	13,332	5,071	18,403	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 - consolidated

	December 31 2021			December 31 2020		
	Israeli currency	Foreign currency(4)	(5)Total	Israeli currency	Foreign currency(4)	(5)Total
	In NIS millions					
Parallel changes						
A parallel increase of 1%	(466)	102	(364)	(107)	354	247
Of which: the banking book	(449)	106	(343)	(127)	347	220
A parallel decrease of 1%	468	(349)	119	229	(391)	(162)
Of which: the banking book	450	(354)	96	248	(384)	(136)
Non-parallel changes						
Curving(2)	(490)	23	(467)	(387)	38	(349)
Flattening(3)	369	(32)	337	373	(7)	366
Interest rise in the short-term	174	15	189	282	128	410
Interest decline in the short-term	(202)	(167)	(369)	(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.

Israeli currency. As of December 31, 2021, assessment of the effect of a rise of 100 basis points on the capital in Israeli currency amounted to a loss of approx. NIS 466 million, compared to loss of approx. NIS 107 million at December 31, 2020. In the course of the year, the average period to maturity of assets was extended in view of the significant growth in the mortgage loan portfolio and the purchase of bonds for the available-for-sale portfolio and for the held-to-maturity portfolio. These effects have been partly offset due to the issue of a fixed interest bearing debt, the shortening of the average period to maturity of mortgages due to the updating of the rate of early redemptions included in the model, which forecasts their rate, as well as, extension of the average period to maturity of liabilities, due to the updating of the model for the distribution of current accounts. Thus, sensitivity to changes in the interest rate increased by approx. NIS 360 million.

Foreign currency. As of December 31, 2021, assessment of the effect of a rise of 100 basis points on the capital in foreign currency amounted to profit of approx. NIS 102 million, compared to profit of approx. NIS 354 million at December 31, 2020. Most of the difference stemmed from extension of the average period to maturity of MBS, due to the rise in the yield graph in the United States, which had lead to a decline in the rate of early repayments regarding this product. On the liabilities side, a part of the deposits in New York has a ”minimum interest rate” – the lowest rate of interest payable on particular deposits, regardless of the market interest rate. On December 31, 2020, the minimum interest rate applied in the base scenario. However, with the rise in the yield graph, the said deposits drew away from the minimum interest rate and turned sensitive to the interest rate, so that the expense on such deposits increased in the scenario, reducing the profit in the scenario of rising interest. On the other hand, part of the effects described above, were partly offset by the shortening of the average period to maturity of the bond portfolio in Tel Aviv. This change is not being reflected in a scenario of falling interest rates as the minimum interest rate exists in this scenario.

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

	December 31 2021			December 31 2020		
	Interest income	Non-interest financing income	Total	Interest income	Non-interest financing income	Total
	In NIS millions					
Parallel changes						
A parallel increase of 1%	1,216	(72)	1,144	1,000	48	1,048
Of which: the banking book	1,202	(64)	1,138	989	55	1,044
A parallel decrease of 1%	(1,404)	76	(1,328)	(1,174)	(51)	(1,225)
Of which: the banking book	(1,390)	67	(1,323)	(1,164)	(58)	(1,222)

As of December 31, 2021, the estimated effect of a parallel increase of 1% on interest income amounted to an increase of NIS 1,144 million, whereas the estimated effect of a parallel decrease of 1% amounted to a decrease of NIS 1,328 million. This compared to estimates as of December 31, 2020, which amounted to an increase in interest income of NIS 1,048 million, in a scenario of a parallel increase of 1%, and to a decrease in interest income of NIS 1,225 million, in a scenario of a parallel decrease of 1%. 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 2021 stemmed, mainly, from an increase in the volume of current account deposits, which were used as a source for increase credit 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 site of the Israel Securities Authority and on the MAYA site 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.

For details regarding the effect of changes in interest rates on the fair value of problematic debts, see Note 34 c.
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				
	December 31, 2021				
An increase of 100BP in interest rates	(613)	(69)	21	44	(617)
A decrease of 100BP in interest rates	633	114	(259)	(53)	436
	December 31, 2020				
An increase of 100BP in interest rates	(219)	(164)	294	4	(85)
A decrease of 100BP in interest rates	280	146	(353)	(14)	59

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

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

General. On March 20, 2019, the Supervisor of Banks addressed a letter to the banking corporations, in which they are requested to prepare for the anticipated discontinuation of the publication of interest benchmarks existing around the world and their replacement with other benchmarks. On February 13, 2020, the Supervisor of Banks published a letter regarding the disclosure regarding preparations towards termination of the use of the LIBOR interest, 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 has examined the expected effect of discontinuing to publish the LIBOR interest and has implemented the transition to new interest indices in relation to each of the relevant currencies.
In December 2021, the Bank completed its operational and legal preparations for the transition to the new interest indices for the credit products and derivatives. In addition, the loan forms and contracts to be used with the new interests have been updated. The Bank has held training sessions for employees to be able to support customers using foreign currency credit products and has sent notices and announcements to the relevant customers in accordance with the requirements of Proper Conduct of Banking Business No. 250A.

Proper Conduct of Banking Business Directive No. 250A - Transition from the LIBOR interest rate. The Directive published on September 30, 2021, states instructions regarding the preparations to be made in respect of the termination as from December 31, 2021, of the publication of the LIBOR interest rate, including the application of an alternative basic interest rate, treatment of existing agreements, and information/data that a bank has to publish, as follows:

- In deciding the alternative computation method, a banking corporation has to take into consideration the recommendations made by the relevant committees and work teams regarding the different currencies, including the recommendations of the International Swaps and Derivatives Association (ISDA). Furthermore, the banking corporation has to operate fairly.
- In cases where customers being individuals, small or minute business are involved (hereinafter: "consumer customers"), who are party to existing agreements requiring their consent, no early redemption commission may be charged if the customer has chosen to repay the loan instead of changing to the alternative interest rate.
- Consumer customers have to be informed of the transition until October 31, 2021, while all other customers have to be informed until November 30, 2021.
- Managements and boards of directors of banks are required to determine a policy and hold periodic discussions (with respect to the preparations and potential risks).

The Directive took effect on October 14, 2021. The Bank had made preparations for adherence thereto, and had implemented the relevant instructions, including delivery of additional notifications to relevant customers, posting the required contents to the Bank's Internet website, completing and digitalizing the new forms and notices to customers having existing credit/deposits bearing LIBOR interest until October 31, 2021.

Material exposures. The Bank has various contracts that continue beyond 2021 which relate to LIBOR interests.

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

	As of December 31, 2021		As of December 31, 2020	
	Number of transactions	Book value in NIS million	Number of transactions	Book value in NIS million
Loans	1,338	8,924	1,457	8,149
Deposits				
Securities	21	575	35	1,135
Total	**1,359**	**9,499**	**1,492**	**9,284**
Derivatives (volume transactions)	1,239	46,958	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 December 31, 2021		As of December 31, 2020	
	Number of transactions	Book value in NIS million	Number of transactions	Book value in NIS million
Loans	247	720	210	378
Total	**247**	**720**	**210**	**378**
Derivatives (volume transactions)	-	-	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 was discontinued before the end of 2021. As revealed by the data presented above, most of the exposure relates to the Libor dollar interest.

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 32 to the 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 equity as of December 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 IDB Bank, was canceled in the past, 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 Fourth Quarter ended on December 31, 2021			
	in NIS millions			
Segment	10%	5%	-5%	-10%
USD	290	146	(144)	(290)
EUR	14	8	(6)	(13)
Other Foreign Currencies	26	13	(13)	(26)

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 December 31, 2021.

Sensitivity of the capital to changes in the CPI

	For the first Quarter ended on March 31, 2021	
	in NIS millions	
	3%	3%
	83	(86)

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%.

Share Price Risk

Shares Position in the Banking Book

Strategy and processes

Within the framework of the policy for the diversification of investments, the Bank acts in two principal areas:
- Private equity funds, venture capital funds and a fund of hedge funds;
- Direct investments in companies considered as non-financial investments.

For details as to the investment policy and the entities in which the Bank invests, see below "Investments in non-financial companies " under "Activity of the group according to regulatory segments of operation – additional details".

Investments in shares

	December 31	
	2021	2020
	In NIS millions	
Investments in shares of associates(1):		
Non marketable shares	462	348
Shares in the net available-for-sale portfolio:		
Marketable shares	283	92
Non marketable shares	1,330	1,000
Total shares in the net available for sale portfolio	**1,613**	**1,092**
Total investment in shares	**2,075**	**1,440**

Footnote:
(1) For additional information, see Note 15 to the Financial Statements.

Capital requirement regarding share position

	December 31	
	2021	2020
	In NIS millions	
In respect of investments in venture capital funds, in private equity funds and in a fund of hedge funds(2)	230	211
In respect of investments in other shares(3)	135	80
Total capital requirement regarding share position(1)	**365**	**291**

Footnotes:
(1) The capital requirement was computed according to 11.5% and does not include capital requirement in respect of investment in shares in the trading portfolio.
(2) These investments are weighted at risk weight of 150%.
(3) These investments are weighted at risk weight of 100% and 250%.

For additional quantitative and qualitative details about share price 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.

Management of Positions in the Trading Portfolio

The Group distinguishes between exposure created in the course of managing the Bank's assets and liabilities and exposure to trading. Generally, trading exposures exist only at the parent company and they are the result of the Bank's activity as a market maker and are concentrated mostly in the dealing room as part of the activity of the Bank as a "market maker" and the dynamic management of the liquid financial assets portfolio. Occasional trading exposures occur at the subsidiaries in immaterial volume. The trading activity is intended at creating income while creating exposure within the approved risk limits for this activity, and maintaining daily and sub-daily monitoring and control.

As stated, trading activity is mainly focused on the dealing room, which both conducts trading with customers and transactions hedging the risks, and operations to generate profit as part of the management of market risks. In addition, a non-significant trading portfolio exist at the investments unit.
In this connection, it should be noted that the Group investment policy prescribes that the Group should not invest in entities most of whose business is transactions in derivative financial instruments and short selling, such as hedge funds.
The Board of Directors has determined additional sets of limits pertaining to trading activities and to asset and liability management activities. Limitations on various trading activities were determined in terms of scope of activity, and in terms of sensitivity to risk factors including the VaR and the theoretical loss involved in stress tests. The limitations are monitored on a daily and intra-day basis by the control units of the Financial Markets Division. The Head of the Division has set a series of internal limits, within the framework of the limits set by the Board of Directors, aimed at providing advance warning when the Board of Directors' limits are approached and thereby preventing such limits being exceeded.
In 2021, no deviations from limitations set by the Board of Directors were recorded.

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.
Liquidity risk is perceived as one of the material risks for any financial institution. The objective in managing this risk is to avoid a situation in which the Bank will have difficulty in meeting its obligations as a result of unavailability of liquid resources. The underlying assumption is that the materialization of liquidity risk, in most cases, will cause losses because of the need to raise funds at high prices or to realize non-liquid assets at a loss. Accordingly, the Discount Group has formulated a liquidity risk management policy that, inter alia, meets the requirements as set forth in Proper Conduct of Banking Business Directives No. 342 (The Internal Liquidity Model) and No. 221 (Liquidity Coverage Ratio).
In the course of 2021, the Bank prepared for the implementation of Proper Conduct of Banking Business Directive No. 222 for the measurement of the NSFR ratio (regulatory stable funding ratio), which entered into effect on December 31, 2021. The implementation applies at both the Bank and the Group's levels, while defining a measurable and uniform methodology among all the relevant subsidiaries.
The "Liquidity Risk Management Policy" document is updated and approved once each year by the Management and the Board of Directors.
Within the framework of the policy, the following subjects are prescribed: the liquidity risk appetite, including a set of limits, the organizational structure for managing the risk and the core processes both in routine circumstances and on the occurrence of a liquidity event.
As part of the routine management, the liquidity risk is estimated using an internal model for different periods, from one day to one year. The internal model computes the liquidity ratio and the liquidity gaps under various stress scenarios. These scenarios simulate specific liquidity events for the Bank/the Group and various systemic events. In addition, the liquidity risk is also measured by means of the uniform regulatory model (LCR).
In addition to the internal model, over its various scenarios, the Bank makes use of additional indices and tools to monitor the liquidity risk:

- The mix and concentration of the sources, the mix and concentration of the assets, supplementary scenarios for the internal model and a comparison with other banks;
- Within the framework of the current management of the liquidity risk, the Risk Management Division measures a large number of indicators for the purpose identification of and warning against changes in trends of liquidity risk (KRI's; "Red lights"). This being an additional tool for the identification and warning against possible changes in the liquidity position.

The Bank has determined the limitation of maximum exposure to liquidity risk. No deviation from the said restrictions was recorded in 2021.
Within the framework of the periodic updating of the policy document, updates to a number of limitations and indicators had been made respecting the identification of developments of the crisis, while modifying them to the requirements of Proper Conduct of Banking Business Directive No. 222 (NSFR) and of Proper Conduct of Banking Business Directive No. 336 (Management of assets pledged in favor of the bank), which entered into effect on January 1, 2022.

Plan for dealing with a Liquidity Crisis

In Principle 11 of the Basel Core Principles document from 2008, it is prescribed that a banking corporation should have a formal contingency funding plan (CFP) that clearly sets out the strategies for addressing liquidity shortfalls in emergency situations. According to the document, the plan should outline policies to manage a range of scenarios, establish clear lines of responsibility, include reporting procedures, including reporting in the event of escalation, and should be regularly tested and updated to ensure its operational validity.
From the aspect of the Directive, materialization of the liquidity risk occurs in a situation where a banking corporation is compelled to raise funds at high prices or to realize assets at a loss in order to meet its liabilities.
The establishment of an orderly process to deal with possible crisis situations raises the level of awareness and readiness of the various parties in the organization, and hence its importance and contribution in mitigating the risk of crises occurring and in their correct management should a crisis occur. The Bank's Management conducts exercises from time to time to test the contingency plan, while drawing conclusions.
The Bank's CFP clearly describes the range of practical measures required to be implemented in times of emergency. The plan describes the processes and the parties that will be responsible for identifying a crisis situation, for managing the crisis, including prescribing spheres of responsibility and authority, for reporting processes and frequency of reporting, for Group management and coordination, for declaring the restoration of a normal business situation, and for establishing processes for lesson learning. In addition, the plan presents at every level a variety of alternatives for action which require great consideration before their activation, through examining their implications.
The plan for managing a liquidity crisis constitutes a set of defaults and focal points that the organization will activate when a liquidity crisis develops. Nevertheless, it does not constitute an alternative to exercising judgment and taking real time decisions– at the various levels of the Bank's management and which are obligatory given the reality of a volatile and unexpected crisis situation, such as a liquidity crisis.
The main focal points to which the plan provides a solution are:
- Identifying and announcing a liquidity crisis;
- Measures to improve the liquidity level;
- Measurement and monitoring of the liquidity level;
- Advocacy;
- Group management.

The plan differentiates between different types of liquidity crises, including systemic crisis, a specific crisis and a crisis combining different levels of intensity of each type. In addition, the plan needs to address a situation defined as a pre-crisis situation, a situation of higher specific/systemic liquidity risk prior to an event being defined as a crisis event, as well as the transition between different levels of stress or transition between different types of crises. In addition, it provides a response to a liquidity crisis that materializes in a Group subsidiary and risk that impacts on the subsidiaries/the Group as a whole.
The principal aspects of the plan are being reviewed and approved annually, within the framework of approving the liquidity risk management policy document.

Group management

The policy document also regulates the management of the Group liquidity risk. In general, the guiding principle is that the material subsidiaries of the Group will independently manage their liquidity risk with the aid of mandatory professional guidance and in accordance with models approved by the parent company. The internal model of the parent company requires maintaining liquidity in case the subsidiaries' models exceed the thresholds defined in the policy document. The model does not include reliance on the transfer of liquidity from the subsidiaries to the parent company. Most of the liquidity surpluses in the Group are currently concentrated in the parent company.

Reporting

Daily –measurement of liquidity risk is performed on a daily basis by an internal liquidity model and by a regulatory model (LCR), by means of the Bank's market and liquidity risks management system. Measurement results are reported to the risk managers and control parties.
Weekly – a special purpose liquidity forum convenes at least once a week and discusses current liquidity topics. Material effects are reported once a week to the financial forum, headed by the Head of the Financial Markets Division.
Monthly – the Bank's Management reports within the framework of the ALM Committee on the liquidity position of the Bank, the subsidiaries and the Group as a whole.
Quarterly – Managements of the Bank and of the subsidiary companies report to the Group's asset and liability management committee (GALCO) once in every quarter, the liquidity condition of each company, as well as trends and the status of the Group's liquidity situation.

Liquidity Coverage Ratio

As of December 31, 2021, the liquidity coverage ratio of the Discount Group, on the basis of 79 observations average, stood at 123.05%, compared with 147.51% as of December 31, 2020, higher than the minimum requirements according to the instructions. For additional details, see Note 25 to the financial statements, section 3.

Liquidity and the Raising of Resources in the Bank

The year 2021 opened with high liquidity surplus created in 2020 following the Corona crisis. In 2021, this liquidity surplus was used by the Bank principally in order to increase the credit portfolio alongside a more moderate growth in the volume of deposits. During the fourth quarter of 2021, the Bank issued bonds, subordinated debt notes and commercial securities, increasing the Bank's liquidity. (For additional details, see "Issuances" in the section "Management's handling of current material issues" above. The following trends have been noticed during the year:

- An increase of approx. NIS 12.4 billion in the volume of non-linked and CPI linked shekel deposits, comprising a rate of approx. 10.0%, of which an increase in retail deposits of approx. NIS 2.45 billion and an increase in corporate deposits of approx. NIS 4.7 billion. Financial corporations grew by approx. NIS 5.27 billion;
- The amount of foreign currency deposits increased by approx. US$2.9 billion, comprising a rate of approx. 27.6%, of which retail deposits in the amount of approx. US$520 million, nonfinancial corporations grew by US$2 billion, while financial corporations grew by US$327 million. Including the exchange rate effect, foreign currency deposits rose by approx. NIS 9.3 billion.

Transferability of liquidity within the Group is conducted on the basis of transfer prices mechanism and in accordance with market prices. Group companies may not rely in their liquidity model on the transfer of funds from other group companies where no liquidity framework had been defined which is considered in the liquidity model at the counterparty.
During 2021, the Bank maintained liquid assets in a volume larger than that of its liquid liabilities and its internal liquidity model indicated a liquidity surplus.

Analysis of changes during the period in deposits by the public according to linkage terms show that this year foreign currency deposits (mostly US dollars) increased at a higher rate compared to the past. A growth in retail and wholesale deposits was recorded by the Bank during 2021.

Deposits from the public (at the Bank)

	December 31, 2021	December 31, 2020	Change compared to December 31, 2020	
	In NIS millions		In NIS millions	in %
Non-linked shekels	139,403	125,367	14,036	11.2
CPI-linked shekels	9,415	4,769	4,646	97.4
Foreign currency and foreign currency linked shekels	41,182	33,397	7,785	23.3
Total	**190,000**	**163,533**	**26,467**	**16.2**
Foreign currency and foreign currency linked shekels - In US$ millions	13,242	10,388	2,854	27.5

Deposits from Banks (at the Bank)

	December 31, 2021	December 31, 2020	Change compared to December 31, 2020	
	In NIS millions		In NIS millions	in %
Non-linked shekels	7,840	4,958	2,882	58.1
CPI-linked shekels	25	30	(5)	(16.7)
Foreign currency and foreign currency linked shekels	1,106	850	256	30.1
Total	**8,971**	**5,838**	**3,133**	**53.7**

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 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., and also Note 33 regarding Assets and liabilities according to linkage terms and maturity periods.

For additional details regarding financial risk, see the “Disclosure according to the third pillar of Basel and additional information regarding risks” document.

Operational Risks

Operational risk is the risk of loss caused by impropriety or by the failure of internal procedures, individuals and systems or as a result of external events
The operational risk is inherent in all business lines, products, systems and the work processes performed at the Bank. Accordingly, awareness and management of the operational risk at all levels of duty are of importance.
The framework for the management of operational risk includes the policy document for risk management, which is approved once in each year by the Management and by the Board of Directors, and adopted by the subsidiary companies, and the risk tolerance statement, which determines qualitative and quantitative limitations regarding material risks existing at the Bank Group. The Board of Directors recently approved updates to the operational risk tolerance and, within the framework thereof, reducing some of the risk limits. The Group operates an automated system for managing the risk, which measures and assesses the overall operational risks and reports operating failure events in all risk centers.
Operational risks are being managed on the basis of the current identification of processes, risks and controls, as well as on the basis of failure events data base, the monitoring thereof and the drawing of conclusions there from and identification of the factors causing the failure. Moreover, material risks are being reduced by means of the formation of recommended controls, monitoring or transfer to a third party (by purchase of different insurance policies).

Once every three years (or during the three years) a comprehensive operational risks survey is conducted that includes, inter alia, relating to fraud and embezzlement risks, outsourcing and supplier risks, cyber risks and business continuity risks.
In September 2021, an operational risks survey has been started and will continue until the fourth quarter of 2022, focusing on identifying the material risks in the Bank's divisions which could affect the overall operational risk profile. 2021 was characterized by a downward trend in fraud losses due to changes in work processes and strengthened controls.
In addition, there is a continuing trend of applying changes to the work processes and expanding the digital services that the Bank provides to its customers, deriving from the realization of the strategic plan or from new products, as well as from increased efficiency. These changes create potential for increased risk, mainly in the short term. At the same time, management quality is improving, inter alia due to the increase and absorption of awareness for the reporting of events, the strengthening of interfaces and controls and the mechanizing of processes.
No deviations from tolerance limitations to operating risk have been recorded during the year.
Malfunction in the PayBox Application. For details, see the 2020 Annual Report (p. 97).
For details regarding lawsuits filed with respect to the said event and motions for their approval as class action suits, see Note 26 C section 11.6 to the financial statements. For details regarding the Privacy Protection Authority, see "Proceedings regarding Authorities" below.
Business continuity. The issue of business continuity is managed by means of the policy for the management of business continuity, which defines the solution concept for facing a crisis, by means of the business continuity management program (BCM), which is designed to ensure the continuation of the regular functioning of the Bank as regards its business transactions and as regards services defined as essential.
At the base of the assessments for business continuity stands the backup for the vital technological infrastructure established by the Bank, and the providing to customers of supporting layouts and services. Mapping of the business continuity risks and the assessment and monitoring thereof is performed as part of the identification and evaluation of operational risks.
The Corona crisis has placed in front of the Bank many challenges regarding the business continuity world, including distance work, which was implemented at the Bank since the beginning of the crisis, allowing regular work in an emergency format.
Notwithstanding the above, the Bank is preparing for upgrading the business continuity field by means of the updated identification of business impact analysis (BIA) processes, a renewed definition of the operation in period of emergency concept, including integrating cyber aspects and synchronization with financial scenarios and exercises.

Outsourcing and Supplier Risks

Outsourcing and Supplier Risks are managed as part of the operational risk. Against the background of activities being outsourced and due to collaborations that are occurring with non-banking entities in relation to core banking activities, outsourcing and supplier risks require that the monitoring and control processes be upgraded. Preparations for the risk management made by the Bank in accordance with Proper Conduct of Banking Business Directive No. 359A "Outsourcing", include a renewed definition of the policy document and of risk tolerance, devising of a plan for the management of the risk and conducting work processes relating to the identification of a material outsourcing and the manner of treatment thereof, including upgrading the monitoring and control processes relating to such activities, taking a risk-based approach.

For additional details regarding operational risks and the manner of management thereof, see the document "Disclosure according to the third pillar of Basel and additional information regarding risks" available on the Bank's Internet website, on the MAGNA website of the Israel Securities Authority and the MAYA website of the Tel Aviv Stock Exchange Ltd.

Other Risks

Cross-border Risks

The Group's activity with customers in Israel and abroad involves risks stemming, among other things, from exposure to liability for evasion by the Group's customers from reporting and payment of taxes in Israel or abroad, made incidentally to using the Bank's services, as well as the violation of the provisions of foreign laws applicable to the services and products provided by the Group to its customers.

Exposure to cross-border risks has grown significantly in recent years, against the background of adding regulatory requirements, alongside enhanced enforcement in Israel and abroad, applying to financial institutions and their customers, as part of the increased efforts of the authorities in the fight against tax evasion.

Realization of this risk may have considerable implications on the Bank's operations and image. Therefore, as part of the current risk management, this risk has been defined as a separate risk category in the ICAAP process and within the framework of the risk review contained in the Annual Report, and the risk level thereof has been assessed as "medium-high".

Further to the activity carried out in recent years in the Bank and the Group with respect to U.S. customers and other foreign resident customers, concurrently with the developments in regulation and enforcement regarding cross-border risks in Israel and around the world, a Group policy on this matter has been formulated, this risk appetite has been determined and identification, monitoring, control and reporting processes have been added. The action for reducing the Group's international presence, within the framework of the implementation of the strategic program of the Bank, also contributed to the reduction of cross-border risks exposure. In addition, in view of the intensification of regulation and enforcement trend, led by the Tax Authority, relating to funds of Israeli resident customers, the origin of which may be in tax evasion or in income not reported to the Tax Authority in Israel, as required, amendment of the Money Laundering Prohibition Act to include tax offences as a predicate offence, as well as for the purpose of reducing money laundering risks, also in circumstances of a voluntary disclosure process, the Group acts towards the integration of a risk-based approach, for identifying and monitoring accounts and activities of Israeli resident customers, in response to that stated above.

Legislation Amendments in Israel

FATCA. The income Tax Ordinance and the Prohibition of Money Laundering Act, 2000, were amended in 2016. The aim of the amendment to the Income Tax Ordinance is to establish the implementation of the inter-state FATCA agreement between Israel and the United States dated June 30, 2014, and the implementation of the AEOI/CRS information exchange agreements of the OECD. Following the amendment of the Ordinance, the Regulations required under it were also published.

The Act and the regulations detail the identification, regularization and reporting required regarding existing and new customers, including the duty of informing those customers included in the reports, delivery to the Tax Authorities of information which the Authority is required to deliver to the tax authorities of a foreign country. The Act prohibits use of the said information by the Tax Authority for the purpose of enforcing the tax laws, otherwise than the delivery of which to foreign tax authorities for the purpose of implementing the agreement. In addition, the Ordinance determines monetary sanctions in respect of non-requirement of information, the non-examination thereof as required, or in respect of deficiencies in the complete delivery thereof.

The indirect amendment of the Prohibition of Money Laundering Act, amends the definition of "controlling interest" in accordance with the global standards in this respect.

The FATCA regulations require the closing up of bank accounts of those customers who refuse to cooperate with the financial institutions and which had been opened in the transitional period between date of signature of the State of Israel on the FATCA agreement and date of entry into effect of the regulations. A draft of the regulations regarding the closing down of accounts of American customers who refuse to cooperate, was distributed in July 2019.

The Bank implements the legislation requirements relating to the implementation of FATCA in Israel. The Bank has completed the annual report to the Israeli tax authorities in the matter of FATCA for the year 2020.

Automatic exchange of information (CRS). By power of the said amendment to the Income Tax Ordinance, the Income Tax Regulations (Application of a uniform standard for the testing and reporting the propriety of information regarding financial accounts), 2019, were published on February 6, 2019. In accordance with Regulations and the guidelines of the Supervisor of Banks in the matter, the Bank continues in identifying countries serving as tax residence for its customers and in the implementation of the CRS standard, including identification, classification and automatic exchange of information regarding financial accounts of foreign residents. The Bank has completed the CRS annual report to the Israeli Tax Authority in respect of the year 2020.

Information Technology Risks

The IT layout is a central component in the proper operation and management of a banking corporation, in view of the information, including all its aspects and ramifications, having a decisive influence over the stability of the corporation and its development. Information technology risks are risks deriving from the use or the non-use by a corporation of information technology and/or the dependence of a corporation thereon.

Core processes for risk management. The core processes are based on the risk management principles, with adjustments required with respect to the IT world, with a view of enabling efficient focusing on areas and systems identified as having higher risk of disrupting the business activity, maintenance of the fitting of the technological development to the business strategy and to changes in the operational environment, as well as the adequacy of the ability of the technology to recover from crisis situations to the Bank's needs and to the regulation to which the Bank is committed.

Strategic Risk

The strategic risk is being managed by the Discount Group in accordance with the risk management concept of three lines of defense, and the Head of the Planning, Strategy and Finance Division acts a manager of this risk. Challenges of the competitive environment, development of digital banking and expected changes in the concept of operation of the banking industry, constitute a challenge in the management of this risk.

The Bank continues in the advancement of a multi-annual strategic plan, providing response to anticipated challenges and to changes in the competition environment, and which includes diverse projects, the aim of which is to lead improvement in Bank customer satisfaction by means of customer tailored banking. 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.

The plan is examined once a year, with attention being paid to changes in the local and global competitive environment, while studying the need for the updating of focal items and/or introduction of new projects at the Bank and at the subsidiaries.

The Risk Management Divisions at the Bank and at the principal subsidiaries closely accompany material and strategic projects with the intention of verifying the uncovering and reduction of risk issues, including by way of performing new product processes, where required.

Reputation Risk

The reputation risk is being managed by the Discount Group in accordance with the risk management concept of three lines of defense. Due to its importance and complexity, this risk is being managed by the highest echelons in the organization. The President & CEO is responsible for the risk management in times of crisis, and the Head of the Planning, Strategy and Finance Division is responsible for its management in normal times. This, in addition to the responsibility of each member of Management for the field under his control and the functions that support risk management (spokesperson, investor relations, the Regulation Unit, the Officer in charge of approaches made by the public, etc.).

As support for risk management, operates a reputation forum that includes representatives from the principal subsidiaries, which meets on a quarterly basis, discusses internal and external risk issues and monitors indices and indicators regarding various risk areas, which might have possible relation to the reputation risk.

Furthermore, reputation risk management aspects include also preparations for confrontation with different crisis situations, including being a derivative of crisis events having a potential impact of the second order on the reputation of the Group.

Data and cyber protection risks

The principal risks involved in the impairment of data and cyber protection may lead to impairment of the privacy and confidentiality of the information of the Bank, its customers and employees, the realization of cyber threats, hostile use of information by users of the system, distortion of data in the systems, impaired availability and survivability of systems and data, impairment of the Bank's business and its reputation.
For additional details, see above under "Leading and developing risks" and under "Data protection and cyber defense risks" in the document "Disclosure according to the third pillar of Basel and additional information regarding risks".

Environmental Risks

Environmental and climate risks

Recently the topic of environmental and climate risk has received a high degree of focus from the regulatory authorities, who understand that the materialization of environmental and climate risks could affect the banking system and, in extreme circumstances, could even have global and systemic effects. Accordingly, various regulators around the world, including the Banking Supervision Department, are preparing to map the activities relating to this topic in the banking systems towards future regulation in this field.
In 2009, following a regulatory expectation letter concerning this topic sent to the banking system, the Bank's activities in this field were put in order, including as part of the credit policy and as part of the specific credit approval processes.
The Bank has an organized credit methodology regarding environmental risks that is intended to monitor the risk of credit losses that might be caused as a result of provisions pertaining to environmental quality hazards and the enforcement of such provisions (such as a deterioration in a customer's business position due to penalties resulting from non-compliance with the provisions of the law). Within the framework of the methodology, the Bank has defined an evaluation process for the environmental risk level of customers in economic sectors that might be exposed to environmental risks and for the quality of risk management conducted by these customers. This process is conducted upon the granting the credit and at the time of the periodic assessment of the quality of customers and the quality of the collateral and in accordance with the level of materiality.
On December 1, 2020, a letter regarding environmental risk management was sent to banking corporations and credit card companies by the Supervisor of Banks. The Banking Supervision Department views with great importance the promotion of the environmental risk issue, and sees in the banking corporations important partners in the transition to sustainable environmental economy, inter alia, by way of formation of appetite for environmental risk, credit policy, investments, allocating capital to "green" financing and investments, etc.
Within the framework of a Bank of Israel circular dated December 2, 2021 regarding the public disclosure of environmental, social and governance (ESG) aspects, it is necessary – inter alia – to examine the need to expand the disclosure concerning the risks in this field to which the Bank is exposed, including due to developments associated with climate change and transition risks, and in order to reflect material changes in the way that such risks are managed and to include, inter alia, quantitative indices for measuring the exposure to these risks.
The Bank is studying the subject in order to prepare for the rise in level of managing environmental risks, climate risks and transition risks, while examining international management and reporting frameworks.

Legal Risks

A legal risk is the risk of loss, loss of income or damage to the business caused, inter alia, by the absence of power to legally enforce execution of a contract or by ignorance of the provisions of the law or by a mistaken interpretation of the provisions of the law, including principal or secondary legislation, directives of supervisory authorities, etc., requiring the Bank to act in accordance therewith, or from exposure to legal proceedings against the Bank or any of its employees or officers within the framework of their work at the Bank or on its behalf, on the criminal, administrative or civil plain.

The legal risk includes, inter alia, exposure to penalties, fines or other punitive damages, as a result of supervisory enforcement actions as well as private settlements.

According to Proper Conduct of Banking Business Directive No. 350, the legal risk forms part of the operational risk, defined therein as risk of losses due to improper or failure of internal processes, employees and systems, or due to external events.

The principal risk factors for legal risk exposure are: absence of knowledge of the law applying to the operations of the Bank and the Group, mistaken legal advice, activity without legal support, mismatch of standard documents and procedures to changes in the law, non-compliance with the law and/or regulations.

The Bank's operations are regularized by various regulatory directives and by legislative instructions, regulations and rules imposing on the Bank various duties and restrictions on the part of the supervisory authorities to which the Bank is subject in its operations, this, inter alia, due to its status of a "banking corporation". Any action in contravention of these provisions, or the non-implementation thereof, may expose the Bank to legal risks.

The Chief Legal Adviser is the chief legal risks manager at the Bank and at the Group.

The Bank maintains a Group legal risk management policy, which is updated from time to time. The policy was recently updated and approved by the Board of Directors in August 2021.

Within the framework of the policy, it has been defined, among other things, that the management of the legal risk is differentiated from the regulatory risk management, which is to be conducted by the Group Management and Regulation Division of the Bank. Regulatory risk focuses on identifying and monitoring legislation processes and drafts issued by the Bank of Israel, bringing them on time to the attention of the relevant functions at the Bank, in order to appropriately analyze the effect of such processes upon the Bank, and ensure the existence of the required preparations by the Group.

The Bank's legal risk management policy has been adopted, mutatis mutandis, by the principal subsidiaries in Israel and by IDB Bank.

Compliance Risks

Compliance risk is the risk of the imposition of legal or regulatory sanctions, of a material financial loss or of reputational harm, which the banking corporation might sustain as a result of failing to comply with the laws, the regulations, the regulatory directives, the internal procedures and the ethics code that apply to its banking operations.

Prohibition of Money Laundering and Terror Financing

Discount Group's activities with banks acting in the Palestinian Authority. During 2017, different meetings were held between the Bank and the Ministry of Finance, the Ministry of Justice and the Supervisor of Banks with a view of forming tools for the hedge of the risk involved in the provision of services to the banks acting in the Palestinian Authority, through the granting of a letter of commitment not to institute criminal charges and by providing a letter of indemnity in respect of possible monetary claims. During the second quarter of 2018, the Bank received immunity and indemnity letters signed by the State of Israel. In the letter of immunity, the State of Israel undertook not to file an indictment against the Bank, Mercantile Discount Bank, its officers and employees for certain offenses in the area of the prohibition of money laundering and the financing of terror, in connection with the provision of services to the banks acting in the Palestinian Authority during the period from March 28, 2016, until May 31, 2019 ("the period of immunity and indemnity"). In the letter of indemnification, the state of Israel has undertaken to indemnify the Bank and MDB in an amount of up to NIS 1.5 billion for the expenses (liability under a peremptory ruling and court costs), which will be incurred by the banks in connection with the conduct of civil proceedings or criminal proceedings (that had not concluded with a conviction), which will be brought against the banks, their officers or their employees, in connection with the provision of services to banks acting in the Palestinian Authority in the period of immunity and indemnity. The aforesaid immunity and indemnity undertaking from the state was subject to reservations and conditions with which the banks need to comply, and which were specified in the letters of immunity and indemnity.

On June 26, 2018, the Supervisor of Banks informed the Bank and MDB that she would not take any enforcement measures in respect of everything relating to the operation of the banks regarding the correspondence services provided by them to which the immunity letter applies. On October 21, 2018, the Government Secretariat published an announcement stating that the government had decided to establish a government company, wholly-owned by the State of Israel, which will provide correspondence services to the Palestinian banking system via the Palestinian Monetary Authority, using the payments array in Israel, with this replacing to a certain extent the service that some of the commercial banks are currently providing, and in light of their having announced their intention to cease providing such service.

On February 20, 2019, the Director-General of the Ministry of Finance contacted the Bank and informed it, inter alia, that the earliest that the government company would be able to provide services to banks operating in the Palestinian Authority territories would be the first half of 2021, with this being a cautious assessment. The Director-General at the Ministry of Finance emphasized the supreme importance of the Bank continuing to provide – during the interim period until the government company begins its operations –the correspondent services to the banks acting in the Palestinian Authority.

On June 30, 2019, the Bank received a letter of indemnity signed by the Accountant General, which extends the indemnification period through February 28, 2021, which later on, was extended until May 31, 2021. Inter alia, the State has undertaken in the letter of indemnity to indemnify the Bank and MDB in an amount of up to NIS 1.5 billion for each indemnifiable event. Moreover, the State has also undertaken to indemnify the banks for proceedings that conclude in a mutually agreed fine in the United States (without conviction). The State's undertaking of indemnity is subject to qualifications and terms with which the banks must comply, which are similar to the qualifications and terms prescribed in the original letter of indemnity.

Validity of the letters of indemnification and immunity were extended on July 14, 2021 until July 15, 2022. This on the background of the delay in the beginning of operation of the Government company for correspondence, which had been incorporated but has not yet began providing services to banks operating within areas administered by the Palestinian Authority. In light of the aforesaid, the Bank for the moment is continuing to provide services to banks operating in the Palestinian Authority.

Conduct Risk

Conduct risk is the risk created by violation of fairness, decency and transparency values vis-à-vis the Bank's customers, including forbidden discrimination of customers. The risk might materialize as a result of unfair treatment of customers and the harmful exploitation of the corporation's position. The conduct risk, including fairness, decency, transparency and nondiscrimination values, is an integral part of the definition of compliance risk at the Bank, as integrated in the policy document on the matter. The Bank acts constantly to integrate these values within the array of relevant processes and increases the awareness of its employees to their importance.

Risk Factors Table

Banking corporations in Israel are required to present the risk factors in the framework of the annual report and to classify according to categories their impact on the business of the banking corporation, to the extent possible in respect to each risk factor. The Group uses a five grade evaluation scale for the rating of the impact of each risk (High, Medium-High, Medium, Low-Medium and Low).

Within the framework of risk management processes at the Discount Group and in accordance with regulatory requirements in the matter, mapping, identification, analysis and evaluation processes are conducted in respect of the risks to which the Group is exposed, in accordance with an orderly Group methodology for the evaluation of the risk profile as part of the capital adequacy assessment process. At the base of the assessment, the Bank tests the implications of changes in the risk environment, in the inherent risk, in risk centers, in the quality and effectiveness of the risk management processes and in the control environment, the examination of implications from a forward looking view and more.

All these, as well as the methodology that had been formed for the assessment of the risk profile comprise, among other things, a basis for the assessment of capital requirements coinciding with to the Group's unique risk profile.

Due to the complexity of the risks discussed, as well as the ability to assess their impact, the Group uses various assessment tools, including expert assessment, risk cards, models and stress tests, which include different assumptions regarding the impact of exposure, the magnitude of future events and the probability that such events would materialize. Notwithstanding, no standardized objective grading exists for the conversion of the results received by use of the assessment tools, as stated, to the categories used in the table. It is also noted that each risk factor is tested independently of other risk factors, which are detailed in the Table.

In view of that stated above, it is emphasized that the assessment of the impact of each risk factor is a subjective assessment made by the Bank's Management, of the material risk factors and their impact, in accordance with the unique characteristics of operations of the Discount Group, and therefore, extra care should be taken in examining the impact of the risk factor, as stated in the table, and in comparing this data with that of other banks.

The Corona crisis and its domestic and global implications have led to an increase in risk in most of the managed risk areas.

Risk Factors Table

Risk factor	Risk Factor Impact	Basing the assessment
1. Risk environment[3]	High	The Corona crisis and its local and global implications, as well as the developing crisis in the Ukraine led to growth in the risk environment, due to the material and continuous implications on the economy and the banking system, as well as the continuous uncertainty that might be reflected also in the coming years. The Bank conducts a follow-up of the implications of the crisis events on the Bank and on the Group companies, including the monitoring and control of risk centers impacted by the different events. Challenges relating to the competition environment continue, mainly in consequence of entry of new competitors, technological developments, extended cooperation with third parties, changes in the labor market and the multitude of regulatory challenges. In addition, regulatory actions and regulatory emphasis on fairness, transparency and privacy protection aspects continue. Cyber and data protection risks continue to comprise a threat to the financial system, also due to distance work, increased use of the digital channels and the continued attack attempts directed against the financial system. Within the internal risk environment, the continuation of monitoring and control over the stabilization of the implications of retirement process and the organizational changes made, as well as the preparations for the relocation to the Discount Campus, as from the end of 2022.
2. Overall impact of credit risk	Medium-High	On the background of the crisis, the evaluation of the impact of the risk was raised in 2020 to a "Medium-High" level. On the one hand, vis-à-vis the growing competition and the implications of the Corona crisis and on the other hand improvement in the quality indices of the portfolio and the emphasis put on housing credit. The Bank is expected to continue implementing the growth strategy, in accordance with the strategic plan, alongside the continuing management and close monitoring of the risk in the credit portfolio and adjustments of the risk appetite, in accordance with developments and various events. Concurrently, improvement and strengthening processes were made during the year with respect to models supporting the granting of credit. In addition, computerization of processes supporting "click" banking and open banking based on the credit data base continued.
2.1 Quality of borrowers and collaterals risk	Medium-High	The Bank conducts monitoring and control at all business lines, adjustments of policy and of the risk appetite, use of advanced tool for analyzing and examining stress tests, as part of the risk management.

3 Relates to the evaluation of the risk environment impacts: domestic, global, the local and international competition environment and the regulatory risk environment.

Risk Factors Table (continued)

Risk factor	Risk Factor Impact	Basing the assessment
2.2 Industry concentration risk	Medium	The Group complies with the regulatory restrictions. During the year 2021, exposure of the Bank to the construction and real estate sector had grown, with a focus on financing residential building projects and the purchase of land for building. The Bank monitors and closely follows the growth in exposure, inter alia, in respect of new transactions having increased risk, and where required, the Bank has made adjustments to the group allowance. It is noted, that significant growth regarding this sector was recorded in the banking system as a whole, accompanied by increased competition. It is further noted that the Bank has increased the insurance coverage and that the rate of the Bank's exposure to credit in the construction and real estate sector (for the purpose of computing sectorial centralization) dropped in the recent year from 19.41% to 17.12%.
2.3 Borrower/groups of Borrowers concentration risk	Medium	The Group complies with the regulatory restrictions.
3. Overall impact of market risks	Low-Medium	Monitoring and reporting is conducted at Group level regarding developments of financial risks. Improvement took place in 2021 in the quality of risk management (upgrading of models and stress tests, as well as the continuing improvement in monitoring and reporting).
3.1 Interest rate risk	Low-Medium	The scope of interest exposure (both economic and accounting) regarding the Bank's equity remains within the risk appetite framework similarly to the banking system as a whole. Monitoring of the economic sensitivity to the rise in the interest rate is conducted, inter alia following the expansion of the mortgage portfolio as part of the business strategy of the Group.
3.2 Inflation and exchange rate risk	Low	Maintaining a low exposure level alongside the strict monitoring of its effect.
3.3 Share price and credit spreads risks relating to the holding of securities	Low-Medium	Continuing the monitoring of the adherence to Group restrictions, while adapting them to the investment strategy and to the policy documents.
4. Liquidity risk	Low	The Group continues to enjoy steadfast liquidity both in shekel and in foreign currency. The Bank has raised resources on the capital market in the amount of approx. NIS 4.6 billion, as support for the speedy expansion of the Bank's credit portfolio. The Group applies clear financing strategy and policy. This, alongside the continuous improvement of tools and models supporting risk management at the Group aspect.
5. Operating risk	Medium	The risk level has reverted to its pre-crisis level on the background of the stabilization of the effect of business, organizational, processing and regulatory changes upon the control environment. Automation, digitation and implementation of computer systems processes continue. These support improvements in the control environment and in the risk management capabilities. The effects of the crisis and the competition on the labor market and the ability to recruit and preserve suitable professional manpower, comprise a challenge as regards the aspect of recruitment and preservation of manpower. The year 2022 would be dedicated to making preparations for the relocation to the Discount Campus, including management of the change, with a focus on supporting preparations for adapting processes to the new work environment. Continuing the improvement of the Group's organizational robustness regarding business continuity risk management, by applying an operation perception, formation of infrastructure supporting management of BIA processes and strengthening the Group exercises program.
6. IT risk	Medium	The Bank continues the realization of a computer plan, which is compatible with the strategic focal points which is tested and updated by periodic prioritization processes, with continuous improvement of monitoring and control processes and the strengthening of infrastructure and technological redundancy and improvement of tools and methodologies supporting the risk management. In view of changes in the labor market, challenges exist regarding qualifications, recruitment and preservation of technological manpower. In addition, challenges exist stemming from the technological preparations required for the relocation to the Campus. Preliminary preparations had been made with respect to extended supply times, shortage of components and rising prices.

Risk Factors Table (continued)

Risk factor	Risk Factor Impact	Basing the assessment
7. Data protection and cyber risks	Medium-High[4]	The increased threats and the growing force, ingenuity and complexity of cyber events around the world continue. The Group continues to allocate significant resources for the reduction of exposure, which includes: the focusing on stronger protection of the network and its components, improvement of forestallment and monitoring tools, improving the ability to contain and manage events, management of cyber risk applying to the supply chain, reducing exposure applying to money outflow routes, central management of authorization concepts, and more. At the same time, the Bank continues to develop aspects of policy and risk appetite, including determination of indicators and thresholds in qualitative and quantitative terms, alongside the conduct of exercises and improvements in the security layout and data protection at the Bank and at the Group. The strengthening continues of the Group risk management activities in the second and third defense lines.
8. Legal and regulatory risk	Medium	The trend continues of abundant legal and regulatory directives alongside an increase in the number of enquiries in this matter received from regulatory authorities which require preparation and input allotment. The quality of management is being constantly improved, including adaptations made to the organizational structure and capabilities and the increased use of outsourcing.
9. Cross-border risks	Medium-High	The continuing intensification of the foreign and domestic regulation, alongside the enlarged enforcement and the continuing exchange of information between countries with respect to tax evasion within the framework of investigation processes. The Group continues preparations for regulating the activity in respect of providing banking services having foreign connections and invests in mechanization and in the introduction of changes in the Bank's systems, in support of the FATCA, CRS and QI requirements.
10. Compliance, Money Laundering and Financing of Terror risks	Medium	The load of regulatory requirements together with challenges regarding the prohibition of money laundering, privacy protection, fairness and decency, and aspects of competition and international regulation. The Group continues in gathering resources improving the quality of compliance risk management, including: integration of a new compliance system, change in the operating concept of compliance officers at the branches, while strengthening the second line independent control lineup, advancement and integration of the compliance culture, while emphasizing training and application of controls in a risk based approach and the integration of fairness and decency aspects in the processes of credit sales and debt collection, in all Group companies. As regards money laundering prohibition aspects, continuation of the work regarding improving risk management capabilities through integration of technological models and tools and strengthening supervision over the Group. Also follow up and examination of changes made to the operating concept at the Bank and at MDB.
11. Reputation risk	Low-Medium	Continuing the implementation of the strategic plan, at the center of which is the leading and improvement of customer experience. This matter is found at a high management interest level and is supported by a crosswise organizational plan with a communication and marketing presence. In addition, the Group leads efficiency plans at all Group companies intended to improve the efficiency ratio.
12. Strategic risk (including risk of the business model)	Medium	The Group continues in its growth strategy and in implementing new strategic projects intended to provide response to the significant challenges and to the changes in traditional banking, by implementing new banking and by strengthening the Group's abilities. Updated strategic plans for the Group companies have been approved towards the end of 2021. Within the framework of the new banking route, diverse initiatives are being promoted in the area of open banking, cooperation with fintech companies and the conversion of PayBox into a digital wallet. This, alongside the continuing implementation of efficiency measures, which include retirement of employees, process efficiency, digitalization and mechanization of processes. The strategic plan continues to be managed from a Group viewpoint.

4 Evaluation of the risk impact derives mostly from the identification of risk as developing and system risk and as a derivative of an increase in their risk environment, and not on the background of identification of risks that are singular to the Group.

Risk Factors Table (continued)

Risk factor	Risk Factor Impact	Basing the assessment
13. Model risks	Medium-High	The Group operates according to a multi-annual work plan for the development of advanced models, as well as the continuing improvement of tools and methodologies supporting model risk management. With the beginning of the implementation of the CECL Regulation there is a growing reliance on models, and accordingly work plans have been accelerated for the development and updating of models in the credit field and their validation. In the meantime, the Bank continues to monitor and deal with the implications of the Corona crisis upon the validity of the different models, as well as manage the work plans for the development and validation of the models, with a risk based approach. Adjustments were made in the course of the year to the policy supporting the risk management in view of the lessons learnt from the implications of the crisis. Evaluation of the risk will be tested by the next ICAAP.

As stated, the assessment of the impact of the different risks is conducted within the framework of the capital adequacy assessment process (ICAAP). Environmental and climate risks are yet to be assessed in 2021 within the framework of these processes, and accordingly, their impact is not presented in the Table.

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

Critical Accounting Policies and Critical Accounting Estimates

General

The Bank's financial statements are prepared according to generally accepted accounting principles (summarized in Note 1 to the financial statements) 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 field in Israel. The instructions and guidelines of the Supervisor of Banks are comprehensive, detailed and sometimes even dictate the wording to be used by banking corporations. Nonetheless, there are areas where application of the accounting policy involves a high level of evaluation and assessment performed by Management of the banking corporation in the course of preparation of the financial statements.
Application by Management of the accounting principles and the instructions and guidelines of the Supervisor of Banks, requires sometime 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.
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 information and professional judgment.
Following is a summary review of evaluations and assessments made as regards "critical" matters.

Allowances for Credit Losses

The process of assessing the loss inherent in the credit portfolio, as described in Note 1 D 4 regarding the accounting policy, is based on significant assessments involving uncertainty, and on subjective assessments, both at the stage of identifying and classifying the debts and at the stage of measuring the allowance for credit losses. A change in assessments or in estimates may have a material effect on the allowance for credit losses as presented in the Bank's financial statements.

The Bank examines the overall adequacy of the allowance for credit losses. The adequacy evaluation, as stated, is based on the judgment of Management, which takes into consideration the risks inherent in the credit portfolio and in the evaluation methods applied in the determination of the allowance.

For details regarding the accounting policy, see Note 1 D 4 to the financial statements. For details regarding the credit and its quality, see Note 31 to the financial statements. For details regarding the overall credit risk for which the Group is responsible in respect of problematic borrowers, see above under "Structure and Developments of Assets, Liabilities, Capital and Capital Adequacy". For details regarding the credit risk management at the Bank, including 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 (CECL), see "Credit risks" above in Chapter C – "Risks review" and in the document "Disclosure according to the third pillar of Basel and additional information regarding risks".

Allowance for credit losses – allowances on a group basis

As stated, 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 during 2021, 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. However, the fifth wave - the "Omicron", hit toward the end of the fourth quarter of 2021. The significant rise in the current wave's morbidity has led to hundreds of thousands having to isolate and the absence of large numbers from their workplaces, which might impact the economic activity. In addition, the scope of the compensation to be granted, if at all, is unclear. Concurrently, Israel and the world have seen a trend of returning to normality, and the establishment of a routine alongside the pandemic.

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.

During 2021, due to the improvement in the state of the economy, the Bank has reduced the buffer of the allowance provided in light of the crisis in 2020. In addition, in light of the decrease in the number of deferrals and in light of the comprehensive classifications made in previous quarters, it was decided to lift the classification to borrowers that had resumed making three consecutive repayments, and which do not have negative markings.

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

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

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

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

Sensitivity tests. In accordance with the guidelines of the Supervisor of Banks, the Bank has assessed the effect of changes in the principal macro-economic parameters, which may be reasonably assessed, on the computation of the group allowance as of December 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 10.2% and growth in the product at a rate of 6.5%[5], 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 2022 and a reduction of 2.0% in the GDP at the end of 2022, would cause an increase of between NIS 200 and 220 million in the allowance for credit losses.

The Bank estimates that a decrease of 2.0% in the average unemployment rate during 2022 and additional growth of 2.0% in the GDP at the end of 2022, would cause a reduction of between NIS 140 and 170 million in the allowance for credit losses.

It is emphasized that the actual allowance is affected by many and different variables, sectorial and macro-economic, as well as subjective assumptions. Moreover, sensitivity tests are intended to examine changes in prevalent and normal reality situations, and their validity deteriorates in situations of extreme uncertainty, such as the Corona crisis. In view of the above stated, the forecasting ability of the sensitivity calculation of the allowance required in actual fact, given the economic parameters at the rates stated above, is rather limited. It is further emphasized that these effects are not linear, and therefore it is not possible to draw from the above assessments the effect, which another change in the principal economic parameters mentioned above, might have.

It is further emphasized that in the absence of a defined and uniform model for the assessment of the group allowance required in circumstances of uncertainty, as described above, and in view of the fact that in the circumstances of the matter, the process of determining the allowance involves assessments and subjective assumptions, extra caution should be taken when examining the sensitivity tests presented above and when making a comparison of the matter between banks.

Contingent Liabilities

The accounting treatment of contingencies is implemented in accordance with the U.S. Standard ASC 450 and its related guidelines, and in accordance with the guidelines and clarifications of the Supervisor of Banks, including public reporting directives in the matter of "Accounting for Contingencies". In assessing the required allowance, it is necessary to examine the probability of a loss and to assess its amount. These evaluations affect both the duty itself of creating an allowance in respect of the claim and the mode and scope of the disclosure in the financial statements.

For the purpose of assessing possible losses as a result of actions filed against the Bank, the Bank's Management and the managements of other banks and companies in the Group rely on opinions of Counsels representing them in these matters. In the nature of things, such opinions are subjective and face objective evaluation difficulties. Such difficulties grow immensely in cases of class action suits.

5 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.

Accordingly, it is possible that the actual results of certain of the actions would be different from those estimated based on the opinions of Counsels. In view of the volume of actions pending against the Bank, other banks and companies in the Group, it may transpire that the non-materialization of such estimates would have a material effect on the financial results of the Discount Group.
The Bank is exposed to unasserted claims. In assessing the risk associated with unasserted claims/lawsuits, the Bank relies on internal assessment by the handling entities and by Management, which weigh the estimated probability of a claim being made, the chances of such claim, if made, to prevail and any settlement payments. Such assessment is based on past experience with regard to similar claims filed, and on an analysis of the actual allegations. By nature, in view of the preliminary stage of inquiring of the legal allegation, the actual outcome objective difficulties exist, which may result in the impossibility of making an assessment. Even if an assessment is made the actual outcome may differ from assessment conducted prior to filing of the claim.
It should be noted that where the Bank is one of the defendants in an action, and the claimants have not attributed an amount to each of the defendants, the evaluation of the claim amount relevant to the Bank has been made to the best of ability, taking into account that consideration of the total amount might mislead and is incorrect in the circumstances, and that the evaluation does not necessarily represent the allocation as finally determined by the Court.
For details of material legal actions pending against the Bank and against other companies in the Group, see Note 26 C sections 10-11 to the financial statements. For details as to additional proceedings and claims settled during the year, see "Legal proceedings" in Chapter "Corporate governance, audit and additional details regarding the business of the Banking corporation and management thereof". For details regarding the criteria relating to the disclosure of legal actions and the accounting treatment adopted in their respect, see Note 1 D 16 to the financial statements.

Impairment of Available for Sale Bonds

According to directives and guidelines issued by the Supervisor of Banks and to accepted accounting principles applying to banking corporations, unrealized gains or losses on adjustment to fair value of available for sale bonds, net of the tax effect, are directly recorded as a separate item in equity within the framework of other comprehensive income, and are taken to the statement of profit and loss in certain cases, including upon realization of the securities. Unrealized losses recorded as a separate item in equity within the framework of other comprehensive income, are losses of a temporary nature only. Other than temporary losses (OTTI) are taken directly to the statement of profit and loss.
The Bank's management is therefore required to examine and evaluate the nature of losses accumulated in respect of the said bonds.
For the purpose of determining the nature of losses accumulated in respect of bonds as above, Managements of the Bank and/or of the relevant subsidiaries, base themselves on the bond's various characteristics on which losses have been accumulated and on the company that had issued this bond, such as: The loss rate in relation to cost/amortized cost, the period in which the fair value of the bond was lower than its cost, the credit rating of the bond and changes that had taken place in its rating and attributing impairment to the deterioration in the financial condition of the issuer or to market conditions as a whole, etc.
The said characteristics and assessments are to a large extent subject to subjective judgment and accordingly changes in assessments, assumptions and features upon which they are based may have a significant effect upon the financial statements.
For further details, and including the criteria, the fulfillment of which would require recognition of impairment other than temporary, see Note 1 D 5.7 to the financial statements.

Measurement of Financial Instruments according to their Fair Value

Directives of the Supervisor of Banks. The Bank implements the directive regarding Measurement of fair value based on the U.S. financial accounting standard ASC 820. Fair value is defined as the amount that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between voluntary seller and voluntary purchaser at date of measurement. Among other things, the Standard requires that for the purpose of assessing fair value maximum use should be made, to the extent possible, of observable inputs, while reducing the use of unobservable inputs. Observable inputs reflect information available on the market, received from independent sources, while unobservable inputs reflect the assumptions of the banking corporation.

ASC 820 details the hierarchy of measurement techniques based on the question whether inputs used for the determination of fair value are observable or unobservable.

These types of inputs create a fair value grading according to levels: 1, 2, and 3. For additional details, see Note 1 D 7.

Determination of the fair value of financial instruments of level 2 and level 3, is based upon estimates and assumptions relying, among other things, on subjective considerations. Accordingly, a possible deviation in the said estimates and assumptions may change the fair value of the financial instruments.

For additional details regarding the distribution of the fair value of financial assets and financial liabilities measured at fair value, based on the scale of quality determined in the Standard see Note 34 to the financial statements.

The assumptions, according to which the Bank had classified assets and liabilities to the various quality groups, as detailed above, included:

- In the highest quality group (Level 1) are included financial instruments and derivative financial instruments, traded on an active market (typified by a large number of participants and by a high trading turnover), the prices quoted thereon reflect actual market price;
- In the medium quality group (Level 2) are included financial instruments that are not traded on an active market, the fair value of which is based on quotations received from independent entities (hereinafter: Instruments, the fair value of which is determined by "pricing services"), and assessment models, all significant data used therein are observable in the market and are supported by observable market inputs. The financial instruments (including derivative instruments) the fair value of which is determined using "pricing services" include non-marketable securities denominated in Israeli currency and bonds of foreign financial institutions, corporations and governments;
- In the lowest quality group (Level 3) are included derivative financial instruments, the fair value of which is determined based on significant unobservable inputs included in the assessment model.

This class includes also significant derivative financial instruments, the adjustment for credit risk in respect thereof is not based on observable inputs.

For details regarding transfers between levels of fair value hierarchies, see Note 34 G to the financial statements.

As seen from the data presented in Note 34 E 1 to the financial statements, the ratio of instruments classified to Level 3, to the total of assets and liabilities in respect of derivative financial instruments, was 16.4% at December 31, 2021, compared with 12.9% at December 31, 2020.

The income on assets and liabilities, measured recurrently on the basis of fair value, included in level 3 in Note 34 F (1), amounted to NIS 294 million in 2021, compared to an income of NIS 670 million for 2020.

Estimate of fair value of securities. Securities, excluding bonds held to maturity, are stated in the balance sheet at fair value, except for shares and option warrants in respect of which fair value is not readily available, which are stated at cost. Differences between the fair value and the stated cost of securities available for sale, are recognized in a capital reserve.

The market value of securities traded on an active market and which have a market price, represents their fair value.

The stated fair value relating to securities which are not traded on an active market and which do not have a market price, is a calculated fair value as explained hereunder.

The fair value of bonds issued by foreign financial institutions, corporations and governments is based on price quotations by international providers of securities prices that are independent of the Bank, and independent of the issuing entities as well as the marketing entities. These providers are leading international companies that provide price quotation and evaluation services to hundreds of leading financial institutions around the world. For control purposes the Middle Office performs crosschecks of securities prices, as received from the provider with those published by the Bloomberg system (financial data system) and as the case may be, also to broker quotations that are not the issuers of the securities (in the case of a material change in the monthly level), which comprise an indication of the price for the execution of the transaction. Whenever differences arise between the valuation of the provider and prices quoted by brokers, the matter is brought before the control committee, which decides as to the fair value of the security.

Calculation of fair value of Israeli currency non-marketable securities is performed by the present value of future cash flows method, on the basis of the discount interest rate obtained from a quotation company (elected by the Capital Market, Insurance and Savings Division at the Ministry of Finance). For control purposes, the Middle Office performs, to the extent possible, tests which compare the resultant fair value amount with prices of other marketable securities of the same issuer or similar securities traded on the market. Furthermore, an examination is performed of the reasonableness of changes in fair value, including in relation to quotations of recent known transactions.

Estimate of fair value of derivative financial instruments. The Bank is active to a considerable extent in the derivative financial instruments field, which are presented in the financial statements on a fair value basis as different from the accrual basis. Where the derivative financial instruments are traded on an active market and have a market value, then the market value represents their fair value.

Where the derivative financial instruments are not traded on an active market and do not have a market value, fair value is assessed by means of accepted models for the pricing and revaluation, which take into account the risks inherent in the instrument, such as: the present value of future cash flows expected to be received from the instrument, the Black and Scholes model, etc.

The calculation of the fair value of derivative financial instruments, in respect of their foreign currency component, is based on interest rates and prices prevailing in the international money markets, and with respect to their Israel currency component, on non-linked interest rates and linked interest rates, determined by the Bank's asset and liability management department and through the Bank's dealing room, as the case may be, taking into consideration market prices, liquidity and the existing trading level in the local market. The margin between the sales interest rate and the purchase interest rate comprises a subjective factor, which affects the computation of the fair value of derivative financial instruments.

The fair value of options is based, for the most part, upon the Black and Scholes Model and it is being affected by the volatility inherent (standard deviations) in exchange rates, interest rates and by the indices relevant to the option bought or written by the Bank. The volatility data of the foreign currency to Shekel exchange rate and of foreign currency to foreign currency exchange rate are determined by the Bank's dealing room in accordance with the money markets and are supervised by the Middle Office, being compared with several sources of information.

Establishing the model to be used in computing the fair value of derivative financial instruments, the pricing methodology and the computation of fair value amount, is the responsibility of the Middle Office, serving as a factor independent of the business units that execute the transactions (hereinafter: "the factor responsible for determining fair value"), by using designated systems (hereinafter: "process of determining fair value"). For derivative financial instruments the volume of transactions therein is material, the process of determining fair value is validated and verified by the department in charge of evaluation of market and liquidity risks at the Risk Management Department, which functions at a suitable professional level and serves as a factor independent of the factor responsible for determining fair value. Validating the said process includes an examination of the compatibility of the model to the type of instrument in question, the fairness and reasonableness of the parameters used in determining fair value, the reasonableness of the resultant fair value amounts, sample examinations of the computations, etc. Validating the models used for the computation of fair value is performed at least once a year, or whenever a material change takes place in the process of determining fair value. The validation process, which mostly includes the reasonableness tests and the sample computation tests, is performed once in every quarter. In addition to the verification and validation process, control measures are being adopted by the Accounting Division in order to secure the appropriateness and fairness of the fair value of all derivative financial instruments.

An interface exists for the transfer of the results of the validation and verification between the Middle Office and the Liquidity and Market Risks Evaluation Department. In case of disagreements between the said factors, the matter will be brought for discussion in the Control Committee (a committee in the Risk Management Division, in which a representative of the Accounting Division also takes part).

In addition, the Bank performs on a current basis an assessment and examination of the risk pertaining to the process of determining fair value. Within this framework the Bank has defined a limitation whereby it would not enter into a transaction involving a new type of financial instrument in a material amount, and would not increase the amount of an existing type of instrument, unless a structured process exists in respect thereof for determining fair value at a reasonable level of assurance (hereinafter: "the exceptional instruments"). It is noted that, in general, the Bank does not engage in transactions involving instruments in respect of which there is insufficient liquidity in the market, except for back-to-back transactions.

Notes 28 and 34 to the financial statements includes comprehensive data regarding the Bank's derivative financial instruments activity and information regarding fair value of these instruments, according to the type of instrument.

The credit risk. In measuring the fair value of a debt, including derivative instruments that had been issued by the Bank and are measured at fair value, the Bank reflects credit risk and non-performance risk. For additional details regarding the manner of assessing credit risk, see Note 1D 7 to the financial statements.

Where in respect of the exposure, satisfactory liquid collateral exists that specifically secures the derivative instrument at a high level of legal certainty, the Bank assumes a zero inherent credit risk, and does not make adjustments to fair value in respect of the credit quality of the counterparty.

The Bank conducts reasonableness tests with respect to assessments of credit risk, which include also the testing of exceptional ratios.

Adjustment of the credit risk relating to assets and liabilities in respect of derivative instruments, resulted in 2021 in a gain of NIS 4 million, compared to a loss of NIS 20 million in 2020.

Details regarding the adjustment of the assets and liabilities in respect of derivative instruments

	December 31, 2021	December 31, 2020
	in NIS millions	
Assets in respect of derivative instruments	5,529	6,410
Adjustment in respect of credit risk regarding assets relating to derivative instruments	(40)	(20)
Liabilities in respect of derivative instruments	6,328	7,375
Adjustment in respect of credit risk regarding liabilities relating to derivative instruments	(8)	16

In addition, the Bank performs reasonableness tests of the results obtained from the internal evaluation of changes in market spreads, and perform the necessary adjustments, as the case may be.

Employee Rights

The Bank applies U.S. accounting principles as regards employee rights. For additional details, see Note 1 D 15.1. The Bank recognizes amounts relating to pension and severance plans and other post retirement plans on the basis of computations that include actuarial and other assumptions.

Certain aspects regarding the implementation of the accounting policy. As stated, the use of actuarial computations requires use of statistical tool and assessments as regard the future and is based on past experience and on the limitations determined in this respect by the Bank's Management. The limitations determined by the Management are detailed in Note 1 D 15.7 to the financial statements.

The actuarial computation is based on several parameters, including: life expectancy, retirement age of employees prior to the retirement date, the rate of employee retirement prior to the prescribed retirement date, the rate of increase in salary anticipated and the discount rate. These parameters were determined, inter-alia, based on forecasts prepared by the actuary and the experience accumulated in the Bank. The actuarial computation was based on a computed discount rate, in accordance with instructions of the Supervisor of Banks.

Furthermore, implementation of the accounting policy involves assessments and judgment with respect to the following matters:

- The definition of return to maturity of Israeli government bonds, relevant to the determination of the discount rate, taking into consideration, among other things, the average period to maturity of the liabilities in respect of which the actuarial computation is made;
- Definition of the spread added to the basic return, as stated, being an assessment of the risk rate, based on relevant U.S. securities data, as defined in the instruction;
- In each year, it is required to assess the forecasted return on assets of the plan for the coming year. The difference between the computations based on the most recent assumption of return and those based on the actual return in the reported period, shall be included in other comprehensive income and taken to the statement of profit and loss in accordance with the assessed average period of service. (It is noted in this respect, that the format of this treatment may result in certain fluctuations in the reported annual profit, including in respect of changes in the assessment of the average service period).

Updated actuarial opinion. The Bank has ordered an updated actuarial assessment as of December 31, 2021. The actuarial opinion also includes a computation of the actuarial provision amount for severance pay that would have been required were the cap rate to be determined in accordance with the Israeli Securities Authority's "deep market" guideline.

The actuarial assessment as of December 31, 2021, as compared to the assessment at December 31, 2020, has been mainly affected by the decrease in the discounting rate. The principal change stemmed from a decrease in the rates of yields to redemption of CPI-linked governments bonds and from a slight decrease in the international margin. For additional details, see Note 1 D 15.7 and Note 23 to the financial statements.

Presenting the actuary's opinion for perusal. The opinion of the Actuary[6] is available for perusal on the MAGNA website of the Israeli Securities Authority, on the MAYA website of the Tel Aviv Stock Exchange Ltd. and on the Bank's website, together with the Bank's 2021 Annual Report (this Report).

Possible impact of changes in parameters and in assumptions. For details regarding the effect of a change of one percentage point, in the capitalization rate, in the rate of retirement and in the rate of increase in remuneration, on the liability for the forecasted benefit, before the tax effect, see Note 23 C to the financial statements, section 3.2.

Examination of impairment in value of non-financial assets

The Bank's Management examines from time to time whether circumstances exist requiring provisions for impairment of non-financial assets owned by the Bank. The said evaluation, by its nature, involves assumptions and estimates which retroactively might appear biased.

Impairment of costs of internal development of computer software. Examining the existence of impairment with respect to the own development of computer software shall be made also where the signs noted in the generally accepted accounting principles for banks in the United States. For additional details regarding the said indicators, see Note 1 D 13 to the financial statements.

The written down balance of in-house software development costs amounted at December 31, 2021 to NIS 1,012 million (December 31, 2020: NIS 970 million).

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

Controls and Procedures

Disclosure controls and procedures. In the spirit of Section 302 of the Sarbanes-Oxley Act of 2002 and the instructions published in accordance therewith by the SEC in the United States, the Supervisor of Banks issued a directive regarding a declaration as to disclosure in quarterly and annual reports of banking corporations.

In order to establish these declarations, the Bank has examined the principal processes of production and delivery of information related to the financial statements by the Bank's various units, as well as the controls applying to these processes. As part of this review, the processes of data communication have been mapped and documented in detail, including the controls implemented in these processes. Additional new controls have been formed, and absorbed in the work processes.

Proper Conduct of Banking Business Directive No. 309. On September 28, 2008, the Bank of Israel issued Proper Conduct of Banking Business Directive No. 309, in the spirit of Section 404 of the Sarbanes-Oxley Act of 2002, which requires bank managements to comply with the following requirements: assuring the establishment of controls and procedures regarding disclosure and internal control over financial reporting; evaluation of the effectiveness of the controls and procedures as to disclosure at the end of each quarter; evaluation of the internal control on the financial reporting at the end of each year, as well as evaluation at the end of each quarter of the changes that have occurred in internal control during the quarter, which have had or might have had a material effect on the internal control over financial reporting.

During 2021, the Bank conducted a process of validation and updating of existing processes and addition of new processes and effectiveness examinations to the internal control layout over financial reporting, by means of the SOX unit established within the Accounting Division.

Based on the findings of the said examination of the effectiveness of internal control, the Bank's Management together with the President & CEO and the Bank's Chief Accountant have assessed the effectiveness of controls in the reported period over the Bank's financial reporting. On the basis of this assessment, the Bank's President & CEO and the Chief Accountant arrived to the conclusion that as of the end of the reported period, the controls and procedures regarding financial reporting are effective in order to: record, process, conclude and report the information included in the annual financial statements, in accordance with the public reporting directives of the Supervisor of Banks and on the date prescribed by these directives.

Changes in Internal Control

During the fourth quarter ended on December 31, 2021, no change has occurred in the Bank's internal control over financial reporting, which materially affected, or is reasonably to materially affect, the Bank's internal control over financial reporting.

The Board of Directors wishes to thank the President & CEO, the members of Management, the Bank's employees and employees of the Group's companies and their management for their work towards the advancement of the Bank and the Group.

March 8, 2022	Shaul Kobrinsky Chairman of the Board of Directors	Uri Levin President & Chief Executive Officer

Internal Control over Financial Reporting

Certification

I, Uri Levin, certify that:

1. I have reviewed the annual report of Israel Discount Bank Ltd. (hereinafter: "the Bank") for 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 financial statements, and other financial information included in the Report, fairly present in all material respects the financial condition, results of operations, changes in shareholders' 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 internal control 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) Designed 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; and
   (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.
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.

March 8, 2022

Uri Levin,
President & Chief Executive Officer

Certification

I, Joseph Beressi, certify that:

1. I have reviewed the annual report of Israel Discount Bank Ltd. (hereinafter: "the Bank") for 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 financial statements, and other financial information included in the Report, fairly present in all material respects the financial condition, results of operations, changes in shareholders' 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 internal control 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) Designed 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; and
   (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.
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.

March 8, 2022

Joseph Beressi
Senior Executive Vice
President
Chief Accountant

Report of the Directors and Management on Internal Control over Financial Reporting

The Board of Directors and Management of Israel Discount Bank Ltd. (hereinafter - "the Bank") are responsible for establishing and maintaining effective internal control over financial reporting (as defined in the public reporting instructions regarding "Directors' Report"). The Bank's internal control system has been designed to provide reasonable assurance to the Board of Directors and Management regarding the preparation and the fair presentation of financial statements published in accordance with generally accepted accounting principles in Israel and directives and guidelines of the Supervisor of Banks. Regardless of the quality of their level of design, all internal control systems have inherent limitations. Therefore, even if these systems are determined effective, they can provide only a reasonable degree of assurance regarding the preparation and presentation of the financial report.

Management, under the supervision of the Board of Directors, maintains a comprehensive system of controls intended to ensure that transactions are made in accordance with authorization of Management, assets are protected and the accounting records are reliable. In addition, Management, under the supervision of the Board of Directors, takes the necessary actions to ensure that communication and information lanes are effective and monitor performance, including performance of internal control procedures.

Management, under the supervision of the Board of Directors, assessed the effectiveness of the Bank's internal control over financial reporting as of December 31, 2021, based on the framework set forth in the Internal Control model of the Committee Sponsoring Organizations of the Treadway Commission (COSO) since 2013. Based on that assessment, Management believes that as of December 31, 2021, the Bank's internal control over financial reporting is effective.

The effectiveness of the Bank's internal control over financial reporting as of December 31, 2021 has been audited by the Bank's independent auditors, Messrs. Somekh Chaikin and Ziv Haft, Certified Public Accountants, as stated in their report presented on page 135-140, which includes an unqualified opinion regarding the effectiveness of the Bank's internal control over financial reporting as of December 31, 2021.

Shaul Kobrinsky Chairman of the Board of Directors	Uri Levin President & Chief Executive Officer	Joseph Beressi Senior Executive Vice President Chief Accountant	March 8, 2022

Financial Statements

Somekh Chaikin

Report of the independent auditors to the shareholders of Israel Discount Bank Ltd. - In accordance with the public reporting directive of the Supervisor of Banks regarding internal control over financial reporting

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

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

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

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

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

We have also audited, in accordance with accepted auditing standards in Israel and certain auditing standards applied in the audit of banking corporations as determined by directives and guidelines of the Supervisor of Banks, the Balance sheets – of the Bank and consolidated – as at December 31, 2021 and 2020, and the statements of profit and loss, the Statements of Comprehensive income, the Statements of Changes in Shareholders Equity and the Statements of Cash Flows – of the Bank and consolidated – for each of the three years in the period ended December 31, 2021, and our report dated March 8, 2022, expressed an unqualified opinion on these financial statements as well as calling attention to Note 26 C section 11 regarding class actions and other legal actions that cannot be estimated.

Somekh Chaikin
Certified Public Accountants (Isr.)

Ziv Haft
Certified Public Accountants (Isr.)

March 8, 2022

KPMG Somekh Chaikin

BDO

Auditor’s report to the Shareholders’ of Israel Discount Bank Ltd. - Annual Financial Statements

We have audited the financial statements of Israel Discount Bank Limited (hereinafter: ”the Bank”) and the consolidated financial statements of the Bank and consolidated: Balance sheets as at December 31, 2021 and December 31, 2020, statements of profit and loss, statements of comprehensive income, statement of changes in shareholders’ equity and statements of cash flows for the three years, the last of which ended December 31, 2021. These financial statements are the responsibility of the Bank’s Board of Directors and Management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with generally accepted auditing standards in Israel, including those prescribed under the Israeli Auditors’ Regulations (Auditor’s Mode of Performance), 1973, and certain auditing standards applied in the audit of banking corporations as determined by directives and guidelines of the Supervisor of Banks. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examination, on a test basis, of evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Bank’s Board of Directors and Management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audits, the financial statements referred to above present fairly, in all material respects, the financial position - of the Bank and consolidated - as at December 31, 2021 and 2020, and the results of operations, the changes in shareholders’ equity and cash flows - of the Bank and consolidated - for the three years the last of which ended December 31, 2021, according to generally accepted accounting principles in Israel (Israeli GAAP). Furthermore, in our opinion, the abovementioned financial statements were prepared in accordance with the directives and guidelines of the Supervisor of Banks.

Without qualifying our above opinion, we call attention to the Note 26 C section 11 regarding class actions and other legal actions that cannot be estimated.

We have also audited in accordance with standards prescribed by the United States Public Company Accounting Oversight Board (PCAOB) regarding the audit of internal control over financial reporting, as adopted by the Institute of Certified Public Accountants in Israel, the internal control of the Bank over financial reporting as of December 31, 2021, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report of March 8, 2022, included an unqualified opinion on the effectiveness of internal control over financial reporting of the Bank.

Key audit matters

The key audit matters set forth below are matters that have been brought to the attention, or that are required to be brought to the attention, of the Bank’s Board of Directors and that, in our professional discretion, were very significant in the audit of the financial statements for the current period. These matters include, inter alia, any matter that: (1) relates to material items or disclosures in the financial statements, and (2) our discretion regarding which was challenging, subjective or particularly complex, with this being in conformance with the directives of the Supervisor of Banks and his guidelines. A response to these matters has been provided within the framework of our audit and the formulation of our opinion on the financial statements in their entirety. The attention drawn to these matters below does not alter our opinion on the financial statements in their entirety and by doing so we are not providing a separate opinion on these matters or on the items or disclosures to which they relate.

Allowance for credit losses

In accordance with the matters discussed in Notes 1, 13, and 31 to the financial statements, the Bank's credit loss allowance amounts at December 31, 2021, to NIS 3,311 million, and includes a specific allowance and a group allowance.
In assessing the amount of the credit loss allowance, the Bank estimates the loss inherent in the credit portfolio. The process of estimating this loss is based upon significant assessments involving uncertainty and on subjective estimates, both at the stage of determining the required classification of the debts and at the stage of measuring the credit loss allowance.

The principal estimates that serve as a basis for calculating the allowance for credit losses

- At the time of identifying and classifying the debts, discretion is exercised in order to identify problematic debts according to defined criteria that could testify to a debt becoming problematic, estimate the possible or existing damage to the borrower's primary repayment source, the existence of expected cash flows of the borrower to repay the debt in full and on time, as well as evaluation of other financial data of the borrower which may indicate signs of weaknesses or potential weaknesses in the repayment ability of the borrower.
- In computing the specific allowance, discretion is used in determining the amount expected to be repaid by the borrower, such as, determination of the anticipated amount of future cash flows from business operations of the borrower available to serve his debt, and/or the realization value of collateral and guarantees.
- Computation of the group allowance is based on the average past losses incurred in the different economic sectors and on the addition of qualitative adjustments in respect of relevant factors requiring discretion. These factors include, inter alia, trends in volume of credit, segmental conditions, macro-economic data, changes in volume and trend regarding amounts in arrears and impaired amounts as well as effects of changes in the centralization of credit.

We have identified the estimates that serve as a basis for calculating the allowance for credit losses as a key audit matter.
Auditing the allowance for credit losses requires the auditor's discretion, as well as expertise and experience in order to examine the reasonableness of the assumptions and data that Management made use of in determining the adequacy of the classification of debts and the assessment of the allowance.

Audit procedures performed as a response to a key audit matter

Set out below are the main procedures performed in connection with this key audit matter within the framework of our audit:
We examined the work processes for calculating the allowance and the design, implementation and operational effectiveness of certain internal controls relating to determining the allowance estimate, including controls on the following topics:

- The principal assumptions used for the quantitative and qualitative adjustments of the credit loss allowance;
- Basic data used for the computation of the allowance for credit losses;
- Identification of debts having potential characteristics of problematic debts, based on criteria defined by the Bank;
- Classification of debts according to guidelines of the Supervisor of Bank;
- Analysis of the reasonableness of the group allowance.

Somekh Chaikin

We have conducted establishing procedures for the testing of the adequacy of the allowance for credit losses, based on presentations obtained.

These procedures included among other things:

- Reviewing the methodology for determining the allowance and testing that it is in full alignment with the accounting principles applicable to the Bank and with the effects of the Bank's economic and regulatory environment;
- Testing the completeness and accuracy of the information and data used in the models for the computation of the group allowance assessment;
- Testing the adequacy of the classification and the allowance in respect of a sample of debts (performing and problematic);
- Testing the reasonableness of the allowance for credit losses.

The joint auditors of the Bank are BDO Ziv Haft, CPA, since 2000*, and KPMG Somekh Chaikin, CPA, since 1998.

Somekh Chaikin Certified Public Accountants (Isr.)	Ziv Haft Certified Public Accountants (Isr.)

March 8, 2022

* The firm of Haft & Haft, which merged into the firm of Ziv Haft in 2000, has served as the independent auditors of the Bank since 1935.

Statement of Profit and Loss for the Year ended December 31

		Consolidated		
	Notes	2021	2020	2019
		in NIS millions		
Interest income		7,491	6,987	7,567
Interest expenses		962	1,089	1,674
Net interest income	**2**	**6,529**	**5,898**	**5,893**
Credit loss expenses (expenses release)	13,31	(693)	1,718	690
Net interest income after credit loss expenses		**7,222**	**4,180**	**5,203**
Non-interest Income				
Non-interest financing income	3	765	1,142	742
Fees and commissions	4	3,125	2,826	2,972
Other income	5	72	39	57
Total non-interest income		**3,962**	**4,007**	**3,771**
Operating and other Expenses				
Salaries and related expenses	6	3,468	3,242	3,343
Maintenance and depreciation of buildings and equipment	16	1,187	1,185	1,098
Other expenses	7	2,203	2,254	1,858
Total operating and other expenses		**6,858**	**6,681**	**6,299**
Profit before taxes		4,326	1,506	2,675
Provision for taxes on profit	8	1,516	549	932
Profit after taxes		**2,810**	**957**	**1,743**
Bank's share in profit of associates, net of tax effect	15	20	50	16
Net profit:				
Before attribution to non-controlling interests		2,830	1,007	1,759
Attributed to the non-controlling interests		(57)	(32)	(57)
Net Profit Attributed to the Bank's Shareholders		**2,773**	**975**	**1,702**
Earnings per share of NIS 0.1 par value attributed to the Bank's shareholders (in NIS)	**9**	**2.38**	**0.84**	**1.46**

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

Date of approval of the financial statements:	Shaul Kobrinsky Chairman of the Board of Directors	Uri Levin President & Chief Executive Officer	Joseph Beressi Senior Executive Vice President, Chief Accountant
March 8, 2022			

Statement of Profit and Loss for the year ended December 31 (continued)

		The Bank		
	Notes	2021	2020	2019
		in NIS millions		
Interest income		4,454	3,979	4,257
Interest expenses		669	680	985
Net interest income	2	**3,785**	**3,299**	**3,272**
Credit loss expenses (expenses release)	13,31	(590)	1,045	323
Net interest income after credit loss expenses		**4,375**	**2,254**	**2,949**
Non-interest Income				
Non-interest financing income	3	349	753	566
Fees and commissions	4	1,263	1,166	1,224
Other income	5	138	104	108
Total non-interest income		**1,750**	**2,023**	**1,898**
Operating and other Expenses				
Salaries and related expenses	6	2,043	1,876	1,995
Maintenance and depreciation of buildings and equipment	16	761	730	729
Other expenses	7	856	996	725
Total operating and other expenses		**3,660**	**3,602**	**3,449**
Profit before taxes		2,465	675	1,398
Provision for taxes on profit	8	850	254	492
Profit after taxes		**1,615**	**421**	**906**
Bank's share in profit of associates, net of tax effect	15	1,158	554	796
Net profit attributed to bank's shareholders		**2,773**	**975**	**1,702**

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

Consolidated Statement of Comprehensive Income for the year ended December 31

	2021	2020	2019
	in NIS millions		
Net profit before attribution to non-controlling interests	2,830	1,007	1,759
Net profit attributed to non-controlling interests	(57)	(32)	(57)
Net profit attributed to the Bank's shareholders	**2,773**	**975**	**1,702**
Other comprehensive income (loss), before taxes:			
Net adjustments, for presentation of available-for-sale bonds at fair value	(352)	157	790
Adjustments from translation of financial statements	(113)	(254)	(283)
Adjustments of liabilities in respect of employee benefits[(2)]	(28)	(417)	(259)
Net income (loss) in respect of cash flows hedge	(3)	(1)	4
Other comprehensive income (loss), before taxes	**(496)**	**(515)**	**252**
Related tax effect	122	97	(176)
Other comprehensive income (loss), before attribution to non-controlling interests, after taxes	(374)	(418)	76
Other comprehensive income (loss), attributed to non-controlling interests	3	(2)	(4)
Other comprehensive income (loss), attributed to the Bank's shareholders, after taxes	**(377)**	**(416)**	**80**
Comprehensive income, before attribution to non-controlling interests	2,456	589	1,835
Comprehensive income, attributed to non-controlling interests	(60)	(30)	(53)
Comprehensive income, attributed to the Bank's shareholders[(1)]	**2,396**	**559**	**1,782**

Footnotes:

(1) See Note 10.

(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 financial statements are an integral part thereof.

Balance sheet as at December 31

		Consolidated		The Bank	
	Notes	2021	2020	2021	2020
		in NIS millions			
Assets					
Cash and deposits with banks	11,27	59,638	42,936	45,604	32,370
Securities (of which: 12,204, 10,489, 8,406, 8,110 respectively, pledged to lenders)	12,27	43,869	42,785	26,687	26,545
Securities borrowed or purchased under agreements to resell		1,207	1,074	1,207	1,074
Credit to the public	13,31	216,196	192,479	141,043	125,245
Provision for credit loss	13,31	(3,040)	(3,761)	(1,824)	(2,343)
Net credit to the public		**213,156**	**188,718**	**139,219**	**122,902**
Credit to Governments	14	2,664	3,473	2,635	3,447
Investment in investee companies (consolidated – associates)	15	462	348	11,778	10,658
Buildings and equipment	16	3,401	2,995	2,152	1,943
Intangible assets and goodwill	17	163	164	-	-
Assets in respect of derivative instruments	28	5,522	6,400	5,223	5,731
Other assets	18	5,006	5,076	2,774	3,081
Total Assets		**335,088**	**293,969**	**237,279**	**207,751**
Liabilities and Equity					
Deposits from the public	19	260,907	226,118	190,000	163,533
Deposits from banks	20	12,534	13,107	8,971	5,838
Deposits from the Government		346	344	101	126
Securities lent or sold under agreements to repurchase		-	161	-	-
Bonds and Subordinated debt notes	21	15,071	10,201	3,299	3,524
Liabilities in respect of derivative instruments	28	6,323	7,365	5,965	6,580
Other liabilities(1)	22	17,759	16,946	7,460	8,968
Total liabilities		**312,940**	**274,242**	**215,796**	**188,569**
Equity capital attributed to the Bank's shareholders	24	21,483	19,182	21,483	19,182
Non-controlling rights in consolidated companies		665	545	-	-
Total equity		**22,148**	**19,727**	**21,483**	**19,182**
Total Liabilities and Equity		**335,088**	**293,969**	**237,279**	**207,751**

Footnote:

(1) Of which NIS 249 million and NIS 298 million in the consolidated, and NIS 185 million and NIS 226 million in the bank, as of December 31, 2021, and December 31, 2020, provision for credit loss in respect of off-balance sheet credit instruments. See Note 31 (E).

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

Statement of Changes in Shareholders' Equity

	Paid up share capital	Capital reserves: Share premium	Capital reserves: Other reserves	Total paid up share capital and reserves	Accumulative other comprehensive income (loss)	Retained earnings	Shareholders' equity	Non-controlling interests	Total equity
	in NIS millions								
Balance at December 31, 2018	676	4,174	215	5,065	(561)	12,647	17,151	518	17,669
Net Profit for the year	-	-	-	-	-	1,702	1,702	57	1,759
Dividend paid	-	-	-	-	-	(255)	(255)	-	(255)
Dividend to non-controlling interests	-	-	-	-	-	-	-	(56)	(56)
Other comprehensive income, net after tax effect	-	-	-	-	80	-	80	(4)	76
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**
Changes in 2021:									
Net Profit for the year	-	-	-	-	-	2,773	2,773	57	2,830
Dividend paid	-	-	-	-	-	(144)	(144)	-	(144)
A decrease in the rate of holding in a subsidiary company, with no loss of control	-	-	49	49	-	-	49	58	107
Transactions with minority	-	-	-	-	-	-	-	2	2
Other comprehensive loss, net after tax effect	-	-	-	-	(377)	-	(377)	3	(374)
Balance at December 31, 2021	**676**	**4,174**	**258**	**5,108**	**(1,274)**	**17,649**	**21,483**	**665**	**22,148**

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

Statement of Cash Flows for the year ended December 31

	Consolidated			The Bank		
	2021	2020	2019	2021	2020	2019
	in NIS millions					
Cash Flows from Operating Activities						
Net profit before attribution to non-controlling interests in consolidated companies	2,830	1,007	1,759	2,773	975	1,702
Adjustments necessary to present cash flows from current operations:						
Bank's share in undistributed profits of affiliated companies	(28)	(54)	(14)	(1,244)	(636)	(884)
Depreciation of buildings and equipment (including impairment in value)	538	491	466	343	298	304
Provision for impairment in value of securities	102	29	31	69	5	-
Credit loss expenses (expenses reversal)	(693)	1,718	690	(590)	1,045	323
Gain on sale of credit portfolio, net	-	(3)	(7)	-	(3)	(7)
Profit on sale of available-for-sale bonds and shares not for trading	(548)	(647)	(250)	(193)	(299)	(98)
Realized and non-realized loss (gain) from adjustment to fair value of trading securities, net	28	(91)	2	29	(88)	10
Non-realized gain on adjustment to fair value of shares no for trading	(66)	(8)	(39)	(67)	(7)	(38)
Gain from realization at an investment in investee companies	(12)	-	(13)	-	-	(13)
Gain on realization of buildings and equipment	(52)	(32)	(42)	(52)	(27)	(34)
Net deferred taxes	366	(353)	(115)	345	(269)	(91)
Severance pay – increase (decrease) in excess of provision over the deposits	(20)	201	336	(33)	209	144
Net change in current assets:						
Assets in respect of derivative instruments	878	(1,855)	(816)	508	(1,475)	(755)
Trading securities	28	1,441	(252)	49	1,323	(550)
Other assets	99	360	(40)	44	205	268
Effect of changes in exchange rate on cash and cash equivalent balances	114	150	145	139	150	204
Accrual differences included in investment and financing activities	1,270	1,272	1,440	756	593	544
Net change in current liabilities:						
Liabilities in respect of derivative instruments	(1,042)	2,526	1,590	(615)	2,067	1,485
Other liabilities	665	(1)1,026	1,049	(1,565)	(1)(73)	235
Adjustments in respect of exchange rate differences on current assets and liabilities	(27)	(143)	(185)	-	-	-
Dividends received from affiliated companies	27	18	13	143	101	175
Net Cash Flows from Operating Activities	**4,457**	**7,053**	**5,748**	**839**	**4,094**	**2,924**

Footnote:

(1) Amended following improvement of data.

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

Statement of Cash Flows for the year ended December 31 (continued)

	Consolidated			The Bank		
	2021	2020	2019	2021	2020	2019
	in NIS millions					
Cash Flows to Investing Activities						
Net change in Deposits with banks	310	(372)	42	(479)	(440)	(130)
Net change in net credit to the public	(11,604)	(5,610)	(8,930)	(8,577)	(6,372)	(5,903)
Net change in Credit to the Governments	2,060	1,931	571	2,063	1,956	571
Net change in Securities borrowed or purchased under agreements to resell	(133)	(543)	243	(133)	(543)	243
Acquisition of held-to-maturity bonds	(2,921)	(3,920)	(766)	(1,194)	(3,709)	(615)
Proceeds from redemption of held-to-maturity bonds	391	556	1,715	211	400	1,473
Purchase of available-for-sale bonds and shares not for trading	(17,485)	(19,086)	(13,133)	(12,257)	(10,580)	(8,212)
Proceeds of sale of available-for-sale bonds and shares not for trading	12,999	13,131	10,739	10,690	8,975	5,929
Purchased credit portfolios	(12,504)	(7,926)	(4,162)	(7,502)	(4,272)	(4,162)
Gain on sale of credit portfolio	996	74	940	847	56	787
Proceeds of redemption of available-for-sale bonds	3,404	3,543	3,197	384	1,319	871
Purchase of shares in affiliated companies	(123)	(160)	(62)	-	(9)	(5)
Business combinations - see Annex A	-	-	449	-	-	-
Proceeds of the sale of investments in associates	23	-	27	-	-	27
Investment in deferred debt notes of a subsidiary company	-	-	-	(323)	-	(160)
Proceeds of redemption of a subordinated debt note issued by a subsidiary company.	-	-	-	94	13	13
Acquisition of buildings and equipment	(977)	(1)(836)	(592)	(566)	(1)(494)	(347)
Proceeds from sale of buildings and equipment	61	60	65	61	51	52
Net Cash Flows to Investing Activities	**(25,503)**	**(19,158)**	**(9,657)**	**(16,681)**	**(13,649)**	**(9,568)**
Cash Flows from Financing Activities						
Net change in Deposits from banks	(573)	6,688	(488)	3,133	4,076	(118)
Net change in Deposits from the public	34,388	25,125	7,453	26,065	17,832	8,862
Net change in Deposits from the Government	3	163	(76)	(25)	110	(12)
Net change in Securities borrowed or purchased under agreements to resell	(161)	(185)	(780)	-	-	-
Issuance of subordinated debt notes	5,785	540	3,899	-	-	-
Redemption of subordinated debt notes	(1,032)	(3,438)	(1,327)	(292)	(366)	(261)
Dividend paid to the shareholders	(144)	(49)	(255)	(144)	(49)	(255)
Dividend to non-controlling interests	-	-	(56)	-	-	-
Net cash flows from Financing Activities	**38,266**	**28,844**	**8,370**	**28,737**	**21,603**	**8,216**
Increase in cash	17,220	16,739	4,461	12,895	12,048	1,572
Cash balance at beginning of period	42,265	25,777	21,549	31,487	19,585	18,218
Effect of changes in exchange rate on cash and cash equivalent balances	(208)	(251)	(233)	(139)	(146)	(205)
Cash balance at end of period	**59,277**	**42,265**	**25,777**	**44,243**	**31,487**	**19,585**
Interest and taxes paid and/or received						
Interest received	7,258	6,947	7,576	4,378	4,383	4,301
Interest paid	(766)	(1,260)	(1,712)	(593)	(1,007)	(1,006)
Dividends received	37	27	26	143	108	177
Taxes on income paid	(1,033)	(1,066)	(1,265)	(619)	(630)	(837)
Taxes on income received	127	207	37	72	154	18

Footnote:

(1) Amended following improvement of data.

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

Appendix A – merger with Municipal Bank

	2019
	in NIS millions
Acquired assets and liabilities and cash paid, as of merger date:	
Acquired cash	1,142
Assets (excluding cash)	5,811
Liabilities	(6,264)
Identified assets and liabilities	**689**
Goodwill and customer relations	4
Total cost of acquisition	**693**
Consideration paid in cash	**693**
Less Acquired cash	(1,142)
Net cash flow from the merger with Municipal Bank	**(449)**

Appendix B - Non-cash Asset and Liability Activity during the Reported year

	2021	2020	2019
		in NIS millions	
The Bank:			
Income from sale of rights in Visa Europe	28	646	-
Purchase of fixed assets	4	[(1)]81	-
Lending of securities	1,746	(1,262)	(121)
Consolidated:			
Recognition of a right-of-use asset in consideration for a leasing liability	107	895	-
Purchase of fixed assets	20	[(1)]134	9
Lending of securities	1,883	(1,574)	173

Footnote:
(1) Amended following improvement of data.

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

Notes to the Financial Statements

1. Significant Accounting Policies

A. General

1) Israel Discount Bank Ltd. (hereinafter: "the Bank") is a banking corporation incorporated in Israel.
2) The financial statements are prepared in accordance with generally accepted accounting principles in Israel and in accordance with directives and guidelines of the Supervisor of Banks regarding the preparation of a banking corporation's annual financial statements.
3) The Notes to the financial statements relate to the Bank's financial statements and to the consolidated financial statements of the Bank and its subsidiaries, except where it states that the note relates to the Bank only, or to the consolidated statements only.
4) The financial statements were approved for publication by the Bank's Board of Directors on March 8, 2022.

B. Definitions

In these financial statements –

International Financial Reporting Standards (hereinafter: "IFRS") – standards and interpretations adopted by the International Accounting Standards Board (IASB) that include International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS), including interpretations of such standards determined by the International Financial Reporting Interpretation Committee (IFRIC), or interpretations determined by the Standing Interpretation Committee (SIC), respectively.

Generally Accepted Accounting Principles by banks in the U.S. – Accounting principles which U.S. banks traded in the U.S. are required to adopt according to a hierarchy determined by the U.S. Financial Accounting Standard ASC 105-10 (FAS 168). In addition, the Supervisor of Banks has clarified that despite the hierarchy determined by FAS 168, any position announced publicly by the bank supervisory authorities in the U.S., or by a team of the bank supervisory authorities in the U.S., regarding the manner of implementation of generally accepted accounting principles in the U.S. (U.S. GAAP), shall be deemed a Generally Accepted Accounting Principle by banks in the U.S..

"Interested party" and "Related party" - within their meaning in section 80 of the Reporting to the Public Directives.

"Consolidated subsidiaries" - Companies the financial statements of which are fully consolidated, directly or indirectly, with those of the Bank.

"Associates" - companies, other than consolidated subsidiaries and including partnerships, the investment in which is included in the financial statements, either directly or indirectly, on the equity basis.

"Investee companies" - consolidated subsidiaries and associates.

"CPI" - the Consumer Price Index in Israel published by the Central Bureau of Statistics.

C. Basis for the preparation of the financial statements

1. Principles of financial reporting

The Bank's financial statements are prepared according to the instructions of the Reporting to the Public Directive of the Supervisor of Banks. In most of the subjects, these instructions are based on accounting principles accepted by U.S. banks (US GAAP).

2. Functional Currency and Presentation Currency

The financial statements are presented in New Israel Shekels (NIS), which is the Bank`s functional currency, being rounded off to the nearest NIS million, except where otherwise stated. The NIS is the currency representing the principal economic environment in which the Bank operates. For details regarding the functional currencies of banking overseas extensions, see section D 1, below.

3. Basis of measurement

The financial statements have been prepared on the basis of historical cost except for the following assets and liabilities:

- Derivative financial instruments and other financial instruments measured at fair value through profit and loss (such as: investment in securities included in the trading portfolio);
- Bonds classified as available-for-sale;
- Non-current assets held for sale and a group of assets held for sale;
- Deferred tax assets and liabilities;
- Provisions;
- Assets and liabilities in respect of employee benefits;
- Investments in associates.

1. Significant Accounting Policies (continued)

4. Use of estimates

In preparing the financial statements, the Management of the Bank and of the investee companies are required to use discretion and apply estimates, 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 estimates. Upon the formation of accounting estimates applied in the preparation of financial statements, the Management of the Bank and of the investee companies are required to make assumptions with respect to circumstances and events involving significant uncertainty. When considering such estimates, the Managements of the Bank and of the investee companies base their selves upon past experience, various facts, external factors and reasonable assumptions according to the circumstances applying to each estimate.

The estimates as well as the underlying assumptions are being reviewed on a current basis. Changes in accounting estimates are recognized in the period in which the estimates were changed and in each affected future period.

5. 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 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.

D. Accounting policy applied in the preparation of the financial statements

1. Foreign currency and linkage

Foreign currency transactions. At date of recognition of a transaction in foreign currency, any asset, liability, income, expense, profit or loss deriving from such transaction are translated, at date of initial recognition, to the Bank's functional currency in accordance with the exchange rate in effect on date of the transaction. Financial assets and liabilities denominated in foreign currency at the reporting date are translated into the functional currency in accordance with the exchange rate ruling on that date.

Non-financial assets and liabilities denominated in foreign currency and measured according to fair value are translated into the functional currency according to the exchange rate ruling on the date on which fair value has been determined. Non-financial items stated in foreign currency and measured according to historical cost are translated according to the exchange rate ruling at the date of the transaction.

1. Significant Accounting Policies (continued)

Profits or losses on translation of transactions in foreign currency, which stem from fluctuations of the currencies in the period between the date of the transactions and the date of settlement/balance sheet date, are recognized in the statement of profit and loss as translation differences profits or losses (non-interest financing income), excluding:

- Changes in fair value of components included in the evaluation of the effectiveness of hedge in respect of a hedge instrument hedging a net investment in foreign operations or hedging cash flows;
- Exchange rate differences in respect of items comprising a part of a net investment.

Foreign activity. Assets and liabilities of foreign activities, including goodwill and adjustments to fair value made upon acquisition, are translated into NIS on the basis of the exchange rates ruling at the reporting date. Income and expenses as well as the profits and losses of foreign activities are translated into NIS on the basis of exchange rates ruling at dates of the transactions. Exchange rate differences on translation are recognized in other comprehensive income and presented under "financial statements translation adjustments".

Upon the realization of a foreign operation, the cumulative amount of exchange rate differences relating to that foreign operation, which had been recognized in other comprehensive income, are reclassified to the statement of profit and loss in the period in which the profit or loss from the realization of the foreign operation is recognized.

Foreign banking extensions. The banking extension Bancorp is classified as foreign operations the functional currency of which is different from the shekel.

Representative rates of exchange and the CPI and their annual rates of change

				Annual rate of change		
	2021	2020	2019	2021	2020	2019
CPI (in points):						
Known at balance sheet month	102.6	100.2	100.8	2.4	(0.6)	0.3
Representative exchange rate (in NIS) at the balance sheet date of the:						
U.S. Dollar	3.110	3.215	3.456	(3.3)	(0.7)	(7.8)
Euro	3.519	3.944	3.878	(10.8)	1.7	(9.6)

2. Principles of consolidation and the implementation of the equity method

2.1 Goodwill. The Bank recognizes goodwill at acquisition date on the basis of the fair value of the consideration given, including amounts recognized in respect of any rights that do not confer control in the acquired entity, as well as the fair value at acquisition date of capital rights in the acquired entity held previously by the purchaser, after deduction of the net amount attributed at acquisition date to identifiable acquired assets and accepted liabilities.

2.2 Subsidiary companies. These are entities controlled by the Bank, the financial statements of which are consolidated with those of the Bank from date of obtaining control until control is discontinued.

Non-controlling interests. These are rights representing the equity capital of a subsidiary company which may not be attributed, directly or indirectly, to the parent company and which include additional components, to the extent existing which are classified to equity. Non-controlling interests are measured at fair value at date of the business combination.

Allocation of comprehensive income to shareholders. Profit or losses and any component of other comprehensive income are allocated to the Bank's shareholders and to the non-controlling right holders in consolidated subsidiaries therein. Total profit and other comprehensive income are allocated to the Bank's shareholders and to the non-controlling right holders therein even if, as a result, the outstanding balance of the non-controlling interests will be negative.

Transactions with non-controlling right holders while maintaining control. Transactions with non-controlling right holders while maintaining control are being treated as capital transactions. The difference between the consideration received or paid and the change in the non-controlling interests in consolidated subsidiaries is charged to the owners' share of the Bank, directly to capital.

2.3 Investments in associates. Associates are entities in which the Bank has a material influence over their financial and operational policies, though not control. Investments in associates are treated by the equity method and are initially recognized at cost. The cost of investment includes transaction costs. The consolidated financial statements include the share of the Group in income and expenses, in the profit or loss and in other comprehensive income of associates treated by the equity method, after adjustments required to modify the accounting policy to that of the Group from date on which material influence has been obtained and until the date on which material influence no longer exist. It is clarified that the Bank does not make adjustments to accounting policies adopted by the public reporting directives implemented by a non-financial affiliate, which applies the IFRS rules.

1. Significant Accounting Policies (continued)

2.4 Transactions eliminated upon consolidation. Intercompany balances within the Group and unrealized income and expenses stemming from intercompany transactions, were eliminated upon consolidation of the financial statements. Unrealized profits derived from transactions with associates were eliminated against the investment according to the rights of the Group in the associates. Unrealized losses were eliminated in the same manner in which profits have been eliminated, as long as no evidence of impairment exists.

2.5 The treatment in the Bank's standalone financial statements. In preparing the standalone financial statements, the Bank is treating investee companies by the equity method of accounting. This, in accordance with directives and guidelines of the Supervisor of Banks. The Bank's standalone financial statements include the financial statements of property and service companies wholly owned by the Bank, and which assets are mostly used by the Bank.

3. The basis of recognition of income and expenses

3.1 Income and interest expenses are included on an accrual basis, except for interest accrued on problematic debts classified as not occurring interest income debts which is recognized on cash basis, when there is no doubt that the remaining recorded amount of the impaired debt will be collected. In cases where such doubt exists, all amounts collected serve to reduce the outstanding balance of the loan. Furthermore, interest on amounts in arrear in respect of housing loans is recognized on the basis of actual collection.

3.2 Commission income in respect of the granting of services are recognized in the Statement of profit and loss upon accrual of the Bank's entitlement to such income. Certain fees and commissions, such as commission in respect of guarantees and certain commission relating to project financing, are recognized on a pro-rata basis over the period of the transaction.

3.3 In respect of hybrid capital instruments, which include a structured step-up redemption, the interest rates used to compute the interest cost are the interest rates in effect prior to the step-up, based on Management's evaluation that the instruments would be redeemed at date of increase in the interest rate.

3.4 Fees and commissions regarding the setting-up of credit facilities. Fees and commissions charged upon the setting-up of credit facilities, except for loans for periods of up to three months, are not recognized immediately as income in the statement of profit and loss, but are deferred and recognized over the period of the loan as a yield adjustment. Commission income, as stated, is recognized by the effective interest method and is reported as part of interest income.

3.5 Credit allocation fees and commissions. Credit allocation fees and commissions are treated in accordance with the probability of the commitment to grant credit being realized. Where the probability is remote, the commission is recognized on a "straight-line" basis over the period of the commitment, otherwise, the Bank defers recognition of such commission income until date of realization of the commitment or until date of expiry thereof, whichever is earlier. Where the commitment has been realized, then the commission income is recognized by way of adjustment of the yield over the period of the loan, as stated above. Where the commitment expires without being realized, the fees and commissions are recognized on date of expiry and are reported as part of commission income. In this respect, the Bank assumes that the probability of the commitments being realized is not remote.

3.6 Changes in terms of loans. In cases of refinancing or of restructuring of non-problematic loans, the Bank examines whether the debt terms had been changed so that they are advantageous to the Bank, at least as the terms of similar debt instruments of other customers having similar risk characteristics, and whether the terms of the loan were materially changed. In such cases, the outstanding fees and commissions not yet amortized as well as early repayment fees and commissions collected from the customer in respect of the change in the terms of credit are recognized in the statement of profit and loss. Otherwise, the said fees and commissions are included as part of the net investment in the new loan and are recognized as an adjustment of the yield, as stated above.

3.7 Early repayment commission. Fees and commissions charged in respect of early repayments are recognized immediately as part of interest income.

3.8 With respect to securities – see sub-section 5 below; with respect to derivative financial instruments - see sub-section 6 below.

3.9 In periods following an impairment of an other than temporary nature, interest income on investments in debt instruments are recognized based upon the anticipated surplus cash flows of the debt instrument (the base amount of a debt instrument at date of impairment of an other than temporary nature, is its fair value).

3.10 Other income and expenses are recognized on an accrual basis.

1. Significant Accounting Policies (continued)

4. Impaired debts, credit risk and allowance for credit loss

General. In accordance with a Directive of the Supervisor of Banks regarding "Measurement and disclosure of impaired debts, credit risk and allowance for credit losses", the Bank applies the U.S. accounting standards in this matter (ASC 310) and the positions of the bank's supervisory authorities in the U.S. as well as of the SEC, in statements of position and guidelines of the Supervisor of Banks. Furthermore, the Bank is implementing the guidelines of the Supervisor of Banks regarding "Dealing with problematic debts".

Credit to the public and other debt balances. The Directive is being implemented with respect to all debt balances, such as: deposits with banks, bonds, securities borrowed or purchased under agreements to resell, credit to the public, credit to the government, etc. Credit to the public and other debt balances, in respect of which the public reporting instructions do not include specific rules as regards the measurement of the allowance for credit losses (such as: credit to the government, etc.) are stated in the Bank's books at their recorded amount. The recorded amount of a debt is defined as the debt balance, net of accounting write-offs, but before deduction of an allowance for credit losses in respect of the said debt. The recorded amount of a debt does not include unrecognized accrued interest or accrued interest recognized in the past but reversed at a later date.

Identification and classification of impaired debts. The Bank has established procedures for the identification of problematic credit and the classification of debts as impaired. According to these procedures the Bank classifies problematic debts and off-balance sheet credit items under the following classifications: special mention, substandard or impaired. A debt is classified as impaired when based on information and updated events, the Bank does not expect to collect all amounts due to it under the contractual terms of the debt agreement. The decision regarding the classification of a debt is based, among other things, on the arrears situation of the debt, evaluation of the financial position and repayment ability of the borrower, evaluation of the primary repayment source of the debt, the existence of collateral and the state thereof, the financial position of guarantors, where applicable, and their undertaking to support the debt and the ability of the borrower to obtain finance from a third party.

A debt is classified as impaired when the principal amounts or interest in its respect are in arrears for 90 days or over, except where the debt is well secured and is in the process of collection. Debts (including bonds and other assets) are in arrears when the principal amount or the interest thereon has not been paid upon their due date. In addition, current loan accounts or current accounts are reported as debts in arrears for 30 days or over, when the account exceeds the approved credit facility for a consecutive period of 30 days or over, or if during a period of 180 days, no amounts covering the debt within the framework of the credit facility, have been credited to the account. Starting with the date on which a debt is classified as impaired, it is treated as a debt that does not accrue interest income (hereinafter: "non-performing debt").

Furthermore, any debt, the terms of which had been changed within the framework of a reconstruction of a troubled debt, is classified as an impaired debt, unless prior to the reconstruction and thereafter, a minimum allowance for credit losses according to the extent of arrears method has been made in accordance with the Appendix to Proper Conduct of Banking Business Directive No. 314 regarding "Proper assessment of credit risks and proper measurement of debts".

Definition of the primary source of repayment upon the classification of a problematic debt. Determination of the proper classification of a debt, until a default event occurs or until expectation for such an event becomes highly probable, is based on the repayment ability of the borrower, namely: the expected strength of the primary repayment source (a sustainable source of cash over a period of time that must be under the control of the borrower and which must be explicitly or in substance separated for the repayment of the debt), and this, despite the support of second and third place repayment sources (such as: collateral, guarantor support, refinancing by a third party).

Reinstatement of an impaired debt as an unimpaired debt. An impaired debt returns to be classified as an unimpaired debt if one of the two situations exists:

- There are no principal or interest components which remain unpaid on their due date and the Bank expects the repayment in full of the remaining principal balance and of the interest due according to the terms of the agreement (including amounts which had been written off accounting wise or an allowance was made in their respect).
- The debt becomes well secured and is in the process of collection.

The rules regarding the reversal of classification as impaired credit, as stated, do not apply to debts classified as impaired as a result of a restructure of a troubled debt.

1. Significant Accounting Policies (continued)

Reinstatement of an impaired debt as an impaired debt accruing interest. A debt, which has been formally reconstructed, so that after the reconstruction reasonable assurance exists that the debt would be repaid and would perform according to its new terms, is being treated again as an impaired debt accruing interest income, on condition that the reconstruction and any accounting write-off made in relation to the debt are supported by an updated and well documented credit assessment with respect to the financial position of the borrower and a repayment forecast according to the new terms. The assessment is based on the cash and cash equivalent consecutive historical repayment performance of the borrower during a reasonable period of at least six months, and only after amounts which have materially reduced (at least 20%) the recorded amount of the debt determined following the reconstruction, have been received.

Allowance for credit losses. The Bank has determined procedures for the classification of credit and for the measurement of the allowance for credit losses in order to maintain an allowance at a level adequate to cover anticipated credit losses. The allowance covering credit losses anticipated is assessed in one of two ways: "specific allowance" or "group allowance".

The said examination of debts for the purpose of determining the allowance and the treatment of the debt, is consistently applied in respect of all debts in accordance with the quantitative level and the Bank's credit management policy, and no changes are being made between the specific examination track and the group basis examination track during the life of the debt, unless a restructure of a troubled debt had been made as stated below.

Specific allowance for credit losses. The Bank has elected to identify for the purpose of a specific examination debts the total of their contractual amount, grouped at the borrower level, is over NIS 1 million (in one consolidated company – in respect of debts exceeding NIS 500 thousand, and in a consolidated credit card company – debts in respect of credit cards exceeding NIS 500 thousand, and in respect of debts of trading houses – of any amount). A specific allowance for credit losses is recognized in respect of any debt examined on a specific basis and which is classified as impaired. Furthermore, any debt, the terms of which had been changed under a reconstruction of a troubled debt shall be classified as an impaired debt, unless prior to the reconstruction and thereafter, a minimum allowance for credit losses according to the extent of arrears method has been made in accordance with the Appendix to Proper Conduct of Banking Business Directive No. 314 regarding "Proper assessment of credit risks and proper measurement of debts".

The specific allowance for credit losses is assessed on the basis of anticipated future cash flows, capitalized using the original effective interest rate pertaining to the debt. Where the debt is collateral dependent or when foreclosure of property is expected by the Bank, the specific allowance is assessed on the basis of the fair value of the collateral pledged to secure the debt in question, after taking into account conservative and consistent coefficients reflecting, among other things the volatility of the fair value of the collateral, the time period until its actual realization and expected costs involved in the selling of the collateral.

A collateral-dependent debt is defined as a debt, the recovery of which is expected to be exclusively effected by the collateral pledged in favor of the Bank, or when it is expected that an asset held by the borrower would serve to repay the debt, even if no specific pledge exists on the asset, and everything when the borrower has no other material available and reliable repayment sources.

Group allowance for credit losses. Computed in order to reflect allowances for impairment in respect of credit losses, that are not specifically identified inherent in large groups of small debts having similar risk characteristics, as well as in respect of debts examined on a specific basis and found unimpaired. The allowance for credit losses in respect of debts assessed on a group basis, is computed in accordance with the rules established in ASC 450 (FAS 5) "Accounting for contingencies", and in accordance with instructions of the Supervisor of Banks, based on historical loss ratios in various economic sectors, differentiating between problematic and non-problematic credit, within the range of years in the period beginning on January 1, 2011 and ending on the reporting date. In addition to the calculation of the range of historical loss rates in various economic sectors, as stated, for the purpose of determining the proper amount of the allowance, the Bank takes into account relevant environmental factors, including trends in the scope of credit in each sector and conditions in the sector, macro-economic data, assessment of the general quality of the credit to an economic sector, changes in volume and trends of balances in arrears and impaired balances and the effect of changes in the credit concentration.

In accordance with the directives of the Supervisor of Banks, the Bank has formed a measurement method for the allowance on a group basis, which takes into account both the rate of past losses and the adjustments in respect of the relevant environmental factors. With respect to credit granted to private individuals, the rate of adjustment in respect of environmental factors shall not be less than 0.75% of the outstanding balance of the non-problematic credit at each reporting date, with reference to the average rates of loss in the range of the years. Excluded from the above is credit created by bank credit card transactions bearing no interest charge.

1. Significant Accounting Policies (continued)

The required allowance in respect of off-balance sheet credit instruments - is assessed according to the rules determined by ASC 450 (FAS 5). The group allowance in respect of off-balance sheet credit instruments is based on the rates of allowance determined for balance sheet credit (as detailed above), taking into consideration the anticipated rate of realization to credit of the off-balance sheet credit risk. The rate of realization to credit is computed by the Bank based on Credit Conversion Factors (CCF), as detailed in Proper Conduct of Banking Business Directive No. 203 "Measurement and capital adequacy – credit risk – the standard approach".

Minimum allowance in respect of housing loans – is computed according to a formula determined by the Supervisor of Banks, considering the extent of arrears, in a way in which the rates of the allowance increase in proportion to the extent of arrears. Calculation of the allowance based on the extent of arrears applies to all housing loans, excluding loans that are not repayable in periodic installments and loans that finance operations of a business nature.

In addition, the Bank implements the provisions of Proper Conduct of Banking Business Directive No. 329 in the matter of "Restrictions on the granting of housing loans". Accordingly, the Bank verifies that the balance of the group allowance for credit loss, in respect of housing loans shall not fall below a rate of 0.35% of the outstanding balance of such loans as of date of the report.

In addition, the Bank studies the overall fairness of the allowance for credit losses. This fairness evaluation is based on the Management's discretion, which takes into account the risks inherent in the credit portfolio and evaluation methods implemented by the Bank in determining the allowance.

Furthermore, in view of the Corona crisis - the need has arisen to assess inherent credit losses in respect of borrowers affected 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 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 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.

During 2021, due to the improvement in the state of the economy, the Bank has reduced the buffer of the allowance provided in light of the crisis in 2020. In addition, in light of the decrease in the number of deferrals and in light of the comprehensive classifications made in previous quarters, it was decided to lift the classification to borrowers that had resumed making three consecutive repayments, and which do not have negative markings.

In view of the letters of the Supervisor of Banks of August 19, 2021 and December 30, 2021, in the matter of "credit risk growth in the construction and real estate sector", and following the requirement by the Supervisor of Banks to modify the group allowance in respect of the commercial credit portfolio, the Bank has increased the balance of the group allowance in respect of the construction and real estate sector in Israel to an amount of approx. NIS 535 million, comprising a rate of approx. 0.93% of the balance of credit risk relating to this sector.

Recognition of interest income. On date of classification of a debt as impaired, the Bank defines the debt as not accruing interest income and discontinues the accrual of interest income in respect of the debt, with the exception of that mentioned below regarding certain reconstructed debts. Furthermore, at date of classification of a debt as impaired, the Bank cancels all interest income accrued and recognized as income in the statement of profit and loss but not yet collected. The debt continues to be classified as a debt that does not accrue interest so long as its classification as impaired has not been cancelled. A debt that has formally undergone troubled debt restructuring and following the restructure it is reasonably certain that the debt would be repaid and would perform in accordance with its new terms, shall be treated as an impaired debt that accrues interest income. For details regarding the recognition of income on a cash basis in respect of debts classified as impaired, see section 3.1 above.

The Bank does not discontinue the accrual of interest income in respect of debts examined and provided for on a group basis, which are in arrears for 90 days or over. These debts are subject to assessment methods of an allowance for credit losses, which ensure that the Bank's profit is not inclined upwards. Commission charged on arrears in these debts are recognized as income on date on which the Bank is entitled to receive it, on condition that collection thereof is reasonably certain.

1. Significant Accounting Policies (continued)

Accounting write-off. The Bank writes-off accounting wise each debt or part thereof examined on a specific basis and considered a debt that is uncollectible and of a low value so that leaving it as an asset is not justified, or a debt in respect thereof the Bank is conducting long-term collection efforts (defined in most cases as a period exceeding two years). With respect to debts that are collateral dependent, the Bank records immediately an accounting write-off against the allowance for credit losses, of that part of the recorded amount of the debt exceeding the fair value of the collateral.

With respect to debts assessed on a group basis, the write-off rules were determined based on their period of arrears (in most cases over 150 consecutive days in arrears) and on other problem parameters. It should be clarified that accounting write-offs do not involve a legal waiver and they reduce the reported balance of debt for accounting purposes only, while creating a new cost base for the debt in the Bank's books.

Notwithstanding that stated above, the need for an immediate write-off is examined in respect of loans examined on a group basis and classified as impaired due to the restructuring of a troubled debt. In any event, the accounting write-off of such debts is made no later than the date on which the debt was sixty days or over in arrear, with reference to the restructuring terms.

Troubled debt restructurings. A debt that has undergone a formal troubled debt restructurings, is defined as a debt in respect of which, due to economic or legal circumstances related to financial difficulties of the borrower, the Bank has granted a waiver by way of changing the terms of the debt, so as to alleviate the burden of cash repayments in the short-term (a reduction in or deferment of cash payments due from the borrower), or by way of accepting other assets of the borrower (in full or part) as settlement of the debt.

For the purpose of determining whether a debt arrangement made by the Bank constitutes a restructuring of a troubled debt, the Bank performs a qualitative review of all the terms of the arrangement and the circumstances in which it had been reached in order to determine whether the borrower is experiencing financial difficulties and whether, within the framework of the arrangement, the Bank had granted any waiver to the borrower.

In order to determine as to whether the borrower is experiencing financial difficulties, the Bank examines whether indications for difficulties of the borrower exist at date of the arrangement or for the existence of a reasonable possibility that the borrower will encounter financial difficulties in the absence of the arrangement.

The Bank does not classify a debt as a restructured troubled debt if within the framework of the arrangement the borrower has been granted an immaterial deferment in repayments, considering the frequency of the installments during the contractual maturity period and the expected average maturity of the original debt. In this respect, where several arrangements have been made involving changes in the terms of the debt, the Bank takes into consideration the cumulative effect of prior arrangements for the purpose of determining whether the deferment in repayments is not material.

The treatment of structured debts and of following debt restructuring. Debts, the terms of which have been changed under a reconstruction of a troubled debt, including those debts which prior to the reconstruction had been examined on a group basis, are classified as troubled debts and assessed on a specific basis for the purpose of performing the allowance for credit losses.

As a general rule, a restructured troubled debt continues to be measured and classified as an impaired debt until repaid in full. Notwithstanding, under certain circumstances, when a debt had undergone troubled debt restructuring, and at a later date the banking corporation and the debtor enter into an additional restructuring agreement, the banking corporation is not required to treat the debt as a restructured troubled debt if the following two conditions apply:

- The debtor is no longer in financial difficulties at date of the following restructure;
- According to the terms of the following restructure, no waiver had been granted to the debtor (including no waiver of principal amounts on a cumulative basis since the original date of the loan).

A debt as above, that has undergone a following restructure and the classification thereof as an impaired debt has been removed, is to be assessed on a group basis for the purpose of determining the allowance for credit losses, and the recorded amount of the debt has not changed upon the following restructure (except where cash had been received or paid).

If in following periods, a debt as above has been examined on a specific basis and is found to require the recognition of impairment in value or where the restructure of a troubled debt is applied, the bank reclassifies the debt as impaired and treats it as a restructured troubled debt.

5. Securities

5.1 In accordance with directives of the Supervisor of Banks, the Bank's investments in securities are classified as follows:

(a) Held to maturity bonds - bonds which the Bank intends and has the ability to hold until maturity, except for debentures which may be called early or otherwise disposed, such that the Bank may not cover substantially all of its recognized investment. Bonds are stated at cost with the addition of accumulated linkage differences or exchange differences and interest, as well as the premium or discount component created upon acquisition and not yet amortized, and net of a provision for impairment which is not of a temporary nature.

1. Significant Accounting Policies (continued)

The transfer or sale of bonds classified to the held-to-maturity portfolio, is permitted in case of certain changes in circumstances, in which the sale or transfer will not be considered as contradicting the initial classification of the bonds, including evidence of material deterioration in the repayment ability of the bond issuer.

(b) Available-for-sale bonds – bonds not classified as held-to-maturity bonds or as trading bonds. Available-for-sale bonds are stated in the balance sheet at fair value on the reporting date. Unrealized profits or losses on adjustment to fair value are not included in the statement of profit and loss and are reported net, after deduction of provision for taxes, in a separate item of capital in accumulated other comprehensive income, except for losses on impairment in value, which are of a nature other than temporary.

(c) Trading securities - purchased securities held for sale in the near period or securities, which the Bank has chosen to measure at fair value through the statement of profit and loss under the fair value alternative, except for shares with no available fair value. The trading securities are presented in the balance sheet at their fair value at the reporting date. unrealized profits or losses due to adjustments to fair value are recorded in the statement of profit and loss.

(d) Shares not for trading

- Shares, for which available fair value exists, are stated in the balance sheet at their fair value at the reporting date. Unrealized profits or losses and realized profits or losses on adjustment to fair value are stated in the statement of profit and loss;
- Shares, for which available fair value does not exist, are stated in the balance sheet at cost, net of impairment in value with the addition or deduction of changes in observable prices of regular transactions in similar or identical investments of the same issuer. Unrealized and realized profits and losses on adjustment to changes in observable prices, as stated, are recorded in the statement of profit and loss.

5.2 The cost of realized securities is recognized in the statement of profit and loss on a "moving average" basis.

5.3 Dividend income, accrued interest, linkage differentials, amortization of premium or discount (according to the effective interest method) as well as losses on impairment of an other than temporary nature are recognized in the statement of profit and loss.

5.4 Interest income in respect of acquired beneficiary rights (such as: asset backed financial instruments of the MBS, CDO, CLO, CMO types), excluding beneficiary rights of a high credit quality, is recognized according to the prospective interest method, the rate of interest used for recognition of interest income being adjusted to changes in assessment of future cash flows. In this respect, beneficiary rights of a high credit quality comprise beneficiary rights issued with U.S. government guarantee or by U.S. government agencies, as well as asset backed securities the rating of which is at least "AA".

5.5 Investments in venture capital funds is treated at cost less losses on impairment of an other than temporary nature. Gains on investments in venture capital are recognized in the statement of profit and loss upon realization of the investment.

5.6 For the treatment of transactions involving the transfer of financial assets (such as: repurchase agreements, lending of securities, etc.), see subsection 9 below. In the matter of computing fair value, see subsection 7 below.

5.7 The Bank and its relevant subsidiaries examine, in each reporting period, in accordance with generally accepted accounting principles applying to banking corporations, as to whether the decline in the fair value of bonds classified to the available-for-sale portfolio or to the held-to-maturity portfolio is of a nature other than temporary. And for which no fair value is available, which are not measured according to fair value, a qualitative test is performed regarding the need for a provision for impairment. In case the qualitative estimate indicates impairment in value of the investment in shares, then impairment is recognized in the statement of profit and loss in an amount equal to the difference between the fair value of the investment and its book value.

The review is based on the following considerations:

- In the case of bonds –
  - The ratio of loss to depreciated cost, as of balance sheet date and examination date;
  - Duration of the period in which the fair value of the bond is lower than its cost;
  - The rate of yield to redemption in the case of bonds;
  - The credit rating of the bond, including changes in its rating;
  - Comparison with a similar bond or with the average margin of bonds having similar terms in the market and in the sector and with historical fluctuations embedded in the fair value of the bonds, and following changes in value subsequently to balance sheet date;
  - Events of default in the payment of interest and/or of principal in accordance with the terms of the bond;
  - Actions taken by the Trustee/bondholders;

1. Significant Accounting Policies (continued)

- Forecast of changes in the expected cash flow from the bond;
- Relating the impairment in value to the deterioration in the financial position of the issuer, or to the change in general market condition;
- Relevant information regarding the financial condition of the issuer and changes therein, analysis of specific events that might affect the activities of the issuer and his profitability and an analysis of the economic sector and of the country in which the issuer operates.
- Analysis of changes in the financial condition of the debtors backing asset-backed bonds, as well as reference to changes in quality of credit reinforcements.

- In the case of shares:
  - Events of reduction due to the distribution of dividends or its cancellation;
  - Significant deterioration in profitability, in credit rating, or in the business forecasts of the corporation;
  - Significant negative change in the economic, technological or regulatory environment of the corporation;
  - Significant negative change in the geographical market terms and/or the industry of the corporation;
  - The price for an identical or similar share is an amount lower than the book value of the investment;
  - Factors that raise significant doubt as to the ability of the corporation to continue operations as a going concern.

The Bank recognizes impairment of a nature other than temporary in the following cases:

- A security, the fair value of which at the end of the reporting period and also proximate to the date of publication of the financial report for that period, was significantly lower than its cost (or written-down cost in case of bonds). This, unless the bank has objective and solid evidence as well as a careful analysis of all relevant factors, which proves at a high level of assurance that the impairment is of a temporary nature.

  "Significantly lower" –

  In the case of bonds – where their fair value is lower than the written down cost by 40% and over and the rate of return to redemption is 20% and over, unless special circumstances exist;

  In the case of shares - when their fair value is lower than cost by 20% and over and the shares are in a loss position for a period of six months and over, unless special circumstances exist;

  Special circumstances – circumstances that have been explained and documented, including: changes in market value that mostly might be attributed to a change in market interest rate, a security issued by a government (Government of Israel or government of an OECD country) in local currency, nationalization;
- Securities which the Bank intends to sell until date of publication of the financial statements; and/or which the Bank intends to sell within a short time following the date of publication of the financial statements; and/or it is more likely than not that the Bank would be required to sell the securities prior to the recovery of their cost;
- An intention or demand for the partial sale of a security would not in itself require recognition of a loss on impairment with respect to that part of the security not sold and examination of impairment would be required in its respect in accordance with the abovementioned considerations;
- A bond, the rating of which at date of publication of the financial report for the period has been significantly reduced compared to its rating on date of purchase by the bank (a significant downgrading – where the rating is lower than the investment rating, and is at least 3 notches lower than the rating at date of acquisition);
- A bond which following its purchase has been classified by the bank as problematic;
- A bond in respect of which there has been a payment default subsequent to its purchase.

Where impairment of an other than temporary nature occurs, the cost of the security is written down to its fair value, which serves as a new cost basis. The cumulative loss in respect of a security classified as available-for-sale, which in the past had been reflected as a separate item in equity within the framework of other comprehensive income, is reflected in the statement of profit and loss when the impairment in respect of which is of an other than temporary nature. Increase in value during consecutive reporting periods, are recognized as a separate item in equity within the framework of other comprehensive income, and are not reflected in the statement of profit and loss (the new cost base).

6. **Derivative financial instruments and hedge transactions.** The Bank recognizes all derivatives as assets or liabilities on the balance sheet and measures them at fair value. Changes in the fair value of a derivative instrument shall be reflected in the statement of profit and loss, or shall be included in the equity as an "other comprehensive income" component, in accordance with the designation of the derivative instrument.

   Hedge of fair value - The change in the fair value of derivatives hedging exposure to the change in the fair value of an asset or a liability, is recognized in the statement of profit and loss on a current basis, as well as the change in value of the hedged item, which may be related to the hedged risk.

1. Significant Accounting Policies (continued)

Hedge of cash flows - The accounting treatment of changes in the fair value of derivatives that hedge exposure to changes in the cash flow generated by an asset or a liability: the change in the fair value of a derivative designated to hedge a cash flow risk, in respect of components included in the hedge effectiveness assessment, is reported as a component of "other comprehensive income", and thereafter, in the period in which cash flows have an effect on the statement of profit and loss, it is reclassified to the statement of profit and loss.

For further details, see Note 28 hereunder.

7. **Determination of fair value of financial instruments.** Fair value is defined as the price that would have been received on a sale of an asset or the price that would have been paid upon the transfer of a liability, in an ordinary transaction between participants in the market at date of measurement. Among other things, the Standard requires that for the purpose of assessing fair value maximum use should be made, to the extent possible, of observable inputs, while reducing the use of unobservable inputs. Observable inputs reflect information available on the market, received from independent sources, while unobservable inputs reflect the assumptions of the Bank.

Sub-Topic 820-10 of the Codification details the hierarchy of measurement techniques based on the question whether inputs used for the determination of fair value are observable or unobservable. These classes of inputs create a fair value grading as detailed below:

- Level 1 inputs: quoted prices (non-adjusted) on active markets for identical assets or liabilities, to which the Bank has access at date of measurement;
- Level 2 inputs: Inputs observable, directly or indirectly, for the asset or liability and which are not quoted prices that are included in Level 1;
- Level 3 inputs: unobservable inputs for assets or liabilities.

Securities. The fair value of trading securities, available-for-sale bonds and equity securities the fair value of which is readily available is stated on the basis of market prices quoted on a principal market, where several markets on which the security is traded exist, the assessment is made according to the quoted price at the most beneficial market. In such cases, the Bank's fair value of the investment in securities is the multiplication of the number of units by that quoted market price. The quoted price used for the determination of the fair value, is not adjusted in respect of the size of the position of the Bank in relation to the volume of trade (size of holding factor). Where no quoted market price is unavailable, the assessment of fair value is based on the best available information while making maximum use of observable inputs, taking into consideration the risk inherent in the financial instrument (market risk, credit risk and such like).

Derivative financial instruments. Derivative financial instruments that have an active market are assessed at market value determined on the principal market, and in the absence of a principal market, according to the price quoted at the most beneficial market. Derivative financial instruments that are not marketable are assessed on the basis of models that take into account the risks inherent in the derivative instrument (market risk, credit risk and such like). For further details, see below for assessment methodologies for credit risk and non-performance risk.

Additional non-derivative financial instruments. No "market price" is available in respect of most of the financial instruments in this category (such as: credit to the public, credit to the government, deposits from the public, deposits with banks, subordinate capital notes and non-marketable loans) because these are not traded on any active market. Accordingly, fair value is assessed using accepted pricing models, such as the present value of future cash flows discounted at a discount rate reflecting the risk level inherent in the financial instrument. For this purpose, future cash flows in respect of impaired debts and other debts have been computed after eliminating the effect of accounting write-offs and allowances for credit losses in respect of the debts.

Evaluation of credit risk and nonperformance risk. The Standard (ASC 820) requires to reflect credit risk and nonperformance risk in measuring the fair value of a debt, including derivative instruments that were issued by the Bank and measured according to fair value. Nonperformance risk includes the credit risk of the Bank but is not limited to that risk only.

For further details regarding the methods and principle assumptions used for assessment of fair value of financial instruments, see note 34 below regarding balances and fair value assessments of financial instruments.

8. **Offsetting assets and liabilities.** The Bank offsets assets and liabilities deriving from the same counterparty and presents in the balance sheet their net balance, where the following accumulated conditions exist: (1) in respect of the said liabilities, the bank has a legally enforceable right of setoff of the liabilities against assets; (2) it is its intention to settle the liabilities and realize the assets on a net basis or simultaneously; (3) Both the Bank and the counterparty owe to one another determinable amounts.

When assets and liabilities derive from two different counterparties, they are presented in the balance sheet at the net amount, upon meeting all the conditions detailed above and on condition that there is an agreement between the three parties that establish in a clear manner the Bank's right of set-off with respect to said liabilities.

The Bank does not offset the exposures in respect of derivative instruments in the balance sheet.

1. Significant Accounting Policies (continued)

The Bank offsets deposits, the repayment of which to the depositor is conditional upon the collection of the credit and the credit granted out of such deposits, where no credit loss risk to the Bank is involved.

9. Transfers and services relating to financial assets and settlement of liabilities. The Bank applies the measurement and disclosure rules determined in accordance with Topic 860 of the Codification, for the accounting treatment of financial asset transfers and extinguishments of liabilities.

According to the said rules, the transfer of certain financial assets shall be treated as a sale accounting wise, if and only if all the following conditions exist: (1) the transferred financial asset had been isolated from the transferor, and are beyond the reach of the transferor and his creditors, also in the case of bankruptcy or other type of receivership; (2) each acceptor has the right pledge or exchange the transferred asset, and no conditions exist which also restrict the transferee from using his right to pledge or exchange the asset and which grants the transferor a larger than just a trivial benefit; (3) the transferor does not maintain effective control of the transferred financial assets.

In addition, in order for the transfer of a part of a financial asset to be considered a sale, the transferred part must fall within the definition of participating rights, in addition to the conditions noted above.

In the event that the transaction meets the terms for treatment thereof as a sale transaction, the transferred financial assets are removed from the Bank's balance sheet. The differences between the amount of consideration received and the amount of the disposed assets are recognized in the statement of profit and loss. Accordingly, where sale conditions do not exist, the transfer is treated as a collateralized debt. A sale of a part of a financial asset, which is not considered a participating right, is treated as a secured burrowing with pledge of collateral. The Bank continues to record the transferred financial assets in the balance sheet, with no change in their measurement.

Transactions involving the lending or borrowing of securities, in which the lending is made in consideration of the credit quality and general collateral of the borrower, the lending or borrowing is treated as credit or as a deposit, which are measured at the fair value of the related securities. Income on an accrual basis relating to these securities are recorded as interest income from credit, while changes in fair value (over and above changes in the accrual basis) are recorded as part of non-interest financing income in the case of securities included in the trading portfolio, or recorded in other comprehensive income in the case of available-for-sale securities.

The Bank removes a liability if it had been extinguished, namely, if one of the following terms exists: (a) the Bank had paid the lender and was released from its obligations regarding this liability; or (b) the Bank, under a legal process, had been legally released from liability or, with the consent of the lender, had been released from being the principal debtor in respect of this liability.

An overseas subsidiary conducts transactions for the sale of securities under repurchase agreements terms and for the purchase of securities under agreements to resell terms. Securities sold under repurchase agreements terms, according to which control over the sold asset has not been lost, are treated as acceptance of a secured liability, so that the sold securities are not eliminated from the balance sheet, being reflected in the section "Securities", against which a deposit, the repayment of which is secured by a pledge of the said securities, is reflected in the section "Securities lent or sold under agreements to repurchase". Securities purchased under resale agreement terms, are treated as the granting of a secured loan, so that the securities so purchased serve as collateral for the loan and are not reflected in the Balance sheet. The loan granted is reflected in the section "Securities borrowed or purchased under agreements to resell".

10. Fixed assets (buildings and equipment)

Recognition and measurement. Fixed asset items are measured at cost less depreciation and accumulated losses on impairment. Cost includes expenditure that may be directly attributed to the acquisition of the asset, necessary costs involved in bringing the asset to the condition and location required for the asset to operate in accordance with its designated use.

The cost of acquired software being an integral part of the operation of the related equipment is recognized as part of the cost of such equipment. Furthermore, in accordance with the public reporting directives, the Bank classifies to the buildings and equipment item the cost of purchased software assets or capitalized costs of software developed internally for own use. Regarding the accounting treatment of software costs, see sub section 12 below.

Depreciation. An asset is depreciated when it is available for use, namely, when it has reached the location and the condition required for it to operate in the manner intended by Management.

Depreciation is charged to the Statement of profit and loss by the straight-line method over the assessed useful life span of each part of the fixed asset items, since this system reflects in the best manner, the forecasted consumption format of the future economic benefits embedded in the asset. Assets leased by way of a financial lease are amortized over the shorter of the period of the lease or the period of use of the asset. Leasehold improvements are being amortized over the shorter of the period of the lease or the useful life of the asset. Land is not amortized.

1. Significant Accounting Policies (continued)

Assessments regarding the depreciation method, the useful life span of assets and their residual values are re-examined when events or changes in circumstances indicate that the present assessments are no longer appropriate, and are adjusted where required

For details as to the depreciation rates in the current period and the comparative periods, see Note 16 below.

11. Leases - general. Agreements, which confer the Bank control over the use of an asset for a period of time within the framework of a lease in return for a consideration, are treated as leases. Upon initial recognition, a liability is recognized in an amount equal to the present value of the future lease payments during the lease period (such payments do not include variable lease payments), and concurrently, a right of use asset is recognized in the amount of the liability in respect of the lease, adjusted for lease payments made in advance or accumulated, and net of lease incentives, and with the addition of direct expenses incurred regarding the lease.

The lease period is determined as the period in which the lease is not revocable, together with periods covered by an option to extend or cancel the lease, if it is reasonably certain that the lessee would or would not exercise the option, respectively, and together with periods covered by an option to extend or not to cancel the lease, where the right to exercise such an option is controlled by the lessor.

With respect to operating leases, a liability and a right of use asset would be recorded where the lease period exceeds twelve months. Where the lease is in respect of land and buildings, the land and building components are taken separately for the purpose of classification and measurement, a significant consideration in classifying the land component is the fact that in general, land has an indeterminate life span.

Consecutive measurement. Following the initial recognition, a liability in respect of lease (operating and financial) is measured at amortized cost according to the effective interest method. Moreover, the Bank examines a right of use asset (in respect of an operating and a financial lease) for the purpose of impairment in value, in accordance with sub-topic 360-10-35 of the Codification regarding impairment of fixed assts.

Lease payments – operating lease. Lease payments, excluding variable lease payments, are recognized in profit and loss by the "straight line" method, over the period of the lease. Received lease incentives are recognized as an integral part of total lease expenses by the "straight line" method, over the period of the lease. Variable lease payments based on changes in index or in the rate of interest, are recognized in profit and loss in the period of change. Variable lease payments, which are not based on changes in index or in the rate of interest, are recognized in profit and loss in the period in which the specific aim leading to the change in the lease payments, is reached, and these would be cancelled in the period in which it is no longer expected that the specific aim would be reached.

In any consecutive reporting period, a right of use asset is recognized in the amount of the amortized cost of the liability in respect of the lease, adjusted for lease payments paid in advance or accumulated, and net of the balance of lease incentives, together with direct costs not yet amortized and net of impairment losses accumulated in respect of the right of use asset.

Lease payments – financial lease. Following the initial date of the lease, a right of use asset is measured at cost less accumulated amortization, net of accumulated impairment losses, and adjusted for the remeasurement of the liability in respect of the lease. Amortization is computed by the "straight line" method over the useful life or the contractual period of the lease.

12. Intangible assets

Goodwill. Goodwill is measured at cost less accumulated impairment losses.

Software costs. Software purchased by the Bank is measured at cost less accumulated depreciation and impairment losses.

Capitalization of software costs for internal use. The Bank capitalizes costs related to the development of software for internal use only when: (1) the first stage of the project has been completed; and (2) Management has approved and has committed to, directly or indirectly, finance the software development project, and that it is expected that the project would be completed. The Bank capitalizes the following costs: direct cost of materials and services consumed, payroll cost of workers directly engaged in the development work or in obtaining the software. Other costs in respect of the development operations and costs incurred in the first stage of the project are recognized in profit and loss as incurred.

Amortization. Amortization is charged to the Statement of profit and loss by the straight-line method over the useful life span of intangible assets, including software assets, beginning with the date on which the assets are ready for use.

Subsequent costs. The cost of upgrades and improvement of software for in-house use are capitalized only if it is expected that the costs incurred would lead to additional functionality. Other consecutive costs are recognized as an expense as incurred.

1. Significant Accounting Policies (continued)

Guidelines in the matter of capitalization of in-house software development costs. Due to the accounting complexity involved in the process of capitalizing in-house software development costs, and in view of the materiality of the amounts of software costs capitalized, the Supervisor of Banks has determined guidelines in the matter of capitalization of software costs. The guidelines include reference to the materiality threshold for capitalization of software costs for each development project, the amortization period, capitalization coefficients for hours worked, and the grade of employees whose costs are to be capitalized.

13. Impairment of non-financial assets

Recognition of loss on impairment. Non-financial assets held for use are subject to review for impairment when events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. The carrying amount is not recoverable if it exceeds the amount of the undiscounted cash flows expected to be derived from use of the asset and its sale. Loss on impairment is measured as the amount by which the carrying amount of the asset (group of assets) exceeds its fair value.

Impairment of costs of internal development of computer software. Examining the existence of impairment with respect to the own development of computer software shall be made where the signs noted in the generally accepted accounting principles for banks in the United States exist, SOP 98-1: "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use (ASC 350-40):

(1) It is not expected that the software will provide significant potential services;

(2) A material change occurred in the manner or scope of use of the software or in the anticipated use of the software;

(3) A material change in the software was made or will be made in the future;

(4) The costs of development or of modifying the software intended for internal use deviate materially from forecasted amounts;

(5) It is no longer expected that the development of the software will be completed and use made of it.

If one or more of the above signs appear, the Bank examines impairment in accordance with the rules of ASC 360.

14. Non-current assets and disposal groups held for sale. The Bank classifies a non-current asset (or a disposal group) as held for sale if its carrying amount is settled primarily through a sale and not by way of continued use, in a period in which all the following terms are fulfilled: (1) Management is committed to the planning of a sale of the asset (or the disposal group); (2) the asset (or the disposal group) is available for immediate sale in its present condition; (3) an active plan has been initiated to locate a buyer and other actions have been taken to complete the planning to sell the asset; (4) the sale of the asset (or the disposal group) is probable and the transfer of the asset (or the disposal group) is expected to be classified as a sale completed within one year; (5) the asset (or the disposal group) is being actively marketed for sale at a price reasonable in relation to its present fair value; (6) actions required to complete the plan indicate that it is unlikely that the plan will be significantly changed or withdrawn.

The Bank measures the held for sale assets (or the disposal group) at the lower of the carrying amount or the fair value less costs to sell. Depreciable assets that are classified as held for sale are not subject to periodic depreciation.

An impairment loss recognized at the time of the initial classification of an asset (or a disposal group) as held for sale, as well as subsequent remeasurement profits or losses are carried to profit or loss. Profits from an increase in value are recognized up to the cumulative amounts of the impairment losses that were recognized from the time of the asset (or the disposal group) being classified as held for sale.

15. Employee rights

15.1 Post retirement benefits – pension, severance pay and other benefits – defined benefits plans

- The Bank recognizes amounts relating to pension and severance plans and other post retirement plans on the basis of computations that include actuarial and other assumptions, including: discount rates, mortality rates, early retirement rates, forecasted long-term return rates on assets of the plan, remuneration increases and employee turnover;
- The Bank reviews its assumptions on a periodic basis and updates these assumptions where required. As a general rule, the actuarial estimates are made once a year, unless material changes occur in the actuarial assumptions in the interim period, which materially impact the actuarial liabilities. The Bank has decided to perform a quarterly actuarial assessment of the severance pay liability;
- Changes in assumptions are in general recognized, subject to the instructions stated above, firstly in accumulated other comprehensive income, and are amortized to the statement of profit and loss in following periods;
- The liability is accumulated over the relevant period determined in accordance with the rules detailed in section 715 of the codification;
- The Bank implements the guidelines issued by the Supervisor of Banks with respect to internal control over the financial reporting process in the matter of employee rights, including with respect to examining the "liability in substance" of the Bank to grant its employees benefits comprising increased severance pay and/or early pension.

1. Significant Accounting Policies (continued)

15.2 Post retirement benefits – defined deposits plans

A defined deposit plan is a plan that provides post-retirement benefits in consideration for services provided, maintains a personal account for each participant in the plan, defines how deposits to the account of the employee should be determined instead of determining the amount of the benefits that the employee would receive. The Bank's commitment to deposit in the defined deposit plan, are recognized as an expense in the statement of profit and loss in the periods during which the employees have provided the relevant services.

15.3 Other long-term benefits to active employees: long-service (jubilee) awards

- The liability accrues over the period entitling to the benefit;
- For the purpose of computing the liability, the rates of discount and actuarial assumptions are taken into consideration;
- The whole cost component of the benefit for the period, including actuarial profits and losses, are recognized immediately in the statement of profit and loss.

15.4 Absence from work entitling compensation – vacation and sick leave

- The liability in respect of vacation pay is measured on a current basis, without the use of discount rates and actuarial assumptions;
- The Bank does not accrue a liability for sick-leave that may materialize during the employee's current service.

15.5 In accordance with instructions of the Supervisor of Banks, the discount rates are determined in accordance with the rates of return to maturity, according to the maturity periods of Israeli government bonds at date of reporting, with the addition of an average margin of corporate bonds rated "AA" (international) and above at date of reporting. For practical reasons, the spread has been determined in accordance with the difference between the rates of return to maturity, according to maturity periods, on U.S. corporate bonds rated "AA" and higher, and the rates of return to maturity, for the same maturity periods, on U.S. government Bonds, and everything at date of reporting.

15.6 The accounting treatment of actuarial profits/losses recognized in other comprehensive income due to changes in the discount rates:

- The actuarial loss as of January 1, 2013, deriving from the difference between the discount rate used to compute the CPI-linked provisions for employee rights, determined in accordance with the provisional instruction of the Reporting to the Public Directives (4%), and the discount rates as of that date for CPI-linked liabilities to employees, as determined according to the rules, as stated above (hereinafter: "the loss"), was included in accumulated other comprehensive income;
- Actuarial profits recognized as from January 1, 2013, and thereafter, derived from current changes in the discount rates during the reported year, are recognized in accumulated other comprehensive income, and reduce the above stated recorded balance of loss until its nullification;
- Actuarial losses derived from current changes in the discount rates during the reported year, and actuarial profits derived from current changes in the discount rates during the reported year, recognized after nullification of the recorded balance of loss, as above, are amortized by the "straight line" method over the remaining average period of service of the employees expected to enjoy benefits under the plan;
- Other actuarial profits and losses (which are not the result of changes in the rate of discount) as at January 1, 2013, and for periods thereafter, are included in accumulated other comprehensive income and amortized by the "straight line" method over the remaining average period of service of the employees expected to enjoy benefits under the plan, except in certain exceptional cases.

15.7 The computation on an actuarial basis of the provisions with respect to the Bank's liability for severance pay involves the use of statistical tools and evaluations regarding the future, and is based on past experience and on the limitations determined in this respect by the Bank’s Management (see hereunder).

The limitations determined by the Management, which were implemented in the financial statements as of December 31, 2020, are as follows:

- The minimum age for retirement under preferred terms is 50;
- The special reserve for exceptional retirement cases had been fully used within the framework of the retirement plan;
- The retirement vector for the years 2021-2023 would be 1%, and as from 2024 would be based upon a new research made by the Actuary;
- Regarding a group of employees included in the 2020 retirement plan, the offer for retirement in their respect remains in effect also at the beginning of 2021, it had been assumed that that the rate of retirees would be identical to the retirement target out of the whole population included in the plan.

1. Significant Accounting Policies (continued)

The following change in assumptions was recorded in the financial statements as at December 31, 2021: the retirement vector would be based in 2021 and thereafter on a new research made by the actuary in 2020.

16. Contingent liabilities. The accounting treatment of outstanding legal actions is in accordance with the provisions of the U.S. Accounting Standard ASC 450 "Accounting for Contingencies" and its related guidelines, and in accordance with the guidelines and clarifications of the Supervisor of Banks, including public reporting directives in the matter of the "Accounting for Contingencies".

In assessing the outstanding legal actions, Managements of the Bank and of its subsidiaries base themselves on opinions of their legal Counsels, which determine the probability of the exposure to the risk involved in these claims materializing.

Claims have been classified according to the probability range for a risk exposure materializing, as follows:

1) Probable - probability of over 70%.
2) Reasonably possible - probability of over 20% and up to and including 70%.
3) Remote - probability of 20% or less.

The financial statements include appropriate provisions regarding claims the realization of the exposure in respect thereof was considered "probable".

According to the guidelines, only in rare cases may a banking corporation state in its financial statements that it is not possible to assess the prospects of a risk exposure materializing in respect of an ordinary legal action and an action approved as a class action, this in four financial statements (including one annual financial statements) to be published subsequently to the filing of a lawsuit together with a petition to have it approved as a class action suit, such period is not to include a period in which the Court has decided to stay the proceedings. Note 26 states separately the outstanding claims, in respect of which a reasonable assessment of the exposure to risk is not possible.

The Bank has described material legal proceedings being conducted against the Bank and Group companies. In this respect, the Bank has determined that as a general rule, a legal proceeding shall be disclosed where the amount claimed exceeds 0.5% of the equity capital of the Bank if it is not possible to assess the prospects of the risk exposure materializing and exceeds 1% of the equity capital where the reasonability prospects of the risk exposure materializing is possible or remote.

It should further be noted, that in cases where the Bank is one of the defendants in the action, and the claimants have not allocated the amount claimed to each of the defendants, the amount estimated as relevant to the Bank is computed to the best of ability, considering the fact that taking the full amount into account might be misleading and is not correct under the circumstances, and that the estimate made does not necessarily represent the allocation which at the end of the day would be decided by the Court.

The Bank is exposed to unasserted claims or suits due, inter alia, to doubts with regard to interpretation of agreements and/or statutory provisions and/or their application. The Bank is made aware of such exposure in several ways, including: appeals or complaints by third parties to Bank entities. In assessing the risk associated with unasserted claims/lawsuits, the Bank relies on internal assessment by the handling entities and by Management, which weigh the estimated probability of a claim being made, the chances of such claim, if made, to prevail and any settlement payments. Such assessment is based on past experience with regard to similar claims filed, and on an analysis of the actual allegations. By nature, in view of the preliminary stage of inquiring of the legal allegation, the actual outcome objective difficulties exist, which may result in the impossibility of making an assessment. Even if an assessment is made may differ from assessment conducted prior to filing of the claim.

17. Guarantees. Guarantees are contingent contracts that require the guarantor to make payments to the guaranteed party on the occurrence of the conditions that require the realization of the guarantee. A liability with respect to a guarantee is recognized in the books in the amount of its fair value, as assessed based on commission fees received, even if it is not expected that the payments will be made in the future. In instances where, at the time of the initial recognition, the Bank was required to recognize a provision for a loss contingency with respect to the guarantee, in accordance with the provisions of Topic 450 of the Codification, the liability with respect to the guarantee is measured at the time of the initial recognition at the higher of the fair value and the amount of the provision in accordance with the provisions of Topic 450 of the Codification.

The liability is subtracted from the books at the time when the Bank is released from the risk, in accordance with the nature of the guarantee, usually at the time of settling the liability. When the guarantee is measured at the time of its initial recognition in accordance with the provisions of Topic 450 of the Codification, its subsequent measurement is also performed in accordance with these provisions.

18. Income tax expense. The Bank's financial statements include current taxes and deferred taxes. The provision for taxes on income of the Bank and of its consolidated subsidiaries comprising financial institutions for VAT purposes, include profit tax levied on income under the Value Added Tax Act. VAT levied on payroll of financial institutions is included in the statement of profit and loss in the section "Salaries and related expenses".

1. Significant Accounting Policies (continued)

The Bank allocates the tax expense or the tax benefits on income to continuing operations to other comprehensive income and to items directly recognized in equity.

The Bank recognizes differed tax liabilities in respect of all temporary differences chargeable to tax, except for the following temporary differences: undistributed profits of a domestic subsidiary which in substance are for an indefinite period of time; an excess of the amount for purposes of financial reporting above the tax base of an investment in a foreign subsidiary, which in substance are for an indefinite period of time; differences related to goodwill (or part thereof) for which goodwill amortization is not deductible for tax purposes; differences stemming from intercompany transactions.

The Bank recognizes deferred tax assets in respect of all temporary differences available for deduction as well as in respect of carry forward losses, and concurrently recognizes a valuation allowance in respect of that amount included in the asset, which more likely than not, would not be realized. The Bank reduces the amount of deferred tax assessed by the amount of tax benefits that are not expected to be realized based on available evidence – both the positive evidence supporting the recognition of a deferred tax assets and the negative evidence supporting the creation of a valuation allowance in respect of the deferred tax asset, in order to determine whether a net deferred tax asset should be recognized.

- Deferred tax liabilities or deferred tax assets are measured by the enacted legal tax rates expected to apply to sufficient taxable income in the periods in which it is expected that the deferred tax liability would be settled or the deferred tax asset would be realized.
- The Bank classifies interest income or expenses in respect of taxes on income to the section "Taxes on income". Penalties payable to the tax authorities are also classified by the Bank to the section "Taxes on income".

Uncertain tax positions. The Bank recognizes the effect of tax positions only if it is more likely than not that these positions would be accepted by the Tax Authorities or by the Courts. Recognized tax positions are measured according to the highest amount the probability of its realization exceeds 50%. Changes in recognition or in measurement are reflected in the period in which changes in circumstances leading to a change in considerations have occurred.

Netting of deferred tax assets and liabilities. The Bank nets all deferred tax liabilities and tax assets, as well as all related valuation allowances in respect of a certain taxable component and within the boundaries of a certain tax jurisdiction area.

Additional taxes in respect of the distribution of dividends. The Bank may be liable for additional taxes in the case of a distribution of dividend by consolidated subsidiaries. This additional tax is not included in the financial statements in cases where the investee company adopts a policy of non-distribution of dividends involving additional taxes. In cases where an investee company is expected to distribute dividends out of profits involving additional taxes, the provision for taxes is increased in respect of the additional tax that might apply in respect of such distribution of dividend.

19. Earnings per share. The Bank presents basic earnings per share with respect to its ordinary share capital. The basic earnings per share is computed by dividing the earnings or loss attributed to the holders of the Bank's ordinary shares by the weighted average number of ordinary shares outstanding during the period.

The diluted earnings per share are determined by the adjustment of the profit or loss attributable to the ordinary shareholders of the Bank and the adjustment of the weighted average number of outstanding ordinary shares, after adjustment in respect of the effect of all potentially diluting shares, including share option warrants.

20. Operating segments reporting

Regulatory operating segments. A regulatory operating segment is a component of a banking corporation which is engaged in specific operations or which serves particular classes of customers, as defined by the Supervisor of Banks. The reporting format for the Bank's regulatory operating segments has been determined in the Reporting to the Public Directives of the Supervisor of Banks.

A regulatory operating segment is mainly defined on the basis of the classification of customers. Private customers are classified to the household segment and to the private banking segment based on the scope of their financial assets. Customers other than private individuals are classified to business segments, mainly on the basis of their business turnover (distinguishing between minute and small businesses, medium businesses and large businesses), to institutional bodies segment and to the financial management segment. In addition, the Bank is required to apply the operating segments reporting requirements in accordance with Management's approach, when these are materially different from the regulatory operating segments.

Operating Segments according to Management's approach. In addition to the uniform reporting according to regulatory operating segments, the Reporting to the Public Directives require disclosure of operating segments in accordance with Management's approach, and according to accounting principles accepted by U.S. banks in the matter of operating segments (included in ASC 280, see Note 30 below).

1. Significant Accounting Policies (continued)

An operating segment defined in accordance with Management's approach is a component of a banking corporation that is engaged in operations which are expected to produce income and bear expenses; the results thereof are being regularly reviewed by Management and the Board of Directors for the purpose of making decisions regarding the allocation of resources and evaluation of its performance; and that separate financial information exists in respect thereof.

The classification of segments at the Bank is based upon the characterization of customer segments. These segments include also banking products. The results of the product segment that cannot be attributed to the relevant customer segments, are included in the section "Non-allocated amounts and adjustments".

21. **Amortization of deferred expenses.** Bond and subordinated debt notes issue costs are amortized proportionally to the outstanding principal amount of the bonds.

22. **Debtors and creditors regarding credit card activity.** At date of the transaction, the credit card company clearing the transaction acquires an asset in respect of the debt of the issuer of the card or the card holder and concurrently assumes a liability towards the trading house. Furthermore, a credit card Company as an issuer, acquires an asset in respect of a debt of a card holder or of the issuing bank, and concurrently, a liability towards the clearing credit card company.

    Debtor and creditor balances in respect of credit card transactions represent entries processed until the business day preceding the day of the report.

23. **Issuance agreements with customer clubs.** The issuance agreements of ICC with different customer clubs regularize, inter alia, the manner of distribution of income between the parties, as well as aspects relating to expenses, including marketing and advertising budgets provided by the parties and the distribution of costs.

    With respect to engagements of ICC with customer clubs, the income of ICC in respect of the cross-commission on transactions made by use of the club charge cards and interest income on transactions made with these cards, are included in the income in the consolidated financial statements (in the section "income from credit card commission" and in the section "net interest income" respectively). Amounts to which the customer clubs are entitled as well as the share of ICC in expenses are included in the section "other expenses". Furthermore, certain of the agreements of ICC with customer clubs include an award component depending on reaching certain milestones, in respect of which, ICC assesses in each period the entitlement to such award, and accordingly recognizes an expense in the financial statements (which is spread over the relevant period).

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

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.

Banking corporations have to implement the new Standard as from January 1, 2022. Clearing agents shall apply the new Standard as from January 1, 2023.

During the third quarter of 2021, the Bank commenced the parallel running stage, within the framework of which the allowance was calculated in accordance with the new rules as opposed to the allowance calculated in accordance with the existing rules. The parallel running stage continued into the fourth quarter of the year.

The expected principal changes in the accounting treatment in the financial statements of banking corporations, following the implementation of these principles, are, inter alia: the credit loss allowance will be computed based on the loss expected over the life of the credit, instead of estimating the loss incurred but not yet identified; in assessing the credit loss allowance significant use should be made of forward looking information, which would reflect reasonable and supportable forecasts regarding future economic events; disclosure would be expanded regarding the effect of the date of granting the credit over the credit quality of the credit portfolio; the manner of recording the decline in value of bonds in the available-for-sale portfolio would be changed; also, the new rules for the computation of the credit loss allowance shall apply to credit (including housing loans), bonds held for redemption, and certain off-balance sheet credit exposure. In addition, consistent with the accepted disclosure for banks in the United States, the format of the disclosure in the financial statements of banking corporations has been updated.

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.

1. Significant Accounting Policies (continued)

A Q&A file was published in the matter on January 31, 2021, which contained, inter alia, clarifications regarding the manner of classification and reverting restructured debts to the accumulating track.

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. Among other things, a relief was prescribed whereby a banking corporation is allowed to not apply the new rules with regard to identifying the restructuring of troubled debts and to not measure the allowance for credit losses in accordance with these rules for a restructured troubled debt with respect to changes in the terms that were made in a housing loan prior to January 1, 2022.

According to the Bank’s assessment, the effect of the initial application as of January 1, 2022 is expected to be an increase of approx. NIS 150 million in the allowance for credit losses (approx. NIS 180 million increase in the Bank and MDB’s allowance, which is set off by a decrease of approx. NIS 30 million in the subsidiary IDB Bank). The initial application effect arises from the following segments:

- Credit to commercial customers – an increase of approx. NIS 150 million;
- Credit to private individuals not for housing – an increase of approx. NIS 30 million;
- Housing loans – a decrease of approx. NIS 30 million.

It is noted that application of the new rules requires the formation of a methodology and complex models as well as a new technological application. Naturally, also after the beginning of initial application, improvement and development of the process for the measurement of the credit loss allowances would be continued, and respectively, such activity may require certain changes in the measurement procedure.

2. Interest Income and Expenses

	Consolidated			The Bank		
	2021	2020	2019	2021	2020	2019
	in NIS millions					
A. Interest Income[2]						
Credit to the public	6,871	6,294	6,752	4,048	3,554	3,729
Credit to the Governments	63	76	92	63	76	92
Deposits with the Bank of Israel and cash	37	37	42	27	26	25
Deposits with Banks	9	17	49	25	33	64
Bonds[1]	492	543	615	291	290	347
Other assets	19	20	17	-	-	-
Total interest income	**7,491**	**6,987**	**7,567**	**4,454**	**3,979**	**4,257**
B. Interest Expenses[2]						
Deposits from the public	(507)	(731)	(1,186)	(431)	(506)	(769)
Deposits from the Government	(2)	(3)	(3)	-	-	-
Deposits from the Bank of Israel	(6)	(2)	-	(4)	(1)	-
Deposits from banks	(29)	(50)	(71)	(4)	(3)	(9)
Securities lent or sold under agreements to repurchase	-	(5)	(21)	-	-	-
Bonds and subordinated debt notes	(417)	(296)	(389)	(229)	(168)	(205)
Other liabilities	(1)	(2)	(4)	(1)	(2)	(2)
Total interest expenses	**(962)**	**(1,089)**	**(1,674)**	**(669)**	**(680)**	**(985)**
Net interest income	**6,529**	**5,898**	**5,893**	**3,785**	**3,299**	**3,272**
C. Details of the net effect of hedge derivative instruments on interest income and expenses[3]:						
Interest Income	(31)	(5)	(2)	(27)	(25)	(3)
Interest expenses	19	14	1	-	-	-
D. Accrual basis, interest income from bonds:						
Held-to-maturity	116	92	128	90	72	82
Available-for-sale	363	441	463	189	209	243
Trading	13	10	24	12	9	22
Total included in interest income	492	543	615	291	290	347

Footnotes:

(1) Interest Income generated by mortgage backed securities (MBS) - in US $ millions	34	41	44	-	-	-
Interest Income generated by mortgage backed securities (MBS) - in NIS millions	109	140	157	-	-	-

(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

	Consolidated			The Bank		
	2021	2020	2019	2021	2020	2019
	in NIS millions					
A. Non-interest financing income (expenses) from operations not for trading purposes						
From operations in derivative instruments, net						
Net expenses in respect of derivative instruments[4]	(1,111)	(1,239)	(1,222)	(1,077)	(1,169)	(1,135)
Total from operations in derivative instruments	**(1,111)**	**(1,239)**	**(1,222)**	**(1,077)**	**(1,169)**	**(1,135)**
From investments in bonds:						
Gains on sale of available-for-sale bonds[3]	221	408	165	171	278	98
Losses on sale of available-for-sale bonds[3]	(12)	-	-	(12)	-	-
Provision for impairment of available-for-sale bonds[3]	(69)	(5)	-	(69)	(5)	-
Total from investments in bonds	**140**	**403**	**165**	**90**	**273**	**98**
Net exchange rate differences	**1,065**	**1,414**	**1,300**	**1,012**	**1,350**	**1,238**
Net profit (loss) from investments in shares:						
Gains on sale from non-trading shares	339	241	85	34	23	-
Losses on sale from non-trading shares	-	(2)	-	-	(2)	-
Provision for impairment of non-trading shares	(33)	(24)	(31)	-	-	-
Dividends from non-trading shares	11	9	12	4	1	1
Unrealized profits [7]	66	8	39	67	7	38
Profit on sale of shares and activities of associates	12	-	13	-	-	13
Total from investment in shares	**395**	**232**	**118**	**105**	**29**	**52**
Net profit in respect of loans sold[8]	**-**	**3**	**7**	**-**	**3**	**7**
Total non-interest financing income from operations not for trading purposes	**489**	**813**	**368**	**130**	**486**	**260**
B. Non-interest financing income (expenses) from operations for trading purposes[5]:						
Net income in respect of non-trading derivative instruments	304	238	376	248	179	316
Net realized and non-realized profit (losses) on adjustment of trading bonds to fair value[1]	(31)	92	(7)	(32)	90	(11)
Net realized and non-realized profit (losses) on adjustment of trading shares to fair value[2]	3	(1)	5	3	(2)	1
Total from trading operations[6]	**276**	**329**	**374**	**219**	**267**	**306**
Details of non-interest financing income (expenses) from operations for trading purposes, according to risk exposure:						
Interest rate exposure	222	236	415	165	171	362
Foreign currency exposure	49	95	(46)	51	100	(57)
Share exposure	5	(2)	5	3	(4)	1
Total according to risk exposure	**276**	**329**	**374**	**219**	**267**	**306**
Total non-interest financing income	**765**	**1,142**	**742**	**349**	**753**	**566**
Footnotes:						
(1) Of which, a part of the income (loss) relating to trading bonds that are still on hand at balance sheet date	-	6	8	(1)	5	7
(2) Of which, a part of the income relating to trading shares that are still on hand at balance sheet date	3	-	1	3	-	1
(3) Reclassified from accumulated other comprehensive income, see Note 10:						
Of which, profit from investments in bonds, net	140	403	161	90	273	95

(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.

(8) For details, see Note 31.

4. Fees and commissions

A. Composition

	Consolidated			The Bank		
	2021	2020	2019	2021	2020	2019
	in NIS millions					
Account Management fees	440	438	470	262	259	285
Credit cards	1,502	1,310	1,406	172	137	157
Operations in securities and in certain derivative instruments	407	353	326	251	235	206
Fees and commissions from the distribution of financial products	158	142	153	141	126	136
Handling credit	188	178	182	143	136	138
Conversion differences	137	122	133	105	95	102
Foreign trade services	56	50	56	45	40	45
Net income from credit portfolio services	4	4	5	3	4	5
Fees and commissions on financing activities	159	156	163	116	107	118
Other fees and commissions	74	73	78	25	27	32
Total fees and commissions	**3,125**	**2,826**	**2,972**	**1,263**	**1,166**	**1,224**

4. Fees and commissions

B. Income from contracts with customers

Following is the distribution of income from fees and commissions according to regulatory segments of operation

	Consolidated											
	Domestic operations								Total International operations			
	Households	Private Banking	Small and minute businesses	Medium businesses	Large businesses	Institutional bodies	Financial management	Total Domestic operations	Private Individuals	Business operations	Total International operations	Total
	In NIS millions											
	2021											
Account Management fees	198	2	161	20	24	-	-	405	10	25	35	440
Credit cards	1,197	1	149	29	125	-	-	1,501	1	-	1	1,502
Operations in securities and in certain derivative instruments	128	48	69	14	44	10	56	369	37	1	38	407
Fees and commissions from the distribution of financial products	111	25	19	2	1	-	-	158	-	-	-	158
Handling credit	9	1	23	14	92	-	23	162	3	23	26	188
Conversion differences	38	7	81	8	3	-	-	137	-	-	-	137
Foreign trade services	-	-	28	12	10	-	6	56	-	-	-	56
Net income from credit portfolio services	4	-	-	-	-	-	-	4	-	-	-	4
Fees and commissions on financing activities	4	-	33	24	84	-	1	146	-	13	13	159
Other fees and commissions	11	-	6	2	11	-	3	33	-	41	41	74
Total fees	**1,700**	**84**	**569**	**125**	**394**	**10**	**89**	**2,971**	**51**	**103**	**154**	**3,125**
	2020											
Account Management fees	194	2	167	20	24	-	-	407	10	21	31	438
Credit cards	1,020	-	145	30	114	-	-	1,309	1	-	1	1,310
Operations in securities and in certain derivative instruments	123	43	63	11	39	9	35	323	30	-	30	353
Fees and commissions from the distribution of financial products	101	23	16	1	1	-	-	142	-	-	-	142
Handling credit	8	3	21	19	79	-	23	153	2	23	25	178
Conversion differences	33	8	70	8	3	-	-	122	-	-	-	122
Foreign trade services	-	-	21	12	9	-	8	50	-	-	-	50
Net income from credit portfolio services	4	-	-	-	-	-	-	4	-	-	-	4
Fees and commissions on financing activities	5	-	31	22	77	-	8	143	-	13	13	156
Other fees and commissions	12	-	5	2	12	-	3	34	-	39	39	73
Total fees	**1,500**	**79**	**539**	**125**	**358**	**9**	**77**	**2,687**	**43**	**96**	**139**	**2,826**

4. Fees and commissions (continued)

B. Income from contracts with customers (continued)

Following is the distribution of income from fees and commissions according to regulatory segments of operation (continued)

	Consolidated											
	2019											
	Domestic operations								Total International operations			
	Households	Private Banking	Small and minute businesses	Medium businesses	Large businesses	Institutional bodies	Financial management	Total Domestic operations	Private Individuals	Business operations	Total International operations	Total
	In NIS millions											
Account Management fees	207	2	188	18	22	-	-	437	11	22	33	470
Credit cards	1,108	-	150	34	114	-	-	1,406	-	-	-	1,406
Operations in securities and in certain derivative instruments	103	38	55	8	46	6	36	292	34	-	34	326
Fees and commissions from the distribution of financial products	111	21	20	1	-	-	-	153	-	-	-	153
Handling credit	9	1	32	16	84	-	15	157	2	23	25	182
Conversion differences	38	6	76	10	3	-	-	133	-	-	-	133
Foreign trade services	1	-	24	12	9	-	10	56	-	-	-	56
Net income from credit portfolio services	5	-	1	(1)	-	-	-	5	-	-	-	5
Fees and commissions on financing activities	5	-	35	27	80	-	2	149	-	14	14	163
Other fees and commissions	15	-	9	2	12	-	-	38	-	40	40	78
Total fees	**1,602**	**68**	**590**	**127**	**370**	**6**	**63**	**2,826**	**47**	**99**	**146**	**2,972**

5. Other Income

	Consolidated			The Bank		
	2021	2020	2019	2021	2020	2019
	In NIS millions					
Management fees from consolidated subsidiaries	-	-	-	4	4	4
Capital gain on sale of buildings and equipment*	52	29	42	52	25	34
Other income	20	10	15	82	75	70
Total other income	**72**	**39**	**57**	**138**	**104**	**108**
*Of which: in respect of a sale and leaseback transactions involving buildings and equipment	48	4	-	48	4	-

6. Salaries and Related Expenses

	Consolidated			The Bank		
	2021	2020	2019	2021	2020	2019
	in NIS millions					
Salaries	2,424	2,222	2,361	1,379	1,253	1,370
Other related expenses including further education fund, vacation and sick leave	138	157	122	62	63	48
Long-term benefits	15	16	16	15	16	16
National Insurance and payroll taxes	537	483	514	387	347	378
Pension expenses (including severance pay and provident fund contributions)[(1)]:						
Defined Benefits Cost of service	105	90	78	63	47	42
Defined deposits	191	201	201	129	142	134
Other post-retirement benefits and non-pension post-retirement benefits Cost of service [(1)]	6	6	4	5	4	3
Special benefits in respect of dismissal	4	32	6	-	-	-
Expenses regarding other employee benefits	48	35	41	3	4	4
Total salaries and related expenses	**3,468**	**3,242**	**3,343**	**2,043**	**1,876**	**1,995**
Of which: overseas salaries and related expenses	391	385	405	-	-	-

Footnote:
(1) See Note 23.

7. Other Expenses

	Consolidated			The Bank		
	2021	2020	2019	2021	2020	2019
	In NIS millions					
Expenses in respect of pension (including contributions for severance pay and provident funds), defined benefit (excluding cost of service)	62	82	88	45	60	65
Other post-employment benefits and post-retirement benefits that do not comprise pension (excluding cost of service)	13	13	17	10	11	15
Long-term benefits (excluding cost of service)	15	(2)	46	15	(2)	46
Reductions, settlements - defined benefit	143	413	58	143	375	46
Marketing and advertising	232	211	256	70	50	70
Communications	108	127	116	44	56	48
Computer services	253	198	184	130	104	91
Office expenses	27	27	28	14	14	15
Insurance	53	27	21	22	10	7
Professional services	235	214	186	131	116	91
Directors' fees	17	14	15	6	5	7
Instruction and training	10	7	11	7	4	7
Fees	552	480	417	32	32	30
Other	483	443	415	187	161	187
Total other expenses	**2,203**	**2,254**	**1,858**	**856**	**996**	**725**

8. Provisions for Taxes on Profit

A. Composition

	Consolidated			The Bank		
	2021	2020	2019	2021	2020	2019
	in NIS millions					
Taxes for current year	1,103	849	1,073	570	462	602
Taxes for previous years	(17)	(34)	(65)	(28)	(37)	(56)
Total current taxes	**1,086**	**815**	**1,008**	**542**	**425**	**546**
Addition (deduction):						
Deferred taxes for current year	388	(311)	(139)	267	(233)	(118)
Deferred taxes for previous years	42	45	63	41	62	64
Total deferred taxes[(1)]	**430**	**(266)**	**(76)**	**308**	**(171)**	**(54)**
Total provision for taxes on profit	**1,516**	**549**	**932**	**850**	**254**	**492**
Of which: tax provision abroad	138	78	153	-	-	-

Footnote:

(1) **Composition of deferred tax expense (income):**

	Consolidated			The Bank		
	2021	2020	2019	2021	2020	2019
	in NIS millions					
Deferred tax income, before the effect of the following items:	430	(266)	(76)	308	(171)	(54)
Total deferred taxes	**430**	**(266)**	**(76)**	**308**	**(171)**	**(54)**
The above table does not include the tax effect of certain items that are recognized directly in capital in each period:						
The total tax expense (income) in respect of items recognized in other comprehensive income	(147)	(134)	196	(84)	(175)	116

B. Reconciliation between the theoretical tax which would apply had the profit been taxed at the statutory tax rate applying to the Banking corporations in Israel, to the provision of taxes on profit as charged in the statement of profit and loss:

	Consolidated			The Bank		
	2021	2020	2019	2021	2020	2019
	in NIS millions					
Profit before taxes	4,326	1,506	2,675	2,465	675	1,398
Statutory tax rate on banks in Israel	34.19%	34.19%	34.19%	34.19%	34.19%	34.19%
Income tax at the statutory tax rate	**1,479**	**515**	**914**	**843**	**231**	**478**
Income tax (tax savings) on:						
Income of foreign subsidiaries	1	22	11	-	-	-
Income exempt from tax or taxed at preferred rates	(8)	(7)	(5)	(1)	(1)	(1)
Adjustment differences on depreciation and capital gains	(9)	(7)	(2)	(9)	(6)	(1)
Other non-deductible expenses	3	7	13	3	4	10
Losses and timing differences (utilization), net, in respect of which no deferred tax assets were recorded	8	-	-	-	-	-
Additional amounts payable with respect to problematic debts	21	14	15	16	11	10
Taxes for prior years	8	(2)	(10)	(2)	14	4
Income of Israeli subsidiaries	16	7	3	-	-	(2)
Change in the balance of the provision for deferred tax asset	1	1	-	1	1	-
Net interest expense (income) for income tax	(4)	(1)	(7)	(1)	-	(6)
Total provision for taxes on profit	**1,516**	**549**	**932**	**850**	**254**	**492**

8. Provisions for Taxes on Profit (continued)

C. (1) Agreed final income tax assessments have been received by the Bank for the tax years up to and including 2018.

(2) Final withholding tax assessments up to and including the year 2018 were issued to the Bank in 2021.

(3) The major consolidated subsidiaries in Israel have received final tax assessments, or assessments deemed final for the years 2016-2017. Final income tax assessments have been received by IDB Bank for the years up to and including 2016.

D. On December 14, 2016, the Director of Value Added Tax ("the Director") issued to ICC assessments for periods from January 2012 to August 2016. The amount charged in these assessments, including interest and linkage, totaled NIS 48 million. ICC disputed the position of the Director, and is of the opinion that it has good arguments in support of its position. Accordingly, ICC filed on March 9, 2017, an appeal. On March 8, 2018, ICC received the decision of the VAT Director rejecting the appeal submitted, as stated, as well as increasing the charge of the tax assessment to NIS 75 million (including interest and linkage increments). To the extent that the position of ICC would not be admitted by the Court, it might be liable with respect to the issues contained in the assessment, also for periods following the date of the assessment. On January 31, 2019, ICC filed an appeal against the said decision with the Central Region District Court. On November 3, 2019, the Supreme Court approved an agreed plea for the consolidation of the hearing of the appeal with the hearing of the appeals filed by competitors of ICC. A pretrial hearing was held on May 24, 2021. Hearing of evidence is fixed for May 2022.

ICC estimates the amount of exposure, in respect of which no provision has been recorded in its financial statements, at approx. NIS 183 million.

E. On February 9, 2000, the Bank's shares in IDB Bank were transferred to Discount Bancorp. Inc. (hereinafter - "Bancorp"), a wholly-owned holding subsidiary of the Bank, registered in the State of Delaware, U.S. The transfer of the shares to Bancorp was made at their value in the Bank's books, in consideration for shares issued by Bancorp. The transfer of the shares was made in accordance with the provisions of Section 104A of the Israeli Income Tax Ordinance. The Bank is obligated to pay taxes in Israel with respect to the said transfer of shares, if and when such shares will be sold. The Bank has provided the Tax Authority with a guarantee as to the payment of such taxes.

F. **Deferred tax liabilities not recognized.** As of December 31, 2021, deferred tax liabilities in the amount of approx. NIS 408 million, in respect of temporary differences in the amount of approx. NIS 1,995 million, relating to investments in subsidiaries, were not included, since the Bank does not intend to realize these investments in the foreseeable future.

8. Provisions for Taxes on Profit (continued)

G. Movement in deferred taxes

1. Consolidated

	Opening balance	Changes recognized in the statement of income	Changes recognized in other comprehensive income	Closing balance	The average tax
	in NIS millions				in %
	For the year of 2021				
Deferred tax asset					
On provision for credit losses	1,298	(287)	(3)	1,008	33.5
On provision for vacation pay, jubilee awards and provision of retirees	519	(28)	26	517	33.7
From excess liabilities in respect of employee benefits over the assets of the plan	618	4	(12)	610	33.9
On securities	2	(1)	1	2	31.6
On income tax carry- forward deductions	8	9	-	17	23.0
Other	80	(21)	-	59	30.3
Gross balance of deferred tax assets	**2,525**	**(324)**	**12**	**2,213**	**33.5**
Provision for deferred tax asset	(6)	(8)	-	(14)	23.0
Balance of deferred tax assets deduction deferred tax liabilities	**2,519**	**(332)**	**12**	**2,199**	**33.6**
Deferred tax liability					
On securities	76	21	(57)	40	34.2
Fixed assets and leasing	119	29	(1)	147	28.2
In respect of investment in investee companies	166	66	(1)	231	14.7
Other	27	(10)	(1)	16	28.5
Gross balance of deferred tax liabilities	**388**	**106**	**(60)**	**434**	**19.2**
Net balance of deferred tax assets	**2,131**	**(438)**	**72**	**1,765**	**29.9**
Of which: in respect of foreign operations	53			73	29.0
	For the year of 2020				
Deferred tax asset					
On provision for credit losses	932	372	(6)	1,298	33.6
On provision for vacation pay, jubilee awards and provision of retirees	526	(6)	(1)	519	33.8
From excess liabilities in respect of employee benefits over the assets of the plan	540	(63)	141	618	34.0
On securities	1	1	-	2	34.2
On income tax carry- forward deductions	6	2	-	8	23.0
Other	65	16	(1)	80	29.8
Gross balance of deferred tax assets	**2,070**	**322**	**133**	**2,525**	**33.5**
Provision for deferred tax asset	(5)	(1)	-	(6)	23
Balance of deferred tax assets deduction deferred tax liabilities	**2,065**	**321**	**133**	**2,519**	**33.6**
Deferred tax liability					
On securities	28	2	46	76	30.1
Fixed assets and leasing	103	17	(1)	119	27.9
In respect of investment in investee companies	128	40	(2)	166	14.6
Other	28	-	(1)	27	29.3
Gross balance of deferred tax liabilities	**287**	**59**	**42**	**388**	**20.4**
Net balance of deferred tax assets	**1,778**	**262**	**91**	**2,131**	**30.9**
Of which: in respect of foreign operations	80			53	28.6

8. Provisions for Taxes on Profit (continued)

G. Movement in deferred taxes (continued)

2. The Bank

	Opening balance	Changes recognized in the statement of income	Changes recognized in other comprehensive income	Closing balance	The average tax
	in NIS millions				in %
	For the year of 2021				
Deferred tax asset					
On provision for credit losses	814	(218)	-	596	34.2
On provision for vacation pay, jubilee awards and provision of retirees	461	(58)	25	428	34.2
From excess liabilities in respect of employee benefits over the assets of the plan	434	(7)	(5)	422	34.2
On income tax carry- forward deductions	4	-	-	4	23.0
Other	19	(5)	-	14	34.2
Gross balance of deferred tax assets	**1,732**	**(288)**	**20**	**1,464**	**34.2**
Provision for deferred tax asset	(4)	-	-	(4)	23.0
Balance of deferred tax assets deduction deferred tax liabilities	**1,728**	**(288)**	**20**	**1,460**	**34.2**
Deferred tax liability					
On securities	18	21	-	39	34.2
Fixed assets and leasing	74	(1)	-	73	27.5
In respect of investment in investee companies	164	58	(1)	221	14.5
Gross balance of deferred tax liabilities	**256**	**78**	**(1)**	**333**	**17.5**
Net balance of deferred tax assets	**1,472**	**(366)**	**21**	**1,127**	**29.0**
	For the year of 2020				
Deferred tax asset	564	250	-	814	34.2
On provision for vacation pay, jubilee awards and provision of retirees	473	(10)	(2)	461	34.2
From excess liabilities in respect of employee benefits over the assets of the plan	362	(65)	137	434	34.2
On income tax carry- forward deductions	3	1	-	4	23.0
Other	15	4	-	19	34.2
Gross balance of deferred tax assets	**1,417**	**180**	**135**	**1,732**	**34.2**
Provision for deferred tax asset	(3)	(1)	-	(4)	23.0
Balance of deferred tax assets deduction deferred tax liabilities	**1,414**	**179**	**135**	**1,728**	**34.2**
Deferred tax liability					
On securities	17	1	-	18	34.2
Fixed assets and leasing	67	7	-	74	27.6
In respect of investment in investee companies	127	40	(3)	164	14.5
Gross balance of deferred tax liabilities	**211**	**48**	**(3)**	**256**	**17.8**
Net balance of deferred tax assets	**1,203**	**131**	**138**	**1,472**	**30.5**

8. Provisions for Taxes on Profit (continued)

H. Brought forward losses and credits for tax purposes

	Deferred tax assets	Provision for deferred tax asset	Net deferred tax assets	Balance of loss[1]
	in NIS millions			
	For the year ended December 31 2021			
Losses for tax purposes:				
The bank	4	4	-	18
Subsidiaries in Israel	10	10	-	43
	For the year ended December 31 2020			
Losses for tax purposes:				
The bank	3	3	-	13
Subsidiaries in Israel	2	2	-	10

Footnote:
(1) The first year of expiry cannot be estimated

I. **Taxation of the foreign banking subsidiaries.** In accordance with an agreement reached with the Tax Authority, the earnings of the foreign banking subsidiaries are added to the Bank's chargeable income, so that the Bank complements the tax recorded abroad on the pre-tax accounting profits of the foreign subsidiaries to the amount of tax that would have been paid in Israel on such profit based on the tax rate applicable to the Bank in Israel.

J. For details regarding a tax ruling with respect to the establishment of PayBox Company, see Note 39 below.

9. Earnings Per Share

	For the year ended December 31		
	2021	2020	2019
	in NIS millions		
Earnings per share			
Total net income attributed to bank's shareholders	2,773	975	1,702
	In Thousand		
Earnings per share:			
Weighted average of shares of NIS 0.1 par value:			
Balance to January 1	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)	**2.38**	**0.84**	**1.46**

10. 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						
Balance at December 31, 2018	(157)	(61)	(1)	(349)	(568)	(7)	(561)
Net change during the year	531	(283)	3	(175)	76	(4)	80
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)**
Net change during the year	(243)	(113)	(2)	(16)	(374)	3	(377)
Balance at December 31, 2021	**243**	**(711)**	**(1)**	**(815)**	**(1,284)**	**(10)**	**(1,274)**

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.

10. Accumulated Other Comprehensive Income (Loss) (continued)

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

	2021			2020			2019		
	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	(212)	62	(150)	560	(169)	391	951	(312)	639
Income on available-for-sale bonds reclassified to the statement of income[(2)]	(140)	47	(93)	(403)	124	(279)	(161)	53	(108)
Net change during the year	**(352)**	**109**	**(243)**	**157**	**(45)**	**112**	**790**	**(259)**	**531**
Translation adjustments									
Adjustments from translation of financial statement [(1)]	(113)	-	(113)	(254)	-	(254)	(283)	-	(283)
Net change during the year	**(113)**	**-**	**(113)**	**(254)**	**-**	**(254)**	**(283)**	**-**	**(283)**
Cash flow hedging									
Net income (loss) in respect of cash flow hedging	(2)	1	(1)	2	(1)	1	4	(1)	3
Net income in respect of cash flow hedging reclassified to the statement of income	(1)	-	(1)	(3)	1	(2)	-	-	-
Net change during the year	**(3)**	**1**	**(2)**	**(1)**	**-**	**(1)**	**4**	**(1)**	**3**
Employee benefits									
Net actuarial loss	(241)	84	(157)	(892)	304	[(4)](588)	(362)	117	(245)
loss reclassified to the statement of income[(3)]	213	(72)	141	475	(162)	313	103	(33)	70
Net change during the year	**(28)**	**12**	**(16)**	**(417)**	**142**	**(275)**	**(259)**	**84**	**(175)**
Total net change during the year	**(496)**	**122**	**(374)**	**(515)**	**97**	**(418)**	**252**	**(176)**	**76**
Changes in components of accumulated other comprehensive income (loss) attributed to non-controlling interests:									
Total net change during the year	**4**	**(1)**	**3**	**(2)**	**-**	**(2)**	**(6)**	**2**	**(4)**
Changes in components of accumulated other comprehensive income (loss) attributed to the Bank's shareholders:									
Total net change during the year	**(500)**	**123**	**(377)**	**(513)**	**97**	**(416)**	**258**	**(178)**	**80**

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.

11. Cash and Deposits with Banks

	Consolidated		The Bank	
	December 31		December 31	
	2021	2020	2021	2020
	in NIS millions			
Cash and deposits with central banks	55,926	39,380	39,939	28,758
Deposits with commercial banks	3,712	3,556	5,665	3,612
Total cash and deposits with banks[(1)]	**59,638**	**42,936**	**45,604**	**32,370**
Includes cash, deposits with banks and deposits with central banks for an initial period of up to three months	59,277	42,265	44,242	31,487

Footnote:

(1) See Note 27 C, D, E, G, H, J, K for pledges.

12. Securities

A. Composition of this item – consolidated[1]

	December 31 ,2021				
	Book value	Amortized cost	Unrecognized gains from adjustment to fair value	Unrecognized losses from adjustment to fair value	Fair value[2]
	In NIS millions				
(1) Held-to-maturity bonds					
Bonds and loans:					
Of the Israeli Government	8,520	8,520	209	25	8,704
Mortgage-backed-securities (MBS) or Assets -backed-securities (ABS)	1,587	1,587	3	11	1,579
Of others abroad[6]	90	90	4	-	94
Total held-to-maturity bonds	**10,197**	**10,197**	**216**	**36**	**10,377**

	December 31 ,2021				
			Accumulated other comprehensive income		
	Book value	Amortized cost	Profits	Losses	Fair value[2]
	In NIS millions				
(2) Available- for- sale bonds					
Of the Israeli Government	17,747	17,501	307	61	17,747
Of foreign governments	3,532	3,531	11	10	3,532
Of Israeli financial institutions	122	118	4	-	122
Of foreign financial institutions	517	510	8	1	517
Mortgage-backed-securities (MBS) or Assets -backed-securities (ABS)	6,582	6,632	41	91	6,582
Of others in Israel	533	500	33	-	533
Of others abroad [6]	1,994	1,941	56	3	1,994
Total Available- for- sale bonds	**31,027**	**30,733**	**[3] 460**	**[3] 166**	**31,027**

	December 31 ,2021				
	Book value	Cost	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value[2][4]
	In NIS millions				
(3) Investment in not for trading shares	1,613	1,513	[5]109	[5]9	1,613
Of which: shares, the fair value of which is not readily available	1,330	1,330	-	-	1,330
Total not for trading securities	**42,837**	**42,443**			**43,017**

For footnotes see next page.

12. Securities (continued)

A. Composition of this item – consolidated(1) (continued)

	December 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(2)
	In NIS millions				
(4) Trading Securities					
Bonds and loans:					
Of the Israeli Government	937	938	2	3	937
Of foreign governments	48	48	-	-	48
Mortgage-backed-securities (MBS) or Assets -backed-securities (ABS)	21	21	-	-	21
Of others in Israel	20	19	1	-	20
Total bonds	**1,026**	**1,026**	**3**	**3**	**1,026**
Shares	6	3	4	1	6
Total trading securities	**1,032**	**1,029**	**(5)7**	**(5)4**	**1,032**
Total securities	**43,869**	**43,472**			**44,049**

Footnotes:

(1) See Note 27 for pledges.

(2) 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.

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

(4) Shares included in this column, for which no fair value is available, are stated at cost net of impairment, with the addition or deduction of changes in observable prices of ordinary transactions in similar or identical investments 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.

	December 31, 2020				
	Book value	Amortized cost	Unrecognized gains from adjustment to fair value	Unrecognized losses from adjustment to fair value	Fair value(2)
	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(6)	164	164	6	2	168
Total held-to-maturity bonds	**7,923**	**7,923**	**313**	**3**	**8,233**

12. Securities (continued)

A. Composition of this item – consolidated[1] (continued)

	December 31, 2020				
			Accumulated other comprehensive income		
	Book value	Amortized cost	Profits	Losses	Fair value[2]
	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[6]	1,797	1,725	74	2	1,797
Total Available- for- sale bonds	**(7) 32,633**	**31,917**	**(3) 768**	**(3) 52**	**32,633**

	December 31, 2020				
	Book value	Cost	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value[2][4]
	In NIS millions				
(3) Investment in not for trading shares	1,092	1,051	(5)42	(5)1	1,092
Of which: shares, the fair value of which is not readily available	1,000	1,000	-	-	1,000
Total shares	**41,648**	**40,891**			**41,958**

For footnotes see next page.

	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[2]
	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**	**(5)11**	**(5)5**	**1,137**
Total securities	**42,785**	**42,022**			**43,095**

Footnotes:
(1) See Note 27 for pledges.
(2) 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.
(3) Included in "Accumulated other comprehensive income".
(4) Shares included in this column, for which no fair value is available, are stated at cost net of impairment, with the addition or deduction of changes in observable prices of ordinary transactions in similar or identical investments 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.
(7) 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).

For details as to the results of investment activity in bonds and shares, see Notes 2 and 3.

12. Securities (continued)

B. Composition of this item – the Bank[1]

	December 31,2021				
	Book value	Amortized cost	Unrecognized gains from adjustment to fair value	Unrecognized losses from adjustment to fair value	Fair value[2]
	In NIS millions				
(1) Held-to-maturity bonds:					
Bonds and loans:					
Of the Israeli Government	7,728	7,728	168	25	7,871
Total held-to-maturity bonds	**7,728**	**7,728**	**168**	**25**	**7,871**

	December 31,2021				
			Accumulated other comprehensive income		
	Book value	Amortized cost	Profits	Losses	Fair value[2]
	In NIS millions				
(2) Available- for- sale bonds					
Bonds and loans:					
Of the Israeli Government	11,076	10,857	237	18	11,076
Of foreign governments	3,523	3,522	11	10	3,523
Of Israeli financial institutions	86	81	5	-	86
Of foreign financial institutions	516	509	8	1	516
Mortgage-backed-securities (MBS) or Assets -backed-securities (ABS)	583	584	-	1	583
Of others in Israel	417	384	33	-	417
Of others abroad	1,586	1,559	30	3	1,586
Total Available- for- sale bonds	**17,787**	**17,496**	[3] **324**	[3] **33**	**17,787**

	December 31,2021				
	Book value	Amortized cost (cost)	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value[2][4]
	In NIS millions				
(3) Investment in not for trading shares	233	135	[5]105	[5]7	233
Of which: shares, the fair value of which is not readily available	7	7	-	-	7
Total not for trading securities	**25,748**	**25,359**	**-**	**-**	**25,891**

	December 31,2021				
	Book value	Amortized cost (for shares - cost)	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value[2]
	In NIS millions				
(3) Trading Securities:					
Bonds and loans:					
Of the Israeli Government	935	936	2	3	935
Total bonds	**935**	**936**	**2**	**3**	**935**
Shares	4	1	4	1	4
Total trading securities	**939**	**937**	[5]**6**	[5]**4**	**939**
Total securities	**26,687**	**26,296**			**26,830**

Footnotes:

(1) See Note 27 for pledges.

(2) 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.

(3) Included in shareholders equity in the section "Adjustments for presentation of available-for-sale securities at fair value".

(4) Shares included in this column, for which no fair value is available, are stated at cost net of impairment, with the addition or deduction of changes in observable prices of ordinary transactions in similar or identical investments of the same issuer

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

12. Securities (continued)

B. Composition of this item – the Bank[1] (continued)

	December 31,2020				
	Book value	Amortized cost	Unrecognized gains from adjustment to fair value	Unrecognized losses from adjustment to fair value	Fair value[2]
	In NIS millions				
(1) Held-to-maturity bonds:					
Bonds and loans:					
Of the Israeli Government	6,899	6,899	245	-	7,144
Total held-to-maturity bonds	**6,899**	**6,899**	**245**	**-**	**7,144**

	December 31,2020				
			Accumulated other comprehensive income		
	Book value	Amortized cost (for shares - cost)	Profits	Losses	Fair value[2]
	In NIS millions				
(2) Available for sale securities:					
Bonds and loans:					
Of the Israeli Government	15,006	14,609	405	8	15,006
Of foreign governments	784	780	23	19	784
Of Israeli financial institutions	100	98	2	-	100
Of foreign financial institutions	475	464	12	1	475
Mortgage-backed-securities (MBS) or Assets -backed-securities (ABS)	535	535	2	2	535
Of others in Israel	273	260	13	-	273
Of others abroad	1,348	1,314	37	3	1,348
Total bonds	**18,521**	**18,060**	**[3] 494**	**[3] 33**	**18,521**

	December 31,2020				
	Book value	Amortized cost (cost)	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value[2][4]
	In NIS millions				
(3) Investment in not for trading shares	58	23	[5]36	[5]1	58
Of which: shares, the fair value of which is not readily available	8	8	-	-	8
Total not for trading securities	**25,478**	**24,982**	**-**	**-**	**25,723**

12. Securities (continued)

B. Composition of this item - the Bank[1] (continued)

	December 31,2020				
	Book value	Amortized cost (for shares - cost)	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value[2]
	In NIS millions				
(3) Trading Securities:					
Bonds and loans:					
Of the Israeli Government	1,056	1,048	8	-	1,056
Of others in Israel	10	13	1	4	10
Total bonds and bills	**1,066**	**1,061**	**9**	**4**	**1,066**
Shares	1	1	-	-	1
Total trading securities	**1,067**	**1,062**	**[5]9**	**[5]4**	**1,067**
Total securities	**26,545**	**26,044**	**-**	**-**	**26,790**

Footnotes:

(1) See Note 27 for pledges.

(2) 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.

(3) Included in shareholders equity in the section "Adjustments for presentation of available-for-sale securities at fair value".

(4) Shares included in this column, for which no fair value is available, are stated at cost net of impairment, with the addition or deduction of changes in observable prices of ordinary transactions in similar or identical investments of the same issuer

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

For details as to the results of investment activity in bonds and shares, see Notes 2 and 3.

12. Securities (continued)

C. 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

	December 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	1,918	25	-	25	-	-	-	-
Mortgage-backed-securities (MBS) or Assets -backed-securities (ABS)	1,222	11	-	11	11	(1)-	-	-
Total held-to-maturity bonds	**3,140**	**36**	**-**	**36**	**11**	**-**	**-**	**-**

	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.

12. Securities (continued)

D. 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

	December 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	1,744	27	-	27	578	34	-	34
Of foreign governments	2,899	10	-	10	-	-	-	-
Of foreign financial institutions	149	1	-	1	-	-	-	-
Mortgage-backed-securities (MBS) or Assets -backed-securities (ABS)	3,592	79	-	79	315	12	-	12
Of others abroad	452	3	-	3	-	-	-	-
Total available-for-sale bonds	**8,836**	**120**	**-**	**120**	**893**	**46**	**-**	**46**

	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.

12. Securities (continued)

E. Further details regarding mortgage and asset backed securities, on a consolidated basis. The Bank's securities portfolio as of December 31, 2021, includes investments in asset backed securities, primarily investment in mortgage backed securities (MBS) which are held for the most part by IDB Bank.

Mortgage-backed Securities - MBS. A type of asset-backed security (ABS) that is secured by a mortgage or a pool of mortgages, in respect of which periodic payments of principal and interest are paid. These securities are also referred to as mortgage related or mortgage pass-through securities.

The Board of Directors of IDB Bank has determined restrictions on the volume of investment in mortgage backed bonds (MBS) except for Ginni Mae.

The market risk of these securities is evaluated prior to purchase to determine their suitability for inclusion in the portfolio. Moreover, certain high risk tranches, are not allowable.

A real estate mortgage investment conduit (REMIC) is a complex pool of mortgage securities created to acquire investment income for its creators and investors. REMICs consist of a fixed pool of mortgages broken apart into tranches, repackaged, and marketed to investors as individual securities.

A stripped MBS, or stripped mortgage-backed security (MBS), is a type of mortgage-backed security that is split into principal-only tranches and interest-only tranches. Stripped MBS derive their cash flows either from principal payments or interest payments on the underlying mortgages, unlike conventional MBS where cash flows are based on both principal and interest payments.

Mortgage Pass - Through. A security issued by a financial institution which constitutes holdings of a proportionate share of the mortgage loan portfolio of private borrowers. Where the issue is executed by Ginnie Mae Government Sponsored Enterprises (hereinafter: "GNMA"), a U.S. Government guarantee is in effect. When the issue is performed by Fannie Mae or Freddie Mac, Government Sponsored Enterprises (hereinafter: "GSE"), the issuer provides guarantee for any loss on the loan portfolio backing the bond. Where the issue is performed by other financial institutions, the security is backed by the mortgages alone. The large issuers of securitized assets are the GSE's who have a high credit rating. The GSE's are sponsored by the U.S. Government and are supervised by it. There is, however, no explicit guarantee on the part of the U.S. Government to the GSE's.

Mortgage loans, grant the private borrower the right of early repayment at any given time. As a result, the investors have interest exposure (early repayment), as well as exposure to the condition in the real estate market and the economy in general.

Collateralized Mortgage Obligation - CMO. A type of structured bond, backed by a portfolio of mortgage loans of private borrowers in the United States. The CMO is divided into tranches. Each tranche represents a bond security entitled to receive interest and repayment of principal before or after other bonds in the CMO, so that each bond reflects a different maturity period and interest risk.

Where the CMO is issued by GNMA or GSE's, the issuer provides guarantee for any loss on the loan portfolio backing the bond. Where the CMO is issued by other financial institutions, the bond is backed by the mortgages alone and preference is given to bonds high rated in respect of payments of principal and interest over the other tranches given a lower rating.

CLO (Collateralized Loan Obligation): A bond backed up by a loan portfolio.

FNMA (Fannie Mae): a public corporation under the sponsorship of the U.S. Government that purchases mortgages, securitizes them and sells them on the open market (the corporation does not carry a U.S. Government guarantee).

FHLMC (Freddie Mac): an agency branched to the U.S. Government that purchases mortgages, securitizes them and sells them to the public (the agency does not carry a U.S. Government guarantee).

GNMA (Ginnie Mae): a federal mortgage corporation. Bonds issued by it are secured by guarantees of the Government National Mortgage Association.

12. Securities (continued)

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

	December 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:	442	11	1	452
of which:				
Bonds guaranteed by GNMA	249	7	-	256
Bonds issued by FHLMC and FNMA	193	4	1	196
Other mortgage-backed bonds (including CMO, REMIC and STRIPPED MBS):	5,030	29	88	4,971
Of which Bonds issued or guaranteed by FHLMC, FNMA and GNMA	5,030	29	88	4,971
Total available-for-sale MBS bonds	**5,472**	**40**	**89**	**5,423**
Held-to-maturity bonds				
Mortgage pass-through bonds:	11	1	-	12
of which:				
Bonds guaranteed by GNMA	9	1	-	10
Bonds issued by FHLMC and FNMA	2	-	-	2
Other mortgage-backed bonds (including CMO, REMIC and STRIPPED MBS):	1,576	2	11	1,567
Of which Bonds issued or guaranteed by FHLMC, FNMA and GNMA	1,576	2	11	1,567
Total held-to-maturity MBS bonds	**1,587**	**3**	**11**	**1,579**
Trading bonds				
Other mortgage-backed bonds (including CMO, REMIC and STRIPPED MBS):	21	-	-	21
Of which Bonds issued or guaranteed by FHLMC, FNMA and GNMA	21	-	-	21
Total mortgage-backed trading bonds (MBS)	**21**	**-**	**-**	**21**
Total mortgage-backed bonds (MBS)	**7,080**	**43**	**100**	**7,023**
2.Total Asset-backed available-for-sale bonds (ABS)	1,160	1	2	1,159
Of which collaterized bonds CLO	1,158	1	2	1,157
Of which Asset-backed bond (ABS)	2	-	-	2
Total mortgage and asset-backed bonds	**8,240**	**44**	**102**	**8,182**

Footnote:

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

12. Securities (continued)

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

	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.

12. Securities (continued)

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

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

	December 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				
Bonds guaranteed by GNMA	5	(1)-	-	-
Bonds issued by FHLMC and FNMA	60	1	-	-
Total mortgage-backed pass-through bonds	65	1	-	-
Other mortgage-backed bonds (including CMO, REMIC and STRIPPED MBS):				
Bonds issued or guaranteed by FHLMC, FNMA and GNMA	2,856	76	315	12
Total other mortgage-backed bonds	**2,856**	**76**	**315**	**12**
Total available-for-sale MBS	**2,921**	**77**	**315**	**12**
Held-to-maturity bonds				
Other mortgage-backed bonds (including CMO, REMIC and STRIPPED MBS):				
Bonds issued or guaranteed by FHLMC, FNMA and GNMA	1,211	11	11	(1)-
Total other mortgage-backed bonds	**1,211**	**11**	**11**	**-**
Total held-to-maturity MBS bonds	**1,211**	**11**	**11**	**-**
Trading bonds				
Other mortgage-backed bonds (including CMO, REMIC and STRIPPED MBS):				
Bonds issued or guaranteed by FHLMC, FNMA and GNMA	2	(1)-	-	-
Total other mortgage-backed bonds	2	-	-	-
Total mortgage-backed trading bonds (MBS)	**2**	**-**	**-**	**-**
Total mortgage-backed bonds (MBS)	**4,134**	**88**	**326**	**12**
2. Asset-backed available-for-sale bonds (ABS)				
Collaterized bonds CLO	671	2	-	-
Total asset-backed available-for-sale bonds (ABS)	**671**	**2**	**-**	**-**
Total mortgage and asset-backed bonds	**4,805**	**90**	**326**	**12**

Footnote:

(1) Amount lower than NIS 1 million

12. Securities (continued)

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

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

	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

G. The available-for-sale securities portfolio includes corporate bonds, including bonds of banks, in a total amount of NIS 3,166 million (December 31, 2020: NIS 2,789 million). The balance of the said bonds included as of December 31, 2021, unrealized profits in the amount of NIS 97 million (December 31, 2020: approx. NIS 104 million).

H. Most of the unrealized losses as at December 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 December 31, 2021.

In 2021, an other than temporary in nature write down was recorded on several securities, in the amount of NIS 114 million (2020: NIS 31 million; 2019: NIS 31 million).

I. **Fair value presentation.** The balances of securities as of December 31, 2021, and December 31, 2020, include securities amounting to NIS 32,342 million and NIS 33,862 million, respectively, that are presented at fair value.

J. Data regarding impaired bonds – consolidated

	December 31, 2021	December 31, 2020
	In NIS millions	
Recorded amount of non accruing interest income impaired bonds	1	13

12. Securities (continued)

K. VISA Inc. shares

On November 2, 2015, VISA Inc. Company (hereinafter: "VISA Inc.") and VISA Europe Ltd. (hereinafter: "VISA Europe") announced the signing of an agreement, according to which, VISA Inc. would acquire VISA Europe from the principal members holding its shares (hereinafter: "the transaction").

On June 21, 2016, the consideration for the transaction was received, which included, inter alia, preferred shares blocked for periods of between four and twelve years, convertible into VISA Inc. shares. The consideration for the transaction was divided between ICC (approx. 68% of the consideration of the transaction), and Discount Bank (approx. 24.9% of the consideration of the transaction) and the First International Bank (hereinafter: "the parties"), all having the status of "Principal Member" of VISA.

Upon receipt of the preferred shares, they were recognized at their fair value as of that date (being the market value of the VISA Inc. shares that would be received after conversion of the preferred shares, net of a 50% coefficient, based on the estimate of the Bank regarding the effect of the blocking of the shares and of the effect of certain uncertainties relating to the conversion mechanism).

The first tranche of the preferred shares was converted in September 2020, into marketable shares in a total value of NIS 121 million (of which, the share of ICC – NIS 82 million, and the share of the Bank – NIS 30 million). Following the above stated, income was recorded in 2020 on realization of the shares sold and on the revaluation of a part of the shares (unrealized gains) in the amount of NIS 88 million, before tax (amount of NIS 44 million after tax and after attribution to the non-controlling interest in ICC). The said income was recognized in the section "Non-interest financing income". Remaining with ICC are nonmarketable preferred shares, the total value of which (including the share of the ICC owner banks) at the reporting date is assessed at approx. NIS 118 million ("naïve value"). The equity value of these shares, which are stated at the cost method, is NIS 27 million. It is clarified that the conversion ratio of the preferred shares may decrease in the future, depending on pending claims existing against VISA, relating to the operations of VISA Europe.

The division is made and would be made in the future in accordance with an agreed division mechanism established by the parties.

L. Zim shares

The Bank and MDB had received in the past shares in ZIM Combined Shipping Services Ltd. (hereinafter: "ZIM"), as part of a debt arrangement, which were recorded at zero value. In accordance with a report by ZIM, the issue of ZIM shares on the New York Stock Exchange (NYSE) was concluded on February 1, 2021. Blocking arrangements applied to the said shares, which terminated on July 26, 2021, and the process of realization of these shares began. MDB and Discount Bank have realized their share holdings in full. In respect of these realizations, a pre-tax gain of NIS 124 million was recorded in 2021.

13. 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 31 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

	December 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]	98,900	-	765	99,665	5,102	104,767
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	[2]252	53,716	-	53,968	-	53,968
Group - other	31,567	228	30,768	62,563	1,274	63,837
Total debts*	**130,719**	**53,944**	**31,533**	**216,196**	**6,376**	**222,572**
*** Of which:**						
Restructured troubled debts	911	-	204	1,115	-	1,115
Other Impaired debts	656	-	26	682	-	682
Total balance of impaired debts	**1,567**	**-**	**230**	**1,797**	**-**	**1,797**
Debts in arrears of 90 days or more	43	276	43	362	-	362
Other problematic debts	3,847	4	280	4,131	-	4,131
Total Problematic debts	**5,457**	**280**	**553**	**6,290**	**-**	**6,290**
Allowance for Credit Losses in respect of debts:						
Examined on a specific basis[1]	1,710	-	108	1,818	-	1,818
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	-	[3]257	-	257	-	257
Group - other	368	1	596	965	22	987
Total allowance for Credit Losses	**2,078**	**258**	**704**	**3,040**	**22**	**3,062**
Of which: in respect of impaired debts	320	-	89	409	-	409

Footnotes:

(1) Including credit examined on a specific basis and found not to be impaired in an amount of NIS 102,970 million and the allowance in its respect in an amount of NIS 1,409 million computed on a group basis.

(2) The balance of commercial debts includes housing loans in the amount of NIS 252 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 195 million.

13. 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)

	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.

13. 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 - the Bank

	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total	Banks and Governments	Total
	In NIS millions					
	December 31, 2021					
Recorded amount of debts:						
Examined on a specific basis[1]	74,467	-	140	74,607	8,300	82,907
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	119	44,707	-	44,826	-	44,826
Group - other	7,986	-	13,624	21,610	-	21,610
Total debts*	**82,572**	**44,707**	**13,764**	**141,043**	**8,300**	**149,343**
*** Of which:**						
Restructured troubled debts	638	-	67	705	-	705
Other Impaired debts	421	-	-	421	-	421
Total balance of impaired debts	**1,059**	**-**	**67**	**1,126**	**-**	**1,126**
Debts in arrears of 90 days or more	20	196	24	240	-	240
Other problematic debts	1,629	-	36	1,665	-	1,665
Total Problematic debts	**2,708**	**196**	**127**	**3,031**	**-**	**3,031**
Allowance for Credit Losses in respect of debts:						
Examined on a specific basis[1]	1,219	-	42	1,261	-	1,261
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	-	[2]219	-	219	-	219
Group - other	121	-	223	344	22	366
Total allowance for Credit Losses	**1,340**	**219**	**265**	**1,824**	**22**	**1,846**
Of which: in respect of impaired debts	254	-	33	287	-	287

Footnotes:

(1) Including credit examined on a specific basis and found not to be impaired in an amount of NIS 81,781 million and the allowance in its respect in an amount of NIS 974 million computed on a group basis.

(2) 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 163 million.

13. 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 - the Bank (continued)

	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total	Banks and Governments	Total
	In NIS millions					
	December 31, 2020					
Recorded amount of debts:						
Examined on a specific basis[(1)]	68,606	-	232	68,838	7,060	75,898
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	147	35,658	-	35,805	-	35,805
Group - other	7,385	-	13,217	20,602	-	20,602
Total debts*	**76,138**	**35,658**	**13,449**	**125,245**	**7,060**	**132,305**
*** Of which:**						
Restructured troubled debts	797	-	71	868	-	868
Other Impaired debts	641	-	1	642	-	642
Total balance of impaired debts	**1,438**	**-**	**72**	**1,510**	**-**	**1,510**
Debts in arrears of 90 days or more	16	240	16	272	-	272
Other problematic debts	1,970	-	170	2,140	-	2,140
Total Problematic debts	**3,424**	**240**	**258**	**3,922**	**-**	**3,922**
Allowance for Credit Losses in respect of debts:						
Examined on a specific basis[(1)]	1,526	-	49	1,575	-	1,575
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	[(2)]1	[(2)]219	-	220	-	220
Group - other	204	-	344	548	15	563
Total allowance for Credit Losses	**1,731**	**219**	**393**	**2,343**	**15**	**2,358**
Of which: in respect of impaired debts	307	-	40	347	-	347

Footnotes:

(1) Including credit examined on a specific basis and found not to be impaired in an amount of NIS 74,388 million and the allowance in its respect in an amount of NIS 1,228 million computed on a group basis.

(2) 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 158 million.

13. Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

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

	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total	Banks and Governments	Total
	In NIS millions					
Balance of allowance for credit losses, as at December 31, 2018	1,606	187	657	2,450	1	2,451
An addition stemming from the merger of Municipal Bank	25	-	-	25	-	25
Credit loss expenses	351	27	312	690	-	690
Accounting write-offs	(386)	(7)	(484)	(877)	-	(877)
Collection of debts written-off in previous years	248	-	233	481	-	481
Net accounting write-offs	(138)	(7)	(251)	(396)	-	(396)
Adjustments from translation of financial statements	(21)	-	(1)	(22)	-	(22)
Balance of allowance for credit losses, as at December 31, 2019	**1,823**	**207**	**717**	**2,747**	**1**	**2,748**
Credit loss expenses	1,182	70	452	1,704	14	1,718
Accounting write-offs	(437)	(19)	(437)	(893)	-	(893)
Collection of debts written-off in previous years	276	-	252	528	-	528
Net accounting write-offs	(161)	(19)	(185)	(365)	-	(365)
Adjustments from translation of financial statements	(27)	-	-	(27)	-	(27)
Balance of allowance for credit losses, as at December 31, 2020	**2,817**	**258**	**984**	**4,059**	**15**	**4,074**
Credit loss expenses	(534)	6	(172)	(700)	7	(693)
Accounting write-offs	(336)	(8)	(283)	(627)	-	(627)
Collection of debts written-off in previous years	324	2	245	571	-	571
Net accounting write-offs	(12)	(6)	(38)	(56)	-	(56)
Adjustments from translation of financial statements	(13)	-	(1)	(14)	-	(14)
Balance of allowance for credit losses, as at December 31, 2021	**2,258**	**258**	**773**	**3,289**	**22**	**3,311**
Of which: in respect of off-balance sheet credit instruments						
as at December 31, 2019	170	-	53	223	-	223
as at December 31, 2020	213	-	85	298	-	298
as at December 31, 2021	180	-	69	249	-	249

13. Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

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

	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total	Banks and Governments	Total
	In NIS millions					
Balance of allowance for credit losses, as at December 31, 2018	1,030	164	309	1,503	1	1,504
Credit loss expenses	176	23	124	323	-	323
Accounting write-offs	(240)	(7)	(242)	(489)	-	(489)
Collection of debts written-off in previous years	182	-	129	311	-	311
Net accounting write-offs	(58)	(7)	(113)	(178)	-	(178)
Balance of allowance for credit losses, as at December 31, 2019	**1,148**	**180**	**320**	**1,648**	**1**	**1,649**
Credit loss expenses	814	58	159	1,031	14	1,045
Accounting write-offs	(243)	(19)	(188)	(450)	-	(450)
Collection of debts written-off in previous years	202	-	138	340	-	340
Net accounting write-offs	(41)	(19)	(50)	(110)	-	(110)
Balance of allowance for credit losses, as at December 31, 2020	**1,921**	**219**	**429**	**2,569**	**15**	**2,584**
Expenses (expense release) for credit loss	(461)	6	(142)	(597)	7	(590)
Accounting write-offs	(182)	(8)	(117)	(307)	-	(307)
Collection of debts written-off in previous years	222	2	120	344	-	344
Net accounting write-offs	40	(6)	3	37	-	37
Balance of allowance for credit losses, as at December 31, 2021	**1,500**	**219**	**290**	**2,009**	**22**	**2,031**
Of which: in respect of off-balance sheet credit instruments						
as at December 31, 2019	153	-	18	171	-	171
as at December 31, 2020	190	-	36	226	-	226
as at December 31, 2021	160	-	25	185	-	185

14. Credit granted to Governments

	Consolidated		The Bank	
	December 31		December 31	
	2021	2020	2021	2020
	in NIS millions			
Credit to Israel government	1,131	1,755	1,102	1,729
Credit to foreign governments	1,533	1,718	1,533	1,718
Total credit granted to Governments	**2,664**	**3,473**	**2,635**	**3,447**

15. Investment in Investee Companies and Details Regarding These Companies

A. Consolidated

	December 31, 2021			December 31, 2020		
	Associates	Consolidated subsidiaries	Total	Associates	Consolidated subsidiaries	Total
	In NIS millions					
Total Shares stated on equity basis[(1)]	**460**	**-**	**460**	**347**	**-**	**347**
Other investments:						
Shareholders' loans	2	-	2	1	-	1
Total other investments	**2**	**-**	**2**	**1**	**-**	**1**
Total investments	**462**	**-**	**462**	**348**	**-**	**348**
Includes:						
Earnings accumulated since January 1, 1992	80	-	80	78	-	78
Items accumulated in shareholders' equity since January 1, 1992:						
Adjustment for Employee benefits	(1)	-	(1)	(1)	-	(1)
Details Regarding Goodwill:						
Original amount	-	305	305	-	305	305
Book value[(2)]	-	163	163	-	164	164

Footnotes:

(1) Includes earnings and translation adjustments in units having a functional currency that differs from the reporting currency accumulated from the acquisition date up to December 31, 1991.

(2) Balances of goodwill in respect of consolidated subsidiaries are presented in the section "Intangible assets and goodwill".

15. Investment in Investee Companies and Details Regarding These Companies (continued)

B. The Bank

	December 31, 2021			December 31, 2020		
	Associates	Consolidated subsidiaries	Total	Associates	Consolidated subsidiaries	Total
	in NIS millions					
Total Shares stated on equity basis (including goodwill)[1]	39	10,415	10,454	35	9,532	9,567
Other investments:						
Subordinated debt notes and Capital notes	-	1,322	1,322	-	1,090	1,090
Shareholders' loans	2	-	2	1	-	1
Total investments	**41**	**11,737**	**11,778**	**36**	**10,622**	**10,658**
Includes:						
Earnings accumulated since January 1, 1992	37	8,454	8,491	33	7,357	7,390
Items accumulated in shareholders' equity since January 1, 1992:						
Net adjustments in respect of presentation of bonds available for sale at fair value	-	4	4	-	[2]177	177
Adjustments from translation of financial statements	-	(710)	(710)	-	(598)	(598)
The State's bonus to the employees (privatization)	-	32	32	-	32	32
Net adjustments on the hedging of cash flows	-	(2)	(2)	-	1	1
Adjustment for Employee benefits	-	(133)	(133)	1	(148)	(147)
Transactions with minority	-	(3)	(3)	-	(3)	(3)
Details Regarding Goodwill:						
Original amount	-	282	282	-	282	282
Book value	-	142	142	-	142	142

Footnote:

(1) Includes earnings and translation adjustments in units having a functional currency that differs from the reporting currency accumulated from the acquisition date up to December 31, 1991.

15. Investment in Investee Companies and Details Regarding These Companies (continued)

The Bank's share of profit or loss of investee companies

	Consolidated			The Bank		
	2021	2020	2019	2021	2020	2019
	In NIS millions					
Bank's share in profit of investee companies (consolidated - associates)	28	54	14	1,244	636	884
Provision for taxes:						
Current taxes	-	-	-	28	42	79
Deferred taxes	8	4	(2)	58	40	9
Total provision for taxes	**8**	**4**	**(2)**	**86**	**82**	**88**
Bank's share in profit net of tax effect of investee companies (consolidated - associates)	**20**	**50**	**16**	**1,158**	**554**	**796**

15. Investment in Investee Companies and Details Regarding These Companies (continued)

C. Information on principal investee companies

Name of Company	Details of company	Share in capital conferring rights to profits		Share in voting rights		Investment in shares: Investment in shares Equity basis[1]	
		2021	2020	2021	2020	2021	2020
		In %				In NIS millions	
1. Consolidated Subsidiaries:							
Discount Bancorp, Inc.[2]	Holding company, U.S.A.	100.00	100.00	100.00	100.00	27	29
Israel Discount Bank of New York [3]	Commercial bank, U.S.A	100.00	100.00	100.00	100.00	3,576	3,679
Mercantile Discount Bank Ltd.	Commercial bank	100.00	100.00	100.00	100.00	3,769	3,237
Israel Credit Cards Ltd.[4]	Credit card service	[10]71.83	[10]71.83	79.00	79.00	1,273	1,170
Discount Capital Ltd.	Underwriting and investments	100.00	100.00	100.00	100.00	1,171	971
Discount Manpikim Ltd.	Securities issue	100.00	100.00	100.00	100.00	66	64
Companies held by Israel Discount Bank of New York:							
IDBNY Realty (Delaware) Inc, [5]	Holding company, USA	100.00	100.00	100.00	100.00	1,295	1,332
IDB Realty LLC [6]	Investment company, USA	100.00	100.00	100.00	100.00	4,206	4,316
Companies held by Israel Credit Cards Ltd.:							
Diners (Club) Israel Ltd.[7]	Credit card service	100.00	100.00	100.00	100.00	310	285
Cal Mimun Ltd.	Credit facilitate	100.00	100.00	100.00	100.00	150	73

Footnotes:

(1) Including allocated excess of cost over book value and goodwill.

(2) A holding company, wholly-owned by the Bank, which fully owns and controls Israel Discount Bank of New York.

(3) The company is owned by Discount Bancorp, Inc.

(4) For details regarding a guarantee unlimited in amount in favor of International VISA Organization, securing all of ICC's liabilities, see Note 26 C 10 below.

(5) Included in the financial statements of Israel Discount Bank of New York. The investment in these companies and their contribution to the net profit are not deducted from the investment and contribution to profit of Israel Discount Bank of New York

(6) Included in the financial statements of IDBNY Realty (Delaware), Inc. The investment in these companies and their contribution to the net profit are not deducted from the investment and contribution to profit of IDBNY Realty (Delaware), Inc

(7) For details regarding the holding of a controlling interest in Diners, see Note 36 G below.

(8) For details, see Note 10 A.

(9) Goodwill.

(10) In respect of the period until the date loss of material influence in FIBI.

	Of which: excess of cost balance[9]		Other investments		Contribution to Net Profit attributed to Bank's shareholders		Dividend		Other items recorded in shareholders' equity[8]		Guarantees issued for consolidated subsidiaries in favor of entities outside the group	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
	In NIS millions											
	-	-	-	-	(1)	(1)	-	-	(3)	(2)	-	-
	-	-	-	-	259	145	139	55	(699)	(448)	-	-
	3	4	260	345	563	211	-	-	(109)	(75)	-	-
	142	142	2	5	64	61	-	-	(21)	(33)	9	10
	18	18	1,021	721	172	144	-	-	(7)	(7)	1	6
	-	-	23	-	-	-	-	-	-	-	-	-
	-	-	-	-	11	22	-	-	(138)	(88)	-	-
	-	-	-	-	33	37	-	-	(994)	(848)	-	-
	-	-	-	-	24	12	-	-	-	-	-	-
	-	-	5	10	78	(3)	-	-	-	-	-	-

D. **Agreement of shareholders of Discount Capital Underwriting Ltd.** At date of consummation of the merger of Clal Finance Underwriting Ltd. with and into Discount Capital Underwriting, an agreement between the shareholders of Discount Capital Underwriting, which regulates the relations between the shareholders of the Company, entered into effect. Within the framework of which were determined, among other things, limitation on the transferability of the shares held, and a CALL option was granted to Discount Capital and a PUT option to the minority shareholders of Discount Underwriting, which were available to exercise starting with November 15, 2019. An agreement was signed on February 13, 2020, with one of the minority shareholders ("the shareholder") in Discount Capital Underwriting Ltd. ("the Company"), according to which, inter alia:

- The shareholder shall exercise his PUT option for 10% of the shares of the Company subsequent to approval of the financial statements of Discount Capital Underwriting as of March 31, 2020 (In June 2020, Discount Capital acquired the shares, as stated);
- The blackout period for the balance of the shares held by him (approx. 21%) shall be extended to December 31, 2021, at the consideration determined by the parties, subject to the right of the shareholder to shorten the blackout period, until December 31, 2020.

The parties endeavor to extend the blockage period.

E. **A capital remuneration plan.** Two senior officers of Discount Capital Underwriting (the CEO and a Deputy CEO) are entitled to the underwriting company's share based fixed remuneration, within the framework of the Company's remuneration plan for 2020-2022. As of December 31, 2021, the two officers of Discount Capital Underwriting held approx. 1.2% of the shares of the underwriting company, that had been issued within the framework of the plan.

16. Buildings and Equipment

A. Composition

	Consolidated				
	Buildings and land [1]	Equipment, furniture and vehicles	Hardware	Software	Total
	in NIS millions				
Cost:					
Balance as at December 31, 2019	2,337	856	923	[3]4,106	8,222
Additions	278	[2]52	[2]118	[2]522	970
Translation adjustments	(6)	(1)	(2)	(6)	(15)
Disposals	(79)	(22)	(53)	(101)	(255)
Balance as at December 31, 2020	**2,530**	**885**	**986**	**4,521**	**8,922**
Additions	426	66	116	389	997
Translation adjustments	(3)	(1)	(1)	(4)	(9)
Disposals	(81)	(21)	(32)	(156)	(290)
Balance as at December 31, 2021	**2,872**	**929**	**1,069**	**4,750**	**9,620**
Depreciation and impairment loss:					
Balance as at December 31, 2019	1,186	590	732	[3]3,137	5,645
Depreciation for the year	70	[2]45	[2]90	[2]286	491
Translation adjustments	(4)	(1)	(1)	(3)	(9)
Disposals	(39)	(20)	(40)	(101)	(200)
Balance as at December 31, 2020	**1,213**	**614**	**781**	**3,319**	**5,927**
Depreciation for the year	56	42	90	348	536
Translation adjustments	(3)	(1)	(3)	(5)	(12)
Disposals	(70)	(17)	(34)	(111)	(232)
Balance as at December 31, 2021	**1,196**	**638**	**834**	**3,551**	**6,219**
Carrying amount:					
Balance as at December 31, 2019	**1,151**	**266**	**191**	**969**	**2,577**
Balance as at December 31, 2020	**1,317**	**271**	**205**	**1,202**	**2,995**
Balance as at December 31, 2021	**1,676**	**291**	**235**	**1,199**	**3,401**
Average weighted depreciation rate for year 2020	4.8%	9.1%	20.8%	21.4%	12.8%
Average weighted depreciation rate for year 2021	4.7%	9.6%	20.9%	21.4%	14.9%

Footnotes:

(1) Includes installations and leasehold improvements.

(2) Improvement of the data.

(3) Software no longer in use by the Bank at the relevant reporting dates has been deleted. The correction had no effect on the balance at balance sheet date.

16. Buildings and Equipment (continued)

A. Composition (continued)

	The Bank				
	Buildings and land [(1)]	Equipment, furniture and vehicles	Hardware	Software	Total
	in NIS millions				
Assets cost:					
Balance as at December 31, 2019	1,652	410	665	[(3)]2,871	5,598
Additions	148	23	90	314	575
Disposals	(37)	(20)	(51)	(99)	(207)
Balance as at December 31, 2020	**1,763**	**413**	**704**	**3,086**	**5,966**
Additions	241	27	90	212	570
Disposals	(36)	(8)	-	(17)	(61)
Balance as at December 31, 2021	**1,968**	**432**	**794**	**3,281**	**6,475**
Depreciation and impairment loss:					
Balance as at December 31, 2019	847	249	524	[(3)]2,280	3,900
Depreciation for the year	35	23	[(2)]62	[(2)]178	298
Disposals	(20)	(18)	(38)	(99)	(175)
Balance as at December 31, 2020	**862**	**254**	**548**	**2,359**	**4,023**
Depreciation for the year	31	25	62	223	341
Disposals	(27)	(6)	-	(8)	(41)
Balance as at December 31, 2021	**866**	**273**	**610**	**2,574**	**4,323**
Carrying amount:					
Balance as at December 31, 2019	**805**	**161**	**141**	**591**	**1,698**
Balance as at December 31, 2020	**901**	**159**	**156**	**727**	**1,943**
Balance as at December 31, 2021	**1,102**	**159**	**184**	**707**	**2,152**
Average weighted depreciation rate for year 2020	3.3%	9.2%	19.6%	20.6%	10.9%
Average weighted depreciation rate for year 2021	3.4%	9.4%	19.7%	20.5%	13.4%

Footnotes:

(1) Includes installations and leasehold improvements.

(2) Improvement of the data.

(3) Software no longer in use by the Bank at the relevant reporting dates has been deleted. The correction had no effect on the balance at balance sheet date.

B. The Bank and a consolidated subsidiary own leasehold rights for periods ending in the years 2021-2066.

16. Buildings and Equipment (continued)

	Consolidated		The Bank	
	December 31			
	2021	2020	2021	2020
	in NIS millions			
C. Depreciated balance of buildings and land includes:				
Installations and leasehold improvements depreciated balance	213	163	54	48
Balance of provision for impairment loss	6	6	6	6
D. Financial leasing rights:				
Balance of non-capitalized leasehold	4	4	3	3
Balance of capitalized leasehold	108	117	39	45
E. Depreciated balance of not yet registered buildings	822	(1)428	504	303
F. Depreciated balance of buildings not in use by the bank, the majority of which are rented to other parties	2	5	2	2
G. Depreciated balance of buildings and equipment designated for sale (2)	87	3	87	3
H. The cost of in-house development of computer software:				
The cost of software put into operation	4,243	3,925	3,475	3,288
Accumulated depreciation	(3,447)	(3,165)	(2,876)	(2,680)
Depreciable amount	**796**	**760**	**599**	**608**
Accumulated costs in respect of software under development	216	210	40	31
Total cost of in-house development of computer software	**1,012**	**970**	**639**	**639**
I. Gross value of fully depreciated fixed assets still in use	3,425	(3)3,352	2,402	(3)2,315
J. Recognized cost for fixed assets items in mounting stage:				
Cost of real estate	619	412	498	274
Cost of equipment	6	4	6	4

Footnotes:

(1) Improvement of the data.

(2) No loss on the sale of buildings and equipment held for sale in expected, in excess of the provisions created therefore.

(3) Software no longer in use by the Bank at the relevant reporting dates has been deleted. The correction had no effect on the balance at balance sheet date.

K. 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 following transactions were performed:

- 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 took place on December 31, 2021, and the property has been 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 recorded a profit of approx. NIS 38 million, net of the tax effect.
- On September 2, 2021, the Bank completed the bidding process for two of its properties located at 156 Herzl Street and at 160 Herzl Street in Tel Aviv. The sale transaction was completed on March 1, 2022, and according to estimates, the Bank is expected to recognize in respect of this sale in the first quarter of 2022 a gain of approx. NIS 300 million, net of the tax effect. The property has been leased to the Bank until the planned relocation date to the Discount Campus.

16. Buildings and Equipment (continued)

L. Information regarding leases

1. Leases expenses

	Year 2021	Year 2020
	In NIS millions	
Expenses with respect to operating leases	123	114
Variable lease expenses	(1)22	(1)29
Total expenses with respect to leases	**(2) 145**	**(2) 143**

Footnotes:

(1) Includes VAT, linkage differences and interest.

(2) Expenses in respect of leases are included in the items salaries and related expenses, and in maintenance and depreciation of building and equipment expenses in the statement of profit and loss.

2. Additional information regarding leases

	Year 2021	Year 2020
	In NIS millions	
Capital gain from sale and leaseback transactions	48	4
Cash paid with respect to balances included in measuring the lease liabilities:		
Cash flows with respect to operating activities with respect to operating leases	144	146
Right-of-use assets recognized with respect to new operating leases	107	895
Average weighted period balance (in years):		
With respect to operating leases	5.3	6.2
Average weighted discount interest:		
With respect to operating leases	0.5%	0.4%

3. Non-discounted cash flows and liabilities according to maturity periods

	December 31 2021		December 31 2020	
	Undiscounted cash flows	Lease liabilities	Undiscounted cash flows	Lease liabilities
	In NIS millions			
Up to 1 year	121	120	110	109
Over 1 year up to 2 years	101	100	106	103
Over 2 years up to 3 years	89	88	90	90
Over 3 years up to 4 years	63	63	64	64
Over 4 years up to 5 years	54	53	56	54
Over 5 years	352	347	364	360
Total	**780**	**771**	**790**	**780**

17. Intangible Assets and Goodwill

	Consolidated
	Goodwill[1]
	in NIS millions
Cost	
Balance as at December 31,2020 and 2019	**305**
Amortization and losses on impairment	
Balance as at December 31,2020 and 2019	141
Amortization of customer relations asset	1
Balance as at December 31,2021	**142**
Book value	
Balance as at December 31,2020 and 2019	**164**
Balance as at December 31,2021	**163**

Footnote:

(1) Goodwill recognized in business combination (goodwill recognized upon acquisition of an associate, included in the item "investment in associates").

18. Other Assets

	Consolidated		The Bank	
	December 31		December 31	
	2021	2020	2021	2020
	In NIS millions			
Net deferred tax assets (see Note 8 G)	1,787	2,146	1,143	1,487
Excess advance tax payments over current provisions	304	340	228	178
Issue costs and discount expenses of subordinated capital notes	52	29	59	33
Income receivable	136	287	133	260
Right-of-use assets for operating leases	773	785	529	577
Surrender value of life assurance policies owned by a consolidated subsidiary	747	625	-	-
Assets in respect of the "Maof" market operations	105	7	105	7
Gold deposit	88	104	88	104
Prepaid expenses	336	293	106	95
Other debtors and debit balances	678	460	383	340
Total other assets	**5,006**	**5,076**	**2,774**	**3,081**

19. Deposits from the Public

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

	Consolidated		The Bank	
	December 31			
	2021	2020	2021	2020
	In NIS millions			
In Israel				
Demand deposits:				
Non-interest bearing	67,694	51,252	52,273	38,671
Interest bearing	56,182	56,454	50,705	51,847
Total demand deposits	**123,876**	**107,706**	**102,978**	**90,518**
Time deposits	103,221	90,798	87,022	73,015
Total deposits in Israel*	**227,097**	**198,504**	**190,000**	**163,533**
* Of which:				
Private individuals deposits	108,965	106,847	92,259	91,079
Institutional bodies deposits	21,353	(1)15,302	14,583	(1)10,179
Corporations and others deposits	96,779	(1) 76,355	83,158	(1) 62,275
Outside Israel				
Demand deposits:				
Non-interest bearing	6,991	5,629	-	-
Interest bearing	22,504	18,246	-	-
Total demand deposits	**29,495**	**23,875**	**-**	**-**
Time deposits	4,315	3,739	-	-
Total deposits outside Israel	**33,810**	**27,614**	**-**	**-**
Total deposits from the public	**260,907**	**226,118**	**190,000**	**163,533**

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

19. Deposits from the Public (continued)

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

	December 31	
	2021	2020
Deposit limit	Balance	
In NIS millions	In NIS millions	
Up to 1	87,599	86,723
Over 1 up to 10	65,077	63,483
Over 10 up to 100	39,273	35,663
Over 100 up to 500	30,116	19,226
Over 500	38,842	21,023
Total	**260,907**	**226,118**

20. Deposits from Banks

	Consolidated		The Bank	
	December 31		December 31	
	2021	2020	2021	2020
	In NIS millions			
In Israel				
Commercial banks:				
Demand deposits	843	2,943	168	21
Time deposits	-	1	159	32
Central banks:				
Schedule deposits	9,724	5,505	6,399	3,655
Outside Israel				
Commercial banks:				
Deposits on demand	1,163	1,699	1,957	1,608
Schedule deposits	645	2,686	192	308
Acceptances	159	257	96	214
Central banks:				
Time deposits	-	16	-	-
Total deposits from banks	**12,534**	**13,107**	**8,971**	**5,838**

21. Bonds and Subordinated Capital Notes

	Consolidated				The Bank	
	Average maturity[1]	Internal rate of return[1]	December 31		December 31	
	years	%	2021	2020	2021	2020
			in NIS millions			
Bonds and subordinated capital notes not convertible into shares:						
In non-linked Israeli currency	5.57	2.23	4,095	4,681	893	975
In Israeli currency, linked to CPI	6.26	1.49	8,206	3,680	544	709
Commercial securities in non-linked Israeli currency	0.89	0.27	908	-	-	-
Bonds and subordinated capital notes convertible into shares:						
In Israeli currency, linked to CPI[2]	0.03	4.86	1,852	1,809	1,852	1,809
Credit-linked notes (CLN):						
In non-linked Israeli currency	-	-	-	-	-	-
In foreign currency, Euro	0.42	3.49	10	31	10	31
Total bonds and capital notes[3][4]			**15,071**	**10,201**	**3,299**	**3,524**

Footnotes:

(1) Internal rate of return is the rate which discounts the projected payment flow of amounts presented in the balance sheet. Period to maturity is the average of the repayments periods weighted by the cash flows discounted at the internal rate of return. Data regarding the internal rate of return and the period to maturity relates to the consolidated statements as of December 31, 2021.

(2) Subordinate capital notes, recognized as additional tier I capital, under the transitional instructions of Basel III.

(3) Of which: NIS 13,926 million in the consolidated, listed for trade on the Tel Aviv Stock Exchange (2020: NIS 9,019 million)

(4) Of which: NIS 7,240 million in the consolidated, are subordinated capital notes (2020: NIS 5,736 million)

Issuance of deferred debt notes (Series G). On June 22, 2020, the Bank, through Manpikim, completed the process of issuing deferred debt notes (Series G), which include a capital loss absorption mechanism (Coco), 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 NIS 440.4 million. On April 22, 2021, the Bank, through Manpikim, completed the process of issuing of the said deferred debt notes, in a total amount of approx. NIS 932 million. On June 28, 2021, the Bank, through Manpikim, completed the process of issuing a private placement of the said deferred debt notes, in a total amount of approx. NIS 250 million.

Issuance of deferred debt notes (Series H). On November 29, 2021, the Bank, through Manpikim, completed the process of issuing deferred debt notes (Series H), which include a capital loss absorption mechanism (Coco), 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 NIS 580 million.

Issuance of commercial securities and bonds. On November 29, 2021, the Bank, by means of Manpikim, completed the issue of financial instruments intended to respond to the liquidity requirements and strengthen the infrastructure for the accelerated growth strategy for the credit portfolio of the Bank. In this framework, bonds (Series "O") were issued in a total amount of approx. NIS 3.1 billion and commercial securities (Series 1) in a total amount of approx. NIS 907 million.

Early redemption of regulatory capital instruments. For details, see Note 25 1 below.

22. Other Liabilities

	Consolidated		The Bank	
	December 31		December 31	
	2021	2020	2021	2020
	in NIS millions			
Net provision for deferred taxes (see Note 8 G)	22	15	16	15
Excess of current tax provisions over advance payments	83	16	-	-
Excess liabilities in respect of employee benefits over assets of the plan (see Note 23 B)	2,634	2,891	1,898	2,167
Deferred income	251	222	159	145
Payables for credit card activity	9,767	9,229	2,102	3,813
Liabilities for operating leases	771	780	526	574
Provision for doubtful debts in respect of guarantees	249	298	185	226
Expenses payable	1,474	1,329	744	718
Liabilities in respect of "Maof" market operations	105	7	105	7
Liabilities stemming from "Market making" activity	1,124	814	1,124	814
Other payables and receivables	1,279	1,345	601	489
Total other liabilities	**17,759**	**16,946**	**7,460**	**8,968**

23. Employee Benefits

A. Following is a description of the main benefits granted to employees of the group

(1) The liability of the Bank and its subsidiaries for severance pay to their employees, based on the customary one month's salary for each year of employment, is mainly covered by deposits with severance pay funds and by insurance policies and pension funds, and the balance is recorded as a provision in the Bank's books. Most of the amounts accumulated in insurance policies and pension funds are not included in the balance sheet since they are not controlled by the Bank or its subsidiaries.

(2) Members of the Bank's Management are entitled to the customary severance payments and an "adjustment"/non-competition award of between 4 to 8 months' salary upon retirement, pursuant to individual agreements signed with them, and in respect of which adequate provisions have been included (see section E below, in the matter of the approved remuneration policy). The pension liability of a foreign subsidiary, based on actuarial computations, is covered by current deposits into a recognized foreign pension fund.

(3) In certain consolidated banking subsidiaries, several officers are entitled to "adjustment" bonus" equal to 6 to 9 months' salaries, and in respect of which adequate provisions have been included.

(4) The Bank and its subsidiaries are not permitted to withdraw these deposits except for the purpose of making severance payments.

(5) A number of the Bank's employees were entitled to long-service bonuses equal to a certain number of monthly salaries, and to a certain number of additional vacation days, upon completing 20, 30 and 40 years of employment in the Bank. In accordance with instructions of the Supervisor of Banks the provision in respect of this liability is computed on an actuarial basis and stated at its present value. The future payroll increase used to compute the amount of the liabilities for employee rights, in respect of the Bank's employees, is 1.8% per year in real terms.

An agreement with the representatives of the employees was signed in 2007, regarding the "Jubilee vacation", according to which, among other things, the entitlement of new employees to "Jubilee vacation" was abolished. In 2011, the Bank signed with the representative committee of the employees a "grades and stages" agreement, according to which, among other things, new employees engaged or moved to the position of tenured employees as from January 1, 2012, shall not be entitled to a "jubilee award". In accordance with a collective labor agreement of December 2021, the future entitlement to a jubilee award, jubilee vacation and jubilee vacation pay for entitled employees had been abolished, and a format had been determined for computing the redemption amount of the liability of the Bank in respect of the abolished entitlement.

(6) Employees of the Bank and its consolidated subsidiaries in Israel are entitled to annual vacation as provided by labor agreements in force, and subject to the guidelines of the Annual Vacation Act - 1951. The liability for vacation pay is recognized over the period of employment in which the right to paid vacation accumulates. The liability is determined on the basis of the most recent salary in the reporting period with the addition of related payments.

(7) Employees of the Bank and its subsidiaries are entitled to certain benefits after retirement. The said liability is computed on an actuarial basis. In addition, some of the employees who accepted early retirement exchanged their retirement award with a pension for a determined period.

It should be noted that the agreement "Grades and stages" signed in 2011, reduced the benefits granted to retirees who were engaged as or converted to the status of tenured employees, subsequently to January 1, 2012. These benefits match now the terms applying to employees under this agreement, and consist of presents for the holidays and medical expenses.

The wage agreement dated February 21, 2019, reduces the benefits granted to pensioners and to all tenured employees – cancellation of reimbursement of medical expenses and of a daily newspaper.

(8) Several of the companies have adopted employee remuneration plans, according to which the General Managers and/or other employees of these companies are entitled to a bonus, the amount of which is based upon their business results. The necessary provisions in respect of these bonuses are included in the financial statements.

(9) **"Annuity" type retirement plan.** A number of retirees in the period from 2007 to 2011 (29 employees as of December 31, 2021) have chosen the full or combined annuity option, within the framework of which, the capital payment is converted into a series of monthly payments or into a combination of a capital payment and a series of monthly payments. The plan is limited in advance to a number of payments predetermined by the retiree (in the range of a minimum of 120 payments and the maximum of 300 payments).

(10) **2011 retirement plan.** A part of the retirees within the framework of the 2011 retirement plan (121 employees as of December 31, 2021), have elected the monthly pension option. The aforesaid liability is fully covered by the balance of the provision for severance pay.

23. Employee Benefits (continued)

The terms of the monthly pension are as follows:

- A CPI-linked monthly pension for the entire lifetime of the retiree, from the date of his/her retirement;
- The monthly pension amounts are determined on the retirement date in accordance with an economic computation performed by the Bank, which derives from the amount of the balance in the severance pay fund that was converted to the pension;
- The employee can opt for a pension track with or without next of kin.
- The employee is given the option of choosing a guaranteed number of pension payments, based on his/her age.

In respect of pension payable to the retiree and/or his/her spouse upon reaching the age of 85 years (all according to the route chosen by the retiree), the Bank has purchased insurance coverage that would secure the payment of the said pension and which will be paid directly by the insurance company.

(11) **2014, 2016 and 2018 retirement plans.** A part of the retirees under the 2014 retirement plan (1 employee as of December 31, 2021), 2016 retirement plan (6 employees as of December 31, 2021) and the 2018 retirement plan (3 employees as of December 31, 2021), have elected the monthly pension option covering the life of the retiree and/or his/her spouse, or the option combining a monthly pension with a one-off capital payment.

With respect to pension payments due to a retiree who was sixty years of age or over at retirement date, or upon reaching the age of sixty, the Bank had purchased (or will purchase when the employee reaches the age of sixty) an insurance coverage that ensures the payment of the said pension, which would be payable directly by the insurance company. Pension payments due until the retiree reaches the age of sixty, are payable directly by the Bank.

The terms of the monthly pension are as follows:

- A monthly pension for the life of the retiree since date of retirement, linked to the CPI until the employee reaches sixty years of age, and linked to the terms of the policy after the age of sixty;
- The employee may elect a pension option with or without next of kin;
- The employee may elect a pension option with or without ensuring a minimum pension payment for 240 months, with the addition of the number of months up to the age of sixty (for employees who have not yet reached the age of sixty at retirement date).

The capital payment, the pension payments by the Bank and the cost of the purchased insurance policy, are limited to the amount that would have been paid to the retiree had he elected the full capital payment option.

In accordance with the said plans, upon the retiree reaching the age of 60, the Bank purchases coverage in insurance for the liability.

(12) **Nonrecurring awards in accordance with special collective labor agreements dated December 23, 2021.** On December 23, 2021, special collective labor agreements in the matter of extension of validity of the Labor Charter and industrial peace for five years were signed by the Bank, the Employees Representative Committee and the New General Federation of Labor – MAOF Federation. In addition, special collective labor agreements were signed in the matters of salary and awards for three years, the transfer to the Discount Campus of the Bank's Head Office and additional units, and in the matter of redemption of the Jubilee Award, Jubilee vacation and Jubilee vacation pay (hereinafter: "the agreements").

Within the framework of the said agreements, it has been decided to pay nonrecurring awards, as follows:

- Consent award regarding the transfer to the Campus – employees who had been employed by the Bank at date of signature of the agreement, will receive in the course of 2022 a nonrecurring award in respect of the consent to the transfer to the Discount Campus and the changes involved in such transfer. The provision in respect of the consent award amounted to approx. NIS 93 million (pre-tax effect).
- Awards in respect of changes made to the Labor Charter –
  - in respect of changes agreed upon by the parties in the agreement for extension of the validity of the Labor Charter, clerk grade employees of the "tenured" employee status, who had been employed by the Bank at date of signature of the agreement, will receive a nonrecurring award.
  - Managerial grade employees will receive a nonrecurring award based on the ROE, to be paid subject to an annual return ratio of 10% in the year preceding the year of payment and at a total cost not exceeding NIS 8 million per year for all employees of this grade, in each of the years 2022-2024.

  The provision in respect of the award regarding changes in the Labor Charter amounted to approx. NIS 101 million.
- Award to branch employees – in the course of 2022, Bank branch employees will receive an additional nonrecurring award at a cost of NIS 10 million (pre-tax effect).

23. Employee Benefits (continued)

B. Details regarding the benefits

	Consolidated		The Bank	
	December 31			
	2021	2020	2021	2020
	in NIS millions			
Severance pay, retirement and pension:				
The liability amount	3,180	3,133	2,336	2,293
Fair value of the plan's assets	1,384	1,318	1,103	1,028
Excess liabilities over the plan's assets included in the item "other liabilities"	**1,796**	**1,815**	**1,233**	**1,265**
Amounts included in the other liabilities item:				
Long-service ("jubilee") awards	-	305	-	303
Post-retirement benefits to retirees	677	613	571	512
Vacation	153	150	94	87
Illness	8	8	-	-
Total Excess liabilities of the program included in the item "other liabilities" (Note 22)	**2,634**	**2,891**	**1,898**	**2,167**
Of which – in respect of benefits to employees abroad	29	33	-	-

C. Defined benefit plan – consolidated

1. Commitment and financing status

1.1 CHANGE IN COMMITMENT IN RESPECT OF ANTICIPATED BENEFITS

	For the year ended December 31			
	2021	2020	2021	2020
	Severance pay, retirement and pension payments		Post retirement retiree benefits	
	in NIS millions			
Commitment in respect of anticipated benefits at the beginning of the year	3,133	3,213	613	673
Cost of service	105	90	6	6
Cost of interest	54	75	15	16
Actuarial loss (profit)	320	(2)886	74	(3)
Changes in foreign currency exchange rates	-	(1)	(1)	(1)
Benefits paid	(432)	(1,130)	(30)	(78)
Commitment at the end of the year in respect of anticipated benefits	**3,180**	**3,133**	**677**	**613**
Commitment at the end of the year in respect of accumulated benefits(1)	**2,786**	**2,709**	**677**	**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.

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

	For the year ended December 31	
	2021	2020
	Severance pay, retirement and pension payments	
	in NIS millions	
Fair value of the plan's assets at the beginning of the year	1,318	1,625
Actual return on the plan's assets	169	48
Deposits by the Bank to the plan	22	23
Benefits paid	(168)	(378)
An addition stemming from the merger of Municipal Bank	43	-
Fair value of the plan's assets at the end of the year	**1,384**	**1,318**
Financing status – net liability recognized at the end of the year	**(1,796)**	**(1,815)**

23. Employee Benefits (continued)

1. Commitment and financing status (continued)

1.3 AMOUNTS RECOGNIZED IN THE CONSOLIDATED BALANCE SHEET

	December 31			
	2021	2020	2021	2020
	Severance pay, retirement and pension payments		Post retirement retiree benefits	
	in NIS millions			
Amounts recognized in the item "other liabilities"	(1,796)	(1,815)	(677)	(613)
Net liability at the end of the year	**(1,796)**	**(1,815)**	**(677)**	**(613)**

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

	December 31			
	2021	2020	2021	2020
	Severance pay, retirement and pension payments		Post retirement retiree benefits	
	in NIS millions			
Net actuarial loss	(1,109)	(1,152)	(127)	(53)
Net cost in respect of prior service	-	-	-	2
Closing balances of accumulated other comprehensive income	**(1,109)**	**(1,152)**	**(127)**	**(51)**

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

	December 31	
	2021	2020
	Severance pay, retirement and pension payments	
	in NIS millions	
Commitment in respect of cumulative benefits	2,786	2,561
Fair value of the plan's assets	1,384	1,146

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

	December 31	
	2021	2020
	Severance pay, retirement and pension payments	
	in NIS millions	
Commitment in respect of anticipated benefits	3,180	3,133
Fair value of the plan's assets	1,384	1,318

23. Employee Benefits (continued)

C. Defined benefit plan - consolidated (continued)

2. Expense for the year

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

	For the year ended December 31,		
	2021	2020	2019
	in NIS millions		
Severance pay, retirement and pension payments			
Cost of service	105	90	78
Cost of interest	54	75	92
Anticipated return on assets of the plan	(64)	(58)	(53)
Amortization of unrecognized amounts:			
Net actuarial loss	72	65	49
Total amortization of unrecognized amounts	**72**	**65**	**49**
Other, including loss from reduction or settlement	143	413	58
Total net cost of benefits	**310**	**585**	**224**
Total expense regarding defined deposits pension plans	**191**	**201**	**201**
Total expenses included in respect of Severance pay, retirement and pension payments	**501**	**786**	**425**
Of which: expenses included in salaries and related expenses	296	291	279
Of which: expenses included in other expenses	205	495	146
Post retirement retiree benefits			
Cost of service	6	6	4
Cost of interest	15	16	22
Amortization of unrecognized amounts:			
Net actuarial income	-	(2)	(4)
Cost of prior service	(2)	(1)	(1)
Total amortization of unrecognized amounts	**(2)**	**(3)**	**(5)**
Total net cost of benefits	**19**	**19**	**21**
Of which: expenses included in salaries and related expenses	6	6	4
Of which: expenses included in other expenses	13	13	17

23. Employee Benefits (continued)

C. Defined benefit plan – consolidated (continued)

2. Expense for the year (continued)

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

	For the year ended December 31					
	2021	2020	2019	2021	2020	2019
	Severance pay, retirement and pension payments			Post retirement retiree benefits		
	in NIS millions					
Net actuarial loss (income) for the year	172	896	259	74	(3)	109
Amortization of actuarial (loss) income	(72)	(65)	(49)	-	2	4
Amortization of credit in respect of prior service	-	-	-	2	1	1
Changes in foreign currency exchange rates	-	-	2	-	-	-
Other, including profit from reduction or settlement	(143)	(413)	(58)	-	-	-
Total recognized in other comprehensive (income) loss	**(43)**	**418**	**154**	**76**	**-**	**114**
Total net cost of benefits[(1)]	**310**	**585**	**224**	**19**	**19**	**21**
Total amount recognized in net cost of benefits and in other comprehensive loss	**267**	**1,003**	**378**	**95**	**19**	**135**

Footnote:
(1) See section 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

	December 31			
	2021	2020	2021	2020
	Severance pay, retirement and pension payments		Post retirement retiree benefits	
Discount rate	-0.75%-0.53%	0.05%-0.85%	-1.18%-0.80%	-0.08%-1.05%
Retirement rate	0.41%-24.28%	0.2%-26.02%		
Remuneration growth rate	1.80%	1.80%		

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

	December 31			
	2021	2020	2021	2020
	Severance pay, retirement and pension payments		Post retirement retiree benefits	
Discount rate	-0.14%-0.82%	0.69%-1.34%	-0.53%-1.07%	0.65%-1.54%
Anticipated long-term return on the plan's assets	4.84%	3.77%		
Remuneration growth rate	2.09%	1.82%		

3. Assumptions

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

	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	
	December 31							
	2021	2020	2021	2020	2021	2020	2021	2020
	in NIS millions							
Discount rate	(305)	(284)	(62)	(45)	322	300	64	46
Retirement rate	128	139	-	-	(133)	(145)	-	-
Remuneration growth rate	305	274	-	-	(275)	(245)	-	-

23. Employee Benefits (continued)

C. Defined benefit plan – consolidated (continued)

4. The plan's assets

4.1 COMPOSITION OF THE FAIR VALUE OF THE PLAN'S ASSETS

	December 31, 2021			December 31, 2020		
	level 1	level 2	Total	level 1	level 2	Total
	in NIS millions					
Type of asset						
Cash and deposits with banks	80	-	80	53	-	53
Shares	539	35	574	540	28	568
Bonds:						
Government	248	27	275	192	25	217
Corporate	296	64	360	352	64	416
Total bonds	544	91	635	544	89	633
Other	10	85	95	8	56	64
Total	**1,173**	**211**	**1,384**	**1,145**	**173**	**1,318**

4.2 FAIR VALUE OF THE PLAN'S ASSETS BY TYPE OF ASSET AND ALLOCATION TARGET FOR THE YEAR 2021

	Allocation target	of the plan's assets	
	Year 2022	December 31, 2021	December 31, 2020
	in percentage		
Type of asset			
Cash and deposits with banks	0.6-18.3	5.8	4.0
Shares	40.2-49.9	41.5	43.1
Bonds:			
Government	14.1-22.1	19.9	16.5
Corporate	25.6-35.3	26.0	31.5
Total bonds	39.7-57.4	45.9	48.0
Other	1.8-11.4	6.8	4.9
Total		**100.0**	**100.0**

5. Cash flow

5.1 DEPOSITS

	Forecast[1]	For the year ended December 31,	
	2022	2021	2020
	Severance pay, retirement and pension payments		
	in NIS millions		
Deposits	23	22	23

Footnote:
(1) Assessment of expected deposits with defined benefit pension plans during 2022.

23. Employee Benefits (continued)

C. Defined benefit plan - consolidated (continued)

5. Cash flow (continued)

5.2 BENEFITS EXPECTED TO BE PAID BY THE BANK IN THE FUTURE

	Severance pay and pension payments
Year	In NIS millions
2022	122
2023	223
2024	165
2025	147
2026	123
2027-2031	610
2032 and thereafter	1,431
Total	**2,821**

D. Remuneration policy for officers of the Bank (2017-2019). The Annual General Meeting of Shareholders held on November 8, 2016, decided to approve the remuneration policy for officers of the Bank for 2017-2019, in accordance with Section 267A of the Companies Act. The remuneration policy was effective for a period of three years since date of approval by the General Meeting. The remuneration policy for the Bank's officers for 2017-2019 was described in Note 23 D to the financial statements as of December 31, 2020.

Prolonging of the effective period of the remuneration policy for Officers at the Bank. The Bank's annual general meeting of shareholders, held on September 16, 2019, decided to approve the prolonging of the effective period of the remuneration policy for officer at the Bank, in accordance with Section 267A of the Companies Act, for a period of up to six months from date of termination of the effect of the remuneration policy (namely until May 8, 2020, at the latest). This, in order to enable the new President & CEO to state his position prior to the adoption of a remuneration policy and an award mechanism for officers of the Bank, to apply in respect of the years 2020 to 2022, and in order for the plan to include also the terms of employment of the new President & CEO.

E. Remuneration policy for officers of the Bank (2020-2022). At a special general meeting held on March 18, 2020, it was resolved to approve the remuneration policy for the Bank's officers for the years 2020 through 2022, in accordance with Section 267A of the Companies Act. The remuneration policy will remain in force for a period of three years from the date of the general meeting's approval.

The Bank's remuneration policy is subject, inter alia, to the provisions of the Companies Act, the Supervisor's directives and the Remuneration Act.

The remuneration policy includes, inter alia, the following components: the maximum monthly salary amount and the considerations in setting this; the scope of severance pay, which will usually be at a rate of 100% of the monthly salary, while prescribing provisions in connection with the inclusion of Section 14 of the Severance Pay Act; the advance notice period, which is not to exceed four months; the possibility of making a payment equal to up to six monthly salaries and related terms and conditions (excluding social benefit payments) in respect of an officer's undertaking to adhere to a non-competition period of up to six months (when, in exceptional instances, the Bank will be entitled to decide to make the payment in the aforesaid scope without an undertaking for a non-competition period); a variable retirement terms payment, which will be subject to payment deferral arrangements; payment of a recruitment grant in special instances; payment of country-to-country relocation expenses incurred by an officer as a result of his appointment; related terms and conditions; a plan for the payment of annual awards to officers, subject to meeting the prescribed threshold goals. The scope of the annual award for officers is based on meeting Group indicators and individual indicators that reflect the officer's contribution to attaining the Bank's goals and on a discretionary award component. As part of the policy, special provisions have been prescribed regarding remuneration of officers who deal with risk management, control and audit. The policy also includes a provision setting a ceiling for the amount of annual awards paid to any of the officers, as well as provisions allowing the distribution of a special contribution award and a discretionary award from a budget to be placed at the President & CEO's disposal. The policy prescribes arrangements for spreading the annual award, as well as provisions regarding the terms of service and employment of the Chairman of the Board of Directors and of the President & CEO.

23. Employee Benefits (continued)

The Remuneration Committee and the Board of Directors have been authorized to approve an award to officers answerable to the President & CEO, other than on measurable indicators criteria basis, of up to a maximum amount of three monthly salaries to each such officer.

The President & CEO has been authorized to approve immaterial changes in the terms of service of the officers answerable to him, without needing the approval of the Remuneration Committee, in accordance with the Companies Regulations (Relaxations in Transactions with Interested Parties), 2000, while, in relation to the President & CEO, immaterial changes in his terms of service can be approved by the Remuneration Committee.

Within the framework of the policy, provisions have been prescribed whereby variable remuneration granted and paid will be repayable upon fulfillment of criteria prescribed in the remuneration policy, in accordance with that specified in Directive 301A.

The policy includes limits on the scope of the remuneration to officers taking into consideration the rules and limits prescribed in the Remuneration Act.

The policy also includes provisions regarding the possibility of granting equity remuneration to officers, subject to limits on the scope of the remuneration that are prescribed in the remuneration policy.

The principal changes between the remuneration policy for the Bank's officers (2020-2022) and the previous remuneration policy for officers are as follows: (1) the maximum amount for an officer's monthly salary was raised (with part of the increase in the maximum amount being due to converting the 13th salary component into the regular monthly salary); (2) the monthly salary can be linked to the CPI; (3) a requirement has been included that a payment in respect of employment termination (adaptation grant) will be conditioned on a non-competition period; (4) changes have been made to the terms of the awards to the officers answerable to the President & CEO that are prescribed in the remuneration policy, including: threshold terms for payment of awards; increasing the maximum amount of the awards for some of the officers; updating the scope of the qualitative component in the annual award, whose grant is discretionary; (5) updating the budget for special contribution awards; (6) prescribing that the remuneration of officers answerable to the President & CEO may exceed – in accordance with the provisions of the remuneration policy and the approvals specified therein – the amount specified in Section 2(a) of the Remuneration Act, without it being necessary to reverts to the general meeting, and up to the maximum updated amount prescribed in the remuneration policy.

Principles set forth in the remuneration plan apply to the terms of service and employment of the Bank's officers, which were approved from the date of the remuneration policy's approval. Nothing in the remuneration policy shall be taken as derogating from the agreements and/or other rights of the officers in connection with their service and employment with the Bank, which were in existence at the time of the policy's approval.

The remuneration policy that was approved has not been applied directly to the terms of service and employment of officers of the Bank's subsidiaries. The Bank has prescribed principles for a Group remuneration policy, which have been applied to the officers of the Bank's subsidiaries in Israel, after making the necessary adjustments, taking into consideration the character of each such subsidiary, including all matters relating to the maximum amounts of the various remuneration components, and in light of the regulations applicable to the subsidiary, where these are applicable and relevant.

F. Award plan for members of the Bank's Management and for the Internal Auditor (2017–2019)

On December 26, 2016, the Bank's Board of Directors adopted the recommendation of the Remuneration Committee and approved the award plan for members of the Bank's Management and for the Internal Auditor for the years 2017–2019 ("the plan"), in accordance with the remuneration policy for an officer at the Bank ("the Remuneration Policy"). The plan is described in Note 23 F to the financial statements as of December 31, 2020.

Awards in respect of 2019. In View of the Bank conforming to the threshold conditions for the annual award, the Remuneration Committee and the Board of Directors approved the allocation of a collective award in accordance with the attaining of the collective indices stated in the remuneration plan and the allocation of a personal award in accordance with attainment of the goals set for the Division under responsibility of the respective Executive Vice President. The Remuneration Committee and the Board of Directors have approved special contribution bonuses to two executive vice presidents, in a total amount of NIS 186 thousand. In addition, the discretionary award portion was allocated by the President & CEO on a differential basis. It is noted that the actual allocation of the award portion was affected by the limitations determined in the remuneration plan. The total amount of the awards granted in respect of the year 2019 totaled NIS 7,836 thousand. In the framework for computing the awards no extraordinary profits or losses were approved.

23. Employee Benefits (continued)

In accordance with the remuneration plan, the mechanism for the spreading of the award applied in 2019 to two members of Management, where in their case, the total amount of the award to which a member of Management is entitled exceeded 40% of the fixed award of that member of Management.

The remuneration committee confirmed the fulfillment of the conditions for the payment of the second installment of the deferred award for 2019 in respect of 2 members of Management, in accordance with the policy for the remuneration of Officers.

G. Award plan for members of the Bank's Management and for the Internal Auditor (2020-2022)

1. General. On February 10, 2020, the Bank's Board of Directors accepted the recommendation of the Remuneration Committee and approved an awards plan for members of the Bank's Management for the years 2020 through 2022 ("the Plan"), in accordance with the remuneration policy for the Bank's officers ("the Remuneration Policy").

2. Annual award for Executive Vice Presidents

(a) **General.** The annual award for Executive Vice Presidents (including the Internal Auditor) is composed of an award based on meeting Group indicators ("a Group Award") and an award based on indicators deriving from meeting the goals of the division/activity over which the Executive Vice President is responsible ("an Individual Award").

(b) The total award for an Executive Vice President in respect of the Group indicators and the individual indicators is not to exceed six (6) monthly salaries (or five and a half (5.5) monthly salaries for the Executive Vice President for Oversight and Control).

(c) The threshold terms for payment of the annual award will be meeting the following minimum cumulative indicators:

1. The rate of return on equity in the award year is not to be less than 7% (seven percent), excluding exceptional profits or losses (as these are defined in the Remuneration Policy);
2. The total capital adequacy ratio and the Common Equity Tier 1 adequacy ratio, as per the Bank's annual consolidated financial statements for that award year, are not to be less than the minimum ratios prescribed in the Supervisor of Banks' directives;
3. Attainment of the minimum qualitative indicator score, which will include the Executive Vice President's contribution in implementing processes in the corporate governance fields, meeting the Bank's general goals in the fields of risk management, compliance with laws (including internal enforcement in the securities field and/or other fields), regulatory directives and the Bank's procedures;

If, with respect to any of the Executive Vice Presidents, the threshold terms referred to in this subsection are not met in the award year, that Executive Vice President will not be entitled to an annual award for said year. This, however, should not be taken as prejudicing the entitlement of the other Executive Vice Presidents to an annual award.

(d) The Group Award – the Group Award for each Executive Vice President will be limited to an amount that shall not exceed three monthly salaries of the Executive Vice President, or two and a half monthly salaries for the Executive Vice President for Oversight and Control. As of 2021, the Group indicators comprised the return on equity (with a 50% weighting) and the efficiency ratio (with a 50% weighting). A target goal will be set for each Group indicator, pursuant to which the minimum and maximum goals for that indicator will be set; meeting these respective goals will grant entitlement to the award at the rates prescribed in the Plan from the maximum amount of the award in relation to the indicator.

(e) The Individual Award – the Individual Award will be limited to an amount that shall not exceed three monthly salaries for each Executive Vice President and will be calculated on the basis of the indicators that focus on the goals set for the division for which the Executive Vice President is responsible in the aforesaid year, which will be recommended by the President & CEO and, proximate to the start of the award year, will be brought before the Remuneration Committee and the Board of Directors for approval. A target goal will be set for each indicator, pursuant to which the minimum and maximum goals for that indicator will be set; meeting these respective goals will grant entitlement to the award at the rates prescribed in the Plan from the maximum amount of the award in relation to the indicator.

(f) **Remuneration of officers engaged in risk management, control and audit**

In relation to the Bank's risk management, control and audit functions (the Internal Auditor, the Chief Accountant, the Chief Legal Counsel, and the Chief Risk Officer; collectively: "the Oversight and Control Functions"), special provisions have been prescribed as part of the Plan, taking into consideration the importance and sensitivity of the duties imposed on these functions.

23. Employee Benefits (continued)

In accordance with the Supervisor's directives, the ratio between the fixed remuneration and the variable remuneration of the Oversight and Control Functions will be weighted more in favor of the fixed remuneration, including in relation to officers that are not included as part of the Oversight and Control Functions.

Accordingly, the Bank has prescribed that part of the annual award that is attributable to the Group indicators will be lower for the Control and Oversight Functions than for the other officers.

The President & CEO's duties in relation to recommending the personal indicators that comprise the personal award and their weighting and the exercise of discretion in connection with the annual award components (as stated in section 3 below) will be done by the Audit Committee for the Bank's Internal Auditor, by the Bank's Risk Management Committee in consultation with the Bank's President & CEO, for the Bank's Chief Risk Officer and by the Audit Committee in consultation with the Bank's President & CEO for the Bank's Chief Accountant.

3. Special contribution award and individual qualitative award (discretionary award)

(a) Special contribution award – the Remuneration Committee and the Board of Directors may grant a special award to all the Executive Vice Presidents or to any of them (both during the award year and also if the threshold terms in the award year have not been met), for exceptional performance or for a special contribution in attaining the Bank's goals, including for meeting the measurable criteria set in advance by the Board of Directors, provided that the amount of the special contribution awards does not exceed an amount of NIS 1 million per year and subject to the maximum awards amount as referred to in section 4 below.

(b) Discretionary award – The Bank's President & CEO has been given a budget for discretionary awards that is not to exceed two and a quarter times the monthly salaries of the Executive Vice Presidents entitled to such awards, which will be distributed at the discretion of the President & CEO, with this being the case even if the threshold terms in the award year have not been met, if, in the President & CEO's opinion, there are reasons that justify doing so, or if an annual award has been granted in the award year. The discretionary award amount is not to exceed three monthly salaries for a single Executive Vice President and is subject to the maximum awards amount as referred to in section 4 below. The distribution of the discretionary awards budget will be carried out subject to approval from the Remuneration Committee and the Board of Directors.

4. Maximum amount of all the awards

The total awards amount for all the officers (including the President & CEO) for the award year is not to exceed 2.5% of the net profit attributable to the Bank's shareholders, as per the annual financial statements for the award year.

The total awards amount for an award year for a Business Executive Vice President (one who is defined as such by the Board of Directors) is not to exceed nine monthly salaries of that Executive Vice President.

The total awards amount for a head office Executive Vice President (one who is not a Business Executive Vice President or an Oversight and Control Executive Vice President) and for an Oversight and Control Executive Vice President is not to exceed eight monthly salaries of that Executive Vice President.

5. Spreading the award

(a) 50% of the awards amount for the award year will be paid immediately after publication of the Bank's financial statements for the award year.

(b) 50% of the awards amount will be linked to the rise in the CPI, will be deferred and will be spread in three equal portions over the three years following the date of entitlement to the awards amount (hereinafter: "the Deferred Award" and "the Deferred Award Portion").

(c) Payment of a Deferred Award Portion will be contingent on the Bank not recording a loss in its consolidated financial statements for the award year preceding the payment date for the Deferred Award Portion.

(d) Notwithstanding the aforesaid, if, in any award year, the variable remuneration to which an officer is entitled for that year does not exceed 40% of the officer's fixed remuneration, 100% of the awards amount for the award year will be paid, without the spreading and deferral mechanism coming into play.

6. The Plan also adopts the provisions of the officers' Remuneration Policy with regard to the authority of the Board of Directors to reduce the total awards amount, to the maximum amounts of an Executive Vice President's annual remuneration, to provisions regarding the repayment of award amounts paid to an Executive Vice President, and to circumstances for invalidating the awards amount.

7. Awards for 2020. No entitlement to an annual award was conferred on the Executive Vice Presidents for 2020. It was also decided that no qualitative personal awards would be granted.

23. Employee Benefits (continued)

8. **Awards for 2021.** In view of the Bank's compliance with the threshold terms for an annual award (see Section 2(c) above), the Remuneration Committee and the Board of Directors approved the distribution of a collective award in accordance with attaining of the collective indices determined in accordance with the award plan (see Section 2(d) above), and distribution of a personal award computed on the basis of indices focused on goals set for the Division under the responsibility of the Vice President (see Section 2(e) above). Also, the distribution of the budget for the discretionary awards based on the recommendation of the President & CEO in a differential manner was approved (see Section 3(b) above). It should be noted that within the framework of the computation of the awards, the Remuneration Committee and the Board of Directors, under their authority according to the definition of special profits or losses in the remuneration policy applying to officers of the Bank, approved a special loss in respect of an expense recognized in December 2021 for awards of a nonrecurring nature in connection with the consent for changes in the set of collective labor agreements at the Bank and in connection with the relocation to the Discount Campus in Rishon LeTzion (including an expense of a similar nature at MDB in respect of the agreement for the relocation to the Campus), in a total amount of approx. NIS 232 million before tax (NIS 152 million net of tax effect). Approval of the special loss has increased the collective award by approx. 0.36 salaries on an average for the Vice President, and for reasons of care has been classified as a discretionary award component, subject to the limit relating to the total amount of discretionary awards of up to three monthly salaries in accordance with Directive 301A. For details regarding the nonrecurring awards, see Section A (12) above (in view of the classification as a discretion award, as stated, the annual award has in fact increased by an amount equal to approx. 0.08 salaries on an average, for a Vice President). In addition, the Remuneration Committee and the Board of Directors approved awards in respect of special contribution in respect of three Vice Presidents of the Bank, in a total amount of NIS 568 thousand, and subject to the discretionary limitation as discussed above (see Section 3(a) above).

   The total amount of awards in respect of Vice Presidents for the year 2021, in accordance with the award plan, amounted to NIS 10,078 thousand.

   In accordance with the remuneration plan, the award distribution mechanism in respect of the awards for 2021 applies to 8 Vice Presidents, which in their case, the total amount of awards to which a Vice President is entitled exceeds 40% of the regular remuneration of that Vice President.

H. The 2020 retirement plan

(1) Discount Bank. On August 26, 2020, the Bank's Board of Directors approved an efficiency plan, according to which, about 300 permanent employees of the Bank, belonging to the defined target population (ages 50-66), would be able to take early retirement under preferential terms. 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.

This plan increased the liability recorded in the Bank's books by NIS 495 million (before the tax effect; in excess of the cost of severance pay in accordance with the law and the surplus balance from a previous retirement plan).

The cost of updating the actuarial liabilities to employees in respect of the efficiency plan was treated as an actuarial loss and recorded in other comprehensive income.

Costs of the plan are amortized to profit and loss as part of the balance of "actuarial profits/losses", by the straight line method over the remaining average period of service of the employees. In reporting periods, in which "settlement" is effected (as defined by US GAAP), an additional amortization of the "actuarial profits/losses" balance would be added to the said amortization, in the ratio of the settlement costs borne by the Bank (actual payments whether in respect of regular retirement or early retirement) to the balance of liability for severance pay.

Settlement costs in the amount of NIS 375 million were recorded in the year ended December 31, 2020.

(2) Mercantile Discount Bank. Within the efficiency measures adopted by MDB, the Board of Directors of this bank approved on September 15, 2020, an early retirement plan for employees, including preferential retirement terms. The plan has been implemented by MDB in the fourth quarter of 2020, and its total cost amounted to NIS 117 million. Following the above stated, MDB added an amount of approx. NIS 60 million to its severance pay liabilities as of December 31, 2020. The said increase has been classified as an actuarial loss recorded in the section "Other comprehensive income" being part of shareholders' equity (net of tax savings of NIS 20 million).

Settlement costs in the amount of NIS 38 million were recorded in the year ended December 31, 2020.

23. Employee Benefits (continued)

(3) ICC. On September 30, 2020, ICC's board of directors approved a one-time retirement plan, following the drawing up of an outline by the company's management, against the background of the Corona crisis and the desire to significantly increase the number of retirees beyond the number of employees expected to retire due to natural retirement. In light of the aforesaid, it was decided to make an exceptional and one-time change to the retirement outline at the company, and to offer retirees preferred terms and conditions compared to the usual retirement terms and conditions.

In accordance with the plan, approx. 80 permanent employees of the company, belonging to the target population defined, were eligible for early retirement under preferred terms and conditions. The retirees will be offered enlarged severance pay at a rate of up to 200%.

The total cost of the retirement plan is estimated at NIS 31 million, before tax effect. This cost was recognized in 2020's results as a non-recurring expense.

(4) The amount of the settlement that was charged to profit and loss in 2020 (including in respect of the previous retirement plans) amounted to NIS 413 million (before tax effect). The amount of the settlement charged to profit and loss in 2021, amounted to approx. NIS 143 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.

24. Shareholders' Equity, Preferred Shares and Dividends

A. The authorized, issued and paid-up nominal capital (In new Israeli Shekels)

	December 31,2021 and 2020	
	Authorized	Issued and Fully Paid-Up
Ordinary "A" Shares of NIS 0.1 par value each	260,515,000	116,401,699
6% Cumulative Preferred Shares, of NIS 0.00504 each (equivalent to £10 each)	202	202
Total shareholders equity	**260,515,202**	**116,401,901**

Ordinary "A" Shares are registered and are listed for trade on the Tel Aviv Stock Exchange.

B. 6% cumulative preferred authorized share capital

The dividend and the rights of these shareholders are linked to the representative rate of exchange of the New Israel shekel to the pound sterling at the date of each payment. At the balance sheet date, every holder of a preference share, the par value of which is equivalent to £10, is entitled to an annual dividend in an amount of NIS 2.52, and at the time of liquidation to a distribution in an amount of NIS 42.03. According to Israeli accounting principles, non-participating preference shares are not to be included as part of shareholders' equity, and accordingly they are presented under the section "other liabilities".

C. Dividend

(1) General. The distribution of dividends by the Bank is subject to the provisions of the law, including limitation deriving from Directives of the Supervisor of Banks.

(2) Restrictions established in instructions of the Supervisor of Banks. Proper Conduct of Banking Business Directive No. 311 determines restrictions on the distribution of dividends. Letters of the Supervisor of Banks in the matters of "Capital policy for interim periods" and "Basel III framework – Minimum core capital ratios" required banking corporations, among other things, to avoid a distribution of dividend, if as a result thereof, the banks might not attain the capital targets determined in the said letters.

(3) Dividend payment in respect of preferred shares. On December 31, 2021, a dividend for the year 2021, at the rate of 6% was paid to the holders of 40,000 6% cumulative preferred shares of NIS 0.00504 par value each, in a total amount of £24,000.

(4) Dividend policy. On December 26, 2017 the Bank's Board of directors approved a dividend policy, according to which, starting with the first quarter of 2018, the Bank will distribute in each quarter a dividend at the rate of up to 15% of the net distributable earnings, as reflected in the consolidated financial statements for the preceding quarter.

On November 26, 2019, the Bank's Board of Directors approved an update to the Bank's dividend policy. According to which, starting with the third quarter of 2019, the Bank may distribute in each quarter, a dividend of up to 30% of the distributable net earnings according to the consolidated financial statements for the previous quarter, instead of a distribution rate of up to 15%.

24. Shareholders' Equity, Preferred Shares and Dividends (continued)

The updated dividend policy was approved in view of the Bank attaining its capital outline, the consistent improvement in the business results of the Group, and following the approval by the Supervisor of Banks of the said dividend policy.

It is clarified that this policy should not be deemed a commitment by the Bank for a dividend distribution, and that each dividend distribution in practice shall be subject to approvals required by the law, including a specific approval by the Board of Directors for a dividend distribution based on its judgment and subject to compliance with the provisions of the law applying to dividend distribution, inter alia, in accordance with the Companies Act and directives of the Supervisor of Banks. It is further noted that the actual distribution of a dividend is subject to compliance with the capital adequacy goals prescribed by the Bank of Israel and the internal capital goals, as determined or would be determined by the Bank's Board of Directors. The Board of Directors may examine from time to time the dividend distribution policy and decide at any time, taking into account business considerations and the provisions of the law and regulation applying to the Bank, on changes in the dividend policy, including in the rate of dividend to be distributed. The Board may also decide that no dividend should be distributed at all.

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 December 31, 2021 (see Note 25 section 1 E below).

The Supervisor of Banks issued a clarification on July 15, 2021, according to which, in view of the growing trend of exit from the Corona crisis and in view of the solidity presented by banks in Israel, enabling them to support economic activity, banks are not barred from examining the possibility of the distribution of dividend on the basis of a careful and conservative approach, which takes into account the high uncertainty level regarding the continuation of the Corona crisis and its future implications. The position of the Supervisor of Banks is that a distribution of an amount higher than 30% of the profits of 2020 does not constitutes a careful and conservative planning.

Following an examination of the Bank's financial condition and plans, the Board of Directors resolved on August 15, 2021, that as from the date of removal of the limitations imposed by the Supervisor of Banks ("removal of limitations"), the Bank will revert to the quarterly distribution of dividends, in accordance with its dividend policy.

According to the resolution of the Board, following the removal of limitations, the Bank intends to distribute a dividend of 20% of the net distributable profit according to the Bank's consolidated financial statements for the relevant quarter, or a lower rate, in the event that the Supervisor of Banks imposes limitations prohibiting distribution at the said rate.

A circular amending Proper Conduct of Banking Business Directive No. 250 was published on September 30, 2021, in the framework of which it is stated, inter alia, that despite the increasing processes of exiting the Corona crisis, the level of uncertainty still remains high impacting the ability of banking corporations to predict their middle-term capital requirements, and that, the said uncertainty and risk require the continuation of careful and conservative capital planning. The circular clarifies, inter alia, that the standpoint of the Supervisor of Banks is that a distribution of an amount higher than 30% of the profits of a banking corporation (in the years 2020 and 2021) would not be considered a careful and conservative capital planning.

In accordance with and further to the Bank's dividend policy and to the stated above, the Bank has resumed the distribution of dividends, starting with the profits of the third quarter of 2021, at the rate of 20%. On March 8, 2022, the Bank's Board of Directors decided to make a dividend distribution at the rate of 20% of the profits of the fourth quarter of 2021, in an amount of approx. NIS 105.8 million, representing approx. 9.08921 Agorot per ordinary A share of NIS 0.1 par value.

(5) Details regarding the dividend paid

Declaration date	Payment date	Total dividend paid	Rate from the profit	Dividend per share
		In NIS million	In percentage	In agorot (100 agorot = NIS 1)
March 11, 2019	March 28, 2019	48.6	15	4.18
May 16, 2019	June 3, 2019	60.8	15	5.22
August 14, 2019	September 1, 2019	81.8	15	7.02
November 27, 2019	December 16, 2019	64.0	15	5.50
March 15, 2020	April 5, 2020	48.8	15	4.19
November 22, 2021	December 9, 2021	144.4	20	12.41

25. 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

Computed according to Proper Conduct of Banking Business Directives Nos. 201-211 in the matter of "measurement and capital adequacy".

A. Adoption of Basel III instructions. On June 3, 2013, the Supervisor of Banks issued amendments to Proper Conduct of Banking Business Directives, in order to modify them to the Basel III guidelines.

The said amendments gradually entered into effect beginning with January 1, 2014, in accordance with the transitional instructions determined in Proper Conduct of Banking Business Directive No. 299 regarding "measurement and capital adequacy – the regulatory capital – transitional instructions". The data presented below (as of December 31, 2020 and December 31, 2021) reflects deductions, in accordance with the transitional instructions. Among other things, the Directives state more stringent requirements with respect to the components qualified for inclusion in regulatory capital and regulatory adjustments (deductions from capital).

According to the instructions, starting with January 1, 2015, the minimum total capital ratio, which the Bank is required to attain, is 12.5% (for details regarding the required addition in respect of housing loans, see below).

The Bank prepared a detailed plan for attaining the capital targets, and is acting toward its implementation.

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 capital target by a rate which expresses 1% of the outstanding housing loans.

The said requirement increased the minimum capital requirement by approx. 0.16%. It is noted that in accordance to the Provisional Instruction from April 27, 2020, the said requirement shall not apply to housing loans approved as from March 19, 2020 and until date of expiry of the Provisional Instruction. Housing loans approved as from the effective date of the provisional instruction, and in respect of which, the additional capital requirement does not apply, as stated, amounted at December 31, 2021 to NIS 19,148 million. In reply to an approach by the Bank, the Supervisor of Banks clarified on June 2, 2021, that the said requirement relates only to the Common Equity Tier 1 goal, and that it is not required to apply it also with respect to the total capital goal. Accordingly, the required minimum total capital ratio has been reduced by approx. 0.2%.

On December 27, 2021, within the framework of updating Proper Conduct of Banking Business Directive No. 329, “Limitations on Issuing Housing Loans”, it was prescribed that the aforesaid additional capital requirement would apply solely to loans for the purpose of housing and would not apply to a housing loan not for the purpose of acquiring a land right and a housing pledge (“an ‘any purpose’ loan”).

C. Relief regarding the retirement plan

(1) 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 67 million have been amortized to December 31, 2021.

(2) 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 51 million have been amortized to December 31, 2021. Additional details regarding the retirement plan are given in Note 23 H.

(3) 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 39 million have been amortized to December 31, 2021. Additional details regarding the retirement plan are given in Note 23 H.

25. 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)

(4) 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 10 million have been amortized to December 31, 2021. Additional details regarding the retirement plan are given in Note 23 H.

D. Capital components subject to fluctuations. The Bank manages its capital adequacy with the intent of complying with the requirements of the Supervisor of Banks and with the targets set by the Board of Directors. The capital adequacy of the Bank is subject to changes, inter alia, in respect of a change in the volume of risk assets and deductions from capital, in respect of changes in market return, which affect the profits of the available-for-sale portfolio and are recognized in the capital reserve, and in respect of actuarial changes recognized in capital, as a result of changes in the interest rate used for the computation of the Bank's liabilities or other actuarial assumptions, such as mortality rates, retirement, etc.

E. 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 has been extended from time to time, and recently until December 31, 2021. On December 27, 2021, the Banking Supervision Department published a circular, according to which, with effect from January 1, 2022, the temporary directive will cease to be valid. The mitigated capital requirements will apply for a period of twenty-four months following the end of the temporary directive period (namely, until December 31, 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 June 30, 2022) would not be considered a deviation from the regulatory capital requirements. As from January 1, 2022, with the expiry of the period of the Provisional Instruction, the minimum level of the Common Equity Tier 1 ratio and the minimum level of the total capital ratio will revert to the level of 9% and 12.5%, respectively, subject to that stated above.

F. (1) **An early redemption in full of the subordinate capital notes (Series 1).** On April 20, 2020, Manpikim redeemed the capital notes by means of an early redemption in full, in accordance with the terms of the capital notes and following the approval of the Supervisor of Banks, in a total amount of approx. NIS 1,448 million, including interest and linkage increments.

(2) **An early redemption in full of Series "A" and Series "B" capital notes (hybrid tier 1 capital).** On January 1, 2022, the Bank redeemed the capital notes by means of an early redemption in full, in accordance with the terms of the capital notes and following the approval of the Supervisor of Banks, in a total amount of approx. NIS 1,852 million, including interest and linkage increments.

(3) **An early redemption in full of the subordinate capital notes (Series L).** On January 10, 2020, the Bank redeemed the subordinated capital notes (which include a loss absorption mechanism) by means of an early redemption in full, in accordance with the terms of the capital notes and following the approval of the Supervisor of Banks, in a total amount of approx. NIS 784 million, including interest and linkage increments.

25. 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. Capital for calculating ratio of capital

	December 31,	
	2021	2020
	in NIS millions	
Common equity tier 1 after deductions	(1)21,839	(1)19,707
Additional tier 1 capital after deductions	178	356
Tier 1 capital	22,017	20,063
Tier 2 capital after deductions	6,971	5,170
Total capital	**28,988**	**25,233**

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

H. Weighted risk assets balance

	December 31,	
	2021	2020
	in NIS millions	
Credit risk[1]	194,544	173,317
Market Risk	3,738	3,337
CVA risk	1,656	1,763
Operational risk	15,383	14,815
Total weighted risk assets balance	**215,321**	**193,232**

Footnote:
(1) The total weighted balances of the risk assets have been reduced by NIS 343 million (December 31,2020: NIS 439 million) due to adjustments in respect to the efficiency plan.

25. 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)

I. Ratio of capital to risk assets

	December 31,	
	2021	2020
	In %	
A. Consolidated		
Ratio of common equity tier 1 to risk assets	10.14	10.20
Ratio of total capital to risk assets	13.46	13.06
Ratio of minimum common equity tier 1 required by the Supervisor of Banks(3)(5)(7)	8.16	8.18
Minimum total capital adequacy ratio required by the Supervisor of Banks(5)(7)	11.50	(6)11.50
B. Significant subsidiaries		
1. Mercantile Discount Bank LTD. and its consolidated companies		
Ratio of common equity tier 1 to risk assets	11.9	11.4
Ratio of total capital to risk assets	14.0	13.8
Ratio of minimum common equity tier 1 required by the Supervisor of Banks(4)(5)(7)	8.2	8.2
Minimum total capital adequacy ratio required by the Supervisor of Banks(5)(7)	11.5	(6)11.5
2. Discount Bancorp Inc. (1)		
Ratio of common equity tier 1 to risk assets	12.6	14.1
Ratio of total capital to risk assets	13.6	15.3
Ratio of minimum common equity tier 1 required in accordance with local regulation(2)	4.5	4.5
Minimum total capital adequacy ratio required in accordance with local regulation(2)	8.0	8.0
3. Israel Credit Cards LTD.		
Ratio of common equity tier 1 to risk assets	15.3	13.8
Ratio of total capital to risk assets	16.3	14.8
Ratio of minimum common equity tier 1 required by the Supervisor of Banks	8.0	8.0
Minimum total capital adequacy ratio required by the Supervisor of Banks	11.5	11.5

Footnotes:

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

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

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

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

(5) For details regarding provision instruction mitigating the capital requirements in order to face the Corona crisis, see section E above.

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

(7) As from January 1, 2022, the minimum common equity tier 1 ratio which is required from the Bank amounts to 9.16% (MDB – 9.18%) and the minimum total capital ratio which is required from the Bank amounts to 12.5% (MDB – the same).

25. 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)

J. Capital components for calculating ratio of capital

	December 31,	
	2021	2020
	in NIS millions	
A. Common Equity Tier 1		
Common equity	22,148	19,727
Difference between common equity and common equity tier 1	(395)	(246)
Total common equity tier 1 before supervisory adjustments and deductions	**21,753**	**19,481**
Supervisory adjustments and deductions		
Goodwill and other intangible assets	195	207
Supervisory adjustments and other deductions	8	(16)
Total supervisory adjustments and deductions before adjustments in respect to the efficiency plan	**203**	**191**
Total adjustments in respect to the efficiency plan	289	417
Total common equity tier 1 after supervisory adjustments and deductions	**21,839**	**19,707**
B. Additional tier 1 capital		
Additional tier 1 capital before deductions	178	356
Total additional tier 1 capital after deductions	**178**	**356**
C. Tier 2 capital		
Instruments before deductions	4,431	2,896
Allowance for credit losses before deductions	2,452	2,188
Minority interests in a subsidiary	88	86
Total tier 2 capital before deductions	6,971	5,170
Deductions	-	-
Total tier 2 capital	**6,971**	**5,170**

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

	December 31,	
	2021	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	9.96
Effect of the adjustments in respect to the efficiency plan	0.15	0.24
Ratio of common equity tier 1 to risk assets after the effect of the adjustments in respect to the efficiency plan	10.14	10.20

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

25. 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)

L. The issue of hybrid tier 1 capital

(1) General

The subordinate capital notes issued by the Bank in the years 2006-2009, as detailed in sections (2) and (3) below have been recognized as hybrid tier 1 capital under the Basel II rules. The said capital notes were not qualified in terms of the Basel III instructions, though according to the transitional instructions they were recognized in the transitional period as additional tier I capital, and were gradually eliminated in the years 2014-2021.

(2) Hybrid tier 1 capital - Series "A"

The issue of hybrid tier 1 capital in the years 2006-2007. On December 31, 2006 subordinate capital notes, in its par value, were issued in the amount of NIS 750 million in a private placement, and on May 13, 2007 an additional NIS 250 million was issued to investors in a private placement. On May 31, 2007, the Bank published a Prospectus for the listing for trade of subordinate capital notes.

The issue of hybrid tier 1 capital in 2008. The Bank issued on September 25, 2008, subordinated capital notes (Series "A"), by way of enlarging of an existing Series, listed for trade per Prospectus dated May 30, 2007, in a par value of approx. NIS 147 million, through a private issue to classified investors (as defined in the Securities Regulations (Offer of Securities to the Public), 2007).

Early redemption. On January 1, 2022, the Bank redeemed the capital notes in a full early redemption in accordance with the terms of the capital notes and after obtaining approval from the Supervisor of Banks.

(3) Hybrid tier 1 capital - Series "B"

Issue of hybrid tier 1 capital in March 2009. The Bank entered into an agreement with Migdal Insurance Company Ltd. (participation in profits), Migdal Insurance Company Ltd. (nostro) and Migdal Makefet Pension Funds and Provident Funds Management Ltd., each of them separately according to its share, for the private placement of NIS 350 million par value of the Bank's subordinated capital notes (Series "B") in a total consideration for NIS 350 million.

Early redemption. On January 1, 2022, the Bank redeemed the capital notes in a full early redemption in accordance with the terms of the capital notes and after obtaining approval from the Supervisor of Banks.

M. Upper tier 2 capital

General. The subordinate capital notes issued by the Bank in 2009, as detailed below, have been recognized under the Basel II rules as upper tier 2 capital. The said subordinate capital notes are not qualified under the Basel III rules, but in accordance with the transitional instructions they are recognized in the transitional period as additional tier 1 capital, and will be gradually eliminated in the years 2014-2021.

Issue of upper tier 2 capital in 2009. In 2009, Discount Manpikim issued NIS 1,252 million par value subordinated capital notes (Series 1), which were designated as upper tier 2 capital (see "General" above).

Early redemption. On April 20, 2020, Manpikim redeemed the capital notes in a full early redemption in accordance with the terms of the capital notes and after obtaining approval from the Supervisor of Banks.

N. Issuance of subordinate debt notes which include a loss absorption mechanism

Series "L". On January 10, 2017, the Bank issued an amount of approx. NIS 784 million par value of subordinate debt notes (series "L"), which were listed for trade on the Stock Exchange. The subordinate debt notes (Series "L") comprised capital instruments, which were classified as Tier 2 capital for the purpose of inclusion in the Bank's regulatory capital and complied with the qualifying terms contained in the Basel III rules.

Early redemption. On January 10, 2022, the Bank redeemed the capital notes in a full early redemption in accordance with the terms of the capital notes and after obtaining approval from the Supervisor of Banks.

Series "F". On October 29, 2019, the Bank issued (through Manpikim Company) an amount of approx. NIS 1,232 million par value of subordinate debt notes (series "F"), which were listed for trade on the Stock Exchange. The subordinate debt notes (Series "F") include a loss absorption mechanism through the elimination of the principal sum of the subordinate debt notes (Series "F") either in full or in part, in the case of certain circumstances occurring, as detailed below. The subordinate debt notes (Series "F") comprise capital instruments, classified as Tier 2 capital for the purpose of inclusion in the Bank's regulatory capital and comply with the qualifying terms contained in the Basel III rules. On January 7, 2020, the Bank (through Manpikim Company) issued to a classified investor in a private placement, subordinate debt notes (Series "F") in the nominal value of NIS 100 million.

25. 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)

The principal sum of the subordinate debt notes (Series "F") will be repaid in one amount on October 29, 2030, unless the Discount Manpikim has previously used its right for the early redemption if the subordinate debt notes after six years, subject to approval of the Supervisor of Banks.

The outstanding balance of the subordinate debt notes (Series "F"), carries a fixed annual interest of 1.46% payable once a year.

Series "G". On June 22, 2020, the Bank (through Manpikim company) issued subordinate debt notes (Series "G") in the nominal value of approx. NIS 440.4 million, which were registered for trading on the Stock Exchange. The said subordinate debt notes (Series "G") contain a loss absorption mechanism by the elimination of the principal sum of the subordinate debt notes (Series "G"), in whole or in part, upon existence of certain circumstances, as detailed below. The subordinate debt notes (Series "G") comprise a capital instrument classified as Tier 2 capital for the purpose of their inclusion in the Bank's regulatory capital, and which comply with the qualifying terms of Basel III.

The principal sum on the subordinate debt notes (Series "G") shall be redeemed in one payment, on July 1, 2031, unless, prior to this date, Discount Manpikim exercises its right for the premature redemption of the subordinate debt notes after six years, subject to approval of the Supervisor of Banks.

The outstanding balance of the subordinate debt notes (Series "G") carries a fixed annual interest rate of 2.42%, payable once in each year.

Series "H". On November 29, 2021, the Bank (through Manpikim company) issued subordinate debt notes (Series "H"), which were registered for trading on the Stock Exchange. The said subordinate debt notes (Series "H") contain a loss absorption mechanism by the elimination of the principal sum of the subordinate debt notes (Series "H"), in whole or in part, upon existence of certain circumstances, as detailed below. The subordinate debt notes (Series "H") comprise a capital instrument classified as Tier 2 capital for the purpose of their inclusion in the Bank's regulatory capital, and which comply with the qualifying terms of Basel III.

The principal sum on the subordinate debt notes (Series "H") shall be redeemed in one payment, on November 1, 2032, unless, prior to this date, Discount Manpikim exercises its right for the premature redemption of the subordinate debt notes, no earlier than November 1, 2027, and no later than December 1, 2027, subject to approval of the Supervisor of Banks.

The outstanding balance of the subordinate debt notes (Series "H") carries a fixed annual interest rate of 0.2%, payable once in each year.

Constitutive event for non-viability. Upon occurrence of circumstances comprising a constitutive event for non-viability, as described below, the Discount Manpikim shall write-off (fully or partly) the subordinate debt notes of the said series. A constitutive event for non-viability of a banking corporation is the earlier of the two following events:

- Announcement of the Supervisor to the Banks that the conversion of the capital instrument or its write-off is imperative, and that, in the opinion of the Supervisor, without it the bank would reach the point of non-viability;
- Notice to the Bank by the Supervisor of Banks regarding the decision to carry out the raising of capital from the public sector, or other support of equal value, without it the bank would reach the non-viability point, as stated by the Supervisor of Banks.

In the event that following the write-off of the principal sum and up to a period of 7 years from the date of the write-off (15 years from the issuance date in Series "L"), the Bank's Common Equity Tier 1 ratio would rise above the minimum capital ratio determined for the Bank by the Supervisor of Banks, then the Bank, at its discretion, would be entitled to announce the reversal, in part or in full, of the principal's write-off.

25. 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 December 31, 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 December 31, 2023) and provided that the leverage ratio shall not be lower than the leverage ratio as at June 30, 2020, or the minimum leverage ratio required of a banking corporation prior to the temporary directive, whichever is the lower.

	December 31,	
	2021	2020
	in NIS millions	
A. Consolidated		
Tier 1 capital[1]	22,017	20,063
Total exposures	368,120	319,222
	In %	
Leverage ratio	6.0	6.3
Minimal Leverage ratio required by the Supervisor of Banks	4.5	4.5
B. Significant subsidiaries		
1. Mercantile Discount Bank LTD. and its consolidated companies		
Leverage ratio	6.0	6.0
Minimal Leverage ratio required by the Supervisor of Banks	4.5	4.5
2. Discount Bakcorp Inc.		
Leverage ratio	9.4	10.3
Minimal Leverage ratio required by the Supervisor of Banks	4.0	4.0
3. Israel Credit Cards LTD.		
Leverage ratio	11.1	8.7
Minimal Leverage ratio required by the Supervisor of Banks	4.5	4.5

Footnote:

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

Factors which may materially affect the leverage ratio. The changes in the scope of exposure and the Tier I capital of the Bank may lead to changes in the Bank's leverage ratio. For possible changes in the regulatory capital, see section 1 D above.

25. 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 Bank implements Proper Conduct of Banking Business Directive No. 221 in the matter of liquidity coverage ratio, which adopts the recommendations of the Basel Committee regarding the liquidity coverage ratio in the banking industry in Israel. The liquidity coverage ratio tests a 30-day horizon in the stress test and is intended to ensure that a banking corporation maintains an inventory of high quality liquid assets covering the liquidity requirements of the banking corporation within that time horizon. The Directive determines the manner of calculation of the liquidity coverage ratio, including the definition of characteristics and operating requirements as to the "inventory of high quality liquid assets" (the numerator) and the haircuts in their respect as well as the net cash outflow expected in the stress test as defined in the Directive for the 30 calendar days (the denominator).

The stress test determined in the Directive includes a shock combining a shock specific to the corporation as well as a market-wide shock, within the framework of which standard withdrawal rates have been determined for the cash outflows and rates of deposits of cash inflows in accordance with the categories of the different balances.

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).

Factors which may materially affect the liquidity coverage ratio. The Bank manages the liquidity risk with the aim of ensuring the ability to honor its liabilities in different variable situations. This, in accordance with requirements and restrictions determined by the Board of Directors in the matter of liquidity risk management and in accordance with guidelines of the Supervisor of Banks.

Factors that may materially impact the liquidity situation and in respect of which the Bank has made preparations, include different situations, local and international, which may affect the cost of raising resources and their availability, the value of liquid assets and the repayment ability of the Bank's customers.

	For the three months ended	
	December 31,	
	2021	2020
	In %	
A. Consolidated		
Liquidity coverage ratio	123.1	147.5
Minimal Liquidity coverage ratio required by the Supervisor of Banks	100.0	100.0
B. The Bank		
Liquidity coverage ratio	131.9	165.4
Minimal Liquidity coverage ratio required by the Supervisor of Banks	100.0	100.0
C. Significant subsidiaries(1)		
Mercantile Discount Bank LTD. and its consolidated companies		
Liquidity coverage ratio	128.6	155.8
Minimal Liquidity coverage ratio required by the Supervisor of Banks	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.

25. Capital Adequacy, Leverage and Liquidity in accordance with Directives of the Supervisor of Banks (continued)

4. Net Stable Funding Ratio in accordance with the Supervisor of Banks's directive

General. With effect from December 31, 2021, the Bank applies Proper Conduct of Banking Business Directive No. 222, "Net Stable Funding Ratio – NSFR", which adopts the recommendations of the Basel Committee with regard to a Net Stable Funding Ratio in the Israeli banking system. In accordance with the directive, the objective of a Net Stable Funding Ratio is to improve the resilience of the liquidity risk profile of banking corporations in the long term by means of requiring from the banking corporations to maintain a stable funding profile in accordance with the composition of their balance sheet assets and their off-balance sheet activities. The Net Stable Funding Ratio consists of two components: available stable funding items (the numerator) and required stable funding items (the denominator). "Available stable funding" is defined as that part of the capital and liabilities that can be relied upon over the time horizon taken into account in the Net Stable Funding Ratio, which lasts for one year. The Required amount of stable funding of a particular corporation is a function of the liquidity characteristics and the residual maturities of the various assets held by that corporation, as well as of its off-balance sheet exposures.

In accordance with the directive, the required minimum Net Stable Funding Ratio stands at 100%.

	December 31, 2021
	In %
A. Consolidated	
Net Stable Funding Ratio	126.7
Minimum Net Stable Funding Ratio required by Supervisor of Banks	100.0
B. Significant subsidiaries	
1. Mercantile Discount Bank LTD. and its consolidated companies	
Net Stable Funding Ratio	127.0
Minimum Net Stable Funding Ratio required by Supervisor of Banks	100.0

26. Contingent Liabilities and Special Commitments

A. Off-Balance sheet Commitment at year-end regarding activity based[(1)] on loan payments

	Consolidated		The Bank	
	December 31		December 31	
	2021	2020	2021	2020
	in NIS millions			
Balance of loans granted out of deposits repayable according to the repayment of the loans[(2)]				
Israeli currency - non linked	141	175	141	175
Israeli currency - linked to the CPI	343	339	316	312
Foreign currency	6	12	6	12
Total	**490**	**526**	**463**	**499**

Footnotes:

(1) Loans and deposits granted out of deposits, the repayment of which to the depositors is conditional upon the collection of these loans (or deposits),with a margin or with a collection commission (instead of a margin).

(2) Standing loans and government deposits made in respect thereof, totaling NIS 76 million (2020: NIS 52 million), have not been included in the table.

26. Contingent Liabilities and Special Commitments (continued)

B. Cash flows in respect of collection fees and commissions and interest spreads of activity based on loan requirements – Consolidated[3]

	December 31							
	2021							2020
	Up to 1 year	Over 1 year and up to 3 years	Over 3 years and up to 5 years	Over 5 years and up to 10 years	Over 10 years and up to 20 years	Over 20 years	Total	Total
In Israeli currency, non-linked:								
Future contractual flows	-	-	-	1	4	-	5	6
Expected future flows based on Management's estimates of early repayments	-	-	-	1	4	-	5	6
Discounted expected future flows based on Management's estimates of early repayments[1]	-	-	-	1	3	-	4	5
In Israeli currency, CPI-linked:								
Future contractual flows	1	2	1	1	1	-	6	8
Expected future flows based on Management's estimates of early repayments	1	1	1	1	-	-	4	6
Discounted expected future flows based on Management's estimates of early repayments[2]	1	1	1	1	-	-	4	6

Footnotes:
(1) The capitalization was performed according to weighted rate of 1.63% (1.19% :2020)
(2) The capitalization was performed according to weighted rate of 0.04% (0.07% :2020)
(3) There were no cash flows in foreign currency during the reported periods

Information as to the granting of loans during the year by the mortgage banks – consolidated

	December 31	
	2021	2020
Loans out of deposits repayable according to the repayment of loans	27	36
Standing loans	23	20

C. Contingent liabilities and other special commitments

	Consolidated		The Bank	
	December 31		December 31	
	2021	2020	2021	2020
	in NIS millions			
1. Commitment to acquire buildings and equipment[1]	849	[2]661	607	[2]427
2. Commitment to invest in private investment funds and in venture capital funds	730	708	-	-

Footnotes:
(1) Mainly due to the Discount campus establishment, see section 15.
(2) Reclassified – improvement of data.

26. Contingent Liabilities and Special Commitments (continued)

3. The Bank and Mercantile Discount Bank ("MDB"), which are members of the Maof Clearing House Ltd., are responsible towards the Maof Clearing House, together with the members of the Maof Clearing House, to any financial indebtedness arising from Maof Clearing House transactions (transactions regarding options and future contracts settled by the Maof Clearing House) made at the Stock Exchange. For this purpose, the Maof Clearing House established a risk fund. The Bank's share in the risk fund as of December 31, 2021, amounts to approx. NIS 185 million, comprising 29.46% of the total risk fund at that date. The share of MDB in the Risk Fund as of December 31, 2021, amounted to approx. NIS 5 million, comprising 0.8% of the total amount of the Risk Fund as of that date. The two banks were required to provide collateral in favor of the Maof Clearing House by way of securities (Government bonds) in an amount that would cover their possible liability in respect of their share in the risk fund, as stated, as well as an additional amount derived from the volume of operations in this field of each of the banks (see Note 27 E). Each of the banks is also committed to pay the Maof Clearing House any monetary charge that may result from its operations and from the operation of their customers in respect of performing Maof transactions cleared at the Clearing House.
4. According to the articles of the Stock Exchange and the byelaws of the Tel Aviv Stock Exchange Clearing House, the members are committed towards the Clearing House to cover any amount resulting from the obligations on behalf of themselves or their customers as well as for other Stock Exchange members who are not members of the Clearing House and their customers, in respect of transactions conducted by way of the Clearing House. Furthermore, each member is also responsible for his share of the Risk Fund, established for this purpose, based on the clearing ratio of turnovers of the members. As collateral for their obligations towards the Clearing House, the Bank and MDB pledged their rights to accounts maintained at the Clearing House (in which securities are deposited) and at the Bank of Israel (in which cash is deposited). (See Note 27 H).
5. The subsidiary of the Bank was engaged in providing a full array of trust and custodianship services and served, inter alia, as a trustee for certain bonds that were issued to the public pursuant to a prospectus and traded on the Tel-Aviv Stock Exchange. The company is preparing to close down its operations and it is left with only a small amount of activity.
6. a) The Bank's previous Articles of Association, which were amended in March 2002, prescribed that the Bank shall indemnify any person who serves or served as a representative of the Bank, or at its request, as a Director in another company in which the Bank has an interest, for the expenses incurred by such person in connection with legal proceedings instituted against him in respect of acts of commission or omission in the course of fulfilling his duties as a Director of such other company, and for an amount he is ordered to pay under a judgment handed down in such legal proceedings, including by way of a settlement to which the Bank has agreed, unless the judicial authority in such proceedings has found that the acts as aforesaid on the part of such person were performed not in good faith. The Bank is entitled to issue a letter of indemnity to any such Director of another company, including a Director of the Bank who serves as a Director in the other company, at terms and conditions approved by the Board of Directors. Accordingly, the Bank has issued letters of indemnity, unlimited as to amount, to Directors who serve or served at the Bank’s request in other companies held, directly or indirectly, by the Bank (see hereunder).
   b) According to the Bank's Articles of Association, any employee or clerk of the Bank who is not an executive officer, will be indemnified out of the Bank's funds for any liability incurred by him in his capacity as an employee or clerk of the Bank in defending himself in any legal proceedings, whether civil or criminal, in which a judgment is given in his favor or in which he is acquitted, and the Bank is entitled to indemnify him for any financial liability imposed on him in favor of another person for an act done in his capacity as an employee or clerk of the Bank.
   c) The Articles of Incorporation of certain consolidated subsidiaries of the Bank allow for indemnification of officers under certain conditions, subject to the provisions of the Law. Certain companies in certain cases granted such indemnification.
   d) Discount Manpikim Ltd.("Manpikim"), a wholly owned and controlled subsidiary of the Bank, gave a commitment in September 2006 for the indemnification of Directors and of whoever officiated as its CEO at that time, each of them separately, in respect of a monetary liability that will be imposed on any of them and in respect of reasonable litigation expenses, in connection with a publication of a shelf Prospectus of September 2006, and with an issue made by shelf offer reports during the period of twenty-four months from date of publication of the shelf Prospectus, as well as a private placement and the registration for trade in accordance with a Prospectus, dated September 2006, and this under terms specified in the letter of indemnification. In any event, the maximum amount of the indemnification granted to all of the directors and to the CEO as a whole shall not exceed the gross proceeds of the said issuances, and in any case no more than NIS 1.5 billion (the consideration for the issue of debt notes in accordance with this Prospectus amounted to approx. NIS 1,452 million). In September 2007, Discount Manpikim Ltd. approved a similar indemnify to the CEO appointed subsequently to the issue of the shelf prospectus, regarding shelf offering reports that were published subsequent to the date of the resolution, in accordance with the said shelf prospectus.

26. Contingent Liabilities and Special Commitments (continued)

e) Manpikim granted in February 2008 indemnification to directors as well as the CEO of the company, for each of them separately, with respect to monetary liability that might be imposed on any of them and with respect to reasonable litigation expenses in connection with the issue of the balance of the subordinated debt notes not yet issued, in accordance with a shelf Prospectus dated September 28, 2008 and/or in connection with the publication of a shelf Prospectus of February 2008 and the issue of subordinated debt notes in accordance therewith, and this under terms specified in the letter of indemnification. In any event, the maximum amount of the indemnification granted to all of the directors and to the CEO as a whole shall not exceed the gross proceeds of the said issue, and in any case no more than NIS 2 billion (the consideration for the issue of debt notes in accordance with this Prospectus amounted to approx. NIS 1,967 million). This indemnification is in addition to the indemnification given in section "D" above.

f) Manpikim granted in February 2009 (within the framework of the resolution taken at a shareholders' meeting of Manpikim) indemnification to directors as well as the CEO of the company for each of them separately, with respect to monetary liability that might be imposed on any of them and with respect to reasonable litigation expenses in connection with the issue of subordinated capital notes in accordance with the amended a shelf prospectus dated December 24, 2008, which was published on March 12, 2009, and this under terms specified in the letter of indemnification. In any event, the maximum amount of the indemnification granted to all of the directors and to the CEO as a whole shall not exceed the gross proceeds of the said issuances, and in any case no more than NIS 3 billion (the consideration for the issue of debt notes in accordance with this Prospectus amounted to approx. NIS 2,408 million).

g) On October 2, 2013, Manpikim (within the framework of the resolution taken at a shareholders' meeting of Manpikim) granted indemnification to the Directors, the CEO and to the Comptroller of the company, in respect of a monetary liability that will be imposed on any of them and in respect of reasonable litigation expenses, in connection with a Prospectus for the merger between the company and Discount Mortgages Issues Ltd. Manpikim committed in advance in respect of each of the Directors, the CEO and the Comptroller of the company, each of them separately, to grant indemnification, in respect of a monetary liability that may be imposed on any of them, and in respect of reasonable legal fees, in connection with the merger Prospectus and the merger, including everything stemming from them and/or related to them, directly or indirectly, on condition that in no event shall the maximum cumulative amount of the indemnification granted to all those entitled to it, exceed the sum of NIS 200 million.

With respect of the indemnity granted by Manpikim to officers of Manpikim, in respect of the issuance of prospectuses, as detailed in sections (d) to (g) above, the Bank has granted an indemnity to Manpikim.

h) On February 26, 2019, the Bank approved the application to Manpikim of the group indemnification resolution dated February 26, 2016, according to which, the maximum amount of indemnification granted and which may be granted by the Bank to officers of the Bank and officers of its subsidiary companies, shall not exceed a cumulative amount equal to 25% of the equity capital of the Bank, as reflected in its most recent financial statements published proximately prior to the actual date of indemnification.

i) **Indemnification in respect of Trustees for the holders of debt notes issued by the Bank and by Discount Manpikim.** In accordance with the terms of the Deeds of Trust, the Trustees are entitled to indemnification by the Bank in respect of reasonable expenses incurred in connection with action taken by power of their duty under the Deeds of Trust, as well as to indemnification in respect of certain events in accordance with the indemnification terms contained in the Deeds of Trust.

j) **Liability Insurance of Officers.** The Bank's special general meeting held on March 18, 2020, resolved to approve in advance the engagement of the Bank in an insurance policy covering the liability of Directors and officers, whether by way of purchasing a new policy or by way of extending the validity of the existing policy, within the power of the remuneration policy that was approved by the same meeting, under the terms and limitations stated in the said remuneration plan. Note 26 C, section 8 J of the financial statements as of December 31, 2019, described the Officers' insurance arrangements that had been in effect prior to the said decision.

k) **Advance exemption and a commitment to indemnify of directors and other officers.** On June 26, 2007 a General Meeting approved advance exemption from responsibility of directors and other officers in the Bank and of former directors and officers in the Bank (according to a list of individual names), subject to exceptions detailed in the decision, deriving from the Bank's articles regarding liability exemption.

In addition, the abovementioned special General Meeting approved a commitment for indemnification of other directors and officers in the Bank as of the date of the decision (as detailed in the list appended to the announcement of the General Meeting), in respect of monetary liabilities levied on them and in respect of reasonable legal expenses, all in connection with raising of tier 1 capital implemented in the Bank in December 2006 and May 2007.

26. Contingent Liabilities and Special Commitments (continued)

The General Meeting of Shareholders from August 27, 2009 approved the granting of exemption and indemnification to Directors and other Officers appointed subsequently to June 2007 (the date on which the General Meeting of shareholders approved the granting of exemption and indemnification to acting Officers and to Officers that had acted in the past) as well as to Directors and other Officers that may be appointed in the future, excluding controlling shareholders in respect of whom a specific resolution is required. In this framework, certain amendments to the indemnification letter have been approved, which will apply also to Directors and Officers who had been issued indemnification letters in June 2007.

l) At the general meeting held on September 9, 2013, it was resolved to amend the advance indemnification undertaking for directors and other officers of the Bank, including directors or other officers as they shall be from time to time, inter alia, in accordance with the Improvement of Enforcement Measures at the Israel Securities Authority (Legislative Amendments), 2011 and the Antitrust Law (Amendment No. 13), 2012.

m) On December 2, 2015, the Bank's annual general meeting resolved to approve the updating of the resolution regarding the grant of an indemnification undertaking to the directors and officers serving with the Bank, including those who shall serve with the Bank from time to time, and to amend the Bank’s articles and the remuneration policy accordingly.

Within the framework of the amendment of the indemnification commitment, the maximum amount of indemnification was fixed at 25% of the equity value, as reflected in the last financial statements published prior to the date of the actual indemnification; the limit on the maximum indemnification amount, and also the requirement that the indemnification shall be given in connection with the events set forth in the appendix of the indemnification undertaking, shall apply only to a monetary obligation imposed on the officers and not in respect to reasonable litigation expenses; the amended wording of the indemnification undertaking shall supersede the previous undertakings or other previous agreements between the Bank and the officers; however, if the terms of this undertaking worsen the terms of indemnification for the officer, or if this undertaking shall not be valid, the previous undertakings or the previous agreement shall apply.

n) **Exemption and a commitment to indemnify of Directors and Officers of MDB.** On November 29, 2009, MDB's General meeting of Shareholders approved the granting of a commitment to indemnify and exemption to Directors and other Officers of MDB and providing a commitment for the indemnification of other Directors and officers and of certain of its subsidiaries, who held office at MDB and at those subsidiaries since the year 2002 onwards. The said commitment to indemnify and exemption were granted in accordance with principles and group limitations approved by the Bank's board in July 2009. The general meeting of shareholders of that bank, held on October 31, 2012 and on March 24, 2013, approved amendments to sections regarding indemnification commitments granted to officers of the bank, as stated above, in order to add indemnification in respect of administrative enforcement proceedings under various laws, as detailed in the articles, and which may be indemnified under the law. The General Meeting of Shareholders of MDB approved on January 31, 2016 amendments to the indemnification resolution which was granted to officers of MDB, in order to agree with the indemnification terms granted to officers of Discount Bank.

The Remuneration Committee of the Bank's Board of Directors decided on February 6, 2020 to enlarge the applicability of the exemption and of the said commitment for indemnification, to include also two former officers of Municipal Bank Ltd., in respect of their responsibility for the preparation of the financial statements of Municipal Bank Ltd. at November 30, 2019, and for the period then ended.

o) **Exemption and a commitment to indemnify Directors and Officers of ICC and Diners.** In May 2017 'ICC's and Diners' general Meeting of Shareholders approved the granting of a commitment to indemnify and exemption to Directors and other Officers of ICC and Diners, accordingly, who held office at ICC and Diners, accordingly, since the year 2011 onwards in ICC (in Diners since the year 2015). The said commitment to indemnify and exemption were granted in accordance with principles and group limitations approved by the Bank's Board of Directors. The indemnification letters of ICC and Diners have been amended to agree with the indemnification terms granted to officers of Discount Bank.

p) **Indemnification of officers of subsidiary companies.** In accordance with a policy decision regarding indemnity for officers of subsidiaries in the Discount Bank Group, which had been amended and approved by the Bank`s Board of Directors in August 2020, the Bank is committed to indemnify acting officers of Discount Trust Company, Tafnit, Discount Capital, Discount Capital Underwriting Ltd. and Discount Leasing, under terms parallel to the terms granted to officers of the Bank. In August 2020 as stated, the Bank's Board of Directors approved amendments to the Group policy decisions regarding exemption and indemnification to officers of the Group.

q) In the December 2014 agreement for the sale of DBLA’s operations, indemnities were granted to the buyer in respect of various representations.

26. Contingent Liabilities and Special Commitments (continued)

r) In the November 2015 agreement for the sale of the customer operations of IDB (Swiss) Bank DBLA, indemnities were granted to the buyer, limited with regard to period and amount, in respect of various representations.

In accordance with the Swiss regulations, the records of IDB (Swiss) Bank, which was liquidated and struck off, have to be maintained for a period of ten years from date of termination of the banking activities.

7. The Bank's practice is to grant, from time to time, and at terms and circumstances customary in the banking business, letters of commitment and of indemnification, limited or unlimited in amount, and for limited or unlimited periods, and everything in the Bank's ordinary course of business. Inter alia, such letters of indemnity are granted within the framework of the regulations of the Clearing House as to lost checks; are granted to Receivers and Liquidators; are granted in respect of negligence claims, to providers of various services including assessors, project manager etc.; to customers in respect of lost check books; to credit card companies as part of the accountability with them; or indemnification granted as part of a contractual obligation.

   This includes a full indemnification granted by the Bank to an assessor, in respect to any damage, which might be caused to him as a result of rendering valuation opinions, except in the case where gross negligence or malfeasance might be found; and a similar indemnification that the Bank gave to an expert who had provided the bank with an economic opinion.

8. a) The Bank has granted the International VISA Organization a guarantee unlimited in amount, securing the operations of ICC. Against this guarantee, ICC provided the Bank with a letter of indemnity.

   b) The Bank issued a guarantee in the amount of approx. US$3 million, in favor of the MasterCard Worldwide organization, to secure the activity of ICC within the framework of the Organization.

   c) ICC has granted an indemnification for all liabilities of its subsidiary companies: C.A.L (Financing), ICC Deposits and Iatzil Finance. Diners has granted an indemnification for all liabilities of Diners Financing.

9. Within the framework of permits granted to the Bank for the construction of a building at 156 Herzl Street, Tel Aviv, the Bank is obligated to the Tel Aviv Municipality to bear the costs involved in evacuating tenants from the plot. To the best of the Bank's knowledge as at the date of the financial statements, the Municipality had not yet begun evacuating the tenants from the plot. In the sale agreement by which the Bank had sold the said building (see Note 16(k) above), an assignment of charges was made between the Bank and the purchaser as regards the above mentioned liability. The said sale transaction was concluded subsequently to balance sheet date.

10. **Various actions against the Bank and its consolidated subsidiaries.** Various actions are pending against the Bank and its consolidated subsidiaries. These include class action suits and requests to approve actions as class action suits. Among others, allegations are raised in these claims with regard to the unlawful debiting of interest and/or the debiting of interest not in accordance with agreements, unlawful charges of commission, failure to execute instructions, applications for the confirmation of attachment orders in respect of attachments served by third parties on the assets of debtors which they allege are held by the Bank, the unlawful debiting of accounts, mistakes in value dates, the invalidity of collateral security and the realization thereof, applications for injunctions ordering the Bank to refrain from paying out bank guarantees or documentary credit, as well as allegations pertaining to securities, construction loans, applications for the removal of restrictions on an account pursuant to the Dishonored Checks Law, 1981. 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 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, has been assessed as reasonably possible, amounted to approx. NIS 762 million as of December 31, 2021.

   10.1 On April 28, 2014, a lawsuit together with a motion for its approval as a class action suit, were filed 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.

   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 regarding the question of the settlement date, the identity of the mediator has been agreed upon. A first mediation meeting was held on November 1, 2021. Additional mediation meetings are fixed for April 2022.

   10.2 On February 21, 2017, the Bank received notice of a lawsuit together with a motion for its approval as a class action suit, filed with the Tel Aviv- Jaffa District Court against the Bank. 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.

26. Contingent Liabilities and Special Commitments (continued)

The response of the Bank was filed on July 23, 2017. A motion for permission to appeal was filed with the Supreme Court on December 29, 2019, with respect to the decision rejecting the motion for disclosure of documents filed against the Bank. In its decision of December 5, 2021, the Supreme Court partly admitted the appeal and instructed disclosure of certain documents and reply to certain questions.

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. On January 30, 2022, the Court partially admitted a motion for attachment of evidence on the part of the Appellants. On February 13, 2022, the District Court addressed questions for consideration of the regulator and fixed a date for obtaining the response of the Regulator. A mediation meeting was held on November 24, 2021, but the parties did not reach agreement. A pretrial hearing was fixed for November 27, 2022.

10.3 An action together with a motion for approval of the action as a class action suit was filed on May 6, 2018, with the Tel Aviv-Jaffa District Court against ICC and two additional Respondents. The subject of the motion is the claim that the Respondents had not provided proper disclosure regarding the charging of interest by them. The Claimants stated the amount of their claim in respect of all class members, and against all respondents, at NIS 181 million.

ICC submitted on March 5, 2019, its response to the motion for approval. On June 7, 2020, the Court approved the withdrawal motion in the case of one of the additional respondents.

A pre-trial hearing was held on April 19, 2021, at the end of which, the Court advised the Appellant to withdraw the motion. A motion for withdrawal was filed by the Appellant on June 15, 2021. On January 26, 2022, the Court admitted the withdrawal motion and the proceedings came to an end.

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

The response of the Bank was filed in February 10, 2019. A motion for the amendment of the motion for approval was filed on December 25, 2019. On March 17, 2020, the Bank submitted its response, according to which it opposes the motion for the amendment of the motion for approval, which comprises an attempt to broadening the scope claim. On May 26, 2020, the Court resolution was given, according to which the motion for amendment of the motion for approval would be heard at the preliminary hearing meeting. A preliminary hearing was fixed for April 20, 2021 and in continuation, the parties have reached agreement to refer to mediation and a first mediation meeting was held. On August 9, 2021, the Appellant informed the Court that the mediation had failed. On September 13, 2021, the Court ruled that the petitioner should file an amended petition for approval of the claim as a class action. On September 29, 2021, the amended motion for approval was filed.

On December 20, 2021, the Bank filed its response to the amended motion, and on January 19, 2022, the Appellant responded to the response of the Bank to the amended motion. A hearing of the case was held on January 26, 2022. On February 14, 2022, the parties informed of their intention to participate in an additional mediation process. The case was fixed for the hearing of evidence on June 19, 2022.

10.5 On July 22, 2018, a claim and a petition for the claim's approval as a class action were filed in the Tel Aviv District Court against ICC and two other credit card companies. The subject of the petition is paperless transactions (mainly telephone transactions) with companies engaged in direct marketing. It is alleged in the petition that the credit card companies have not prevented the companies engaged in direct marketing from exploiting the elderly and stealing their money in respect to illegal transactions, with this being done by charging their credit cards. It is also alleged in the petition that the credit card companies should have prevented this phenomenon at the outset and, prior to entering into an engagement with the direct marketing companies, they should have checked the nature of these companies and their activity and should have verified that they were in full compliance with the law. The petitioners have assessed the amount of their claim in the sum of NIS 900 million for all the members of the group. The response brief of the Respondents was submitted on March 25, 2019.

26. Contingent Liabilities and Special Commitments (continued)

A preliminary hearing was held on January 7, 2020. At the end of the hearing, the Court ordered the representative of the Plaintiffs to edit, while reducing, the list of documents requested for disclosure and perusal thereof, as well as the questionnaire. On January 26, 2020, the Appellants filed an amended motion for the disclosure of documents. On March 8, 2020, the Defendants filed a response brief to the motion, and on October 7, 2020, the Appellants submitted their response to the response of the Responders. On March 2, 2021, the court rejected the motion for document disclosure and scheduled a preliminary hearing meeting for April 19, 2021.

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

On December 27, 2021, the Attorney General to the Government informed of his appearance in the proceedings and has presented his position, which in essence states that it is possible to place responsibility upon the Respondents based on the general tort of negligence, while determining principles for the setting of limits to this duty. An additional hearing was held on January 6, 2022, in which the parties stated their arguments with respect to the position of the Attorney General to the Government. Furthermore, it was stated that the summing-up briefs by the Appellants would be submitted by March 13, 2022, and those by the Respondents would be submitted by April 13, 2022.

10.6 On January 30, 2020, four lawsuits were filed with the Tel Aviv District Court against the Bank together with motions for their approval as class action suits. 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 were fixed for a preliminary hearing on April 12, 2021, during which, the Court instructed the Claimants in the parallel actions to inform the Court within fourteen days as to whether they had reached agreement to consolidate the motions into one motion to be conducted by one representative. The four Appellants informed on June 7, 2021, that they had reached agreement regarding the submission of a consolidated motion for approval. A decision dated June 20, 2021, fixed dates for submission of argument briefs with respect to the consolidated motion. Hearing of the case was fixed for January 24, 2022. A consolidated motion was filed on August 23, 2021, in one case, and on August 29, 2021, the three motions in the other cases were erased.

In the period from October 2021 to January 2022, the parties filed their argument briefs regarding the motion for attaching evidence on behalf of the Appellants. On February 22, 2022, the Court admitted the motion and instructed the attachment of the evidence. The Bank has to submit its response to the combined motion for approval until March 23, 2022. The case is fixed for a pre-trial hearing on May 23, 2022.

10.7 On May 11, 2020, a statement of claim and a petition for its approval as a class action were filed against the Bank and against two other banks, at the Tel Aviv District Court.

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

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

The Bank submitted its response on February 14, 2021, and the responses by the Appellants were submitted on June 27, 2021. In the hearing held on July 15, 2021, the Court fixed dates for submission of argument briefs with respect to the motion by the banks for the deletion of items included in the response by the Appellants ("motion for deletion"). It was also stated that following a decision in the matter of the motion for deletion, the argument briefs would be delivered to the Regulator, in order to obtain his position in this case. On August 30, 2021, the banks filed a motion for the deletion of items from the response brief of the Appellants. In the period from August to December 2021, the parties submitted their claims briefs regarding the motion for dismissal. No decision has yet been given.

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 11.2 below.

26. Contingent Liabilities and Special Commitments (continued)

10.8 On September 16, 2020, a claim together with a motion for its approval as a class action were filed against MDB 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 group that the Claimant is seeking to represent is defined as follows: "every customer that took, in the last seven years, a loan from the Respondent, and the effective interest specified in the loan documents (as defined in the Supervisor of Banks's circular – Circular No. 2140-06-8) did not include all the fees and payments that the customer was required to pay". 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.

A first hearing was held on December 8, 2021, following which, the Appellant informed that he accepts the advice of the Court to scale down the motion for approval by forgoing the causes regarding coercive tied selling and regarding monetary deposits.

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

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

The Claimants state that the members of the class number tens of thousands of customers who had suffered considerable damage, though, at this stage and prior to obtaining data, the Claimants are unable to estimate the amount of the damage to the class as a whole. The parties agreed to refer the case to mediation and on February 24, 2022 informed the Court that they had reached conclusion in principle, which might lead to the termination of the proceedings.

11. Requests to approve certain actions against the Bank and its consolidated subsidiaries as class action suits and other actions for which it is not possible at this stage to evaluate their prospects of success:

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

11.1 On December 19, 2019, the Bank received a claim brief together with a plea for deferment of the payment of Court fees, filed with the Tel Aviv-Yaffo District Court against the Bank and against five additional defendants.

The claim had been filed by a commercial bank in the Ukraine, the Joint Stock Company Commercial Bank, Private Bank, and the cause of action being fraud, embezzlement and deceit perpetrated by former controlling stockholders of the Plaintiff who are being sued in the claim brief.

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

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

26. Contingent Liabilities and Special Commitments (continued)

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

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

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

At the request of the Claimant, the Court permitted the delivery of the claim brief to a part of the Defendants, whose alleged place of residence is in the Ukraine; and this decision was appealed (not yet decided). Furthermore, at the request of the Bank dated May 26, 2021, the Court has extended the date for submission of the defense brief until after a decision is given in the motion for an Order under the money laundering prohibition laws, submitted by the Bank. In between, the Attorney General for the Government informed on October 28, 2021, of his intention to appear in the proceedings, and also stated his position, whereby, inter alia, he is opposed to the granting of an Order under the Prohibition of Money Laundering statutes. On October 17, 2021, the Bank filed a motion for the stay of proceedings in Israel, inter alia, on the background of the existence of parallel proceedings in the Ukraine. The Claimant filed on December 9, 2021, a response to the motion for the stay of proceedings. The Bank filed on January 9, 2022, its response to the response of the Claimant to the motion for the stay of proceedings. A hearing was fixed for April 12, 2022.

On January 27, 2022, two of the Respondents filed motions in which they deny the authority of the Court in Israel to try the case.

On February 3, 2022, one of the Defendants, a foreign resident, submitted a defense brief, and on February 16, 2022, the Claimant informed that he had delivered the claim brief to an additional Defendant (a foreign corporation).

11.2 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.

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 10.7 above.

12. Discount Capital company invests in private equity funds, in venture capital funds and in non-financial corporations. As of December 31, 2021, the outstanding balance of investment commitments made by Discount Capital in funds and corporations amounted in total to NIS 710 (approx. US$228 million [as of December 31, 2020: NIS 730 million (approx. US$227 million)].

13. **Discount Campus.** In 2016, Discount Leasing, ICC and MDB began initiating the Group campus that would house the head offices of the Bank and of the principal subsidiaries in Israel – MDB and ICC.

The investment in the project amounted at December 31, 2021, to NIS 743 million. The balance of the commitment in respect of the project as of December 31, 2021, amounts to NIS 655 million (all amounts do not include VAT).

27. Pledges, Restrictive Terms and Collateral

A. IDB Bank has pledged various loans and corporate bonds with the Federal Reserve Bank of New York (FRBNY). This pledge was made to secure credit from the FRBNY credit window as well as for credit within the framework of TAF tenders of this bank. The carrying value of the loans and securities pledged for FRBNY credit as of December 31, 2021 amounted to US$828 million (NIS 2,575 million) [December 31, 2020: US$850 million (NIS 2,734 million)].

In addition, IDB Bank pledged loans in favor of the Federal Home Loan Bank, in the amount of US$1,029 million (NIS 3,201 million) as of December 31, 2021 as a collateral for deposits received from it [as at December 31, 2020: approx. US$820 million (NIS 2,636 million)].

B. IDB Bank has not sold securities as of December 31, 2021 [as at December 31, 2020: US$57 million (NIS 184 million)].

C. The Bank is a member of the Euroclear Clearing House, which serves as a clearing system for transactions in securities traded on international markets, made through this clearing house. For this purpose, the Bank has pledged cash and securities in the amount of US$15 million (NIS 47 million) [as at December 31, 2020: US$15 million (NIS 48 million)].

D. The Bank deposits liquid assets with foreign brokers (in the United States) as collateral for option transactions performed by its customers by means of these brokers. In the past the Bank was required to deposit bonds as part of the said collateral. This requirement was changed during 2015, and the Bank is now required to deposit cash instead of bonds. The balance of the deposit as of December 31, 2021 amounted to approx. US$5 million (NIS 15 million) [December 31, 2020: US$4 million (NIS 14 million)].

E. Note 26 C 4 above describes the risk fund established by the Maof clearing house. The Bank’s share in the fund, deriving from the volume of the clearing activity on behalf of the Bank’s customers as of December 31, 2021, amounted to approx. NIS 185 million (December 31, 2020: NIS 139 million).

The balance of the security, which the Bank has to provide in favor of the clearing house (an off-balance sheet liability) based on scenarios devised by the Stock Exchange in respect of the activity of the Bank’s customers and in respect of the Bank's activity itself (nostro) as of December 31, 2021, was approx. NIS 848 million (2020: NIS 457 million).

According to the Memorandum and Bye Laws of the Maof clearing house all member of the clearing house, including the Bank signed pledge agreements to secure their liabilities in favor of the Maof clearing house and deposited liquid security only (State of Israel bonds and/or cash).

The Bank provided the Maof Clearing House with a first degree pledge on all monies that had been deposited by the Bank in an account in the name of the Maof Clearing House at the Stock Exchange Clearing House and at an account in the name of the Maof Clearing House in another bank, all as collateral for amounts that the Bank will be liable for in respect of Maof transactions to which it is responsible towards the Maof Clearing House. The obligation is subject to conditions, and the Bank is entitled, under certain conditions, to demand the repayment of certain amounts.

It is noted that on October 27, 2016, the Board of Directors of the Stock Exchange, following resolutions of the Boards of Directors of the Maof clearing house and of the Stock Exchange clearing house, approved the opening of accounts for these clearing houses with the Bank of Israel, this in order to enable the clearing houses to deposit with the Bank of Israel the cash collateral provided by members of the clearing houses, and to amend accordingly the by-laws of the clearing houses.

In this framework, all members of the clearing houses, including the Bank, signed two additional pledge agreements, according to which, the rights of the members in the collateral accounts with the Bank of Israel would be pledged in favor of the Stock Exchange clearing house and the Maof clearing house, this in addition to earlier pledges and without derogating there from.

Accordingly, the Bank has pledged in favor of the Stock Exchange clearing house and the Maof clearing house, a first degree pledge and an assignment by way of a pledge, in an unlimited amount, on all its rights of whatever type and class, in each of its collateral accounts with the Bank of Israel, including all the rights to receive the funds deposited or registered to the credit of the said accounts, as well as the profits earned thereon and any right stemming from or related to these accounts, and all as guarantee for the settlement of all obligations of the Bank towards the clearing houses, as may be from time to time.

Within the framework of these accounts the Bank has pledged bonds and cash in favor of the Maof Clearing House, the amount of which at December 31, 2021, totaled NIS 1,281 million (December 31, 2020: NIS 838 million).

Mercantile Discount Bank ("MDB") has created a similar pledge in favor of the Maof Clearing House. The value of the collateral in favor of the Maof Clearing House, as stated, amounted on December 31, 2021, to approx. NIS 20 million (December 31, 2020: approx. NIS 21 million). In addition, pledged in favor of the Maof Clearing House were cash the balance of which amounted at December 31, 2021, to NIS 2 million (December 31, 2020: NIS 2 million).

27. Pledges, Restrictive Terms and Collateral (continued)

Balance of collateral provided to the Maof Clearing House

	Balance as of December 31, 2021	Highest balance during the year 2021	Average balance* in 2021	Balance as of December 31, 2020
	In NIS millions			
Cash	53	53	53	52
Securities	1,248	1,257	1,180	** 807

* The reporting is made on the basis of the month-end balances.
** Reclassified - Improvement in the calculation of the data.

F. As a collateral for the obligations of Yatzil Finance, the said company registered an assignment by way of a pledge and a fixed and floating pledges on all its rights according to agreements with business houses for the discount of IsraCard, VISA, American Express and Diners Club Israel vouchers, and all the rights to receive amounts and payments from IsraCard, ICC, American Express and Diners, under power of assignment of rights and under the business house agreement. As of balance sheet date there was no obligation towards the banks.

G. (1) The Bank enters into Credit Support Appendix (CSA) type agreements with various banks intended to minimize mutual credit risks arising on derivative trading between banks. According to these agreements, the value of the inventory of derivative transactions made by the parties is measured periodically, and in the event that the net exposure of one of the parties exceeds a predetermined limit, that party is obligated to transfer deposits designed for the delimitation of the exposure to the other party, until the date of the next measurement. As of December 31, 2021, the Bank allocated in favor of various banks deposits in a total amount of NIS 609 million (December 31, 2020: NIS 679 million).

In addition, in July 2015, the Bank signed an engagement agreement with Merrill Lynch International, which will serve as a clearing house member for the Bank with respect to the central clearing of certain transactions in derivatives, included within the framework of the EMIR reform.

(2) IDB Bank also engages in CSA type agreements. As of December 31, 2021, IDB Bank provided in favor of various banks deposits in a total amount of US$57 million (NIS 177 million) [December 31, 2020: US$143 million (NIS 459 million)].

(3) MDB also engages in CSA type agreements. As of December 31, 2021, MDB provided in favor of various banks deposits in a total amount of NIS 41 million (December 31, 2020: NIS 65 million).

H. As detailed in Note 26 C 5 above, in accordance with the requirements of the Articles of the Tel-Aviv Stock Exchange Ltd. and the bylaws of the Stock Exchange Clearing House (hereinafter: "the Clearing House" or "Stock Exchange Clearing House"), the Bank pledged as security for its obligations towards the Clearing House all the Bank’s rights in the security deposit managed by the Clearing House (in which the Bank deposits securities) and all its rights in funds under the name of the Clearing House, deposited with the Bank of Israel. The value of the collateral amounted on December 31, 2021, to NIS 273 million (as at December 31, 2020: NIS 194 million).

MDB has created a similar pledge in favor of the Stock Exchange Clearing House. The value of the collateral as of December 31, 2021, amounted to NIS 42 million (December 31, 2020: NIS 39 million).

Balance of collateral provided to the Stock Exchange Clearing House

	Balance as of December 31, 2021	Highest balance during the year 2021	Average balance* in 2021	Balance as of December 31, 2020
	In NIS millions			
Cash	189	195	190	101
Securities	126	134	129	** 132

* The reporting is made on the basis of the month-end balances.
** Reclassified - Improvement in the calculation of the data.

27. Pledges, Restrictive Terms and Collateral (continued)

I. In July 2007, the Bank of Israel launched a system for the real-time settlement of large amounts (RTGS), enabling the swift and final transfer of funds between banks connected to the system, provided that the liquidity balance at these banks shall not fall below the volume required for effecting such money transfers. In view of the settlement arrangements, the Bank may require from time to time credit from the Bank of Israel for short periods of time. In order to secure the repayment in full of amounts due to the Bank of Israel with respect to such credit, as part of joining the security management system operated in this respect by the Stock Exchange Clearing House, the Bank pledged on November 24, 2010, in favor of the Bank of Israel a first degree floating pledge on its holdings in Israel Government bonds, deposited at the Stock Exchange Clearing House in an account in the Bank of Israel's name (in addition to a floating pledge, at first charge, registered on these assets on July 26, 2007).

The Bank deposited with the said account bonds valued, as at December 31, 2021, at approx. NIS 6.88 billion (December 31, 2020: NIS 6.26 billion).

MDB has also registered a similar pledge in favor of the Bank of Israel and has deposited with the Bank of Israel account at the Stock Exchange Clearing House bonds valued, as at December 31, 2021, at approx. NIS 3,392 million (December 31, 2020: approx. NIS 1,914 million).

With effect from April 2020, the Bank is taking loans from the Bank of Israel within the framework of the Bank of Israel's long-term loans plan, which is intended to enlarge the supply of credit to small and minute businesses. As security for this credit, the Bank and MDB have pledged bonds to the Bank of Israel, the value of which as of December 31, 2021 was NIS 9.7 billion (December 31, 2020: NIS 5.5 billion).

Details of the pledge agreement

	Balance as of December 31, 2021	Highest balance during the year 2021	Average balance* in 2021	Balance as of December 31, 2020
	In NIS millions			
Pledged securities (market value)	10,272	10,474	9,517	8,172

* The report is based on outstanding monthly balances.

J. In addition, the Bank and MDB make deposits from time to time with the Bank of Israel, constituting (together with the securities deposited, as stated) the collateral for the credit granted by the Bank of Israel to the Bank and to MDB, within the framework of credit tenders.

For that purpose the Bank has pledged in favor of the Bank of Israel foreign bonds deposited with Euroclear, the value of which, as of December 31, 2021, amounted to US$50 million (December 31, 2020: US$250 million).

Details of the deposits

	Balance as of December 31, 2021	Highest balance during the year 2021	Average balance* in 2021	Balance as of December 31, 2020
	In NIS millions			
Deposits with the Bank of Israel	51,725	51,725	42,556	36,220
Deposits from the Bank of Israel	9,724	9,724	8,604	5,505

* The report is based on outstanding monthly balances.

K. In accordance with Section 6(a) of the State Loans Law, 1979, the Accountant General announces from time to time, the appointment of certain entities, including the Bank, as "market makers" with respect to government bonds. Within the framework of the market making operations, the Treasury grants the market makers a facility for the borrowing of government bonds in order to cover short sale bond transactions, as part of the market making. Against the use of this facility, the Bank deposits with the Treasury as collateral amounts equal to the amount of the borrowed bonds. The balance of this deposit at December 31, 2021 was NIS 1,207 million (December 31, 2020: NIS 1,074 million).

27. Pledges, Restrictive Terms and Collateral (continued)

L. The sources and uses of the securities that had been received and the Bank's and which the Bank is entitled to sell or pledge, at their fair value, before setoffs effect

	Consolidated		The Bank	
	December 31		December 31	
	2021	2020	2021	2020
	In NIS millions			
The sources:				
Securities that were received in securities pending transactions against cash	1,207	1,074	1,207	1,074
Total	**1,207**	**1,074**	**1,207**	**1,074**
The uses:				
Securities sold under repurchase arrangements	-	184	-	-
Total	**-**	**184**	**-**	**-**

M. Details of securities pledged to the lenders

	Consolidated		The Bank	
	December 31		December 31	
	2021	2020	2021	2020
	In NIS millions			
Available for sale securities	5,344	4,230	1,547	1,852
Held-to-maturity bonds	6,881	6,259	6,880	6,258
Total	**12,225**	**10,489**	**8,427**	**8,110**

These securities have been deposited as collateral with the lenders, who are not permitted to sell or pledge them.

N. IDB Bank pledged loans of the "securities pledged for deposits" type – a pledge of CLO-type securities to local authorities against deposits that are received from them. The balance of the pledged securities amounted on December 31, 2021 to approx. NIS 214 million (approx. US$85 million) [as of December 31, 2020: approx. NIS 273 million (approx. $85 million)].

28. Derivative Instrument Activity – Volume, Credit Risk and Due Dates

General

1. Transactions in derivative financial instruments involve market, credit and liquidity risks.
   a. The Bank's activity involves exposure to various risks, including market risk. The market risk includes, inter-alia, linkage base, interest and exchange rate fluctuation risks, in the correlation characteristics between the various economic parameters, etc. As part of the overall Bank's strategy for the management of exposure to market risk, as stated above, the Bank combines in its financial asset and liability management and as a market maker, a wide range of derivative financial instruments. Among these financial instruments are: Forward transactions, IRS, FRA, Swap, options purchased and written by the Bank, which hedge against changes in foreign currency exchange rates, inflation rates, interest rates, share indices, components of embedded options, etc.
   b. The credit risk involved in these transactions derives from the fact that the stated amount of the transaction does not necessarily reflect its credit risk. Such risk is measured according to the maximum amount of the loss that the Bank might sustain if the other party to the transaction will not honor its terms, net of amounts subject to enforceable set-off agreements.
   The credit risk in the course of the engagement period is estimated at the amount of departing from the transaction with the addition of the future potential exposure as determined in Proper Conduct of Banking Business Directive No. 313 regarding the computation of the limitation on borrower indebtedness. The Bank's policy as regards the collateral required in respect of customer derivative financial instrument transactions resembles the policy regarding other credit granted, excluding customers' Maof activity. The collateral comprises various types. The Bank may also grant to customers' credit facilities without collateral, as the case may be.
   c. Liquidity risk derives from the fact that it might not be possible to rapidly contain the exposure involved, mainly in markets of low level trading.

28. Derivative Instrument Activity - Volume, Credit Risk and Due Dates (continued)

2. Some of the derivatives are intended and qualified as fair value hedging and cash flow hedging, some are purchased and written as part of the Bank's asset and liability management (derivatives not-for-trade) and the balance of which if defined as derivatives held for trade.
3. It is possible for the Bank to enter an agreement that in itself does not constitute a derivative instrument but which contains an embedded derivative. In respect of each contract the Bank evaluates whether the economic characteristics of the embedded derivative are not clearly and closely connected to those of the hosting agreement, and examines whether an independent instrument with the same terms of the embedded instrument would have agreed with the definition of a derivative instrument. When it is determined that the embedded derivative has economic characteristics that are not clearly and closely connected to the economic characteristics of the host contract, and also that a separate instrument having the same terms would have been qualified as a derivative instrument, the embedded derivative is separated from the hosting agreement, treated as a derivative in its own right and stated in the balance sheet together with the hosting agreement at its fair value, changes in its fair value being taken currently to the statement of profit and loss. Where the Bank is unable to reliably identify and measure an embedded derivative for the purpose of its separation from the hosting agreement, the agreement as a whole is stated in the balance sheet at fair value.
4. The Bank maintains a written documentation of all hedging relations between hedging instruments and the items hedged, as well as the object and strategy of risk management by way of creating the various hedging transactions. The documentation includes the specific identification of the asset, liability, the firm commitment or the anticipated transaction, which were determined as the hedged item, and the manner in which the hedging instrument is expected to hedge against risks involved in the hedged item. The Bank assesses the effectiveness of hedging relations both at the beginning of the transaction and on a continuing basis, in accordance with its risk management policy.
5. The Bank discontinues its hedging accounting from the following points onward when:
   a. It has been determined that the derivative is no longer effective, setting off the changes in fair value or the cash flows of the hedged item;
   b. The derivative expires, sold, cancelled or realized;
   c. The designation of the derivative as a hedging derivative is discontinued, due to the probability of the execution of the transaction being remote;
   d. A firm hedging commitment no longer complies with the definition of a firm commitment;
   e. Management cancels the designation of the derivative as a hedging derivative.

   When hedging accounting is discontinued due to the fact that a derivative is no longer qualified as an effective fair value hedge, the derivative will continue to be stated in the balance sheet at its fair value, however the hedged asset or liability will no longer be adjusted for changes in fair value. When hedging accounting is discontinued due to the fact that the hedged item no longer qualifies as a firm commitment, the derivative will continue to be stated in the balance sheet at fair value and every asset or liability which previously were stated based on the recognition as a firm commitment shall be removed from the balance sheet and recognized as profit or loss in the statement of profit and loss for the reported period.
6. Fair value hedging

   Certain derivatives are being designated by the Bank as hedging fair value. The changes in the fair value of derivatives hedging against exposure to changes in fair value of an asset or liability, are currently recognized in the statement of profit and loss, as well as the changes in the fair value of the hedged item, that could be related to the risk being hedged.
7. Cash flow hedge

   The subsidiary IDB Bank designates certain derivatives as hedge for cash flow. The change in the fair value of derivatives hedging exposure to changes in cash flows from assets, liabilities or from foreseen transactions, are firstly recognized in other comprehensive income and thereafter, when the hedged item affects profit or loss, it is reclassified to the statement of profit and loss.

28. Derivative Instrument Activity – Volume, Credit Risk and Due Dates (continued)

A. Volume of activity on a consolidated basis

1. Par value of derivative instruments

	December 31, 2021			December 31, 2020		
	Non-trading derivatives	Trading derivatives	Total	Non-trading derivatives	Trading derivatives	Total
	In NIS millions					
Interest rate contracts						
Forward and Futures contracts	7,639	15,336	22,975	7,177	5,987	13,164
Options written	16	606	622	34	792	826
Options purchased	17	638	655	73	892	965
Swaps[1]	11,124	101,794	112,918	9,539	103,393	112,932
Total[2]	**18,796**	**118,374**	**137,170**	**16,823**	**111,064**	**127,887**
Of which: Hedging derivatives[5]	4,876	-	4,876	4,123	-	4,123
Foreign currency contracts						
Forward and Futures contracts[3]	1,122	40,208	41,330	2,098	33,026	35,124
Options written	-	11,521	11,521	34	15,646	15,680
Options purchased	-	11,417	11,417	34	14,813	14,847
Swaps	32,609	94,588	127,197	15,595	76,536	92,131
Total	**33,731**	**157,734**	**191,465**	**17,761**	**140,021**	**157,782**
Contracts on shares						
Options written	89	8,862	8,951	92	8,194	8,286
Options purchased[4]	92	8,862	8,954	95	8,194	8,289
Swaps	-	902	902	-	865	865
Total	**181**	**18,626**	**18,807**	**187**	**17,253**	**17,440**
Commodities and other contracts						
Forward and Futures contracts	-	132	132	-	371	371
Options written	-	3	3	19	3	22
Options purchased	-	3	3	19	3	22
Total	**-**	**138**	**138**	**38**	**377**	**415**
Total stated amount	**52,708**	**294,872**	**347,580**	**34,809**	**268,715**	**303,524**

Footnotes:

	December 31, 2021	December 31, 2020
(1) Of which: swaps on which the Bank pays a fixed interest	27,348	35,319
(2) Of which: shekel/CPI swaps	15,805	13,208
(3) Of which: spot foreign currency swap contracts	936	1,640
(4) Of which: traded on the Stock Exchange	10,011	11,939

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

28. 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					
	December 31, 2021					
Interest rate contracts	166	1,697	1,863	277	1,600	1,877
Of which: Hedging	77	-	77	65	-	65
Foreign currency contracts	625	2,483	3,108	1,025	2,868	3,893
Contracts on shares	3	555	558	3	555	558
Commodities and other contracts	-	-	-	-	-	-
Total assets/liabilities in respect of derivatives gross(1)	**794**	**4,735**	**5,529**	**1,305**	**5,023**	**6,328**
Amounts offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance	794	4,735	5,529	1,305	5,023	6,328
Of which: not subject to net settlement arrangement or similar arrangements	-	525	525	5	542	547
	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 (December 31, 2020: NIS 10 million) positive gross fair value of assets stemming from embedded derivative instruments.
Of which: NIS 5 million (December 31, 2020: NIS 10 million) negative gross fair value of liabilities stemming from embedded derivative instruments.

B. Accounting hedge

1. Effect of accounting hedge

	For the year ended December 31	
	2021	2020
	Interest income (expenses)	
	In NIS millions	
Profit (loss) on fair value hedge		
Interest rate contracts		
Hedged items	(105)	24
Hedging derivatives	78	(34)

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

B. Accounting hedge (continued)

2. Items hedged by fair value hedge

	December 31, 2021			December 31, 2020		
	Book value	Cumulative fair value adjustments increasing the book value		Book value	Cumulative fair value adjustments increasing the book value	
		Existing hedge relations	Discontinued hedge relations		Existing hedge relations	Discontinued hedge relations
	In NIS millions					
Securities	2,989	(4)	18	2,833	100	-
Credit to the public	-	-	-	(1)322	1	-
Deposits from the public	1,919	(6)	-	1,297	(28)	-

Footnote:
(1) Amounts designated for hedge out of the loan portfolio totaling approx. NIS 908 million.

3. Effect of activity in derivative instruments regarding cash flow hedging

A. AMOUNTS RECOGNIZED IN OTHER COMPREHENSIVE INCOME IN RESPECT OF CASH FLOW HEDGING

	For the year ended December 31		
	2021	2020	2019
	Profit (loss) recognized in accumulated other comprehensive income in respect of the derivative		
	In NIS millions		
Hedge contract			
Interest rate	(3)	(1)	4

B. AMOUNTS RECLASSIFIED FROM OTHER COMPREHENSIVE INCOME TO PROFIT AND LOSS

	For the year ended December 31		
	2021	2020	2019
	Profit (loss) recognized in accumulated other comprehensive income in respect of the derivative		
	In NIS millions		
Hedge contract			
Interest rate	(1)	(3)	-

4. Effect of Derivatives not designated as hedging instruments on statement of profit and loss

	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	83	34
Foreign currency contracts	(892)	(1,035)
Contracts on shares	2	-
Commodities and other contracts	-	-
Total	**(807)**	**(1,001)**

Footnote:
(1) Included in the section Non-interest financing income (expenses)

28. Derivative Instruments Activity - volume, credit risk and due dates (continued)

C. Derivative Instruments credit risk based on the counterparty to the contract, on a consolidated basis

	Stock Exchange	Banks	Dealers/ brokers	Governments and central banks	Others	Total
	In NIS millions					
	December 31, 2021					
Balance sheet balance of assets in respect of derivative instruments(2)	62	2,436	4	99	2,928	5,529
Gross amounts not offset in the balance sheet:						
Credit risk mitigation in respect of financial instruments(5)	-	(1,677)	(1)	-	(1,109)	(2,787)
Credit risk mitigation in respect of cash collateral received	-	(706)	(1)	(98)	(193)	(998)
Net amount of assets in respect of derivative instruments	**62**	**53**	**2**	**1**	**1,626**	**1,744**
Off-balance sheet credit risk in respect of derivative instruments(1)	267	271	18	30	1,016	1,602
Total credit risk in respect of derivative instruments(4)	**329**	**2,707**	**22**	**129**	**3,944**	**7,131**
Balance sheet balance of liabilities in respect of derivative instruments(3)	491	2,547	21	-	3,269	6,328
Gross amounts not offset in the balance sheet:						
Financial instruments	-	(1,677)	(1)	-	(1,109)	(2,787)
Pledged cash collateral	-	(806)	-	-	(1,365)	(2,171)
Net amount of liabilities in respect of derivative instruments	**491**	**64**	**20**	**-**	**795**	**1,370**
	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 5,522 million included in the item assets in respect of derivative instruments (December 31, 2020: NIS 6,400 million).

(3) Of which: a balance sheet balance of standalone derivative instruments in the amount of NIS 6,323 million included in the item liabilities in respect of derivative instruments (December 31, 2020: NIS 7,365 million).

(4) The amount does not include the above deductions.

(5) The fair value of derivative instruments subject to netting agreements is in the amount of NIS 2,773 million (as of December 31, 2020: NIS 4,015 million).

28. 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				
	December 31, 2021				
Interest rate contracts					
Shekel/CPI	2,135	2,488	8,974	2,208	15,805
Other	5,488	18,905	53,837	43,135	121,365
Foreign currency contracts	89,747	75,935	19,502	6,281	191,465
Contracts on shares	17,966	771	70	-	18,807
Commodities and other contracts	-	6	132	-	138
Total	**115,336**	**98,105**	**82,515**	**51,624**	**347,580**
	December 31, 2020				
Interest rate contracts					
Shekel/CPI	2,369	1,935	7,208	1,696	13,208
Other	8,108	14,617	48,802	43,152	114,679
Foreign currency contracts	83,424	55,997	12,783	5,578	157,782
Contracts on shares	16,553	656	231	-	17,440
Commodities and other contracts	398	11	6	-	415
Total	**110,852**	**73,216**	**69,030**	**50,426**	**303,524**

29. Regulatory Operating Segments and Geographical Areas Information

A. General

As stated in Note 1 D 19 above, the report on segments of operation is presented in relation to segments that had been defined by the Supervisor of Banks.

The regulatory operating segments have been defined by the Bank of Israel in an amendment to the Directive, 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, as follows:

"Household segment" - private individuals, the volume of their financial asset portfolio is lower than NIS 3 million.

"Private banking segment" - private individuals, the volume of their financial asset portfolio exceeds NIS 3 million.

"Minute businesses segment" - businesses, the annual turnover of which is lower than NIS 10 million.

"Small businesses segment" - businesses, the annual turnover of which is equal to or higher than NIS 10 million, but is lower than NIS 50 million.

"Medium businesses segment" - businesses, the annual turnover of which is equal to or higher than NIS 50 million, but is lower than NIS 250 million.

"Large businesses segment" - Businesses, the annual turnover of which is equal to or exceeds NIS 250 million.

"Institutional bodies segment" – activity with institutional bodies, as defined in the Regulation of Engagement in Investment Consulting, Marketing of Investments and Investment Portfolio Management Act, 1995, including provident funds, pension funds, further education funds, mutual trust funds, ETN's, insurance companies, Stock Exchange members managing customer funds.

"Financial management segment" - includes the following activities: trading activity, asset and liability management activity, non-financial investment activity and other activities.

"Other segment" - including discontinued operations, profits from reserves and other results relating to employee rights not allocated to other segments and adjustment between the total items attribute to segments and the total items stated in the consolidated financial statements.

The following definitions were used in reporting the above operating segments:

"Private individuals" – individuals, including those managing a joint account, who at date of the report are not in debt to the Bank, or whose debt is classified to the economic sector "Private individuals – housing loans and other".

29. Regulatory Operating Segments and Geographical Areas Information (continued)

"Business" - a customer who is not included in the definition of "Private individuals" and is not an institutional body or a banking corporation.

"Annual turnover" – annual sales turnover or volume of annual income.

"Trading operations" – investment in securities held for trading, market-making activity regarding securities and derivative instruments, operation in derivative instruments not intended for hedge operations and are not part of the Bank's asset and liability management, repurchase and securities lending transactions, short sale of securities, securities underwriting services.

"Asset and liability management activity" – including investment in available-for-sale bonds and held-to-maturity bonds that are not allocated to other operating segments (where the borrower has no indebtedness to the Bank except for securities), derivative hedging instruments and derivative instruments comprising part of the asset and liability management, deposits with banks and from banks in Israel and abroad, hedge or cover for exchange rate differences of investments in overseas extensions, deposits with or of governments.

"Non-financial investment activity" – investment in available-for-sale equities and investments in associates.

"Other activities" – management services, operating, trusteeship and custodian services for banks, advisory services, sales operations and management of credit portfolios, financial product development operations.

"Asset management" – including assets of provident funds, mutual funds, further education funds, securities of customers, loans managed by the Bank, and assets stemming from collection based operations. Allocation of the average balance of managed assets to the various segments is made according to the segment to which the provident funds and further education funds are allocated, or according to the segment to which the customer holding mutual fund units is allocated.

For details regarding managerial segments, see Note 30 below.

B. Classification of customers in certain cases. It is noted that, where the Bank has no information as to the business turnover of a commercial customer, who has no debts to the Bank, he may be classified to the relevant regulatory operating segment based on the number of employees in his business or on the value of the total assets of the business or on the total financial assets of the customer held with the Bank, in accordance with the rules detailed in the Directive.

It is further noted that, where, in the opinion of the Bank, the income turnover of a business customer does not reflect the volume of his operations, he may be classified as follows: if his total indebtedness is equal to or higher than NIS 100 million, he may be classified to the large businesses segment; where his total indebtedness is less than NIS 100 million, he may be classified to the relevant segment according to the number of his employees or the total assets in the balance sheet of the business, in accordance with the rules detailed in the Directive.

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 had been 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.

C. Classification change

Improvement in the allocation of customers to segments of operation – the transfer of customers from the small and minute businesses segment and from the large businesses segment to the institutional bodies segment.

D. The principal assumptions, estimates and principles used in the preparation of segment information

The classification of the business results of the Group into the various regulatory operating segments, as stated above, was prepared based on the principles, assumptions and estimates detailed hereunder:

1. Income

Net interest income. The segment is credited with the margin resulting from the difference between the effective interest on loans granted to customers of the segment and the interest paid on deposits of customers of the segment and the transfer prices. The transfer prices reflect the marginal alternative cost of financing sources or the application thereof. The margins are set at the date the transaction is entered into and stay in effect for the duration of the transaction free of market risks. According to this methodology, earning or losses from financing operations resulting from changes in market conditions, including linkage differentials are taken to the "Financial Management" segment presented as inter-segment operations.

Income earned on the Bank's nostro securities and from deposits from the public are also reflected in the Financial Management segment.

29. Regulatory Operating Segments and Geographical Areas Information (continued)

Credit loss expenses are included in the segment in which the activity of the customer is reflected, in respect of which the expenses have been written. In the same manner, collection is also reflected in the segment in which the activity of the customer is reflected. The collection of debts from prior years, in material amounts, is included in the large businesses segment.

Non-interest income. Non-interest income that the Bank collects from its customers are charged partly to the activity segment of the customer and partly in the financial management segment.

2. Expenses

The allocation of expenses to segments of operation is based on the following stages:

- Direct expenses of all Bank units, which can be identified at the unit level, are charged directly to the units generating the expense (e.g., branches, operational units, and head office units);
- Operating and other expenses of all Bank units, such as: computer expenses, maintenance, administrative and other operating expenses, which cannot be directly allocated to a specific unit, are charged to all units based on different allocation keys (such as: number of staff, number of customers, number of ATM stations, quantity and volume of operations);
- Expenses of operational units allocated according to the items above, are charged to profit units and management and control units (such as: head office, internal audit unit, strategy and finance unit) based on different allocation keys, such as: number of staff, quantity and volume of operations;
- Expenses of the management and control units are allocated to the profit units based on different allocation keys (such as: number of staff, quantity and volume of operations);
- Allocation of expenses of the profit units to customers of the unit is based on quantity and volume of operations (excluding securities activity, foreign trade according to the number of transactions only), including expenses in respect of mutual services provided by the branch outlay to customers belonging to other divisions;
- Calculating the expenses of operating segments by totaling the expenses allocated to customers belonging to the relevant segment.

Taxes on income. The provision for taxes of the various segments of operation was computed on the basis of the statutory tax rate of 34.19% (2020: 34.19%). Segments showing a loss recorded a tax income computed also on the basis of the statutory tax rate.

The difference between the net statutory tax recognized in the operating segments and the provision for taxes as recorded in profit and loss, is attributed to segments, mainly on the basis of the operating expenses ratio.

3. Allocation of capital and computation of the return

Shareholders' equity and subordinated capital notes, being part of the financing sources of credit, are being allocated to each segment in respect of its risk assets. According to directives of the Supervisor of Banks, the segments of operations are credited with imputed interest on the capital allocated to them, on the basis the risk assets attributed to the segment.

The average balance of risk assets presented in the Note was computed in relation to risk assets calculated in accordance with the principles of Basel III.

Computation of the return in each segment was made in accordance with the equity attributed, as stated, to the segment: 8.18% in 2020, 9.2% in 2019, 9.19% in 2018.

4. Presentation of inter-segment expenses

The accountability between the profit centers in the Bank is made as described in section 2 above, by a mechanism that allocates the total amount of expenses to the Bank's customers, using various activity indices, and not by allocating the expenses to the profit centers (and the "sale" of inter-segment services). According to the system described above, each customer "bears" its own relevant expenses, which are accumulated in the various segments according to the affiliation of customers to these segments.

The format described above does not allow the determination as to what expenses of one segment were charged to another segment (referred to in the reporting format as "inter-segment activity"). The Supervisor of Banks permitted the Bank to report on the basis of the mechanism it developed for the purpose of allocating income and expenses, and inconsequence thereof not to report inter-segment transfers.

29. Regulatory Operating Segments and Geographical Areas Information (continued)

E. information regarding regulatory operating segments, consolidated

	For the year ended December 31, 2021				
	Domestic operations				
	Households	Private Banking	Small and minute businesses	Medium businesses	Large businesses
	in NIS millions				
Interest income from external sources	2,797	8	1,557	454	1,207
Interest expenses to external sources	152	37	58	17	70
Net interest income from external sources	2,645	(29)	1,499	437	1,137
Net interest income Intersegmental	(673)	78	(77)	(63)	(265)
Total net Interest income	1,972	49	1,422	374	872
Non-interest financing income from external sources	2,160	456	938	236	538
Non-interest financing income Intersegmental	(460)	(372)	(369)	(111)	(144)
Total Non-interest financing income	1,700	84	569	125	394
Total income	**3,672**	**133**	**1,991**	**499**	**1,266**
Credit loss expenses (expenses release)	(162)	(1)	(211)	50	(339)
Operating and other expenses	3,268	85	1,372	278	682
Profit before taxes	**566**	**49**	**830**	**171**	**923**
Provision for taxes on profit	171	16	276	56	309
Profit after taxes	**395**	**33**	**554**	**115**	**614**
Bank's share in operating income of associates	-	-	-	-	-
Net Profit from ordinary operations before Attributed to the non-controlling interests	395	33	554	115	614
Net Profit (Loss) from ordinary operations Attributed to the non-controlling interests	(70)	-	(4)	(1)	(4)
Net Profit Attributed to the bank's shareholders	**325**	**33**	**550**	**114**	**610**
Average Assets	76,734	441	37,297	13,854	47,026
Of which - Investment in Investee companies	-	-	-	-	-
Of which - Average credit to the public[3]	75,984	394	36,769	13,881	46,768
Balance of credit to the public at the period end[3]	83,635	[4]440	39,091	14,770	50,393
Balance of impaired debts	230	-	663	354	352
Balance of debts (not impaired) in arrear for over ninety days	319	-	41	1	-
Average Liabilities	94,492	17,786	50,742	11,484	32,909
Of which - Average Deposits from the public	90,413	17,690	45,106	10,363	28,855
Balance of deposits from the public at the period end	89,965	18,999	47,751	13,226	35,803
Average Risk-assets[1]	56,272	529	35,643	14,044	51,558
Balance of Risk-assets at the period end[1]	60,900	569	37,729	14,953	53,314
Average assets under management[2]	34,434	24,478	29,574	7,710	47,071
Net interest income:					
Margin from credit activity to the public	1,758	4	1,332	358	848
Margin from deposits activity from the public	214	45	90	16	24
Other	-	-	-	-	-
Total net interest income	**1,972**	**49**	**1,422**	**374**	**872**

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 3,315 million.

			International operations				
Institutional bodies	Financial management	Total Domestic operations	Private Individuals	Business operations	Other	Total International operations	Total
13	511	6,547	45	751	148	944	7,491
48	484	866	24	60	12	96	962
(35)	27	5,681	21	691	136	848	6,529
64	936	-	59	(11)	(48)	-	-
29	963	5,681	80	680	88	848	6,529
130	(727)	3,731	51	103	77	231	3,962
(120)	1,576	-	-	-	-	-	-
10	849	3,731	51	103	77	231	3,962
39	**1,812**	**9,412**	**131**	**783**	**165**	**1,079**	**10,491**
(23)	7	(679)	(3)	(11)	-	(14)	(693)
64	415	6,164	132	497	65	694	6,858
(2)	**1,390**	**3,927**	**2**	**297**	**100**	**399**	**4,326**
(2)	552	1,378	-	96	42	138	1,516
-	**838**	**2,549**	**2**	**201**	**58**	**261**	**2,810**
-	20	20	-	-	-	-	20
-	858	2,569	2	201	58	261	2,830
-	22	(57)	-	-	-	-	(57)
-	**880**	**2,512**	**2**	**201**	**58**	**261**	**2,773**
878	97,398	273,628	1,421	23,254	10,921	35,596	309,224
-	362	362	-	-	-	-	362
853	-	174,649	1,431	23,411	-	24,842	199,491
1,277	-	189,606	1,549	25,041	-	26,590	216,196
-	-	1,599	-	198	-	198	1,797
-	990	1,351	-	1	-	1	1,352
18,477	30,692	256,582	8,634	21,850	1,477	31,961	288,543
18,445	-	210,872	8,620	21,814	-	30,434	241,306
21,353	-	227,097	8,621	25,189	-	33,810	260,907
1,078	16,427	175,551	1,642	25,451	2,213	29,306	204,857
817	16,400	184,682	1,701	26,744	2,194	30,639	215,321
84,472	345	228,084	13,464	-	-	13,464	241,548
11	-	4,311	33	600	-	633	4,944
18	-	407	47	80	-	127	534
-	963	963	-	-	88	88	1,051
29	**963**	**5,681**	**80**	**680**	**88**	**848**	**6,529**

29. Regulatory Operating Segments and Geographical Areas Information (continued)

E. information regarding regulatory operating segments, consolidated (continued)

	For the year ended December 31, 2021				
	Domestic operations				
	Households	Private Banking	Small and minute businesses	Medium businesses	Large businesses
	in NIS millions				
Interest income from external sources	2,356	6	1,538	407	1,128
Interest expenses to external sources	156	76	73	26	103
Net interest income from external sources	2,200	(70)	1,465	381	1,025
Net interest income Intersegmental	(225)	137	(30)	(29)	(220)
Total net Interest income	1,975	67	1,435	352	805
Non-interest financing income from external sources	1,846	520	909	245	625
Non-interest financing income Intersegmental	(346)	(441)	(370)	(120)	(267)
Total Non-interest financing income	1,500	79	539	125	358
Total income	**3,475**	**146**	**1,974**	**477**	**1,163**
Credit loss expenses (expenses release)	518	1	593	198	261
Operating and other expenses	3,194	162	1,329	267	589
Profit (Loss) before taxes	**(237)**	**(17)**	**52**	**12**	**313**
Provision for taxes (tax savings) on profit	(106)	3	18	4	107
Profit (Loss) after taxes	**(131)**	**(20)**	**34**	**8**	**206**
Bank's share in operating income of associates	-	-	-	-	-
Net Profit (Loss) from ordinary operations before Attributed to the non-controlling interests	(131)	(20)	34	8	206
Net Profit from ordinary operations Attributed to the non-controlling interests	(13)	-	(6)	(1)	(4)
Net Profit (Loss) Attributed to the bank's shareholders	**(144)**	**(20)**	**28**	**7**	**202**
Average Assets	71,008	390	35,759	12,928	41,971
Of which - Investment in Investee companies	-	-	-	-	-
Of which - Average credit to the public[(3)]	70,167	331	35,287	12,883	41,841
Balance of credit to the public at the period end[(3)]	72,620	[(4)]364	36,439	12,865	45,687
Balance of impaired debts	261	-	631	276	567
Balance of debts (not impaired) in arrear for over ninety days	348	-	38	-	-
Average Liabilities	88,026	17,037	[(5)]44,813	9,965	[(5)]27,696
Of which - Average Deposits from the public	83,966	16,912	[(5)]39,116	8,823	[(5)]23,782
Balance of deposits from the public at the period end	88,888	17,959	[(5)]41,629	9,842	[(5)]24,884
Average Risk-assets[(1)]	51,918	499	34,880	13,263	45,027
Balance of Risk-assets at the period end [(1)]	52,744	519	34,665	12,906	47,854
Average assets under management[(2)]	30,551	19,878	24,084	8,198	37,014
Net interest income:					
Margin from credit activity to the public	1,696	3	1,316	333	776
Margin from deposits activity from the public	279	64	119	19	29
Other	-	-	-	-	-
Total net interest income	**1,975**	**67**	**1,435**	**352**	**805**

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.
(5) Reclassified - see section C above.

						International operations	
Institutional bodies	Financial management	Total Domestic operations	Private Individuals	Business operations	Other	Total International operations	Total
24	445	5,904	56	815	212	1,083	6,987
85	319	838	73	143	35	251	1,089
(61)	126	5,066	(17)	672	177	832	5,898
99	268	-	102	(51)	(51)	-	-
38	394	5,066	85	621	126	832	5,898
190	(544)	3,791	43	96	77	216	4,007
(181)	1,725	-	-	-	-	-	-
9	1,181	3,791	43	96	77	216	4,007
47	**1,575**	**8,857**	**128**	**717**	**203**	**1,048**	**9,905**
2	15	1,588	3	127	-	130	1,718
59	386	5,986	158	449	88	695	6,681
(14)	**1,174**	**1,283**	**(33)**	**141**	**115**	**223**	**1,506**
(5)	449	470	(12)	43	48	79	549
(9)	**725**	**813**	**(21)**	**98**	**67**	**144**	**957**
-	50	50	-	-	-	-	50
(9)	775	863	(21)	98	67	144	1,007
-	(8)	(32)	-	-	-	-	(32)
(9)	**767**	**831**	**(21)**	**98**	**67**	**144**	**975**
874	82,958	245,888	1,490	22,295	10,593	34,378	280,266
-	200	200	-	-	-	-	200
728	-	161,237	1,494	22,356	-	23,850	185,087
1,007	-	168,982	1,419	22,078	-	23,497	192,479
276	-	2,011	-	196	-	196	2,207
2	1,162	1,550	-	25	-	25	1,575
[5]18,456	24,586	230,579	9,099	18,608	2,922	30,629	261,208
[5]18,409	-	191,008	9,099	18,608	-	27,707	218,715
[5]15,302	-	198,504	8,514	19,100	-	27,614	226,118
1,338	16,071	162,996	1,754	24,382	2,406	28,542	191,538
1,364	15,557	165,609	1,631	23,804	2,188	27,623	193,232
70,140	544	190,409	13,008	-	-	13,008	203,417
21	-	4,145	38	522	-	560	4,705
17	-	527	47	99	-	146	673
-	394	394	-	-	126	126	520
38	**394**	**5,066**	**85**	**621**	**126**	**832**	**5,898**

29. Regulatory Operating Segments and Geographical Areas Information (continued)

E. information regarding regulatory operating segments, consolidated (continued)

	For the year ended December 31, 2019				
	Domestic operations				
	Households	Private Banking	Small and minute businesses	Medium businesses	Large businesses
	in NIS millions				
Interest income from external sources	2,374	4	1,674	371	1,139
Interest expenses to external sources	217	124	141	37	100
Net interest income from external sources	2,157	(120)	1,533	334	1,039
Net interest income Intersegmental	(198)	204	30	(10)	(295)
Total net Interest income	1,959	84	1,563	324	744
Non-interest financing income from external sources	2,321	657	1,083	221	296
Non-interest financing income Intersegmental	(719)	(589)	(493)	(94)	74
Total Non-interest financing income	1,602	68	590	127	370
Total income	**3,561**	**152**	**2,153**	**451**	**1,114**
Credit loss expenses (expenses release)	339	2	234	107	(21)
Operating and other expenses	3,008	154	1,302	232	539
Profit (Loss) before taxes	**214**	**(4)**	**617**	**112**	**596**
Provision for taxes (tax savings) on profit	59	(1)	211	35	198
Profit (Loss) after taxes	**155**	**(3)**	**406**	**77**	**398**
Bank's share in operating income of associates	-	-	-	-	-
Net Profit (Loss) from ordinary operations before Attributed to the non-controlling interests	155	(3)	406	77	398
Net Profit (Loss) from ordinary operations Attributed to the non-controlling interests	(44)	-	(10)	(2)	(7)
Net Profit (Loss) Attributed to the bank's shareholders	**111**	**(3)**	**396**	**75**	**391**
Average Assets	66,660	277	35,852	10,553	36,867
Of which - Investment in Investee companies	-	-	-	-	-
Of which - Average credit to the public[(3)]	65,682	209	35,274	10,443	36,759
Balance of credit to the public at the period end[(3)]	69,211	[(4)]326	36,837	12,628	39,529
Balance of impaired debts	189	-	624	231	342
Balance of debts (not impaired) in arrear for over ninety days	416	-	60	1	1
Average Liabilities	79,656	15,477	40,297	7,323	22,789
Of which - Average Deposits from the public	75,463	15,342	35,131	6,243	19,584
Balance of deposits from the public at the period end	75,312	16,368	36,561	7,590	20,218
Average Risk-assets[(1)]	50,600	443	35,170	12,803	39,820
Balance of Risk-assets at the period end [(1)]	51,186	489	35,758	13,608	41,511
Average assets under management[(2)]	33,401	19,927	27,430	9,857	38,146
Net interest income:					
Margin from credit activity to the public	1,632	2	1,401	295	702
Margin from deposits activity from the public	327	82	162	29	42
Other	-	-	-	-	-
Total net interest income	**1,959**	**84**	**1,563**	**324**	**744**

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 2,693 million.

				International operations				
	Institutional bodies	Financial management	Total Domestic operations	Private Individuals	Business operations	Other	Total International operations	Total
	26	560	6,148	60	1,131	228	1,419	7,567
	129	424	1,172	134	299	69	502	1,674
	(103)	136	4,976	(74)	832	159	917	5,893
	145	124	-	197	(123)	(74)	-	-
	42	260	4,976	123	709	85	917	5,893
	211	(1,245)	3,544	47	99	81	227	3,771
	(205)	2,026	-	-	-	-	-	-
	6	781	3,544	47	99	81	227	3,771
	48	**1,041**	**8,520**	**170**	**808**	**166**	**1,144**	**9,664**
	(5)	-	656	(1)	35	-	34	690
	55	356	5,646	273	323	57	653	6,299
	(2)	**685**	**2,218**	**(102)**	**450**	**109**	**457**	**2,675**
	(1)	278	779	(36)	148	41	153	932
	(1)	**407**	**1,439**	**(66)**	**302**	**68**	**304**	**1,743**
	-	16	16	-	-	-	-	16
	(1)	423	1,455	(66)	302	68	304	1,759
	-	6	(57)	-	-	-	-	(57)
	(1)	**429**	**1,398**	**(66)**	**302**	**68**	**304**	**1,702**
	836	61,393	212,438	1,319	22,029	9,902	33,250	245,688
	-	172	172	-	-	-	-	172
	689	-	149,056	1,329	22,195	-	23,524	172,580
	676	-	159,207	1,423	22,361	-	23,784	182,991
	295	-	1,681	-	133	-	133	1,814
	-	-	478	-	-	-	-	478
	15,665	16,576	197,783	8,914	17,456	3,232	29,602	227,385
	15,610	-	167,373	8,831	17,293	-	26,124	193,497
	18,624	-	174,673	9,047	17,730	-	26,777	201,450
	1,420	13,538	153,794	1,590	23,807	2,085	27,482	181,276
	1,259	12,813	156,624	1,694	23,775	2,353	27,822	184,446
	73,682	1,140	203,583	13,767	-	-	13,767	217,350
	21	-	4,053	24	557	-	581	4,634
	21	-	663	99	152	-	251	914
	-	260	260	-	-	85	85	345
	42	**260**	**4,976**	**123**	**709**	**85**	**917**	**5,893**

29. Regulatory Operating Segments and Geographical Areas Information (continued)

F. Private individuals – operations in Israel, consolidated

	For the year ended December 31, 2021								
	Households sector				Private banking sector				
	Mortgages	Credit cards	Other	Total households	Mortgages	Credit cards	Other	Total private banking	Total
	in NIS millions								
Interest income from external sources	1,494	561	742	2,797	7	-	1	8	2,805
Interest expenses to external sources	-	-	152	152	-	-	37	37	189
Net interest income from external sources	1,494	561	590	2,645	7	-	(36)	(29)	2,616
Net interest income Intersegmental	(933)	(20)	280	(673)	(4)	-	82	78	(595)
Total net Interest income	**561**	**541**	**870**	**1,972**	**3**	**-**	**46**	**49**	**2,021**
Non-interest financing income from external sources	13	1,197	950	2,160	-	1	455	456	2,616
Non-interest financing income Intersegmental	-	-	(460)	(460)	-	-	(372)	(372)	(832)
Total Non-interest financing income	**13**	**1,197**	**490**	**1,700**	**-**	**1**	**83**	**84**	**1,784**
Total income	**574**	**1,738**	**1,360**	**3,672**	**3**	**1**	**129**	**133**	**3,805**
Credit loss expenses (expenses release)	6	(12)	(156)	(162)	-	-	(1)	(1)	(163)
Operating and other expenses	241	1,223	1,804	3,268	1	-	84	85	3,353
Profit (loss) before taxes	327	527	(288)	566	2	1	46	49	615
Provision for taxes (tax savings) on profit	110	185	(124)	171	1	1	14	16	187
Profit (loss) after taxes	217	342	(164)	395	1	-	32	33	428
Net Profit from ordinary operations Attributed to the non-controlling interests	-	(70)	-	(70)	-	-	-	-	(70)
Net Profit (loss) Attributed to the bank's shareholders	**217**	**272**	**(164)**	**325**	**1**	**-**	**32**	**33**	**358**
Average Assets	46,807	15,013	14,914	76,734	307	49	85	441	77,175
Of which - Average credit to the public[3]	46,940	14,729	14,315	75,984	309	50	35	394	76,378
Balance of credit to the public at the period end[3]	[4]53,363	15,453	14,819	83,635	[4]353	55	32	440	84,075
Balance of impaired debts	-	106	124	230	-	-	-	-	230
Balance of debts (not impaired) in arrear for over ninety days	276	-	43	319	-	-	-	-	319
Average Liabilities	119	2,734	91,639	94,492	1	47	17,738	17,786	112,278
Of which - Average Deposits from the public	-	16	90,397	90,413	-	-	17,690	17,690	108,103
Balance of deposits from the public at the period end	-	13	89,952	89,965	-	-	18,999	18,999	108,964
Average Risk-assets[1]	26,858	14,266	15,148	56,272	202	50	277	529	56,801
Balance of Risk-assets at the period end [1]	30,325	15,165	15,410	60,900	241	55	273	569	61,469
Average assets under management[2]	362	-	34,072	34,434	-	-	24,478	24,478	58,912
Net interest income:									
Margin from credit activity to the public	561	541	656	1,758	3	-	1	4	1,762
Margin from deposits activity from the public	-	-	214	214	-	-	45	45	259
Total net interest income	**561**	**541**	**870**	**1,972**	**3**	**-**	**46**	**49**	**2,021**

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 3,315 million.

29. Regulatory Operating Segments and Geographical Areas Information (continued)

F. Private individuals – operations in Israel, consolidated

	For the year ended December 31, 2020								
	Households sector				Private banking sector				
	Mortgages	Credit cards	Other	Total households	Mortgages	Credit cards	Other	Total private banking	Total
	in NIS millions								
Interest income from external sources	992	558	806	2,356	4	-	2	6	2,362
Interest expenses to external sources	-	-	156	156	-	-	76	76	232
Net interest income from external sources	992	558	650	2,200	4	-	(74)	(70)	2,130
Net interest income Intersegmental	(536)	(22)	333	(225)	(2)	-	139	137	(88)
Total net Interest income	**456**	**536**	**983**	**1,975**	**2**	**-**	**65**	**67**	**2,042**
Non-interest financing income from external sources	12	1,020	814	1,846	-	-	520	520	2,366
Non-interest financing income Intersegmental	-	-	(346)	(346)	-	-	(441)	(441)	(787)
Total Non-interest financing income	**12**	**1,020**	**468**	**1,500**	**-**	**-**	**79**	**79**	**1,579**
Total income	**468**	**1,556**	**1,451**	**3,475**	**2**	**-**	**144**	**146**	**3,621**
Credit loss expenses	70	215	233	518	-	-	1	1	519
Operating and other expenses	202	1,201	1,791	3,194	1	-	161	162	3,356
Profit (loss) before taxes	196	140	(573)	(237)	1	-	(18)	(17)	(254)
Provision for taxes (tax savings) on profit	68	28	(202)	(106)	-	-	3	3	(103)
Profit (loss) after taxes	128	112	(371)	(131)	1	-	(21)	(20)	(151)
Net Profit (loss) from ordinary operations Attributed to the non-controlling interests	-	(13)	-	(13)	-	-	-	-	(13)
Net Profit (loss) Attributed to the bank's shareholders	**128**	**99**	**(371)**	**(144)**	**1**	**-**	**(21)**	**(20)**	**(164)**
Average Assets	39,247	16,101	15,660	71,008	228	42	120	390	71,398
Of which - Average credit to the public(3)	39,327	15,853	14,987	70,167	228	43	60	331	70,498
Balance of credit to the public at the period end(3)	(4)42,246	16,036	14,338	72,620	(4)261	44	59	364	72,984
Balance of impaired debts	2	136	123	261	-	-	-	-	261
Balance of debts (not impaired) in arrear for over ninety days	318	-	30	348	-	-	-	-	348
Average Liabilities	100	2,545	85,381	88,026	-	40	16,997	17,037	105,063
Of which - Average Deposits from the public	-	15	83,951	83,966	-	-	16,912	16,912	100,878
Balance of deposits from the public at the period end	-	16	88,872	88,888	-	-	17,959	17,959	106,847
Average Risk-assets(1)	22,336	13,472	16,110	51,918	139	43	317	499	52,417
Balance of Risk-assets at the period end (1)	24,097	13,561	15,086	52,744	176	46	297	519	53,263
Average assets under management(2)	366	-	30,185	30,551	-	-	19,878	19,878	50,429
Net interest income:									
Margin from credit activity to the public	456	536	704	1,696	2	-	1	3	1,699
Margin from deposits activity from the public	-	-	279	279	-	-	64	64	343
Total net interest income	**456**	**536**	**983**	**1,975**	**2**	**-**	**65**	**67**	**2,042**

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.

29. Regulatory Operating Segments and Geographical Areas Information (continued)

G. Small, minute, medium and large businesses – operations in Israel, consolidated

	For the year ended December 31, 2021									
	Small and minute businesses			Medium businesses			Large businesses			
	Construction and real estate	Other	Total	Construction and real estate	Other	Total	Construction and real estate	Other	Total	Total
	in NIS millions									
Interest income from external sources	488	1,069	1,557	105	349	454	401	806	1,207	3,218
Interest expenses from external sources	9	49	58	3	14	17	4	66	70	145
Net interest income from external sources	479	1,020	1,499	102	335	437	397	740	1,137	3,073
Net interest income Intersegmental	(49)	(28)	(77)	(10)	(53)	(63)	(66)	(199)	(265)	(405)
Total net Interest income	**430**	**992**	**1,422**	**92**	**282**	**374**	**331**	**541**	**872**	**2,668**
Non-interest financing income from external sources	100	838	938	38	198	236	98	440	538	1,712
Non-interest financing income Intersegmental	(42)	(327)	(369)	(10)	(101)	(111)	31	(175)	(144)	(624)
Total Non-interest financing income	**58**	**511**	**569**	**28**	**97**	**125**	**129**	**265**	**394**	**1,088**
Of which - Credit Card income	-	149	149	-	29	29	-	125	125	303
Total income	**488**	**1,503**	**1,991**	**120**	**379**	**499**	**460**	**806**	**1,266**	**3,756**
Credit loss expenses (expenses release)	11	(222)	(211)	7	43	50	5	(344)	(339)	(500)
Operating and other expenses	233	1,139	1,372	36	242	278	103	579	682	2,332
Profit (loss) before taxes	244	586	830	77	94	171	352	571	923	1,924
Provision for taxes (tax savings) on profit	79	197	276	25	31	56	120	189	309	641
Profit (loss) after taxes	165	389	554	52	63	115	232	382	614	1,283
Net Profit from ordinary operations Attributed to the non-controlling interests	-	(4)	(4)	-	(1)	(1)	-	(4)	(4)	(9)
Net Profit (loss) Attributed to the bank's shareholders	**165**	**385**	**550**	**52**	**62**	**114**	**232**	**378**	**610**	**1,274**
Average Assets	13,274	24,023	37,297	2,990	10,864	13,854	15,022	32,004	47,026	98,177
Of which - Average credit to the public(3)	13,331	23,438	36,769	3,018	10,863	13,881	14,914	31,854	46,768	97,418
Balance of credit to the public at the period end(3)	13,941	25,150	39,091	3,096	11,674	14,770	16,911	33,482	50,393	104,254
Balance of impaired debts	207	456	663	29	325	354	5	347	352	1,369
Balance of debts (not impaired) in arrear for over ninety days	7	34	41	-	1	1	-	-	-	42
Average Liabilities	7,473	43,269	50,742	1,862	9,622	11,484	5,814	27,095	32,909	95,135
Of which - Average Deposits from the public	7,301	37,805	45,106	1,837	8,526	10,363	5,732	23,123	28,855	84,324
Balance of deposits from the public at the period end	7,618	40,133	47,751	2,068	11,158	13,226	6,748	29,055	35,803	96,780
Average Risk-assets(1)	12,529	23,114	35,643	3,206	10,838	14,044	19,279	32,279	51,558	101,245
Balance of Risk-assets at the period end (1)	13,382	24,347	37,729	3,239	11,714	14,953	20,390	32,924	53,314	105,996
Average assets under management(2)	429	29,145	29,574	245	7,465	7,710	1,779	45,292	47,071	84,355
Net interest income:										
Margin from credit activity to the public	414	918	1,332	89	269	358	326	522	848	2,538
Margin from deposits activity from the public	16	74	90	3	13	16	5	19	24	130
Total net interest income	**430**	**992**	**1,422**	**92**	**282**	**374**	**331**	**541**	**872**	**2,668**

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.

29. Regulatory Operating Segments and Geographical Areas Information (continued)

G. Small, minute, medium and large businesses – operations in Israel, consolidated

	For the year ended December 31, 2020									
	Small and minute businesses			Medium businesses			Large businesses			
	Construction and real estate	Other	Total	Construction and real estate	Other	Total	Construction and real estate	Other	Total	Total
	in NIS millions									
Interest income from external sources	466	1,072	1,538	87	320	407	374	754	1,128	3,073
Interest expenses from external sources	16	57	73	3	23	26	8	95	103	202
Net interest income from external sources	450	1,015	1,465	84	297	381	366	659	1,025	2,871
Net interest income Intersegmental	(44)	14	(30)	(8)	(21)	(29)	(78)	(142)	(220)	(279)
Total net Interest income	**406**	**1,029**	**1,435**	**76**	**276**	**352**	**288**	**517**	**805**	**2,592**
Non-interest financing income from external sources	96	813	909	38	207	245	118	507	625	1,779
Non-interest financing income Intersegmental	(43)	(327)	(370)	(11)	(109)	(120)	(7)	(260)	(267)	(757)
Total Non-interest financing income	**53**	**486**	**539**	**27**	**98**	**125**	**111**	**247**	**358**	**1,022**
Of which - Credit Card income	-	145	145	-	30	30	-	114	114	289
Total income	**459**	**1,515**	**1,974**	**103**	**374**	**477**	**399**	**764**	**1,163**	**3,614**
Operating and other expenses	227	1,102	1,329	44	223	267	92	497	589	2,185
Profit (loss) before taxes	110	(58)	52	27	(15)	12	207	106	313	377
Provision for taxes (tax savings) on profit	34	(16)	18	9	(5)	4	71	36	107	129
Profit (loss) after taxes	76	(42)	34	18	(10)	8	136	70	206	248
Net Profit from ordinary operations Attributed to the non-controlling interests	-	(6)	(6)	-	(1)	(1)	-	(4)	(4)	(11)
Net Profit (loss) Attributed to the bank's shareholders	**76**	**(48)**	**28**	**18**	**(11)**	**7**	**136**	**66**	**202**	**237**
Average Assets	12,331	23,428	35,759	2,624	10,304	12,928	12,967	29,004	41,971	90,658
Of which - Average credit to the public[(3)]	12,267	23,020	35,287	2,634	10,249	12,883	13,023	28,818	41,841	90,011
Balance of credit to the public at the period end[(3)]	12,750	23,689	36,439	2,954	9,911	12,865	14,182	31,505	45,687	94,991
Balance of impaired debts	221	410	631	46	230	276	128	439	567	1,474
Balance of debts (not impaired) in arrear for over ninety days	7	31	38	-	-	-	-	-	-	38
Average Liabilities	6,821	[(4)]37,992	44,813	1,695	8,270	9,965	4,842	[(4)]22,854	27,696	82,474
Of which - Average Deposits from the public	6,648	[(4)]32,468	39,116	1,664	7,159	8,823	4,769	[(4)]19,013	23,782	71,721
Balance of deposits from the public at the period end	6,810	[(4)]34,819	41,629	1,897	7,945	9,842	4,888	[(4)]19,996	24,884	76,355
Average Risk-assets[(1)]	12,409	22,471	34,880	2,802	10,461	13,263	15,708	29,319	45,027	93,170
Balance of Risk-assets at the period end [(1)]	12,099	22,566	34,665	3,162	9,744	12,906	16,561	31,293	47,854	95,425
Average assets under management[(2)]	403	23,681	24,084	1,376	6,822	8,198	16	36,998	37,014	69,296
Net interest income:										
Margin from credit activity to the public	386	930	1,316	72	261	333	282	494	776	2,425
Margin from deposits activity from the public	20	99	119	4	15	19	6	23	29	167
Total net interest income	**406**	**1,029**	**1,435**	**76**	**276**	**352**	**288**	**517**	**805**	**2,592**

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 section C above.

29. Regulatory Operating Segments and Geographical Areas Information (continued)

H. Financial Management Segment – domestic operations, consolidated

	For the year ended December 31, 2021				
	Trading activity	Asset and liability management activity	Non-financial investments activity	Other financial activity	Total
	in NIS millions				
Interest income from external sources	12	499	-	-	511
Interest expenses to external sources	(1)	484	-	1	484
Net interest income from external sources	13	15	-	(1)	27
Net interest income Intersegmental	(3)	939	-	-	936
Total net Interest income	10	954	-	(1)	963
Non-interest financing income from external sources	221	(1,440)	394	98	(727)
Non-interest financing income Intersegmental	67	1,510	-	(1)	1,576
Total Non-interest financing income	288	70	394	97	849
Total income	**298**	**1,024**	**394**	**96**	**1,812**
Credit loss expenses	-	7	-	-	7
Operating and other expenses	145	237	30	3	415
Profit before taxes	**153**	**780**	**364**	**93**	**1,390**
Provision for taxes on profit	46	281	161	64	552
Profit after taxes	**107**	**499**	**203**	**29**	**838**
Bank's share in operating income of associates	-	-	20	-	20
Net Profit from ordinary operations Attributed to the non-controlling interests	-	22	-	-	22
Net Profit Attributed to the bank's shareholders	**107**	**521**	**223**	**29**	**880**
Average Assets	7,629	85,609	2,712	1,448	97,398
Of which - Investment in Investee companies	-	-	362	-	362
Balance of debts (not impaired) in arrear for over ninety days	-	990	-	-	990
Average Liabilities	6,353	23,322	-	1,017	30,692
Average Risk-assets(1)	5,135	8,478	2,371	443	16,427
Balance of Risk-assets at the period end(1)	5,317	7,801	2,674	608	16,400
Average assets under management(2)	-	-	-	345	345
Components of net interest income and non-interest income:					
Net exchange rate differences(3)	51	(5)	-	-	46
Net CPI linkage differences(3)	27	199	-	-	226
Net interest exposure(3)	148	751	-	-	899
Net share exposure(3)	3	-	-	-	3
Total net interest income and non-interest income, on an accrual basis	**229**	**945**	**-**	**-**	**1,174**
Profits or losses on sale or on impairment in value	-	121	-	-	121
Change in the difference between fair value and the accrual basis	-	(42)	-	-	(42)
Other non-interest income	69	-	-	-	69
Total net interest income and non-interest income	**298**	**1,024**	**394**	**96**	**1,812**

Footnotes:

Average balance was computed on the basis of balance at beginning of a quarter of a month.

(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.

29. Regulatory Operating Segments and Geographical Areas Information (continued)

H. Financial Management Segment – domestic operations, consolidated (continued)

	For the year ended December 31, 2020				
	Trading activity	Asset and liability management activity	Non-financial investments activity	Other financial activity	Total
	in NIS millions				
Interest income from external sources	10	436	-	(1)	445
Interest expenses to external sources	-	318	-	1	319
Net interest income from external sources	10	118	-	(2)	126
Net interest income Intersegmental	(5)	273	-	-	268
Total net Interest income	5	391	-	(2)	394
Non-interest financing income from external sources	245	(1,100)	235	76	(544)
Non-interest financing income Intersegmental	62	1,663	-	-	1,725
Total Non-interest financing income	307	563	235	76	1,181
Total income	**312**	**954**	**235**	**74**	**1,575**
Credit loss expenses	-	15	-	-	15
Operating and other expenses	145	198	21	22	386
Profit before taxes	**167**	**741**	**214**	**52**	**1,174**
Provision for taxes on profit	55	260	86	48	449
Profit after taxes	**112**	**481**	**128**	**4**	**725**
Bank's share in operating income of associates	-	-	50	-	50
Net Profit from ordinary operations Attributed to the non-controlling interests	-	(8)	-	-	(8)
Net Profit Attributed to the bank's shareholders	**112**	**473**	**178**	**4**	**767**
Average Assets	7,843	72,246	2,522	347	82,958
Of which - Investment in Investee companies	-	-	200	-	200
Average Liabilities	6,136	17,518	-	932	24,586
Average Risk-assets[(1)]	5,235	8,574	1,718	544	16,071
Balance of Risk-assets at the period end [(1)]	4,729	8,625	1,909	294	15,557
Average assets under management[(2)]	-	-	-	544	544
Components of net interest income and non-interest income:					
Net exchange rate differences[(3)]	100	(51)	-	-	49
Net CPI linkage differences[(3)]	(6)	(29)	-	-	(35)
Net interest exposure[(3)]	190	588	-	-	778
Net share exposure[(3)]	(1)	-	-	-	(1)
Total net interest income and non-interest income, on an accrual basis	**283**	**508**	**-**	**-**	**791**
Profits or losses on sale or on impairment in value	-	382	-	-	382
Change in the difference between fair value and the accrual basis	-	67	-	-	67
Other non-interest income	29	(3)	-	-	26
Total net interest income and non-interest income	**312**	**954**	**235**	**74**	**1,575**

Footnotes:
Average balance was computed on the basis of balance at beginning of a quarter of a month.
(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.

29. Regulatory Operating Segments and Geographical Areas Information (continued)

I. Information on geographical areas

	Income(1)			Net Income (loss) attributed to the bank's shareholders			Assets	
	For the year end December 31						As at December 31	
	2021	2020	2019	2021	2020	2019	2021	2020
	in NIS millions							
Israel	9,412	8,857	8,520	2,512	831	1,398	295,680	258,884
North America	1,079	1,050	1,145	259	146	304	39,382	35,045
Europe	-	(2)	(1)	2	(2)	-	26	40
Total Overseas	**1,079**	**1,048**	**1,144**	**261**	**144**	**304**	**39,408**	**35,085**
Total Consolidated	**10,491**	**9,905**	**9,664**	**2,773**	**975**	**1,702**	**335,088**	**293,969**

Footnote:
(1) Income - Net interest income, before credit loss expenses and non-interest income.

30. Managerial Operating Segments

A. General

1. According to the new 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).
2. The Bank has identified the following managerial operating segments: Retail banking, Middle Market banking, Corporate banking, financial operations, Discount Capital, Discount Bancorp, Israel Credit Cards Company, other. These segments agree with the managerial structure.
   - **Segments under responsibility of the Banking Division** (at the Bank; under the responsibility of the Retail Division of MDB relating to retail banking, under the responsibility the Corporate-Commercial Division of MDB relating to commercial banking):

     Retail banking – Household activity (this framework includes services provided by the Bank and MDB in the field of banking and capital market operations to their private customers) and activity of small businesses (this framework includes services provided by the Bank and MDB in the field of banking and capital market operations to business customers, individuals and corporations, the activity of which is typical of small businesses).

     Middle Market banking - In this framework are included banking services provided by the Bank and MDB to business customers (individuals and corporations) having a medium scope of operations, and who do not belong to the corporate banking segment (with effect as from January 1, 2020, responsibility for Middle Market banking was transferred from the Banking Division to the Corporate Division).
   - **Segment under the responsibility of the Corporate Division** (at the Bank; under the responsibility of the Commercial Banking Division of MDB):

     Corporate banking segment - This framework includes banking services provided by the Bank and MDB to large corporations. The segment includes also the activity of the Bank and MDB in the construction and real estate field.
   - **Segment under the responsibility of the Financial Markets Division** (at the Bank; under the responsibility of the Financial Division of MDB):

     Financial activity segment – In this framework is included the financial activity of the Bank and of MDB, which is not attributed to customers, such as operations in the securities portfolios of the banks.
   - **Segments including the activities of the principal subsidiaries in the Group:**

     Discount Capital – Operations in the field of investment (in companies, in private equity funds, in venture capital funds and in mezzanine operations), in the field of investment banking, in the initiation and assistance of public and private placements and in providing underwriting and distribution services (by means of a subsidiary company).

     Discount Bancorp – The international activity of the Discount Group, characterized as corporate- middle market activity and private banking through IDB Bank.

30. Managerial Operating Segments (continued)

ICC – Issue and clearing activity of credit cards of different kinds, for use in Israel and abroad.

- **Other segment** – Different activities, which are not included in any of the above described segments, the scope of which is not material enough to be defined as an operating segment.

3. In allocating the expenses to the administrative segments, use is made of the allocation model used for the regulatory segments, apart from customer attribution to the appropriate administrative segment, in accordance with criteria used for dividing the activity between the administrative segments.

B. Information regarding 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
	In NIS millions									
	For the year ended December 31, 2021									
Net interest income	2,538	659	966	948	20	848	548	-	2	6,529
Non-interest income	1,149	142	381	483	267	231	1,437	59	(187)	3,962
Total income	**3,687**	**801**	**1,347**	**1,431**	**287**	**1,079**	**1,985**	**59**	**(185)**	**10,491**
Credit loss expenses (expenses release)	(295)	(47)	(328)	-	-	(14)	(9)	-	-	(693)
Operating and other expenses	3,264	399	640	320	54	696	1,603	66	(184)	6,858
Income(loss) before taxes	718	449	1,035	1,111	233	397	391	(7)	(1)	4,326
Provision for taxes on income	208	152	347	435	74	138	151	11	-	1,516
Income (loss) after taxes	510	297	688	676	159	259	240	(18)	(1)	2,810
Bank's share in income of associates, net of tax effect	1	-	-	7	13	-	2	-	(3)	20
Net income (loss) before attributed to the non-controlling interests	511	297	688	683	172	259	242	(18)	(4)	2,830
Net income attributed to the non-controlling interests	-	-	-	-	-	-	(76)	15	4	(57)
Net income (loss) attributed to the non-controlling interests	**511**	**297**	**688**	**683**	**172**	**259**	**166**	**(3)**	**-**	**2,773**
Balance of Assets at the end of the year	99,921	27,803	58,421	111,163	2,323	40,279	16,075	12,363	(33,260)	335,088
Balance of credit to the public at the end of the year	96,374	28,220	55,022	-	17	26,590	15,307	-	(5,334)	216,196
Balance of deposits from the public at the end of the year	152,590	28,376	46,751	10,698	-	33,810	13	370	(11,701)	260,907
	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 (loss) 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 (loss) attributed to the non-controlling interests	**(202)**	**40**	**240**	**550**	**144**	**144**	**70**	**(11)**	**-**	**975**
Balance of Assets at the end of the year	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 at the end of the year	83,293	26,278	49,612	-	39	23,497	17,901	-	(8,141)	192,479
Balance of deposits from the public at the end of the year	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.

30. Managerial Operating Segments (continued)

B. Information regarding managerial operating segments (continued)

	In NIS millions									
	Retail banking[2]	Middle market banking	Corporate banking	Financial management	Discount Capital[1]	Discount Bancorp[1]	Israel Credit Cards[1]	other	Adjustments	Total
	For the year ended December 31, 2019									
Net interest income	2,722	603	869	278	9	900	505	2	5	5,893
Non-interest income	1,106	136	391	559	107	229	1,358	68	(183)	3,771
Total income	**3,828**	**739**	**1,260**	**837**	**116**	**1,129**	**1,863**	**70**	**(178)**	**9,664**
Credit loss expenses	393	95	22	-	(1)	34	147	-	-	690
Operating and other expenses	3,086	382	538	307	42	654	1,440	28	(178)	6,299
Income (loss) before taxes	349	262	700	530	75	441	276	42	-	2,675
Provision for taxes (tax saving) on income	103	88	238	222	19	153	97	13	(1)	932
Income (loss) after taxes	246	174	462	308	56	288	179	29	1	1,743
Bank's share in income of associates, net of tax effect	1	-	-	10	7	-	-	-	(2)	16
Net income before attributed to the non-controlling interests	247	174	462	318	63	288	179	29	(1)	1,759
Net income attributed to the non-controlling interests	-	-	-	-	-	-	(56)	(2)	1	(57)
Net income attributed to the non-controlling interests	**247**	**174**	**462**	**318**	**63**	**288**	**123**	**27**	**-**	**1,702**
Balance of Assets at the end of the period	81,167	25,475	50,530	70,249	1,607	33,773	19,158	7,696	(29,832)	259,823
Balance of credit to the public at the end of the period	78,677	25,814	46,000	-	30	23,784	18,561	-	(9,875)	182,991
Balance of deposits from the public at the end of the period	124,673	20,539	30,430	7,027	-	26,776	18	-	(8,013)	201,450

Footnote:

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

31. 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

	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total	Banks and Governments	Total
	In NIS millions					
	2021					
Balance of allowance for credit losses, as at December 31, 2020	2,817	258	984	4,059	15	4,074
Expenses (expense release) for credit loss	(534)	6	(172)	(700)	7	(693)
Accounting write-offs	(336)	(8)	(283)	(627)	-	(627)
Collection of debts written-off in previous years	324	2	245	571	-	571
Net accounting write-offs	(12)	(6)	(38)	(56)	-	(56)
Adjustments from translation of financial statements	(13)	-	(1)	(14)	-	(14)
Balance of allowance for credit losses, as at December 31, 2021	**2,258**	**258**	**773**	**3,289**	**22**	**3,311**
Of which: In respect of off-balance sheet credit instruments	180	-	69	249	-	249
	2020					
Balance of allowance for credit losses, as at December 31, 2019	1,823	207	717	2,747	1	2,748
Expenses for credit loss	1,182	70	452	1,704	14	1,718
Accounting write-offs	(437)	(19)	(437)	(893)	-	(893)
Collection of debts written-off in previous years	276	-	252	528	-	528
Net accounting write-offs	(161)	(19)	(185)	(365)	-	(365)
Adjustments from translation of financial statements	(27)	-	-	(27)	-	(27)
Balance of allowance for credit losses, as at December 31, 2020	**2,817**	**258**	**984**	**4,059**	**15**	**4,074**
Of which: In respect of off-balance sheet credit instruments	213	-	85	298	-	298
	2019					
Balance of allowance for credit losses, as at December 31, 2018	1,606	187	657	2,450	1	2,451
An addition stemming from the merger of Municipal Bank	25	-	-	25	-	25
Expenses for credit loss	351	27	312	690	-	690
Accounting write-offs	(386)	(7)	(484)	(877)	-	(877)
Collection of debts written-off in previous years	248	-	233	481	-	481
Net accounting write-offs	(138)	(7)	(251)	(396)	-	(396)
Adjustments from translation of financial statements	(21)	-	(1)	(22)	-	(22)
Balance of allowance for credit losses, as at December 31, 2019	**1,823**	**207**	**717**	**2,747**	**1**	**2,748**
Of which: In respect of off-balance sheet credit instruments	170	-	53	223	-	223

31. 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

	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total	Banks and Governments	Total
	In NIS millions					
	December 31, 2021					
Recorded amount of debts:						
Examined on a specific basis[1]	98,900	-	765	99,665	5,102	104,767
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	[2]252	53,716	-	53,968	-	53,968
Group - other	31,567	228	30,768	62,563	1,274	63,837
Total debts	**130,719**	**53,944**	**31,533**	**216,196**	**6,376**	**222,572**
Allowance for Credit Losses in respect of debts:						
Examined on a specific basis[1]	1,710	-	108	1,818	-	1,818
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	-	[3]257	-	257	-	257
Group - other	368	1	596	965	22	987
Total allowance for Credit Losses	**2,078**	**258**	**704**	**3,040**	**22**	**3,062**
	December 31, 2020					
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 102,970 million (December 31, 2020 - NIS 95,795 million) and the allowance in its respect in an amount of NIS 1,409 million (December 31, 2020 - NIS 1,762 million) computed on a group basis.

(2) The balance of commercial debts includes housing loans in the amount of NIS 252 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 December 31, 2020 – an amount of NIS 212 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 (December 31, 2020 - NIS 1 million), and computed on a group basis, in an amount of NIS 195 million (December 31, 2020 - NIS 187 million).

31. Additional Information regarding Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

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

3. Change in the balance of the allowance for credit losses – The Bank

	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	TOTAL	Banks and Governments	TOTAL
	In NIS millions					
	2021					
Balance of allowance for credit losses, as at December 31, 2020	1,921	219	429	2,569	15	2,584
Expenses (expense release) for credit loss	(461)	6	(142)	(597)	7	(590)
Accounting write-offs	(182)	(8)	(117)	(307)	-	(307)
Collection of debts written-off in previous years	222	2	120	344	-	344
Net accounting write-offs	40	(6)	3	37	-	37
Balance of allowance for credit losses, as at December 31, 2021	**1,500**	**219**	**290**	**2,009**	**22**	**2,031**
Of which: In respect of off-balance sheet credit instruments	160	-	25	185	-	185
	2020					
Balance of allowance for credit losses, as at December 31, 2019	1,148	180	320	1,648	1	1,649
Credit loss expenses	814	58	159	1,031	14	1,045
Accounting write-offs	(243)	(19)	(188)	(450)	-	(450)
Collection of debts written-off in previous years	202	-	138	340	-	340
Net accounting write-offs	(41)	(19)	(50)	(110)	-	(110)
Balance of allowance for credit losses, as at December 31, 2020	**1,921**	**219**	**429**	**2,569**	**15**	**2,584**
Of which: In respect of off-balance sheet credit instruments	190	-	36	226	-	226
	2019					
Balance of allowance for credit losses, as at December 31, 2018	1,030	164	309	1,503	1	1,504
Credit loss expenses	176	23	124	323	-	323
Accounting write-offs	(240)	(7)	(242)	(489)	-	(489)
Collection of debts written-off in previous years	182	-	129	311	-	311
Net accounting write-offs	(58)	(7)	(113)	(178)	-	(178)
Balance of allowance for credit losses, as at December 31, 2019	**1,148**	**180**	**320**	**1,648**	**1**	**1,649**
Of which: In respect of off-balance sheet credit instruments	153	-	18	171	-	171

31. Additional Information regarding Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

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

4. 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 – The Bank

	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	TOTAL	Banks and Governments	TOTAL
	In NIS millions					
	December 31,2021					
Recorded amount of debts:						
Examined on a specific basis[(1)]	74,467	-	140	74,607	8,300	82,907
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	119	44,707	-	44,826	-	44,826
Group - other	7,986	-	13,624	21,610	-	21,610
Total debts	**82,572**	**44,707**	**13,764**	**141,043**	**8,300**	**149,343**
Allowance for Credit Losses in respect of debts:						
Examined on a specific basis[(1)]	1,219	-	42	1,261	-	1,261
Examined on a group basis:						
Of which: the allowance in respect thereof is computed by the extent of arrears	-	[(2)]219	-	219	-	219
Group - other	121	-	223	344	22	366
Total allowance for Credit Losses	**1,340**	**219**	**265**	**1,824**	**22**	**1,846**
	December 31,2020					
Recorded amount of debts:						
Examined on a specific basis[(1)]	68,606	-	232	68,838	7,060	75,898
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	147	35,658	-	35,805	-	35,805
Group - other	7,385	-	13,217	20,602	-	20,602
Total debts	**76,138**	**35,658**	**13,449**	**125,245**	**7,060**	**132,305**
Allowance for Credit Losses in respect of debts:						
Examined on a specific basis[(1)]	1,526	-	49	1,575	-	1,575
Examined on a group basis:						
Of which: the allowance in respect thereof is computed by the extent of arrears	[(2)]1	[(2)]219	-	220	-	220
Group - other	204	-	344	548	15	563
Total allowance for Credit Losses	**1,731**	**219**	**393**	**2,343**	**15**	**2,358**

Footnotes:

(1) Including credit examined on a specific basis and found not to be impaired in an amount of NIS 81,781 million (December 31, 2020 - NIS 74,388 million) and the allowance in its respect in an amount of NIS 974 million (December 31, 2020 - NIS 1,228 million) computed on a group basis.

(2) 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 (December 31, 2020 - NIS 1 million), computed on a group basis, in amount of NIS 163 million (December 31, 2020 - NIS 158 million).

31. Additional Information regarding Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

B. Debts

1. Credit quality and arrears - consolidated

	December 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	19,643	374	130	20,147	6	30
Construction and Real Estate - Real Estate Activity	11,848	218	109	12,175	1	9
Financial Services	13,872	52	-	13,924	1	1
Commercial - Other	53,263	1,101	893	55,257	34	92
Total Commercial	**98,626**	**1,745**	**1,132**	**101,503**	**42**	**132**
Private Individuals - Housing Loans	53,375	[5]275	-	53,650	271	80
Private Individuals - Other	29,685	285	230	30,200	43	131
Total Public - Activity in Israel	**181,686**	**2,305**	**1,362**	**185,353**	**356**	**343**
Banks in Israel	1,300	-	-	1,300	-	-
Government of Israel	1,131	-	-	1,131	-	-
Total Activity in Israel	**184,117**	**2,305**	**1,362**	**187,784**	**356**	**343**
Lending Activity Abroad						
Public - Commercial						
Construction and Real Estate	9,696	681	70	10,447	-	-
Commercial - Other	16,940	1,464	365	18,769	1	9
Total Commercial	**26,636**	**2,145**	**435**	**29,216**	**1**	**9**
Private Individuals	1,584	43	-	1,627	5	-
Total Public - Activity Abroad	**28,220**	**2,188**	**435**	**30,843**	**6**	**9**
Foreign banks	2,412	-	-	2,412	-	-
Foreign governments	1,533	-	-	1,533	990	-
Total Activity Abroad	**32,165**	**2,188**	**435**	**34,788**	**996**	**9**
Total public	**209,906**	**4,493**	**1,797**	**216,196**	**362**	**352**
Total banks	**3,712**	**-**	**-**	**3,712**	**-**	**-**
Total governments	**2,664**	**-**	**-**	**2,664**	**990**	**-**
Total	**216,282**	**4,493**	**1,797**	**222,572**	**1,352**	**352**

For footnotes see next page.

31. 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)

	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	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 an amount of NIS 117 million are classified as unimpaired problematic debts (December 31, 2020 - NIS 182 million).

(5) Including housing loans in an 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 (December 31, 2020 - NIS 8 million).

31. 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

	December 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	85	18	45	130	615
Construction and Real Estate - Real Estate Activity	55	11	54	109	538
Financial Services	-	-	-	-	91
Commercial - Other	763	259	130	893	2,638
Total Commercial	**903**	**288**	**229**	**1,132**	**3,882**
Private Individuals - Housing Loans	-	-	-	-	-
Private Individuals - Other	199	89	31	230	542
Total Public - Activity in Israel	**1,102**	**377**	**260**	**1,362**	**4,424**
Total Activity in Israel	**1,102**	**377**	**260**	**1,362**	**4,424**
Lending Activity Abroad					
Public - Commercial					
Construction and Real Estate	-	-	70	70	390
Commercial - Other	211	32	154	365	426
Total Commercial	**211**	**32**	**224**	**435**	**816**
Private Individuals	-	-	-	-	-
Total Public - Activity Abroad	**211**	**32**	**224**	**435**	**816**
Total Activity Abroad	**211**	**32**	**224**	**435**	**816**
Total public	**1,313**	**409**	**484**	**1,797**	**5,240**
Total	**1,313**	**409**	**484**	**1,797**	**5,240**
Of which:					
Measured according to present value of cash flows	1,040	373	143	1,183	
Debts under troubled debt restructurings	885	219	230	1,115	

For footnotes see next page.

31. 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)

	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	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.

31. 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

	2021			2020			2019		
	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	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	153	9	8	133	2	2	138	2	2
Construction and Real Estate - Real Estate Activity	143	3	1	186	4	4	268	7	6
Financial Services	119	2	1	342	9	1	300	8	1
Commercial - Other	1,062	21	12	1,160	16	9	842	16	10
Total Commercial	**1,477**	**35**	**22**	**1,821**	**31**	**16**	**1,548**	**33**	**19**
Private Individuals - Housing Loans	1	-	-	3	-	-	-	-	-
Private Individuals - Other	287	18	10	258	11	5	226	7	3
Total Public - Activity in Israel	**1,765**	**53**	**32**	**2,082**	**42**	**21**	**1,774**	**40**	**22**
Total Activity in Israel	**1,765**	**53**	**32**	**2,082**	**42**	**21**	**1,774**	**40**	**22**
Lending Activity Abroad									
Public - Commercial									
Construction and Real Estate	114	3	1	215	3	-	241	5	-
Commercial - Other	427	7	3	270	4	1	92	5	-
Total Commercial	**541**	**10**	**4**	**485**	**7**	**1**	**333**	**10**	**-**
Total Public - Activity Abroad	**541**	**10**	**4**	**485**	**7**	**1**	**333**	**10**	**-**
Total Activity Abroad	**541**	**10**	**4**	**485**	**7**	**1**	**333**	**10**	**-**
Total	**2,306**	**[(3)] 63**	**36**	**2,567**	**[(3)] 49**	**22**	**2,107**	**[(3)] 50**	**22**

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 an amount of NIS 82 million (31.12.2020 - NIS 91 million, 31.12.2019 - NIS 68 million).

31. 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

	December 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	15	-	-	17	32
Construction and Real Estate - Real Estate Activity	25	-	-	17	42
Financial Services	-	-	-	-	-
Commercial - Other	304	-	2	185	491
Total Commercial	**344**	**-**	**2**	**219**	**565**
Private Individuals - Other	46	-	2	156	204
Total Public - Activity in Israel	**390**	**-**	**4**	**375**	**769**
Total Activity in Israel	**390**	**-**	**4**	**375**	**769**
Lending Activity Abroad					
Public - Commercial					
Construction and Real Estate	-	-	-	-	-
Commercial - Other	208	-	-	138	346
Total Commercial	**208**	**-**	**-**	**138**	**346**
Total Public - Activity Abroad	**208**	**-**	**-**	**138**	**346**
Total Activity Abroad	**208**	**-**	**-**	**138**	**346**
Total	**598**	**-**	**4**	**513**	**1,115**

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 December 31, 2021, to NIS 45 million (December 31, 2020– NIS 23 million).

31. 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)

	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	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.

31. 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)

	2021			2020			2019		
	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	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	177	23	22	210	34	34	234	31	30
Construction and Real Estate - Real Estate Activity	33	31	31	22	13	13	17	8	8
Financial Services	4	(1)-	(1)-	8	(1)-	(1)-	5	(1)-	(1)-
Commercial - Other	879	278	276	1,174	440	438	1,016	120	117
Total Commercial	**1,093**	**332**	**329**	**1,414**	**487**	**485**	**1,272**	**159**	**155**
Private Individuals - Other	5,054	134	131	9,197	203	201	6,450	145	143
Total Public - Activity in Israel	**6,147**	**466**	**460**	**10,611**	**690**	**686**	**7,722**	**304**	**298**
Total Activity in Israel	**6,147**	**466**	**460**	**10,611**	**690**	**686**	**7,722**	**304**	**298**
Lending Activity Abroad									
Public - Commercial									
Construction and Real Estate	2	78	78	2	45	41	1	22	22
Commercial - Other	4	58	58	11	374	374	3	50	40
Total Commercial	**6**	**136**	**136**	**13**	**419**	**415**	**4**	**72**	**62**
Private Individuals	1	(1)-	(1)-	3	(1)-	(1)-	5	(1)-	(1)-
Total Public - Activity Abroad	**7**	**136**	**136**	**16**	**419**	**415**	**9**	**72**	**62**
Total Activity Abroad	**7**	**136**	**136**	**16**	**419**	**415**	**9**	**72**	**62**
Total	**6,154**	**602**	**596**	**10,627**	**1,109**	**1,101**	**7,731**	**376**	**360**

Footnote:

(1) An amount lower than NIS 1 million.

31. 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)

	2021		2020		2019	
	Failure of restructured debts[1]					
	Number of contracts	Recorded amount	Number of contracts	Recorded amount	Number of contracts	Recorded amount
	In NIS millions					
Lending Activity in Israel						
Public - Commercial						
Construction and Real Estate - Construction	73	7	88	7	93	5
Construction and Real Estate - Real Estate Activity	6	1	6	2	10	13
Financial Services	3	[2]-	-	-	-	-
Commercial - Other	320	23	410	20	406	25
Total Commercial	**402**	**31**	**504**	**29**	**509**	**43**
Private Individuals - Other	2,237	15	3,093	21	3,693	31
Total Public - Activity in Israel	**2,639**	**46**	**3,597**	**50**	**4,202**	**74**
Total Activity in Israel	**2,639**	**46**	**3,597**	**50**	**4,202**	**74**
Lending Activity Abroad						
Public - Commercial						
Commercial - Other	1	7	2	72	-	-
Total Commercial	**1**	**7**	**2**	**72**	**-**	**-**
Private Individuals	-	-	1	[2]-	1	[2]-
Total Public - Activity Abroad	**1**	**7**	**3**	**72**	**1**	**[2]-**
Total Activity Abroad	**1**	**7**	**3**	**72**	**1**	**[2]-**
Total	**2,640**	**53**	**3,600**	**122**	**4,203**	**74**

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.

31. 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

(A) Risk characteristics according to credit segments

(1) Commercial 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;
- 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 increased with the outbreak of the crisis. However, in view of the return of the economy to full activity in the course of 2021, with the exception of the aviation and tourism sectors and sectors based on tourism, the level of risk has reverted to its pre-crisis level.

(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.

(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 disposable 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. It is noted that the number of borrowers who had asked for a deferment in the repayment of the principal of loans during the Corona crisis, and who have not yet returned to regular repayments, is marginal.

(B) INDICATION OF CREDIT QUALITY

	December 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	95.8%	99.5%	98.3%	97.1%	94.5%	99.2%	97.8%	96.1%
Ratio of the balance of problematic unimpaired credit to the public to the balance of credit to the public	3.0%	0.5%	1.0%	2.1%	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	1.2%	-	0.7%	0.8%	1.7%	-	0.8%	1.1%
Ratio of the balance of allowance to credit losses in respect of credit to the public to the balance of credit to the public	1.6%	0.5%	2.2%	1.4%	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)	34.8%	92.1%	125.3%	44.6%	36.4%	78.9%	125.4%	45.9%

31. Additional Information regarding Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

B. Debts (continued)

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.

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			
		December 31, 2021			
First degree pledge: financing ratio	Up to 60%	33,904	357	20,045	610
	Over 60%	18,664	127	11,104	466
Second degree pledge or without pledge		1,376	170	639	8,933
Total		[(2)]**53,944**	**654**	**31,788**	**10,009**
		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 252 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 (December 31, 2020 - NIS 212 million).

31. Additional Information regarding Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

C. Sale, purchase and syndications of credit to the public during the year

1. Sale and purchase of credit (consolidated)

	Credit risk sold					Credit risk purchased		
	Credit sold this year	Off-balance sheet credit risk(1) sold this year	Of which: problematic credit	Total profit (loss) in respect of credit sold	Balance at end of year of credit sold, which is serviced by the banking corporation	Credit purchased this year	Off-balance sheet credit risk(1) purchased this year	Of which: problematic credit
	In NIS millions							
	2021							
Total commercial	(2)996	14	48	1	3,199	11,230	-	-
Total credit to the public risk	**996**	**14**	**48**	**1**	**3,199**	**11,230**	**-**	**-**
Credit to governments	-	-	-	-	-	1,274	-	-
Total debts	**996**	**14**	**48**	**1**	**3,199**	**12,504**	**-**	**-**
	2020							
Total commercial	74	-	8	3	2,200	5,989	-	-
Total credit to the public risk	**74**	**-**	**8**	**3**	**2,200**	**5,989**	**-**	**-**
Credit to governments	-	-	-	-	-	1,937	-	-
Total debts	**74**	**-**	**8**	**3**	**2,200**	**7,926**	**-**	**-**

Footnotes:

(1) Credit risk of off-balance sheet financial instruments, as computed for the purpose of limitations on a single borrower indebtedness, excluding in respect of derivative instruments.
(2) Not including a receipt of NIS 51 million, that has been recorded as a reduction in credit loss expenses.

For details regarding profit net in respect of loans sold, see Note 3.

31. Additional Information regarding Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

C. Sale, purchase and syndications of credit to the public during the year (continued)

2. Syndications and participation in loan syndications (consolidated)

	Syndication transactions initiated by the banking corporation				Syndication transactions initiated by others	
	Share of the banking corporation		Share of others		Share of the banking corporation	
	Credit	Off-balance sheet credit risk[(1)]	Credit	Off-balance sheet credit risk[(1)]	Credit	Off-balance sheet credit risk[(1)]
	In NIS millions					
	2021					
Total commercial	4,541	413	9,580	266	4,933	1,970
Total credit to the public risk	**4,541**	**413**	**9,580**	**266**	**4,933**	**1,970**
Credit to governments	339	-	129	-	-	-
Total debts	**4,880**	**413**	**9,709**	**266**	**4,933**	**1,970**
	2020					
Total commercial	3,152	453	6,986	352	5,478	1,902
Total credit to the public risk	**3,152**	**453**	**6,986**	**352**	**5,478**	**1,902**
Credit to governments	533	-	182	-	-	-
Total debts	**3,685**	**453**	**7,168**	**352**	**5,478**	**1,902**

Footnote:
(1) Credit risk of off-balance sheet financial instruments, as computed for the purpose of limitations on a single borrower indebtedness, excluding in respect of derivative instruments.

3. Loan management activity

MDB manages loans granted to local authorities from the state budget in a total amount of NIS 899 million (December 31, 2020: NIS 971 million).

31. Additional Information regarding Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

D. Composition of credit to the public[1] and off-balance-sheet credit risk[3], by size of credit to individual burrowers

1. Consolidated

				December 31					
				2021			2020		
				Number of borrowers[2]	Credit[1]	Off-balance Credit risk[1][3]	Number of borrowers[2]	Credit[1]	Off-balance Credit risk[1][3]
				in NIS millions					
Credit limit (in NIS thousand):									
		Up to	10	1,257,803	1,950	1,964	1,485,946	2,510	2,009
Over	10	Up to	20	500,986	2,567	5,210	541,436	3,085	5,830
Over	20	Up to	40	561,344	5,728	10,431	567,543	5,980	10,728
Over	40	Up to	80	300,581	8,480	8,717	283,235	7,873	7,166
Over	80	Up to	150	98,210	7,275	3,470	95,032	7,051	3,239
Over	150	Up to	300	50,653	8,137	2,405	48,728	7,839	2,299
Over	300	Up to	600	34,007	12,482	2,395	31,949	11,822	2,111
Over	600	Up to	1,200	41,495	29,980	5,983	34,673	25,411	4,257
Over	1,200	Up to	2,000	15,045	17,115	5,298	10,459	12,387	3,078
Over	2,000	Up to	[4]4,000	5,135	10,200	3,511	4,077	8,652	2,421
Over	4,000	Up to	[4]8,000	1,669	7,483	2,279	1,545	6,984	1,916
Over	8,000	Up to	[4]20,000	1,338	13,519	3,466	1,245	12,785	3,044
Over	20,000	Up to	[4]40,000	772	17,919	3,990	684	15,848	3,616
Over	40,000	Up to	[4]200,000	*813	*49,122	18,190	743	43,684	16,963
Over	200,000	Up to	[4]400,000	92	15,960	8,700	*69	*12,647	5,427
Over	400,000	Up to	[4]800,000	28	8,109	7,449	19	8,001	3,055
Over	800,000	Up to	[4]1,200,000	6	4,021	1,989	6	4,732	1,568
Over	1,200,000	Up to	[4]1,600,000	3	1,271	2,986	3	2,524	1,283
Over	1,600,000	Up to	[4]2,000,000	-	-	-	-	-	-
Over	2,000,000	Up to	[4]2,400,000	1	2,220	140	1	247	1,875
Over	2,400,000	Up to	[4]2,800,000	-	-	-	-	-	-
Over	2,800,000	Up to	[4]3,200,000	-	-	-	-	-	-
Over	[4]3,200,000			**1	**6,673	-	**1	**6,385	-
Total				**2,869,982**	**230,211**	**98,573**	**3,107,394**	**206,447**	**81,885**
Mortgage backed securities issued by:									
**GNMA				1	6,673	-	1	6,385	-
*FNMA				1	181	-	1	244	-
*FHLMC				1	177	-	1	276	-

Footnotes:

(1) Including investments in bond of the public, assets deriving from derivative financial instruments as against the public before the provision for credit loss and before the impact of collateral allowed for setoff for the purpose of a borrower or a group of borrowers liability.

(2) Number of borrowers based on total credit and Off-balance sheet credit risk.

(3) Credit risk of off-balance sheet financial instruments, as computed for the purpose of limitations on a borrower (not including credit facilities under banks guarantees, not of the Group's, as of December 31, 2021 - 7,633 NIS million, as of December 31, 2020 - NIS 7,363 million).

(4) Consolidated - by combining specific balances.

31. Additional Information regarding Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

D. Composition of credit to the public[(1)] and off-balance-sheet credit risk[(3)], by size of credit to individual burrowers (continued)

2. The Bank

				December 31					
				2021			2020		
				Number of borrowers[(2)]	Credit[(1)]	Off-balance Credit risk[(1)(3)]	Number of borrowers[(2)]	Credit[(1)]	Off-balance Credit risk[(1)(3)]
				in NIS millions					
Credit limit (in NIS thousand):									
		Up to	10	263,106	260	607	279,230	239	572
Over	10	Up to	20	106,510	522	1,111	105,743	529	1,116
Over	20	Up to	40	121,142	1,343	2,244	120,034	1,320	2,224
Over	40	Up to	80	103,099	2,942	3,018	102,814	2,950	2,986
Over	80	Up to	150	66,822	4,710	2,600	67,173	4,769	2,566
Over	150	Up to	300	37,785	5,958	1,927	36,489	5,749	1,843
Over	300	Up to	600	25,617	9,307	1,937	23,979	8,811	1,677
Over	600	Up to	1,200	33,739	24,248	5,141	28,250	20,681	3,569
Over	1,200	Up to	2,000	12,281	13,614	4,670	8,378	9,775	2,569
Over	2,000	Up to	4,000	3,838	7,213	2,953	2,910	5,845	1,966
Over	4,000	Up to	8,000	1,204	4,871	1,791	1,095	4,475	1,585
Over	8,000	Up to	20,000	738	6,911	2,119	686	6,728	1,753
Over	20,000	Up to	40,000	365	7,942	2,347	317	6,881	2,102
Over	40,000	Up to	200,000	434	25,921	11,667	392	23,663	10,218
Over	200,000	Up to	400,000	79	13,680	8,049	55	9,608	4,943
Over	400,000	Up to	800,000	25	6,826	7,273	18	7,289	2,966
Over	800,000	Up to	1,200,000	6	4,022	1,989	6	4,717	1,568
Over	1,200,000	Up to	1,600,000	3	1,271	2,987	3	2,524	1,283
Over	1,600,000	Up to	2,000,000	-	-	-	-	-	-
Over	2,000,000	Up to	2,400,000	3	4,969	1,422	2	1,587	2,567
Over	2,400,000	Up to	2,800,000	-	-	-	-	-	-
Over	2,800,000	Up to	3,200,000	-	-	-	1	2,231	914
Over	3,200,000			-	-	-	-	-	-
Total				**776,796**	**146,530**	**65,852**	**777,575**	**130,371**	**50,987**

Footnotes:

(1) Including investments in bond of the public, assets deriving from derivative financial instruments as against the public before the provision for credit loss and before the impact of collateral allowed for setoff for the purpose of a borrower or a group of borrowers liability.

(2) Number of borrowers based on total credit and Off-balance credit risk.

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

(4) The credit limit un the top level: NIS 2,360 million (2020: NIS 3,145 million).

31. Additional Information regarding Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

E. Off-Balance Sheet Financial Instruments

	Consolidated		The Bank		Consolidated		The Bank	
	Balance[1]	Provision[2]	Balance[1]	Provision[2]	Balance[1]	Provision[2]	Balance[1]	Provision[2]
	December 31, 2021				December 31, 2020			
	in NIS millions							
Transactions in which the balance represents credit risk:								
Letters of credit	1,345	3	726	2	1,248	7	718	6
Credit guarantees	2,216	32	1,594	26	2,256	42	1,571	34
Guarantees for home purchasers	16,093	4	15,205	4	11,169	4	10,455	4
Other guarantees and obligations	10,728	50	9,261	46	10,801	59	9,404	54
Unutilized facilities for transactions in derivative instruments	3,696	-	3,587	-	2,054	-	1,957	-
Unutilized facilities credit line for credit cards	35,247	53	7,301	11	33,537	67	6,871	20
Unutilized current loan account facilities and other credit facilities in on-call accounts	10,201	34	8,111	28	10,584	47	8,482	40
Irrevocable commitments to extend credit approved but not yet granted[3]	31,489	66	24,207	61	23,199	67	16,543	63
Commitment to issue guarantees	13,906	7	13,288	7	6,119	5	5,633	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".

F. Guarantees

(1) General

The Bank provides a broad variety of guarantees and indemnities for its customers in order to improve their credit ability and to enable them to complete a wide range of transactions. For certain contracts, which meet the definition of the guarantee, the Bank recognizes – at the time of initial recognition – a liability in the amount of the fair value of the obligation with respect to the guarantee at the time of issuing the guarantee. The maximum amount of the potential future payments is determined in accordance with the nominal amount of the guarantees, without taking into account possible repayments or collateral held or pledged.

31. Additional Information regarding Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

F. Guarantees (continued)

(2) Potential future payments

	Consolidated						
	The maximal amount of potential future payments						
	Expiration in one year or less	Expiration between one to three years	Expiration between over three years and five years	Expiration over five years	No fixed maturity date	Total	Amortized cost
	in NIS millions						
	December 31, 2021						
Letters of credit (standby)	195	-	2	-	-	197	-
Credit guarantees	1,938	210	52	16	-	2,216	22
Guarantees for home purchasers	-	-	-	-	16,093	16,093	58
Other guarantees and obligations	6,152	3,153	509	914	-	10,728	59
Total	**8,285**	**3,363**	**563**	**930**	**16,093**	**29,234**	**139**
	December 31, 2020						
Letters of credit (standby)	183	-	2	-	-	185	-
Credit guarantees	1,837	381	30	8	-	2,256	22
Guarantees for home purchasers	-	-	-	-	11,169	11,169	39
Other guarantees and obligations	5,598	3,443	961	799	-	10,801	60
Total	**7,618**	**3,824**	**993**	**807**	**11,169**	**24,411**	**121**

	The Bank						
	The maximal amount of potential future payments						
	Expiration in one year or less	Expiration between one to three years	Expiration between over three years and five years	Expiration over five years	No fixed maturity date	Total	Amortized cost
	in NIS millions						
	December 31, 2021						
Letters of credit (standby)	180	-	-	-	-	180	-
Credit guarantees	1,357	174	47	16	-	1,594	16
Guarantees for home purchasers	-	-	-	-	15,205	15,205	55
Other guarantees and obligations	5,021	2,856	494	890	-	9,261	44
Total	**6,558**	**3,030**	**541**	**906**	**15,205**	**26,240**	**115**
	December 31, 2020						
Letters of credit (standby)	166	-	-	-	-	166	-
Credit guarantees	1,194	345	24	8	-	1,571	16
Guarantees for home purchasers	-	-	-	-	10,455	10,455	36
Other guarantees and obligations	4,920	2,837	859	788	-	9,404	45
Total	**6,280**	**3,182**	**883**	**796**	**10,455**	**21,596**	**97**

(3) Evaluation of the guarantee risk

Most of the guaranties are rated according to the Credit Granting Rating.

32. Assets and Liabilities according to Linkage Terms

Consolidated

	December 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	53,145	21	5,593	439	440	-	59,638
Securities	24,254	1,043	16,084	868	1	1,619	43,869
Securities borrowed or purchased under agreements to resell	1,207	-	-	-	-	-	1,207
Net credit to the public	156,869	21,435	32,793	1,535	524	-	213,156
Credit to the Government	639	242	1,130	653	-	-	2,664
Investments in associates	2	-	-	-	-	460	462
Buildings and equipment	-	-	-	-	-	3,401	3,401
Intangible assets and goodwill	-	-	-	-	-	163	163
Assets in respect of derivative instruments	3,080	334	1,416	74	72	546	5,522
Other assets	2,460	15	926	47	92	1,466	5,006
Total assets	**241,656**	**23,090**	**57,942**	**3,616**	**1,129**	**7,655**	**335,088**
Liabilities							
Deposits from the public	179,371	4,110	69,662	6,080	1,684	-	260,907
Deposits from banks	10,813	-	1,604	114	3	-	12,534
Deposits from the Government	167	2	177	-	-	-	346
Bonds and Subordinated debt notes	5,003	10,058	-	10	-	-	15,071
Liabilities in respect of derivative instruments	3,587	436	1,572	107	76	545	6,323
Other liabilities	15,928	798	677	19	36	301	17,759
Total liabilities	**214,869**	**15,404**	**73,692**	**6,330**	**1,799**	**846**	**312,940**
Difference	26,787	7,686	(15,750)	(2,714)	(670)	6,809	22,148
Effect of non-hedging derivative instruments:							
Derivative instruments (except for options)	(18,698)	(3,968)	19,028	2,995	643	-	-
Net options in the money (in terms of underlying asset)	743	-	(373)	(353)	(17)	-	-
Net options out of the money (in terms of underlying asset)	(338)	-	224	114	-	-	-
General Total	**8,494**	**3,718**	**3,129**	**42**	**(44)**	**6,809**	**22,148**
Net options in the money (discounted par value)	533	-	(196)	(305)	(32)	-	-
Net options out of the money (discounted par value)	(1,677)	-	1,282	392	3	-	-

Footnote:

(1) Includes those linked to foreign currency.

32. Assets and Liabilities according to Linkage Terms (continued)

Consolidated (continued)

	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	-	-
General 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.

32. Assets and Liabilities according to Linkage Terms (continued)

The Bank

	December 31, 2021						
	Israeli currency		Foreign currency[1]				
	Non-linked	Linked to the CPI	In US$	In EURO	In other currencies	Non-monetary Items	Total
	NIS millions						
Assets							
Cash and deposits with banks	40,680	-	4,272	322	330	-	45,604
Securities	17,897	907	6,960	685	1	237	26,687
under agreements to resell securities borrowed or purchased	1,207	-	-	-	-	-	1,207
Net credit granted to the public	114,009	16,911	6,468	1,432	399	-	139,219
Credit granted to Governments	610	242	1,130	653	-	-	2,635
Investments in associates	1,314	9	-	-	-	10,455	11,778
Buildings and equipment	-	-	-	-	-	2,152	2,152
Debit balances of derivative financial instruments	3,065	330	1,156	74	68	530	5,223
Other assets	1,905	-	30	7	92	740	2,774
Total assets	**180,687**	**18,399**	**20,016**	**3,173**	**890**	**14,114**	**237,279**
Liabilities							
Deposits from the public	139,403	9,415	34,170	5,542	1,470	-	190,000
Deposits from banks	7,840	25	1,015	85	6	-	8,971
Deposits from the Government	1	2	98	-	-	-	101
Subordinated capital notes	893	2,396	-	10	-	-	3,299
Credit balances of derivative financial instruments	3,550	427	1,277	107	74	530	5,965
Other liabilities	6,544	536	121	5	21	233	7,460
Total liabilities	**158,231**	**12,801**	**36,681**	**5,749**	**1,571**	**763**	**215,796**
Difference	22,456	5,598	(16,665)	(2,576)	(681)	13,351	21,483
Effect of non hedging derivative instruments:							
Derivative instruments (except for options)	(16,998)	(3,252)	16,726	2,827	697	-	-
Net options in the money (in terms of base asset)	743	-	(373)	(353)	(17)	-	-
Net options out of the money (in terms of base asset)	(338)	-	224	114	-	-	-
General Total	**5,863**	**2,346**	**(88)**	**12**	**(1)**	**13,351**	**21,483**
Net options in the money (discounted nominal value)	533	-	(196)	(305)	(32)	-	-
Net options out of the money (discounted nominal value)	(1,677)	-	1,282	392	3	-	-

Footnote:

(1) Includes those linked to foreign currency.

32. Assets and Liabilities according to Linkage Terms (continued)

The Bank (continued)

	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
	NIS millions						
Assets							
Cash and deposits with banks	29,353	-	2,538	233	246	-	32,370
Securities	20,381	787	4,715	602	1	59	26,545
under agreements to resell securities borrowed or purchased	1,074	-	-	-	-	-	1,074
Net credit granted to the public	100,607	14,906	4,835	2,312	242	-	122,902
Credit granted to Governments	842	255	1,445	905	-	-	3,447
Investments in associates	997	93	-	-	-	9,568	10,658
Buildings and equipment	-	-	-	-	-	1,943	1,943
Debit balances of derivative financial instruments	3,289	66	1,331	385	339	321	5,731
Other assets	2,087	1	198	5	108	682	3,081
Total assets	**158,630**	**16,108**	**15,062**	**4,442**	**936**	**12,573**	**207,751**
Liabilities							
Deposits from the public	125,367	4,769	26,511	5,326	1,560	-	163,533
Deposits from banks	4,958	30	811	36	3	-	5,838
Deposits from the Government	2	6	118	-	-	-	126
Subordinated capital notes	975	2,518	-	31	-	-	3,524
Credit balances of derivative financial instruments	4,064	114	1,394	380	306	322	6,580
Other liabilities	7,727	611	160	6	345	119	8,968
Total liabilities	**143,093**	**8,048**	**28,994**	**5,779**	**2,214**	**441**	**188,569**
Difference	15,537	8,060	(13,932)	(1,337)	(1,278)	12,132	19,182
Effect of non hedging derivative instruments:							
Derivative instruments (except for options)	(14,216)	(3,654)	15,209	1,340	1,321	-	-
Net options in the money (in terms of base asset)	1,050	-	(1,154)	100	4	-	-
Net options out of the money (in terms of base asset)	267	-	(90)	(189)	12	-	-
General Total	**2,638**	**4,406**	**33**	**(86)**	**59**	**12,132**	**19,182**
Net options in the money (discounted nominal value)	854	-	(999)	171	(26)	-	-
Net options out of the money (discounted nominal value)	1,967	-	(1,037)	(993)	63	-	-

Footnote:
(1) Includes those linked to foreign currency.

33. Assets and Liabilities according to Currency and Maturity Periods

Consolidated – in NIS millions(5)

A. Anticipated Future Contractual Cash Flows as of December 31, 2021

	On demand or within 1 month	Over 1 month and up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 2 years	Over 2 years and up to 3 years
Israeli currency:(including linked to foreign currency)					
Assets(10)	93,100	15,176	29,564	26,144	19,402
Liabilities	162,835	14,607	24,960	9,163	6,065
Difference	**(69,735)**	**569**	**4,604**	**16,981**	**13,337**
Derivative instruments (excluding options)	(7,272)	(4,281)	(9,044)	(2,106)	506
Options (in terms of underlying assets)	96	23	379	15	-
Difference after effect of derivative instruments:	(76,911)	(3,689)	(4,061)	14,890	13,843
Foreign currency(8):					
Assets(11)	12,355	5,190	7,864	8,037	6,857
Liabilities	63,364	4,895	11,310	1,520	532
Difference	**(51,009)**	**295**	**(3,446)**	**6,517**	**6,325**
Of which: Difference in dollar	(44,639)	352	(3,510)	6,217	5,090
Of which: Difference in respect of foreign activity	(27,546)	1,017	3,459	5,532	4,582
Derivative instruments (excluding options)	7,272	4,281	9,044	2,106	(506)
Options (in terms of underlying assets)	(96)	(23)	(379)	(15)	-
Difference after effect of derivative instruments:	(43,833)	4,553	5,219	8,608	5,819
Total:					
Assets(1)	105,455	20,366	37,428	34,181	26,259
Liabilities(2)	226,199	19,502	36,270	10,683	6,597
Difference	**(120,744)**	**864**	**1,158**	**23,498**	**19,662**
Derivative instruments (excluding options)					
Options (in terms of underlying assets)					
(1) Of which: Credit to the public	40,318	17,547	33,730	29,504	21,258
(2) Of which: Deposits from the public	211,238	15,976	29,432	2,829	892
B. Balance Sheet Amount as December 31, 2020					
Total:					
Assets(3)	85,388	17,328	37,868	30,660	23,359
Liabilities(4)	190,366	20,615	35,344	9,651	8,185
Difference	**(104,978)**	**(3,287)**	**2,524**	**21,009**	**15,174**
(3) Of which: Credit to the public	39,433	15,781	31,966	25,880	17,834
(4) Of which: Deposits from the public	173,807	17,365	29,360	3,352	947

Footnotes:

(5) This Note presents the anticipated future contractual cash flows in respect of assets and liabilities according to linkage base and according to the remaining period to the contractual maturity date of each cash flow. The data is shown net of the provision for doubtful debts the allocation of which over periods is made in accordance with an estimate based on the credit periods in respect of which they were made.

(6) As included in Note 32 "Assets and liabilities according to linkage base", including off-balance sheet amounts in respect of derivatives.

(7) Includes past-due receivables totaling NIS 205 million (2020: NIS 344 million).

(8) Excluding Israeli currency linked to foreign currency.

(9) The contractual rate of return is the rate of interest discounting the expected future contractual cash flows presented in this Note in respect of a monetary item, to its balance sheet amount.

(10) Including current loan account credit facilities in the amount of NIS 4,663 million (2020: NIS 4,797 million) and an amount of NIS 590 million with no due date (2020: NIS 520 million).

(11) Including current loan account credit facilities in the amount of NIS 272 million (2020: NIS 179 million) and an amount of NIS 135 million with no due date (2020: NIS 111 million).

(12) Reclassified - following improvement of data.

							Balance sheet amount[6]		
	Over 3 years and up to 4 years	Over 4 years and up to 5 years	Over 5 years and up to 10 years	Over 10 years and up to 20 years	Over 20 years	Total cash flows	No fixed maturity date[7]	Total	The contractual rate of return, in percentages[9]
	15,232	13,439	40,797	28,784	9,859	291,497	1,409	264,862	2.30
	2,444	2,227	5,054	1,429	262	229,046	-	230,373	0.28
	12,788	**11,212**	**35,743**	**27,355**	**9,597**	**62,451**	**1,409**	**34,489**	**2.02**
	(37)	(51)	50	(10)	-	(22,245)	-	(22,426)	-
	-	-	-	-	-	513	-	224	-
	12,751	11,161	35,793	27,345	9,597	40,719	1,409	12,287	-
	3,427	4,442	10,063	5,700	3,757	67,692	1,403	62,571	2.80
	226	186	593	149	81	82,856	25	81,721	0.43
	3,201	**4,256**	**9,470**	**5,551**	**3,676**	**(15,164)**	**1,378**	**(19,150)**	**2.37**
	3,072	4,020	9,083	5,337	3,645	(11,333)	1,020	(15,730)	-
	2,264	2,266	6,056	4,269	2,750	4,649	1,244	2,379	-
	37	51	(50)	10	-	22,245	-	22,426	-
	-	-	-	-	-	(513)	-	(224)	-
	3,238	4,307	9,420	5,561	3,676	6,568	1,378	3,052	-
	18,659	17,881	50,860	34,484	13,616	359,189	2,812	327,433	2.39
	2,670	2,413	5,647	1,578	343	311,902	25	312,094	0.32
	15,989	**15,468**	**45,213**	**32,906**	**13,273**	**47,287**	**2,787**	**15,339**	**2.07**
	14,233	11,674	32,446	27,796	8,422	236,928	1,291	213,156	3.26
	320	208	441	317	5	261,658	-	260,907	0.21
	17,163	12,954	48,484	28,261	10,406	311,871	2,494	287,792	[12]2.23
	2,286	2,611	4,293	1,739	369	275,459	27	273,730	[12]0.33
	14,877	**10,343**	**44,191**	**26,522**	**10,037**	**36,412**	**2,467**	**14,062**	**[12]1.90**
	12,645	10,107	26,653	21,760	5,974	208,033	1,264	188,718	[12]3.08
	594	294	510	286	3	226,518	-	226,118	[12]0.22

33. Assets and Liabilities according to Currency and Maturity Periods (continued)

The Bank – in NIS millions[5]

A. Anticipated Future Contractual Cash Flows as of December 31, 2020

	On demand or within 1 month	Over 1 month and up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 2 years	Over 2 years and up to 3 years
Israeli currency:(including linked to foreign currency):					
Assets[10]	71,716	9,526	20,783	19,385	14,403
Liabilities	125,960	7,351	16,417	6,259	4,254
Difference	**(54,244)**	**2,175**	**4,366**	**13,126**	**10,149**
Derivative instruments (excluding options)	(5,620)	(3,719)	(8,787)	(2,120)	506
Options (in terms of base assets)	96	23	379	15	-
Difference after effect of derivative instruments:	(59,768)	(1,521)	(4,042)	11,021	10,655
Foreign currency[8]:					
Assets[11]	9,368	2,993	1,613	1,433	2,073
Liabilities	31,031	3,702	8,224	517	354
Difference	**(21,663)**	**(709)**	**(6,611)**	**916**	**1,719**
Of which: Difference in dollar	(16,620)	(593)	(6,578)	616	830
Of which: Difference in respect of foreign activity	-	-	-	-	-
Derivative instruments (excluding options)	5,620	3,719	8,787	2,120	(506)
Options (in terms of underlying assets)	(96)	(23)	(379)	(15)	-
Difference after effect of derivative instruments:	(16,139)	2,987	1,797	3,021	1,213
Total:					
Assets[1]	81,084	12,519	22,396	20,818	16,476
Liabilities[2]	156,991	11,053	24,641	6,776	4,608
Difference	**(75,907)**	**1,466**	**(2,245)**	**14,042**	**11,868**
Derivative instruments (excluding options)					
Options (in terms of base assets)					
(1) Of which: Credit to the public	31,633	9,695	19,388	16,788	11,848
(2) Of which: Deposits from the public	147,891	9,151	21,554	2,392	1,643
B. Balance Sheet Amount as December 31, 2020					
Total:					
Assets[3]	64,848	10,058	22,510	19,234	14,976
Liabilities[4]	130,143	12,912	24,925	6,966	5,565
Difference	**(65,295)**	**(2,854)**	**(2,415)**	**12,268**	**9,411**
(3) Of which: Credit to the public	30,481	8,604	17,801	15,285	10,002
(4) Of which: Deposits from the public	122,794	10,827	21,872	2,683	1,214

Footnotes:

(5) This Note presents the anticipated future contractual cash flows in respect of assets and liabilities according to linkage base and according to the remaining period to the contractual maturity date of each cash flow. The data is shown net of the provision for doubtful debts the allocation of which over periods is made in accordance with an estimate based on the credit periods in respect of which they were made.

(6) As included in Note 32 "Assets and liabilities according to linkage base", including off-balance sheet amounts in respect of derivatives.

(7) Includes past-due receivables totaling NIS 145 million (2020: NIS 178 million).

(8) Excluding Israeli currency linked to foreign currency.

(9) The contractual rate of return is the rate of interest discounting the expected future contractual cash flows presented in this Note in respect of a monetary item, to its balance sheet amount.

(10) Including current loan account credit facilities in the amount of NIS 2,726 million (2020: NIS 2,733 million) and an amount of NIS 426 million with no due date (2020: NIS 402 million).

(11) Including current loan account credit facilities in the amount of NIS 252 million (2020: NIS 152 million) and an amount of NIS 126 million with no due date (2020: NIS 102 million).

Over 3 years and up to 4 years	Over 4 years and up to 5 years	Over 5 years and up to 10 years	Over 10 years and up to 20 years	Over 20 years	Total cash flows	No fixed maturity date[7]	Balance sheet amount[6] Total	The contractual rate of return,in percentages[9]
11,422	10,171	29,610	22,558	7,273	216,847	1,597	199,121	1.81
3,398	2,628	4,183	1,284	159	171,893	-	171,117	0.25
8,024	**7,543**	**25,427**	**21,274**	**7,114**	**44,954**	**1,597**	**28,004**	**1.56**
(37)	(51)	50	(10)	-	(19,788)	-	(19,970)	-
-	-	-	-	-	513	-	224	-
7,987	7,492	25,477	21,264	7,114	25,679	1,597	8,258	-
1,068	2,083	3,477	1,347	846	26,301	135	24,044	1.99
140	103	260	149	81	44,561	2	43,916	0.22
928	**1,980**	**3,217**	**1,198**	**765**	**(18,260)**	**133**	**(19,872)**	**1.76**
799	1,745	2,912	1,016	764	(15,109)	25	(16,643)	-
-	-	-	-	-	-	-	-	-
37	51	(50)	10	-	19,788	-	19,970	-
-	-	-	-	-	(513)	-	(224)	-
965	2,031	3,167	1,208	765	1,015	133	(126)	-
12,490	12,254	33,087	23,905	8,119	243,148	1,732	223,165	1.83
3,538	2,731	4,443	1,433	240	216,454	2	215,033	0.24
8,952	**9,523**	**28,644**	**22,472**	**7,879**	**26,694**	**1,730**	**8,132**	**1.59**
8,697	7,110	21,588	21,474	6,463	154,684	695	139,219	2.59
2,254	2,299	3,191	437	-	190,812	-	190,000	0.19
11,966	8,425	32,955	19,234	5,641	209,847	1,433	195,179	1.98
1,838	2,384	3,249	1,317	268	189,567	2	188,128	0.27
10,128	**6,041**	**29,706**	**17,917**	**5,373**	**20,280**	**1,431**	**7,051**	**1.71**
7,761	6,071	17,852	17,185	4,675	135,717	697	122,902	2.76
1,075	1,842	1,860	122	-	164,289	-	163,533	0.22

34. Balances and Fair Value Estimates of Financial Instruments

A. General

The instruction of the Bank of Israel regarding the determination of the fair value of financial instruments (the "instruction"), was applied based on the methods and principal assumptions described hereunder. Nothing in the data presented hereunder should be taken as an indication of the Bank's economic value, nor does the data purport to assess such value.

B. Fair value of financial instruments

Most of the Bank's financial instruments do not have a ready "market price" because there is no active market in which they are traded. Therefore, in accordance with the instruction, fair value is based on accepted pricing models, such as the present value of cash flows discounted at a rate which reflects the estimated risk level related to the financial instrument.

Assessing the fair value by discounting future cash flows and determining the discount interest rate, is subjective. Therefore, the data for most of the financial instruments given hereunder, does not necessarily serve as an indication for the realization value of the financial instrument on the reporting date.

Estimating the future cash flows was made by interest rates in effect at 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.

34. Balances and Fair Value Estimates of Financial Instruments (continued)

Additionally, no consideration was given to fees and commissions receivable or payable as part of the business activity and the effect of the non-controlling interests and the tax effect were not included.

It should be further noted, that the differential between the book value and the amounts presented in 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 as a going concern.

Furthermore, due to the wide range of valuation techniques and possible assessments used in determining the fair value, and in view of the methods and assumptions used in applying the instruction, 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.

C. Methods and main assumptions used in estimating the fair value of financial instruments

Bank deposits, non-marketable bonds and loan notes and credit to the Government - discounting future cash flows at interest rates at which the Bank transacted business at the reporting date.

Marketable securities - market value for securities traded on an active market, or quotations of international providers of prices for securities traded on an inactive market.

Net credit to the public - Fair value of the balance of credit to the public was determined at the present value of future cash flows using an appropriate discount rate. The present value is measured in respect of the future cash inflows (net of the effect of accounting write-offs and allowances for credit losses) separately for each loan, at a rate of interest reflecting the risk level inherent in the credit.

Determination of the risk level has, to the extent possible, been made, on the basis of a grading model used at present by the Bank, which reviews the level of risk inherent in the debt in accordance with financial and other indices. It should be noted that as of December 31, 2021, the Bank has classified approx. 99% of the indebtedness which has to be classified according to the directives of the Supervisor of Banks (December 31, 2020: approx. 99%). The discounting interest rates have, generally, been determined according to the interest rates used in similar transactions made by the bank as of the date of the report.

In certain cases, where grading data is not available, the segmentation is made on the basis of an overall evaluation of the risk level relating to the business sectors in which the borrowers operate. In this respect, it should be noted that the general risk level, as evaluated for a particular business sector, is not necessarily identical to the risk level of a particular borrower operating in that sector, none the less, to the risk level relating to the credit which the Bank grants to that borrower.

The fair value of impaired debts was computed using discount interest rates reflecting the high credit risk inherent therein. In any case, these discounting rates were not lower than the highest interest rate used by the Bank in its transactions as of the date of the report.

Increasing the discount interest rate by 1 basis point would not have increased the fair value of the problematic debts. Increasing the discount interest rate by 0.1 basis point would have reduced the fair value of the problematic debts by NIS 1 million (compared to an increase of fair value by NIS 0.3 million and a decrease of fair value by NIS 1 million, respectively, as of December 31, 2020).

Cash flows in respect of mortgages have been evaluated on the basis of an early repayment forecast based on a statistical model. Discounting the said cash flows in accordance with expected repayment dates instead of the contractual repayment dates, decreased the fair value of the mortgages, particularly in the CPI linked segment, by NIS 125 million (compared to a decrease of NIS 131 million 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 4.14 years on December 31, 2021, compared to 3.63 years, taking into consideration the forecast for early redemptions (December 31, 2020: 4.15 years compared to 3.54 years, respectively).

Deposits, bonds and subordinated debt notes - Capitalizing future cash flows at a rate at which the Bank pays interest on similar deposits, or on the issue of similar bond and debt notes at the reporting date, Based on parameters, such as: the size of the deposit, the period of the deposit, type of linkage.

Marketable subordinate debt notes are stated at market value.

Cash flows in respect of deposits were evaluated on the basis of an early withdrawal forecast based on a statistical model. Discounting the said cash flows in accordance with expected withdrawal dates instead of the contractual withdrawal dates, decreased the fair value of the deposits, particularly savings deposits in the CPI linked segment, by NIS 9 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 on December 31, 2021 to 3.07 years, compared to 2.95 years, taking into consideration the forecast for early redemption (December 31, 2020: 2.73 years and 2.57 years, respectively).

34. Balances and Fair Value Estimates of Financial Instruments (continued)

Financial instruments (except for derivatives and marketable financial instruments) for an initial period of up to three months and at a variable market interest rate - Some of the subsidiaries assume that the balance stated in the balance sheet reflects fair value.

Derivative financial instruments - Such financial instruments, which have an active market, were evaluated at their market value, and where several such markets exist, the evaluation was made in accordance with the most active market.

Derivative financial instruments which are not traded on an active market were evaluated according to models in use by the Bank in its current operations and which take into account the risks involved in the financial instrument: market, credit and other risks.

Off balance sheet financial instruments which involve credit risk - The fair value is presented according to the outstanding balance-sheet balance of fees and commissions on the said transactions, which approximate fair value. The fair value of irrevocable commitments to grant credit, which were approved but not yet executed, does not differ materially from the value of these commitments, as they are presented in Note 31 E.

The bank and its banking subsidiaries in Israel present the balances and fair value estimates of Financial Instruments according to the directive of the Supervisor of Banks. A banking subsidiary abroad presents the balances and fair value estimates of Financial Instruments according to generally accepted accounting principles in the US, which do not materially differ from those of the Supervisor.

D. Composition - consolidated[3]

	December 31, 2021				
	Book	Fair value			
	value	Level 1[1]	Level 2[1]	Level 3[1]	Total
	in NIS millions				
Financial assets					
Cash and deposits with banks	59,638	26,791	-	32,778	59,569
Securities[2]	43,869	29,142	13,577	1,330	44,049
Securities borrowed or purchased under agreements to resell	1,207	-	-	1,207	1,207
Net credit to the public	213,156	4,077	-	211,797	215,874
Credit to Governments	2,664	-	-	2,712	2,712
Assets in respect of derivative instruments	5,522	556	3,500	1,466	5,522
Other financial assets	1,686	105	7	1,574	1,686
Total financial assets	**[3]327,742**	**60,671**	**17,084**	**252,864**	**330,619**
Financial liabilities					
Deposits from the public	260,907	31,483	187,556	42,415	261,454
Deposits from banks	12,534	205	1,700	10,581	12,486
Deposits from the Government	346	-	264	85	349
Securities lent or sold under agreements to repurchase	-	-	-	-	-
Bonds and Subordinated debt notes	15,071	14,294	480	768	15,542
Liabilities in respect of derivative instruments	6,323	555	5,287	481	6,323
Other financial liabilities [4]	13,783	1,228	5	12,550	13,783
Total financial liabilities	**[3]308,964**	**47,765**	**195,292**	**66,880**	**309,937**
Off-balance sheet financial instruments					
Transactions in which the balance represents credit risk	139	-	-	139	139

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 12.

(3) Of which: assets and liabilities in the amount of NIS 71,032 million and NIS 171,083 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 sections B and C below.

(4) Not including liabilities in respect of leasing.

34. Balances and Fair Value Estimates of Financial Instruments (continued)

D. Composition - consolidated[3] (continued)

	December 31, 2020				
	Book	Fair value			
	value	Level 1[1]	Level 2[1]	Level 3[1]	Total
	in NIS millions				
Financial assets					
Cash and deposits with banks	42,936	16,716	-	26,163	42,879
Securities[2]	42,785	27,884	14,211	1,000	43,095
Securities borrowed or purchased under agreements to resell	1,074	-	-	1,074	1,074
Net credit to the public	188,718	2,387	-	187,121	189,508
Credit to Governments	3,473	-	-	3,459	3,459
Assets in respect of derivative instruments	6,400	340	4,600	1,460	6,400
Other financial assets	1,701	7	10	1,684	1,701
Total financial assets	**[3]287,087**	**47,334**	**18,821**	**221,961**	**288,116**
Financial liabilities					
Deposits from the public	226,118	25,593	164,914	36,224	226,731
Deposits from banks	13,107	[5]1,856	[5]4,771	6,435	13,062
Deposits from the Government	344	-	252	97	349
Securities lent or sold under agreements to repurchase	161	-	-	161	161
Bonds and Subordinated debt notes	10,201	9,211	59	1,247	10,517
Liabilities in respect of derivative instruments	7,365	340	6,710	315	7,365
Other financial liabilities [4]	12,224	821	10	11,393	12,224
Total financial liabilities	**[3]269,520**	**37,821**	**176,716**	**55,872**	**270,409**
Off-balance sheet financial instruments					
Transactions in which the balance represents credit risk	121	-	-	121	121

Footnotes:

(1) Level 1 - fair value measurements using quoted prices in an active market. Level 2 - fair value measurements using other significant observable inputs. Level 3 - fair value measurements using significant unobservable inputs.

(2) For further details of the stated balance sheet amount and the fair value of securities, see Note 12.

(3) Of which: assets and liabilities in the amount of NIS 62,418 million and NIS 145,027 million, respectively, the stated balance sheet amounts of which are identical to their fair value (instruments stated in the balance sheet at their fair value). For additional information regarding instruments measured at fair value on a recurrent basis and on a non-recurrent basis, see sections B and C below.

(4) Not including liabilities in respect of leasing.

(5) Reclassified - Improvement in the calculation of the data.

34. Balances and Fair Value Estimates of Financial Instruments (continued)

E. Items measured at fair value - consolidated

1. Items measured at fair value on a recurring basis

	December 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	15,585	2,162	-	-	17,747
Foreign Governments bonds	3,423	109	-	-	3,532
Israeli financial institutions bonds	111	11	-	-	122
Foreign financial institutions bonds	-	517	-	-	517
Bonds backed by assets (ABS) or by mortgage (MBS)	1	6,581	-	-	6,582
Bonds of others in Israel	399	134	-	-	533
Bonds of others abroad	-	1,994	-	-	1,994
Shares not for trading	283	-	-	-	283
Total available-for-sale bonds and shares not for trading	**19,802**	**11,508**	**-**	**-**	**31,310**
Trading Securities					
Israeli Government bonds	623	314	-	-	937
Foreign Governments bonds	48	-	-	-	48
Israeli financial institutions bonds	-	-	-	-	-
Foreign financial institutions bonds	-	-	-	-	-
Bonds backed by assets (ABS) or by mortgage (MBS)	-	21	-	-	21
Bonds of others in Israel	20	-	-	-	20
Bonds of others abroad	-	-	-	-	-
Trading Shares	2	4	-	-	6
Total trading securities	**693**	**339**	**-**	**-**	**1,032**
Credit to the public in respect of securities loaned	4,077	-	-	-	4,077
Assets in respect of derivative instruments					
Shekel/CPI Interest Rate Contracts	-	-	273	-	273
Other Interest Rate Contracts	-	1,465	125	-	1,590
Foreign Currency Contracts	10	2,023	1,068	-	3,101
Shares Contracts	546	12	-	-	558
Commodity and other Contracts	-	-	-	-	-
Total assets in respect of derivative instruments	556	3,500	1,466	-	5,522
Other	-	7	-	-	7
Assets in respect of the "Maof" market operations	105	-	-	-	105
Total assets	**25,233**	**15,354**	**1,466**	**-**	**42,053**
Liabilities					
Deposits from the public in respect of securities borrowed	1,988	-	-	-	1,988
Deposits from banks in respect of securities borrowed	137	-	-	-	137
CLN deposits	-	-	10	-	10
Liabilities in respect of derivative instruments					
Shekel/CPI Interest Rate Contracts	-	-	240	-	240
Other Interest Rate Contracts	-	1,636	-	-	1,636
Foreign Currency Contracts	9	3,643	241	-	3,893
Shares Contracts	546	8	-	-	554
Commodity and other Contracts	-	-	-	-	-
Total liabilities in respect of derivative instruments	555	5,287	481	-	6,323
Other	-	5	-	-	5
Commitments in respect of the "Maof" market operations	105	-	-	-	105
Short sales of securities	1,123	-	-	-	1,123
Total liabilities	**3,908**	**5,292**	**491**	**-**	**9,691**

34. Balances and Fair Value Estimates of Financial Instruments (continued)

E. Items measured at fair value – consolidated (continued)

1. Items measured at fair value on a recurring basis (continued)

	December 31, 2020				
	Fair value measurements using -				
	Quoted prices in an active market (level 1)	Other significant observable inputs (level 2)	Significant unobservable inputs (level 3)	Influence of deduction agreements	Total fair value
	In NIS millions				
Assets					
Available-for-sale bonds and shares not for trading					
Israeli Government bonds	17,925	3,284	-	-	21,209
Foreign Governments bonds	772	64	-	-	836
Israeli financial institutions bonds	110	28	-	-	138
Foreign financial institutions bonds	-	475	-	-	475
Bonds backed by assets (ABS) or by mortgage (MBS)	1	7,798	-	-	7,799
Bonds of others in Israel	256	123	-	-	379
Bonds of others abroad	-	1,797	-	-	1,797
Shares not for trading	79	13	-	-	92
Total available-for-sale bonds and shares not for trading	**19,143**	**13,582**	**-**	**-**	**32,725**
Trading Securities					
Of the Israeli Government	852	205	-	-	1,057
Of foreign governments	26	-	-	-	26
Of Israeli financial institutions	-	-	-	-	-
Of foreign financial institutions	-	-	-	-	-
Mortgage-backed-securities (MBS) or Assets -backed-securities (ABS)	-	40	-	-	40
Of others in Israel	12	1	-	-	13
Of others abroad	-	-	-	-	-
Shares	1	-	-	-	1
Total trading securities	**891**	**246**	**-**	**-**	**1,137**
Credit to the public in respect of securities loaned	2,387	-	-	-	2,387
Assets in respect of derivative instruments					
Shekel/CPI Interest Rate Contracts	-	-	246	-	246
Other Interest Rate Contracts	-	2,279	248	-	2,527
Foreign Currency Contracts	38	2,241	929	-	3,208
Shares Contracts	302	40	-	-	342
Commodity and other Contracts	-	40	37	-	77
Total assets in respect of derivative instruments	340	4,600	1,460	-	6,400
Other	-	10	-	-	10
Assets in respect of the "Maof" market operations	7	-	-	-	7
Total assets	**22,768**	**18,438**	**1,460**	**-**	**42,666**
Liabilities					
Deposits from the public in respect of securities borrowed	1,718	-	-	-	1,718
Deposits from banks in respect of securities borrowed	190	-	-	-	190
CLN deposits	-	-	31	-	31
Liabilities in respect of derivative instruments					
Shekel/CPI Interest Rate Contracts	-	-	168	-	168
Other Interest Rate Contracts	-	2,765	-	-	2,765
Foreign Currency Contracts	38	3,838	147	-	4,023
Shares Contracts	302	33	-	-	335
Commodity and other Contracts	-	74	-	-	74
Total liabilities in respect of derivative instruments	340	6,710	315	-	7,365
Other	-	10	-	-	10
Commitments in respect of the "Maof" market operations	7	-	-	-	7
Short sales of securities	814	-	-	-	814
Total liabilities	**3,069**	**6,720**	**346**	**-**	**10,135**

34. Balances and Fair Value Estimates of Financial Instruments (continued)

E. Items measured at fair value – consolidated (continued)

2. Items measured according to fair value not on a recurring basis

	December 31, 2021				
	Level 1	Level 2	Level 3	Total fair value	Profit (Loss) for the year ended December 31, 2021
	In NIS millions				
Impaired credit the collection of which is collateral dependent	-	-	614	614	57
Not for trading shares	-	-	57	57	(33)

	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)

34. Balances and Fair Value Estimates of Financial Instruments (continued)

F. Changes in items measured at fair value on a recurring basis included in item 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 instruments held as at end of period
	in NIS millions							
	For the year ended December 31, 2021							
Net Assets (Liabilities) in respect of derivative instruments								
Shekel/CPI Interest Rate Contracts	78	[1](20)	-	(25)	-	-	33	[1](10)
Other Interest Rate Contracts	248	[1](60)	-	(62)	(4)	3	125	[1](60)
Foreign Currency Contracts	782	[1]374	(179)	(148)	2	(4)	827	[1]636
Commodity and other Contracts	37	[1]-	-	(37)	-	-	-	[1]-
Total	**1,145**	**294**	**(179)**	**(272)**	**(2)**	**(1)**	**985**	**566**
Liabilities								
CLN Deposits	(31)	[2](1)	-	22	-	-	(10)	[2](1)

	Fair value as at beginning of period							
	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 section "Non-interest financing income".

(2) Included in the statement of profit and loss in the section "Interest income and expenses".

34. Balances and Fair Value Estimates of Financial Instruments (continued)

G. Transfers between hierarchy levels of fair value

Transfers to or from level 3 were made in 2020 and 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.

H. 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

	Fair value as at December 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	614	Discounted cash flow, assessments and evaluation	Discount rate, real estate market inputs	
Not for trading shares	57	Evaluation	Company value	
B. Items measured at fair value on a recurring basis				
Net Assets in respect of derivative instruments				
Shekel/CPI Interest Rate Contracts	33	Discounted cash flow	Inflationary expectations	From 1.62% to 3.66% (2.49)
			Counterparty credit risk (CVA)	From 0.00% to 6.65% (4.68)
Other Interest Rate Contracts	125	Discounted cash flow	Counterparty credit risk (CVA)	From 0.00% to 0.46% (0.12)
Foreign Currency Contracts	827	Discounted cash flow	Inflationary expectations	From 1.62% to 3.66% (2.50)
		Discounted cash flow, Models for the pricing of options.	Counterparty credit risk (CVA)	From 0.00% to 58.03% (0.38)
Liabilities				
CLN Deposits	10	Discounted cash flow	Credit risk of the underlying asset	

34. Balances and Fair Value Estimates of Financial Instruments (continued)

H. 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

	Fair value as at December 31, 2020	Valuation Techniques	Unobservable inputs	Range (Weighted Average)				
	In NIS millions			In %				
A. Items measured at fair value not on a recurring basis								
Impaired credit the collection of which is collateral dependent	692	Discounted cash flow, assessments and evaluation	Discount rate, real estate market inputs					
Not for trading shares	94	Evaluation	Company value					
B. Items measured at fair value on a recurring basis								
Net Assets in respect of derivative instruments								
Shekel/CPI Interest Rate Contracts	78	Discounted cash flow	The interest curve in the CPI linked segment	From	-4.74%	to	1.31%	(0.68%)
			Counterparty credit risk (CVA)	From	0.00%	to	3.16%	(1.00%)
Other Interest Rate Contracts	248	Discounted cash flow	Counterparty credit risk (CVA)	From	0.00%	to	1.81%	(0.01%)
Foreign Currency Contracts	782	Discounted cash flow	The interest curve in the CPI linked segment	From	-4.74%	to	1.31%	(0.83%)
		Discounted cash flow, Models for the pricing of options.	Counterparty credit risk (CVA)	From	0.00%	to	91.65%	(0.20%)
Commodities and other contracts	37	Rating model	Counterparty credit risk (CVA)	From	0.00%	to	0.00%	(0.00%)
Liabilities								
CLN Deposits	31	Discounted cash flow	Credit risk of the underlying asset					

2. Qualitative information regarding the measurement of fair value at level 3

Significant unobservable inputs, which were used to measure the fair value of derivative financial instruments, are the interest graph in the CPI linked segment, and adjustments regarding counterparty credit risk (CVA). In as much as the interest graph rises (falls) and the Bank commits to pay the index-linked amount, so the fair value rises (falls). In 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.

35. Related and Interested Parties of the Bank and its Consolidated Subsidiaries

A. Balances

	December 31, 2021													
	Interested parties[1]										Related parties			
	Shareholders										Held by the Bank[1]			
	Controlling Shareholders[2]		Other[3]		Officers[4]		Others[6][7]		Whoever was an interested party at date of the transaction		Associates[8]		Others[9]	
	(10)	(11)	(10)	(11)	(10)	(11)	(10)	(11)	(10)	(11)	(10)	(11)	(10)	(11)
	in NIS millions													
Assets:														
Deposits with banks	-	-	-	-	-	-	-	-	-	-	-	-	12	40
Securities[12]	-	-	-	-	-	-	-	-	-	-	-	-	448	448
Credit to the public	-	-	-	-	6	8	731	748			251	271	749	769
Provision for credit losses	-	-	-	-	-	-	(4)	(4)	-	-	(1)	(1)	(20)	(23)
Net credit to the public	-	-	-	-	6	8	727	744			250	270	729	746
Investments in associates[12]	-	-	-	-	-	-	-	-	-	-	462	462	-	-
Other assets	-	-	-	-	-	-	55	136	-	-	-	-	27	28
Liabilities:														
Deposits from the public	-	-	-	-	13	14	5,615	6,318	-	-	45	72	465	689
Deposits from banks	-	-	-	-	-	-	-	-	-	-	-	-	92	593
Subordinated debt notes	-	-	19	20	-	-	341	395	-	-	-	-	21	21
Other liabilities	-	-	805	916	36	36	1,704	2,342	-	-	19	25	820	1,025
Shares (included in equity)[13]	-	-	5,996	5,996	-	-	-	-	-	-	-	-	-	-
Credit risk in off-balance sheet financial instruments[12][14]	-	-	5	5	12	13	327	327	-	-	4	4	668	704

35. Related and Interested Parties of the Bank and its Consolidated Subsidiaries (continued)

A. Balances (continued)

	December 31, 2020													
	Interested parties[1]										Related parties			
	Shareholders										Held by the Bank[1]			
	Controlling Shareholders[2]		Other[3]		Officers[4]		Others[6][7]		Whoever was an interested party at date of the transaction		Associates[8]		Others[9]	
	[10]	[11]	[10]	[11]	[10]	[11]	[10]	[11]	[10]	[11]	[10]	[11]	[10]	[11]
	in NIS millions													
Assets:														
Deposits with banks	-	-	-	-	-	-	-	-	-	-	-	-	9	9
Securities	-	-	-	-	-	-	-	3	-	-	-	-	480	480
Credit to the public	-	-	-	-	[18]9	[18]9	[18]348	[18]402	110	115	247	261	565	668
Provision for credit losses	-	-	-	-	-	-	(2)	(2)	(1)	(1)	(1)	(1)	(23)	(24)
Net credit to the public	-	-	-	-	9	9	346	400	109	114	246	260	542	644
Investments in associates[12]	-	-	-	-	-	-	-	-	-	-	348	348	-	-
Other assets	-	-	-	-	-	-	231	291	-	-	-	25	53	59
Liabilities:														
Deposits from the public	-	-	42	55	[18]18	[18]22	[18]4,087	[18]4,594	-	-	28	85	283	425
Deposits from banks	-	-	-	-	-	-	-	-	-	-	-	-	500	500
Subordinated debt notes	-	-	19	20	-	-	398	442	-	-	-	-	-	-
Other liabilities	-	-	696	696	23	23	1,743	1,743	-	-	23	23	78	84
Shares (included in equity)[13]	-	-	6,313	6,313	-	-	-	-	-	-	-	-	-	-
Credit risk in off-balance sheet financial instruments[12][14]	-	-	1	1	[18] 6	[18] 6	[18] 171	[18] 276	-	-	8	137	345	457

For notes to the tables see after section D.

35. Related and Interested Parties of the Bank and its Consolidated Subsidiaries (continued)

B. Summarized results of transactions with related and interested parties

	Interested parties[1]				Related parties[1]	
	Shareholders				Held by the Bank	
	Controlling Shareholders[2]	Other[3][16]	Officers[4]	Others[6][7][16]	[8]Associates	Others[9]
	in NIS millions					
	For the year ended December 31, 2021					
Net interest income (expenses) (See section D)	-	(2)	-	(33)	8	14
credit loss income (expenses)	-	-	-	(2)	-	6
Non-interest income (expenses)	-	26	-	[15](299)	24	94
Operating and other expenses (See section C)	-	-	(44)	(23)	(12)	(49)
Total	**-**	**24**	**(44)**	**(357)**	**20**	**65**
	For the year ended December 31, 2020					
Net interest income (expenses) (See section D)	-	(1)	-	(22)	3	5
credit loss expenses	-	-	-	(1)	(1)	(20)
Non-interest income	-	19	-	[15]202	58	134
Operating and other expenses (See section C)	-	-	(36)	(32)	(13)	(35)
Total	**-**	**18**	**(36)**	**147**	**47**	**84**
	For the year ended December 31, 2019					
Net interest income (expenses) (See section D)	-	4	-	(10)	8	1
credit loss expenses	-	-	-	-	(1)	(1)
Non-interest income	-	14	-	[15]60	12	77
Operating and other expenses (See section C)	-	-	(40)	(14)	(13)	(35)
Total	**-**	**18**	**(40)**	**36**	**6**	**42**

For notes to the tables see after section D.

C. Remuneration and any other benefit to interested parties (from the banking corporation and from investee companies)

	For the year ended December 31					
	2021		2020		2019	
	Officers[4]		Officers[4]		Officers[4]	
	Total benefit[16]	Number of benefit Recipients	Total benefit[16]	Number of benefit Recipients	Total benefit[16]	Number of benefit Recipients
	in NIS millions					
Interested parties employed by the Bank or on its behalf[17]	39	16	31	16	33	16
Directors who are not employed by the Bank or on its behalf	6	9	5	9	7	9
Total	**45**	**25**	**36**	**25**	**40**	**25**

For notes to the tables see after section D.

35. Related and Interested Parties of the Bank and its Consolidated Subsidiaries (continued)

D. Net interest income, in transactions of the Bank and its consolidated subsidiaries with related and interested parties(18)

	Consolidated			Of which from Associates		
	2021	2020	2019	2021	2020	2019
	in NIS millions					
A. On assets						
Credit to the public	29	14	21	8	3	8
Total	**29**	**14**	**21**	**8**	**3**	**8**
B. On liabilities						
Deposits from the public	(15)	(10)	(11)	-	-	-
Deposits from the banks	(2)	(3)	(4)	-	-	-
Subordinated capital notes	(25)	(16)	(3)	-	-	-
Total	**(42)**	**(29)**	**(18)**	**-**	**-**	**-**
Total Net interest income	**(13)**	**(15)**	**3**	**8**	**3**	**8**

Footnotes: relating to sections A, B, C & D:
(1) Interestee party, related party - as defined in section 80 d of the public Reporting Directives.
(2) Controlling shareholder and their relatives – in accordance with section 80 d (1) of the public Reporting Directives.
(3) Other shareholders including whoever holds 5% or more of the means of control of a banking corporation or whoever is entitled to appoint one director or more of the directors or the president & CEO in accordance with item 80 d (2) of the public Reporting Directive.
(4) Officers - in accordance with item 80 d (3) of the public Reporting Directives.
(5) As regards the engagement terms see section O below
(6) in accordance with section 80 d (4) of the public Reporting Directives.
(7) In respect of corporations, where a person or a corporation included in one of the groups of interested parties, as above, according to the Securities Act, holds 25% or more of their issued share capital or of the voting therein, or which is entitled to appoint 25% or more of the directors thereof.
(8) Associates - in accordance with section 80 d (7) of the public Reporting Directives.
(9) in accordance with section 80 d (8) of the public Reporting Directives.
(10) The balance at balance sheet date.
(11) The highest balance during the year on the basis of month-end balances.
(12) Details of these section are included also in Securities - Note 12, Investments in Investee Companies - Note 15 and guarantees Note 26.
(13) Holdings of interested parties and of related parties in the equity of the banking corporation.
(14) Credit risks in off-balance sheet financial instruments as computed for restrictions on the indebtedness of borrowers.
(15) stemming mainly from derivative financial instruments activity and Clearing commissions.
(16) The amounts of the remuneration do not include payroll tax.
(17) Including the officiating Chairman of the Board (see section F below)
(18) Reclassified – improvement of data.

E. (1) On December 3, 2013 the Bank became a bank with no core controlling interest.

(2) During 2018-2021, a number of entities managing customer funds became interested parties in the Bank, following the policy of the Bank of Israel in the matter of the granting of a bank holding permit to entities managing customer funds. It is noted that in accordance with the Proper Conduct of Banking Business Directive No. 312 in the matter of "related parties", entities which had obtained a holding permit in accordance with the said policy, who hold means of control of the Bank of a rate that does not exceed 7.5%, have been removed from the definition of "related party", and accordingly, transactions of a banking corporation with such entities does not require approval in accordance with the said Directive.

F. Remuneration for the officiating Chairman of the Board and the officiating President & CEO

Remuneration for the officiating Chairman of the Board. The officiating Chairman of the Board of Directors took office as Chairman on December 3, 2018.

The Board of Directors decided on February 26, 2019, to accept the recommendation of the Remuneration Committee of February 12, 2019, and approve the terms of office of the Chairman, beginning with the date on which he takes office as Chairman of the Board of the Bank, and subject to the provisions of the law/regulation permitting such terms of office as stated:

1. Period of office - The terms of office apply as from December 3, 2018 and until the end of his period of office as Chairman of the Board (the Chairman ended his second period of office as Director on December 11, 2020, and was appointed to an additional period of office until December 11, 2023).
2. Scope of office - The scope of office is 100% position as an active Chairman of the Board and in accordance with the Bank's needs. The Chairman may not enter into any additional paid engagement, unless he receives in advance the consent of the Board of Directors.

35. Related and Interested Parties of the Bank and its Consolidated Subsidiaries (continued)

3. Services rendered by the Chairman of the Board of Directors - The Chairman shall provide his services against issue to the Bank of an invoice. The Chairman shall bear any tax and other compulsory payments under the law, applying to any payment or benefit received in accordance with his terms of office. Where required, VAT under the law will be added to any payment or right to which the Chairman is entitled in accordance with his terms of office.
4. The consideration – In respect of his services as Chairman of the Board, the Chairman shall be entitled to annual consideration in the amount of NIS 2,425 thousand, linked to the CPI, with the addition of VAT under the law ("the annual consideration").
5. Deposits with severance pay and provident funds - In addition to the annual consideration, as stated, the Bank shall pay to the Chairman additional amounts, with the addition of VAT under the law, in lieu of severance pay, provident contributions and loss of work ability compensation, against the deposit thereof by the Chairman in Funds, so that the total of the comprehensive annual remuneration payable to the Chairman, including deposits with severance pay and provident funds, would amount to NIS 2,796 thousand (linked to the CPI).
6. Additional terms – The Chairman shall be entitled to an appropriate motor vehicle or to reimbursement of expenses in respect of use of his private vehicle and/or to telephone expenses and/or to benefits and other terms respecting his duties as Chairman of the Board, all as is the accepted practice at the Bank, and provided that the total annual cost to the Bank in respect of the terms of office shall not exceed the annual consideration (not including deposits with severance compensation and provident funds).
7. Expenses – The Chairman shall be entitled to the reimbursement of reasonable expenses incurred by him in the fulfillment of his duties, in accordance with the accepted practice at the Bank.
8. Additional rights - The Chairman shall continue to be entitled to exemption from the duty of care, to officer liability insurance and to an advance commitment for indemnification, as is the practice regarding officers of the Bank.
9. Additional duties - The Chairman is committed to a non-competition and a "cooling-off" period of six months since the date of termination of office and to the maintaining of confidentiality for an unlimited period.

On April 3, 2019, the general meeting of the Bank’s shareholders approved the aforesaid terms of office and the revision of the remuneration policy for officers accordingly. This, subject to the provisions of the law/regulation permitting such terms of office as stated.

The terms determined in the decision of the General Meeting of Shareholders regarding the entry into effect of the terms of office and employment, as stated above, were fulfilled on July 29, 2019, including the approval by the Supervisor of Banks and the terms stated by her (hereinafter: "date of entry into effect of the terms of office").

Until date of entry into effect of the terms of office, the Chairman of the Board continued to receive remuneration as a regular Director, in accordance with the Companies Regulations (Rules regarding remuneration and reimbursement of expenses to an external Director), 2000, and with the Bank's remuneration policy. Following the entry into effect of the terms of office, the Chairman of the Board received the remuneration to which he is entitled since date of the beginning of his office, net of the amounts that had been received by him as Director's remuneration, as stated.

Updating of the terms of office of the acting Chairman of the Board. Within the framework of the discussions regarding the remuneration policy for officers, and within the framework of the examination of all aspects relating to remuneration at the Bank, while making a comparative examination of the practice existing in the banking sector. On March 18, 2020, following approval by the Remuneration Committee and by the Bank's Board of Directors, the Bank's General Meeting of Shareholders approved the updating of the terms of office of the Chairman, as follows:

(1) In respect of the undertaking by the Chairman for a non-competition period, including his undertaking not to act during the non-competition period as Director of or provide services or consultation to a banking or financial institution, which is a significant competitor of the Bank, the Chairman of the Board would be entitled to a non-competition payment in an amount equal to one half of the total annual remuneration applicable to the office of the Chairman. The said payment in respect of non-competition would be paid at the end of the non-competition period, subject to compliance by the Chairman with his undertaking for a non-competition period.

35. Related and Interested Parties of the Bank and its Consolidated Subsidiaries (continued)

(2) To the extent that the permitted maximum level under the Remuneration Act, including Section 2(b) to the Act, with the averaging of the awards granted to employees of the lowest remuneration level, shall increase in relation to the maximum level applying at date of approval for the first time of the terms of office of the Chairman by the general meeting of shareholders, which amounted to approx. NIS 3,010 thousands (which does not include payments and provisions for pension and severance pay in accordance with the Law) – the amount of the annual remuneration and the amount of deposits with severance pay and provident funds as stated in the terms of office of the Chairman, shall increase pro-rata with the rate of increase of the existing maximum level.

Terms of office and employment of the President & CEO acting in the interim period. In accordance with the provisions of Regulation 1B4 of the Companies Regulations (Relief regarding transactions with interested parties), 2000, the Remuneration Committee and the Board of Directors approved the terms of office and employment of the acting President & CEO, since the beginning of his appointment (December 2, 2019) and until date on which the Bank's general meeting of shareholders which is convened for March 18, 2020, the Agenda of which includes a proposed resolution to approve the terms of office and employment of the acting President & CEO (hereinafter: "the interim period"), stating that the terms of office and employment during the interim period are not more beneficial in comparison with the terms of office and employment of the former President & CEO.

Terms of office and engagement of the President & CEO. A special General Meeting of Shareholders held on March 18, 2020, resolved to approve the terms of office and engagement of the President & CEO, applying as from December 2, 2019, with the Bank and the President & CEO settling the account regarding the amounts paid to him in the interim period until date of approval by the Bank's General Meeting of Shareholders, as compared with amounts according to the terms of office and engagement detailed below, including by way of offsetting.

The terms of engagement had been formed in accordance with the Remuneration Act, the Bank's remuneration policy, the Companies Act and Directive No. 301A. The President & CEO is engaged in a fulltime position and is not entitled to engage in any additional paid occupation, unless he had obtained in advance the consent of the Board of Directors. The terms of engagement of the President & CEO are in effect for an indeterminate period, each party having the right to inform the other party of the termination of the engagement, which would take place at least six months following the date of the said notice (hereinafter: "the advance notice period"). During the advance notice period, the President & CEO will continue to perform his duties in a full and proper manner, unless the Bank decides to forego his work in effect during the advance notice period, in whole or in part, continuously or intermittently. To the extent that the President & CEO continues to work during the advance notice period, he would be entitled to the monthly salary and to the related benefits in accordance with the terms of engagement. In the event that the Bank decides not to continue engaging the President & CEO during the advance notice period, he would be paid the total amount of the remuneration due for the advance notice period, to which he would have been entitled if he would have continued in office as President & CEO until the end of the advance notice period.

In consideration for the fulfillment of his duties, the President & CEO is entitled to a monthly salary of NIS 225,000, gross. The monthly salary is linked to the rise in the CPI, as determined by the engagement terms. At his discretion, the President & CEO may request that his monthly salary would be updated, subject to required changes and adjustments to the related benefits, in whole or in part, as stated in the engagement terms, so that an increase or decrease in his monthly salary, as the case may be, shall come on account of a parallel increase or decrease, as the case may be, in the related benefits, and vice versa, and subject to any law and to no change occurring in the maximum amount of the fixed remuneration. As of date of approval of the engagement terms, the maximum fixed annual remuneration of the President & CEO is the amount of NIS 2,802 thousand per year, excluding payments and provisions made by the Bank in respect of severance pay, provident fund and loss of work ability, as required by law. The maximum amount of the fixed amount of the remuneration is linked to the CPI.

The President & CEO is entitled to paid vacation days (with no accumulation save as detailed below), sick leave, recreation, a suitable motor vehicle, social benefits (pension/managers' insurance arrangements, provident and/or pension funds, including provident; further education fund, loss of work ability insurance), reimbursement of certain expenses and additional benefits. At the end of his tenure of office for whatever reason, the President & CEO would be entitled to severance pay on the basis of his most recent monthly salary, or to the funds and rights accumulated in his favor according to the pension arrangement, the higher amount of the two. The President & CEO is entitled to request to make changes in the related benefits, as stated above, and everything subject to changes and adjustments in other related benefits, as stated, where required, and subject to the maximum fixed amount of remuneration.

35. Related and Interested Parties of the Bank and its Consolidated Subsidiaries (continued)

The Bank may be entitled to require the President & CEO to abide by a cooling-off and no competition period of up to six months following the date of termination of his office, in a way that he would not be engaged or provide services to a banking corporation or to a financial institution, which is a significant competitor of the Bank.

Subject to compliance with the minimum conditions determined by the remuneration policy for officers with respect to return on equity and capital adequacy ratios, the President & CEO would be entitled to an annual award dependent upon performance, of up to two monthly salaries, derived from the results of the Bank according to the group indices and the relating goals, as determined for that year in respect of officers of the Bank, in accordance with the remuneration policy, as stated.

In addition, the Remuneration Committee and the Board of Directors are entitled to grant to the President & CEO a qualitative annual award, not to exceed three monthly salaries, if they find, at their discretion, that reasons exist justifying the granting of an annual award to the President & CEO, as stated, even though the conditions for the granting of an annual award dependent on performance had not been attained. Entitlement to the said awards is subject to the fact that the permitted maximum amount according to the Remuneration Act (including Section 2(b) of the Act), averaged by the awards granted to employees receiving the lowest amount of remuneration, permits the payment of such an award, and the amount of the award would be cut down to the permitted level of the maximum amount, as stated.

In November 2020, the Bank's Remuneration Committee approved an immaterial change in the terms of engagement of the President & CEO, in accordance with Section 272(d) of the Companies Act, permitting the President & CEO to accumulate vacation days unutilized by him in 2020, so that they would be redeemable at the end of his engagement period or during that period. The Committee considers that this change agrees with the parameters determined by the Bank's remuneration policy regarding an immaterial change, and that it does not lead to a deviation from the maximum level of the total remuneration permitted in the case of the President & CEO according to the Remuneration Act.

The annual award in respect of 2021. In respect of the year 2021, and in accordance with the terms of office and employment of the President & CEO, as detailed above, The President & CEO was entitled to an annual award in respect of the year 2021 equal to two monthly salaries. However, in view of the maximum amount permitted by the Remuneration Act (including Section 2(b) of the Act), the award has been reduced to an amount of NIS 211 thousand, comprising approx. 0.9 monthly salaries.

G. Awards to the former President & CEO

Terms of office and engagement of the former President & CEO. The Annual General Meeting of Shareholders held on November 8, 2016, resolved to approve the terms of office and engagement of the former President & CEO, for a period of five years as from October 12, 2016. The said terms of office and employment, replaced the terms of office and employment as approved by the General Meeting of Shareholders held on January 17, 2014 (hereunder: "the original agreement"). The terms of service and employment of the former President & CEO were described in Note 35 F to the financial statements as of December 31, 2020.

Awards to the former President & CEO. In accordance with the terms of the original agreement, the former President & CEO, among other things, was entitled to an annual award, a current award and to special awards. The awards to which the former President & CEO was entitled were described in Note 35 G to the financial statements as of December 31, 2020.

The annual award in respect of 2019. The Remuneration Committee and the Board of Directors approved the payment to her of an annual award in respect of the year 2019 of NIS 540 thousand, comprising three monthly salaries. This, in accordance with the remuneration policy and the terms of office and employment of the President & CEO, following findings showing existence of the factors justifying the granting of an annual award, as stated. The amount of the deferred installment that was payed to the former President & CEO proximate to the date of publication of the financial statements for 2019, totals NIS 559 thousand (as of December 31, 2019) and it includes a component of linkage to the relevant share data as of that date, as determined in the original engagement agreement with the President & CEO.

H. The Bank has a commitment to pay directly to subordinated debt notes holders of the consolidated subsidiary Manpikim Discount Bank Issues Corporation Ltd. upon the debentures' maturity, the amounts of the principal plus accrued interest and linkage differentials. The undertaking is in respect of the repayment of subordinated debt notes, the proceeds of which were deposited with the Bank. The said liability, as at December 31, 2021, amounted to NIS 10,176 million (as at December 31, 2020 – NIS 5,248 million).

I. The Bank and Mercantile Discount Bank have commitments towards the Tel-Aviv Stock Exchange and towards the "Ma'of" clearing house as mentioned in Note 26 C 3 and Note 26 C 4.

J. Investee companies of the Bank are included in the framework of the undertaking granted by the Bank to International VISA Organization and MasterCard Worldwide organization as stated in Note 26 C 8 sections a and b.

35. Related and Interested Parties of the Bank and its Consolidated Subsidiaries (continued)

K. As to indemnification for interested and related parties and for details as to arrangements for insurance, exemption and indemnification of Directors at the Bank or persons appointed by the Bank as Directors of certain subsidiaries, see Note 26 C 6, sections J-O and section O below.

L. **Remuneration of expert directors.** Following approval by the Remuneration Committee, the Board of Directors approved on May 16, 2018, the payment of annual remuneration and remuneration for participation in meetings to external directors and other directors officiating and who would officiate at the Bank (excluding the Chairman of then Board), and who are expert directors, as defined in the Remuneration Regulations, in an amount that does not exceed the "maximum amount for an external expert director" stated in the fourth addendum to the Companies Regulations (Rules regarding remuneration and expenses payable to an external director), 2000, in accordance with the grade of the Bank (hereinafter: "the updated remuneration"). A director who is not an expert director shall continue to receive annual remuneration and remuneration for participation in meetings, as stated in Note 35 L to the financial statements as of December 31, 2017.

The said updated remuneration shall be paid to an expert director, as stated, starting with the date of beginning of office of a new external director at the Bank, or the date of renewal of office of an officiating external director, the earlier of the two.

The said approval was granted in accordance with Regulation 1A of the Relief Regulations (Relief regarding transactions with interested parties), 2000.

M. **Terms of transactions with interested and related parties.** All business with interested and related parties including non-banking transactions (such as in the insurance field), has been transacted in the ordinary course of business and under terms similar to those of transactions with parties that are not related to the Bank and to its consolidated subsidiaries. Interest charged and interest paid in respect of balances with interested and related parties are at the regular rates at the ordinary course of business with parties that are not related to the Bank.

N. For details regarding the remuneration policy for officers of the Bank, see Note 23 D and E. For details regarding an award plan for members of Bank's Management and for the Internal Auditor (2017-2019), see Note 23 F. For details regarding an award plan for members of Bank's Management and for the Internal Auditor (2020-2022), see Note 23 G.

O. **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.

36. Credit Card Activity

A. Existing arrangements between the credit card companies and between such companies and the banks

1. **Arrangements between credit card companies – VISA Cards.** At the beginning of September 2001, ICC, The First International Bank ("FIBI"), Israel Discount Bank, Bank Leumi Le'Israel B.M. and Leumi Card (hereinafter together - "the appellants") filed motions with the Competition Tribunal for the approval of a binding arrangement between them, concerning the cross clearing of VISA cards. Over the years, the Tribunal has granted the Appellants provisional and temporary permits for the charging of issuer fees and commissions at agreed rates. Concurrently, the validity of the general exemption has been extended from time to time.

   A tri-party Cross Clearing agreement. On October 30, 2006, the Competition Commissioner (hereinafter: "the Commissioner"), the credit card companies and the banks owning the credit card companies entered into an agreement for the Cross Clearing of Visa and MasterCard credit cards (hereinafter: "the Agreement"). The agreement came into effect upon the granting of a provisional permit by the Competition Court. This agreement has been extended from time to time by the Tribunal.

   Amended cross clearing arrangement - reduction of the issuer commission rate. The Competition Tribunal approved on March 7, 2012 a new compromise arrangement, to which had been attached an amended cross clearing arrangement. The compromise agreement determines, among other things, that the issuer commission of 0.7% is the proper commission for the purpose of the compromise agreement and that the reduction of the issuer commission to 0.7% shall be applied gradually as detailed in the amended arrangement.

   The five stages, as detailed in the agreement, were implemented on the due dates. From July 1, 2014 and until the end of the agreement period (December 31, 2018), the issuer commission decreased and amounts as of December 31, 2018 to an average rate that did not exceed 0.7%.

   Local clearing exemption terms. On April 25, 2018, the Competition Commissioner published his decision to exempt, under certain terms, the cross clearing arrangement between the credit card companies. The cross clearing arrangement between the credit card companies was approved in March 2012 by the Competition Tribunal within the framework of a motion to approve a restrictive arrangement. The Tribunal adopted a compromise agreement that was drawn up at the time between the three credit card companies and the Commissioner ("the Amended Clearing Arrangement").

   In accordance with the provisions of the amended arrangement, the parties submitted a request on March 21, 2012 for exemption of the Operating Arrangement. The present exemption was granted until December 31, 2023, subject to the terms set out in the decision.

   Clearing exemption terms. The exemption's provisions apply both to the agreement in principle signed between the bank's and the credit card companies on May 9, 2007 and also to its appendices and to the changes thereto. A part of the exemption provisions apply also to a clearing agent who is not an issuer (or vice versa) who joins the agreement, thereby being considered a credit card company in accordance with the definition stated therein.

   New players becoming parties to the agreement in principle. Credit cards have to join to the agreement on an equal basis and at no cost. The credit card companies are to place at the disposal of a New Player all the information that it requires in order for it to become a party to the agreement and for it to operate thereunder, as well as perform reasonable adjustments, to the extent required so as to enable a New Player to become a party to the agreement and to operate in accordance with its provisions.

   Prohibition on market power being exploited by an issuer or by a clearing agent to the detriment of competitors. An issuer with Wide-Ranging Activity may not discriminate between clearing agents or between customers according to the identity of the clearing agent of the trading house at which the transaction was done, and may not take any action whose intention or likely consequence is such discrimination.

   A credit card company that is a clearing agent with Wide-Ranging Activity may not discriminate between issuer's and may not take any action whose intention or likely consequence is discrimination between issuers. The provision prescribes that differences in the terms of engagement resulting from differences in the payments that the clearing agent is required to make to the issuer by law for different types of transactions will not be deemed to be discrimination.

   A credit card company that is a clearing agent with Wide-Ranging Activity or an issuer with Wide-Ranging Activity may not link the clearing of transactions using debit cards at a trading house to an engagement with that trading house within the framework of its activity as an issuer.

36. Credit Card Activity (continued)

Prohibition on market power being utilized against a trading house. A prohibition on a credit card company being a party to an accord whose intention or likely consequence is to link the clearing of a debit card that is issued by a party to the agreement to the clearing of a debit card that is issued by an entity that is not a party to the agreement. In addition, a credit card company may not link different types of transactions that are conducted using debit cards that it clears.

Prohibiting a credit card company that is a clearing agent with Wide-Ranging Activity from being a party to accords with a trading house that prevent the trading house or that restrict the trading house from granting discounts to its customers, which depend on the payment means used by the customer.

The changes in the exemption decision. The main change in the new decision is the provision that requires daily clearing. In addition, the new terms contain also relief, which includes removal of the sweeping prohibition on exclusive agreements with a trading house and on the granting of designated discounts.

The granting of the exemption is conditional upon the transition to the daily clearing of deferred debit transactions. This condition became effective on July 1, 2021, and applies to a single payment transaction. In the case of such transactions, the issuer is required to transfer the consideration to the clearing agent no later than one day following the date of broadcast of the transaction by the trading house. This condition does not apply to installment transactions.

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% is implemented in stages, as follows:

- from January 1, 2019, through December 31, 2019, the issuer's fee stood at an average rate that did 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 stood at an average rate that did 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 is 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.

2. **Exemption for a restrictive agreement for the clearing of Isracard cards.** On May 14, 2012, IsraCard Ltd. and ICC signed a license agreement, according to which ICC has been granted a non-exclusive license for the clearing of IsraCard credit card transactions in Israel.

   On May 16, 2018, ICC received an exemption for a restrictive agreement for clearing Isracard cards, further to earlier exemptions granted in this matter. This exemption is granted following the extension of the agreement between ICC and Isracard with regard to clearing "Isracard" branded cards for a further two years, i.e. through May 15, 2020. In general, the exemption is granted for the period of the agreement, but should the parties extend the agreement without making any substantive changes thereto, the exemption will be valid through December 31, 2023. In May 2020, the parties signed the extension of the agreement until December 31, 2023.

3. **A joint issuance agreement between ICC and FIBI.** On December 29, 2020, ICC and FIBI signed a joint credit cards issuing agreement for customers of the bank. The agreement anchors the parties' obligations and rights in connection with the issuing of credit cards and the considerations to which the parties are entitled from the joint issuing operations. The agreement states, among other things, a compensation mechanism based on the volume of cards being issued. This agreement replaces previous agreements that were signed between the parties and will be valid until December 31, 2024. The agreement will be automatically renewed for additional periods of two years each.

36. Credit Card Activity (continued)

A joint issuance agreement between ICC and Discount Bank. On June 13, 2019, ICC and the Bank signed an agreement for the joint issuance of brand name charge cards of "VISA" and "MasterCard", to be operated by ICC. At the same date, Diners signed an agreement for the joint issuance of brand name charge cards of "Diners", to be operated by it. The agreements include, inter alia, mechanisms for the distribution of income, which take effect retroactively as from January 1, 2019, as well as a compensation mechanism for the Bank in respect of attainment of goals. The validity of these agreements is in effect until December 31, 2022. Under certain circumstances of a reduction in the rate of holdings of the Bank in the company, the Bank would be entitled to notify the company of the termination of the agreement, and the agreement will be terminated at the end of six month from the date of the Bank's notice. On February 29, 2020, ICC, Diners and MDB signed agreements for the joint issuance of charge cards. These agreements are valid until December 31, 2022.

4. **Issuance agreements with banks participating in the arrangement.** ICC is engaged with most banks in Israel by agreements for the joint issuance and operation of the issue of charge cards. In accordance with these agreements, ICC and/or the bank issue charge cards to customers of that bank, the operation of which would be performed by ICC. According to the agreements, a mechanism was determined for the distribution of income between ICC and the banks in respect of the card operation (including: income derived from transaction in Israel and abroad, and service commission charged to card holders). Also determined are the operation fees to which ICC would be entitled in respect of certain operations, such as extending bank credit by means of the card. Under certain of the agreements the bank enjoys an increase in its share of the income based on the volume of the joint operations and/or the quantity of cards issued in accordance with the agreement. Moreover, certain of the agreements include awards dependent on attainment of goals.

The banks were awarded the exclusive discretion regarding the issue of the credit card, its cancellation, suspension, the number of credit cards to be issued (with no commitment for a minimum number of cards), including the amount of the credit facility and the interest rates charged. Among other things, the agreements also state that the banks would be responsible for everything related to credit risk, while ICC on its part would be responsible for risks of misuse of the credit card by the customer (excluding exceptional cases as stated in the agreements). The agreements further regularize the manner of use of information derived from the use of credit cards and the ownership of the said information, as well as the manner of management of the commercial relations with the credit organizations.

The agreements are signed for a period of several years and certain of them contain provisions regarding the extension thereof for an additional period.

B. 1. **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.

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. In accordance with the law, a period of two year began on February 1, 2021, ending on February 1, 2023, during which the Minister of Finance may order ICC to be separated from the banks that currently own it. To the best knowledge of the Bank, the matter is being examined by the relevant factors.

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), then, competition had intensified between the companies in the transitional period determined in the Act. 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 this context, it should be mentioned that the transitional period ended in January and February 2022, with respect to Discount Bank and Bank Leumi, respectively, and is expected to end in April 2022, with respect to Bank Hapoalim. In the era following the entry into effect of the new Act, and now again, with the ending of the transitional period, 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.

36. Credit Card Activity (continued)

The additional tax that may apply, if doubt is raised as to the continued holding (according to this term's meaning in generally accepted accounting principles) 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 December 31, 2021, is estimated at approx. NIS 50 million.

2. **Arrangements following the Strum Act.** Following the Increase in Competition and Reduction in Concentration in the Banking Market in Israel Act (Legislation amendments), 2017 ("the Strum Act"), The Bank and ICC reached the following arrangements:

   (a) **Agreement between the Bank and MAX.** The Bank signed a joint issuance agreement on March 29, 2018, with MAX, based on the commercial understandings reached between the parties. In accordance with the agreement, the Bank would issue credit cards together with MAX as from February 2019 (date of entering into effect of the duty stated in the Act to conduct the issuance operation by means of more than one operating company). Inter alia, the agreement regularizes the services to be received by the Bank, the division of responsibility and the manner of settlement between the parties. The agreement is in effect until January 31, 2024, and may be extended for an additional period of two years by a notice in advance by the Bank.

   (b) **A joint issuance agreement with Bank Hapoalim.** On November 21, 2018, ICC and Bank Hapoalim Ltd. signed an agreement for the joint issuance and operation of charge cards. According to the agreement, the parties will issue credit cards to customers of Bank Hapoalim, which would be operated by ICC. The agreement determines the distribution of income between the parties, as well as their rights and obligations and further arrangements regarding the said operation. The agreement will be in effect as from date of signature thereof and until December 31, 2024. Bank Hapoalim is entitled to extend the period of the agreement by means of a written request delivered to ICC no later than June 30, 2024, while ICC is entitled to inform Bank Hapoalim of its consent within 45 days from date of delivery of the request for extension.

   (c) **Agreement for joint issuance with Bank Leumi.** On August 12, 2018, ICC, Diners and Bank Leumi Le-Israel Ltd. (hereinafter: "Leumi") signed an agreement for the joint issuance and operation of debit card issuance. In accordance with the agreement, the parties would issue to customers of Leumi debit cards operated by ICC. The agreement determines the division among the parties of income and expenses derived from the joint issuance operations, as well as the rights and duties of the parties and additional arrangements relating to the described operations. The period covered by the agreement would be from February 1, 2019 to December 31, 2024 (approx. 6 years). Leumi will be entitled to terminate the period of the agreement one year prior to the date of termination of the said period. The parties will be permitted to agree to extend the period of the agreement by four additional periods of one year each.

C. **Joint distribution agreement with El-Al Company.** On June 11, 2014, Diners and ICC entered into an agreement for the issue of brand name credit cards to members of the frequent flyer club of El-Al Israel Airlines Ltd. ("EL-AL") (hereinafter: "brand name credit cards"). An agreement of principles was signed on December 11, 2018, in respect of a new engagement of ICC with EL AL, regarding the issuance and operation of brand name credit cards for a period of ten years as from September 1, 2019, with a mutual termination right for each of the parties after seven years ("the engagement period").

It has been agreed that ICC shall pay EL AL a onetime signature award in a total amount of NIS 75 million, payable upon the agreement of principles taking effect (upon fulfillment of the condition precedent, as detailed below). Furthermore, EL AL would be entitled to the payment by ICC of current royalties (and under certain terms to increased royalties, dependent on reaching determined operational goals), in respect of the use of the brand name credit cards, and which shall be derived from the various income earned on the brand name credit card operations, comprising the distribution of income between the parties with respect to the cross-commission earned on transactions made by the credit cards, with respect to income on the credit extended to card holders, with respect to card fees charged to the holders and with respect to foreign currency conversion income. The agreement of principles determines in addition, instructions regarding the marketing and promotion of sale of the brand name credit cards, including marketing and advertising budgets by ICC all through the period of the engagement.

On date of entry into effect of the agreement of principles, EL AL received an advance payment of NIS 60 million, on account of a part of the above mentioned current royalties, which shall be reimbursed in full during the first seven years of the engagement period, by means of offsetting the amount against the current royalties only.

Moreover, EL AL was granted a "phantom" option, which would grant it economic rights in ICC (of a value equal to 8.75% of the increase in value of ICC) or in Diners (of a value equal to 35% of the increase in value of Diners). The option may be exercised only in the event of sale or share issue of any of the above companies, in accordance with the terms stated in the agreement in this respect, and shall be settled in cash.

36. Credit Card Activity (continued)

On September 26, 2019, ICC and Diners signed agreements with Mastercard Europe SA (hereinafter: "Mastercard") on the one part and with EL AL on the other part, as well as on a tripartite agreement with all the parties ("the tripartite agreement"). The tripartite agreement regulates the cooperation with MasterCard in implementing the Fly Card agreement: the issuance of Fly Card credit cards ("Premium" and "Bronze") under the MasterCard brand name and integrated cards under the MasterCard and Diners brand names and other matters. The agreement is in force for a period of ten years as from September 1, 2019, with the option of mutual retirement from the agreement for each one of the parties after seven years.

The Corona crisis and restrictions on travelers imposed with respect thereto by governments throughout the world and in Israel have caused economic damage to numerous airline companies, including El Al. On March 3, 2022, El Al published its financial statements as of December 31, 2021, in which it reported the entering into effect of an agreement to receive funding through state assistance, in an amount of US$210 million, which will be paid in advance for the provision of flight tickets for personnel involved with flight security. The receipt of the funding was contingent on El Al implementing an efficiency plan, on issuing share capital or share options, on restricting dividend distributions, and on additional conditions. El Al has also reported in recent months the agreements with the Ministry of Finance regarding adherence of El Al to its commitments for the raising of capital, regarding receipt of additional assistance from the Ministry of Finance, and regarding the demand by the Ministry of Finance for the implementation of an efficiency plan that, inter alia, includes a commitment for the sale of a significant part of the Frequent Traveler Club. The financial statements state that – since El Al's ability to fulfill all its financial obligations is dependent on factors that are beyond the control of EL AL, at this stage, there is significant doubt regarding El Al being able to continue as a going concern.

In addition, El Al reported in recent months the transfer of activity of the Frequent Traveler Club, including the Club's assets, to a separate subsidiary company, wholly owned by El Al.

El Al has also reported the approval by its board of directors of engaging in a non-binding memorandum of understanding, according to which, El Al will acquire the shares of Arkia Airlines and Aviation Services Ltd. ("Arkia"), in consideration for the allotment of El Al shares to the shareholders of Arkia. According to El Al's reports, there is no certainty that this transaction would materialize and that a binding agreement would be signed.

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. 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. Joint distribution agreement with Shufersal Company. On November 2, 2017, ICC and Diners (hereinafter together: "ICC") and Shufersal Company Ltd. and Supersol Finance, Limited Partnership (hereinafter together – "Shufersal") signed a memorandum of principles (hereinafter: "the Memorandum of principles") for the issue and operation of off-banking credit cards to customers of Shufersal (hereinafter: "Credit Club" and "the Cards", respectively). The parties introduced the club on January 18, 2018, in accordance with the document of principles.

The Memorandum of principles also states that the parties will act towards the signing of a detailed agreement ("the Agreement") which would regularize all matters existing between the parties with respect to the Credit Club, and this within a period of six months, while until the date of signing of the detailed Agreement, the Memorandum of Principles would bind the parties.

The Agreement would be in effect from date of signature thereof and until December 31, 2027, such period being extended for additional periods of two years each, unless any of the parties announces his wish not to extend the validity of the Agreement for an additional period, by giving a notice twelve months prior to the termination of each period.

Among other things, the Memorandum of Principles regularizes the benefits that would be granted to customers holding the Credit Club cards by the parties to the agreement, the instructions relating to the attraction of customers to the Credit Club, providing marketing and advertising budgets by the parties, distribution of costs, and instructions relating to fees charged to card holders. All liabilities applying by law to the issuer shall apply to ICC. ICC would be the exclusive issuer permitted to offer charge cards and loans to customers of Shufersal.

The Memorandum of Principles also regularizes the possibility that the cards would be registered under the Bank Identification Number (BIN) of Shufersal, if this is requested by Shufersal and subject to obtaining all relevant approvals and licenses.

The Memorandum of Principles determines the distribution of income between the parties with respect to the cross-commission earned on transactions made by use of the cards, in respect of the interest bearing credit balances created through the operation of the Credit Club, and in respect of card fees charged to the holders thereof. Card holders would also be charged by Shufersal with monthly membership fees in respect of their membership of the Credit Club, in accordance with determined terms.

36. Credit Card Activity (continued)

Within the framework of the Memorandum of Principles, it was determined ICC will pay Shufersal NIS 30 million in connection with the benefits that Shufersal will grant to members of the credit club. It also prescribes that, subject to attaining material goals determined for the operations of the Credit Club, Shufersal would be entitled to two awards of NIS 35 million each, at the end of the fourth and eighth year of the Agreement.

The Agreement also regularizes the payments to be made between the parties following the termination of the Agreement, where, as a general rule, in the event that ICC continues to operate the cards until their expiry date, the terms of the Agreement will continue to apply in respect of the distribution of income between the parties, while in the case that ICC discontinues the operation of the cards and these would instead be operated by Shufersal, Shufersal Finance or by a third party, then ICC would be entitled to receive, during a stated period, royalties based on ICC's share in income from the cards in the year preceding the date of termination of the Agreement, and all in accordance with the terms and rates determined in the Agreement.

A tri-party agreement was signed on November 26, 2019, between ICC, Shufersal and El Al in respect of the establishment of a "Shufersal Aviation" Club, and with respect to the accelerated accumulation of benefit points when using FLYCARD credit card at the Shufersal chain.

E. ICC is engaged in the operation of credit cards of brands registered in the name of the international organizations VISA International, MasterCard Worldwide Organization and Diners Club International, and is connected to each of these international organizations by a set of agreements. The license to operate under the VISA and MasterCard brands has no time limit and is not exclusive. The license is subject to compliance with the instructions of these organizations. Validity of the concession for the exclusive operation in Israel of the Diners Club brand, granted to ICC by Diners Club International is in effect until December 31, 2029.

F. **Acquisition of the minority interest in Diners.** In December 2015 ICC acquired all the holdings of Dor-Alon and Blue Square in Diners (49%) (collectively: the "Sold Shares"), so that upon conclusion of the transaction ICC holds all the rights (100%) in Diners. A dispute has arisen between the parties with respect to the entitlement of the Sellers to additional consideration subjected to the 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. On September 29, 2021, the Court admitted ICC's motion for the disclosure of documents and rejected the parallel motion by the Claimants. A pretrial was conducted on October 27, 2021. On October 19, 2021, the plaintiffs filed a motion for the review of the aforementioned Court ruling from September 29, 2021. On October 27, 2021, a pretrial hearing took place at which it was decided that the parties would attempt to reach accords regarding the disclosure of documents.

G. **Extension of the clearing license of ICC and Diners.** On September 29, 2021, the provisional clearing permit of ICC and Diners was extended to March 31, 2022, or until a permanent permit is obtained, the earlier of the two.

37. Legislation Initiatives

Several legislation issues exist (laws, regulations and administrative instructions) which are at different stages of the enactment proceedings. Certain of these issues are liable to have an adverse effect on the Bank's operations and its consolidated subsidiaries and their business results in the future. The Bank is not able to evaluate the scope of such effect.

38. The Corona crisis

A new virus of the "Corona" type broke out in the first quarter of 2020, spreading quickly to most countries around the globe, causing widespread morbidity and a significant mortality rate. Following the outbreak of the virus, governments around the world, including Israel, have adopted preventive measures, which included restrictions on passage between countries, isolation means even up to imposing a lockdown, restrictions on different types of activities and businesses, etc. The said measures have led to actual impairment of business activity, to a rise in the rates of unemployment, impairment of the economic survivability of businesses and impairment of income and consumption of households. A significant additional outbreak of morbidity, the third in number, had been noticed in Israel in the months of December 2020 and January 2021. Following this additional outbreak, an additional lockdown was imposed in Israel in the months of January-February 2021, which caused a significant reduction in economic activity and a decline in morbidity. The significant vaccination efforts taken since the beginning of 2021, had led since the month of March 2021, to a decline in the rates of morbidity, allowing a gradual removal of most of the restrictions, and in consequence thereof, recovery in economic activity was noted starting from the second quarter of the year. In the second half of June 2021, the spreading of the "Delta" variant indeed began, however the significant decline in the morbidity situation with the subsiding fourth wave of the Corona pandemic, due to the population being inoculated with the third booster shot with no need for additional lockdowns, brought about a decline in the scope of unemployment and the reduction in Government deficit. An additional considerable outbreak of the pandemic occurred at the beginning of the first quarter of 2022, although the scope of restrictions imposed by the Government on the economic activity in Israel was limited. Following the outbreak of the morbidity, a moderate decline has been noticed in the scope of economic activity in Israel.

The level of uncertainty declined during 2021, in view of the wide scope vaccination of the population in Israel, the decline in the rates of morbidity and the lifting most of the restrictions that had been imposed on economic activity. However, the overall economic ramifications of the Corona crisis are still not fully 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. In addition, at this stage, significant uncertainty still exists with respect to the length of time in which the Corona epidemic may continue its significant presence in the world. 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.

39. Establishment of the PayBox Company

The cooperation agreement. A strategic cooperation agreement ("the cooperation agreement") was signed on January 19, 2021, by Discount Bank, Shufersal Ltd. ("Shufersal"), Shufersal Club Company Ltd. ("the Club Company") and PayBox Ltd. ("PayBox") (the last two were companies in formation at date of signing the agreement), for the establishment of a digital wallet for use by customers of all banks, on the basis of the payments platform of PayBox, which at that time had been fully owned by the Bank.

The Supervisor's approval. On June 1, 2021, the Bank received the approval of the Supervisor of Banks (hereinafter: "the Supervisor's approval") permitting it to have the sole control and to directly hold the means of control in the auxiliary corporation PayBox Ltd. (hereinafter: "the auxiliary corporation"), which is to engage in managing a digital wallet platform and in providing digital services, including brokerage services for banking services and products of supervised financial bodies, subject to the conditions detailed in the letter of approval. With respect to certain operations, PayBox is required to inform the Supervisor of Banks in writing, at least sixty days prior to the introduction of such operations, and they would be subject to obtaining consent of the Supervisor or his non-objection. The cooperation with and activity of the auxiliary corporation, as well as issues relating to use of use of the data obtained within the framework of providing the services and to cost comparison, may be subject to legislation initiatives or future regulation, if at all.

Upon receipt of the Supervisor's approval, the Bank received the regulatory approvals for the completion of the transaction being the subject matter of the agreement.

Change in structure. In accordance with the said agreement, the Bank had formed a wholly owned company under the name of "PayBox", to which were transferred all the assets of PayBox in their format existing at that date. Concurrently, Shufersal had formed a wholly owned subsidiary under the name of "Shufersal Digital Benefits" ("Shufersal Benefits"), to which were transferred assets entitling exclusive rights to different digital operations in respect of Shufersal customers.

Following the formation of the said companies, PayBox and Shufersal Benefits were merged in the a manner in which PayBox Company allotted 49.9% of its share capital to Shufersal.

On June 30, 2021, the merger of the companies was completed, so that PayBox absorbed Shufersal Benefits, which was then liquidated ceased to exist.

Recording the transferred assets. The assets which the Bank had transferred to PayBox, including software development expenses, were recorded at their value in the books of the Bank at date of transfer. The rights in respect of the merger agreement that Shufersal had transferred to Shufersal Benefits, including different exclusivity rights, were primarily recorded at their fair value based on the valuation conducted.

Financing the operations of PayBox. In terms of the cooperation agreement, the Bank and Shufersal agreed to provide PayBox with the funds required for its operation and for the realization of its annual work plan, in the initial years of operation.

Ruling by the Tax Authority regarding the application for change in structure. On June 15, 2021, the ruling by the Tax Authority was obtained in the matter of the change in structure. In accordance with the tax ruling, the change in structure is in agreement with the terms stated in the Income Tax Ordinance, and the date of change in structure was fixed for June 30, 2021. Joint instructions were determined for the split and merger, the tax ruling being subject thereto. This ruling states, inter alia, that Discount Bank, Shufersal and PayBox undertake that during the period of two years following the end of the year of merger, each of these entities shall have a separate independent economic activity, the income there from being subject to tax according to Section 2(1) of the Income Tax Ordinance (New version), 1961 ("the Ordinance"), and that Discount Bank and Shufersal shall continue to own their rights in PayBox for a period of not less than two years, subject to the terms of the Ordinance. It is further stated that in the event that the terms of the tax ruling are not fulfilled, Shufersal, Discount Bank and PayBox shall be charged with the taxes and other compulsory payments, from which they had been exempted, together with interest and linkage differences from date of the split and until the date of payment, according to Section 103(j) of the Ordinance. In such an event, Shufersal, Discount Bank and the absorbing company shall submit to the Tax Assessing Officer, immediately proximate to the date of violation, an expert valuation of the transferred operations immediately following the date of the split, in accordance with the Income Tax Rules (application for a pre-ruling in respect of a merger plan), 1995. It was also confirmed that ownership of all employee benefit funds transferred to the names of the employees moving from Discount Bank to PayBox, and the transfer of the funds deposited with employee provident funds would be exempt from withholding tax, and that continuity of the rights to severance pay shall apply to these employees, as stated in Section 103(p) of the Ordinance

Corporate Governance, Audit, Additional Details Regarding the Business of the Banking Corporation and Management Thereof

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Corporate governance and audit

Board of Directors and Management

Report on Directors having Accounting and Financial Expertise

According to the Companies Act, the Board of Directors has to determine the required minimum number of Directors that have accounting and financial expertise, within the meaning of this term in Section 240 of the Companies Act. According to Directive No. 301 of Proper Conduct of Banking Business Directives of the Supervisor of Banks has been updated, stating that at least one fifth of the members of a board of directors and at least two directors from among the members of an audit committee must have accounting and financial expertise, and the Bank is acting accordingly. At date of reporting, nine Directors have accounting and financial expertise (out of ten) and all the directors who are members of the Audit Committee possess accounting and financial expertise (6 out of 6). List of Directors having accounting and financial expertise, are presented below under "Details regarding members of the Board of Directors". For details regarding the factual background by which they may be regarded as having such expertise, see the Bank's periodic report for 2021 (Regulation 26), which is presented on the MAGNA website of the Israeli Securities Authority and on the Bank's website.

Details regarding Members of the Board of Directors

Directors name	Date on which the term of office as Director began	Membership in the Board of Directors Committees
Shaul Kobrinsky, Chairman of the Board of Directors(3)(4)(5)	December 11, 2020 (initially appointed as Director on December 11, 2014, and as Chairman of the Board since December 3, 2018)	Chairman of the Credit Committee; Chairman of the Resources Committee; Technologies and Innovation Committee
Dr. Doron Avital(5)	August 1, 2021	Remuneration Committee; Technologies and Innovation Committee; Resources Committee
Iris Avner(2)(3)(4)(5)	March 22, 2021 (initially appointed on August 22, 2018)	Audit Committee; Credit Committee; Technologies and Innovation Committee; Risk Management Committee
Aharon Abramovich(1)(2)(4)(5)	October 30, 2020 (initially appointed on October 30, 2017)	Chairman of the Remuneration Committee; Audit Committee; Resources Committee; Risk Management Committee
Sigal Barmak(1)(2)(3)(4)(5)	August 1, 2021	Audit Committee; Remuneration Committee; Risk Management Committee
Yodfat Harel-Buchris(4)(5)	February 15, 2022 (initially appointed on February 15, 2016)	Chairperson of the Technologies and Innovation Committee; Credit Committee; Resources Committee
Prof. Ben-Zion Zilberfarb(4)(5)	August 1, 2021 (initially appointed on August 1, 2018)	Chairman of the Risk Management Committee; Audit Committee; Resources Committee;
Miriam (Miri) Katz(2)(3)(4)(5)	February 1, 2020 (initially appointed on February 1, 2017)	Audit Committee; Remuneration Committee; Technologies and Innovation Committee; Resources Committee
Baruch Lederman(1)(2)(4)(5)	November 27, 2020 (initially appointed on November 27, 2014)	Chairman of the Audit Committee; Remuneration Committee; Credit Committee; Risk Management Committee
Dr. Yaacov Lifshitz(2)(3)(4)(5)	March 26, 2018	Credit Committee; Technologies and Innovation Committee; Risk Management Committee

Notes:
(1) External Director as defined in the Companies Act.
(2) Independent Director as defined in the Companies Act.
(3) External Director according to Directive No. 301 to Proper Conduct of Banking Business Directives.
(4) Accounting and financial expertise.
(5) Professional qualifications.

For additional details regarding members of the Board of Directors, see the Bank's periodic report for 2021 (Regulation 26), which is presented on the MAGNA website of the Israeli Securities Authority and on the Bank's website.

Committee for the appointment of Directors in Banking Corporations

The Banking Act (Licensing), 1981, states that the Governor shall appoint a committee for the appointment of directors in banking corporations, among the duties of which, is the recommendation of candidates for the office of director in a banking corporation having no core controlling interest. The annual general meeting of shareholders had been asked to elect three Directors of external director status, as defined in Directive No. 301 of the Proper Conduct of Banking Business Directives, out of four candidates proposed by the Committee for appointment of directors in banking corporations. Furthermore, the General Meeting of Shareholders was asked to elect one external Director, within the meaning of the term in the Companies Act, 1999, out of two candidates proposed by the said Committee. For details regarding the elected Directors, see "Changes in the Board of Directors" below.

Changes in the Board of Directors

Appointment of Directors. The General Meeting of Shareholders held on May 23, 2021, decided to appoint the following persons as Directors for a period of three years: Ms. Yodfat Harel-Buchris (officiating Director being re-elected), as from February 15, 2022, and Prof. Ben-Zion Zilberfarb (officiating Director being re-elected), as from August 1, 2021. The said Meeting decided to appoint Dr. Doron Avital as Director for a period of three years, as from August 1, 2021. It was also decided to appoint Ms. Sigal Barmak as external Director, within the meaning of the term in the Companies Act, 1999, for a period of three years, starting August 1, 2021. All as detailed on the Immediate Report dated May 23, 2021 (Ref. No. 2021-01-088467), the information detailed therein regarding the above matters, is presented hereby by way of reference.
Ms. Sigal Barmak, took office on August 1, 2021, as external Director of the Bank, replacing Prof. Shalom Hochman, who terminated his office on this date. Dr. Doron Avital, took office on August 1, 2021, as Director of the Bank, replacing Mr. Reuven Adler, who terminated his office on this date. All as detailed in immediate reports dated August 1, 2021 (Ref. Nos. 2021-01-125349, 2021-01-125352, 20201-01-125358 and 2021-01-125361, respectively) the information in the above matters detailed therein is presented hereby by way of reference.
The Chairman of the Board, the Board of Directors and the President & CEO thank Prof. Hochman and Mr. Adler for their activity and contribution during their period of office at the Bank and wish Ms. Barmak and Dr. Avital success in fulfilling their office.

Details regarding Members of Management

Name	Office he/she holds at the corporation	Date on which the term of office began
Uri Levin(1)	The President & CEO	December 2, 2019
Assaf Eldar	Executive Vice President; Head of the Operations and Properties Division	January 1, 2020
Edan Engel	Executive Vice President; Head of the Digital, Data and Innovation Division	July 1, 2021
Joseph Beressi	Senior Executive Vice President, Comptroller; Chief Accounting Officer and Head of the Accounting Division	April 1, 2000
Yuval Gavish	Deputy President & CEO; Head of the Corporate Division	January 1, 2020(2)
Esther Deutsch	Senior Executive Vice President; Head of the Group Management and Regulation Division	April 1, 2019(3)
Orit Caspi	Executive Vice President; Head of the Human Resources Division	January 1, 2020
Avraham (Avi) Levy	Senior Executive Vice President; Head of the Banking Division	February 21, 2022(4)
Hagit Meirovitz	Executive Vice President; Chief Legal Adviser and Head of the Legal Advisory Division	April 1, 2019
Barak Nardi	Executive Vice President; Head of the Planning, Strategy and Finance Division	December 15, 2019
Assaf Pasternak	Executive Vice President; Head of the Financial Markets Division	April 1, 2018
Adi Kaplan	Executive Vice President; Head of the Technologies Division	January 17, 2021
Nir Abel	Executive Vice President; The Internal Auditor	May 18, 2011

Notes:
(1) Interested party of the corporation.
(2) Acted as Senior Executive Vice President, Head of the Human Resources and Properties Division as from April 13, 2014 and until December 31, 2019.
(3) Acted as Chief Legal Adviser and Head of the Legal Advisory and Regulation Division since June 1, 2006 and until March 31, 2019.
(4) Acted as Senior Executive Vice President, Chief Risk Officer and Head of Risk Management Division, as from July 21, 2016 and until February 21, 2022.

For additional details regarding members of Management, see the Bank's periodic report for 2021 (Regulation 26A), which is presented on the MAGNA website of the Israeli Securities Authority and on the Bank's website.

Changes in Management

On April 28, 2021, the Board of Directors resolved to promote Mr. Yuval Gavish, the Head of the Corporate Division, from the position of Senior Executive Vice President to the position of Deputy President & CEO.
Mr. Edan Engel took office on July 1, 2021 as Executive Vice President, Head of the Digital, Data and Innovation Division, replacing Mr. Arik Frishman, Executive Vice President, who terminated his office on that date and commenced office as President & CEO of PayBox.
The Board of Directors approved on January 24, 2022, the appointment of Mr. Avi Levy, Senior Executive Vice President and Head of the Risk Management Division, to the office of Head of the Banking Division. On February 21, 2022, Mr. Avi Levi, Senior Executive Vice President, commenced office as Head of the Banking Division, replacing Ms. Yafit Gheriani, Senior Executive Vice President, who terminated her office on this date. Until appointment of a new Head of the Risk Management Division replacing Mr. Avi Levi, Mr. Amir Rozin, Deputy Head of the Risk Management Division will take office as substitute.

The Chairman of the Board, the Board of Directors and the President & CEO thank Mr. Arik Frishman and Ms. Yafit Gheriani for their activity and contribution during their period of office at the Bank, and wish Mr. Edan Engel, Mr. Arik Frishman and Mr. Avi Levy success in fulfilling their offices.

Meetings of the Board of Directors and its Committees

In 2021, the Board of Directors held 31 meetings. In addition, 71 meetings of committees of the Board of Directors were held (including one joint meeting of two Committees).

The detailed information contained in the immediate reports mentioned above in the section "Board of Directors and Management", is presented herewith by way of reference.

The Internal Audit in the Group in 2021

Details of the Internal Auditor. The Bank's Internal Auditor is Mr. Nir Abel, CPA (Isr.), who assumed office on May 18, 2011. The Internal Auditor is not an interested party in the Bank, is not an officer of the Bank, is not related to any of these persons and is not the Bank's external auditor or acting on his behalf.
The Internal Auditor complies with the provisions of Section 146(B) of the Companies Law and of Section 8 of the Banking Rules (Internal Audit) and the staff of the internal audit department comply with the provisions of Section 8 of the Banking Rules (Internal Audit). In addition, until July 2020, Mr. Nir Abel had served also as Internal Auditor of Israel Credit Cards Ltd.
The manner of appointment. The appointment of the Internal Auditor was approved by the audit committee in its meeting on November 29, 2010 and by the Board of Directors in its meeting of December 12, 2010. The appointment of Mr. Abel was approved in light of his qualifications, education and long-term professional experience in the field of internal audit and in the role of chief internal auditor in the banking system. Until his appointment, Mr. Abel, a certified public accountant and economist, served as Head Internal Auditor of the First International Bank Group from August 2006 until March 2011, and as the Chief Internal Auditor of Otzar Hahayal Bank as from November 2000 and until March 2011.

Letter of appointment. The letter of appointment is presented for approval of the Audit Committee and the Board of Directors once every three years. The letter of appointment was last approved by the Audit Committee and by the Board of Directors in December 2021.

The organ in charge of the Internal Auditor. The Chairman of the Board of Directors is the organizational entity in charge of the Internal Auditor.

Work plan. The internal audit operates according to the annual work plan derived from a multi-annual work plan (the multi-annual work plan covers a period of four years). The annual and multi-annual work plans (hereinafter: "the work plan") are prepared in according to the Internal Audit Law, 1992 and according to Proper Bank Management Directives. The work plan was designed on the basis of an overall risk survey, conducted according to new and accepted methodologies, and was influenced by local and international guidelines (including Basel, COSO 2013, SOX and Proper Conduct of Banking Business Directive No. 307 regarding the internal audit function). Prior to the work plan being submitted for approval, it is forwarded to the Bank's independent auditors, to the chairman of the Board of Directors, to the Chairman of the Board's Audit Committee and to the Bank's President & CEO for lodging comments and elucidations. The Board of Director's Audit Committee discusses the work plan and on the basis of its recommendations the plan is brought before the Board for approval. A deviation from the work plan is brought for approval of the Audit Committee.

The Board of Directors and the Audit Committee, which had examined the work plan of the internal audit and the actual performance thereof, are of the opinion that the Bank's internal audit fulfills the requirements determined by professional standards and by the instructions of the Supervisor of Banks.

Audit of investee corporations in Israel and abroad. The internal audit work plan also relates to the Bank's investee companies in Israel and abroad. The planned work programs for the subsidiaries, at which the Bank's Internal Auditor or his deputy serves also as their Internal Auditor, are combined with the annual work program for the Bank's internal audit, while addressing each subsidiary separately. The scope of the work program for each subsidiary as above, is discussed by the audit committee of each subsidiary, and/or by the Board of Directors.

Where the Bank's Internal Auditor does not perform audits of investee companies, control of such companies is performed as required by Section 1(A)(3) of Banking Rules. In addition, the Bank's Internal Auditor coordinates in advance with the Internal Auditor of the investee company as to the matters which would be audited by the Internal Auditor of the investee.

Scope of employment. The Internal Auditor is engaged in a full time position and the average number of staff working under him in the Group in the reported period numbered 85.8 positions (including overheads; not including 5 outsourcing positions), of which, 35.2 positions in corporations that engage an independent Internal Auditor (MDB, ICC and IDB Bank). The number of positions in the Internal Audit Group is derived from the requirements of the work plan as approved by the Board of Directors.

Average number of positions in 2021 engaged in internal audit at the Bank and in investee companies in Israel and abroad

	Group employees	Outsourcing employees
The Bank	49.1	1.5
Investee companies in Israel audited by the Bank's internal auditor(1)	1.0	-
In overseas extensions - IDB New York	0.5	-
Investee companies in Israel where the audit is performed by an independent internal auditor(2)	23.5	0.7
Investee companies abroad where the audit is performed by an independent internal audito(3)	11.7	2.8
Total	**85.8**	**5.0**

Notes:
(1) Inputs in non-banking subsidiaries and inputs in respects of audit of independent banking corporations by the parent company.
(2) The inputs include 17.9 positions in respect of MDB (of which 0.4 outsourced positions) and 6.3 positions in respect of ICC (of which 0.3 outsourced positions).
(3) Auditors in IDB New-York.

Performance of the audit. The internal audit is carried out according to the provisions of the Internal Audit Law, 1992 and according to the professional standards of the Institute of Internal Auditors in Israel. Starting from July 1, 2012, the internal audit operates also in accordance with Proper Conduct of Banking Business Directive No. 307.

The Board of Directors and the Audit Committee have expressed their opinion that the internal auditor has met all the requirements prescribed in the standards referred to above in the directives and guidelines of the Supervisor of Banks, based on an assessment of the internal audit function and the regular reports that it submits. The Audit

Committee receives regular reports regarding the activity of the Internal Audit Division, by means of ongoing quarterly reporting and the half-yearly and annual reports, as well as reports on specific topics. An external assessment of the internal audit function was performed in 2019 by a CPA firm selected by the Audit Committee. This was made in addition to an internal assessment performed by the internal audit, in accordance with the guideline contained in Proper Conduct of Banking Business Directive No. 307. The external assessment as well as the internal assessment and review were discussed by the Audit Committee in February 2020.
A review of the internal audit work has also been made by the Bank of Israel, which was also discussed by the Audit Committee.
Access to information. All information and documentation required by the Internal Auditor is handed over to him and is granted permanent and direct access to the Bank's information systems and of investee corporations in Israel and abroad, including financial data.
Reports by the Internal Auditor. All audit reports are submitted in writing and presented to the Chairman of the Board, the Chairman of the Audit Committee, the President & CEO, the Chief Risk Manager, the independent auditors and relevant members of the Management. The audit reports are graded on the basis of the audit findings.
A monthly summary report is presented to the Chairman of the Board, the Chairman of the Audit Committee, the independent auditors and the Bank's Management.
The internal auditor submits periodic activity reports, as follows: a quarterly report concerning all the internal audit work performed at the Bank, at the subsidiaries in Israel and at the foreign extensions, detailing the material findings reported in the individual reports submitted during the reviewed quarter, a concise response to the findings by the audited entities, as well as follow-ups of previous quarterly reports and prior issues that had not yet been resolved. The auditor submits also a semi-annual report and an annual report in the format required by Proper Conduct of Banking Business Instruction No. 307 in the matter of internal audit.
The activity reports are addressed to the Chairman of the Board, the Chairman of the Boards' Audit Committee, the President & CEO, the Chief Risk Manager and to the Independent Auditors. These reports are being discussed by the Management and thereafter by the Boards' Audit Committee. The annual report is being discussed also by the Board of Directors.
In addition, the audit committee discusses specific audit reports regarding the Bank's units, and material reports regarding the Bank's subsidiaries, in cases where the chairman of the audit committee or the Internal Auditor consider that the findings in these reports or the significant issues which they raise require special attention.
The periodic reports were submitted and discussed as follows:
- The report on the activities of the internal audit in the fourth quarter of 2020, submitted on January 20, 2021, and discussed by the Audit Committee on March 8, 2021;
- The annual report on the activities of the internal audit in 2020, submitted on March 15, 2021, and discussed by the Audit Committee on April 5, 2021 and by the Board of Directors on May 20, 2021;
- The report on the activities of the internal audit in the first quarter of 2021 was submitted April 28, 2021, and discussed by the Audit Committee on May 12, 2021;
- The report on the activities of the internal audit in the second quarter of 2021 was submitted on August 24, 2021, and discussed by the Audit Committee on September 14, 2021;
- The report on the activities of the internal audit in the third quarter of 2021, submitted on October 21, 2021, and discussed by the Audit Committee on December 7, 2021;
- The report on the activities of the internal audit in the fourth quarter of 2021, submitted on February 3, 2022 and is yet to be discussed by the Audit Committee.

Valuation by the Board of Directors of the Internal Auditor's performance. In the opinion of the Board of Directors and of the Audit Committee, the scope, nature and continuity of the operations of the Internal Auditor and his work plan are reasonable under the circumstances and attain the goals set out for internal audit at the Bank.
Remuneration. Details of the payments to the Internal Auditor and of the components thereof are given hereunder. In the opinion of the Board of Directors, such payments have no effect upon the Internal Auditor's professional judgment.

The Internal Auditor's Remuneration

General details			Remuneration* for services						
year	Extent of position	Rate of holdings in corporation's capital	Salary	Awards	Employer's payments and provisions(1)	Benefits and grossing-up(2)	Total	Of which: total in respect of the Remuneration for Officers of Financial Corporations Act(3)	Loans granted under regular terms
			in NIS thousands						
2021	100%	-	1,228	688	321	196	2,433	2,251	-
2020	100%	-	1,214	-	669	212	2,095	1,854	-

* The amounts of the remuneration do not include payroll tax.

Footnotes:

(1) Includes severance pay, provident pay, further education fund, vacation pay, National Insurance contributions, loss of work ability insurance, adaptation grant, non-compete award and adjustment of provisions following changes in salary.

(2) Includes value of use of vehicle and of mobile phone, various benefits and their grossing up.

(3) Remuneration, as defined in the Remuneration to Officers of Financial Corporations Act (Special approval and non-deductibility tax wise of exceptional remuneration), 2016, which is the total remuneration, excluding provisions for severance pay and provident fund contributions (including loss of work ability) in accordance with the law.

Mr. Abel is employed under a personal employment agreement for an indeterminate period, which either of the parties may terminate giving a prior notice of four months. According to the agreement, Mr. Abel is prohibited from competing against the Bank for a period of six months following the termination of employment, unless otherwise agreed by the parties. Mr. Abels' salary is linked to the CPI, and in the event of the CPI falling, his salary will not change until such time that the rise in the CPI offsets the rate of the fall. Mr. Abel is entitled to annual vacation, sick leave, recreation pay, appropriate motor vehicle, social benefits (severance benefits, provident payments, loss of ability to work insurance and further education fund) as well as other benefits. Upon retirement from office, Mr. Abel is entitled to severance payment in accordance with the law (however, in accordance with the agreement, employer's pension fund and insurance policy payments will be made in place of severance pay), non-competition/adaptation award in an amount equal to six monthly salaries. Mr. Abel is entitled to participate in the remuneration plan for members of the Bank's Management and for the Internal Auditor, for the years 2020-2022 (see Note 23 E and G to the financial statements).

Auditor's Remuneration

The joint auditors of the Bank are BDO Ziv Haft, CPA, since 2000[7], and KPMG Somekh Chaikin, CPA, since 1998.

Remuneration(1)(2)(3) paid to the auditors (in NIS thousand)

	Consolidated		The Bank	
	For the year ended December 31,			
	2021	2020	2021	2020
For Auditing(3):				
To the joint auditors	19,100	18,472	7,605	6,921
For Other Services:				
Audit related services(4):				
To the joint auditors	5,838	3,077	4,867	2,634
Taxation Services(5):				
To the joint auditors	2,871	1,946	972	786
Other Services:				
To the joint auditors	4,559	2,795	4,443	2,726
To other auditors	-	-	-	-
Total	13,268	7,818	10,282	6,146
Total Auditors' Remuneration	**32,368**	**26,290**	**17,887**	**13,067**

Footnotes:
(1) Report of the Board of Directors to the Annual General Meeting of Shareholders on the remuneration of the independent auditors for their audit work and for services in addition to the audit, in accordance with Sections 165 and 167 of the Companies Act, 1999.
(2) Includes remuneration that has been paid and remuneration that has been accrued.
(3) Auditing annual financial statements and reviewing interim financial statements. Also includes audit - internal control over financial reporting (SOX 404).
(4) Includes mainly audit work and special examinations.
(5) Including mainly annual tax reconciliation statements paid for as part of the audit fees and attributed to tax services based on estimate, tax assessments and tax consultations.

7 The firm of Haft & Haft, which merged into the firm of Ziv Haft in 2000, has served as the independent auditors of the Bank since 1935.

Remuneration of Interested Parties and Senior Officers and Transactions with Interested Parties

Remuneration of Interested Parties Senior Officers

Year 2021

Details of the recipient				Remuneration* for services						
Name	Position	Extent of position	Rate of holdings in corporation's capital	Salary	Awards	Employer's payments and provisions(1)	Benefits and grossing-up(2)	Total	Of which: total in respect of the Remuneration for Officers of Financial Corporations Act(3)	Loans granted under regular terms
				in NIS thousands						
Mr. Shaul Kobrinsky	Chairman of the Board	100%	-	2,847	-	-	31	2,878	2,469	-
Mr. Uri Levin	President and CEO	100%	-	2,719	211	481	35	3,446	3,043	-
Mr. Ziv Biron	President and CEO of IDB New York	100%	-	3,489	1,638	228	197	5,552	(4)-	-
Mr. Liran Razmovich	President and CEO of Discount Capital Underwriting	100%	-	1,380	2,441	354	315	(5)4,490	(4)-	205
Mr. Moshe Agami	General Counsel, Deputy CEO of Discount Capital Underwriting	100%	-	1,176	2,025	312	204	(6)3,717	(4)-	174
Ms. Lissa Baum	Executive Vice President and Chief Lending Officer of IDB New York	100%	-	1,852	1,399	280	68	3,599	(4)-	-
Mr. Yuval Gavish	Deputy President & CEO, Head of the Corporate Division	100%	-	1,507	832	608	216	3,163	2,926	56
Ms. Yafit Gheriani(7)	Former Senior Executive Vice President, Head of the Retail Banking Division	100%	-	1,308	940	636	189	3,073	2,692	-
Mr. Adi Kaplan(8)	Executive Vice President, Head of the Technologies Division	100%	-	1,091	(9)898	(10)868	201	3,058	2,898	-
Ms. Esther Deutsch	Senior Executive Vice President, Head of the Group Management and Regulation Division	100%	-	1,281	795	527	202	2,805	2,443	-

* The amounts of the remuneration do not include payroll tax.

Footnotes:

(1) Includes severance pay, provident pay, further education fund, vacation pay, National Insurance contributions, loss of work ability insurance, adaptation grant, non-compete award, early notice and adjustment of provisions following changes in salary.

(2) Includes value of use of vehicle and of mobile phone, various benefits and their grossing up.

(3) Remuneration, as defined in the Remuneration to Officers of Financial Corporations Act (Special approval and non-deductibility tax wise of exceptional remuneration), 2016, which is the total remuneration, excluding provisions for severance pay and provident fund contributions (including loss of work ability) in accordance with the law (or contributions to funds as an alternative to these components for anyone not employed as an "employee").

(4) The Remuneration for Officers of Financial Corporations Act does not apply to this officer.

(5) Not including share based payment in the amount of NIS 392 thousand, see Note 15 E to the financial statements.

(6) Not including share based payment in the amount of NIS 333 thousand, see Note 15 E to the financial statements.

(7) Ms. Gheriani ended her term of office as Head of the Retail Banking Division on February 21, 2022.

(8) Mr. Kaplan took office as Head of the Technologies Division on January 10, 2021.

(9) Including a recruitment grant.

(10) Includes a provision at the date of appointment for an adaptation grant and a non-compete award.

Remuneration of Interested Parties Senior Officers (continued)

Year 2020

Details of the recipient				Remuneration* for services						
Name	Position	Extent of position	Rate of holdings in corporation's capital	Salary	Awards	Employer's payments and provisions(1)	Benefits and grossing-up(2)	Total	Of which: total in respect of the Remuneration for Officers of Financial Corporations Act(3)	Loans granted under regular terms
				in NIS thousands						
Mr. Shaul Kobrinsky	Chairman of the Board	100%	-	2,838	-	-	46	2,884	2,513	-
Mr. Uri Levin	President and CEO	100%	-	2,717	-	578	36	3,331	2,926	-
Mr. Ziv Biron	President and CEO of IDB New York	100%	-	3,700	857	227	416	5,200	(4)-	-
Mr. Liran Razmovich	President and CEO of Discount Capital Underwriting	100%	-	1,380	1,352	433	333	(5)3,498	(4)-	-
Ms. Hila Himi-Alpert	President and CEO of Discount Capital	100%	-	1,189	1,185	624	206	3,204	(4)-	-
Ms. Lissa Baum	Executive Vice President and Chief Lending Officer of IDB New York	100%	-	1,876	721	370	67	3,034	(4)-	-
Mr. Avraham (Avi) Levy	Senior Executive Vice President, Chief Risk Officer and Head of Risk Management Division	100%	-	1,379	-	805	242	2,426	2,116	-
Mr. Yaakov (Yakki) Zano	Executive Vice President, Head of the Technologies Division	100%	-	1,118	-	976	245	2,339	2,177	-
Ms. Esther Deutsch	Senior Executive Vice President, Head of the Group Management and Regulation Division	100%	-	1,266	(1)	832	204	2,301	1,960	-
Mr. Yuval Gavish	Senior Executive Vice President, Head of Corporate Division	100%	-	1,345	(3)	731	223	2,296	2,087	66

* The amounts of the remuneration do not include payroll tax.

Footnotes:

(1) Includes severance pay, provident pay, further education fund, vacation pay, National Insurance contributions, loss of work ability insurance, adaptation grant, non-compete award, early notice and adjustment of provisions following changes in salary.

(2) Includes value of use of vehicle and of mobile phone, various benefits and their grossing up.

(3) Remuneration, as defined in the Remuneration to Officers of Financial Corporations Act (Special approval and non-deductibility tax wise of exceptional remuneration), 2016, which is the total remuneration, excluding provisions for severance pay and provident fund contributions (including loss of work ability) in accordance with the law (or contributions to funds as an alternative to these components for anyone not employed as an "employee").

(4) The Remuneration for Officers of Financial Corporations Act does not apply to this officer.

(5) Not including share based payment in the amount of NIS 266 thousand.

Mr. Shaul Kobrinsky serves as Chairman of the Board of Directors since December 3, 2018. For details regarding the terms of office of Mr. Kobrinsky, see Note 35 F to the financial statements.

Mr. Uri Levin, Mr. Levin officiates as the Bank's President & CEO since December 2, 2019. For details regarding the terms of office of Mr. Levin, see Note 35 F to the financial statements.

Mr. Ziv Biron, President & CEO of IDB Bank, is employed pursuant to the terms of an Employment Agreement. IDB New York's Compensation Committee of the Board of Directors approved the initial terms of the Employment Agreement and annually reviews and approves Mr. Biron's incentive compensation. Mr. Biron is entitled to participate in all savings and retirement plans, welfare and insurance plans, practices, policies and perquisites of employment applicable generally to other senior executives of the Bank. IDB Bank provides Mr. Biron with the use of an automobile and annual home leave in Israel.

Mr. Liran Razmovich, serves as the CEO of Discount Capital Underwriting Ltd. Mr. Razmovich is employed under a personal contract for an indefinite period that can be terminated by either of the parties giving two months' advance notice. The non-competition period defined in the agreement is for three months from the termination date of his employment with the company. Mr. Razmovich is entitled to vacation days, sick days, recreation pay, a suitable vehicle, social benefits (severance pay, provident fund, loss of capability to work insurance, and further education fund), and additional benefits. Furthermore, Mr. Razmovich is entitled to equity-based remuneration, in Discount Capital Underwriting shares, as part of the company's remuneration plan (see Note 15 E to the financial statements).

Mr. Moshe Agami, serves as the Deputy CEO and the Legal Advisor of Discount Capital Underwriting Ltd. Mr. Agami is employed under a personal contract for an indefinite period that can be terminated by either of the parties giving three months' advance notice. The non-competition period defined in the agreement is for three months from the termination date of his employment with the company. Mr. Agami is entitled to vacation days, sick days, recreation pay, a suitable vehicle, social benefits (severance pay, provident fund, loss of capability to work insurance, and further education fund), and additional benefits. Furthermore, Mr. Agami is entitled to equity-based remuneration, in Discount Capital Underwriting shares, as part of the company's remuneration plan (see Note 15 E to the financial statements).

Ms. Lissa Baum, Executive Vice President, Head of the Corporate Division in IDB Bank. For additional details, see below "Terms of employment of members of Management of IDB Bank".

Mr. Yuval Gavish, employed by the Bank as Deputy President & CEO, Head of the Corporate Division. Mr. Gavish is entitled to participate in the remuneration plan for members of the Bank's Management and for the Internal Auditor, for the years 2020-2022. For additional details, see below "Terms of employment of members of the Bank's Management".

Ms. Yafit Gheriani was employed by the Bank as Senior Executive Vice President, Head of the Banking Division. Ms. Gheriani was entitled to participate in the remuneration plan for members of the Bank's Management and for the Internal Auditor, for the years 2020-2022 (see Note 23 E and G to the financial statements). For additional details, see below "Terms of employment of members of the Bank's Management".

Mr. Adi Kaplan, employed by the Bank as Executive Vice President, Head of the Technologies Division. Mr. Kaplan is entitled to participate in the remuneration plan for members of the Bank's Management and for the Internal Auditor, for the years 2020-2022 (see Note 23 E and G to the financial statements). For additional details, see below "Terms of employment of members of the Bank's Management".

Ms. Esther Deutsch, employed by the Bank as Senior Executive Vice President, Head of the Group Management and Regulation Division. Ms. Deutsch is entitled to participate in the remuneration plan for members of the Bank's Management and for the Internal Auditor, for the years 2020-2022 (see Note 23 E and G to the financial statements). For additional details, see below "Terms of employment of members of the Bank's Management".

Terms of employment of members of the Bank's Management. Members of the Bank's Management mentioned above are employed under a personal employment agreement for an indeterminate period, which either of the parties may terminate giving a prior notice of four months. The period of limitation on competition stated in the agreement is three to six months from date of termination of their employment with the Bank, unless it is otherwise agreed by the parties. The salary of the members of the Bank's Management is linked to the CPI, and in the event of the CPI falling, their salary will not change until such time that the rise in the CPI offsets the rate of the fall. Members of the members of the Bank's Management are entitled to vacation, sick leave, recreation pay, appropriate motor vehicle, social benefits (severance benefits, provident payments, loss of ability to work insurance and further education fund) as well as other benefits. Upon retirement from office, the Bank's management are entitled to severance payment in accordance with the law (however, in accordance with the agreement, employer's pension fund and insurance policy payments will be made in place of severance pay), as well as to non-competition/adaptation award in an amount equal to four to six monthly salaries. For details regarding the principal changes between the remuneration policy for the Bank's officers (2020-2022) and the previous remuneration policy for officers, see Note 23 E to the financial statements. For details regarding the award plan for members of the Bank's Management and for the Internal Auditor (2020-2022), see Note 23 G to the financial statements.

Terms of employment of members of Management of IDB Bank. Members of IDB Bank Management mentioned above are employed by IDB Bank as an "employee at will." IDB Bank's Compensation Committee of the Board of Directors annually reviews and approves the compensation of members of the IDB Bank management. Members of the IDB Bank management are entitled to participate in all savings and retirement plans, welfare and insurance plans, practices, policies and perquisites of employment applicable generally to other senior executives of the Bank.

For details regarding officers included in the Table for 2020, but not included in the Table for 2021, see the 2020 annual report (pp. 326-327).

Members of the Board of Directors. Directors of the Bank are entitled to annual remuneration and to participation remuneration, payable under the regulations of the Companies Act (Regulations regarding remuneration and expenses payable to external directors), 2000 (the "regulations"). The Chairman of the Board is not entitled to annual remuneration and to participation remuneration. For details regarding the payment to expert directors (as defined in the Regulations), see Note 35 L. The cost of remuneration in respect of all the Directors, excluding the officiating Chairman of the Board, amounted in 2021, to NIS 5,514 thousand (2020: NIS 5,314 thousand).

Remuneration policy for Officers of the Bank. For details respecting the remuneration policy for officers of the Bank, see Note 23 D and E to the financial statements. For details regarding the principal changes between the remuneration policy for the Bank's officers (2020-2022) and the previous remuneration policy for officers, see Note 23 E to the financial statements. For further disclosure in the matter of "remuneration", see the document "Disclosure according to the third pillar of Basel and additional information regarding risks", available for review on the Internet.

For details regarding the Remuneration of Officers of Financial Corporations Act, 2016, see the 2016 Annual Report (pp. 406-407).

Letters of the Supervisor of Banks in the matter of "principles for determining the terms of office of the chairman of the board of a bank having no core controlling interest". The letter, published on August 1, 2019, states that the Supervisor of Banks would not intervene with regards to the terms of office of the Chairman of the Board, determined in accordance with the principles stated in the letter, on condition that these are determined for the period ending at the end of the year 2020. During this period, the Supervisor will examine the definitions of the office and the new terms of office relating to chairmen of boards of directors of banking corporations having no core controlling interest as well as the need to amend the Directive. The letter clarifies that the terms of office of the chairman of the board shall be determined in accordance with principles, which ensure that the duties and authority of the chairman do not deviate from the duties and authority conferred upon him by Law, and that the terms of remuneration do not create "affinity" and/or might impair the independence of the chairman. Furthermore, the letter notes that the need to establish the status of the chairman of the Board as being part of the board of directors and segregate him from the management of the bank, including by means of determining his remuneration in relation to the manner in which the other members of the board of directors are being remunerated, as stated in Proper Conduct of Banking Business Directive No. 301A, is of a double importance in the case of a bank having no core controlling interest.

It is noted that the terms of office that had been approved in respect of the Bank's Chairman of the Board, as described in Note 35 F to the financial statements, comply with the principles determined by the Supervisor of Banks, as stated in her said letter.

On December 21, 2021, the Bank received a letter from the Supervisor of Banks in the matter of the principles determining the terms of office of the chairman of the Board of Directors of a bank having no core controlling interest. According to the letter, the Supervisor of Banks shall not interfere with the terms of office of the chairman of the board if such terms match his duties, provided these are determined for the period until the end of September 2022 and letters dated June 22, 2021, and September 12, 2021, stating that the Supervisor of Banks would not interfere with the terms of office that would fulfill that stated therein, until the end of September 2021 and the end of December 2021, respectively. The said letter is an extension of the letter of August 2019, which stated, as above, that the Supervisor will not interfere with terms of office that agree with the contents thereof until the end of 2020, in the course of which the Supervisor of Banks will publish the definitions for the position and the new terms of office of chairpersons of boards of directors of banking corporations having no core controlling interest, through an amendment of Proper Conduct of Banking Business Directives.

Transactions with Interested and Related Parties

Terms of office of the Chairman of the Board and of the President & CEO of the Bank. The Bank's special general meeting of shareholders held on March 18, 2020, approved the update of the terms of office of the Chairman of the Board. The said meeting also approved the terms of office and employment of the Bank's President & CEO.

Directors and officers liability insurance. 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. 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.

For details regarding the terms of office of Mr. Kobrinsky, see above "Remuneration of interested parties and senior officers" and Note 35 F to the financial statements.
For additional details, see Note 35 to the financial statements.

Corporate Governance Code for the Discount Group

The corporate governance code approved by the Bank's Board of Directors in October, 2009, reflects the implementation of a "best practice" policy in the corporate governance field. The code is based on the provisions of the law and various regulations applying to the Bank in the corporate governance field, including the Basel guidelines and the recommendations of the Goshen Committee established by the Israel Securities Authority. In December 2017, the Board of Directors approved updates to the document. The updated document is available for review on the Bank's website.
Within the framework of the implementation of the corporate governance program, the Board of Directors approved a policy document and operating procedures with respect to investee companies (see below "Group Management"). In addition, the Bank's Board of Directors approved a procedure for the approval of transactions with interested parties in the Bank.

Corporate Governance Questionnaire

The Securities Authority published on January 14, 2016, an updated version of the Corporate Governance Questionnaire. The accompanying letter noted that the staff of the Securities Authority works for the establishment of the matter in a binding and permanent manner in Regulations, and that it encourages its implementation even previously. A corporate governance questionnaire for the year 2021, which was voluntarily published by the Bank in an updated version, is available for review on the MAGNA website of the Israeli Securities Authority, on the MAYA website of the Tel Aviv Stock Exchange as well as on the Bank's website.

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).
The Bank had carried out a lesson learning process in order to avoid repetition of events of that sort, and in this framework, the Bank reassessed processes and procedures.
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. His honor, Retired Judge Jacob Sheinman was appointed on August 15, 2021, as joint Chairperson of

the Committee, acting together with her honor, Retired Judge 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.

Group Management

Proper Conduct of Banking Business Directives regulate, among other things, the Group conduct of the banking corporation as regards various issues. Instructions have been prescribed at the Bank, among other things, with regard to group management, according to which the Board of Directors is required to determine the overall strategic goals of a banking corporation and of corporations controlled by it, including its domestic and foreign extensions, including the fundamental operating guidelines and the risk appetite. In addition, it stipulates that the Board of Directors shall determine general guidelines regarding the structure of corporate governance in such controlled corporations, in a manner that would contribute to efficient supervision over the Group.
The Proper Conduct of Banking Business Directive no. 301 includes reference to the framework of considerations of the controlled corporation, and requires that the Board of Directors of the controlled corporation must take into consideration, among other things, the overall strategic goals of the Group, the overall risk management policy of the group and the overall guidelines of the group regarding the supervision and control mechanisms over controlled corporations, determined, respectively, by the Board of Directors of the controlling banking corporation, in as much as they agree with the interests of the controlled banking corporation and with the provisions of Section 11 of the Companies Law, regarding the purpose of the company. In continuation of the above stated, Proper Conduct of Banking Business Directive No. 306, which took effect on January 1, 2019, establishes the expectations of the Supervisor of Banks for the tightening of supervision over banking extensions abroad. On December 23, 2019, the Supervisor of Banks published amendments to Proper Conduct of Banking Business Directives Nos. 306 and 308, which are intended to strengthen the control of banking corporations over their overseas extensions.
In March 2016, the Board of Directors approved a policy document and operating procedures with investee companies ("Policy and activity procedure vis-à-vis investee companies"), which updated and replaced the work procedure with the subsidiaries that had been in force until then. The policy sets forth the work procedures between the Bank and investee companies regarding, among other matters, the appointment of directors and officers, formulating strategy and work plans, oversight and control mechanisms over risk exposures at investee companies, reporting mechanisms to enable the parent company to increase supervision on the activities of investee companies, and the professional accountability of the professional functions at the subsidiaries to the professional functions at the parent company and deciding on a management party to be responsible for each subsidiary. The material companies in the Group have completed the adoption of the policy, with required changes in respect of their nature and scope of operations. As a supplementary tier to this document, during 2021, the Bank's Management approved a document that summarizes the spheres of responsibility of the responsible management parties at the Bank and the mapping of the management parties responsible for each subsidiary.
The Bank has a Group Management and Regulation Division whose function, among others, is to maximize the value of the Group's subsidiaries and to assist in fulfilling the group responsibility of the President & CEO and the Group's Management. The Division constitutes a central factor in leading and promoting group management and the full utilization of synergies between the Group companies, with the assistance of the professional factors with respect to strategic, business, regulatory, legal and accounting aspects, as well as in the compliance, taxation, risk management, supervision and control fields, in a manner that would assist Management of the Group and the Board of Directors to apply and realize in an optimal manner, the strategy of the Group, and this in accordance with principles approved by the Bank within the framework of the investee companies policy.
For details regarding the group risk management, see "Principles for risk management" under "Exposure to risk and risk management" above. For details regarding the duty to set a policy with respect to employment and retirement terms at subsidiary companies, see "Remuneration policy in a banking corporation" under "Human resources" below.

Involvement with and Contribution to the Community

Since its formation, Israel Discount Bank has been active in community affairs, having an overall management conception, according to which, activities beneficial to the community form part of a business, social and cultural obligation. During the first half of 2021, under the shadow of the Corona crisis, all frontal voluntary activities were cut down. In the second half of the year, the voluntary activities of Discount employees for the benefit of the community were reactivated and expanded. In this framework, employees contributed time and compassion to a wide range of activities, assistance and support for diverse groups of the population in Israel, including children, youth, students, military service personnel, distress population, senior citizens, persons with disabilities, the sick and more.

Donations to different associations and sponsorships in the cultural and art fields were especially enlarged in 2021.

"Discount Sprint for the future" – Discount Bank's flag ship project. As from the year 2005, the Bank acts in cooperation with the "Sprint for the Future" Association, adopting the program "Discount Sprint for the future", a growing partnership for a significant social yield, led by social and economic changes. The Bank is a partner both in the financial support of the Association and in promoting its activities. The voluntary work of the Discount Bank employees was expanded in 2021 within the framework of the programs of the Association, inter alia by the adoption of youth villages and schools participating in the project, to joint activities with branches and units of the Bank, financial education training, mentoring, providing courses reinforcing preparation for matriculation exams, establishment of a computer room, the donation of computers, and so forth.

Corporate Responsibility Report No. 10. Corporate Responsibility Report No. 10, for 2020, is available for perusal on the Bank's website. The report was prepared in accordance with the GRI[8] guidelines.

"Maala" Rating for 2021. In July 2021, "Maala" published its rating for 2021. The Bank has been rated in the Platinum Plus category (distinguish companies with an absolute score of over 90). ICC has maintained its Platinum rating.

8 Global Reporting Initiative.

Principal environment, social and governance indices (ESG)

Environmental

Field	Index	2021	2020	2019
Carbon footprint				
	Value of emission (in tons of CO_2e)	19,199	19,822	22,308
	Emission per square meter	0.14	0.14	0.15
Resources consumption				
	Electricity consumption (in KW/h)	33,291,103	33,773,135	34,462,256
	Fuel consumption (in liters)	325,228	336,238	617,087
	Paper consumption (in tons)	275	315	381
	Water consumption (cubic meters)	23,150	29,320	28,198
Green credit				
	Credit to solar projects (in NIS million)	890	1,020	890

Social

Field	Index	2021	2020	2019
Employees[1]				
	Number of employees	4,893	4,950	5,282
	Ratio of unionized employees	86.5%	86.1%	86.6%
	Wage differences between male and female	5.1%	6.0%	6.6%
	Ratio of employees belonging to the under-represented population in the labor market (Discount Bank)	7.3%	7.2%	8.5%
Community				
	Investment in the community (in NIS million)	25.1	17.3	16.9
	Ratio of volunteers at the Bank	60%	45%	41%
	Commitment for investment in Impact funds (in USD thousand)[3]	10.5	10.5	10.5
Economic performance				
	Economic value to stakeholders (in NIS million)[4]	8,518	7,279	7,486

Corporate governance

Field	Index	2021	2020	2019
Board of Directors				
	Independence of the Board of Directors	70%	70%	70%
	Ration of female Board members	40%	30%	30%
	Average attendance rate at board meetings	99.4%	99.7%	96%

Footnotes:

(1) The data does not include employees on unpaid leave and on maternity leave.

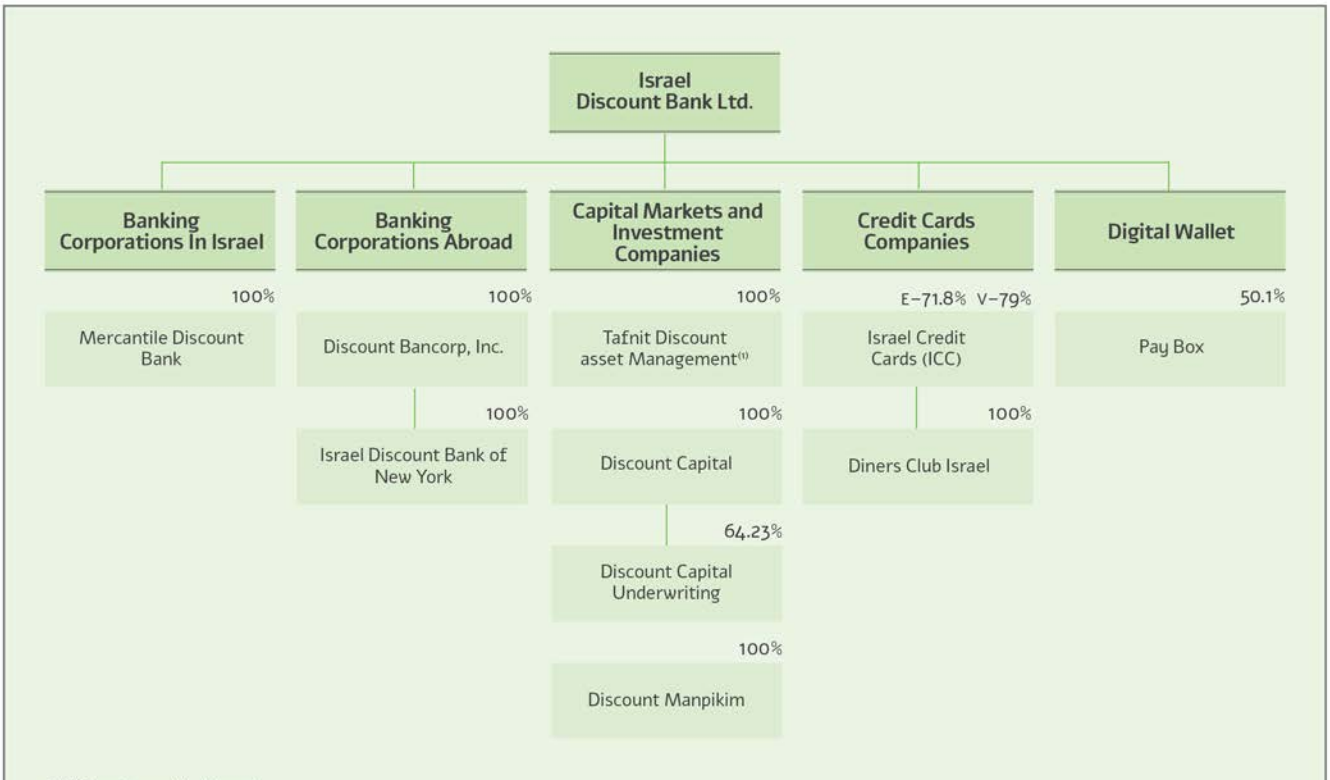
(2) The data does not include 83 outsourced employees.

(3) Total commitments through Discount Capital within the framework of funds managing investments having a social impact alongside a financial return.

(4) Operating and other expenses with the addition of provision for taxation and dividends.

Additional details regarding the business of the banking corporation and management thereof

Discount Group Structure



(1) Directly and Indirectly.

Control of the Bank – Bank having no Core Controlling Interest

As of December 3, 2013, the Bank became a bank with no core controlling interest.

The Banking Act (Legislation amendments). On March 19, 2012, the Banking Act (Legislation amendments), 2012, was published in the Official Gazette, intended to regularize the activities of a banking corporation that does not have a core controlling interest therein. Within the framework of the law, special instructions have been determined in the matter of appointment of directors, their tenure of office and termination of office, which apply to a banking corporation not having a core controlling interest. In accordance with these instructions, the appointment of directors in a banking corporation having no core controlling interest shall be made by the annual meeting of shareholders. The candidates are proposed by a statutory committee established for the appointment of directors in a banking corporation. Furthermore, candidates may also be proposed by shareholders who hold over 2.5% of the share capital of the Bank, and who comply with certain conditions determined in the instructions.

Bank Holding Permits to Entities Managing Customer Funds

The Banking (Licensing) Law requires that a holding permit be obtained from the Governor of the Bank of Israel for any holding in excess of 5% of a banking corporation's means of control. On June 16, 2016, the Supervisor of Banks published an updated policy relating to permits for holders of control in bodies that manage clients' funds (provident

funds, insurers, mutual funds), whereby a holder of control in a body that manages clients' funds is permitted to hold a percentage that does not exceed 7.5% of the means of control in a banking corporation, subject to obtaining a permit from the Governor of the Bank of Israel and subject to the conditions prescribed therein. The total holdings of a recipient of a holding permit, that are not holdings for "clients", shall not exceed 5% of any class of the banking corporation's means of control. The total holding of any body that is controlled by a recipient of a holding permit shall not exceed 5% of any class of the banking corporation's means of control. All holding permits shall be granted for a set term, until December 31, 2019.
Following that stated above, the Supervisor of Banks published on September 29, 2016, an amendment to Proper Conduct of Banking Business Directive No. 312 in the matter of "related parties". This amendment removes from the definition of "related party", entities which obtained a holding permit in accordance with the new policy, and which the rate of their holdings exceeds 5% due to holdings on behalf of their customers.

Fixed Assets and Installations

Buildings and Equipment

At the end of 2021, the investment in buildings and equipment amounted to NIS 3,401 million, compared with NIS 2,995 million at the end of 2020, an increase of 16.2%. For details as to the Bank's investments in buildings and equipment, see Note 16 to the financial statements.
Establishment of the Discount Campus. In 2016, Discount Leasing, ICC and MDB began initiating the Group campus that would house the head offices of the Bank and of the principal subsidiaries in Israel – MDB and ICC. Discount Leasing (71.55%), ICC (18.45%) and MDB (10%) have purchased land of an area of 21 dunam in the "1000 compound" in Rishon LeZion. The scope of building rights relating to the land amounts approx. to 133 thousand square meters, both above ground main and service buildings. In addition, an option for the purchase of trading rights, granted within a contract for the purchase of the land, has been exercised. In consideration of the land a total amount of NIS 135 million was paid. As part of the contract for the acquisition of the land from the Rishon LeZion Municipality, it has been specified that at least 25 thousand square meters will be constructed by the acquirers for its own purposes and that construction as stated, would be carried out within five years from date of approval of the construction plan and the blueprint for the division of the site. It has also been specified that the Group can require the Municipality to repurchase part of the building rights attached to the plot until the year 2024.
Since date of acquisition of the land and thereafter, different processes have been promoted for the establishment of the Campus, including completion of defining the vision of the Discount Campus, choosing the method of operation of the Group Campus, choosing a project manager, electing an architect and a planning team. The budget for the project was approved in the last quarter of 2018, and work began on digging and reinforcement of the walls. Foundation work and casting of the first floor of the project began in the second quarter of 2019. During 2020, work on the first floor and the skeleton of the basements was completed, and construction work on the upper skeleton started, concurrently with construction work of the computer installations. During the reporting period, construction and adjustment work was carried out, including internal construction and systems for the office and joint areas in the above ground floors, in the operating floor, in the underground parking area and in the computer installations. In addition, several companies were engaged for completion of the technological and physical infrastructure of the project. Construction work is expected to continue for an additional year. It is noted that preparations for the occupancy and operation of the project began already in the reported period.
The Bank estimates that the cost of establishing the Group's Campus that had been assessed at approx. NIS 1.8 billion, is expected to increase to approx. NIS 1.9 billion. Of this amount, approx. NIS 743 million has already been invested by the Group until December 31, 2020. The balance of the commitment in respect of the project as of December 31, 2021, amounts to NIS 655 million (all amounts respecting the establishment of the Campus do not include VAT).
The Bank is of the opinion that the impact on capital adequacy of the Group Campus construction project is not expected to be material, as the project is to be partly financed by the sale of existing properties.

Forward looking information. The above stated includes, inter alia, assessments made by the Bank regarding the investment in the Project and its impact on capital adequacy, which are considered forward looking information. The above stated reflects the assessment of the Bank's Management, taking into consideration the information existing in its hands at date of preparation of the annual report, inter alia, with respect to the cost of construction of projects of this type, plans of the Project and the feasibility of the sale of existing properties. The above stated may not be realized in the case of changes occurring in the real estate sector in Israel and in case of unforeseen developments in the macro-economic conditions, which are not under the Bank's control.

Focus points for 2021-2022. In accordance with the strategic plan of the Discount Group, the Bank performs operations designed to ensure the efficient and effective utilization of real estate properties, including improved leasehold terms, replacement of rented premises, etc. Alongside this activity, preparations are taking place at the Head Office and operating properties towards the planned relocation to the Discount Campus and the continuing process of sale of these properties.

As revealed by the data presented below, a downward trend is evident in the amount of real estate space used by the Bank.

Floor area at the disposal of Bank branches

As of	Sq. meters[1]	Number of brunches	Average Sq. meters per branch
December 31, 2021	50,034	97	515.8
December 31, 2020	52,900	103	513.6
December 31, 2019	53,457	103	519.0
December 31, 2018	54,130	106	510.7
December 31, 2017	55,429	111	499.4

Footnote:
(1) The data regarding the areas was improved in 2018, including the comparative data.

Distribution of all floor area at the disposal of the Bank

	As of December 31					
	2021	2020	2019	2018	2017	2015
	In Sq. meters					
Freehold	90.7	91.2	92.8	95.6	98.0	109.1
Leasehold	51.5	53.0	52.7	49.9	49.8	50.5
Total	**142.2**	**144.2**	**145.5**	**145.5**	**147.8**	**159.6**

Gain on sale of assets. In 2021 a gain from the sale of properties of NIS 43 million was recorded, net of the tax effect, compared with NIS 22 million in 2020.

ICC's building in Givatayim. On January 12, 2022, ICC published an invitation for proposals to be submitted for acquiring its office building in Givatayim. ICC estimates that the sale process will be completed by the end of 2022.

New premises for the Head Office of IDB Bank. In July 2019, IDB Bank signed a twenty year lease agreement, which includes an option for termination after fifteen years, for a property in Manhattan to which the head office of the bank will be relocated. The annual rental fees (excluding taxes, insurance, and other related expenses) amount to US$8.4 million. The agreement would be recognized as an operating lease in accordance with Standard ASC 842 (at date of initial application of the Standard by IDB Bank – December 2022), and the property is expected to be stated at a total value of US$117 million. The Head Office of the bank was moved in the second quarter of 2021 to a new building, Grace Building. This building houses now the Head Office premises as well as those of the Manhattan Branch.

Accessibility for Handicapped Persons

In accordance with the Equal Rights for Handicapped Persons Act, the Bank has appointed an Accessibility Coordinator which leads and coordinates the accessibility operations at the Bank. The Bank conducted a "Discount accessible" project, within the framework of which, the Bank made accessibility modifications in accordance with the regulation, both from the aspects of building, infrastructure and environmental modifications and the aspects of modifications for accessibility to service. In addition, accessibility modifications have been made at the Internet websites and on the cellular applications, training sessions are held to the Bank's employees on the accessibility subject as well as reviews and periodic tests in accordance with requirements of the law and regulations including the periodic examination required under Regulation 28. The Bank takes action to eliminate accessibility gaps, once they become known.

Information and Computer Systems

General

The information systems stand at the core of the Bank's operations and comprise the backbone on which the Bank's operations are based. Direct banking services are provided by the Bank through a variety of lanes: Internet sites, mobile apps, information stations, automatic teller machines, computerized vocal response and more. These services interface with the overall computer system for the purpose of obtaining and updating of information, and are protected by most advanced technologies of data protection.
Most of the various computer systems serve both the Bank and MDB.
Over the years the Bank has developed qualitative and reliable computer solutions with respect to all business areas in which the Bank operates. Solutions that had been developed with respect to core systems are among the most advanced existing at present at banks in Israel. These systems are capable of serving the Bank for many years to come, subject to maintenance services being provided at an appropriate level. The Bank continues to upgrade and replace systems in accordance with its needs, in accordance with preferences of the budget and strategic plans.
For details as to the cost of in-house development of computer software, see Note 16 H to the financial statements.
Major suppliers. The Bank has a large number of major suppliers from Israel and abroad in the field of information systems and their development. The Bank has no significant dependence on suppliers, with the exception of IBM, Oracle, Microsoft, HDC, Checkpoint, NetApp and CISCO. These companies have engagements with the Bank through their representatives in Israel.

Locations of the Operation

The technological array is operated from two different sites which are far apart from each other. The sites provide backup for each other and are capable of working independently.

Principle Projects Conducted in 2021

1. Infrastructure projects – preparations for the move to the Discount Campus, including new and advanced computer infrastructure. Initiatives regarding improved performance and reduction in consumption of computer resources;
2. CRM and interaction with customers - various developments in the CRM system as regards mortgage products, work queues, improvement of banker experience and improving efficiency of work processes.
3. Direct channels – progress has been made in a broad variety of direct channel developments, including – in the Internet sites and apps. Functionality the of the digital assets was expanded, giving added value to the Bank's customers by expanding the digital services, ability to execute transactions independently, from commencement through approval, mortgage and investment advisory. Upgrading of the feedback infrastructure.

4. Core projects – making operating processes more efficient. Completion of the implementation in the branch layout of differential pricing of deposits, a new credit system – addition of "green" tracks in accordance with the 2021 policy, improvement of the WF process, standard for the management of digital guarantees (Accountant General), improvements and changes in mortgage underwriting processes, dashboards for product managers;
5. Cyber and data protection – development of proactive defense abilities, integration of Big Data analysis capabilities and orchestration and automation capabilities with the aim of increasing the effectiveness of the response provided by information systems;
6. Projects intended to ensure compliance with regulatory directives regarding transferring an account between banks, removal of the CNET system for the monitoring of suspected transaction replaced by the SCOUT system, open banking and preparedness for the digital bank.

Principle Projects for 2022

1. Infrastructure projects – further preparations for the move to the Discount Campus, including new and advanced computer infrastructure. Establishment of a generic infrastructure for cloud;
2. CRM and interaction with customers – the transfer of the retail CRM to cloud, transformation of processes, integration of the reform in the mortgages field, conversion of additional processes in the Operations Division, transferring approaches by the public to CRM. Customer experience management system and distance signing;
3. Direct channels – additional business capabilities are planned for the various business arenas on the app. and the Internet sites. Digital mortgage, aggregation, the opening of an account by digital means;
4. Core projects – replacing the core dealing room systems and the small businesses credit system, making improvements to the mortgages system, upgrading core securities systems, and integrating open banking information in the business processes.
5. Projects intended to ensure compliance with regulatory directives – MESILA (the Hebrew acronym for the statistical database designated for business credit), capability to conduct all activity digitally for all the customers, making all notifications accessible on the Internet, saving plans for each child, improving guarantors' data on the credit providers database, open banking, and moving an account between banks.
6. Cyber and data protection – continuing the development of proactive defense abilities, integration of Big Data analysis capabilities and orchestration and automation capabilities with the aim of increasing the effectiveness of the response provided by information systems.
7. Projects intended to fulfill regulatory instructions – statistical data base designed for business credit ("Messila"), ability to conduct all operations on the digital for all customers, savings for every child, improving guarantor data for the credit data base, open banking, transfer of account between banks.

The Bank's investment budget for 2022 in respect of information systems and computerization, including for information system development projects, amounts to NIS 372 million (NIS 355 million in 2021).

The contents of the above section constitute a forward-looking information based on past experience in everything related to system development and technological abilities, the investment required for the development of new systems and adaptation of existing systems in order for them to comply with regulatory demands and the Bank's business requirements. The above is also based on regulatory provisions existing at date of publication of the Annual Report (even though they have not as yet become effective) and provisions expected by the Bank to apply, based, inter alia, on drafts published by the various Regulators. The above is also based on the Bank's development programs existing at date of publication of the Annual Report, and on business intentions, the realization of which would require the development of supportive computer systems.

Legislative and regulatory changes unknown at the date of publication of the reports, including changes in the details of existing initiatives and drafts, technological developments and/or activities of competitors bringing about changes in customer demands and expectations, as well as macro developments in Israel and in the world, may bring about changes in the assessments or in the ability to carry out the Bank's plans at date of publication of the reports.

ICC

On April 5, 2017, ICC and HPE Software Israel Ltd. signed an agreement for the supply of IT services to the company, within the framework of a multiyear project to replace the company's core system infrastructure. The objective of the project is to improve the business continuity in the core activities, paying attention to the lifecycle termination

date of the existing technological infrastructure, and its replacement with an advanced infrastructure with a long-term horizon. The scope of the entire project, including the internal inputs to be invested therein, is estimated to amount to approx. NIS 220 million. The completion of the project is expected in the year 2023.
The support of the existing operating system for the core operation of ICC terminated at the end of 2020. ICC and HPE have signed an agreement for the support of the existing system for the coming years, until the replacement of the core system infrastructure.
During the second quarter of 2021, ICC transferred the principal computer installations from Givataim to a host location in Modi'in.

IDB Bank

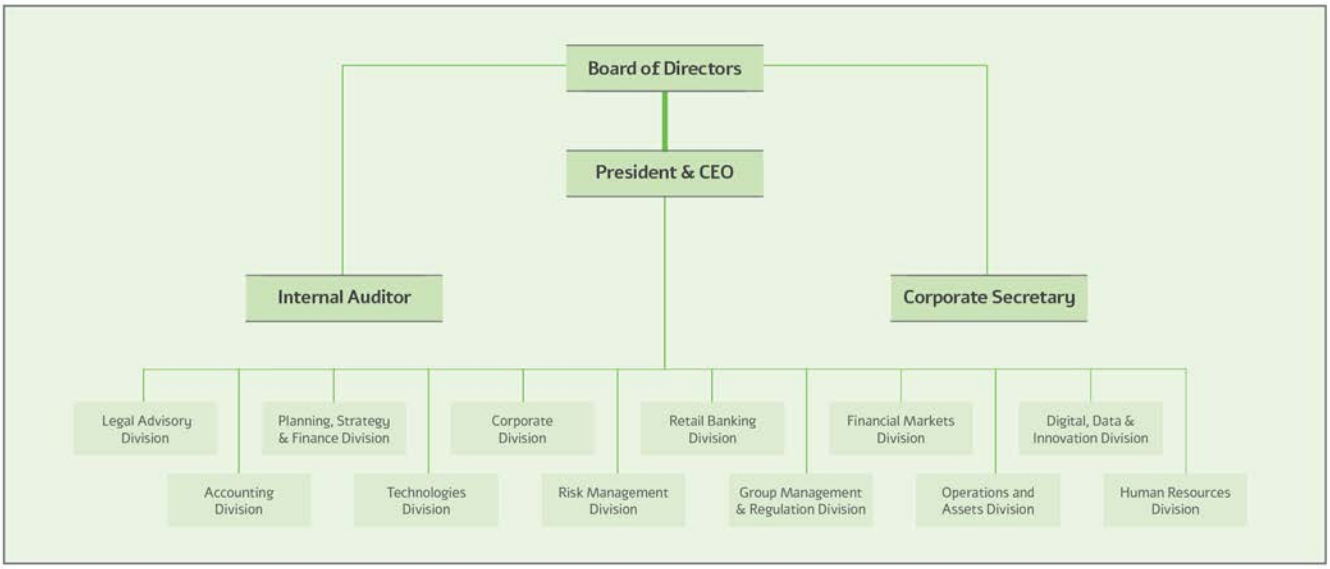
The core systems of IDB Bank are at present provided through outsourcing by FiServ Company. The Board of Directors of IDB Bank decided to approve the managements' recommendation of the replacement of the existing core systems by a new core system, to be provided through outsourcing by Jack Henry & Associates. The volume of the engagement is estimated at approx. US$25.4 million, over a period of seven years.
In September 2019 IDB Bank signed a service agreement with the present supplier, FiServ Company, in order to secure appropriate support for the existing systems until completion of the conversion process to the new system. IDB Bank has signed an agreement with Jack Henry & Associates on December 31, 2019 and the implementation is in progress with a plan to complete the implementation in 3 phases from 2021 until 2022.
At the beginning of January 2022, it was decided to upgrade the current loans system, LoanIQ, within the framework of stage B of the project. Stage A is planned to be launched in May 2022.

Intangible Assets

Trademarks and brand names. The Bank has exclusive intellectual property rights in the following trademarks that are duly registered with the Registrar of Trademarks, and in the label accompanying each of them: "Israel Discount Bank Ltd.", "Discount Bank", "Discount" and "Israel Discount Bank", which include the Bank's logo. In addition, the Bank registers from time to time, for the purpose of its business and marketing operations, names of services and products such as: "Key", "Discount key", the trademark of the key chart, etc. In December 2018, the Bank registered the trademarks "PayBox", "PayBox App" as well as the logo. Ownership of these trademarks has been transferred to PayBox Company following its incorporation as an auxiliary corporation. During January 2022, the Bank also registered the "Discount Tech" trademark.
ICC developed a distinct symbol in order to differentiate it from the other VISA issuers, using the brand name "ICC" or "Cal". Furthermore, ICC owns many registered trademarks in Israel, including "ICC", "Cal" "Cal Choice".
Furthermore, the Bank's subsidiary companies own trademarks, related brand names and slogans registered for the purpose of their business and marketing operations.
Licenses and franchises. The Bank and ICC have the status of a "principal member" in the International VISA Organization, which grants them the license to use the trademarks of VISA as well as the right to issue and clear credit cards under this brand name in Israel. The Bank and ICC have the status of a "principal member" in the MasterCard Worldwide organization, which has granted them licenses to use the "MasterCard", "Cirrus" and "Maestro" trade marks in Israel as well as issuance and clearing licenses for credit cards under these brands in Israel.
The International Diners Organization has granted Diners in Israel the exclusive franchise for the use of the brand "Diners" trade mark and for operating issuance and clearing services for Diners credit cards in Israel. The franchise is extended from time to time, and recently until December 31, 2029. See Note 36 E above.
ICC has a conditional, non-exclusive license for the clearing of credit cards of the "IsraCard" brand.
Software. The Bank also has intellectual property rights in designated software systems and various modules used in its business, which the Bank develops and/or acquires in the course of its ongoing operations for its own use and/or the use of subsidiaries and affiliates.
Data bases. The Bank and its subsidiaries have data bases regarding their various fields of operations relating mostly to their customers and employees.

The Human Capital

Organizational Structure Chart



Management of the Human Resource – General

Principal Activities in 2021

Employee experience review. An employee experience review was first introduced by the Bank in the first quarter of 2021. In the second quarter of 2021, the findings of the review were analyzed at Bank, division and manager levels, areas focused for improvement were chosen and work plans were constructed. The implementation of work plans for dealing with the findings started in the third and fourth quarters, such as: holding of round-table discussions with employees by members of Management, meetings with new employees, holding forums of middle level managers and more.

A new leadership model. The leadership model was introduced in the first quarter of 2021, in a festive gathering which defines a set of conduct expected from managers. Three integration levels have been defined: integration in processes, training and tools, and integration by managers. The Model was integrated in organizational processes, such as: employee evaluation process, employee experience review, management courses and more. Analysis of the data collected by these processes enables the Bank to focus on areas requiring improvement. The process of integration with respect to members of the senior Forum started in August 2021, by means of study and discussion groups.

Providing supporting tools to the Bank's units. Providing supporting tools as regards locating, placement and supplementing knowhow, as a supplemental move of the move for the reduction in the labor force, with the aim of enabling the Bank's units to adjust to the reduction in the labor force, while making optimal use of employee mobility among the different units.

Signing of collective labor agreements. In December 2021, following prolonged negotiations with the employees representative committee, several significant collective labor agreements were signed, relating to labor relations at the Bank, including: extension of validity of the Labor Charter and the changes made therein, a wage and awards agreement for a period of three years and the transfer to the Discount Campus location. For additional details, see above "Handling by Management of current material matters".

Agreement regarding redemption of jubilee awards to entitled employees. Among the collective labor agreements signed, was also an agreement according to which, the future entitlement to a jubilee award, jubilee vacation and jubilee vacation pay for entitled employees had been abolished, and a format had been determined for computing the redemption amount of the liability of the Bank in respect of the abolished entitlement, taking into account, inter alia, the remaining period to date of entitlement, the scope of employment, etc.

Challenges for 2022

Transfer to the Discount Campus. Completion of preparations from the aspect of human resources regarding the transfer to the Discount Campus location, including formation and integration of a culture and work environment intended to provide employees with a better and advanced work experience.
Preparations for transformation in traditional banking and for the challenges of the future.
Effective management of the labor force and its cost. The central challenge for 2022 is the strict and restraining management of the labor force and its cost, in a manner that would ensure the preservation of the achievements of the retirement plan of 2020 on the one hand, and the utilization of the natural retirement potential on the other hand. All this, with the aim of ensuring the attainment of goals, as defined in the strategic plan, for the reduction in the labor force, and respectively, creating significant efficiency.

Human resources management during the period of the Corona crisis

The Bank operated in 2021 in accordance with developments in the pandemic waves, Government guidelines regarding the Corona and considerations regarding business continuity. A lockdown was imposed on the economy at the beginning of the year, but in accordance with the definition of the Bank as an essential enterprise, the branches continued to operate in a regular format, while physical presence of Head Office employees at the Bank's premises was cut down to a minimum.
At the beginning of the second quarter, employees of the Bank returned to full format work at the premises of the Bank, subject to green/purple label restrictions, excluding employees of singular organizational units, who it was detailed shall continue to work from home, fully or partially. After approximately two months, at the beginning of June, concurrently to the lifting of restrictions by the Ministry of Health, all restrictions on movement at the premises of the Bank were removed. In the middle of August, following the breakout of the fourth Corona wave, the guideline regarding the Green Pass/negative Covid test restrictions was reinstated as a requirement for presence in the Bank's premises.
At the end of 2021, with the outbreak of the fifth wave (the Omicron variant), test requirements were intensified to twice weekly for non-immunized employees, as condition for working at the Bank's premises.
At the beginning of 2022, the Bank returned again to integrated work from home and from the premises of the Bank.
The Bank continues to operate in accordance with guidelines of the Government with respect to the Corona matter, and communicates guidelines to employees. Concurrently, treatment continues with regards to employees found positive with the virus or who are in isolation.

Labor Force and Salary Expenses

There were 4,557 employees in full-time positions in the Bank in Israel at the end of 2021, compared with 4,607 at the end of 2020, a decrease of 1.1%. In 2021 the average monthly number of employees, based on full-time positions, in the Bank dropped and amounted in 2021 to 4,556, as compared to 4,889 in 2020, a decrease of 6.8%.
There were 8,035 full-time positions in the Group in Israel and abroad at the end of 2021, compared with 8,027 at the end of 2020, an increase of 0.1%. The average monthly number of employees in full-time positions in the Group, both in Israel and abroad, at the end of 2021, was 7,957, compared with 8,431 at the end of 2020, a decrease of 5.6%.

Labor force data of the Group and the Bank

	Employees					Positions[1]									
	As of December 31					As of December 31					Monthly average in				
	2021	2020	2019	2018	2017	2021	2020	2019	2018	2017	2021	2020	2019	2018	2017
The Bank in Israel	5,044	5,085	[2]5,447	5,489	5,666	4,557	4,607	4,905	4,968	5,192	4,556	4,889	4,951	5,157	5,265
Domestic subsidiaries	3,310	3,246	3,467	3,477	3,221	2,924	2,855	3,040	3,055	2,895	2,846	2,982	[3]3,025	3,003	2,896
Group total in Israel	**8,354**	**8,331**	**8,914**	**8,966**	**8,887**	**7,481**	**7,462**	**7,945**	**8,023**	**8,087**	**7,402**	**7,871**	**7,976**	**8,160**	**8,161**
Overseas subsidiaries	545	557	558	522	487	554	565	564	527	491	555	560	560	508	480
Group total overseas	**545**	**557**	**558**	**522**	**487**	**554**	**565**	**564**	**527**	**491**	**555**	**560**	**560**	**508**	**480**
Group total overseas and Israel	**8,899**	**8,888**	**9,472**	**9,488**	**9,374**	**8,035**	**8,027**	**8,509**	**8,550**	**8,578**	**7,957**	**8,431**	**8,536**	**8,668**	**8,641**

Footnotes:
(1) The number of positions includes conversion into overtime positions with the addition of positions of software house employees who provide services to the Bank and after deduction of positions payroll cost in their respect has been capitalized to fixed assets.
(2) From conducting an examination, 83 persons, who were previously treated as service providers, have been defined as outsourced employees and have been added to the Bank's workforce numbers as of December 31, 2019. In the absence of available data, no corresponding adjustment has been made to the comparative figures or to the number of positions as of December 31, 2019 or for the prior periods. In addition, the employment costs have not been reclassified from "expenses" to "salaries".
(3) Improvement in computing of the data.

Cost per position, in NIS thousands, on the basis of costs reported in practice

	2021	2020	2019	Change in % 2021 compared to 2020	Change in % 2020 compared to 2019
The annual average direct cost[1] per employee position in the Bank in Israel	303	256	277	18.4	(7.6)
The total annual average cost[1] per employee position in the Bank in Israel	448	384	403	16.7	(4.7)
The average annual overall payroll cost[1] per employee of the Group in Israel and abroad	436	385	392	13.2	(1.8)

Footnotes:
(1) The payroll costs also include the cost of software house employees less payroll costs capitalized to fixed assets.

The average annual cost of the direct wage in respect of an employee position at the Bank in Israel, increased in 2021 by a rate of 18.4% (see Table above). With elimination of awards, the average annual cost of the direct wage in respect of an employee position at the Bank in Israel, decreased in 2021 by a rate of 0.4% (see Table below).
The total average annual cost of an employee position at the Bank in Israel, increased in 2021 by a rate of 16.7% (see Table above). Eliminating the effect awards, the total average annual cost of an employee position at the Bank in Israel, increased by a rate of 1.1%, compared with 2020 (see Table below).
It should be noted that, in the above and below tables, the cost per position does not include salary expenses, which, in accordance with the Public Reporting Directives, have been classified as "Other expenses" (see Note 1 C 6 (3) to the financial statements).

Cost per position, in NIS thousands, eliminating certain components

	2021	2020	2019	Change in % 2021 compared to 2020	Change in % 2020 compared to 2019
The annual average direct cost[1] per employee position in the Bank in Israel - excluding awards and reversal of excess provisions[2]	241	242	249	(0.4)	(2.8)
The total annual average cost[1] per employee position in the Bank in Israel - excluding awards and reversal of excess provisions[2]	371	367	368	1.1	(0.3)
The average annual overall payroll cost[1] per employee of the Group in Israel and abroad - excluding awards and reversal of excess provisions[2]	368	366	358	0.5	2.2

Footnotes:
(1) The payroll costs also include the cost of software house employees less payroll costs capitalized to fixed assets.
(2) See the effects of certain components on salaries and related expenses, p. 26.

Total income per position In NIS thousands

	2021	2020	2019	Change in % 2021 compared to 2020	Change in % 2020 compared to 2019
Total income at the Bank to an average employee position at the Bank	1,215	1,089	1,044	11.6	4.3
Total income, consolidated to an average employee position at the Group in Israel and abroad	1,318	1,175	1,132	12.2	3.8

Human Resources according to Segments of Operation

The positions stated according to segments of operation include positions of direct employees of the segment and positions of head office staff of various levels, the cost of their employment had been allocated to the segment. The calculation of the number of positions, as stated, is based on a model for the allocation of costs used by the Bank, as adjusted in the circumstances and on the basis of assessments.

Human resources according to segments of operation

	Domestic operations								International operations	
	Households	Private Banking	Small and minute businesses	Medium businesses	Large businesses	Institutional bodies	Financial management	Total Domestic operations	total International operations	total
	For the year ended December 31, 2021									
Average number of positions in the segment	3,845	109	1,805	349	807	79	408	7,402	555	7,957
	For the year ended December 31, 2020									
Average number of positions in the segment	4,211	146	1,988	359	756	73	338	7,871	560	8,431

Labor Relations

General. Labor Relations at the Bank are based on the Labor Charter, collective labor agreements and employment arrangements that are consummated mainly in negotiations between the Bank's management and the employees' representatives.

Labor Charter. "Labor Charter for the Employees of Israel Discount Bank Ltd.", which was signed in 1974 (hereinafter: "the Labor Charter") constitutes a wide base outlining and incorporating employment conditions, disciplinary provisions, arbitration procedures and additional procedures and regulations. During the last decades, dozens of collective labor agreements were consummated in addition to the Labor Charter. These other agreements include wage and other agreements intended to supplement and expand the Labor Charter, to change the Labor Charter or to cancel certain provisions of the Labor Charter. In an agreement dated December 23, 2021, the validity of the Charter was extended until December 31, 2026, subject to changes, the principal of which is the conversion of employees from a "temporary" status to a "stable" status.

Principal Categories with respect to Employment Conditions

The Bank's employees are classified into four main categories for purposes of employment conditions:

Tenured employees. The employment terms of tenured employees are arranged, as stated, in accordance with the Labor Charter, special collective labor agreements and other employment arrangements.

The agreement with respect to extending the validity of the Labor Charter dated December 23, 2021, committed the Bank to convert 300 employees to the status of "tenured employees", this during the period of ten years from date of signing the agreement.

Temporary employees. Until date of signing the agreement with respect to extending the validity of the Labor Charter dated December 23, 2021, several types of temporary employees had existed at the Bank, including tellers and direct banking employees (a temporary period of five years), temporary employees (a temporary period of four years), temporary computer employees (a temporary period of seven years), IT computer employees (employment of 250 computer employees with no time limit).

As from date of signing the agreement, the said classification of temporary employees as existed until that date was abolished, including all contractual stipulations relating to them. Instead, a uniform temporary period was determined at the Bank (relating also to new employees recruited by the Bank) of one year for all employees, and of two years for employees of the direct channels management wing.

Steady employees. The agreement of December 23, 2021, states that at the end of the temporary period, to the extent that employment of the temporary employee had not been terminated, all these employees would be converted to the status of "steady employee" with no time limit to the period of employment, in a way allowing them to advance and develop in the organization. The agreement also states that such employees, based upon their capabilities and suitability for office, would be able to fulfill managerial duties at the Bank. It is noted, that the said collective labor agreement states that the quota of steady employees shall not exceed 2,000 employees, this within a period of ten years from date of signing the agreement. The steady employees will be unionized by way of the representative committee of employees and the Federation of Labor, though the Labor Charter and the agreements signed under it, which apply to employees of the "tenured" status, would not apply to them. The terms of employment applying to employees of the "steady" status shall be exclusively determined by the Bank's Management. Notwithstanding this, it is determined that concurrently with wage negotiations, which would be held between the Bank's Management and the employee representative committee with respect to "tenured" employees, wage negotiations would also be held between the Bank's Management and the employee representative committee with respect to the wages of "steady" employees.

In addition, the Bank's Management shall provide to the representative committee of employees a monthly cultural package contribution in respect of each "steady" employee, similarly to the contribution provided by the Bank's Management in respect of each "tenured" employee.

Personal employment contracts. Employees engaged under personal employment contracts sign, prior to their engagement with the Bank, a personal contract, and the provisions of the labor charter and the collective agreements, which apply to "tenured" employees, do not apply to them. The employee population engaged under a personal agreement includes the members of the Bank's Management as well as an additional quota, as determined in the agreements, at the discretion of the Bank's Management. The agreement dated December 23, 2021, extending the validity of the Labor Charter, states that "tenured" employees and "steady" employees appointed, as from date of signing of the agreement, to the office of Wing Manager (excluding a number of appointments as stated in the agreement), shall be transferred to the status of "personal employment agreement" employees. As of December 31, 2021, the Bank employed 231 personnel (including members of management) under personal employment agreements (December 31, 2020: 213 employees engaged under personal contracts).

In addition, the Bank acquires services of manpower company employees and software houses. These employees are engaged mainly in software development tasks.

Summary of employment data in the Bank in the various categories and the changes therein

	As of December 31,					Change			
Employees	2021	2020	2019	2018	2017	2021 compared to 2020	2020 compared to 2019	2019 compared to 2018	2018 compared to 2017
Tenured employees under personal contracts and members of management	3,055	3,147	3,642	3,681	3,853	(92)	(495)	(39)	(172)
Temporary employees[1]	1,397	1,317	1,133	1,215	1,285	80	184	(82)	(70)
Software house	441	[2]486	[2]507	447	364	(45)	(21)	60	83
Total	**4,893**	**4,950**	**5,282**	**5,343**	**5,502**	**(57)**	**(332)**	**(61)**	**(159)**
Additional – employees on unpaid leave and maternity leave	151	135	165	146	164	16	(30)	19	(18)
Total	**5,044**	**5,085**	**5,447**	**5,489**	**5,666**	**(41)**	**(362)**	**(42)**	**(177)**
Positions	2021	2020	2019	2018	2017				
Tenured employees under personal contracts and members of management	3,115	3,206	3,709	3,739	3,905	(91)	(503)	(30)	(166)
Temporary employees	1,410	1,328	1,162	1,206	1,263	82	166	(45)	(57)
Software house	396	479	395	378	345	(83)	84	17	33
Total	**4,922**	**5,013**	**5,266**	**5,323**	**5,513**	**(91)**	**(253)**	**(57)**	**(190)**
Of which positions of Bank employees, the cost of which has been capitalized to fixed assets	189	212	153	154	139				
Of which positions of software house employees of which has been capitalized to fixed assets	176	194	208	201	182				
Total positions before of which has been capitalized to fixed assets	**4,557**	**4,607**	**4,905**	**4,968**	**5,192**				

Footnote:

(1) [As of December 31, 2021, the Bank employed 933 employees having the status of "stable employee", a status determined within the framework of a new collective labor agreement signed on December 22, 2021. At the beginning of 2022, the Bank started to integrate the change in its systems.

(2) From conducting an examination, 83 persons, who were previously treated as service providers, have been defined as outsourced employees and have been added to the Bank's workforce numbers as of December 31, 2019. In the absence of available data, no corresponding adjustment has been made to the comparative figures or to the number of positions as of December 31, 2019 or for the prior periods. In addition, the employment costs have not been reclassified from "expenses" to "salaries"

Remuneration Plan for Members of the Bank's Management

The Bank approved an awards plan for Officers for 2020-2022, in accordance with the remuneration policy for officers of the Bank, as approved by the Bank's General Meeting of Shareholders of March 2020 (see Note 23 E to the financial statements). For details regarding the awards actually paid to Members of the Bank's Management in the years 2019-2021, see Note 23 F and G, and Note 35 F, respectively.

Labor Relations of the Principal Subsidiaries

ICC. On June 11, 2019, a special collective agreement was signed by ICC, the New Federation of Labor and the national committee of ICC employees, which is effective from January 1, 2019 through December 31, 2022. In January 2022, the company and the employees' representative committee began negotiations to formulate a new collective agreement.

MDB. The labor relations between MDB and its employees, other than employees with a personal contract, are based on a web of collective agreements dealing with different topics.

The Management of MDB and the national committee of employees of this bank signed in December 2018, a wage agreement for the years 2019-2023, which includes new and significant items. The essence of the agreement includes: detachment of the wage, work terms, and related benefits of MDB from those prevailing at Bank Leumi during the agreement period; in respect of the said detachment, the employees are to receive a onetime award amounting to 2.5 monthly salaries; a wage increment at the rate of 3.1% per year (excluding a seniority increment of 0.8%), for each of the years covered by the agreement; a gradual updating of the minimum monthly wage used for computing severance pay.

Special collective agreement. On February 24, 2022, a special collective agreement was signed between MDB, the New General Federation of Labor and the MDB employees' representatives, within the framework of which the labor dispute declared at this bank on February 15, 2021 was resolved. The dispute was primarily with regard to the move of MDB's head offices to the Discount Campus.
The agreement includes several main accords:
- agreement for the move to the Discount Campus, including locations for various units in the Campus building, catering arrangements, seating placement, shuttle service and parking spaces;
- entitlement of employees, according to the workforce as of December 31, 2021, to an activity yield award and to an award for agreeing to move to the Campus ("agreement award") in an average amount of 4.15 salaries;
- arranging a scheme for remote working to the extent of at least one workday per week, for employees wishing to do so.

Remuneration Policy in a Banking Corporation

Instructions in the matter of the remuneration policy of a banking corporation. The Supervisor of Banks issued on November 19, 2013, a Proper Conduct of Banking Business Directive in the matter of remuneration in a banking corporation as updated from time to time (hereunder: "The Directive"). In accordance with the instruction, the Bank's Board of Directors has to approve, at least once in every three years, a remuneration policy, following the recommendation of the Remuneration Committee the remuneration committee, as well as determine principles for a Group remuneration policy, which comply with the requirements stated in the Directive is in addition to the provisions of the Companies Act, 1999, and the provisions of the Remuneration of Officers of Financial Corporations Act (special approval and the non-deductibility tax wise of exceptional remuneration), 2016 (see above).
Remuneration policy for Officers of the Bank. See Note 23 D and E above.
Employees remuneration policy. In March 2020 the Bank approved an updated remuneration policy for all employees of the Bank has been approved, including in respect of key employees, as well as the principals of group remuneration policy.
For further disclosure in the matter of "remuneration", see the document "Disclosure according to the third pillar of Basel and additional information regarding risks", available for review on the Internet.

Development of Human Resources

Managers' development programs

The principal focus in 2021 was directed to the integration of the leadership model regarding all manager training courses and development programs.
Two rounds of management cadres were held, a new study course based on the fundaments of leadership, in which had been integrated innovative and varied learning platforms. 63 managers participated in this course.
Many and varied training courses were held for managers with a focus on development and motivating of staff and the leading of change. Furthermore, basic management training courses were held for team leaders, team development, as well as accompaniment and consultation for some 95 managers at different duty crossroads.
A leadership site was launched this year, within the framework of which are on display, tools, articles, video clips regarding leadership fundamentals, and more. Also developed were leadership capsules – comprising a focused and simple management tool for the manager, the aim of which is to strengthen conduct within each leadership fundamental. In total approx. 600 managers participated in the different development activities.

Key personnel and positions

Programs for risk mitigation were developed in 2021 in relation to key personnel and duties identified in 2020, and 91% of the programs for the risk mitigation were completed, the implementation of which had been planned for 2021.

Performance assessment and feedback

A new process for the evaluation of employees was structured in 2021, focused on the development of the employee and improvement of performance, and the integration of which in "Tiltan" – the new human resources management system, has begun. As part of the process, a leadership model has been integrated and evaluations were based on the leadership model in accordance with the capabilities and behavior of the employee and the manager.
Training courses for approx. 500 evaluating managers were held, and 98% of the Bank's employees have been evaluated through this process.

Professional Guidance

The study program in 2021 was drafted and implemented to actualize the concept of study as a way of life that supports the organizational culture of personal development and career, and of course with the objective of achieving the Bank's vision and to bring value to its stakeholders.
The work plan was focused on providing a response on three central axes:
Maintaining professional qualifications – placing emphasis, inter alia, on professionalism in credit, aspects of regulation and development of personal skills for dealing with the new era.
Providing a solution for employee training for the position – focusing on credit positions - mortgage banker, business coordinators and guidance for the introduction of a new economist to position, alongside basic banking training for new employees.
Providing response and support for strategic projects – as part of the business strategy and the realization of the vision of "being the best bank for its customers", a considerable number of study and assimilation hours were devoted to the customer experience concept in the Banking Division and to the concept of partnering in the Corporate Division. Within the framework of assimilating an organizational culture, a dedicated learning site was launched for the Bank's employees, where they can register and be exposed to a catalog of study topics and where training sessions are held for the assimilation of personal skills which support the employees' mobility and personal development, and a pilot scheme also took place to map employees' qualifications to their work.
Despite the continuing Corona epidemic and the "Guardian of the Walls" campaign, 76% of the Bank's employees participated in studies. Some 28,068 study days were conducted, compared to 20,182 days in 2020. In addition, online self-learning was undertaken, with 26,218 interactions taking place in 2021, compared to 21,369 interactions in 2020.

Organizational Culture

One of the layers of the Bank's strategic plan is to build organizational strength through deploying a winning organizational culture that supports constant improvement, performancism, excellence, and a high level of connectivity. Accordingly, in the third quarter of 2020, the Bank launched an organizational culture project, within the framework of which, five project teams were set up on the following topics: the employee experience and connectivity, strengthening managers, professional qualification, organizational optimization, and the culture of performance and change. A work plan was drawn up for the fourth quarter of 2020 and for 2021.
In 2021, numerous measures were used to implement the leadership model, in the employee assessment process, in workshops for the model's implementation at senior management levels, in management training processes, and by means of learning capsules for managers. In the area of professional qualifications and optimization, the information infrastructure relating to employee qualifications was improved, capabilities were mapped in a range of core positions and measures were taken to narrow the gaps revealed. A platform (dashboard) was constructed that brings together the principal data in the human resources field and it is expected that this will be disseminated to the organization's managers. In the spheres of performance improvement, the number of managers for whom goals/KPI have been defined was expanded and a system for managing these goals was launched.
Internal communication. The Bank is investing in the development of open and two-sided communication with its employees, while strengthening their relations and commitment to the strategy and goals of the Bank, as well as to the community and the environment.

With a view of broadening employees' knowledge and understanding as to the Bank's total activities and to promote performance, a variety of communication lines were also used during 2019, including: Senior Forum - a quarterly meeting; "Morning magazine" - a weekly television newscast presenting subjects standing at the core of the Bank's endeavor.

A "FaceBank" Portal. FaceBank enables access to employees, participation in know-how, a wide dialogue and contents that assist in the integration of information in a convenient manner and advanced user experience. The portal emphasizes the participation of employees in determining the contents and in increasing their involvement in leading change processes.

Communication with the Senior Forum. The Bank has a designated channel for communications with the Senior Forum at the Bank and at the Group. The Forum consists of some 120 executives in the Group who, through this channel, receive current updates and reports on a daily basis.

In order to feel the mood, challenges and questions of employees, the Bank holds meetings at various levels, discussion groups and feedback processes, including:

- "Round tables" – "face to face" meetings of the President & CEO or of one of the management members with managers and employees;
- "Management in the field" - monthly tours of management members at branches and field units accompanied by senior managers from their head offices.

Organizational communication during the Corona crisis. Work in an emergency format has set the challenge of maintaining organizational communication in the days of the Corona crisis, during which, many employees were prevented from reaching the Bank offices. In view of the above stated, "FaceBank reaching you" website has been introduced – being the employees' "FaceBank" website in a version adapted to the mobile phone, enabling Bank employees to obtain diverse information and upload contents from anywhere and at any time. Immediately upon the outbreak of the crisis, the Bank's Management took strict action to update employees with the developing situation and to distribute, nearly daily, updating announcements to employees through diversified communication channels.

The Bank's President & CEO held a weekly updating conversation with the Bank's managerial echelon, from the branch manager level and above, within the framework of which, it was also possible to present questions and subjects for discussion. In addition, the President & CEO held a round of virtual feedback meetings with employees and managers from the various divisions, at which he reviewed the challenges and the preparations made at the Bank during this period, after which a dialogue took place with the meeting participants and answers were provided to the various issues raised.

The customer experience at Discount Bank

The customer experience concept of Discount Bank places customer satisfaction of the Bank at the top of the importance scale.

The Bank strives to position itself as the best bank for its customers and to lead the Israeli banking system in the recommendations index (NPS). In 2020, a multi-year strategic project was launched with the aim of implementing a series of changes that will lead to Discount Bank realizing its goal and to it becoming the best bank for its customers.

The project is based on four main layers: (1) a comprehensive and varied array of tools for listening to customers; (2) an analysis of the feedback received from customers and converting this into action initiatives; (3) effective mechanisms for improving the customer experience and for handling problems that customers draw attention to, both in the field arrays – with the branches and with TeleBank, and also in the digital arrays and with the various head office units; (4) constant control and strict monitoring of the results. During 2021, the project's deployment began and this has brought about a significant improvement in the customer experience at the branches. In 2022, the deployment will continue and will be expanded to additional units of the Bank, and to additional contents. See also "Striving for a winning customer experience" in the section "Management's handling of current material issues" above.

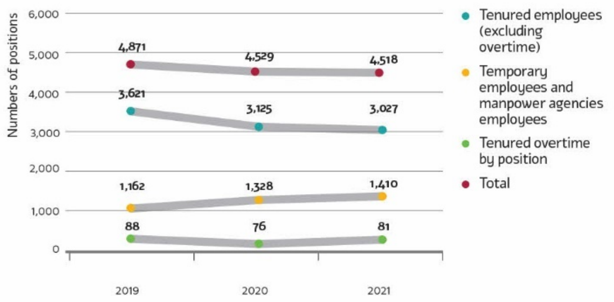
Maintaining service continuity during the Corona crisis period. The Bank has prepared for maintaining service continuity and accessibility to banking services on all channels with a view of assisting customers in continuing their regular activity. Preparations included solutions adapted to the changing economic condition of customers, with a view of assisting them in continuing their business activity, while protecting their health and the health of the Bank employees.

Treating Complaints

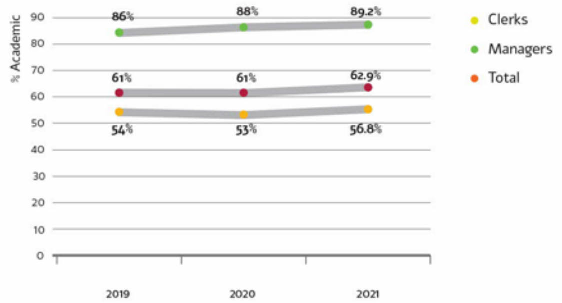
No data has yet been received from the Bank of Israel in respect of 2021.

The annual report to the public regarding the treatment of complaints by the Bank in 2020, may be viewed on the Bank's website. The annual report in respect of 2021, shall be available to the public on the Bank's website at the end of March 2022.

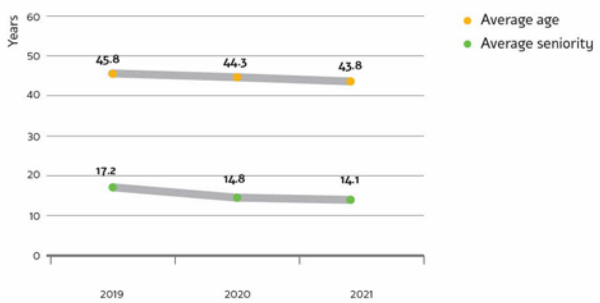
Number of positions at the Bank



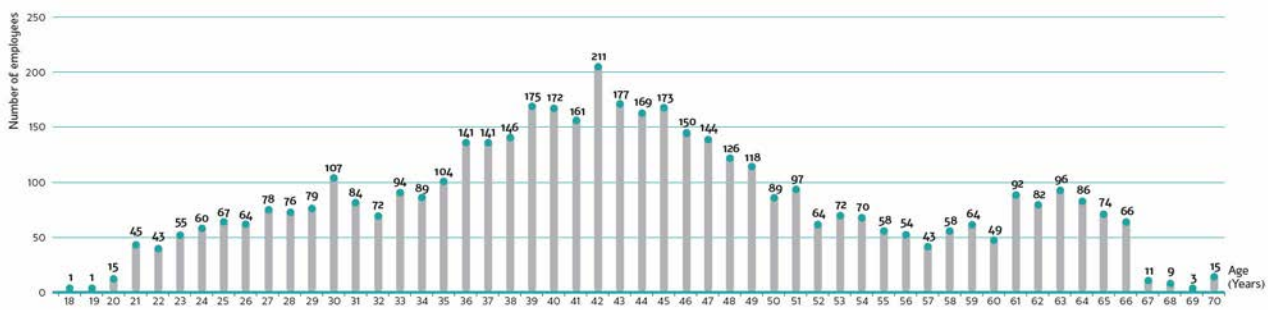
The rate of university graduates according to grade at the Bank



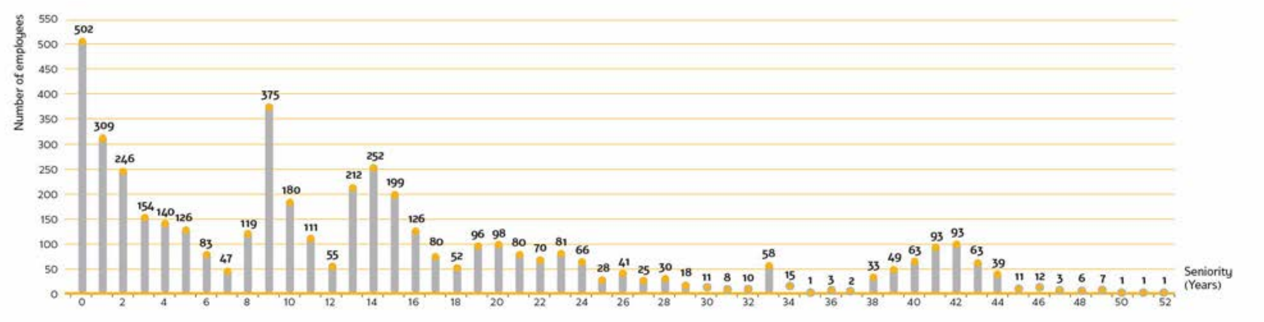
Average seniority and average age at the Bank



Distribution of tenured employees by age at the Bank – work force 12/21



Distribution of tenured employees by seniority at the Bank – work force 12/21



Natural Retirement by Years at the Bank (tenured employees)

Material Agreements

Hereunder is presented a summary description of agreements, entered into outside the ordinary course of business, that might be considered material, to which the Bank is a party, or which according to its best knowledge, the Bank is a beneficiary in terms thereof, including agreements that were valid in the period covered by this annual report, or which affected the Bank's operations during such period.

Obligations of the Bank with respect to capital markets operations. In October 1983, within the framework of the "bank shares arrangement", the Bank informed the Minister of Finance and the Governor of the Bank of Israel that, among other things, it would not initiate, either directly or indirectly, orders for the purchase or sale of securities within the orders submitted to the Stock Exchange prior to the beginning of trading ("Leaders"), or as part of the setoff of purchase or sale orders prior to the beginning of trading. The Bank further confirmed that it would prevent, either directly or indirectly, any transaction in securities issued or which would be issued by banks or bank holding corporations, unless such transactions are on behalf of its customers, including provident and mutual funds. However, the Bank noted that nothing in the above would avoid transactions effected in the ordinary course of business.

Exemptions of indemnification to Directors or former Directors in the Bank or investee companies of the bank. The previous version of the Articles of Association of the Bank, which was amended in March 2002, included provisions regarding the indemnification of whoever acts or has acted, at the Bank's request, as director in another company, in which the Bank has an interest. Accordingly, the Bank had issued at that time letters of indemnification, unlimited in amount, to the acting directors or who have acted at the Bank's request in other companies owned by it. For additional details, see Note 26 C 8 A to the financial statements. For details regarding this matter and the matter of exemption in advance and indemnification of Directors and other Officers of the Bank and the subsidiaries, see Note 26 C 8 to the financial statements.

Agreements with FIBI as to the holding of means of control in ICC. In December 2006, the Bank and FIBI signed an agreement securing the understandings between them and regularizing the rights and obligations towards one another as shareholders of ICC. The said agreement amends a previous agreement dated September 29, 2000. For details regarding the letter of understanding between the shareholders of ICC, see above "Israel Credit Cards Company Ltd." under "Main Investee Companies".

Labor charter. The labor charter for Israel Discount Bank Ltd. employees was signed in 1974 and it incorporates employment terms, instructions regarding discipline, etc. For details see "Labor relations" under "Human resources" above. Over the years, dozens of collective agreements have been signed, usually to supplement the contents of the Labor Charter. In an agreement dated December 23, 2021, the validity of the Charter was extended until December 31, 2026, subject to changes, the principal of which is the conversion of employees from a "temporary" status to a "stable" status.

Agreement for the construction of the Discount Campus. For details see above in "Fixed assets and installations".

A cooperation agreement with Shufersal Company for the establishment of a digital wallet for customers of all banks. For details see "Strategic cooperation for setting up a digital wallet" in Chapter A above.

Rating the Liabilities of the Bank and some of its Subsidiaries

Rating determined for the Bank and some of its subsidiaries by different rating agencies

Rating given by	Subject of rating	Rating	Rating outlook	Date of rating/ratification of rating
	Discount Bank			
Standard & Poor's, Ma'alot	Issuer rating (including deposits)	il AAA	Stable	January 23, 2022
	Issuer rating Short-term	il A-1+		January 23, 2022
	Subordinate capital notes(1)	il AA+	Stable	January 23, 2022
	Subordinated debt notes with a loss absorption mechanism (Series F, G(3), H)	il AA-	Stable	January 23, 2022
	Bonds (Series M, N, O)	il AAA	Stable	January 23, 2022
Midroog	Long-term deposits	Aaa.il	Stable	October 31, 2021
	Short-term deposits	P-1.il		October 31, 2021
	Subordinate capital notes (Series D, J, K)(1)	Aa1.il	Stable	October 31, 2021
	Subordinate capital notes (tier 1 capital)	Aa3.il (hyb)	Stable	October 31, 2021
	Subordinated debt notes with a loss absorption mechanism (Series F, G)	Aa3.il (hyb)	Stable	October 31, 2021
	Subordinated debt notes with a loss absorption mechanism (Series H)	Aa3.il (hyb)	Stable	November 25, 2021
	Bonds (Series O)	Aa3.il	Stable	November 25, 2021
	Bonds (Series M-N)	Aa1	Stable	October 31, 2021
	Commercial securities (Series 1)	P-1.il		November 25, 2021
The international rating agency S&P	Issuer rating Long-term	BBB+	Positive	January 23, 2022
The international rating agency Moody's	Long-term foreign currency deposits	A2	Stable	December 14, 2021
	Mercantile Discount Bank			
Standard & Poor's, Ma'alot	Issuer rating (including deposits)	il AAA	Stable	January 23, 2022(2)
	Issuer rating Short-term	A-1		January 23, 2022
	Subordinate capital notes	il AA+	Stable	January 23, 2022
	Bonds (Series B)	il AAA	Stable	January 23, 2022
	IDB Bank			
Kroll Bond Rating agency	Deposits	A-	Stable	October 16, 2020
The international rating agency S&P	Issuer rating Long-term	BBB+	Positive	January 23, 2022

Footnotes:

(1) The rating also relates to subordinate capital notes (lower tier 2 capital) issued by Manpikim.

(2) Mercantile Discount Bank has been defined as a "core company" of the Discount Group. This determination creates a unique affinity between the Bank's rating and the rating of Mercantile Discount Bank.

(3) Date of rating: June 18, 2020.

Moody's rating agency announced on June 15, 2021, the raising of the rating of deposits with the Bank from "A3" to "A2" with a stable outlook. In its announcement Moody's noted that the ratings upgrade reflects Discount Bank's recent improvements in its profitability, strengthening resiliency in times of stress, given continued focus on efficiencies and robust growth potential and that the ratings upgrade also considered ongoing improvement in the bank's asset risk profile because of growth in low-risk assets, such as residential mortgages in Israel (Ref. no. 2021-01-101196).

The rating company S&P Global announced on January 23, 2022, the raising of the rating outlook of the Bank from stable to positive. S&P Global stated that Israel Discount Bank is weathering the pandemic with a limited impact on its financial profile. The Bank's profitability and asset quality metrics remained sound despite pandemic-related economic stress and the relatively rapid credit growth it achieved in the last 12 months. S&P Global also stated that the Bank's resilient performance should help it further strengthen its sound capital and provisioning buffers despite the intended rapid growth in lending. Together with the outlook rating of the Bank being raised, the outlook rating of IDB Bank was raised from stable to positive.

The international rating data for the State of Israel (long-term for bonds issued in foreign currency)

Rating given by	Foreign currency - long-term*	Rating horizon*
The international rating agency Moody's	A-1	Stable
The international rating agency S&P	AA-	Stable
The international rating agency Fitch	A+	Stable

* The data is taken from the website of the Accountant General at the Ministry of Finance.

Credit rating of the State of Israel. On February 16, 2022, the Fitch rating agency ratified the credit rating of the State of Israel at a level of A+, with a stable outlook. On November 16, 2021, the rating agency Moody's ratified the credit rating of the State of Israel at a level of A1 with a stable outlook. On May 14, 2021 S&P rating company ratified the State of Israel's credit rating at a level of AA- with a stable outlook.

Activity of the Group according to Regulatory Segments of Operation - Additional Details

Points of Emphasis for 2021

As part of the changes that the banking sector is undergoing, the Discount Group will act to accelerate the evolution in banking activity, with the aim of improving its competitive ability and increasing its market share and profitability in the banking activity. The aforesaid acceleration will be done by focusing on five areas: a winning customer experience; significant growth and a larger market share in the focus segments; innovation; banking excellence; and, a winning organizational culture. For further details see "Goals and business strategy" above.

In 2021, following the formulation of an updated, multi-year Group strategy plan, all the operating segments are planned to undergo strategic focusing and clarification taking a forward-looking viewpoint.

Household segment (Domestic operations) - additional details

General

The household segment provides services and diverse financial products to the Group's private individual customers, both at Discount Bank and at MDB. These are provided by means of a chain of some 171 branches located all over the country, service centers and diverse services on the direct channels. Value offers and financial services are being offered to customers belonging to the different service layouts in accordance with financial wealth, their dynamic needs and their preferential ways of use, alongside other parameters.

Points of Emphasis in 2021

Increased emphasis was put in 2021 on the structuring of customer experience and modification of the operating model to market trends, for customers' needs and preferences. This in order to bring about the materialization of the vision and strategy of Discount to be the best bank for its customers:

- Structuring a winning and cross channel customer experience – human and digital;
- The Bank continues to act towards creating an accessible array of wide services with an advanced experience, available 24/7 on digital platforms (including a digital mortgage, opening an account using the Application, and more), alongside tools and infrastructure for the support of customers adopting the advanced services;
- Expanding the service of arranging in advance a meeting with a Bank officer, teller services and consultants;
- Upgrading effectiveness and modification of the service by means of customer tailored value offers from the channel aspect;
- Development and use of advanced analytical models as a tool supporting credit granting decisions.

The integration of the strategy at the branches and at the regional offices will continue in 2022.

Service

General. In recent years, emphasis had been put on the upgrading of the multi-channel service experience, with the aim of offering a diverse, available, qualitative and accessible service, alongside continuing the integration of the communication management strategy based on life events, inflection points and true moments.
Among the services in the different channels may be mentioned:
Personal service TeleBank. A customer telephonic response center – automatic transfer to online banking of customer calls to the branch telephone exchange. The service enables improvement of telephone response time and clears time for branch employees to create added value for customers from the aspect of service, initiative and sales.
Activity on the Bank website and on the application – Receipt of information and the conduct of diverse banking operations, such as: depositing funds to a deposit, taking a loans and transfer of funds between accounts.
Correspondence with a banker by the application - allows the obtaining of information and effecting transactions.
The management of customer communication strategy was integrated in 2019, in accordance with life events of the customer, while focusing on designated products adapted to the household segment.

Consulting Layout

Investment banking. The Bank operate under the private banking segment – 4 investment banking units and 6 extensions spread throughout Israel that provide investment consulting services to customers having investment capital of NIS 1-4 million or customers active on the capital market. The service is provided by expert investment consultants.
Consulting centers. In 2021, consultation was removed from the branch layout to designated consulting centers. Six such centers and five extensions were deployed, providing consulting services to customers holding assets with the Bank in an amount exceeding NIS 100 thousand. Private customers, holding assets exceeding NIS 1 million, may opt to obtain consulting services also at the investment centers, as stated above.
Pension advisory services. The Bank provides pension advisory services at the Bank's branches and private banking centers. The Bank has elected a unique model of providing pension advisory services by differentiated consultants specializing in pension advisory services to all types of customer. The Bank provides pension consulting services to self-employed and salaried employees all over the country.
Portfolio management. Directing customers in need of services to authorized portfolio managers.

Bank Branches

At the end of 2021, the Discount Group has 171 branches in operation in Israel (98 branches of the Bank and 73 branches of MDB). In 2021 the Bank closed down the Machaneh Yheudah Branch in Jerusalem, the Shalma Road Branch in Tel Aviv, the Ramat-Ilan Branch in Givat Shmuel, the Kiriyat Arieh Branch in Petach Tiqva, the Ramat Gan Branch and the Kanfei Nesharim Branch in Jerusalem. In 2021, MDB closed down the Ramat Hasharon and the Sharon Branches.

Direct Channels

The Bank acts on a current manner in order to provide its customers with an advanced experience regarding its direct channels, aspiring for a continuous improvement both as regards the type and variety of services and as regards user friendliness and customer experience. For additional details, see "Technological improvements and innovation" hereunder.

Competition

Competitors. The Bank's principal competitors are the four other major banks in Israel - Bank Hapoalim, Bank Leumi, the First International Bank ("FIBI") and Mizrahi-Tefahot Bank (with emphasis on the merger with Union Bank). Furthermore, competition has arisen in recent years from "off banking" financial entities, e.g. credit card companies, have entered the competitive market with respect to consumer credit, investment and insurance companies - inter alia with respect to capital market transactions, etc.

Means of handling the competition. Handling the competition is conducted while making an effort to differentiate the Bank from its competitors on several levels:

- Growth in the retail market share through the attraction of new customers, by means of the branch layout and the opening of an account using the Application;
- Utilizing to the maximum the potential of customers by intensifying operations, improving service and providing Bank customers with differentiated proposals of value;
- As part of the overall proposal of value adapted to customer needs, the Bank operates service systems specializing in investment consulting, pension consulting, credit and mortgage service.

Household Segment at MDB

The household segment is one of MDB's main segments and, accordingly, constitutes a central goal in its business development. Some of the customers belonging to this activity segment reside in settlements where the vast majority of the population are non-Jewish and where other banking corporations also operate. MDB competes for this population segment by providing a personal and devoted service by means of employees who are involved in the customs and culture of the customers belonging to this population segment and provide them with a service that meets their special needs.

Mortgage Activity

The Bank views mortgage activity as a strategic activity and as a tool for retaining existing customers and for attracting new customers. Mortgage loan services were provided in 2021 at 71 branches.

In 2020 the Bank operated two channels in the process of approving a mortgage, as follows:

- The mortgage consultants' channel at branches;
- A call center channel specializing in mortgage loans, which provides service in main areas, as follows:
  - Dealing with applications from customers interested in a new loan and enabling a conditional approval in principle to be granted (on the basis of set criteria), with the process being continued at a personal meeting with the customer at the branch;
  - Approaches by customers who do not match the criteria are dismissed, or alternatively, the customer is invited to discuss his request at the branch;
  - Response to existing customer questions regarding ongoing loans.

In February 2021, the Bank began to gradually activate a new channel – "digital mortgage".

Developments in the mortgage market

	December 31,		
	2021	2020	Change in %
	in NIS millions		
Total housing loans granted by the banks, excluding internal recycling of loans	116,066	78,109	48.6
Loans from State funds	497	637	(22.0)

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

	For the year ended December 31,		
	2021	2020	
	In NIS millions		Change in %
From bank funds[1]	16,955	10,037	68.9
From Treasury funds[2]	50	56	(10.7)
Total of new loans	**17,005**	**10,093**	**68.5**
Recycled loans	1,235	1,079	14.5
Total granted[3]	**18,240**	**11,172**	**63.3**

Footnotes:

(1) Including new loans granted, secured by housing mortgages, in the amount of NIS 275 million in 2021, compared to NIS 255 million in 2020.

(2) Including standing loans in the amount of NIS 23 million in 2021, compared to NIS 20 million as in 2020.

(3) At the Bank and MDB.

Legislative restrictions and regulations

Adjustments to Proper Conduct of Banking Business Directives for confronting the Corona virus crisis (Provisional Instruction). The circular of the Supervisor of Banks dated March 19, 2020, states that it is permitted to approve a mortgage loan of up to a financing level of 70% of the value of the property, on condition that the loan is not granted for the purchase of an additional apartment. The circular dated May 5, 2020, permitted to approve a mortgage loan the ratio of the repayment installment thereof to free income shall not exceed 70% of the remaining income of the borrower after impairment to income caused by the Corona crisis. The Bank has to determine an overall limit to the volume of credit extended in terms of this relief. On September 16, 2020, the Supervisor of Banks extended until March 31, 2021, the relief regarding the granting of loans having a financing rate of up to 70%.

Outline of the Supervisor of Banks for the deferral of loan repayment. In order to provide response to the credit needs of households and small and medium businesses, in view of the implications of the Corona crisis, the Supervisor of Banks published in May 2020, an outline for the deferral of mortgage and loan repayment in the banking system, which contains guidelines regarding consumer, business and housing loans. The outline allows the borrower to apply for a deferral of up to six months in the repayment of a mortgage. In July 2020, the Bank of Israel extended the validity of the outline and expanded it. According to the expanded outline, a borrower may submit, until October 30, 2020, an application for deferral of mortgage loan repayments for an additional period of six months, or for extension of an existing deferral until the end of 2020. In September 2020, the Bank of Israel extended the validity of the outline and expanded it. It was determined, inter alia, that it would be possible to submit an application for deferral until December 31, 2020, when the deferral on a cumulative basis may reach a period of up to nine months, instead of six months according to the previous outline. The Bank of Israel published an outline on November 30, 2020, intended to help customers seriously affected by the Corona crisis, whose monthly income prior to the crisis had not exceeded NIS 20,000 and has been affected by at least 40%. Such customers are entitled to ask for a partial deferment of the repayments of the loan in a way that the monthly repayment shall be reduced by 40% to 75% for a period of twenty-four months, as elected by the customer.

Guidelines and directives of the Supervisor of Banks designed to restrain the mortgage market. In the years 2010 to 2015, the Supervisor of Banks published several instructions designed to restrain the mortgage loan market. For additional details, see the 2017 Annual Report (pp. 336-338).

Annulment of the limitation regarding the rate of the "Prime" component in housing loans. With a view of lightening the burden on the public taking mortgages, due to the condition existing in the market following the Corona crisis, and in the light of experience accumulated over the years regarding credit risks pertaining to housing loans, the Supervisor of Banks published on December 27, 2020, an amendment to Proper Conduct of Banking Business Directive No. 329 in the matter of: "restrictions on the granting of housing loans", within the framework of which, the guideline limiting the component of housing loans bearing a variable interest rate based on the Prime interest rate, to a rate not exceeding 33.33% had been cancelled (however, the limitation, according to which the component of housing loans bearing a variable interest rate shall not exceed 66.66% of the amount of the loan, remained unchanged). It is further determined that as from February 28, 2021, the Amendment shall apply also to refinanced loans.

Amendment of the Q&A file in the matter of restrictions of the granting of hosing loans. On October 6, 2021, the Banking Supervision Department published an update to its FAQs in which it is stated that a banking corporation may not extend an additional loan to a borrower who is designated as using "equity" in order to purchase an apartment. According to the update, an exception has been granted for alternative equity financing only for the purchase of a replacement apartment provided that the additional loan is designated as a bridging loan until such time as the existing apartment is sold. The update will apply to loan applications, purchase agreements and loan agreements drawn up after the publication date.

Updates for the guidelines in the matter of housing loans. The Supervisor of Banks published on September 30, 2021, a circular, according to which, after September 30, 2021, no extensions would be granted to the relief enabling the granting of a loan for any purpose in an amount of up to 70% of the value of property (instead of 50%), and to the Provisional Instruction stating that a banking corporation shall not be required to increase the Common Equity Tier 1 target at the rate of 1% in respect of housing loans granted in the period of the provisional Instruction. On December 6, 2021, a further update was published pursuant to which the relief that allowed the income of the self-employed prior to the corona crisis to be taken into consideration was to be revoked with effect from January 1, 2022.

Amendment of Proper Conduct of Banking Business Directive No. 329, "Limitations on Housing Loans". According to the Amendment, which was published on December 27, 2021, for the purpose of calculating the capital requirement, a banking corporation must increase its Common Equity Tier 1 Goal by a rate that reflects 1% of the balance of housing loans that are intended to finance real estate rights. The aforesaid increase does not apply to all-purpose loans. In addition, the recycling of an all-purpose loan for which 1% of capital has been set aside will require a 1% allocation of capital.

The Supervisor of Banks's letter regarding the collection of operating commission with respect to the early redemption of a housing loan. On September 13, 2021, the Supervisor of Banks published the position that was submitted by him in the class action being conducted against other banks, in which it is stated that an operating commission is not to be collected more than once on making an early redemption of a housing loan. According to the position, this does not change if the mortgage loan includes several secondary loans with different interest tracks. The banks are required to act in accordance with the Banking Supervision Department's position and, with regard to commissions previously collected, the Banking Supervision Department will issue its position at a later date, basing this on the ongoing legal proceedings, among other things.

Consumer reform for increasing transparency of information for bank customers and improvement of the competitive environment in the mortgages market. On November 14, 2021, the Bank of Israel announced the promotion of a line of consumer moves in the mortgages field, intended to facilitate the process of obtaining mortgage loans by borrowers in three aspects: transparency and comparability, simplification, comprehension and efficiency of the borrowing process. Within the framework of these moves, banks would be obliged to provide the customer with an approval in principle in a uniform format, in which would be presented, in addition to the variety of mortgage loans offered by them, also three uniform options, the composition of which was determined by the Bank of Israel, the length of period of the loan being determined by the borrower. In each of these mortgage options would be presented: the envisaged total interest, the envisaged total repayments during the whole mortgage period and the envisaged highest monthly repayment amount in accordance with the forecast. In addition, the time for the issue of the approval in principle would be shortened to only a few days, and all banks would allow the online submission of the request for a mortgage and obtaining of the approval. For the purpose of forming the said moves, the Governor of the Bank of Israel has established a special team, which consulted with several world renowned experts in the mortgage field and in the behavioral economics field, with factors of the Competition Authority and more. Consequently, the Banking Supervision Department has published draft amendments of Proper Conduct of Banking Business No. 451, the last of which was dated January 5, 2022.

Letter of the Head of the Banking Supervision Department's Regulation Unit. In a letter dated January 3, 2022, it was stated that information had been brought to their attention that the Bank had apparently allowed the limitations that apply to housing loans to be circumvented, this by way of taking various loans from different banks. The letter clarified that leverage of an existing residential unit is not to be used to finance the purchase of a new residential unit, except in exceptional cases, where there is genuine difficulty in getting a mortgage on the purchased property, and also in the situations set forth in the directive. The Bank was asked to confirm that it is acting in accordance with this guideline.

Developments in the mortgage market

The growth trend in the system continued in 2021, and despite the Corona crisis, no slowdown is marked in the demand for mortgage loans, this market being characterized by a high level of competition. The volume of loans granted in 2021 amounted to approx. NIS 13.9 billion, compared to approx. NIS 8 billion in 2020, an increase of 74%. The volume of mortgage loan granted in 2021 by the system, amounted to approx. NIS 123 billion, reflecting an increase of 47% in relation to the volume recorded in 2020.

The volume of housing loans at Discount Bank increased at a higher rate than the increase in the housing loan portfolio of the whole banking system, 25.2% and 15.1%, respectively.

Sectors of operation

Loans financing the purchase, renovation or construction of residential units. Loans financing the purchase of residential units, the renovation or construction thereof, taken by individuals. These loans constitute most of the activity in the mortgage loan field. These loans are financed by the Bank's funds. In addition, the Bank is engaged in the granting of loan and loan collection services, in an immaterial volume, as part of the assistance programs of the Ministry of Construction and Housing.

Multipurpose loans secured by a mortgage on an apartment unit. Loans collateralized by a mortgage on a residential unit, granted to individuals for various purposes (other than business purposes).

Acquisition groups. The Bank grants credit to groups of individuals joined together for the purpose of a joint building project by means of an acquisition group. Evaluation of the risk involved in the project and the management of the credit line, if approved, are performed by the project finance unit of the Corporate Division. Small-scale projects are performed by the Mortgages branch of the Banking Division. Approval of the individual mortgage files is conducted in designated branches. Since 2019, the Bank has resumed extending credit to purchase groups, after having discontinued activity in this sector from 2012.

Supporting activity - Mortgage related insurance. As an additional security for credit, the bank requires its customers to purchase property insurance and life assurance.

The Bank holds a subsidiary, Discount Mortgage Home Insurance Agency (2005) Ltd., which acts as an insurance broker. MDB also owns an insurance agency, Marbit Insurance Agency (1996) Ltd. These insurance agencies operate independently and sell insurance through a telephone service separate from the Bank's and MDB's telephone services, respectively.

Business strategy

The granting of mortgage loans is made under an overall view of the customer. The Bank focuses its mortgage operation on existing customers, as a preserving and maintaining product. In addition, an activity for attracting new customers is conducted through the granting of mortgage loans.

Policy regarding mortgage operations. The Bank's policy with respect to mortgage operations defines the required criteria for securing the quality of credit and reducing risks involved therein, including criteria for the screening and rating of borrowers and credit applications, examination of the repayment ability of borrowers and guarantors for the debt, the type of collateral securing the loan, safety factors, the manner of credit pricing, as well as principles for performing the monitoring and control over credit and collateral. The policy determined various limitations on mortgage operations, both at the individual borrower level and the combined credit operations level.
The Bank operates a rating model, used in the approval of the transaction and its pricing.

Additional details regarding the mortgage portfolio of the Discount Group and the risks inherent therein

For additional details regarding the mortgage loan portfolio of the Discount Group and the risk inherent therein, see Chapter C – "Risks Review" in the Board of Directors and Management Report.

Competition

This sector is characterized by high competition, which is distinctly price inclined. Among other things, the competition is affected by the bank's view of the mortgage product as a base product for the preservation of existing customers and as a tool for attracting new customers.
The Bank copes with the said competition by improving service, focusing on reducing the time required for the granting of loans and making processes more efficient. The Bank is upgrading its systems by means of computerizing of processes, with a view of improving the reaction time to customers' new mortgage loan applications, while conducting a controlled management of the risks. This, in order to improve the service to its customers, in view of the competition in the mortgage field existing between banks.

Private Banking Segment (Domestic operations) – Additional Details

General

The private banking service layout focuses on a comprehensive banking service, initiating and specializing, to wealthy customers, with a commitment to prompt service regarding all customer needs and particularly in the investment field.
Customers of private banking, both Israelis and foreign residents, are classified as private customers holding financial assets at the Bank in a minimum amount exceeding NIS 4 million in the case of Israeli customers and US$1 million, in the case of foreign residents (hereinafter: "private banking customers").
Customers of the local private banking in Israel, manage their accounts at the Bank's branches, and obtain service at four private banking centers at their disposal: in Herzliyah, in Tel Aviv, in Jerusalem and in Haifa. Private banking customers who are foreign resident obtain service at the international private banking center in Tel Aviv.
Customers active on the capital market in amounts of between NIS 1 million and NIS 4 million receive expert consulting services only, at the investment banking units that report to the private banking centers (4 units and 7 extensions spread throughout Israel).

Developments in the Segment

In 2021, the Bank continued its efforts to intensify the activity with private banking customers, while confronting the Corona crisis and its implications (see below).
Private banking focused on providing ongoing service, by means of four service centers and 6 extensions in Herzliyah, Haifa, Jerusalem, Tel Aviv, Rishon LeZion and in Ashdod, as well as on intensifying the activity with existing customers and further work in aligning customers at branches and private banking centers with the service arrangements appropriate to their needs, in accordance with their profiles.
As part of the defined strategy, the centers operate under the concept of a designated service to private banking customers and under a wider service coverage modified to customers of this segment. In accordance with the service concept, the Bank has conducted during the year focused online meetings with central customers with respect to different economic and current matters.

Activity in the international banking operations was focused on intensifying the operations with existing customers, while continuing the meticulous implementation of foreign residents policy adopted by the Bank, and the implementation of the directives of the Supervisor of banks regarding the obtaining signatures of foreign residents and the management of cross-border risks. In addition, as part of risk management, measures are taken to concentrate the foreign resident customers holding passive balances of US$1 million and over, in the international private banking center.
For details regarding foreign resident customer acceptance policy and the implementation of the Supervisor's instruction regarding obtaining the signatures of foreign residents, see "Exposure to cross-border risks in respect of the activities of foreign resident customers" in the document "Disclosure according to the third pillar of Basel and additional information regarding risks".

Strategic Emphasis

In accordance with emphasized strategic items at the basis of the Bank's work plans, private banking operates in two departments: the international banking department, serving foreign resident private banking customers and new immigrants, and the investments and Private Banking, serving Israeli resident private customers.
The international banking serves two segments of customers, a private international banking segment and a retail international banking segment, which is to foreign residents and new immigrant customers with financial assets deposited with the Bank, but of a volume lower than the minimum level required by private banking.
The private banking services, provided to Israelis and foreign residents, offers customers a comprehensive individual banking service, granted by investment consultants responsible for their account, and allows them accessibility to investment consulting and financial products, including in the global area.
The private banking centers offer customers comprehensive banking services with a focus on financial investments and custom products management, and with the possibility of obtaining credit to finance customer investments.
The private banking layouts will continue to focus on expanding the customer base and in intensifying activities with them, while placing an emphasis on cultivating hi-tech customers and the following generation with a fundamental risk management in the process of attracting new customers and handling of the existing ones.
As an integral part of the private banking business plan, emphasis is placed on the ongoing review and upgrading of the risk management processes. For several years, the Bank adopts and implements a strict, risk based policy, regarding all private banking customers, including foreign residents and new immigrants which relates to the tax payment on the funds deposited in their accounts. In addition, the risk management unit at the Banking Division will continue to intensify its operations in the fields of prohibition of money laundering, compliance and operational risks management. The compliance trustees at the branches and at the private banking centers, are responsible for the current risk management at the unit, though they report directly to the manager of the risk management unit. The staff of the units continued to participate in training sessions for widening and intensifying the knowledge in the fields of money laundering prohibition and compliance according to the work plan.

Service to Customers

A "service envelope" is being offered to private banking customers, customized to the segment's customers' needs, and which harnesses the Bank's and the Group's resources in providing an optimal response to their needs and for an initiated activity with them. Segment customers with passive investments exceeding NIS 4 million, enjoy an array of banking services at the highest professional level in the private banking centers. Consultants, experienced in the field of financial investments in Israel and abroad, pension consultants, VIP mortgage consultants, as well as experienced bankers in the fields of credit and general banking are at the disposal of the customers.
Customers with passive investments of between NIS 1 million and NIS 4 million receive investment and pension advisory services at the private banking – investment banking centers, while banking services are provided at the branch.
The private banking provides service to customers six days per week and the private banking centers in Herzliyah, Tel Aviv and Jerusalem operate from 8 AM to 7 PM (on Fridays from 8 AM to 1 PM), in order to provide service at hours convenient to customers.
The staff of international banking have a command of foreign languages, in accordance with the language of the customer they serve.

In addition to the general banking services, additional services are at the disposal of customers, such as: direct access to dealing rooms, and complementary services by the Bank's subsidiaries: trusteeship and investment portfolios management, compatible with the needs of this segment's customers.
Customer relations unit acts to provide private banking customers with offers of value, particularly within the all-round marketing.
A product initiation unit acts to create unique products suitable for this segment of customers.
The advisory services department acts to create an infrastructure of research and local and international market surveys and in structuring investment models suitable for the needs of this segment of customers.

Development in the Segment's Markets and Competition

Foreign banks continued, also in this year, their marketing efforts to Israeli customers in the investments and credit fields, considered customers of high financial wealth. The year 2021 was typified by steep increases on the equities markets and many public issues by Israeli companies, both in Israel and overseas, which helped in the development of the segment and the activity within and outside the Bank. Work was continued under the Corona routine and the Bank had modified the services to customer needs, without adversely affecting the business process and relations with customers.
Competition in the private banking segment, with respect to prices and commissions and to the level of service to customers, increased, mostly due to the competition against investment houses offering credit and reduced commissions on the capital market.

Discount invest

As part of the business strategy focusing on the customer and the variety of his needs, the Bank operates a wide service in the capital market field – "Discount invest". This service offers the Bank's customers a wide and varied array of advanced technology and services layouts for capital market operations.
"Discount invest" offers innovative technological applications, the most noticeable of which is "Discount trade" – an advanced trading system, which enables customers active on the capital market, complete independence and direct communication with the Stock Exchange, while using decision supporting tools for executing their operations. Alongside the technological innovation, subscribers of "Discount trade" enjoy a level of service and unique availability of the Bank's dealing room. The service affords communication with a designated telephonic support center throughout the trading hours. The integration of the advanced technological tool and the telephonic support provides the ultimate solution for investors active on the capital market.
The service also includes foreign securities operations on the U.S. Stock Exchanges.
Within the framework of "Discount invest", the Bank positions a high bar for service, adapted to the type of activity of the customer, with maximum availability. The disposition of the consultation centers within the branch layout was completed this year. Consultation is provided by licensed investment consultants, offering personal service during the center's business hours – 08:00 to 17:30. Advisory services may be further obtained from the central telephonic investment support office until 22:00 hours, Sundays to Thursdays. The service provides continuous consulting services to investors, including foreign securities.
Customers having investments in amounts of between NIS 1 million and NIS 4 million, obtain services from four private banking centers, the investment banking segment and seven extensions countrywide, which provide specialized service, similar to that of an investment house. Thus, the customer enjoys a service experience distinguished from the banking industry. The investment consultants in these centers are personally available for customers throughout the market trading hours and also for prearranged appointments even after that.
Customers of the investment banking centers enjoy varied service lanes at attractive prices.
Customers having financial wealth enjoy a layout of private banking centers for Israeli customers, including a professional and specialized investment consulting service as regards both the domestic and the international capital markets.
For details regarding innovative digital services, see below in the "technological and innovative improvements" section.

Small and Minute Businesses Segment (Domestic Operations) – Additional Details

General

The Discount Group offers diverse services and financial products to customers of the small business segment, both at Discount Bank and at MDB. These are provided by means of a chain of some 176 branches located all over the country, in addition to a variety of direct channels.

Business Strategy, Goals and Points of Emphasis

The Bank applies strategic emphasis to the small businesses field, performing within this framework different moves regarding this segment that would enable assistance of the operation of the business and contribute to the growth of the business, with the aim of comprising a supporting network for Discount customers belonging to this segment.
The small businesses segment is characterized by the granting of a comprehensive and professional banking service for business development, which includes focusing on all possible banking operations alongside the development of areas of relevant banking services, and which also includes integration of innovations and the introduction of tools maintaining the differentiating value.
The Bank is implementing an operating model for small businesses, in which the emphasis is on offering of a modified and unique to the Bank's business customers, and attracting new qualitative business customers. In order to secure customized service, the service teams and credit coordinators at the branches have been grouped in a format forming the infrastructure for providing solutions that fit the business profile.

Business Strategy, Goals and Points of Emphasis for 2022

The focusing by the small and minute businesses segment continued with an emphasis on increasing the activity with existing customers, attracting new business customers and the basing of growth upon improving the models for the rating of business customers as a supporting tool for the granting of credit.
Goals have been set for controlled growth in the small and minute businesses segment, with focus and emphasis on existing and new quality customers, having a reasonable level of risk and having risk-adjusted profitability suitable for the Bank. Among other things, the following goals were set:

- Intensifying activity in the Small Business Segment - an increase in the number of customers, while focusing on reducing the number of customers wishing to leave the Bank, increasing the number of customers having banking products and increasing the number of customers seeking credit;
- Sale of products fitting to the segment's customers and addressing selected customer categories within the segment;
- Continuous focusing on improvement of the customer service level by improvement of staff proficiency, measurement and control;
- Continuation of improving a rating model for business customers and the use thereof as a tool deciding or supporting a decision for the granting of credit;
- Expansion of the use of direct channels, with a focus on upgrading the designated website for customers of this segment – "Business +" and a designated application for business customers;
- Integration of the change within the branch network and the movement and concentration of business customers to appointed designated branches, thus maximizing the professional service granted to segment's customers.
- Implementation of an operating concept for small businesses while combining attractive value offers for this segment.

Competition

The existing competition in this segment is mainly in the banking sector. Nevertheless, the trend of granting finance to small business customers is increasing, which is provided by credit card companies, as well as through designated, private, off-banking companies that finance specific activity, such as: the purchase of vehicles, equipment, imports activity, and the provision of lines of credit for working capital purposes, the discounting of checks and factoring. The principal steps that the Bank takes to cope with the competition, include timely response to customers' requests, development of personal relationships with customers and proposal of viable comprehensive professional solutions for financial requirements.

Service to Segment Customers

The small business segment provides the full variety of services to the segments' customers. The service is provided at the Bank's branches, including foreign trade services through a head office support unit. Also available to business customers is the possibility of receiving service via an Internet website and a designated application and over the telephone.
Customers transacting international trade business are being serviced by the foreign trade department in accordance with their particular economic sector (see below under "Corporate Banking Segment").
Service to small and medium businesses. The Bank's small and middle market customers obtain services commensurate to their volume of operations, this in order to provide professional service appropriate to the customer's characteristics. Customers having a volume of operations of up to approx. NIS 15 million and indebtedness of up to approx. NIS 4-5 million, obtain services from the business banking teams at the Bank branches. Customers having higher volumes of operations and indebtedness than those stated above, obtain services from the Bank's business centers.
Business dealing room. This dealing room provides services for the purchase and conversion of foreign currency as well as for hedge transactions. The Bank conducts a focused activity for connecting business customers, both small and medium, to the commercial dealing room.
Business credit card. The Bank offers a "business key" credit card to its customers. This card is intended to provide business owners with a unique service through the use of a credit card of a key type, which enables the customer to obtain discounts at trading houses that are suppliers.
"Business +" website. A designated website for business customers. The website presents comprehensive data regarding the accounts of the business and allows customers to transact business independently from their place of business.
SMS business packages. A package that allows extension of current account services. Receiving messages regarding the following matters are available: notice in advance as to the termination of a guarantee, outstanding balance of guaranties relating to the account, collection of post-dated checks (balance and payments), checks serving as collateral (balance, payments and shortage vis-à-vis the defined amount), order of check books, dishonored checks, etc.
Application for business customers. A designated Application for use by business customers, offering them a wide range of services and transactions regarding their current work.

The Small and Minute Business Segment at MDB

This segment is one of MDB's most notable segments and, accordingly, constitutes a central goal in its business development. Some of the customers belonging to this activity segment reside in settlements where the vast majority of the population are "non-Jewish". In order to overcome the competition existing in providing banking services to this population, MDB invests resources in advertising, creating personal contacts with the customers, providing a personal service, and finding financial solutions to the array of its customers' business needs. It does this by providing banking services by means of employees who are involved in the customs and culture of the customers belonging to this population segment and provide them with a service that meets their special needs.

Medium businesses Segment (Domestic operations) – Additional Details

Service to Segment Customers

Customers of the group's Medium businesses segment are medium size business customers (middle market). These customers enjoy personal, professional and quality service relating to all their financial needs (one stop shop). The service includes the modification of the varied banking products to their different needs as regards credit and guarantees, currency hedge, international trade, financial instrument activity, credit card clearing settlement, specialized investments in the capital market, and more. Besides these services, the Bank offers solutions for the financial needs of company owners, their executives and staff, who enjoy terms granting them the status of preferred customers.

Service to Bank customers is provided by five business centers that operate nationwide: Jerusalem, Tel Aviv, the Sharon Region, Haifa and the Lowlands, as well as through a southern extension in Beer Sheva, which provides service and response to business customers in the Southern Region.

The service provided by the business centers is integrative, provided by teams which include a business manger, customer relations managers and credit experts, with the assistance of the team handling loans and guarantees. In order to adapt the service to the business customer, which are located at the business centers, while assisted by the branch layout.

The hi-tech department in the Corporate Division ("Discount Tech") is the banking arm of the Discount Group for hi-tech companies. This department handles startup companies and hi-tech companies from the seed stage to the hyper growth stage. Discount Tech offers credit lines and venture lending as from the primary revenues stage, subject to compliance with the relevant underwriting terms. Most of the companies that are customers of this department comprise companies of the medium business segment; however, the department serves also companies from the small and minute businesses segment and up to unicorns and fast growth companies, being members of the large business segment.

Furthermore, service to customers of the diamond sector is provided by the Diamond Exchange Branch, which specialty is the management of accounts of diamond traders, while specializing in all services unique for this sector.

The foreign trade department serves customers engaged in international trade. The Internet website "Business +" stands at the disposal of the segment's customers. (For further information, see above, "Corporate Banking Segment").

Business dealing room designed for providing operating services to middle-market and small business segments customers and provides purchase and conversion of foreign currency services and performing hedge transactions.

In addition to the middle-market activity at the Bank, included in this segment is also the middle-market activities of MDB.

Goals and Points of Emphasis for 2022

- The medium business segment is one of the Bank's strategic focus segments for 2021. Growth targets have been set for this segment while focusing and placing an emphasis on existing and new, quality customers having a reasonable risk level and satisfactory risk-adjusted profitability for the Bank;
- The teams at the business centers offer customers of this segment many financial options, are active in devising customized solutions to customers in a broad scope of 360 degrees, and comprise a professional service address to all financial needs of the customer;
- Expanding the activity with customers operating in economic sectors that are preferred for growth in accordance with the Bank's credit policy, while reducing activity with economic sectors having a high risk level;
- Continuation of professional qualification amplifying the control and monitoring processes by way of improving the quality of analyzing the monitoring results of customer condition.

Anticipated Developments in the Coming Year

The Bank estimates that economic growth in 2022 is expected to be around the potential growth rate with the continuation of expansion in exports and in private consumption. However, the Bank estimates that the principal risks threatening the realization of this forecast stem from global events, principally, the slowdown in global economy, the length of time required for the overcoming of the Corona virus and political uncertainty, as well as from domestic events, predominantly, the uncertainty regarding measures which the new Government would adopt and the possibility of escalation of the security situation.
In view of the above, growth is anticipated in bank credit to the commercial sector, both for the financing of working capital and the financing of investments.

Competition

High competition exists among the banks operating in Israel in the granting of credit to this segment. Furthermore, competition exists also with off-banking financial institutions. The main competition is in the interest rates and commission offered to customers as well as in the collateral required and in the related terms such as the rate of financing.

Large businesses Segment (Domestic Operations) - Additional Details

General

The business segment specializes in comprehensive financial services ("one stop shop") to large corporations, including an in-depth review of the needs of the corporation and in providing customized creative financial solutions.

Business Strategy, Goals and Points of Emphasis

In 2021 the Bank continued to act in the ordinance with the work plan for the corporate banking segment, while focusing on the raising of returns on risk assets and a customer focused view. Among other things, the Bank acted towards modifying the credit spreads to risk levels, and to the reduction in exposure to high risk level operations, with the aim of improving the credit portfolio.
In addition, the Bank focused on syndication transactions and capital mitigation, as well as the management of the credit portfolio from the aspect of pricing a risk adjusted return, in terms of return on the regulatory capital and return on the economic capital.
In addition, the Bank strictly monitors large customers and borrower groups at a high level of risk. For further details, see "Credit risk management" in "Exposure to risks and risk management".
In 2022, the Bank will operate in a wide variety of segments and economic sectors, whilst spreading out its credit portfolio and reducing exposure to segments in which the risk involved has been identified as higher than average. This, while shifting risk assets to usages earning a high return.
Within the framework of the focusing by the Bank on value maximization with respect to the risk asset portfolio in the corporate banking segment and attainment of the capital adequacy goals, the following principal development directions have been defined with respect to the year 2022:
- Activity in a wide range of segments, economic sectors and credit products, in order to create the most beneficial distribution within the portfolio;
- Leading syndication transactions in conjunction with institutional bodies in Israel and abroad;
- Widening the array of services to customers while increasing the risk adjusted return;
- Increasing the income derived from a risk asset while setting a risk adjusted price;
- A decline in the existing risk profile by means of defining the credit appetite levels to the various economic sectors;

- Utilizing the Group synergy and the existing relative advantage of each of the subsidiaries in the field of credit (targeted populations, products, geography);
- The Bank will refrain from credit operations that involve fear of damage to the goodwill of the Group or the Bank, among other things, areas related to money laundering or the finance of terror.

The above said is considered a forward looking statement. The above reflects the evaluation of the Bank's management keeping in mind the information available to it at date of preparation of the financial statements, with respect to the state of the economy and of the global economy, as discussed above in this Section and in "Main developments in Israel and around the world in 2021". The foregoing may not materialize in case of a significant decrease in demand from overseas due to a noticeable decrease in the recovery and growth rates in certain overseas markets, a significant decrease in local demand due to deterioration of the security-political situation, a decrease in available financing resources on overseas and domestic financial markets, significant volatility in interest rates and exchange rates around the world and in the global economy, and other changes in macro-economic conditions, which are not under the Bank's control.

Service to Segment Customers

Financial support to large corporations is provided by business managers of the business wing of the Corporate Division, with integration and close cooperation of product experts.

The teams are composed of a business manager, customer relation managers and credit experts, comprising an address to all the financial needs of the business customer, including the customizing of creative financial solutions and advanced banking products to the needs of the customer, in areas of credit, deposits, currency hedge, international trade, credit card clearing, specialized investments in the capital market, and more.

The teams are divided according to specialization in the different economic sectors: industry, tourism, investment funds and financing, commerce, transportation, public institutions, financial corporations, different types of off-banking finance, communication companies and more.

Financing transactions are conducted by way of syndication, financing of debtors (foreign and domestic) and loan structured financing of foreign trade, by the product wing of the Corporate Division.

The services of the Tel Aviv Main Branch are at the disposal of the customers. This branch specializes in serving the Bank's large corporate customers, as well as in providing services to financial and institutional bodies, including custodian services to foreign entities. In addition, the "Business+" Application is available to business customers, a designated Application providing a wide variety of services and operations.

Discount Capital offers the customers of the corporate segment assistance in the process of public offerings and private placements, including underwriting services and securities distribution, as well as services regarding investment banking. Some of the segment's customers utilize the services of the Bank's trading desk (see below, "Finance management segment") and the Bank's overseas offices (see below, "International operations segment").

Products and Services

The services offered include current financing according to customer needs, including among other things, foreign trade activity and the trading desk, financing of investments for maintaining and expanding activity, the financing of acquisitions and mergers, granting credit to capital market operators, and the comprehensive handling of institutional bodies, providing finance for large transactions by way of organizing syndication, in which institutional bodies as well as Israeli and foreign banks participate, and granting credit to Israeli corporations operating abroad.

In addition, these include related services such as deposit accepting and investment activities, derivative financial instrument activities, granting financial guarantees, execution and so forth.

The foreign trade operations at the Bank are conducted by the foreign trade unit and by the hybrid foreign trade finance unit. These two units operate within the framework of the Bank's Corporate Division, and provide varied services to customers of the different business sectors that engage in international trade. The business activity of the foreign trade unit includes all the services in the foreign trade field that the customer requires (import, export, finance, conducting factoring of foreign guarantees, etc.). In addition to conducting the activity, intensive activity continues in the preservation and development of relations with existing customers as well as in attracting new customers, while initiating business meetings and the visiting of customers together with the business unit managers of the Bank's various divisions.

Substitutes for Products and Services of the Segment and Changes therein

As a substitute for bank credit to customers of the business segment, alternative financing products offered by off-banking financial institutions in general and institutional entities in particular have been developed. These bank credit substitutes include the raising of finance by way of the issue of shares, bonds and other securities on the capital markets in Israel and abroad, including direct credit offered by such entities. In situations of expanding business activity and improvement in business performance of companies operating in the local and foreign markets, the availability of off-banking financing sources has increased with respect to certain of the large and financially stable customers.

Wherever the possibility to raise funds on the capital market exists, off-banking finance serves as an alternative financing resource, primarily for the long and medium term credit products, thus contributing to the reduction in the volume of this kind of credit in the credit portfolio reflecting the activity of this segment.

Legislative Restrictions, Regulations and Special Constraints applicable to the Segment

The principal restrictions applicable to this segment are briefly described hereunder.

Proper Conduct of Banking Business Directive No. 313. In accordance with the directive, the indebtedness limit for a single borrower (that is not a bank) stands at 15% of the bank's capital, the indebtedness limit for a group of borrowers stands at 25% of the bank's capital and the indebtedness limit for a group of banking borrowers or a group of credit card borrowers stands at 15% of the bank's capital. The total indebtedness of borrowers, groups of borrowers, groups of banking borrowers and groups of credit card borrowers, whose net indebtedness to the banking corporation exceeds 10% of the bank's capital, is not to exceed 120% of the bank's capital.

The definition of capital for the purpose of computing the limitation was restricted to the Tier 1 capital only (net of supervisory adjustments and deductions) within the meaning of Proper Conduct of Banking Business Directive No. 202. As of December 31, 2021 no deviations existed to the limitations as set in the directive.

The Bank classifies its investments in securities issued by U.S. federal agencies as part of credit to the public. 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.

During 2018, the percentage at which Sales Act guarantees are weighted for the purpose of the concentration calculation was reduced to 30% with respect to residential units still to be delivered.

The Supervisor of Banks published on October 27, 2019, an amendment to the Directive, which adds restrictions relating to indebtedness of a borrower/groups of borrowers engaged in speculative activity. The Amendment takes effect on July 1, 2020.

The limitation on "related persons". Proper Conduct of Banking Business Directive No. 312 imposes a restriction on the granting of credit to all "persons related to the bank", as defined in the Directive, so that it would not exceed 10% of the bank's equity. As of December 31, 2021, there were no deviations from the said limitations. A number of changes to the said Directive took effect on January 31, 2022, inter alia, in order to facilitate the implementation thereof by banking corporation, though with no change in the central principles standing at its base.

Credit risk insurance policy

The Bank has purchased an additional policy to insure Sales Act guarantees for the optimization of the insurance coverage on this type of exposure in the credit portfolio. This policy supplements the existing policies that the Bank purchases to insure credit risks on Sales Act guarantees, performance guarantees and loans to finance land purchases. Within the framework of the polices, the Bank transfers part of the credit risk to an international consortium of reinsurers. In accordance with Proper Conduct of Banking Business Directive No. 203, the international rating of the reinsurers allows the Bank to perform a replacement of counterparty risk, thereby reducing the capital allocation for the insured assets by up to 80%.

Review of Developments in the Business Sector in 2021

The GDP grew in 2021 by 8.1%, and the business product grew by 9.5%. This, in consequence to an accelerated growth in private consumption (approx. 12%) and the export of other services (mostly hi-tech, 16%).
An accelerated growth of the GDP was recorded in the last quarter of the year, reaching an annualized rate of 16.6%, and in the business product of approx. 21%, on the background of a leap in private consumption, accelerated growth in the export of other services (mostly hi-tech) alongside a fast growth in industrial exports, and a sharp rise in public consumption.
Following are the factors affecting the development in the business product in 2021, as compared to 2020:

- Private consumption expanded by a sharp rate of 11.7%, with consumption of services recording a sharp growth of 18%, following regression of approx. 9% and approx. 27%, respectively, in 2020;
- Investment in fixed assets (excluding ships and airplanes) recorded growth of approx. 11%, following growth of approx. 14% in investments in residential construction, alongside growth of approx. 13% in investments in machinery and equipment and approx. 43% in investments in land transportation vehicles (mostly passenger cars). More moderate growth was recorded with respect to non-residential investments and other construction projects;
- Concurrently, exports (excluding startup companies and diamonds) expanded by approx. 11%. Export of other services, mostly hi-tech services, continued in a positive trend, growing at an impressive pace of 16%, and industrial exports expanded by approx. 7%. Income from tourism continued to shrink, by 28%, following an unprecedented decline in 2020 (approx. 77%);
- Public consumption (excluding defense imports) grew at the rate of approx. 3%, with moderate growth of in the component regarding civilian consumption purchases, and regression regarding local purchases by the defense system.

In consequence of the said developments, growth of approx. 10% was recorded in the total applications in the economy, and concurrently, the import of goods and services (excluding defense import, ships, airplane and diamonds) grew at a steep rate of approx. 18%, with a sharp growth in the import of services and in the import of goods.

Developments in the Debt of the Business Sector

At the end of November 2021[9], the debt of the business sector (excluding banks and insurance companies) amounted to NIS 1,096 billion, an increase of approx. 12% compared to the end of December 2020 (all rates of change are in nominal terms and are affected by changes in exchange rates and in the CPI).
Indebtedness to banks recorded growth of 17%, indebtedness to foreign residents recorded growth of approx. 7% (an even higher growth with the elimination of the strengthening of the shekel), and indebtedness to households grew by approx. 16%. On the other hand, indebtedness to institutional bodies recorded a moderate growth (approx. 1%), with growth of approx. 1% in the balance of bonds held by institutional bodies, and a marginal growth in the balance of loans. In consequence of the said trends, the weight of the banks in the total indebtedness of the business sector increased, reaching 52.8% at the end of November 2021, as compared with 50% at the end of 2020.
In the course of 2021, the business sector raised funds (on the Tel Aviv Stock Exchange), excluding banks and insurance companies, through bond, in an amount of approx. NIS 50 billion, significantly higher than in the years 2019 to 2020, approx. NIS 40 billion in each year.
The margin between corporate bonds (included in the Tel-bond 60 Index) and government bonds at the end of 2021, amounted to 1.11%, as compared to 1.3% at the end of 2020. The decline in margins was supported by the purchase of government bonds by the Bank of Israel and by the positive sentiment in the markets.

Developments in Segment Markets

The Omicron morbidity wave, which broke out toward the end of 2021, led to morbidity in a significant volume, to isolations and to damage to economic activity. The government has followed a policy of trying to keep the economy on a "business as usual" basis, concurrently with conducting vaccinations and introducing the use of a pharmaceutical treatment that will assist in preventing hospitalization. Moreover, morbidity has been decreasing since mid-February,

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

which may lead, according to the latest reports, to the removal of the restrictions causing damage to economic activity. Following are development directions in the principal economic sectors:

- Industrial sector – Industrial exports data for 2021 indicate continued recovery in all sectors, compared to the low point recorded during 2020, when economic activity in most industrial sectors suffered a downturn, similar to the global trend. Nevertheless, most of the recovery continues to be attribute to the high-tech industry (high-tech sector) that, even at the height of the crisis, showed itself to be more resilient than other sectors and now its share of total industrial exports has increased up to 40%. In addition to this, Israeli industry is having to cope with a significant appreciation of the shekel against the dollar;
- Tourism sector – Occupancy rates during the summer months and the High Holidays were extremely high and prices rose too, these also being expressed in the revenues generated. Nevertheless, the outbreak of the "Omicron" variant is increasing the risk level – at least in the short term, but the fact that the wave of morbidity is occurring in the winter months, which are characterize by low activity scopes even in normal times, reduces the severity of the damage;
- Commercial sector – The sector's performance aligns with consumer purchasing power, which is derived – inter alia – from the unemployment rate;
- Real estate sector - for details, see below ""Construction and real estate activity" in the Chapter "Additional details regarding activity in certain products".

Anticipated Developments in the Segment's Markets

At its last interest decision meeting at the beginning of 2022, the Bank of Israel left interest unchanged and assessed that inflation in the coming year would continue to be moderate reaching 1.6%, and that the anticipated inflationary environment would be higher than that with which we were familiar prior to the crisis, with the rate expected to stabilize in 2023 at around 2%. In addition, the Bank of Israel is expecting a raise in interest once before the end of 2022. The growth forecast of the Israeli economy for 2022 is 5.5%, due – inter alia – to the fact that the Israeli economy has learned to function against a background of the cyclicality in waves of morbidity.

Construction and Real Estate activity

Service to customers of the segment

Most of the business activity in the real estate and construction segment is carried out by the Bank's real estate wing at the Corporate Division. The department provides a wide range of banking services both to the large and medium level corporations engaged in the promotion and investment in residential and income generating real estate in the local market. In addition, the financing operations of the segment are conducted by means of the business centers of the Banking Division.

Within the framework of the products wing operates a unit specializing in complex transactions for the finance of investments in national infrastructure projects (energy, electricity, water and desalinization plants and toll roads, mostly by the PPP method).

MDB provides the service to customers of this segment by means of the real estate department dealing with all real estate companies conducting business with this bank and engaged in entrepreneurship that includes financing through the "closed project finance" method, for construction projects principally residential buildings (handled by the construction project finance department), contract construction, income generating real estate and real estate holdings (handled by the real estate department).

Products and services

The services provided include, among other: credit for the construction or purchase of properties intended for housing and/or intended to serve as income producing property (mostly commercial and office space, large parts of which are marketed in advance); credit financing national infrastructure projects at the construction and operating stages; credit financing working capital and/or investments in Israel, and in exceptional cases also investments abroad; credit granted to acquisition groups; providing Sales act guarantees to purchasers of residential units and guarantees to landowners within the framework of combination construction transactions.

Directions of business development in the markets activities

The Bank defined the following fields of activity in preferred areas for the allocation of credit facilities:
- Closed housing project financing, including small projects in central demand areas in central Israel and in peripheral areas, while maintaining a distribution of credit to borrowers in this field;
- The purchase of new lands available for building in preferred areas in the center of the country and in peripheral areas, where in respect of which the Bank intends to finance housing projects in the form of closed project financing;
- Financing of significant "Vacate and Build" transactions, combination/exchange transactions and "Vacate and Build" (TAMA 38/2) programs;
- In view of developments and State plans for investment in national infrastructure, the Bank is active in the leading and financing of projects in this field, in cooperation with other banks and/or institutional bodies, that include identified and secured long-term repayment resources having a high certainty level.

Alternatives to products and services of the operations and changes therein

Off-banking financing constitutes an alternative financing source for long and medium-term credit used for the financing of investments and/or the purchase of income producing property, while in building projects, customers generally prefer the use of medium-short term bridging finance for the set up period.
In the infrastructure field, where the period of operation/yielding of the project is relatively long, the banking system has an advantage in financing the initiation and construction stage (short to medium term) in contrast to the need to combine institutional bodies in the long-term financing.

Structure of the competition prevailing in the operations and changes therein

Competition exists in this sector both on the part of banking corporations and on the part of institutional bodies, which in recent years have established units engaged in the granting of credit for the finance of long-term nonmarketable properties. Certain of the institutional bodies have even extended their activity to granting Sales Act guarantees to purchasers of residential units.

Coping with competition

The Bank operates a syndication unit in the Corporate Division with a view of increasing exposure to these types of transactions, with a focus on undertaking the organizer and coordinator roll, strictly adhering to the underwriting principles, regulatory limitations and the risk appetite level. Sale of the debt is subject to the Bank of Israel instructions and the Bank's policy.
Other means for facing with the competition are the offer of professional service, timely response and establishment of a comprehensive and ongoing communication system with customers, while maintaining an overall view of their financial needs.

Credit policy in the construction and real estate activity

The credit policy for this sector focuses on the financing of operations in Israel, giving preference to borrowers having financial strength with extensive experience in this field, with whom the Bank has positive business relations.
The financing of initiating residential construction projects and income generating real-estate projects is to be executed by the closed loan method, under minimum requirements, including borrower's equity capital, required project profitability, compliance with stress tests, absorption ability, early sales and more.

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 in the Proper Conduct of Banking Business Directives no. 315 regarding a sectoral indebtedness limit, a limitation was set to apply to industry credit concentration, where that part of the credit being the responsibility of the banking corporation (including off-balance sheet credit) granted to a certain industry, as defined in the Directive, exceeds 20% of total credit to the public being the responsibility of the banking corporation. The rate of Bank's exposure as regards credit to the construction and real-estate industry as of December 31, 2021 reached a rate of 17.12% (19.43% at the end of 2020).
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.

The Supervisor of Banks published on January 7, 2021, additional modifications to Proper Conduct of Banking Business Directive No. 250 (Provisional instruction for the confrontation with the Corona crisis) – within the framework of which, reference was made also in respect to Proper Conduct of Banking Business Directive No. 315 – limitation on sectorial indebtedness. The update states that the limitation on credit to the construction and real estate sector, after elimination of indebtedness of national infrastructure projects, shall be increased from a rate of 20% to 22% of total public indebtedness, and that the limitation relating to the construction and real estate sector shall be increased from a rate of 24% to 26% of total public indebtedness. The effect of the relief has been extended until the end of 24 months from December 31, 2025, provided that the rate shall not exceed the rate prevailing on December 31, 2025, or the rate of the sectorial limitation, as stated in Proper Conduct of Banking Business Directive No. 315, whichever is higher.

Market developments

Residential construction. 2021 was characterized by lively activity on the housing market, with an increase in the number of new residential units sold, inter alia, supported by the housing market base data - excess of demand over supply. The year ended with average price rises of approx. 10.6%, which constitutes the highest increase since 2010. The stability evident in the residential sector is also expressed in the demand for mortgages, which recently surpassed the NIS 110 billion mark in annual terms.

Within the framework of the measures taken to cool the price rises, the acquisition tax for investors was again revised upward to a rate of 8%. In addition, the second half of the year was characterized by aggressive marketing of land by the Israel Land Authority and the Israeli government company "Apartment for Rent". Following cancellation of the "price for the house purchaser" plan and the lack of land inventory for developers, the tenders were met by developers with high demand and land prices embody an expectation of a further rise in residential units prices in the near term.

Income generating real-estate for office buildings. Demand from hi-tech companies has risen, with a simultaneous acceleration in rental prices, particularly in the core demand regions (Tel Aviv, Herzliya Pituach). Most of the demand is for large areas in prestigious properties located in high demand regions. Accordingly, medium/low quality properties, properties located in regions less sought after by high-tech employees and properties in which large rental areas are hard to find (for example, multi-owner properties) suffer from their inferior status.

Income generating real-estate commercial buildings. Current occupancy rates are high and stable (even in relation to the levels immediately prior to the corona crisis breaking out). The Omicron variant outbreak might lead to an erosion in NOI but not to the same extent as was seen at the height of the crisis. Looking ahead, the risk in the sector is still affected by long-term trends: growth in the supply of properties (particularly in neighborhood shopping centers) and the increase in e-commerce (high demand for plots zoned for use as marketing warehouses for the distribution of retail trade products). The growth potential is in line with retail trade performance and, in the wider sphere, with the Israeli consumer's purchasing power.

Infrastructure. The scope of activity in the infrastructure sector has continued to grow. In addition to the projects that are already being executed, additional major projects are expected to commence.

Expected developments in the activity

Residential construction. In light of the gap between supply and demand, the housing market – which is considered consistent – will continue to benefit from the high level of demand. Estimations are that the pace of sales will decrease due to the revocation of acquisition tax benefits for investors and housing prices will continue to rise due to the increase in land prices.

Office and commercial income generating real estate. With the entry into the market in the coming years of a large volume of new office and commercial properties, most of which in demand areas, excess supply might occur leading to a decline in rental prices in certain areas. So long as the high-tech sector continues to grow, the office premises sector in Tel Aviv will continue to enjoy a high level of demand, especially in relation to office space for sale.

Infrastructure. Substantial activity is expected to continue in the infrastructure sector in the coming years.

Institutional bodies Segment (Domestic operations) - Additional Details

Condensed description of the characteristics of the segment

The segment is engaged in the management of funds of the investor population in Israel. Most of the investments comprise long-term fund investments (the major part thereof being pension savings), a part comprises medium-term investments (through further education funds) and a part comprises short-term investments (by means of mutual funds and ETFs).

Areas of operation

At present, the Bank serves large investment bodies in the capital market, which, among other, include insurance companies, provident funds, pension funds, managers of mutual funds and ETFs. The institutional bodies are active in the following fields: deposits, securities trading, securities lending, foreign currency, interest and derivatives (marketable and non-marketable).

Competition

With respect to a share in the activity of institutional bodies, the Bank competes against local banks, foreign banks and Stock Exchange members who are not banks. A trend of diverting investments to foreign markets on the part of institutional bodies has been noticed in recent years.

A Competitive Process

Once every number of years (generally three years) institutional bodies conduct a process in which they invite offers from the various Stock Exchange members for the provision of trading services in securities and related services. In certain of the cases, a competitive process is also performed for obtaining securities custody services.

Operating Services

At the present time, the Bank does not provide operating services to institutional bodies.

Financial Management Segment (Domestic Operations) – Additional Details

Dealing room

A dealing room acts for the Bank's customers to execute transactions in the global financial and capital markets, while providing personal and professional financial services. Dealing room customers include local and foreign banks, corporations, Private customers having a large volume of activity active on the capital market and institutional entities. Dealers and professional traders, advanced technology and computer systems, enable the dealing room to provide customers with timely, professional and competitive service. The combination of several fields of activity enables customers to obtain trading services in foreign currency, interest rates, securities and derivatives under one roof.
The dealing room is engaged in two principal areas of activity:

Over the Counter (OTC) trading – Foreign Currency and Interest Rate Trading

The OTC unit develops and adapts different market risk hedge transactions in accordance with customer needs. The unit serves also as a "principal market maker" with respect to Dollar/Shekel and government bonds transactions.
The main transactions carried out by the unit with Bank customers, are: Purchase or conversion of foreign currency, non-marketable future contracts, options on currencies, interest rates and the CPI, interest swap transactions and other derivatives.

Trading in securities

Foreign securities. The foreign securities desk operates in a wide range of markets around the world, and is conducting brokerage transactions in a wide range of instruments: shares traded on foreign stock exchanges, options, state and corporate bonds, mutual funds and hedge funds.
Brokerage regarding Israeli securities. The brokerage desk for Israeli securities engages in the brokerage of transactions involving bonds, shares, synthetic contracts, options and convertible traded in the Israeli market. The desk provides brokerage services involving both marketable and non-marketable securities (on and off the stock market) and participates in issuance. The desk develops business, markets and attracts customers transacting a considerable amount of business, both at and outside the Bank, and maintains direct communication with institutional customers, large corporations and hedge operators active in the day-trading field.

Global Treasury

The Global Treasury unit coordinates the financial management of the Discount Group. The Unit is responsible for the asset and liability management (ALM) in the Group's balance sheet, including the management of liquidity risk, management of interest risk, inflation risk and exchange rate risk management, and managing the capital. Within the framework of the Group management, the Unit has the role of providing mandatory professional guidance at the subsidiaries.
Following are details of the principal areas of operation of the Global Treasury:
Liquidity risk management and formation of the financing plan of the Bank. Liquidity risk management is performed using internal models and regulatory models, from which the volume of liquid assets required to withstand stress scenarios is derived, and by means of a current analysis of changes in the volume of assets and liabilities of the Group. In addition, the unit recommends to Management and to the Board of Directors liquidity ratios goals and forms financing plans for the Bank and for the Group companies.
Managing the Capital. Formation of recommendations to Management and to the Board of Directors with respect to the equity ratio targets, formation of a risk asset budget for Group companies and business units, and its current management.

Market exposure management. The management of market exposure is conducted by means of a designated computer system, which calculates risk indices in relation to up-to-date data, reflecting the overall business activity at the Bank. The ALM committee, headed by the President & CEO, determines the market risk exposure targets, within the framework of limitations set by the Board of Directors as regards the risk appetite.

The raising of liquidity and investment of the surplus. The Treasury Desk operates mostly through the Bank of Israel tenders, deposits by corporate customers and SWAP transactions, the government bonds market and the interest derivatives market. The desk provides interest quotations for deposits of large customers in foreign and Israeli currency, invests the surplus short-term liquidity and conducts transactions for the hedging of the Bank's interest risk.

Raising of secondary capital and bonds. The Global Treasury Unit is responsible for the raising of secondary capital and bonds in accordance with the capital planning and the financing plan of the Bank.

Transfer prices and management of the marginal financial spread. A daily calculation of the Bank's internal transfer prices, serving as a basis for the pricing and measuring profitability of credit and deposits. The prices are being updated in accordance with developments in the capital and financial markets.

Deposit product management. Formation of a strategy for the management of the deposit product, while providing response to changes in the business environment. The setting up and updating of products belonging to the core system of the Bank for deposit management. Production and publication of deposit interest tables.

Development of financial models. Development of models for the pricing and hedge of complex financial transactions, including deposits with optional linkage, premature withdrawal option regarding deposits, early repayment forecasts for mortgages and more.

Nostro Management

"Nostro" portfolio management policy. The Bank's "Nostro" Unit is subject to the decisions of investment committee and to frameworks determined by the Bank's Board of Directors.

The investment portfolio of the "Nostro" unit, manages a facility out of the surplus liquidity balances comprising investments embodying credit margin risk – inter alia, corporate bonds, state bonds and other debt instruments.

The investment activity of the subsidiary companies, in particular, IDB Bank, Discount Capital and MDB, is conducted independently, subject to the risk limitations as determined by the Bank. The Group's "Nostro" portfolios are being managed from an overall standpoint, subject to risk limitations determined by the Bank's Board of Directors.

Competition

The financial management segment includes, as stated, the Group's activity in the dealing rooms. This area is typified by a high level of competition. The principal competitors in are the four large local banking groups. Additional competitive entities in this market are foreign banks, which have opened dealing rooms in Israel, and other financial corporations engaged in foreign currency and the Shekel interest markets, the involvement of which in these markets have grown significantly in recent years.

Business Strategy and Targets

The goals for the year 2022 set for this segment are the continuation of profitability improvement in a low interest rate environment and in a challenging macro-economic environment, and a difficult competitive environment also with respect to non-banking financial entities and fintech initiatives. All this, while maintaining a risk level in accordance with the risk appetite of the Bank.

Investments in Non-Financial Companies

Policy regarding non-financial investments

The activity is conducted within the framework of the strategic plan, which is being updated from time to time in accordance with the Group's risk appetite and various limitations set at the level of the portfolio and the product. Investments exceeding the determined limit are brought for approval of the Bank's Board of Directors prior to their execution.

Principal areas of operation

Practically all the nonfinancial investments of the Discount Group are being made by means of the subsidiary company Discount Capital and are divided into three principal categories:
- Investment in private equity funds (PE) and in venture capital funds (VC);
- Investment in corporations, divided into investments in traditional corporations and investments in technology companies at different stages;
- Mezzanine operations.

Non-financial investments portfolio – principal data

Scope of the portfolio. The total value of the non-financial investments portfolio of Discount Capital amounted at December 31, 2021 to NIS 1,858 million, compared with a total of NIS 1,392 million in 2020. The outstanding investment commitments of Discount Capital amounted on December 31, 2021, to NIS 710 million (approx. US$228 million), compared with a total of NIS 730 million (approx. US$227 million) in 2020, most of which in Funds the investment period of which has not yet expired.

Income. Discount Capital recorded in 2021 net income from non-financial investments in a total amount of approx. NIS 241 million. This, compared to net income in a total amount of approx. NIS 197 million in 2020.

New investments. 37 investment transactions in investment funds, corporations and mezzanine loans were approved in 2021, in a total amount of approx. US$250 million, of which, investments of approx. US$200 million were concluded in 2021, and the balance after balance sheet date (see below).

The yield of net profit on the average value of the company's investment portfolio amounted in 2021 to 13% (compared to 13.5% in 2020), and the five yearly average of the said yield was 12.5%.

Investments in private equity funds and in venture capital funds

Discount Capital's strategy for investing in investment funds places emphasis on the portfolio's decentralization from the aspects of management groups, the life-stage of the portfolio companies, the activity spheres of the funds and the geographical region in which they invest. As of December 31, 2021, Discount Capital was invested in some 50 funds which were spread over 25 different management groups, most of which in two main areas:
- **Private Equity Funds** – The balance of the investments of Discount Capital in Private Equity Funds at December 31, 2021, amounted to NIS 549 million, with a balance of investment commitments of NIS 365 million (approx. US$117 million).
- **Technology Funds** - the balance of the investments of Discount Capital in technology funds as at December 31, 2021, totaled NIS 312 million, with a balance of investment commitments of NIS 249 million (approx. US$80 million). The technology funds in which Discount Capital invests specialize in investments in early stage companies and in growth stage companies.

Discount Capital's investment balances in funds amounted to NIS 962 million as of December 31, 2021 and the balance of its liability to funds that had not yet reached the end of their investment period amounted to NIS 690 million (US$220 million).

Distribution of investments in private equity funds and in venture capital funds

Type of fund	Balance of investment[1]	The balance of investment commitments	A percentage of the total volume of investments [2]	Principal management groups
	As of December 31, 2020 In NIS million			
Private Equity Funds of the Fimi Group[3]	396	248	25%	
Other Private Equity Funds	153	117	10%	SKY, Fortissomo
Growth Funds – Venture Capital	192	156	14%	IGP, Qumra, aMoon
Early Stage Funds – Venture Caital	120	93	8%	StageOne, Vertex
Foreign funds	71	65	5%	
Other Funds	30	11	2%	
Total	962	690	64%	

Notes:
(1) The data is presented in terms of book value.
(2) In accordance with the balance of the investment in the books with the addition of the balance of the investment commitment.
(3) Among the other management groups, there is no management group, the balance of investment therein at December 31, 2021, exceeded NIS 70 million (excluding investment commitment).

Direct investment in non-financial companies

The direct investments balance of Discount Capital as of December 31, 2021 amounted to NIS 749 million, in some 50 companies (as of December 31, 2020 amounted to NIS 440 million in some 25 companies).
In 2021, Discount Capital made 25 direct investments in corporations, in a total amount of approx. NIS 300 million, of which, 21 investments in technology companies at different stages of development, in a total amount of approx. NIS 150 million, including investments within the framework of the innovation plan and investments in the fintech field.

Legislative and regulatory limitations and special constraints applicable to the investments operations

Section 23 A (a) of the Banking (Licensing) Law, specifies that the amount of any means of control held by a banking corporation in non-financial corporations shall not exceed the following proportions of the capital of the banking corporation, as shall be determined for this purpose in rules prescribed by the Governor, after consultation with the Advisory Committee and with the approval of the Minister of Finance -
(1) Up to 15% of its capital - in any non-financial corporation;
(2) Up to a further 5% of its capital - provided that it does not hold in corporation more than five per cent of a certain class of means of control and it is not entitled to appoint a director;
(3) Up to a further 5% of its capital - in non-financial corporations which are foreign corporations that do not conduct any material and continuing business operations in Israel.
As of December 31, 2021, no violation of these restrictions exists.
Within the framework of the Banking Act (Licensing), restrictions have been prescribed whereby a banking corporation may not hold more than 1% of a certain class of the means of control of a significant non-financial corporation or in an insurer, being a significant financial entity (a significant non-financial corporation is a corporation the volume of operations of which, or the volume of its credit exceed approx. NIS 6.5 billion or on approx. NIS 2.05 billion in monopolized markets, and which is included in the list of significant non-financial corporations published in accordance with the Concentration Act). Notwithstanding the aforesaid, a banking corporation may hold more than 1%, but not more than 10%, of a single significant non-financial corporation or of an insurer, being a significant financial entity. As of December 31, 2021, no violation of these restrictions exists.

International Operations Segment – Additional Details

General

The foreign operations of the Discount group are conducted by a subsidiary company in the United States (for details regarding the closing down or sale of operations of part of the extensions, see below).

Business Strategy, Goals and Points of Emphasis

In 2021, IDB Bank continued in the implementation of its five year strategy. The strategic plan was updated, emphasizing also aspects of efficiency and optimization of human resources, inter alia taking into consideration the impact of the Corona crisis and competition regarding the ability to recruit and maintain manpower. As part of the strategy, IDB Bank acts to expand its activity in the field of financial wealth management, by way of establishing a joint venture with a leading American entity in this field. This activity is subject to obtaining the required regulatory approvals in Israel and in the United States.

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 December 31, 2021, the calculated rate of the Bank's exposure with respect to overseas extensions stood at 14.22% 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 (restriction of the exposure rate, as stated, was 25% on December 31, 2020). The Bank monitors the development of the risks assets in respect of its operations in overseas extensions.

IDB Bank – Risk Based and Leverage Capital Ratios. Beginning on January 1, 2015, IDB Bank became subject to new Basel III capital rules based on the final rules published by the FRB in July 2013 (the "Basel III Capital Rules"). The new rules establish a new comprehensive capital framework for U.S. banking organizations.

The rules apply to all depository institutions and banks holding companies with total consolidated assets of $500 million or more, Among other things, the new rules establish a new common equity tier 1 ("CET1") minimum capital requirement and a higher minimum tier 1 capital requirement, and assign higher risk weightings (150%) to exposures that are more than 90 days past due or are on nonaccrual status and certain commercial real estate facilities that finance the acquisition, development or construction of real estate. The rules also limit dividend distributions by certain banking organizations as well as discretionary bonus payments if the banking organization does not hold a "capital conservation buffer", consisting of a specified amount of common equity tier 1 capital in addition to the amount necessary to meet its minimum risk-based capital requirements. The capital conservation buffer came into effect in 2016.

The Basel III Capital Rules became effective on January 1, 2015, subject to a phase-in period. The minimum capital ratios required as of January 1, 2016 are as follows:

- 4.5% CET1 to risk assets;
- 6.0% Tier 1 capital to risk assets;
- 8.0% Total capital to risk assets; and
- 4.0% Leverage ratio.

IDB Bank complies with the requirements.

US legislation. The operation of IDB Bank is subject to different legislative instructions, such as the Dodd Frank legislation, including amendments thereto enacted over the years, such as within the framework of the Economic Growth, Regulatory Relief and Consumer Protection Act.
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 in a way that presents a higher supervisory anticipation. Within the framework of the above stated, IDB Bank may be required to expand and intensify its internal controls, the compliance plan and the risk management. The US regulators have the authority to adopt public and non-public enforcement measures, in different circumstances, including in cases of identifying financial or operating weaknesses, deficiencies in corporate governance or other deficiencies, as well as cases of violation of Regulations. Within the framework of these enforcement measures, Regulators may order different measures, including measures to correct deficiencies or the discontinuation of certain practices, as well as increasing the capital, limiting growth, restrictions on profit distribution, termination of office of Officers, as well as the payment of penalties or civil indemnification.
Guidelines of the Supervisor of Banks. In 2016, the Supervisor of Banks published several guidelines regarding cross-border risks, which have been applied by the Supervisor of Banks also to operations of a banking corporation outside Israel. Accordingly, IDB Bank is preparing for the implementation of these guidelines with modifications required by the local laws applying to it. For further details regarding the guidelines, see "Exposure to cross-border risks in respect of the activities of foreign resident customers" in the document "Disclosure according to the third pillar of Basel and additional information regarding risks" available for review on the Internet.
New Proper Conduct of Banking Business Directive in the matter of "supervision over overseas extensions". For details see "Other risks" in the document "Disclosure according to the third pillar of Basel and additional information regarding risks", which is published concurrently with this report, and which is available on the MAGNA and MAYA sites as well as on the Bank's website.

Taxation

For details regarding taxation of overseas banking subsidiaries, see "Taxation" hereunder and Note 8 L to the financial statements.

Service to Segment Customers

In addition to the main branch in New York and the branches in Brooklyn, Staten Island and New Jersey, IDB Bank operates branches in South Florida, and South California. IDB Bank offers diverse private banking and commercial banking services, both to US and foreign customers.

Services and Principal Products of IDB Bank

Credit. IDB Bank provides bank credit to a wide array of U.S. and Israeli corporations, operating in the U.S., to their shareholders and to private banking customers.
Middle Market. IDB Bank grants credit to the middle-market segment, operating in various fields in the New York metropolitan area, Miami and Los Angeles. Customers are being offered a large variety of services, including foreign trade and financing operations in respect thereof, the financing of commercial real estate, including financing the purchase of commercial real estate and the financing of housing projects (Multi Family), as well as the financing of the health institutions, not-for-profit organizations and domestic activity of Israeli corporations.
Revolving Credits. These loans include the financing of inventory and trade receivables and allow the financing of working capital through the leveraging of the customer's current assets.

Factoring. This activity includes instituting credit facilities against trade receivables of the customer and allows him to improve the collection process from such customers.
Hi-Tech customers. Activity that includes the granting of credit to hi-tech customers (Hi-Tech lending).
Private Banking. IDB Bank provides varied private banking services to customers, who are U.S. residents (local private banking) as well as non-U.S. residents (international private banking), having a high level of personal wealth. At the disposal of these customers are, among other things, securities management and trusteeship services as well as different credit services, and products and services of IDB Capital, as subsidiary of IDB Bank, engaged in securities transactions and insurance products in behalf of customers.

Credit Card Operations

Structure of the field of operation

Use of credit cards as means of payment is made possible upon the combination of several factors, an issuer, a clearing agent, a trader and a customer (the credit card holder), all of which are bound by separate and independent agreements (direct or indirect agreements, by virtue of the issuer and the clearing agent being members of an international organization that provides the franchise in respect of the credit card brand name). These contractual engagements provide the infrastructure for communicating the relevant data for settling the payments relating to transactions paid by credit cards.
The card holder has a contractual engagement with the issuer, to whom he pays a fee for the issue of the card and its current operation. The trader enters into an agreement with the clearing agent. In this framework, the clearing agent, in consideration for a commission, undertakes to credit the trader related to it, in a manner secured in advance, with the consideration due to the trader for the transactions made with him by the customers holding the credit card of the brand that is being cleared approved by it and examined with the issuer. The commission collected by the clearing agent in respect of clearing services to the trader is the "Trader commission". The clearing agent, on his part, pays the issuer an issuance commission called "Cross commission". This commission is embedded in the trader commission collected by the clearing agent. Namely, the trader commission is composed of the clearing commission and the issuer commission.
According to publications by the Central Bureau of Statistics, over 90% of the adult population of Israel uses credit cards as a means of payment, the Israeli consumer holding an average of 2.3 cards in their possession. ICC estimates the number of credit cards in Israel at December 31, 2021 was approx. 12.5 million. Furthermore, some 100 thousand trading houses and marketing chains in Israel allow purchases using credit cards.

The Operations of ICC

ICC operates in two sectors of the main activity in the credit card market: issuance of credit card (including finance to private individuals) and clearing of credit card transactions.
ICC directly issues, markets and operates credit cards of the "VISA", "Diners" (exclusively) and "MasterCard" types, valid in Israel and abroad, and also has joint issue agreements with banks that participate in the arrangement. The Bank is currently engaged in a joint issuing agreement with ICC, Diners and MAX (see Note 36 B 1).
In the issuance field, ICC issues (directly and through Diners Club, a fully owned and controlled company) credit cards that are divided into two main groups: (a) Bank credit cards - issuance of cards to customers of banks in the arrangement with which ICC has agreements for co-issuance. These cards are issued and operated by ICC, which bears the damages resulting from the counterfeiting or theft of the cards. On the other hand, the banks provide credit to the customer and bear the entire credit risk; (b) Off-banking credit cards - issuance of cards directly by ICC. As regards to these cards ICC, through subsidiary companies, provides to the customer the credit facilities and bears the overall risk relating to transactions made by use of the card.

ICC offers its customers various loans for any purpose, including "no card loans" and loans to finance the purchase of a motor vehicle through Shlomo Cal Company Ltd., spreading of charges plans (such as deferral of charges, credit transactions, revolving credit, a fixed monthly debit, monthly debit at the customer's choice – "CAL Choice" and more), as well as rechargeable cards.
ICC clears "VISA", "Diners" and "MasterCard" credit cards that are valid in Israel and abroad, and "IsraCard" credit cards (in Israel only).
In the clearing field, ICC offers its customers voucher factoring services, loans, the advancing of payment dates and the granting of advances. Most of the marketing efforts in the clearing field are directed at trading houses, including chains, through focusing on their needs.

Quantitative data regarding the activity of ICC

	December 31, 2021		December 31, 2020	
	The total number of cards	Of which: active cards	The total number of cards	Of which: active cards
	in thousands			
Bank cards	2,157	1,867	2,019	1,737
Off-banking cards	1,825	1,276	1,707	1,231
Total	**3,982**	**3,143**	**3,726**	**2,968**

Transactions turnover

	For the year ended December 31, 2021	For the year ended December 31, 2020
	in NIS millions	
Bank cards	92,595	76,961
Off-banking cards	36,269	30,968
Total	**128,864**	**107,929**

Notes:
(1) "Bank card" - A credit card issued jointly with the banks in the arrangement and under their responsibility.
(2) "Off-banking card" - A credit card issued by ICC, separately from the banks.
(3) "Valid card" - A valid credit card which is not blocked.
(4) "Transactions turnover" - Includes transactions made using the credit card and debits in respect of transactions payable in installments, less the credits made to the banks or their customers in respect of the use of credit cards during the same period and fees and commissions collected for the banks or for ICC. The transaction turnover does not include withdrawals of cash through the automatic teller machines in Israel.
(5) "Active card" - a credit card through which at least one transaction was made in the last quarter.

Breakout of the Corona virus. For details, see above "Main Investee Companies".
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.

New activities and strategic collaborations

The Strum Act. For details regarding the uncertainty stemming from the implementation of the Strum Act, see Note 36 B to the financial statements.
Arrangements following the Strum Act. For details regarding the signing of agreements between ICC and Bank Leumi and ICC and Bank Hapoalim on the one hand, and between the Bank and LeumiCard on other hand, see Note 36 B to the financial statements.
Memorandum of principles with Shufersal Company. For details, see Note 36 D above.

Agreement with El Al. On December 11, 2018, an agreement in principle was signed for ICC to enter into a new engagement with El Al with regard to the issuance and operation of branded credit cards. For further details, see Note 36 C above.

Engagement with GAMA Company. On July 6, 2017, ICC entered into an agreement with GAMA Management and Clearing Ltd. and with GAMA Personal Direct Finance Ltd. (hereinafter: "GAMA"), within the framework of which, GAMA would become an "Aggregator" enabling credit card transactions using the services of GAMA and ICC.

The signing of this agreement conforms to the provisions of the Increase in Competition and Reduction of Concentration in the Banking Market in Israel Act, which includes rules intended to increase competition in clearing operations. Management of ICC is of the opinion that the agreement would improve the value offer to the small and medium trading houses. The period of the agreement was extended in 2019 until January 5, 2025.

A tripartite agreement between ICC, Shufersal and EL AL. A tripartite agreement was signed on November 26, 2019, between ICC, Shufersal and EL AL for the establishment of the "Shufersal Flight" Club and in respect of the accelerated accumulation of points by use of FlyCards in the Shufersal chain.

Extension of the Diners franchise. For details, see Note 36 E above.

Agreement for the issue of off-banking cards to customers of Bank Leumi and for users of the "BIT" Application. ICC and Bank Leumi Le'Israel B.M. signed an agreement on November 11, 2020, for the distribution of off-banking credit cards to private customers of Bank Leumi, which would be issued and operated by ICC and under ICC's responsibility. The agreement was signed for a period of twenty-four months, and was supposed to be automatically renewed for additional periods of twelve months. The parties are endeavoring to bring the agreement to an early conclusion.

Moreover, in December 2021, ICC and Bank Leumi acted to enter into an agreement for the distribution of off-banking credit cards to business customers, with this being further to the Bank's obligation to reduce credit facilities in accordance with the provisions of the Strum Act. On December 13, 2021, a request was submitted to the Competition Authority for exemption from the need for approval of a restrictive agreement with regard to this agreement, and said exemption was granted in a decision dated January 19, 2022.

ICC and Bank Hapoalim B.M. signed a cooperation agreement in January 2021, within the framework of which ICC would issue to users of the "BIT" Application, owned by Bank Hapoalim, charge cards under the brand name of "BitCard", for use by "BIT" users who may enjoy benefits and special services.

Cooperation agreement with PAZ. On February 20, 2022, ICC signed a cooperation agreement with PAZ Oil Company Ltd. ("PAZ") for the marketing of loans provided by ICC under its responsibility, by means of the "Yellow" Application, to members of the "Yellow" club. The agreement is in effect for three years, and PAZ has an option for its extension for two additional periods of twelve months each. The agreement may be terminated at an earlier date under certain circumstances relating to the volume of operations. The agreement states the consideration to be paid by the company to PAZ, based on the actual profits of the company and on the loans granted within the framework of the activity.

Additional developments in Operations

Entry of an additional clearing agent to the clearing market in Israel. On March 20, 2018, the Supervisor of Banks announced the granting of a new clearing agent license, in addition to that granted to another company on April 8, 2017. It was noted in the announcement that the additional clearing agent is expected to begin clearing operations within 18 months from date of the license. In ICC's opinion, it is not possible at this stage to assess the effect in general of the additional clearing agents entering the clearing market in Israel, or its effect on ICC in particular, noting that the said clearing agents obtained a restricted license until completion of their preparations.

Support agreements with Visa Europe Limited. In February 2020, ICC and Visa Europe Limited signed a support agreement. The scope of the support funds depends on different stipulations stated in the agreement, and mainly on the volume of operation of ICC. This agreement has been signed following the announcement of VISA Europe regarding the increase in commission tariffs payable to it. ICC estimates that, the anticipated effect of the support agreement, on the one hand, and the raising of the VISA rates, on the other hand, is not expected to be material. This assessment might change in case the volume of transactions using the "VISA" brand would be materially different than that existing on date of signing the agreement.

Agreement with Apple. On September 8, 2020, ICC and Apple Distribution International Ltd. ("Apple") signed an engagement agreement, according to which Apple will allow holders of ICC cards the use of the payment platform

”Apple Pay”. The payment platform Apple Pay is intended for the use by ICC customers using the variety of Apple devices based on the IOS operating system of Apple. The Apple Pay payment platform serves for credit card based transactions, both in the physical world by means of contactless supporting EMV smart terminals, and in the online world in applications and in different websites. The agreement defines the commercial terms for the engagement between the parties, including the commission fee to which Apple would be entitled.

Strategic cooperation for setting up a digital wallet. For details, see ”Management’s handling of current material issues” above. The Bank, Shufersal and ICC are conducting negotiations according to which, ICC would serve as the issuer of the virtual charge cards offered within the framework of the digital wallet of PayBox. At this stage, there is no certainty that the said negotiations would result in a binding agreement.

Provision for benefit campaigns to holders of credit cards. In recent years, ICC informed its customers that the validity of certain benefit plans that had been offered to them would be limited in time. The validity of certain benefit programs expired during the third quarter of 2021. In respect of these benefits, ICC includes a provision in its books, and accordingly, expiry of the benefits resulted in a decrease in the said provision.

Introducing Google Pay in Israel. On September 14, 2021, ICC and Google Ireland Limited signed an agreement for the use of Google technologies for payments using digital wallets of ICC card holders.

Changes regarding competition in the credit card market

The competitive environment in the credit cards field, which is growing constantly fiercer in recent years, is affected, inter alia, from the following factors:

- The increased competition between the clearing agents, inter alia, on ground of the detachment of Isracard and MAX from the banks, alongside the impact of the regulatory measures taken by the Supervisor of Banks, and also in view of the steps taken by the credit card companies, has been reflected in the decline in clearing commissions;
- Banking corporations have launched payment solutions which may operate outside the debit cards framework. Among these, the following apps should be mentioned: PAYBOX (Discount Bank), BIT (Bank Hapoalim) and PAY (Bank Leumi), as well as progress on a system for immediate account-to-account debiting and crediting, which is being promoted by BCC, and which is likely to constitute an alternative to the debit cards framework;
- The technology giants offer financial services in Israel. At first, Apple introduced this year its payments Application ”ApplePay”, and later on in the year Google introduced the digital wallet ”Google Pay”. Entry into the local payments market of the technology giants is expected to increase competition and comprise a catalyst for innovation and technology in this field;
- Fierce competition exists in the customer clubs field, which, inter alia, was expressed in the commercial terms of a number of agreements signed in the credit card field;
- Competition in the off-banking credit field in recent years has also increased in view of the significant increase in the number of financial entities offering loans to households, such as: provident funds, further education funds or inter-personal loan platforms (P2P). Various regulatory measures, introduced by the Supervisor of Banks, such as the establishment of a credit data base, are expected to increase the volume of competition and enable providers of off-banking credit (including credit card companies, including ICC) to obtain more reliable information regarding existing and potential customers;
- Proper Conduct of Banking Business Directive No.368 in the matter of ”open banking” published on February 24, 2020, requires the banks and credit card companies to share information regarding customers (with the customer’s consent) and to even allow, at a later stage, payments initiation. Open banking constitutes an opportunity for ICC but will also permit other entities to receive the unique information that the credit card companies hold, as well as increasing competition in the payments field by means of payments initiation.

ICC had prepared and is preparing for such changes, and has formed a strategy aimed at enabling it to handle these changes in an optimal manner (for additional details, see above ”Main Investee Companies”).

Regulations, Legislation and Arrangements

General. The activities of ICC are regularized under the Credit Card Law, 1986 and various rules under the general law also apply to it. Upon the Payment Services Act taking effect, the Debit Cards Act will be revoked. For details regarding the Payment Services Act, see "Legislation and Supervision" below. In addition, due to the fact that ICC is a subsidiary of a banking corporation, it is defined also as an "auxiliary corporation" under the Banking Law (Licensing), 1981, and as such, a set of Laws, Regulations and Orders under the banking laws also apply to it including various directives issued by the Supervisor of Banks.

Among other things, ICC is subject to duties relating to the prohibition of money laundering and the finance of terror, including the duties of identification, maintenance of records and reporting to the Money Laundering Prohibition Authority, as regards everything relating to holders of credit cards and to trading houses with which ICC has clearing agreements. Likewise, ICC is bound to operate in accordance with the rules of the international organizations of which it is a member (VISA International organization, MasterCard Worldwide organization and Diners Club International). These rules are updated from time to time and determine international standards.

The Competition Commissioner. The Competition Commissioner is involved extensively in the field of credit card activity. For details as to the arrangements between the credit card companies and for details regarding an amended cross-clearing arrangement, see Note 36 B 1 and 2 to the financial statements.

Reduction of the cross-commission rate. For details regarding the outline for the reduction of the cross-commission rate, in respect of deferred debit transactions and in respect of immediate debit transactions, published by the Governor of the Bank of Israel, and regarding the draft of the exemption terms for the new agreement in this field, published by the Competition Commissioner, see above Note 36 A 1 to the financial statements.

Statement by the Ministry of Finance in the matter of an exclusive issue and clearing brand. The Ministry of Finance informed ICC on July 24, 2017, that to the extent that the maximum trading house commission applying to domestic transactions, charged in relation to an exclusive issue and clearing brand, shall be reduced over the period from 2017 to 2020 by four significant installments, reaching until the end of December 2017 a level not exceeding 2.95%, until the end of December 2018 a level not exceeding 2.45%, until the end of December 2019 a level not exceeding 2.10%, and until the end of June 2020 a level not exceeding 1.99%, so that at that date, the Minister of Finance does not see the need to use his authority under section 36 M (a) of the Banking Act (Licensing), 1981, or to support proposed Bills, the contents of which is identical with acting under the said authority, or which directly interfere with the brand commission above and beyond the reduction outline described above. ICC has acted in accordance with the said outline.

On August 11, 2021, the Bank of Israel notified ICC that the possibility of cross-clearing the Diners brand and the significance thereof were being examined, and it requested ICC to furnish information that, in its opinion, would assist in formulating a position on this matter. On December 21, 2021, the Ministry of Finance informed ICC that the examination of possibly allowing the cross-clearing of the Diners and AMEX brands had begun.

Strengthening Competition and Reducing Concentration in the Israeli Banking Industry, (legislation amendments) act, 2017. For details, see "Legislation and Supervision" below.

Draft Proper Conduct of Banking Business Directive in the matter of retail credit management. For details, see "Legislation and Supervision" below.

Circular regarding Proper Conduct of Banking Business Directive No. 472 and the EMV liability shift mechanism. On January 15, 2020, the amendment to the Proper Conduct of Banking Business Directives on this topic was published, which deals with the advancement of the EMV standard in Israel and includes, inter alia, an outline for execution Sunset that will gradually stop, making transactions in the old credit protocol/Fake EMV (executing transactions by means of a smart card but without a PIN), and a transition to executing transactions using Full EMV, as well as the obligation to issue Contactless cards. On March 25, 2021, the Bank of Israel's Payment Systems Supervision Unit sent out a letter regarding the deployment of the EMV standard, in which the members of the Charge Cards Committee were requested to take immediate action to update the old terminals to EMV terminals, and to define a work plan for completing the conversion of all the trading houses that require this, by the next milestone date. On June 20, 2021, the Supervisor of Banks announced that the credit card companies are allowed, in certain instances, to continue clearing trading houses even if these have not gone over to the EMV standard and even after July 31, 2021 (the date when these trading houses were meant to have gone over to the aforesaid standard). This approval was valid until December 31, 2021. On December 30, 2021, an outline for extending the trading houses' transition to the EMV standard was received from the Banking Supervision Department.

Daily accounts settlement. In accordance with the decision of the Competition Commissioner from April 25, 2018, with effect from July 1, 2021, money transfers between an issuer and a clearing agent with respect to transactions executed in a single payment are carried out not later than the day following the date of the trading house transmitting the transaction. For details regarding the effect of implementing the directive on the company's assets and liabilities, see the "Structure and Developments of Assets, Liabilities, Capital and Capital Adequacy" chapter in the Board of Directors Report.

Position of the Ministry of Justice – fraud in circumstances of impersonating a payment services provider. On September 30, 2021, the company received the Ministry of Justice's opinion regarding fraud in circumstances of impersonating a payment services provider. According to that stated in the opinion, when a payer has made the essential component of the payment means available, in circumstances where the payer is convinced that he is making the essential component available to a payment services provider, the payer is entitled to the protections provided in the Payment Services Act with regard to his limited liability. Moreover, on December 29, 2021, a legislative memorandum was published on this subject that proposed, among other things, enacting that stated in the opinion.

Draft of a new Proper Conduct of Banking Business Directive, "Distribution of credit cards of issuers associated with a banking corporation through a distribution agreement". On November 17, 2021, a draft was published that sets out rules for distribution agreements of off-banking cards by the banks, an obligation prescribed within the framework of the "Strum" Act. Provisions were prescribed within the framework of the draft with regard to the terms of the distribution agreement, including in relation to the topic of collecting a consideration; the manner of distribution; the details the bank is required to present to the customer; obligations for reporting to the Banking Supervision Department, etc.

Critical Success Factors

The issuance field. There are several positive factors that affect the competitive position in the sector: products and services that appeal to varied population of customers, ICC's image and brand names, quality and experienced human resources, an efficient and well developed risk management layout, information systems and advanced infrastructure, long-term agreements with banks for credit card issue arrangements, the ability to issue leading brand name credit cards ("VISA", "MasterCard" and "Diners"), an extensive layout of agreements with customer clubs of varied population segments, a solid capital structure, the ability to borrow funds from financial institutions at beneficial terms.

On the other hand, several factors have a negative effect on the company's competitive position, headed by: the development of alternative means of payment, which may reduce the demand for the issue of credit cards, entry of retail factors into the credit card issue market, and frequent and significant regulatory changes, mostly on the part of the Supervisor of Banks and the Competition Commissioner, such as the lowering of the cross commission rate, issue arrangements for the issue of immediate debit cards, and more.

The clearing field. There are several positive factors that affect the competitive position of the company in the sector: cumulative experience in the field of credit card clearing; an efficient service layout providing suitable solutions for trading houses; advanced information and infrastructure systems; a professional and efficient risk management layout; experienced and quality human resources; an extensive and efficient marketing and sales layout, which enables the attraction and preservation of customers; a reputable and powerful brand name; constant development and expansion of the product and services basket; the existence of cross-clearing agreements between all clearing agents in the country; holding a license from international organizations allowing clearing of their brand products; existence and distribution of a communication layout enabling clearing or communication with ABS; a solid capital structure and a positive cash flow.

Negative factors affecting the competitive position of the company, are: technological improvements creating alternative means of payment, which might reduce the use of credit cards; regulatory guidelines regarding the clearing switch and the possibility of trading houses changing clearing entities at their own discretion, as regards the leading brands: "VISA", "MasterCard" and "IsraCard".

Market entry barriers

The issuance field. An entity interested in entering the credit card issuance market faces several barriers, the principal of which are: attaining certain qualifying terms required for obtaining a license from any brand name international credit card issuing organization; maintaining an extensive and costly operating layout, including advanced information and customer service systems; a continuous and considerable investment in marketing channels; countrywide distribution and sales, especially distribution channels regarding banks and customer clubs; financial soundness allowing the raising of funds at advantageous terms; the holding of control over the issuer by a financially stable corporation enabling recognition by and membership of international organizations; obtaining guarantees from the controlling corporation; maintaining an efficient and advanced credit risk rating system; the requirement of minimum equity capital in order to comply with the instructions of the Supervisor of Banks regarding the ratio of capital to risk components.

The clearing field. The main barriers facing a company wishing to enter the clearing segment are: obtaining a license from the international organization owning the credit card brand, which the new entrant wishes to clear. Obtaining such a license requires compliance with business and financial standards securing such an operation; distribution of an extensive communication layout allowing online clearing, or alternatively, engagement with ABS, which has such a layout; existence of a reliable and stable information system for billing management; financial means, experience and knowhow required for investment in technology, operating systems, advertising and marketing; considerable clearing turnover allowing the recoupment of amounts invested in clearing infrastructures; minimum equity capital requirements; customer service layout and extensive and efficient attraction of customers layout.

Alternative Products

There are numerous alternative payment means to credit cards, from cash, to standing orders, bank transfers, purchase vouchers and checks, through to payment using a smart phone and a “digital wallet” on a designated app. Bank and off-banking credit and check discounting services also constitute alternative products to the credit and other financial services provided by ICC.

Marketing and Distribution

The issuance field. Marketing and distribution in the issue segment are achieved mostly by increasing cooperation with banks participating in the arrangement as well as with customer clubs. The said banks serve as a ”recruitment base” for ICC in attracting bank customers to its ranks, while the customer clubs serve to attract off-banking customers. Joining the customer clubs, generally grant participants with discounts and benefits in a variety of trading houses. In addition, ICC cooperates in marketing drives with leading businesses in the country and operates advertising and marketing channels using the different media and through sales stalls. The principal customer clubs at present are Shufersal, FlyCard, Cal-365, Cal-H&O, PowerCard and Hitechzone. In addition, ICC has established different clubs serving professionals such as certified public accountants and lawyers.

Distribution of non-bank cards is based, usually, on sales-promotion agreements with companies, which operate distribution stands on their sales floors.

ICC has an active Internet website that provides information regarding its products and services, marketing drives, discounts and benefits, and allows access to accounts of card holders for the purpose of monitoring and control of their activity. In addition, ICC has launched an application for smart phones that allows the monitoring of customer transaction as well as information regarding ICC’s services, benefits and various discounts.

The clearing field. Sales representatives market clearing services to the traders, and serve as liaison officers with the trading houses, also following their joining. In addition, ICC operates a unique Internet website for trading houses, which includes information regarding previous and future settlement of accounts, ordering of reports and invoices at the single trading house level and chain level and receiving them in a secured safe, and more. The marketing of clearing services is also performed by means of GAMA Company (for details of the agreement with it, see above ”New activities and strategic collaborations”) and also by means of a company engaged in the field of supplying credit terminals.

The company's main objectives in its marketing operations are: the retention of existing trading houses as customers; improving and enhancing its image; recruiting new businesses for its services; and, enlarging the basket of services that it offers.

Competition

The issuance field. The competitors of ICC in the issuing field are the IsraCard and MAX IT Finance Ltd.. As part of the competition in this segment, ICC competes over new customers having no credit cards, or over customers holding credit cards of competitor companies, as well as acting in various ways in order to preserve existing customers and preventing their leaving to join its competitors. Furthermore, ICC makes considerable efforts in marketing and the granting of discounts and benefits to its card holders, in order for them to use the company's credit card for most of their purchases, and also offers them varied credit services as an alternative to or addition to regular bank credit.
The scope of credit card usage in Israel is constantly rising (except for a certain slowdown in 2020 due to the impact of the Corona crisis). In particular, e-commerce activity on the Internet has grown in recent years, with the volume of purchases made online, including purchases made using smart phones, having grown considerably in recent years.
The clearing segment is characterized by a high level of competition between the clearing agents. Participating in this segment are: the ICC group clearing "VISA", "MasterCard", "Diners" (exclusively) and "IsraCard" credit cards; the IsraCard group clearing the brands "IsraCard", "MasterCard", "VISA", and "American Express" (exclusively), and MAX clearing the brands "VISA", "MasterCard" and "IsraCard".
Various regulatory changes may bring about the entry of additional clearing agents and increase competition in this segment.
ICC is competing in order to expand the range of businesses that receive clearing and supplementary services from it and is focusing on recruiting new businesses to sign clearing agreements and on retaining existing trading houses as its customers, through investing in considerable marketing and sales efforts.
Another aspect of the competition in the segment relates to the development of financial and operational products and services for trading houses, which will lead to a rise in the scope of those businesses' turnover with ICC.
In order to cope with the competition in the segment and to strengthen trading houses' loyalty toward it, ICC is implementing the following measures: a competitive tariffs policy, investment of resources for the improvement of service to trading houses and for their retention, while aligning the products and services to the business' needs; strengthening cooperation with trading houses; activating an efficient service array and marketing and sales array that will be able to provide solutions to trading houses and to respond to their changing needs; and, marketing a comprehensive basket of products to trading houses, while enlarging market share in the segment.

Business Goals and Strategy

The issuance field. Leading the market through the exhaustion of the banking lane and through offering solutions adapted to customer needs, issuance of charge cards in the off-banking lane in existing customer clubs, as well as through the cooperation with various entities for the establishment of additional customer clubs.
Moreover, ICC is active in becoming a significant player in the consumer credit market, the attraction of off-banking card holders being the infrastructure for the creation of consumer credit and the positioning of ICC as a factor providing diverse credit services (including by means of credit cards).
The clearing field. The principal goal of ICC is to market an overall array of products to trading houses, while enlarging its market share in the clearing sector. Furthermore, ICC is taking steps towards developing and market additional products to be offered to traders, in addition to those offered at the present time.

For additional details, see Note 36 to the financial statements.

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. Among the measures taken in this field may be noted the establishment of the Digital, Data and Innovation Division, operating within the framework of which are the digital department, the fintech and innovation unit and the Data department.

The digital department operates to promote and develop all the digital platforms offered to customers of the Bank, first and foremost, the banking Application and the operations website. The fintech and innovation unit operates to create cooperation with fintech companies and their integration in value offers to the customer, within the work environment of the Bank officer and the systems of the Bank. The data department promotes the educated use of the Bank's data assets, in order to improve the value offer and customer experience, as well as to increase the efficiency and effectiveness of central processes at the Bank.

The Corona crisis 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.

The contents of the marketing website have been updated in accordance with the need for changes in the preparations of the Bank, adapting the guidelines for the easy management of the bank account also from the home, for deferment of mortgage payments or for a loan application, this in accordance with both private and business customer needs.

At the business development and work plans levels, new and existing processes have been added and improved in order to facilitate customer banking operations in these times. At the same time, the Bank emphasized the attachment of new customers to the digital.

Expanding the open banking services. The Bank has defined the open banking field as a strategic field, which embodies an opportunity for the creation of new and valuable financial solutions, products and services for customers, and was the first to introduce, in 2018, an API (Application Programming Interface) platform. Within the framework of the Bank's actions to expand its open banking services, several FinTech companies have joined the Bank's API platform: iCount offers account management services to small businesses, RiseUp Moments Ltd. offers a cash flow management service to private customers and assists customers' economic growth through effectively managing monthly cash flows, and Amir CashFlow Ltd. offers cash flow management services to small and medium businesses and assists them through data-based smart management. Recently, the Bank has launched several new API services that enable FIBO Technologies Ltd., a company that offers tax refund services to salaried employees, to connect to the open banking services of Discount Bank and to receive from the Bank's customers, in an uncomplicated manner, the data and documents needed in obtaining refunds from the tax authorities.

Strategic cooperation for setting up a digital wallet. For details see "Management's handling of current material issues" above.

A new podcast regarding fintech and innovation. At the beginning of August, the Bank introduced a new podcast on matters of fintech and innovation. The podcast, to be produced jointly with the podcast network "Making history", will host the outstanding entrepreneurs in the fintech field in Israel discussing the challenges, successes and advice, which every entrepreneur must hear. Furthermore, the podcast will host additional factors operating in these fields, who will share with the listener insights and recommendations. The podcast will be available on the central platforms, Apple and Spotify, and on the website of the "Making history" group.

Direct channels

The year 2021 in the Digital continued to be marked by the Corona pandemic, which revalidated the activities over digital channels, emphasizing the importance of obtaining extensive information and transacting a wide selection of banking operations in an independent, simple, convenient and also secure way, which may be conducted by the customer from his home. In actual fact, activity on the digital channels has become the central track for customers.

The contents of the marketing websites have been adapted to the dynamic and varying pace of the Bank's updates to its customers, through creating pages that provide customers with a guide as to how they can continue to easily manage their account from home.

A new mortgage website has been set up enabling customers to obtain a digital mortgage. The "One-Click Mobility" reform was launched, combining the offer of credit to a customer interested in opening an account.

Also in applications, services have been promoted that make it easier for customers to perform remote operations, such as: introduction of digital wallets, the process of depositing to a new deposit, cooperation with fintech companies.
At the business development and work plans level, new and existing processes have been added and improved in order to facilitate customer in these times and concurrently, the Bank has placed emphasis on joining new customers to the digital.
During 2021, innovations and updates were made in the following areas:

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).
A new search area for current account entries. Possibility has been added for sorting current account entries in back periods of up to one year, by free wording, type of entry and date range.
Presentation of similar entries in current account. By choosing a particular entry in current account, it is possible to see similar entries in back periods of up to one year and sort them according to date range.
Authorization to charge an account. In addition to the setting-up of an authorization via the Application, the possibility of cancellation or stay of authorization to charge an account has been added.
Queries regarding dishonored checks. Customers would now be able to receive in real-time full details regarding dishonored checks and to obtain a printout of all dishonored checks, both on the private and on the business+ websites.
Removal of noting the reason for foreign currency transfers. The noting on the private and business websites of most of the reasons for foreign currency transfers that are not subject to tax has been removed. The noting of such reasons requires tracing and obtaining liability declarations, which, at this stage, cannot be digitally effected. Customers, who want to transfer funds not subject to tax, may do so at the branch.
Receiving foreign currency also in another currency. A possibility has been added to the business website whereby an amount received in a certain currency may be converted into another currency. The field "Account to be credited" opens a list of currencies in which the customer has an account and to which the amount received may be converted.
Exporting entries to Excel sheets. A possibility has been added to the Application, for exporting account entries to Excel sheets for maintenance and sharing.

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 data report. Possibility has been added to the private website and to the Application of viewing credit data reports of a customer, as received from the credit data base of the Bank of Israel.

Credit cards

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.

Relating a credit card to payments by way of digital wallets. Android customers may relate their credit cards to digital wallets of PayBox and Google Pay, and IOS customers may relate their cards to the Apple Pay wallet, using their Smartphone for payment at shops.
Indication of a payment made by the digital wallet. In case of a transaction carried out' it is possible to view also whether it has been made using a digital wallet – and if so, which wallet. A customer may see next to each credit card the digital wallet to which the card is related.
Summing up of recent transactions. A summing up has been added to the private Application, of all charges not yet included in the next monthly charge statement, allowing the customer to know the next actual amount to be charged in relation to the credit card.
Additional operations added to the credit card world. Three prevalent operations have been added to the business website: Restoration of a secret code, change of a charge date, and cancellation of a credit card.

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.
Semi-annual financial statements on the capital market. The operations website of the capital market has added support for the presentation of financial statements also for companies that report semi-annually and not quarterly.
Presentation of "historical transactions" query made during the past three years. Under the item "Historical transactions" on the private and business websites, securities transactions made in the period of up to the most recent three years may be viewed.
Quick access to trading in bonds. A complete development has been made enabling trade in foreign bonds. Discount is the first bank in Israel enabling this activity on the digital, inter alia, adding an entry on the Application menu.
Free text on foreign securities exchanges. To the list of operations existing in the agreement, has been added to the item of joining the NYSE and the AMEX Exchanges the option of "Other", which opens a field for inserting free text.

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. Similarly to the website, the Application has also added a ”between my accounts” authorization that includes also the same party accounts at other banks, both group and trustee. Customers who have defined accounts of the company at other banks, both group and trustee accounts, as same party accounts at the branch, would be able to order single transfers and RTGS transfers of funds to these accounts, subject to ”between my accounts” authorization, and enjoy new designated maximum amounts for such beneficiaries.

Support for 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 and blocks him from the transfer to third party beneficiaries.

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. Preference of the customer would be saved on the Application and also on the website.

Presentation on the Business+ website of the status of a transaction passed to a banker authorization. Transactions in the course of being processed by a banker would be presented under the ”follow-up” tab with a designated status allowing follow-up and control of the transaction since its setup and until final approval.

Definitions and services menu on the Business+ website. The ”Definitions and services” menu now consolidates information and operations relating to the following matters: definition of accounts, Discount services and communication with the Bank.

Entry into the process of ”transfer between my accounts” through the process of a single transfer. The business website has reorganized the structure of the transfer process: the ”transfer between my accounts” tab has been removed from the upper tab line, so that under the new setup, the upper tabs represent different transfer processes while the second filters line represents classes of possible beneficiaries.

Differentiation between classes of beneficiaries – supporting signature composition on the business website. The ability has been added of defining a designated and separate composition in respect of a permanent beneficiary, so that customers may manage a different signature composition in respect of permanent beneficiaries as against random beneficiaries.

Change in the type of composition and authorization as regards a single transfer which is exceeding the limit. The composition and authorization shall be determined according to the class of the chosen beneficiary. Previously, a ”third party composition” had been required and the required authorization had been ”supplier authorization”.

Link SMS. Customers receive an SMS message for the quick transfer to approval and the carrying out of transactions.

Multitude of transactions. A button has been added to the business Application transferring the customer to signing on a multitude of transactions for the transfer of shekel funds and foreign trade risk insurance.

Factoring. On the business website, customers may observe current account entries in the receipts account in respect of factoring activity, both from the menu and from an existing query.

Customer experience

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. A ”pop-up” has been added to the Application with important guidelines, and at the end of the checkbook order process has been added the possibility of fixing an appointment at the chosen branch.

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.

Customer assistance page prior to login. With a view of improving customer experience, encouraging self-service and reducing reference to the support center, a link to a Q&A page has been added to the login screen, which shows different ways for obtaining assistance. The page includes several prevalent items: calling the support center, selection of questions and answers, details regarding the customer's branch office and the possibility of ordering an appointment at the branch.
Expanding "My profile". Presentation of information in the personal profile page of the customer has been improved, and a possibility has been added of copying and sharing account and IBAN details.
Partners' avenue – a new area on the Application. With the aim of exposing Bank customers to new services and to cooperation entered into by the Bank, a new area has been added to the menu, which provides details of cooperation with the following corporations: PayBox, RiseUp and FIBO.
Reducing cases of transfers made to the wrong beneficiary. Added to the Application is the date of the most recent transfer that had been made to a selected beneficiary, with a view of reducing cases of transfers to a wrong beneficiary or to an old beneficiary no longer relevant.
Change in accordance with customer feedback. Following suggestions by customers using the Bank's business website, a new identifying field has been added to the Section "Salary details". Also added is the possibility of exporting to Excel sheets the list of beneficiaries from the expanded line. In addition, added to the "transfer to a number of beneficiaries" process is the option of printing the beneficiaries.
Inserting an automatic verification code. Upon receipt by SMS of a verification code, the code will be automatically inserted onto the Application screen with no need for a manual insertion (for Android customers).
Expansion of the information menu. The information menu on the Application has been divided into categories and new subjects have been added to the menu. For example: deposit of reports, check queries, prior transfer queries, credit data report and more. Under the tab "Information and reports" a possibility has been added for producing account management forms, bank identity card, year-end tax confirmations and more.
A new entry screen on the Application. A change in design has been made to the entry screen of the private Application. The screen is designed in a more convenient fashion with animation adapted to daylight hours. Added also in a prominent place at the head of the screen is a "Help" icon.
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 customers have already seen (upon previous entries to the Application, for instance).

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.
Improving the entry screen. The entry screen for the account opening process has been improved to a lighter screen with the possibility of obtaining explanations and wider information.
Blocking foreign customers. Blocking has been added with respect to customers abroad who try to open an account.

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.
Addition of an e-mail address. The possibility has been introduced of sending an e-mail to the customer service at the mortgage center, for customers who are in the process of obtaining a mortgage loan by digital means.

Deposits

Process of depositing funds to a deposit. The customer may choose the liquidity status of the deposit, and the manner of depositing funds (one-time or a standing order) as well as a savings deposit for a special purpose, and the Bank will devise the most suitable deposit for the customer. A name may be given to each deposit, either at the deposit stage or at any other time, chosen from the lobby of deposits.
Increasing the limit for funds deposited in a deposit. It is possible to deposit funds in a deposit via the website and the private Application in an amount of up to NIS 5 million, instead of up to NIS 2 million, and via the website and the business Application in an amount of up to NIS 15 million instead of up to NIS 2 million.

One-click mobility

The new reform, which went into effect in September, requires the banks to allow customers, that so request, to transfer all their financial operations from one bank (the original bank) to another (the receiving bank), in an online, convenient, reliable and secure manner and at no cost to the customer.
Offering credit to customers of all the banks. Customers of all the banks can enter the marketing website and request a credit offer. By simply providing a few personal details and answering a few straightforward questions, a banker at the new customer call center, receives the approach as a "smart lead" and gets back to the customer with a telephone offer within 48 hours. In order to accept the terms, the banker coordinates a meeting with the customer at a branch for the purpose of opening an account. Subsequently, it will be possible to refer the customer to open an account.
Status on the app. Customers who have submitted a request to move an account to Discount Bank, are able to view the status of their request immediately upon opening the app. A partner whose approval is required will be able to give approval with just a click. Full status details can be obtained on the website with just a click and a new request can be submitted in the same way.

Main developments in Israel and around the world in 2021

Developments in Global Economy

General. The global economy has recovered at a fast pace in the course of 2021, and in total for the year the US economy recorded a growth by 5.7%, concurrently with the recovery in the labor market, while the Eurozone economy grew at rate of 5.2%. In consequence of the steep rise in demand and disruption in the chains of supply, a significant acceleration in inflation is noticed, and the central banks started a monetary reduction, indicating transition to a tightened monetary policy at a faster rate than expected.
Financial markets. Equity indices in the developed markets rose sharply during the year, on the background of a population inoculation trend, recovery of the economies and the continuation of expansionary monetary policy.

Changes in the leading equities indices recorded during the years 2020 and 2021

Index	2021	2020
500 S&P	26.9%	16.3%
DAX	6.6%	3.5%
MSCI Emerging Markets	(4.6%)	15.8%

Steep fluctuations took place in the government bonds market during the year though, by the end of it, yields had stabilized at a significantly higher level than that at the end of the previous year. Overall, for the year, the yield on US 10-year bonds rose by approx. 60 basis points in light of the higher inflation expectations and the real yield.

Returns on government bonds

10Y Government Bond Yields	December 31, 2021	December 31, 2020
U.S.A.	1.5%	0.9%
Germany	(0.18%)	(0.57%)

In 2021, the dollar basket ("the Dollar Index") strengthened by 6.4%, in light of the widening real yields margin.

Changes in the U.S. dollar against selected currencies

Exchange rate	2021	2020
EUR	(7.0%)	9.1%
JPY	11.4%	(4.9%)
GBP	(0.9%)	2.9%

Commodity prices rose steeply during the year, with a notable increase in oil prices against the background of the recovery of the economy and the creation of bottlenecks.

Changes in selected commodities indexes

	2021	2020
The commodities index - GSCI	37.1%	(6.1%)
The oil price (BRENT)	50.2%	(21.5%)
The oil price (WTI)	55.0%	(20.5%)
Gold	(3.4%)	24.4%

Main Developments in the Israeli Economy

General

In 2021 the GDP grew by 8.1%, following a shrinking of 2.2% in 2020. This as a result of accelerated growth in private consumption (approx. 12%) and in the export of other services (mostly hi-tech, 16%).
Accelerated growth, at an annualized rate of 16.6%, was recorded in the last quarter of the year on the background of the return of the economy to almost full activity, a fact leading to a leap in private consumption (approx. 19%) alongside an accelerated growth in the export of other services (mostly hi-tech, approx. 42%), concurrently with a fast growth in industrial exports (approx. 24%). In addition, a sharp growth was recorded in public consumption (approx. 19%), in view of the fact that until November the Government had operated on the basis of a continued budget passed in 2019.
During the year, the labor market underwent a process of significant recovery following the major hit it took during 2020. The economy has recovered and the unemployment rate, in its "broad" definition, has fallen from 16.2% in the last quarter of 2020 to 6.5% in the last quarter of 2021. In its "narrow" definition, the unemployment rate fell from 4.9% to 4.6%, respectively.

Main developments in economic sectors

The business product expanded in 2021 by 9.5%, following a decline of 2.7% recorded in 2020. The financial services, real estate activities and scientific and technical services sectors, contributed most of the increase, with a growth of approx. 13%. The sectors of commercial, catering and hotel, which suffered heavily in 2020, expanded by approx. 11%, and the information and communication sector recorded growth of approx. 7%, following growth of approx. 8% in 2020.

Developments in the activity of the Israeli economy with overseas markets

The volume of direct investments in Israel, through banks, by foreign residents (reflecting only a part of direct investments in Israel) reached a level of approx. US$15 billion, in the period January to November 2021, as compared to approx. US$10 billion, in 2020. Financial investments by foreign residents in marketable Israeli securities also amounted to a particularly high level, significantly higher than that of 2020 – approx. US$28 billion, of which approx. US$14 billion in Government bonds and short-term loans (MAKAM) (63% of which in MAKAM), and approx. US$10 billion in shares.
At the same time, Israeli residents expanded their investments in foreign securities by approx. US$17 billion, as compared to approx. US$16 billion in the whole of 2020.

Changes recorded in investments of the Israeli economy abroad

Investments in Israel by foreign residents	January-December 2021	January-December 2020
	US$ million	
Total direct investments through banking system	15,430	9,550
Total financial investments	27,615	18,934
Of which: Government bonds and MAKAM	14,137	20,795
Shares	(9,875)	(5,603)
Investments abroad by Israeli residents		
Total direct investments through banking system	2,604	913
Total financial investments	14,121	16,170

Developments in Foreign Exchange Rates and Inflation Rates

The inflationary environment accelerated significantly during 2021 and reached a rate of 2.8% at the end of the year. Core inflation (excluding energy, fruit and vegetables) also rose at a relatively rapid pace of 2.7%. Concurrently, inflationary expectations grossed-up in the market for CPI contracts for one year, increased at the end of the year to a level of 2.35%.
The shekel appreciated significantly in 2021 against the currencies basket, the dollar and the euro (by approx. 8%, approx. 3% and approx. 11%, respectively). This occurred despite extensive involvement by the Bank of Israel, which purchased dollars in a scope of approx. US$ 35 billion and despite the global appreciation of the dollar.

Fiscal and Monetary policy

Fiscal policy. The deficit of the budget amounted in 2021 to approx. NIS 69 billion, comprising 4.5% of the GDP, compared to 11.6% in 2020. The reduction in the deficit is due to a significant rise in government revenues from taxes (approx. 22%), and particularly from direct taxes which rose by approx. 28% compared to 2020. Concurrently, a marginal increase was also recorded in government expenditure at a rate lower than 1%. As a result, the ratio of government debt to GDP fell during 2021 from 70.2% to 68.5% and the ratio of public debt to GDP fell to 70.3%.
Monetary policy. During the year, the Bank of Israel purchased government bonds in a scope of approx. NIS 40 billion, thereby concluding the NIS 85 billion purchase plan launched in 2020. In addition, the Bank of Israel purchased an amount of approx. US$35 billion, of which, US$30 billion within the framework of the plan announced at the beginning of the year. Furthermore, the Bank of Israel extended loans to banks to the tune of approx. NIS 20 billion, for the purpose of extending loans to small and minute businesses. Interest remained stable throughout the year at a level of 0.1%.

Changes in the monetary base. In the course of 2021, the M1 money supply continued to expand, though at a significantly slower pace when compared with 2020 (approx. 17% and approx. 32%, respectively). Most of the moderation related to current account deposits, which recorded growth of approx. 19% compared to approx. 33% in 2020, when the slowdown was recorded also in the cash component, from a growth rate of 23% to a growth rate of approx. 8%. Concurrently, a slowdown was recorded also in the growth of non-linked deposits of up to one year, and in consequence thereof, the M2 money supply (M1 together with non-linked deposits of up to one year) recorded growth of approx. 18%, compared to 26% in 2020.

In 2021, the monetary base continued to grow at a fast pace, at a volume of approx. NIS 27 billion, similarly to that of 2020. Most of the inflow of cash was provided by the Bank of Israel by means of foreign currency conversion and partly by means of a monetary loan and by operation on the open market, though at a significantly lower volume when compared to 2020. On the other hand, a part of the inflow of cash was absorbed by the Bank of Israel through shekel deposits tenders. In addition, and in contrast to 2020, the Government also absorbed liquidity in 2021.

Sources for the change in the monetary base

	The change during	
	2021	2020
	In NIS billion	
Operations on the Capital Market	9.1	84.1
The Shekel deposits tender	(109.0)	(171.0)
Monetary loans	20.4	19.6
Foreign currency conversion	112.1	72.1
Government activity	(6.5)	21.4

The Capital Market

The Tel Aviv Stock Exchange's equity indices rose steeply during the year and at an even faster pace than the world's leading indices. The TA-125 Index and the TA-35 Index rose by approx. 32%, with the Banks Index recording an exceptionally greater rise.

Changes in selected share indices in the years 2020 and 2021

Index	2021	2020
TA 35	32.6%	(10.9%)
TA 125	32.2%	(3.0%)
TA banks	70.5%	(20.7%)
TA Global-Blutech	2.9%	37.6%
Real-estate 15	55.8%	(4.6%)

Trade in Israeli government bonds was also characterized by volatility, with yields on 10-year bonds rising by approx. 40 basis points during the year, a moderate increase compared to the US bonds.

Changes recorded in selected bond indices during 2020 and 2021

Index	2021	2020
General bonds	3.9%	0.8%
General Government bonds	2.7%	1.2%
Shekel Government bonds	(0.5%)	1.3%
Linked Government bonds	8.0%	1.2%
General Corporate bonds	7.4%	0.6%
Linked Corporate bonds	8.7%	0.2%
Shekel Tel-Bond	3.0%	(0.1%)

A decrease was recorded during the year in margins on the corporate bonds market, against the background of the positive sentiment on the market, supported by the Bank of Israel's involvement in the bonds market. During the year, approx. NIS 78 billion was raised through corporate bonds, approx. NIS 50 billion of which excluding banks and insurance and financial companies. This compared to approx. NIS 52 billion and approx. NIS 39 billion, respectively, in 2020.

The asset portfolio held by the public

The value of the financial assets portfolio held by the public increased during the period from January to November 2021 at the fast rate of approx. 12%, with growth in most of the linkage segments, amounting at the end of the period to NIS 4.9 trillion. Most of the growth stemmed from the sharp rise in the Israeli shares component (approx. 25%), with the foreign shares component also recording a sharp rise (approx. 21%). The non-linked and the CPI linked and foreign currency linked components recorded an increase of 8%.

Distribution of the asset portfolio held by the public

	November 30, 2021	December 31, 2020
Shares	27.8%	25.3%
Non-linked assets	36.4%	37.8%
CPI linked assets	25.4%	26.0%
Foreign currency linked assets	10.4%	10.8%

Principal Economic Developments in January-February 2022[10]

The spreading of the Omicron variant, alongside the sharp increase in prices of commodities, in the cost of transportation of oil, had supported acceleration in inflation and in the inflationary expectations, and as a result, the anticipated fast monetary restraint in the United States, and in sharp fluctuations in the markets. Share indices in leading markets opened the year with dropping prices and with sharp rises in yields of government bonds.
Towards the end of February, with the intensifying tension between Russia and the Ukraine, and the Russian invasion of the Ukraine, the level of uncertainty has increased significantly, as did prices of oil and of commodities, with a continuing decline in the equities markets. The intensification of the sanctions imposed on Russia by Western countries increases the damage and isolation of the Russian economy. The continuing war creates a high level of uncertainty with respect to the force of the impact on the Russian and global economies.
In Israel, the year opened with the spreading of the Omicron variant, however the economy continued to operate in a nearly full manner, and unemployment has declined once more to a level of 5.5% in the second half of January.
The budget deficit continued to decline, reaching in January to 3.3% of GDP (cumulative for the last 12 months), compared to 4.5% in December 2021.
On the background of the sharp declines in the markets and the strengthening of the US dollar around the world, the shekel has weakened since the beginning of the year as against the dollar by approx. 4% and by approx. 2% against the currencies basket.
The rate of inflation continued to rise, reaching in January an annualized rate of 3.1%.
In its announcement of the interest rate at the end of February, the central bank signaled the rise in the interest rate in the coming months, and the IRS market raised the forecast for the Bank of Israel interest rate, a forecast supported also by the sharp rise in inflationary expectations, on the background of the steep rise in prices of commodities.

10 All the data in this chapter refer to the period from January 1, 2022 to March 1, 2022.

Concurrently with the global rise in yields on bonds, yields on Israel Government shekel bonds also rose, and later on, following the outbreak of the war in the Ukraine, with the growing risk aversion and the "flight-to-safety", a positive gap has opened between Israeli bonds for ten years and their US counterparties. Thus the shekel yield on ten year bonds stood at the end of the period at approx. 1.9%, compared to a yield of 1.7% on US bonds. The rise in yields in Israel was supported by a rise in the real-term return all along the graph, with a rise in inflationary expectations, particularly regarding the short -medium term ranges. A CPI contract for one year traded at the end of the period at approx. 3%, as compared to approx. 2.35% at the end of 2020.
The local equity market recorded significantly moderate reductions compared with the global markets, and the TA 125 Index declined by approx. 1%, compared to a decline of approx. 9% in the S&P500 Index.

Legislation and Supervision

General

The Bank operates within the framework of Laws, Regulations and Directives, certain of which are exclusive for the banking industry, and others, though even not exclusive as above, do have an effect on certain sections of its operations. This framework is based mostly on the Israeli law and its various layers, however, the Bank's conduct in certain areas is also affected by the provisions of foreign law, as long as these are effective over its activity.
The Banking Ordinance, various banking laws and the Proper Conduct of Banking Business directives issued from time to time by the Supervisor of Banks, constitute the central legal basis for the operations of the Bank Group. These, among other things, define the limits of the Bank's operations, the permitted operations of subsidiaries and companies related to the bank and the terms for owning and controlling them, the relations between the Bank and its customers, the use made of the Bank's assets and the mode of reporting to the Supervisor of Banks and the public as to the Bank's said operations.
Alongside these, the Bank is subject to a wide legislation that regulates its capital market operations both on behalf of customers and on its own behalf (for example: investment consulting and customer portfolio management, pension consultation, mutual investments funds, the overall activities of provident funds and restrictions on insurance business activity).
Additional legislation as regards special subjects imposes on banks, including the Bank, specific duties and rules. Thus for instance, the legislation relating to the prohibition of money laundering and the prohibition of financing of terror activities, the credit data law, legislating relating to housing loans, guarantees, etc. The Bank is subject also to Acts imposing duties and rules involving aspect that are not singular to banks, such as the Privacy Protection Act and guidelines issued by the power thereof, the Economic Competition Act, etc.
In addition to these, a supplementary legislation exists, which because of its connection to the Bank's operations, has a considerable implication on the way the Bank is being managed. In this respect it should be mentioned, among other things, the debt execution laws, insolvency laws, laws relating to specific economic sectors (local authorities, mortgagees, the agricultural sector) and various tax laws.
The Bank's and its subsidiaries' operations are subject to supervision and audit by the Supervisor of Banks as well as by other supervisory authorities regarding specific fields of operations, such as the Securities Authority, the Capital Market, Insurance and Savings Authority, the Competition Authority and the Privacy Protection Authority. These parties are authorized to conduct audits at the Bank and the subsidiaries or to require information from the Bank, relating to various fields of operation.
The Bank and its subsidiaries are taking steps towards complying with the duties imposed upon them under the said provisions of the law.
A monetary sanction by most of the laws applying to the Bank's operations exists, in respect of violations of the provisions of the laws and secondary legislation (including guidelines and circulars) issued or to be issued under them.
Following is a summary of legislation changes and relevant legislation initiatives during the reported period, which have a significant effect or might have a significant effect on the Bank's or the Group's operations.

Regulation in the wake of the Corona crisis

During the reported period, 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. This period was characterized by a multitude of statutory and regulatory measures on these aspects, which underwent frequent changes.

Inter alia, the following measures may be mentioned:

The Special Powers Regulations for Combating the Novel Corona virus (Temporary Provision) (Restricting Activity and Additional Provisions) and the Special Powers Regulations for Combating the Novel Corona virus (Temporary Provision) (Restricting Activity in Workplaces) expired on June 1, 2021. In their place, the Special Powers Regulations for Combating the Novel Corona virus (Temporary Provision) (Restricting Activity in Public or Business Locations and Additional Provisions), 2021 were enacted; which are in effect through March 1, 2022, and regulated the way the economy is to be conducted in the wake of the Corona crisis. Moreover, the Nation's Health Order (the new Corona virus) (Isolation at home and other instructions) (Provisional Instruction), 2020, remained in effect until February 28, 2022.

Amendment of the Insolvency and Economic Recovery Act (Amendment No.4 – Provisional Instruction – The new Corona virus), 2021. The Amendment was published on March 4, 2021, as a Provisional Instruction, taken into effect on March 18, 2021, for a period of one year. The Provisional Instruction entitles corporations and individuals to apply to the Court for a stay of proceedings against them for a period of up to three months, with an option for extension of one additional month, for the purpose of approval of a debt arrangement (for additional details, see below). A draft Order was published on January 24, 2022, extending the validity of the special directives enacted within the framework of said Amendment No. 4, by an additional period of six months ending on September 17, 2022.

Banking Order (Customer service)(Supervision over immediate debit card service fees, attorney warning letter, and a transaction conducted by a call center operator)(Provisional instruction), 2020. The Order was published on September 13, 2020, the essence of which is the declaration of some services as supervised services with respect to private and small business customers and limiting the charge of commission in respect thereof. The Order applies as from October 13, 2020, and until April 13, 2021.

Debt Execution Act (The new Corona virus – Amendment No. 68 and provisional instruction), 2020. An Amendment to the Act was published on September 24, 2020, which includes a line of mitigating provisions available to a debtor following the confrontation with the Corona virus. The Amendment includes, inter alia, the extension of the warning period prior to instituting collection proceedings, extension of the dates for submitting an objection to the debt, and extension of the dates for opening a debt execution file regarding the realization of a pledge. The use of foreclosure of chattels has been limited, and the Registrar has been granted the authority to reduce the interest added to the debt in the case of a debtor who abides by the repayments decided in his case. A Memorandum of Amendment of the Debt Execution Act was published on January 19, 2022, proposing to extend the validity of the provisional instruction by one additional year.

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.

Inter alia, the following measures should be mentioned:

Temporary directives dealing with the limitation of face-to-face services during the crisis, while providing banking services in a way not requiring having to be physical present at the branch. These include, the Supervisor of Banks having ordered to reduce temporarily the number of branches open to business and the services available therein, while providing the possibility of obtaining face-to-face service in the case of services, which cannot be rendered on the online banking channels and/or where customers are unable to obtain them on the online banking channels, as well as the easing of various requirements, such as the requirements that need to be fulfilled when providing telephone service, when performing transactions by telephone or by digital means, and when joining channels by telephone.

Also received was the guideline by the Supervisor of Banks, allowing distant transactions also as regards populations in respect of which certain limitations exist, such as: bankrupt customers, customers under insolvency proceedings, custodians and persons in respect of whom custodians had been appointed. The restriction on the amounts of a single check that can be deposited using a cellular device was also increased.

Temporary directives intended to enable the banking system to support the credit needs of the economy and to assist households and businesses to cope with the effects of the crisis. These include, the easing of the capital adequacy requirements (see above "Capital and the Capital Adequacy"), relieving various restrictions applying to the grant of housing loans (see above "Mortgage Activity") and to the way that customers' credit irregularities are handled. Additionally, various reliefs were provided, such as in relation to the possibility of the Bank increasing credit facilities on the current accounts of its customers, and the provisions of Proper Conduct of Banking Business Directive No. 329, which deals with "any purpose" loans secured by a pledge on housing, have been amended (see above "Mortgage Activity") and a voluntary outline for the deferral of repayments of mortgages and loans, in order to support the credit needs of households and of small and medium businesses.

On December 2, 2020, the Banking Supervision Department published a new outline for the deferral of loans, whereby customers that had already requested a payment deferral, who earned up to NIS 20 thousand a month (prior to the corona crisis) and whose income has been reduced by 40% or more, will be entitled to submit until March 31, 2021, an application for a reduction in the amount of a monthly repayment of a mortgage for a period of up to twenty-four months, and in the case of consumer loans, for a period of up to thirty-six months.

On October 21, 2020, a clarification from the Supervisor of Banks was received, regarding the required disclosure to customers, in accordance with the provisions of the Fair Credit Act, 1993, and of Proper Conduct of Banking Business Directive No. 449, with respect to the simplification of agreements upon the deferral of repayments, as stated.

Directives dealing with supporting the ongoing operations of the banking system during the crisis. Proper Conduct of Banking Business Directive No. 301, which deals with the board of directors, has been amended, so inter alia, it has been prescribed that meetings of the board of directors that are held via means of communication are to be considered as meetings held with the physical presence of the directors for the purpose of compliance with the participation obligation prescribed by law. In addition, the discretion of the chairman of the board of directors has been extended with regard to the date and frequency of discussions conducted by the board of directors and its committees on the topics specified in this and other directives. Additionally, extensions of been granted in relation to various dates for executing obligations pursuant to supervisory directives (such as, in responding to public complaints, in closing accounts, etc.).

Reliefs in the duty to report to the Banking Supervision Department that are intended to enable the banking system to function at a lower manpower level, alongside specific reporting requirements aimed at providing the Banking Supervision Department with the tools needed to monitor the state of the economy. On March 31, 2020, a temporary directive was issued on the subject of various temporary reliefs in reporting to the Banking Supervision Department (by freezing the reporting, deferral of reporting dates, etc.). Later on, the reliefs were updated and extended.

Legislation for increasing competition in banking and financial services

Strengthening Competition and Reducing Concentration in the Israeli Banking Industry, (legislation amendments) act, 2017

The recommendations of the Committee for the increase in competition in banking and financial services ("the Strum Committee") were published on September 1, 2016. In continuation thereof, the Increase in Competition and Reduction in Concentration in the Banking Market in Israel Act (legislation amendments), 2017, ("the Act" or "the Strum Law") was published on the Official Gazette on January 31, 2017. The major part of its provisions is based upon the recommendations of the Strum Committee.

The Act enters into effect on date of its publication ("the beginning date"); however, certain of the provisions have later effective dates.

Following are the principal issues of the Act:

1.1 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. This instruction does not derogate from the possibility of a bank having a Wide-Ranging Activity to engage with another entity for the purpose of operating the issue of debit cards or to engage with a clearing agent as a supplier. The prohibition takes effect at the end of three years from the beginning date, and with respect to a large banking corporation, which had sold at least 60% of the shares held by it in a credit card company and on condition that at least 25% of its shares had been offered to the public – at the end of four years from the beginning date. It is noted that as of date of this report, the Bank is not considered a "bank having a Wide-Ranging Activity", as the term is defined in the Act.

1.2 In the period that began on February 1, 2021 and ending on February 1, 2023, 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.

1.3 Various instructions applying to banking corporations were set, with the aim of ensuring increased competition in the granting of financial services, as detailed below:

1.3.1 A banking corporation shall not change to the worse the terms of engagement with a customer, only due to the fact that the customer has engaged or intends to engage with another financial body in an agreement for the provision of financial services.

1.3.2 A banking corporation is prohibited from preventing, either by an act of commission or omission, from a financial body engaged in operating the issue of debit cards issued by the banking corporation ("an operating body"), the granting of financial services, including the granting of credit, to customers of the banking corporation. A banking corporation shall also not restrict an operating body in providing of services, as stated above.

1.3.3 A banking corporation shall not prevent, either by commission or omission an operating body which is supervised under statutory provisions, the making use of information reaching the operating body while issuing or conducting the issue operation of debit cards, for the purpose of granting services as an issuer, for the purpose of granting credit, and for the purpose of operations related to the granting of services as an issuer or for the granting of credit, this on condition that the customer gave his consent in advance to the said use.

1.3.4 Starting with the end of two years from the beginning date, the banking corporation shall, at the request of the customer, present, on a daily basis or at longer intervals, the balance of the current account of the customer to a financial body supervised by law.

For the implementation of this directive, on December 25, 2017, the Amendment of Proper Conduct of Banking Business Directive No. 367 regarding online banking was published, deals with the transmission of information regarding the current account balance of a customer by a banking corporation to a financial body for the purpose of granting credit, made at the request of the customer. The Amendment took effect on July 31, 2018.

1.3.5 Starting with the end of two years from the beginning date, where a customer approached a banking corporation requesting entry into an agreement for the issue of a credit card, or where the banking corporation has approached a customer offering to engage in a credit card agreement, the banking corporation shall be required to distribute also credit cards of issuers engaged with the banking corporation in a distribution agreement (for details regarding the draft Proper Conduct of Banking Business Directive in the matter of distribution, see below).

1.3.6 A banking corporation shall not unreasonably refuse to engage with an issuer in a distribution agreement. In this respect it is proposed that stating unreasonable terms would be considered an unreasonable refusal.

1.3.7 Starting with the end of two years from the beginning date, the banking corporation shall present, at the request of the customer, starting with the end of two years from the beginning date, the banking corporation shall present, at the request of the customer, information regarding transactions made by means of a debit card of the customer (including transactions made using debit cards issued by another issuer, which is not the banking corporation) and that the payment therefore is settled by way of charging the current account of the customer at the banking corporation. On January 31, 2019, an order was published that deferred the application date of the aforesaid directive to January 31, 2020.

On November 13, 2018, an amendment to Proper Conduct of Banking Business Directive No. 470, "Debit Cards", was published, within the framework of which provisions regarding the presentation of the aforesaid information were added. In addition, on February 3, 2019 the Banking Regulations (Customer

Service) (Transfer of Information from an Issuer to a Banking Corporation), 2019 were published which prescribe the obligations to which issuers are subject in relation to the types of information and the dates for transferring the information from the issuers to the banking corporations.

1.3.8 Starting with the end of two months from the beginning date, a banking corporation is not permitted to unreasonably refuse a request of the borrower for consent to register an additional pledge on an asset, a subordinate pledge on an asset, in favor of another creditor. It is also determined that the realization of a pledge in favor of another creditor shall be effected only with the consent of the banking corporation. The banking corporation shall not withhold such consent, unless on reasonable grounds.
These instructions do not apply to a pledge registered prior to the termination of two months from the beginning date.

1.4 During a transitional period beginning on the beginning date and ending at the end of five years from the said date, and with respect to a bank having a Wide-Ranging Activity – until the end of three years from date of separation or until the end of five years from the beginning date, whichever is later ("the transitional period"), restrictions shall apply to a bank issuing debit cards and which immediately prior to date of publication of the Act had controlled or held means of control in a debit card company, as follows:

1.4.1 A bank shall conduct the issuance operation of charge cards issued by it by means of an operating company, and shall allow the operating company to become a part to the charge card agreement.

1.4.2 As from the termination of a period of two years from date of publication of the Act and until the end of the transitional period, the bank shall not conduct, by means of one operating company, the issuance operation of more than 52% of the total new credit cards issued by the bank to its customers. The Minister of Finance is authorized to change the said rate at any time during the transitional period under the terms prescribed in the Act. The engagement of a bank with an operating company, for the purpose of conducting the issue operation of new credit cards issued by the bank to its customers shall be made only after conducting a process which allows every operating company the proper and fair opportunity to offer its services.

1.5 During the transitional period, also the following instructions will apply to a bank having a Wide-Ranging Activity which issues charge cards, additional instructions, inter alia, with respect to the division of income derived from issue operations of charge cards and from the activity of customers using charge cards, between a bank, as stated, and the charge card company; to the date of approach to the customer regarding the renewal of the Credit card; to restrictions regarding the total of credit facilities in charge cards of its customers.

1.6 From the termination of one year from the beginning date and until a date to be determined by the Minister of Finance, an operating company shall not unreasonably refuse to engage with a bank or with a license holder under the Supervision over Regulated Financial Services Act, in order to operate the issue of charge cards for the Bank or for the license holder.

1.7 During the transitional period, a charge card company is entitled to make use of the engagement details of a customer, which had legally reached it prior to date of publication of the Act or during the transitional period, while conducting issue operations of a debit card on behalf of a bank, in order to approach a customer offering service as an issuer or for the purpose of offering credit, even without obtaining the consent of the customer.

1.8 Instructions have been determined with respect to the prohibition on the acquisition of means of control in a credit charge cards company. Thus, among other things, a bank may not acquire from a bank with Wide-Ranging Activity, means of control in a charge card company. In addition, a person holding over 5% of a certain class of means of control in a single charge card company, shall not control another charge card company and shall not hold over 5% of a certain class of means of control therein. In this respect, charge card companies, which at eve of the beginning date were controlled by the same person, shall be considered as one charge card company.

1.9 Instructions have been determined in matters of control, the holding of means of control, and the appointment of directors in an interface system operator between the issuer and the clearing agent for confirming of charge card transactions – it is determined that one factor shall not control and shall not hold over 10% of a certain class of means of control in an interface system operator as stated. The Governor, under conditions specified in the Act, is entitled to determine a rate different than that stated above. Whoever was the owner of means of control in the operator at the beginning date, shall be permitted to hold such means of control until the end of four years from date of publication, provided that the means of control held by him exceeding 10%, shall not entitle him to any voting rights and the right to appoint directors in the operator as from June 1, 2017.
(Due to these restrictions, the Bank is required to sell its holdings in Automatic Banking Services Ltd. that exceed 10%, with this having to be done by June 1, 2021. Accordingly, the Bank sold within the framework of a public

offering of shares of ABS, completed on June 5, 2019, shares comprising approx. 9.3% in ABS. On September 4, 2019, the Bank transferred to Mizrahi Tefahot Bank Ltd. shares comprising 0.7% of ABS. Following the said sale and transfer, the rate of holdings of the Bank in ABS was reduced to 10%).

1.10 Within the framework of the Act, amendments were made to the Supervision over Financial Services Act (Regularized Financial Services) Act, 2016, and a chapter was added thereto in the matter of service for comparing financial costs, which will take effect on the date on which primary regulations would be set regarding the viewing and making use of online financial information. Preliminary regulations as aforesaid have yet to be published (see below "Statement of Principles for Strengthening Competition in the Financial System" regarding costs comparison service). In order that the delay in the publication of the Regulations shall not delay the start by the banks of the required implementation in the matter. The Bank of Israel informed on August 6, 2018 that it had started the project of regularizing the API Standard for open banking in Israel, which allows third parties, with the consent of the customer, to receive from the banks financial information regarding the customer.

On January 14, 2020, within the framework of a report of the inter-ministerial team regarding the identity of the Commissioner of Regulated Financial Services, it was clarified that in order to achieve the purposes of the Act and create regulation that would protect in an optimal manner the privacy of customers and of financial information, amendments to the existing legislation are required, and that in the two recent years, the team formed regulation that would replace the existing regulation. The new regulation is expected to provide an answer to all activities involved in the offering of financial information services and to the duties that would apply to financial entities in connection with their activity as sources of information holding financial information regarding their customers.

On June 24, 2020, the Ministry of Finance published the Bill Memorandum of the Provision of Financial Information Services Act, 2020 in which the regulation of all the activities included in providing financial information services, both by entities providing this service and by financial entities holding financial information relating to customers. The Memorandum is to replace the regulation existing in the Regulated Financial Services Act with respect to the service for the comparison of financial costs. In accordance with the Memorandum, financial information services include, inter alia, the service of collecting financial information from different data sources; comparison of prices, costs or returns; delivery of information to financial suppliers for the purpose of obtaining, on behalf of the customer, offers for financial services that the customer uses or want to use, or in order to assist the customer in engaging such suppliers, as well as consulting regarding financial management. It is proposed to determine that the use of financial information relating to a customer would be solely for the benefit of that customer and for assisting him in his financial management. According to the Memorandum, a banking corporation is to be prohibited from providing cost comparison services.

1.11 Prohibition on the unreasonable refusal of engagement between a clearing entity and an aggregator or the prevention of engagement between an aggregator and a supplier.

1.12 By January 31, 2018, the Ministry of Finance is to implement one of these: to publish, in consultation with the Bank of Israel, a tender for establishing a technological infrastructure to provide and operate computerization services to financial bodies; to prescribe criteria for conferring grants, loans or guarantees that will enable the provision and operation of computerization services to financial bodies (see hereunder "Letter of principles for increasing the competition in the financial system" regarding the provision of assistance for establishing a banking service and computerization bureau).

1.13 At the end of eighteen months from the beginning date, if certain conditions determined in the Act are fulfilled, the Minister of Finance, in consultation with the Governor and the Antitrust Commissioner, is entitled to determine that a bank not having a narrow-ranging activity (bank having a narrow-ranging activity - a bank, the value of balance sheet assets of which on a consolidated basis does not exceed 10% of the total value of balance sheet assets of the banking industry), is obligated to sell and operate computer services in use mostly by this bank, and rent out property in use by the bank for this purpose, to financial bodies.

Issues regulated by the Act have an impact upon the Bank and ICC and upon their operations. Notwithstanding that, at this stage it is not possible to estimate the said impact, neither in terms of materiality nor in terms of quantity. The Bank and ICC are studying the implications and ramification of the Act, are acting for its implementation and follow developments in legislation and regulation, as well as moves and developments in the market following the publication of the Act.

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.

General tests. 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.

The third report by the Committee examining competition in the credit market. This report was published on August 16, 2021. Inter alia, the report points out that since the beginning of the Reform, significant progress had been made in reducing barriers to competition, which forms an essential condition for the growth in competition. This progress has been slowed down following the publication of the second report, both due to the Corona period and in consequence to the political uncertainty prevailing during the reviewed period. In the first place, the progress includes the gradual materialization of a digital bank using a computer services facility, as well as providing the possibility of conducting online additional operations (both by engagement with banking institutions as well as with off-banking providers of credit, among which are regulated bodies). In addition, the report included reference to the ICC-Discount test – on the one hand, the analysis shows the clear conformation of the Discount Group with the lower end of the defined test. On the other hand, the prominent trend in the competition image is the reduction in activity of Hapoalim Bank in the consumer sector and the growth in credit to large businesses. It is further noted, that the Committee had decided not to analyze ICC and Discount in a singular manner, except for their conformation with the test that had been determined at the time.

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.

Amendment to Proper Conduct of Banking Business Directives. For the purpose of implementing the provisions of the Strum Act, the Supervisor of Bank published further amendments to Proper Conduct of Banking Business Directives. See below "Directives of the Supervisor of Banks".

Letter of principles for increasing the competition in the financial system - Continuation of the plan for strengthening competition in the banking market. On December 13, 2017, the Ministry of Finance and the Bank of Israel published a continuation of the plan for strengthening competition in the banking market. The plan includes three measures: mobility between banks at the "press of a button", making it possible for the consumer to compare costs relating to his personal financial products, reliefs for new banks by means of assisting in setting up an office for banking computerization services.

For the purpose of implementing the aforesaid measures, the following documents have been published:

- **The Economic Program Act (Legislation amendments for the implementation of the economic policy for the budgetary year 2019), 2018 – An indirect amendment of the Banking Act (Customer service).** The Act was published on the Official Gazette on March 22, 2018. The Act will enter into effect following three years from date of publication. In accordance with the Act a bank shall be obliged to enable a customer wishing to transfer his financial activity to another bank, to do so in an online, convenient and safe manner and at no cost to the customer, all this within seven business days from date of approval of the customer's request by the transferee bank; The entry into effect of the Act had been delayed and it entered into effect on September 22, 2021. On November 13, 2018, the Banking Rules (Customer Service) (Transferring a Customer's Financial Activity between Banks), 2019, were published, which were updated on December 17, 2019, and these set out the types of accounts and activities that will be mobilized by the Act; The rules were updated on July 1, 2021, principally in order to allow complementary modifications with respect to the clearing of checks. On December 16, 2019, Proper Conduct of Banking Business Directive No. 448 – "the online transfer between banks of the financial activity of a customer", was published, in terms of the power conferred upon the Supervisor of Banks to issue instructions regarding the implementation of the Act (see below); in addition, the Supervisor of Banks issued a letter on April 6, 2021, in the matter of the charging of commission regarding the online transfer between banks of the financial activity of a customer - clarifications, and on August 19, 2021, a reporting to the Supervisor of Banks Directive was published in the matter of the transfer between banks.

Recently, the Economic Plan Bill (Legislation amendments for the implementation of the economic policy for the 2019 budget year) (Amendment) (Responsibility of the accepting bank upon the transfer of the financial activity of a customer), 2021, was published for the first reading by the Knesset. Within its framework, it is proposed that the accepting bank would be the factor responsible to the customer for completion of the transfer process, for correcting flaws and defects in the process and for compensation in case of damage caused;

- **Clearing of Checks and Dishonored Checks Act (Legislation amendments), 2021.** The Act was published on February 9, 2021. In view of the entry into effect of Section 15B(1) of the Banking Act (Customer service), 1981, in the matter of the transfer of a customer from one bank to another, within the framework of which, amendments have been made to the Electronic Clearing of Checks Act, 2016, and to the Dishonored Checks Act, 1981, for the purpose of adapting them to the movement of a customer from bank to bank; monetary sanctions were determined in respect of violation of the provisions of the Electronic Clearing Act, and the name of the Act has been changed to Clearing of Checks Act. In addition, and towards the entry into effect of the said Section, additional instructions have been issued regarding complementary modifications regarding everything relating to the clearing of checks – on August 10, 2021, amendment to the Clearing of Checks Rules (Safekeeping of checks), 2016, was published; on July 12, 2021, amendment to the Electronic Clearing of Checks Rules (Scanning, safekeeping and producing an output of computerized checks) (Amendment), 2016, was published;
- **Banking services and computer service office.** Regarding a solution to the blocking of computerization for banks and deposit and credit unions through the establishment of a banking computerization infrastructure (IT), on September 12, 2018, the Ministry of Finance published the final criteria for awarding a government grant in the amount of NIS 200 million for the establishment of a service and banking computerization bureau that will serve the new banks and deposit and credit unions. On April 12, 2021, the Bank of Israel updated that the office was established by TCS Corporation, which had been elected as the supplier entitled to receive the grant.

Bill Memorandum of the Regulation of Engagement in Payment Services, 2022. The Bill Memorandum regulates the granting of a payment services license and/or of a payment initiation services license, states mechanisms for the mode of operation of license holders, and states also instructions relating to the granting to a provider of a payment initiation service access to a payment account of a customer, for the purpose of issuing payment orders by means of an interface system for the issue of payment orders.

Credit facilities provided by bank cards. As from the end of four years since the Act took effect and up to seven years since the Act took effect, credit facilities provided by credit cards held by customers of the major banks shall not exceed 50% of the total credit facilities provided by credit cards of those banks, as existed in 2015. In November 2020, with the consent of the Governor of Bank of Israel and with the approval of the Economic Committee of the Knesset, The Minister of Finance issued an Order, in effect for a limited period of one year, within the framework of which it was determined that the total of all credit facilities provided by credit cards held by customers of a bank with Wide-Ranging Activity, which issues debit cards during that year, shall not exceed 55% of the total credit facilities provided by credit cards held by customers of that bank, as existed in 2015; in computing the total credit facilities , as stated above, only credit facilities of the bank's customers exceeding NIS 7,500 , should be taken into account; and the credit facility of a customer shall not be reduced to less than NIS 7,500, only because of that stated in this Section.

The Economic Committee of the Knesset approved on January 13, 2022, an additional Order in the matter. According to the explanatory notes appended to the Order, in view of the continuing spread of the Corona virus, it is proposed to leave the situation as is for a period of one additional year so that the total credit facilities provided by credit

cards held by customers of a bank with Wide-Ranging Activity, which issues debit cards during that year, shall not exceed 55% of the total credit facilities provided by credit cards held by customers of that bank, as existed in 2015; in computing the total credit facilities , as stated above, only credit facilities of the bank's customers exceeding NIS 7,500 , should be taken into account; and the credit facility of a customer shall not be reduced to less than NIS 7,500, only because of that stated in this Section.
In addition to the above, it is proposed to determine that as from February 1, 2023 and until January 31, 2024, namely until the end of the period stated in Section 9(c) of the Act, the total credit facilities provided by credit cards held by customers of a bank with Wide-Ranging Activity, which issues debit cards in each year, shall not exceed 51% of the total credit facilities provided by credit cards held by customers of that bank, as existed in 2015. At the same time, it is proposed to state that in computing the total of the credit facilities, as stated, only credit facilities of the bank's customers exceeding NIS 8,500, should be taken into account and the credit facility of a customer shall not be reduced to less than NIS 8,500, only because of that stated in this Section.
According to the explanatory notes, the change is proposed in order to realize the purpose of this Section, while reaching a balance between promoting competition and impairing populations having low credit facilities.

Policy for establishing new banks and guidelines for license applicants

On June 3, 2018, the Bank of Israel published a policy that arranges, clarifies and simplifies the process for establishing a bank and creates regulatory certainty at an early stage of the licensing process for the entrepreneur interested in establishing a bank.
The new policy enables an entrepreneur to receive – within a relatively short period and even before its preparations have been completed – a restricted bank license, under which it will be possible to conduct limited deposit receipt and credit granting operations. Following completion of all the processes required in accordance with the outline to be agreed with it, the restricted license will be exchanged for a permanent license.
The policy prescribes reduced regulation over new banks that conduct noncomplex operations, such as retail operations. In order to implement the set policy, a Licensing and New Banks Unit has been set up at the Banking Supervision Department.

Announcement by the Bank of Israel regarding permission for the establishment of a digital bank in Israel

On September 24, 2019, the Bank of Israel announced the granting of a permit for the establishment of a new bank in Israel. In accordance with the announcement, the Governor of the Bank of Israel and the Supervisor of Banks informed the promoters of the new bank that the Governor is prepared to grant them a bank license and a permit for the control of a bank, following the conclusion of the examination of the project by the Supervisor of Banks. The promoters had presented to the Supervisor of Banks a business plan, according to which, they plan to establish a digital bank with no branches, and to focus on the offer of banking services to households, including the granting of credit, receipt of deposits, conduct of current accounts and providing services for the purchase and sale of securities. The Digital Bank obtained a license to begin operations as from March 1, 2021, and restrictions regarding its operations were removed on January 10, 2022.
On March 8, 2020, the Supervisor of Banks issued Proper Conduct of Banking Business Directive No. 480 regarding modifications to the rules of Proper Conduct of Banking Business Directives relating to a new banking corporation. The Directive includes modifications regarding compliance requirements, which would burden a new banking corporation.

Supervision over Financial Services Act (Regularized financial services), 2016

Letter of the Supervisor of Banks regarding the policy of banking corporations' activities vis-à-vis customers that are regulated financial service providers and offering coordinators. The letter was published on April 15, 2018. Accounts of entities listed in the Supervision over Financial Services Act (Regulated financial services), 2016. The five major banks were required to determine a policy and procedures regarding the opening and management of bank accounts of regulated financial bodies. The Bank is making preparations accordingly.

On May 23, 2021, the Supervisor of Banks issued an additional letter in continuation of the said letter, in which the five major banks were required to update the policy and procedures that had been determined, as stated, on grounds of the publication of a Prohibition of Money Laundering Order applying to providers of service in connection with a financial asset (see below). For details regarding the Act, see the 2018 Annual (p. 368).

Terms of access to controlled payment systems

On July 31, 2016, the Supervisor of Banks published the terms of access to the "debit card services" system, to the "automatic bank instruments" system operated by ABS, and to the "credit, debit and payment transfer" system operated by BCC – threshold terms for participation therein. This move is intended to allow off-banking entities to participate, either directly or indirectly, in these payment systems.

Developments and guidelines regarding controlled payment systems

2020 was characterized by abundance of guidelines relating to clearing services and the regulation of the activity of ABS and BCC, in each of which the Bank holds 10% and 25%, respectively.

The Bank of Israel guideline regarding clearing default arrangement - BCC. The Bank of Israel has instructed BCC to transfer to its responsibility the managing of the clearing default arrangement, the purpose of which is to guarantee on-time completion of the daily clearing, with this to be done by April 2023 (following the granting of an extension). Consequently, the Bank of Israel has required BCC to prescribe clear rules and procedures that will make it possible, in the event of a participant's default, to continue meeting the participant's obligations to participants that are not in default. BCC is examining together with the banking corporations an arrangement that would secure the mechanism detailed above. For the purpose of implementing the outline, it is likely that a change will be necessary to the structure of collateral that the participants provide in connection with the arrangement.

The Bank of Israel letter in the matter of clearing interface, accessibility, connection to RTGS system and failure arrangement regarding the ATM system – updated entry date. The Bank of Israel has extended the date for the implementation of the central clearing interface and implementation of the failure arrangement to no later than April 2023.

Approach by Automated Bank Services (ABS) regarding models for access to the payments system "Charge card services". On September 30, 2021, ABS approached the banking issuers informing that, in accordance with the instructions of the Supervisor regarding payments systems, ABS acts to define all types of participation in the system and to determine risk based thresholds and terms, upon the existence of which, no participation in the system by means of the services of another participant, would be possible. In addition, ABS acts to form a failure arrangement. In accordance with the approach, also the banking issuers would be defined as participants in the system, and they had been invited to take part in the discussions on the matter. The Bank studies the implications of the approach.

The ATM switching system rules in ABS. A primary version of the ABS system rules, which regulates it operations, had been passed for signing by the participants in the system. Among other things, the rules regulate aspects regarding the representation of participants in the system. The Bank had signed on the rules.

Press release regarding the immediate payment service. On February 28, 2022, the Bank of Israel issued a press release, according to which, the Bank of Israel is preparing for the promotion of immediate payments in Israel, in order to provide an answer to market requirements, as well as to remove identified obstructions within the framework of supervision over immediate payments. As part of the measures, The Supervisor of the payment systems has guided the players to make preparations for accepting R2P payment requests until the end of 2023. This in continuation of previous guidelines requiring preparations for accepting immediate credits and the development of the immediate payments according to internationally accepted standards.

Announcement by the Supervisor of Banks regarding the charge card agreement and the mutual recognition agreement. On May 9, 2021, the Bank received two letters from the Payments and Settlement Systems Department at the Bank of Israel with respect to the intension to declare each of the following: the agreement regarding automated bank machines (mutual recognition agreement) and the charge card agreement (local agreement), as a controlled payment system, as defined by the Payments Systems Act, 2008, this after the said agreement had been examined and it has been found that there is room for the said declaration in respect to each of them. Whereas the agreements have no system "operator", at this stage, the Bank of Israel views all addressees of the above letters as a "system operator" (separately in respect of each agreement) in the matter of the duties and rights stated in the Act. Prior to the declaration by the Governor as to the agreements being considered as controlled payment systems, the addressees are entitled to present their arguments regarding the declaration, to identify parties to the system, to the extent that there are additional factors that have to be included in the declaration, and regarding the identity of the system operator. To the extent that any of the agreements is declared by the Governor as a controlled payment system, the supervision would apply to the agreement as a system and to the "operator" of the system. Supervision over parties to the system shall apply only in relation to their activity or participation in the agreements (systems). Negotiations in the matter are being held with the Bank of Israel.

Financial Information Service Act, 2021

The Act was published on the Official Gazette on November 18, 2021. The Act regulates the activity included in providing a financial information service, both from the aspect of the entity providing the service and also from the aspect of the entities where customers' financial information is centralized.

Legislation and Standards in the matter of Debt Collection

A trend of increasing legislation and standards in the matter of debt collection has been noticed in recent years. The intensive regulation in the realm of debt collection, the aim of which is relief for the borrower on account of the rights of lenders, and in particular, the "powerful" lenders, such as the banks, to recover their loan from the borrower. On the one hand, the sympathizing approach to insolvent debtors, with a less sympathizing approach to the banks on the other hand, alongside the accessible possibility of obtaining a discharge, and the fact that many proceedings are conducted with no judiciary control but by only an administrative body, may lead to it that many debtors will choose insolvency proceedings in order to get rid of past debts.

In this framework, the following legislation matters should be mentioned:

- **Debt Execution Act (Amendment No. 46), 2015,** in effect as from October 2015, which greatly encumbers the delivery of notice to debtors, in view of the duty imposed on the Appellants to serve the defendant, by registered mail with delivery confirmation, a warning notice of the intention to submit the claim to the Debt Execution Office.
- **Banking Act (customer service)(Amendment No. 19), 2014**, in effect as from September 2014, does not allow a bank to call for the immediate repayment of a loan or to institute legal proceedings against the borrower, unless a prior notice in writing is delivered to the borrower in person, and this 21 business days beforehand.
- **Proper Conduct of Banking Business Directive No. 450 of the Supervisor of Banks - debt collection procedures.** The directive was published on February 1, 2017, within its framework, rules, actions and various functions have been prescribed in proceedings for the collection of debts solely of households and small businesses (the directive does not apply to corporations), with the aim, inter alia, of enhancing the fairness and transparency with debtors.

The Insolvency and Economic Recovery Act, 2018

The Act took effect on September 15, 2019, and shall apply to insolvency proceedings instituted as from that date onwards. The Act contains many innovations and changes in the substantive law. The Bank is preparing for the implementation of the Act and Regulations enacted under it in areas relevant to its operations. For additional details, see the 2018 Annual Report (p. 371).

Insolvency and Economic Recovery Act (Amendment No.4 – Provisional Instruction – The new Corona virus), 2021. The Amendment was published on March 4, 2021, as a Provisional Instruction, being part of the move to provide relief to debtors in view of the Corona crisis. The Provisional Instruction entitles debtors, both corporations and individuals, to apply to the Court for a stay in proceedings against them for a limited period of up to three months, with the option of extension for one additional month, for the purpose of approval of a debt arrangement, without the appointment of an external function replacing the Management of the corporation. Material limitations are to apply to the creditors with respect to the institution of legal proceedings, realization of pledges, etc. Furthermore, during the stay of proceedings period, debtors are generally prohibited from the repayment of past debts, and they may continue to conduct their business as usual. The Provisional Instruction will remain in effect for a period of one year, which may be extended for two additional periods of up to six months each. On January 24, 2022, a draft Order was published, extending the validity of the special directives enacted within the framework of said Amendment No. 4, by an additional period of six months.

Regulations of the Insolvency and Economic Recovery Act (Amendment), 2020. The Regulations were enacted on December 30, 2020, and entered into effect. Requirements had been added within the framework of the Amendment, with respect to the notice that a creditor has to deliver to the Insolvency Commissioner, following the right of setoff taking effect. The Association of Banks has submitted a request to the Ministry of Justice to narrow the scope of the aforesaid requirements.

Economic Competition

The Economic Competition Act (Amendment No. 21), 2019. The Amendment to the Act, which was published on January 10, 2019, determines, inter alia, the duty imposed upon an Officer of a corporation to supervise and do everything possible to prevent the violation of the Act by the corporation or its employees. Violation of this duty will be considered a criminal offence carrying imprisonment and a monetary penalty, and this even if the corporation itself has not violated the Act. In the event that an offence has been committed under the Act, the Officer may be deemed to have violated the said supervisory duty, unless he can prove that he had done the utmost to fulfill his duty. An Officer is an active manager in the corporation, a partner, excluding a limited partner, or a clerk responsible on behalf of the corporation for the area in which the offence had been committed. Furthermore, the amount of the monetary sanctions, which the Commissioner is authorized to impose upon a corporation, has been increased; the duty to report mergers has been reduced; and the definition stated in the Act of an owner of a monopoly has been updated, so as to apply also to a person who holds a significant share of market power in a particular market.

Exemption from approval of a restrictive agreement in respect of the holdings and joint operation within the framework of ABS. On September 24, 2017, the Competition Commissioner published a decision regarding the exemption from approval of a restrictive agreement in the matter of Automatic Bank Services (ABS) ("the exemption decision"). Within the framework of the exemption decision, the Antitrust Commissioner instructed the transfer of the rights of ABS in the communication protocol, according to which the various entities act in the field of charge cards, with no consideration, to an association, the members of which would be all entities active in the field of charge cards.

Moreover, the exemption decision states instructions as regards the distribution of dividends by ABS and to additional conditions, subject to the sale of the surplus holdings of the banks in ABS, in accordance with the requirement of the Strum Act (see above).

Extension of exemption from approval of a restrictive arrangement in connection with a holding and joint activity within the framework of BCC. The Competition Commissioner issued on June 18, 2020, his decision regarding a conditional exemption from a restrictive arrangement between Bank Clearing Center Ltd. (BCC) and the banks. The exemption would be valid for a period of five years since date of publication. The exemption allows a provider of payment services to join BCC as a participant, subject to the terms detailed therein.

Signing of the mutual recognition agreement. On March 25, 2020, an amendment was signed to the mutual recognition agreement between the banks in Israel. On October 11, 2020 the Agreement entered into effect. The agreement was amended in light of the Competition Commissioner's exemption dated July 30, 2018 and allows every supervised issuer and operator of ATMs to join the agreement. The First Digital Bank (in formation) Ltd. signed during the year an Addendum for the direct participation in the agreement, and applications by additional bodies regarding the joining of the agreement have been advanced.

Approach to Automated Bank Services ("ABS") by the Competition Authority in the matter of the mutual affinity between ABS and Bank Clearing Center ("BCC") and the Prima Facie existence of a restrictive agreement. In accordance with an Immediate Report by ABS dated October 29, 2019, the Competition Authority approached ABS on October 28, 2019, in the matter of the mutual affinity between ABS and BCC. The Authority is of the opinion that due to the significant affinity existing between the two companies (which jointly operate a head office and office premises, as well a joint technological infrastructure and back-up facilities, and more), alongside the competition potential between ABS and BCC, there exists Prima Facie, a restrictive agreement, which had not been approved or given a temporary permit by the Competition Tribunal or given an exemption by the Competition Commissioner. The position of the Authority is that it is doubtful whether the arrangement fulfills the class exemption condition under Section 15A of the Economic Competition Act. The Authority requested ABS to take immediate action in order to stop the violation and rectify the situation. In its Immediate Report ABS clarified that in its opinion the existing relations do not constitute a restrictive agreement, and that it studies the approach and its implications. The Bank owns 25% of the equity of BCC and 10% of the shares in ABS. In continuation thereof, the Competition Authority approached the companies with a request for information regarding the mutual services being granted by one of the companies to another, or the joint services being granted by a third party to the two companies. ABS and BCC submitted on May 10, 2020, a request for approval of the restrictive agreement between them. In accordance with a press release issued by the Competition Authority, The Competition Commissioner submitted to the Competition Tribunal on September 17, 2020, her standpoint in the matter. The Commissioner is of the opinion that the collaboration, as presented, between ABS and BCC forms a restrictive agreement, which is not beneficial to the public and should not be approved.

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.

On February 27, 2022, the competition authority announced that the Commissioner of Competition in conjunction with the Bank of Israel had reached an agreed outline for the complete separation of ABS and BCC, and accordingly, an agreed application for approval of the separation outline has been submitted to the Competition Tribunal, so that the restrictive agreement would be approved under agreed terms. The terms formulated include full separation of the companies from management level, development of applications and immediate payment services to infrastructure of the company, this in accordance with milestones until the end of 2027. The liquidation outline will become effective once approved by the Tribunal.

Approach by the Competition Commissioner regarding exemptions from restrictive agreements. On November 10, 2019, the Bank received four letters from the Competition Authority regarding four decisions that had been made in the past by the Competition Commissioner regarding exemption from a restrictive agreement under certain conditions, with respect to the following arrangements: the credit cards cross-clearing arrangement, the arrangement between BCC and different banks, the arrangement regarding the holdings by different banks in ABS and the arrangement between different banks regarding the mutual recognition agreement for use of ATMs. The Bank is a party to each of the above arrangements. In accordance with the said letters, the Competition Commissioner had decided to use her authority under Section 15A(g) of the Economic Competition Act, and determine that with respect to each of the above arrangements and to any restrictive agreement regarding such matters, an exemption from a restrictive agreement, granted by the Act according to the class exemption rule, shall not apply. It is explained in the letters that the exemption decisions given with respect to each of the said arrangements shall remain in effect until the end of the effective period of each arrangement (December 31, 2023, March 20, 2020, September 24, 2022 and July 30, 2023, respectively), and the Bank may continue to operate in accordance with the said arrangements until the end of the effective periods without having to obtain the permit of the Competition Tribunal, on condition that no change occurs in a material item of such arrangements. To the understanding of the Bank, the meaning of the decision is that at the end of each of the said periods, the parties to the arrangements would be required to submit to the Competition Commissioner specific requests for extension of the exemption in respect of each of the said arrangements (as was already done with regard to the BCC exemption, as set forth above). A press release issued by the Competition Authority states that a similar decision had been made with respect to additional arrangements in the market.

Privacy protection

Privacy Protection Bill (Amendment No. 14), 2021. The Bill, which has passed the first reading by the Knesset, includes, inter alia, the following changes: expansion of the administrative and criminal enforcement tools of the Privacy Protection Authority; authorization of the Authority to impose monetary sanctions; reducing the bureaucratic burden by means of a significant reduction in the duty of registering data bases; adaptation of the definitions contained in the Act to up to date technological developments, inter alia, by way of expansion of the definition for 'data' and expansion of the principle of 'linkage to the purpose', with a view of limiting the ability of making use of data for a purpose other than that for which the data had been rendered.

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.

Prohibition of money laundering and Prohibition of Financing Terror Activities

Prohibition of Money Laundering

Promotion of reform of the Prohibition of Money Laundering Act. On February 4, 2021, the Money Laundering Prohibition Authority issued an approach to the private sector, including the Bank, stating that the Authority – in cooperation with the Consultation and (Criminal) Legislation Department at the Ministry of Justice and all the financial regulators – is promoting a major reform of the money Prohibition of laundering and the prohibition of terror financing regime in Israel. According to the approach, this will be done through a comprehensive amendment of the legislation aimed at prescribing uniform fundamental provisions, which will be part of the Money Laundering Prohibition Act or will be promulgated thereunder, and which will apply to all financial entities.

In continuation, on October 3, 2021, the Money Laundering Prohibition Authority issued a draft of Money Laundering Prohibition Order (Identification, Reporting and Record Keeping Obligations of a Provider of Financial Services to Prevent Money Laundering and Terror Financing), 2021. This is a draft of a uniform order that will apply to all the financial entities in the economy (including banking corporations and providers of financial services, as defined in the Providers of Regulated Financial Services Act) and will specify basic, identical and uniform provisions for all the financial bodies that report to the Authority. In conjunction with the uniform order, the regulator for each of the financial bodies to which the uniform order applies will issue directives that are specific to the bodies that it oversees. This is in contrast to the current situation, where separate orders exist for different financial bodies in the economy. The draft of the uniform order sets out various provisions regarding the "know your customer" obligation, identification and verification, recording electronic transfers and transfers of virtual assets, and reporting to the Money Laundering Prohibition Authority. The financial bodies have been asked to submit their comments on the draft.

Amendment to Proper Conduct of Banking Business Directive No. 411 – Prohibition of money laundering and finance of terror risk management. An updated version of the Directive was published on October 26, 2021. This version includes amendments of various issues, including the addition of Annex B2 – an arrangement determined by the Supervisor of Banks in accordance with Section 7A of the Money Laundering Prohibition Order (the duty of identification, reporting and maintaining records by banking corporations for the prevention of money laundering and the finance of terror). The Annex defines reliefs in identification and verification duties according to Chapter B to the Order, when providing payment services, as defined in the Annex, by a banking corporation for the recipient of the service. It is stipulated that the reliefs will also apply when the payment service is given to the recipient of the service by an auxiliary corporation controlled by the banking corporation managing the payment account, subject to the terms detailed in the Annex. The Annex takes effect one year following the date of publication of the amended Directive. For additional details, see the 2020 Annual Report (pp. 400-401).

Draft Amendment of Proper Conduct of Banking Business Directive No. 411 – management of prohibition of money laundering and finance of terror risks. On December 29, 2021, the Supervisor of Banks published this draft Amendment, in the matter of additional regulation regarding the measures required from the banking system for the management of prohibition of money laundering and finance of terror risks relating to extending payment services involving virtual currency operations. Inter alia, it was determined that banking corporations conduct risk evaluation regarding the transfer of funds, the origin thereof or their purpose is connected to virtual currencies, and on the basis of such risk evaluation, adopt policy and procedures. It is further determined that a banking corporation shall not refuse to provide payment services related to activity in virtual currencies only because it is related to virtual currencies, to the extent that the provider of the service in virtual currencies, who is a party to the transaction, holds a license for providing such service in Israel. Also determined is an instruction prohibiting in certain cases the provision of payment services related to virtual currencies, and instructions regarding the requirement for documentation respecting the payment of taxes as required by law. It is proposed that the Amendment shall take effect after three months from date of publication of the Directive.

Prohibition of Money Laundering Order (Duties of identification, reporting and maintenance of records by providers of credit service avoiding money laundering and the finance of terror) (Amendment), 2021. On February 2, 2021, the Constitution, Law and Justice Committee approved the amendment to the Order, as part of the implementation of the Act for the supervision of regulated providers of financial services. The amended Order imposes, on providers of a financial asset service, identification, reporting and record keeping obligations in relation to their customers (in addition to the existing requirements under the existing order on providers of credit services), and also relates to activities in a virtual currency. The Order will go into effect eight months after its publication.

Legislation and Regulation Amendments relating to the Capital Market

Quarterly reports to customers of the investment consultants. On May 30, 2021, a Bill regarding Regulation of the Investment Consulting Business, the Marketing of Investments and the Management of Investment Portfolios (Amendment – Reporting of Investment Consultants to Customers), 2021, was tabled before the Knesset. Within the framework of the Bill, it is proposed to apply to banking corporations the duty of quarterly reporting (similarly to the duty of quarterly reporting to customers of investment portfolio managers, required today under the law), to be determined according to uniform standards.

Provision of pension consulting services by digital means. A Draft of the Supervision over Financial Services Bill (Pension consultation, marketing and a clearing system) (Amendment No. 11), 2022, was published on February 8, 2022, the purpose of which is to allow banking corporations to provide pension consultation services also through digital means and not only through frontal meeting.

Establishment of a designated Stock Exchange. On August 2, 2021, the Securities Bill (Amendment No. 70), 2021, was tabled for its first reading by the Knesset, laying the infrastructure for the establishment in Israel of a designated Exchange – providing trading platforms in volumes not comparable with those of a principal Stock Exchange and having special designation or characteristics.

Draft Proper Conduct of Banking Business Directive regarding a banking corporation's activity as a broker-dealer. On February 18, 2021, a draft was published, intended to represent a regulatory framework for the activity of banking corporations in the field of financial brokering with regard to the receipt and transfer of orders to execute transactions in securities and financial instruments for customers, both as brokers and also by way of trading on their own account (broker-dealer activity). The draft replaces Proper Conduct of Banking Business Directives Nos. 461 and 419.

Circular addressed to banking corporations engaged in investment consultation regarding modifications required with respect to investment consultation for mutual trust funds, following the implementation of an outline dealing with the phenomenon of numerous similar funds that are managed concurrently by the same fund manager. Concurrently with the decision according to which fund managers shall apply an outline dealing with the phenomenon of numerous similar funds that are being managed by the same fund manager, the staff of the Securities Authority stated in a circular dated June 13, 2021, that banking corporations have to apply various modifications to their mutual trust funds rating systems.

Providing pension consultation services by digital means. On January 25, 2022, the Capital Market, Insurance and Savings Authority extended again its notice that it would not apply enforcement measures against banking corporations that provide pension consultation services by digital means or by telephone, to existing customers of the pension consultation operation. The non-enforcement position cancels and replaces the non-enforcement position announced in October 2021, and will be in effect until April 25, 2022. The position was provided on the background of the outbreak of the Corona virus and the continuous morbidity and in view of the intention of the Authority to promote an amendment to the Pension Consultation Act.

U.S. Legislation

As owners of a U.S. bank, IDB Bank, the Bank is subject to a number of U.S. legislation provisions, which apply to entities, and companies related to them, and which have banking operations in the U.S., whether as a bank or as a branch office.

Within the framework of these provisions, significant exceptions have been determined with respect to non U.S. banking entities, such as the Bank, so that the regulation under these provisions relating to operations and investments, applies mostly to the said operations and investments of the bank in the U.S..

The operations of the Bank conform to the U.S. legislation provisions, to the extent that these apply to its operations, including conforming to the restriction imposed on the Bank under the Volcker Rule, enacted as part of the U.S. Dodd Frank reform.

Subject to certain exceptions the Volker Rule includes prohibition of proprietary trading and investment and sponsoring operations in private equity funds of certain types.

Following amendments made to the Dodd Frank reform, the Bank, including its subsidiaries, is no longer subject to enhanced prudential standards determined by the Dodd Frank reform.

The amendments to the Volcker Rule, are in effect from January 1, 2020, are expected to be applied as from January 1, 2021. The purpose of these amendments is to simplify, clarify and modify the provisions of the law, on the basis of experience gathered since its enactment, while maintaining the purpose of this legislation. The amendments are not expected to affect the Bank's operations and even allow for certain mitigating factors in the operations of the Bank concerning US parties.

In addition, a series of amendments to the Act, which became effective on October 1, 2020, relates to limitations detailed in the Act regarding self operations by financial institutions and regarding investment and sponsoring activities for particular funds, with a view of preventing speculative activities by financial institutions and maintaining their stability. The amendments exclude from the limitations stated in the Act certain classes of funds, amend existing exceptions, and exclude the prohibition of providing credit to certain funds, with a view of simplifying existing rules and compliance therewith, defining the exterritorial effectiveness of the Act, and permitting the activity of funds that do not have the risk characteristics, which the original Act intended to deal with.

The Bank is studying these changes and their consequences, if there are, on the Discount Group.

The US Congress passed on January 1, 2021, an amendment to the National Defense Authorization Act, within the framework of which was also enacted the Money Laundering Prohibition Act 2020, which establishes a wide change in the prohibition of money laundering acts and the campaign against the financing of terror in the US. The Bank and MDB both hold correspondents accounts with IDB Bank. Inter alia, an amendment entered into effect, which widens the power of the US Authorities to demand documentation from foreign banks having correspondent accounts in the US. This power is exercisable with respect to any interrogation of violations of the Federal Criminal Act, to civil forfeiture proceedings and to any investigation under the prohibition of money laundering laws, even where the correspondent account had not been used for the potential investigated violation. Additional amendments to the Act shall apply to banks operating in the US and to their customers, and are relevant to the compliance activity of IDBNY with respect to the prohibition of money laundering and the finance of terror.

Various Legislation Matters

Credit Data Act, 2016

The Act was published on the Official Gazette on April 12, 2016. The Act is intended to regularize a central credit data base in Israel, with a view of increasing competition in the retail credit market. According to the Act, the Bank of Israel is to establish and manage a central credit data base. Data would be assembled from sources determined in the Act and including banking corporations, would be maintained and transferred to credit offices by the Bank of Israel. The credit offices would process the data and pass it on, among others, to the providers of credit in accordance with the regulations stated in the Act. On March 4, 2021, the Credit Providers Regulations (Amendment), 2021 were published, thereby complimenting the provisions of the Credit Providers Act and outlining the supporting provisions in relation to arrangements not included in the Act. Following the publication of the Act, further regulations have been published intended to supplement the regulations stated in the Act, as well as the setting out of supporting regulations with respect to specific arrangements which are not regulated by the Act itself. For the purpose of implementing the Act, the Bank of Israel has taken measures to establish a system for sharing credit information, which includes setting up a central credit database.

It is noted, that providing of detailed data regarding Bank customers may expose the Bank to various claims, including customer arguments regarding the quality of the data in certain cases. The Bank is making timely preparations for the delivery of the data, in accordance with the Bank of Israel instructions, and acts to improve such data, where required (for details regarding a lawsuit together with a motion for its approval as a class action suit, regarding the implementation of the Credit Providers Act, see above Note 26 C to the financial statements, section 12.5).

Self-assessment process for testing compliance with the provisions of the Credit Data Act. In a letter dated November 18, 2019, the Supervisor of Credit Data Sharing at the Bank of Israel informed the corporations defined as users of credit data that they have to perform a self-assessment process for the testing of their compliance with the requirements of the Credit Data Act, and to deliver the findings of the examination to the Supervisor by June 30, 2020. The Bank is preparing for the performance of the process by means of an independent external factor. In a letter dated October 27, 2020, the Commissioner informed the Bank of his response regarding the self-assessment process performed by the Bank and its findings and requested that the Bank act accordingly. The Bank is required to implement a technological solution that will enable the customer to receive the credit report produced with respect to him on his personal page of the Bank's website, with this being done by the end of June 2021. The procedure for the implementation of the technical solution has been completed on time.

Amendment of the Credit Providers Regulations (Amendment No. 1), 2020. On January 6, 2021, the Knesset's Economic Affairs Committee approved a proposal to amend the Credit Providers Regulations, 2017, including amendments relating to ways of identifying the customer, obtaining his consent to transfer credit data relating to him and its documentation. The regulations have not yet been published and will go into effect within six months of their publication in the Official Gazette. Following this Amendment, Amendments to Proper Conduct of Banking Business Directives Nos. 405, 401 and 401A were also published. The Directives took effect in March 2022. The Bank is preparing accordingly.

Payment Services Act, 2019

The Act was published on the Official Gazette on January 9, 2019. The Act amalgamates, under a single legislative umbrella, the majority of the "payment services" that are currently provided and that will be provided in the future to the general public (payers, on the one hand, and beneficiaries – the recipient of the payment, on the other hand) by various "providers of payment services", including the banks, the credit card companies, off-banking operators of advanced payment applications, etc. The Act prescribes consumer regulation which will apply uniformly (subject to the secondary legislature of each regulator) to all the providers of payment services in the market – to the banks, and also to other providers of payment services that are competing (or are planned to compete) with the payment services that are provided (or that will be provided in the future) by the banks to their customers. The Act will take effect following one year from date of publication thereof, except for several provisions that became effective in July 2020.

The Bank is preparing to implement the provisions of the Act in respect of its operations in the field of payment accounts and means of payments, inter alia, by way of updating agreements with customers, operational preparations, updating procedures and work processes.
On February 17, 2020, was approved by the Knesset the Payment Services Act (Amendment No. 1) (Deferral of the effective date), 2019, in which Section 77 of the Act was amended so that its effective date was deferred for nine months to October 14, 2020. On December 7, 2021, a draft was issued of the Payment Services Regulations (Exemption from Application of the Act), 2021, within the framework of which it is being proposed that the prohibition specified in Section 14 of the Act (pursuant to which a payment services provider may not deduct any fee or other charge from the funds regarding which the payment instruction was given) will not apply in a case where the performance of the payment transaction involves the receipt of financial brokerage services and providers of correspondence services. The Ministry of Justice published on September 30, 2021, an opinion regarding the responsibility for the misuse of payment means in cases of impersonation as a provider of payment services. The opinion extends the limits of responsibility of providers of payment services in case of misuse of means of payment, so that in the event that a customer had delivered to an imposter, presenting himself as a provider of payment services, the essential component of the means of payment, the customer would be entitled to the protection of the responsibility arrangement stated in Section 24 of the Act, including limited liability.
Bill for the Prevention of Economic Damage to Consumers (Legislation amendments), 2021. The Bill was published on December 29, 2021, following a Government decision to approve an emergency plan intensifying the campaign against defrauding and abuse of senior citizens and other vulnerable consumers. Legislation amendments have been proposed in respect of the Consumer Protection Act, the Payment services Act, and the Debt Execution Act, the aim of which is to eliminate the phenomenon of economic damage to consumers, caused by traders breaking the law in aggravating circumstances.

Customer Protection Act (Amendment No. 57) (Human professional response on the automatic answering service), 2018

On July 25, 2018, the Amendment was published in the Official Gazette. The subject matter of the Amendment requires businesses that operate a phone call service that includes an automatic call routing system, to enable customers to transfer to a human voice response already at the first menu of the conversation and limiting the waiting time for a human response, as regards certain matters (treatment of failure, account information and termination of engagement) to six minutes. This requirement takes effect by way of an amendment of the Banking Act (Customer service).
On June 12, 2019, the Supervisor of Banks published Proper Conduct of Banking Business Directive No. 426 in the matter of "provision of professional human response by telephone", within the framework of which, banks had been given the possibility of deviation from the time for waiting on the line under conditions and at time-rates determined in the Directive. On January 1, 2020, the Section that requires priority for senior citizens waiting on line for a telephone call response entered into effect. In addition, it is required to monitor and control response patterns at the call center; as well as the publication of details on the Internet website of the banking corporation.
Draft Banking Order (Dormant deposits), 2000. The Supervisor of Banks, in cooperation with the Ministry of Finance, are considering replacing the existing Order with a new Order that includes changes regarding the investment channels of dormant deposits. Concurrently, on November 10, 2021, a new Proper Conduct of Banking Business Directive was issued, regulating the handling of dormant deposits. The directive lists the obligations imposed on a banking corporation for the purpose of locating owners of dormant deposits.

Bill Memorandum of the Economic Efficiency Act (Legislation amendments for attaining the budget goals for the 2021 and 2022 budget years), 2021 - Intensification of tax collection and increasing enforcement. The Ministry of Finance published on August 3, 2021, the said Bill Memorandum. The Memorandum proposes to include in the Income Tax Ordinance the duty to report financial bodies and clearing agents on a semi-annual basis, so that data regarding their customers who conduct business accounts with them, would be reported to the Tax Authority on a current basis. In addition, it is proposed to empower the Director of the Tax Authority to request from a financial body and a clearing agent specific information regarding a group of customers having joint characteristics, which would be based upon the characteristics of the accounts or of the customers being members of the group, and which create suspicion that members of such group had violated any provision of the tax laws, in a manner leading to the loss of tax revenues not immaterial in scope. Concurrently, different mechanisms are being proposed for the protection of privacy of the reported entities and for the protection of the information.

Opinion of the Ministry of Justice Regarding Application of Section 24 of the Payment Services Act, 2019. On September 30, 2021, the Ministry of Justice published an opinion regarding the responsibility for misuse of payment means in circumstances of impersonating the payment services provider. The opinion broadens the responsibility limits of providers of payment services in the event of misuse of payment means, whereby the full responsibility will be borne by the payer (and not by the provider of the payment services). It is necessary to show that the payer has made the entire essential component of the payment means available to another person and that such other person did not impersonate the provider of the payment services or the trading house.

Memorandum of the Determination of Interest and Linkage Act (Amendment No. 9), 2021. The Memorandum was published on November 11, 2021, in the framework of which it is proposed to amend the rate of interest added under the Act to a determined debt, so that the added interest would be either a shekel interest or linked interest. It is also proposed to change the interest on arrears mechanism, inter alia, in order to create an incentive for the repayment of the debt, so that the interest and the interest on arrears would be separated, and a mechanism separate from the interest would be formed, named "arrears fees". It is proposed that the charging of arrears fees on the debt shall be made once in each quarter, instead of on a daily basis. It is further proposed to cancel the application of "compound interest" mechanism to the arrears fees.

Banking Bill (Licensing)(Amendment No. 28)(Expanding financing sources for non-banking corporations engaged in extending credit), 2021. The Legal Office of the Knesset published on January 24, 2022, an updated version of the Bill, intended to expand the credit sources for non-banking entities, in order to increase competition in the credit market. The updated version is in the course of preparation for the second and third readings by the Knesset. It is proposed to amend Section 21 of the Banking Act (Licensing), so that the definitions existing with respect to the exclusivity of operations to banking corporations shall be amended, in particular, the definition of "issue" and "extending credit".

Amendment of the Regulations Regarding Equal Rights to Persons with a Disability (Accessibility adjustments to service). In January 2022, the Amendment, was approved by the Labor and Welfare Committee of the Knesset, in the framework of which the population entitled to exemption from standing in line was enlarged, and it was also determined that in respect of a service that has accessible means allowing arrangement of an appointment in advance, the bank has to provide the service to a person with a disability, who had arranged an appointment in advance, at a time near to the time of ordering the appointment. The Amendment enters into effect after three months from date of publication.

Bill for Equal Rights to Persons with a Disability (Amendment No. 19), 2021. The Bill was published on August 31, 2021, and it includes amendments intended to improve the prosecution, supervision and enforcement ability of the Commissioner for Equal Rights to Persons with a Disability, thereby promote protection of the rights of persons with a disability in the different areas of life. It is proposed to authorize the Commissioner to impose administrative penalties in respect of violation of accessibility instructions.

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.

Directives of the Supervisor of Banks

Proper Conduct of Banking Business Directive no. 368 – implementation in Israel of the open banking standard. The Directive was published on February 25, 2020, and details the requirements of the Bank of Israel from the banks and credit card companies regarding this field, with the aim of defining the infrastructure for open banking in Israel.

The dates for the entry into effect of the Directive are as follows: Implementation of open banking for information viewing purposes only – March 31, 2021; Conducting a single payment operation and information regarding credit cards – October 10, 2020; Information regarding savings deposits, deposits, credit and securities – March 31, 2022. Among other things, the Directive regulates the open banking duties applying to banking corporations and credit card companies. In accordance with the Directive, the Boards of Directors and Managements are required to review and approve the policy for the management of open banking risks, and the Management is required to implement such policy and determine areas of responsibility and allocation of resources, including for the purpose of risk management. The Directive further deals with the manner in which consent of the customer and its cancellation is obtained, with the list of services that a bank would be obliged to provide to the customer and with data protection. The Directive entitles banks to act as consumers of data on condition that no conflict of interests with other activities of the bank, of corporations controlled by it or of corporations in the group to which it relates exists, as the case may be. The Directive also states in detail the manner in which customer inquiries are to be dealt with, and regulates who is required to respond and/or compensate the customer in case of flawed information.

For details regarding the preparations made by the Bank in the field of open banking, see the 2018 Annual Report (p. 355) and the Section "Technological improvements and innovation" above.

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.

The Supervisor of Banks published on August 11, 2021, an updated draft amendment of the Directive, which, inter alia, is intended to apply the Directive also to an auxiliary corporation managing an account on behalf of the customer taking effect as from January 1, 2023, (excluding exceptions), and expands the possibility of accessing information regarding the account of the customer as well as initiate payments with the consent of the customer, also to additional supervised bodies. For additional details, see the 2020 Annual Report (p. 404).

"Notices by means of communication" – amendment to Proper Conduct of Banking Business Directive No. 420. On February 25, 2021, and amendment was published to the directive within the framework of which provisions were added in relation to the sending of a notice to a customer regarding the need to deposit funds in order to settle a check, with this being in continuance of the Checks Without Cover Act (Amendment No. 14), 2020.

Letter regarding the replacement in foreign interest rate benchmarks. For details, see "Marker Risks" in Chapter C above.

Letter of the Supervisor of Banks regarding the encouragement of innovation at banks and at clearing agents. See above "Initiatives concerning the banking sector and its operations".

Proper Conduct of Banking Business Directive no. 448 regarding the transfer between banks of the financial activity of customers in an online manner. The Directive was published on December 16, 2019, was updated on August 17, 2021, and took effect in September 2021. The Directive states general principles with respect to the mobility process, including the length of time allotted to this process, cancellation of the mobility request, transfer of information between entities during the process, the possible actions which may be taken to retain the customer, situations in which a bank may refuse a mobility request, and more.

Proper Conduct of Banking Business Directive 311A, regarding "Consumer Credit Management". On February 2, 2021, the Directive, which was drawn up by the Banking Supervision Department jointly with the Capital Market Authority, was published. This with the purpose of creating consistent principles and standards for all the credit providers with regard to consumer credit in general and to credit marketing initiatives in particular. The Directive's purpose - to ensure the fair and proper conduct of granting consumer credit. The Directive goes into effect nine months after the publication of the circular relating thereto (November 4, 2021), while the sections relating to the marketing of consumer credit (sections 17-22) go into effect three months after the publication of the circular (May 4, 2021).

Letter of the Supervisor of Banks to banking corporations and credit card companies regarding environmental risk management. For details, see above "Environmental risks".

Activity of banks and credit card companies as consumers of data. On April 14, 2021, the Supervisor of Banks delivered a letter to banking corporations and credit card companies, according to which, in view of the fact that the system is found in an interim period until such time that an Act is passed regulating the cost comparison operation, the Bank of Israel requires the adoption of extra care regarding the use of banks and clearing agents of data in the field of cost comparison involved in brokerage. The Supervisor of Banks notes that the Proper Conduct of Banking Business Directive in the matter would be updated, so that a bank or clearing agent would be required to obtain the prior approval by the Supervisor of Banks in the event of a new operation involving a cost comparison service that includes a financial product brokerage component of the type which the bank or the clearing agent themselves offer to another financial body, and that also an independent legal opinion in the matter of the conflicts of interests might be required. It has been clarified that it is the intention of the Ministry of Finance to promote, within the framework of the coming Arrangements Act, the Bill Memorandum according to the letter of the Minister of Finance. In addition, the position of the Competition Authority was received on April 29, 2021, according to which, the offering of cost comparison services may be considered a restrictive agreement.

Amendment of Proper Conduct of Banking Business Directive No. 420 – Sending Notices via Means of Communication. An Amendment to the Directive was published on February 25, 2021, within the framework of which, instructions were added regarding the delivery of notice to customers regarding the need to deposit funds to cover the payment of a check, this following the Dishonored Checks Act (Amendment No. 14), 2020. An amendment to the Directive was published on June 6, 2021, which expands the possibility of delivering notices via diverse communication channels. In accordance with the amendment, a banking corporation may choose a communication channel suitable for delivering a certain notice to the customer under terms detailed in the Directive. The decision as to whether a certain notice is suitable for delivery via a certain communication channel, shall be taken in accordance with the level of materiality of the data and the required delivery speed, while maintaining a balance between the need to deliver the information to the customer and the need to protect the customer's privacy. Also determined is the duty to deliver to the customer, who had joined the service for delivery of notices regarding certain matters as detailed in the Directive, also via a channel allowing the delivery of information in an immediate and accessible format, such as SMS. The amendments take effect at the end of one year since their publication. An additional letter by the Supervisor of Banks was received on June 29, 2021, which states that, within the framework of the mapping, which a banking corporation has to conduct in order to prepare for the implementation of the amendment, as stated, is included the opportunity of examining the contents of notices in a way which would increase the understanding and effectiveness of notices delivered to customers via communication channels and ordinary mail. The Supervisor suggests that improvement of the effectiveness of disclosure to customers shall be achieved by customer surveys, examination of the text of notices by experts from the field of behavioral economics, and more.

Draft Bank of Israel Order (Information from certain financial bodies regarding expenditure of individuals)(Provisional instruction), 2021. According to this draft Order, the Bank of Israel intends to issue an Order requiring financial corporations (including banks and clearing agents) to deliver to the Bank of Israel information on a daily basis, regarding expenditure of individuals within the framework of their bank accounts and their activity through other means of payment, for the years 2014-2020. This, for the purpose of outlining of the Bank of Israel's policy regarding several areas and the promotion of efficiency of the payments system. Details of the information required from banks according to the Order are: expenditure by means of credit cards divided according to segments of transactions; use of checks and withdrawal of cash from ATM instruments as well as additional payment operations; and the amount of the Corona grant received by each individual. The data would be kept at a high secrecy level at the highest protection level, and access thereto would be limited. The Order will take effect on date of publication thereof.

Amendment of Proper Conduct of Banking Business Directive No. 336 – pledging the assets of a banking corporation. In view of the growth in scope and diversity of operations requiring banking corporations to pledge their assets (in accordance with the law, regulation or market practice), the Supervisor of Banks published on June 15, 2021, an amendment to the Directive, by which the quantitative limitation on pledged assets had been removed, being replaced by defined requirements for the proper management of the pledging of assets. The amendment takes effect on January 1, 2022.

Draft Amendment to Proper Conduct of Banking Business Directive No. 422 – Opening and Managing a Current Account with Credit Balances. Within the framework of the amendment, it is proposed to determine that a bank be prohibited from unreasonably refusing a customer's request to execute a specific transaction (which is defined in the Directive) over the banking communication channels; it is also proposed to determine that no sweeping rules should be made preventing use of basic payment means or execution of transactions on an account over communication channels, just because the customer belongs to a certain population group, and that every request should be considered on its own merits; in addition, it is being proposed to extend the application of the Directive such that it will also apply to the opening of an account for a foreign worker, as this term is defined in the Foreign Workers Act, 1991 (in addition to an individual customer who is an Israel resident); moreover, it is proposed that the Directive be extended so as to also apply to an Israeli currency account that is in overdraft, but which does not exceed the approved credit facility for the account.

Proper Conduct of Banking Business Directive No. 314A – Management of Debt Arrangements and Collection Proceedings for Material Debts Having Difficulties. The Directive, which was published on September 30, 2021, specifies the optimal way of dealing with debts having difficulties is to transfer their treatment from the business unit to a designated unit with appropriate expertise, and sets out a series of corporate governance and risk management guidelines in connection with collection default and debt collection proceedings. Corresponding amendments have been published to Proper Conduct of Banking Business Directive No. 311.

Draft Proper Conduct of Banking Business Directive in the matter of distribution of credit by issuers engaged with the banking corporation in a distribution agreement. Within the framework of the Directive, it is proposed to determine instructions regarding the process of distribution of credit cards under Section 7(f) of the Banking Act (Service to customers), 1981 (which had been added as part of an indirect amendment of the Increase in Competition and Reduction of Centralization in the Banking Market in Israel Act). The instructions relate to the terms of the distribution agreement; the manner of distribution; the details to be presented to the customer and reporting to the Bank of Israel.

Draft Proper Conduct of Banking Business Directive in the matter of advanced payment services. This instruction complements the Payment Services Act in the matter of payment transactions, and states the disclosure duties applying to banking corporations with respect to payment transactions conducted on payment Applications.

Amendment of Proper Conduct of Banking Business Directive No. 366 – reporting of technological failure events and cyber events. The Amendment, published on October 21, 2021, expands the duty of investigating and reporting technological failure events and cyber events also with respect to events occurring at a corporation controlled by the banking corporation, which in itself is not a banking corporation, and which has a material effect, inter alia, regarding aspects of technology, reputation and finance, on the banking corporation controlling it, on the banking group or on the banking system.

Amendment of Proper Conduct of Banking Business Directive No. 362 – cloud computing. The Amendment, published in February 2022, clarifies that cloud computing services comprise a private case of outsourcing. Therefore, Proper Conduct of Banking Business Directive No. 362, as well as Proper Conduct of Banking Business Directive No. 359A in the matter of outsourcing, shall apply to a banking corporation that uses cloud computing services (except in certain matters).

Proper Conduct of Banking Business Directive in the matter of measurement and capital adequacy. During December 2021, the Supervisor of Banks published Amendments to Proper Conduct of Banking Business Directive No. 203 in the matter of the standardized approach – credit risk, as well as promulgated new Proper Conduct of Banking Business Directives - No. 203A in the matter of treatment of counterparty credit risk, No. 204A in the matter of IRB approach – risk components, and No. 208A in the matter of value adjustment in respect of credit risks. The

Amendment was made in order to modify the Directives of the Supervisor to a work framework document, published by the Basel Committee, which incorporates and reedits the Standards dealing with the allocation of capital in respect of derivative financial instruments. The update relates to the computation of the capital allocation in respect of the activity in derivatives by a third party. A part of the Amendments and the new Directives is to take effect on July 1, 2022, with the remainder taking effect on January 1, 2023, except for effective date of Directive 208A, which has been deferred to January 2, 2025. The Bank is preparing for the implementation of the Amendments and Directives.

Letter of the Supervisor of Banks in the matter of modification of the pricelists to advanced technology. On January 18, 2021, the Supervisor of Banks published to the Banks and to the credit card companies his position, presented within the framework of a class action against one of the credit card companies, with respect to commission for the issue or printout of documents existing in the computer data base at the customers' request. According to this position, the price for such a service should reflect the operating cost incurred by the banking corporation in respect of such service. The Supervisor noted that, accordingly, banks should examine their prevailing pricing of their services, both with respect to the services being the subject matter of the class action and with respect to other banking services.

Letter of the Supervisor of Banks in the matter of disclosure of the cost of service – Part 11 of the full pricelist. On February 16, 2022, the Supervisor of Banks delivered to the Banks and to the credit card companies his position with respect to the interpretation of Part 11 of the full pricelist, as provided within the framework of public approaches and class actions. According to this position, expenses included in Chapter 11 of the full pricelist, relating to third party expenses, should reflect the "actual expenses" payable by the banking corporation to a third party in connection with the particular service offered to the customer. To the extent that the manner of computing the expense payable by the banking corporation to a third party is not uniform for each transaction or for each customer, the banking corporation has to find a way of reflecting to the customer in the pricelist the maximum actual expense relevant to the service in question. It is required to act in a similar manner also upon presentation of a price in respect of a transaction under Section 26(a) of the Banking Rules (Service to customers) (Proper disclosure and delivery of documents), 1992.

Corporate governance

Amendment of Proper Conduct of Banking Business Directive No. 301 regarding the "Board of Directors". The Directive was amended on December 26, 2021, stating that the Audit Committee of the Board of Directors, within the framework of its duty to supervise the work of the Independent Auditor, has to apply the guidelines of the Basel Committee with respect to the independent audit of banking corporations. The Directive applies to audit of financial statements as from January 1, 2023.

An Amendment to the Directive was published on January 18, 2022, stating that both genders should be properly represented on boards of directors of banking corporations. Accordingly, the Board of Directors will determine a policy regarding the ratio for the gender diversity, including the time limit and milestones to achieve this goal.

Draft amendments of Proper Conduct of Banking Business Directive No. 301 in the matter of the board of directors and Proper Conduct of Banking Business Directive No. 301A in the matter of remuneration and the letter of the Supervisor of Banks. A letter by the Supervisor of Banks was received on June 22, 2021, addressed to the Bank's Board of Directors, in the matter of principles for determination of the terms of office of the chairman of the board of a bank having no core control interest, and with respect to the qualifying terms for the appointment of a director of a banking corporation having no core control interest (lack of affinity). Among these, maintaining the principle according to which the duties and authority of the chairman of the board shall not deviate from the duties and authority bestowed upon him by law, and that the organs that approve the terms of office must verify that the remuneration components (including all rights and duties relating to them) do not create an affinity or impair the independence of the chairman of the board. It is further emphasized that the need to establish the status of the chairman of the board and to segregate him from the Management of the bank, including by means of determining remuneration in relation to the other members of the board of directors (and in accordance with Proper Conduct of Banking Business Directive No. 301A), is of double importance in a banking corporation having no core control interest. The Supervisor of Banks also published draft amendments to Proper Conduct of Banking Business Directive No. 301 in the matter of the board of directors and Proper Conduct of Banking Business Directive No. 301A in the matter of remuneration – the instructions have been updated with respect to the remuneration of office holders in the board of directors, and have been modified according to the legislation requirements applying to chairmen of boards of banking corporations in general and of banking corporations having no core control interest in particular. In addition, instructions have been stated relating to the duties of the chairman of the board and the time resources required for the fulfillment thereof. Amendment of the instructions is intended to allow, inter alia, a banking corporation having no core control interest to pay the chairman of the board appropriate remuneration, on condition that this would not create affinity or impair his independence as regards the banking corporation.

Companies Act Memorandum – corporate governance in public companies having no core controlling interest. On March 10, 2021, the Ministry of Justice published the Companies Act Memorandum (Amendment No. __) (Corporate Governance in Public Companies Not Having Controlling Shareholders), 2021. The aim of the Memorandum is to adjust and update the corporate governance principles applicable to companies with no core controlling interest. Inter alia, a revision is being proposed to the definition of control, whereby it will be presumed that anyone holding 25% or more of a particular class of means of control has control, if there is no other person holding half or more of a particular class of means of control in the corporation; it is proposed that the obligation to appoint external directors in a company having no core controlling interest be revoked and, instead of this, to require that the majority of the directors be independent; it is proposed that the board of directors of a company having no core controlling interest shall determine the minimum number of directors required to have accounting and financial expertise and that the board of directors also be required to set the policy with regard to the composition of the board of directors and the desired qualities and qualifications of its members; it is also being proposed that the Board of Directors of a company having no core controlling interest be required to appoint a nominations committee and that the process of proposing candidates to serve as directors on behalf of the board of directors be done by a committee that will be independent. The Memorandum does not refer to the relationship between the proposed arrangements and the arrangements prescribed in the Banking Ordinance and in Proper Conduct of Banking Business Directive No. 301.

A call for public reference to the need for adjustment of the corporate governance rules regarding corporations having no core controlling interest. On September 23, 2019, the Ministry of Justice and the Israeli Securities Authority issued a call to the public requesting reference regarding legislation amendments for the adjustment of the corporate governance rules applying to corporations having no core controlling interest. The request referred to different issues, including the definition of "control", the composition of the board of directors, the process of appointment of directors, transactions with interested parties, remuneration, etc. On December 15, 2019, the Union of Banks submitted its response regarding the "Public Consultation", in view of the special arrangements applying to a banking corporation having no core controlling interest.

Different instructions

Letter of the Ministry of Justice pertaining to Regulation 4(c) of the Debit Card Regulations regarding the manner of providing details of transactions made by use of credit cards and the clarification of the Bank of Israel in this matter. A letter was received on May 27, 2020, from the office of the Deputy Attorney General to the Government (Civil Law), which states that an issuer of credit cards, who had changed at his initiative the manner of providing details of the monthly transactions, by way of informing the customer in advance and applying an "opt out" mechanism, is not in compliance with the requirements of the law. The letter states the requirements for the purpose of changing into providing customers with details of transactions by digital means. A clarification letter in this matter by the Bank of Israel was received on June 17, 2020, according to which, disclosure regarding the transition to providing details of transaction by digital means and the discontinuation of sending printed statements by ordinary mail, must be given in a designated and clear notice separately from other notices.

A Government program accelerating digital services to the public and promoting digital learning. The program was approved by Government decision of July 22, 2020, and is intended to accelerate the characterization and establishment of the required infrastructure, in order to enable the public to conduct at distance operations involving Government offices and additional public institutions. It is proposed by the program to promote the use of simple and easy digital identification means for the electronic signature in the financial system, and advance a digital process of submitting and saving guarantees issued to Government offices by financial institutions.

Guidance by the Attorney General to the Government regarding the guidelines for the formation of digital arrangements. Guidance by the Attorney General to the Government was published on October 10, 2019, determining the principle of "no-preference", according to which a physical arrangement has in principle no preference over a digital arrangement. In accordance with this principle, the legal validity of a document or its admissibility shall not be denied due only to its being electronic, and in many cases, the maintenance of an original document has no preference over the maintenance of its copy. It has been determined that with respect to the interpretation of an existing statute, so long as there is nothing in the legislation which denies the possibility of performing an operation by electronic means, it is possible to perform such operation electronically (e.g., with respect to the supply of a document). As to the matter of signature, the legal requirement for a signature does not mean that the original document has to be maintained, and the purpose of the requirement for a signature may be maintained by use of other tools.

Position of the Bank of Israel in the matter of payments and activity of digital wallets. In a press release dated February 14, 2021, the Bank of Israel stated its position in view of developments in the field of payments and activity of digital wallets. According to the Bank of Israel position, the new initiatives in this field may encourage competition, develop the payments world and create value for the Israeli consumer; therefore the Bank of Israel does not consider it proper to curb the entities involved in the matter, provided, inter alia, that at this stage in the developments in the payments market, no use should be made of the data collected within the framework of the digital wallet, for the purpose of providing financial services or sale of other financial products to customers having a charge card issued for them by issuers who are not owners of the wallet service, and this until this issue in all its aspects, would be examined; as well as that in the case of an "open wallet", within a short period of time, there would be the possibility to hold numerous cards of different issuers, so that customers would be able, easily and conveniently, to make use of a number of cards of their own choice. Also to be examined is the limitation imposed on the two large banks by the Concentration Act, regarding cooperation initiatives in this field, in which the two large banks are involved. The Bank of Israel shall continue to follow developments in this field, and where required will act for appropriate regulation.

Legislation and regulation initiatives

On the background of the swearing in of the 24th Knesset, the year 2021 was marked by new legislation initiatives, including private bills and approval of new legislation. Concurrently, a multitude of new instructions and regulations continued, including on behalf of the Supervisor of Banks. The implementation of the various instructions requires, on more than one occasion, preparations involving the investment of resources, and sometimes it has a possible adverse impact on the income of banking corporations from various sources. The Bank expects that this state of affairs will also continue in the future. See above also, "Legal and Regulatory Risks" in Chapter "Risks Review" above.

Details regarding additional new Proper Conduct of Banking Business Directives (or draft Directives) were also provided in the chapters "Description of the Activity of the Group According to Segments of Operation – additional details", "Human Capital" above and in the Document "Disclosure according to the third pillar of Basel and additional information regarding risks" available for review on the Internet.

For further details regarding "Legislation and Supervision", see the 2020 Annual Report (pp. 389-407) and 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..

Taxation

General. The Bank and most of its subsidiaries in Israel are considered a financial institution under the Value Added Tax Law, 1975, and as such are chargeable to payroll tax and to profit tax at the rate of 17.0% of the payroll expense and of the profit, respectively.

Tax aspects of the Directive regarding impaired debts. An agreement was signed with the Tax Authority in February 2012, regarding the timing of the recognition for tax purposes of credit loss expenses recognized in the books in accordance with the Directive regarding "measurement and disclosure of impaired debts, credit risk and allowances for credit losses".

Among other things, the agreement states that with respect to large debts (over NIS 1 million), the allowance will be allowed as an expense, and in the event of a collection being made settling of accounts will be done with the tax authorities. With respect to small debts, the allowance will not be recognized as an expense, although actual write-offs will be recognized in the two years following the year in which the allowance was made. On July 9, 2017, the validity of the agreement was extended up to and including the 2020 tax year.

In addition, on July 9, 2017, an agreement was signed with the Israeli Tax Authority regarding the timing of the recognition for tax purposes of allowances in respect to housing loans. As part of this agreement, which is valid up to and including the 2020 tax year, it is prescribed, inter alia, that 65% of the closing balances in respect problematic debts regarding housing loans granted, and for which an allowance was first recorded on January 1, 2014, will be adjusted for tax purposes. The tax authority has not yet published new directives for 2021 and thereafter. At this stage, the Bank is continuing to act in accordance with the old directives.

A Qualified Intermediary (Q.I.) status. The Bank has been granted the status of Qualified Intermediary (QI), as defined by the U.S. Tax Authorities. The significance of this is that the Bank has entered into an agreement with the U.S. Tax Authorities, whereby it is entitled to withhold tax with regards to its customers' securities transactions.

Changes in global legislation regarding the prevention of tax offences. For details regarding changes in tax legislation in the United States – the FATCA legislation – and the Group's preparations to implement its provisions, see "exposure to cross-border risks" in the document "Disclosure according to the third pillar of Basel and additional information regarding risks".

For additional details regarding "taxation", see Note 8 to the financial statements.

Legal Proceedings

Material claims outstanding against the Bank and its consolidated subsidiaries are described in Note 26 C to the financial statements.

Additional Legal Proceedings

1. **Approach in accordance with Section 198A of the Companies Act.** On December 14, 2016, the Bank received an approach headed "approach in accordance with Section 198A of the Companies Act, 1999 – request for clarifications and documents regarding the conduct of the Bank and of MDB regarding Australian customers, prior to the filing of a derivative action". The Bank responded to the approach on December 26, rejecting the request and the arguments raised therein (see Note 26 C to the financial statements, section 11.3).
   On June 6, 2017, a motion was filed with the Tel Aviv District Court for the disclosure of documents under Section 198A of the Companies Act, in which the Court was asked to instruct Discount Bank and MDB to deliver to the petitioner the documents named in the motion, required by him in order to decide whether to file a motion for approval of a derivative action or a derivative defense in the name of Discount Bank and/or MDB.
   On June 24, 2018, the power of a Court verdict was awarded to the agreement by the parties, according to which the motion shall be struck off with no order for expenses, while securing an exclusive right for the Appellant to file anew a disclosure motion under Section 198A of the Companies Act, and/or a motion for approval of a derivative action, this within ninety days from date of the verdict and/or approval of a compromise arrangement within the framework of one or more of the proceedings being conducted against the Respondents in Australia.
   On February 6, 2020, a motion for the disclosure of documents under Section 198A of the Companies Act was resubmitted to the Tel Aviv District Court. The motion requests the Court to instruct Discount Bank and MDB to deliver documents listed in the motion for perusal by the Plaintiff, in order to study the possibility of filing a request for approval of a derivative action or derivative defense on behalf of Discount Bank and/or MDB.
   The Bank and MDB filed on October 20, 2020 a motion for the stay of proceedings regarding the motion and alternatively for the deferral of the date for submission of their response. The Court fixed a hearing for March 3, 2021, in the presence of the parties, regarding the motion for the stay of proceedings and has exempted the banks from providing a response, at this stage. During the hearing held on March 3, 2021, the Bank's position was admitted, and the proceedings were stayed by mutual consent. At the request of the parties, the Court extended on October 12, 2021, the stay in proceedings and deferred the date for a reminder hearing for March 15, 2022.
2. **Petition under Section 198A of the Companies Act.** On October 4, 2020, the Bank received notice of a petition requesting the Bank to deliver to the Petitioner documents regarding the "money laundering affair", as defined in the petition. As alleged by the Petitioner, material that had been leaked and published on the Buzzfeed Internet website raises suspicion of global money laundering, within the framework of which, foreign factors including

felons and foreign states used different banks, including Israeli banks and the Bank, for the purpose of unlawful money transfers in considerable amounts. A Court verdict was handed on April 11, 2021, admitting the motion of the Bank for the in limine dismissal of the motion. The Appellant had filed an appeal against the verdict. Hearing of the appeal was fixed for September 12, 2022.

3. **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 26 C sub section 12.1. The tow requests are identical in substance. The first request was filed with the Haifa District Court while the second request was filed with the Tel Aviv District Court. On January 11, 2021, the Supreme Court instructed that the hearing of the first request be transferred to the Tel Aviv District Court and be consolidated there with the hearing of the second request. Each of the Petitioners has filed a motion with the Tel Aviv district Court requesting to delete the competing request. At the hearing of the motions held on May 2, 2021, the Court decided that the two Claimants would file a unified motion within thirty days. The Appellants had filed a consolidated motion. Hearing of the motion was delayed by consent of the parties.
4. On March 27, 2017, ICC received notice of a lawsuit filed against it with the Lod-Central District Court, together with a motion for approval of the action as a class action suit. The Plaintiff claims that in accordance with the letter of the agreement between it and ICC, where a transaction had been cancelled prior to the crediting of the trading house, ICC is not entitled to charge the trading house with the full amount of the clearing commission, unless in cases where the transaction had been effected manually and not by use of the electronic POS instrument. Alternatively, the Plaintiff argues that a contractual instruction permitting ICC to charge in full the clearing commission also where the clearing service had not been rendered in full (due to cancellation of the transaction), comprises a "discriminating term in a uniform contract", that has to be abolished or changed. The Plaintiff estimates the damage caused to all class members at NIS 45 million.
   A preliminary hearing of the case was held on March 28, 2019. The parties had conducted mediation proceedings in which they were not successful in concluding the dispute by agreement. Therefore, summing-up briefs have been filed with the Court.
   On May 25, 2020, the Court admitted the motion for the conduct of the case as a class action suit.
   In accordance with the Court's recommendation, the parties entered into mediation, and, on January 6, 2022, the Court was presented with a motion to approve a settlement arrangement with regard to the case.
5. An action against the Bank and two additional banks was filed on November 19, 2018, with the District Court Central Region together with a motion for approval of the action as a class action suit. It is stated in the motion that at this stage it is not possible to estimate the amount of the damage to all members of the class, though the amount exceeds NIS 3 million. The subject matter of the motion is the transaction for the withdrawal of cash by means of a charge card, from a distant ATM operated by a bank that had not issued the card. The Claimants argue that in such transactions only the bank operating the ATM is entitled to charge a commission, while the issuer bank of the card has no right to charge an additional commission in respect of the transaction. It is argued that, in practice, the customer pays two commissions: one commission to the operating bank in respect of the withdrawal of cash from its ATM and an additional commission for a direct channel transaction charged by the issuer bank of the card.
   On November 1, 2020, the Court decided to hear the action as a class action. On December 1, 2020, a motion for leave to appeal against the ruling to approve the claim as a class action was filed with the Supreme Court. On October 26, 2021, the position of the Attorney General was submitted, which supports the Bank's position. The Appeal is fixed for hearing before the composition of the Court, on July 25, 2022.
6. On August 7, 2017, a claim and a motion for its approval as a class action were filed at the District Court in Tel-Aviv against MDB. It is alleged in the motion that MDB charges fees for drawing up guarantee documents when extending a guarantee's validity, contrary to the contractual arrangement between the customer and the Bank, and it was notes that the estimated amount damages by all the members of the class is approx. NIS 24 million. On January 11, 2022, a ruling was given approving the conduct of the claim as a class action.

For additional details regarding different legal proceedings, see Note 26 C, sections 11 and 12.

Significant Legal Proceedings settled in 2021

1. For details regarding the proceedings for which a compromise arrangement was signed on January 31, 2021, see Note 26 C to the financial statements as of December 31, 2020, section 11.3.
2. For details regarding the motion for approval of a claim as a class action suit, in which the Court decided on January 26, 2022, to admit the motion for withdrawal of the Claimant, see section 11.4 in the 2020 Annual Report (p. 231).
3. For details regarding the motion for approval of a claim as a class action suit, which was dismissed in limine on June 21, 2021, and which on August 25, 2021, the appeal against its in limine dismissal was turned down and on October 25, 2021, a motion by the Claimant for an additional hearing of the appeal was dismissed, see section 11.7 in the 2020 Annual Report (p. 232).
4. For details regarding a motion for approval of an action as a class action suit, which the Court had dismissed in limine, and with respect to an appeal filed against this decision with the Supreme Court, see Note 26 C section 10.7 to the financial statements.

It is noted that the Bank has not included in Note 26 C information regarding a certain legal action that was included therein in a prior reporting period, even though it has not yet ended, due to the fact that it does not fall within the determined minimum disclosure requirements (section 4.4 to the condensed financial statements as of September 30, 2021, p. 145).

Proceedings regarding Authorities

1. For details regarding various proceedings by the Competition Commissioner and the Competition Tribunal concerning the Group's activities in the credit card field, see Note 36 A 1 and 2 to the financial statements.
2. **Demand for data – The Competition Authority.** In 2021, the Bank and the subsidiaries received demands for data in the matter of the provision of banking services to customers belonging to the Arab sector and in the matter of activity in respect of providers of regulated financial services.
3. **Privacy Protection Authority.** The Authority announced on February 16, 2020, the starting of a regulatory administrative process under the Privacy Protection Act, for the examination of circumstances of the PayBox event. On October 1, 2020, the Authority sent the Bank a letter determining allegedly breach of the Privacy Protection Law. The Bank submitted its response in writing on December 9, 2020 and had requested an additional oral hearing. The Privacy Protection Authority has consented to the request of the Bank to hold a viva voce hearing. The hearing was held on October 21, 2021.
4. On February 6, 2020, ICC received a demand for information from the Competition Authority, under Section 46(b) of the Economic Competition Act, 1988, with respect to trading houses receiving from ICC or from a related entity, debit card clearing services. In continuation thereof and following the data that had been delivered, further demands were received, this within the framework of an investigation conducted by the Authority in the matter.
   ICC provided the required data and is conducting negotiating with the Authority with respect to the manner of concluding the investigation, inter alia, by way of an agreed Order.
5. **Imposition of financial sanction.** On December 28, 2021, the Supervisor of Banks notified ICC of his intention to impose on it a financial sanction of NIS 1 million for its alleged violation of Section 11(a) of Proper Conduct of Banking Business Directive No. 470, pursuant to which a card issuer shall not charge a customer for transactions conducted after termination of the charge card contract. On January 27, 2022, ICC submitted its written arguments both with regard to the merits of imposing the sanction and also with regard to the amount of the sanction.

Appendices to the Annual Report

Appendices - List of tables

Appendix no. 1 – Rates of Financial Income and Expenses on a consolidated basis and analysis of the changes in interest and expenses

Part "A" – Average balances and interest rates – assets

	2021			2020			2019		
	Average balance[(2)]	Interest income	Rate of income	Average balance[(2)]	Interest income	Rate of income	Average balance[(2)]	Interest income	Rate of income
	In NIS millions		In %	In NIS millions		In %	In NIS millions		In %
Interest bearing assets:									
Credit to the public:[(3)]									
In Israel	165,628	6,090	3.68	151,501	5,439	3.59	139,837	5,575	3.99
Abroad	24,842	781	3.14	23,851	855	3.58	23,524	1,177	5.00
Total credit to the public	**190,470**	***6,871**	**3.61**	**175,352**	***6,294**	**3.59**	**163,361**	***6,752**	**4.13**
Credit to the Government:									
In Israel	3,142	63	2.01	3,895	76	1.95	3,370	92	2.73
Total credit to the Government	**3,142**	**63**	**2.01**	**3,895**	**76**	**1.95**	**3,370**	**92**	**2.73**
Deposits with banks:									
In Israel	3,246	9	0.28	3,431	17	0.50	3,009	48	1.60
Abroad	507	-	-	512	-	-	180	1	0.56
Total deposits with banks	**3,753**	**9**	**0.24**	**3,943**	**17**	**0.43**	**3,189**	**49**	**1.54**
Deposits with central banks:									
In Israel	35,526	36	0.10	27,128	36	0.13	12,683	31	0.24
Abroad	730	1	0.14	564	1	0.18	601	11	1.83
Total deposits with central banks	**36,256**	**37**	**0.10**	**27,692**	**37**	**0.13**	**13,284**	**42**	**0.32**
Securities borrowed or purchased under agreements to resell:									
In Israel	1,243	-	-	738	-	-	676	-	-
Total securities borrowed or purchased under agreements to resell	**1,243**	**-**	**-**	**738**	**-**	**-**	**676**	**-**	**-**
Bonds held for redemption and available for sale:[(4)]									
In Israel	32,850	337	1.03	28,163	327	1.16	25,110	380	1.51
Abroad	8,963	142	1.58	8,828	206	2.33	8,446	211	2.50
Total bonds held for redemption and available for sale	**41,813**	**479**	**1.15**	**36,991**	**533**	**1.44**	**33,556**	**591**	**1.76**
Trading bonds:[(4)]									
In Israel	1,528	12	0.79	1,720	9	0.52	2,200	22	1.00
Abroad	67	1	1.49	66	1	1.52	74	2	2.70
Total trading bonds	**1,595**	**13**	**0.82**	**1,786**	**10**	**0.56**	**2,274**	**24**	**1.06**
Other assets:									
Abroad	698	19	2.72	666	20	3.00	684	17	2.49
Total other assets	**698**	**19**	**2.72**	**666**	**20**	**3.00**	**684**	**17**	**2.49**
Total interest bearing assets	**278,970**	**7,491**	**2.69**	**251,063**	**6,987**	**2.78**	**220,394**	**7,567**	**3.43**
Debtors in respect of credit card operations	8,878			9,519			9,221		
Other non-interest bearing assets[(5)]	21,376			19,684			16,073		
Total assets	**309,224**			**280,266**			**245,688**		
Of which: Total interest bearing assets attributable to operations abroad	35,807	944	2.64	34,487	1,083	3.14	33,509	1,419	4.23
* Fees and commissions included in interest income from credit to the public		319			317			345	

For footnotes see page 439.

Appendix no. 1 – Rates of Financial Income and Expenses on a consolidated basis and analysis of the changes in interest and expenses (continued)

Part "B" – Average balances and interest rates – liabilities and equity

	2021			2020			2019		
	Average balance[2]	Interest expenses	Rate of expense	Average balance[2]	Interest expenses	Rate of expense	Average balance[2]	Interest expenses	Rate of expense
	In NIS millions		In %	In NIS millions		In %	In NIS millions		In %
Interest bearing liabilities:									
Deposits from the public:									
In Israel - On call	54,541	5	0.01	52,494	11	0.02	40,871	14	0.03
In Israel - Time deposits	95,634	418	0.44	94,618	503	0.53	91,909	738	0.80
Total deposits from the public in Israel	**150,175**	**423**	**0.28**	**147,112**	**514**	**0.35**	**132,780**	**752**	**0.57**
Abroad - On call	20,241	70	0.35	16,031	125	0.78	12,340	200	1.62
Abroad - Time deposits	3,686	14	0.38	6,504	92	1.41	9,808	234	2.39
Total deposits from the public outside Israel	**23,927**	**84**	**0.35**	**22,535**	**217**	**0.96**	**22,148**	**434**	**1.96**
Total deposits from the public	**174,102**	**507**	**0.29**	**169,647**	**731**	**0.43**	**154,928**	**1,186**	**0.77**
Deposits from the Government:									
In Israel	216	2	0.93	156	-	-	165	2	1.21
Abroad	68	-	-	71	3	4.23	49	1	2.04
Total deposits from the Government	**284**	**2**	**0.70**	**227**	**3**	**1.32**	**214**	**3**	**1.40**
Deposits from central banks:									
In Israel	8,300	6	0.07	2,083	2	0.10	-	-	-
Total deposits from central banks	**8,300**	**6**	**0.07**	**2,083**	**2**	**0.10**	**-**	**-**	**-**
Deposits from banks:									
In Israel	3,615	18	0.50	4,407	21	0.48	4,134	25	0.60
Abroad	1,198	11	0.92	1,810	29	1.60	2,055	46	2.24
Total deposits from banks	**4,813**	**29**	**0.60**	**6,217**	**50**	**0.80**	**6,189**	**71**	**1.15**
Securities lent or sold under agreements to repurchase:									
Abroad	41	-	-	402	5	1.24	944	21	2.22
Total securities lent or sold under agreements to repurchase	**41**	**-**	**-**	**402**	**5**	**1.24**	**944**	**21**	**2.22**
Bonds and subordinated debt notes:									
In Israel	11,170	417	3.73	11,813	296	2.51	8,603	389	4.52
Total bonds and subordinated debt notes	**11,170**	**417**	**3.73**	**11,813**	**296**	**2.51**	**8,603**	**389**	**4.52**
Other liabilities:									
In Israel	66	1	1.52	60	2	3.33	47	4	8.51
Total other liabilities	**66**	**1**	**1.52**	**60**	**2**	**3.33**	**47**	**4**	**8.51**
Total interest bearing liabilities	**198,776**	**962**	**0.48**	**190,449**	**1,089**	**0.57**	**170,925**	**1,674**	**0.98**
Non-interest bearing deposits from the public	67,204			49,069			38,569		
Creditors in respect of credit card operations	11,230			10,027			9,425		
Other non-interest bearing liabilities[6]	11,333			11,663			8,466		
Total liabilities	**288,543**			**261,208**			**227,385**		
Total capital resources	**20,681**			**19,058**			**18,303**		
Total liabilities and capital resources	**309,224**			**280,266**			**245,688**		
Interest spread		**6,529**	**2.21**		**5,898**	**2.21**		**5,893**	**2.45**
Net return on interest bearing assets:[7]									
In Israel	243,163	5,680	2.34	216,576	5,069	2.34	186,885	4,976	2.66
Abroad	35,807	849	2.37	34,487	829	2.40	33,509	917	2.74
Total net return on interest bearing assets	**278,970**	**6,529**	**2.34**	**251,063**	**5,898**	**2.35**	**220,394**	**5,893**	**2.67**
Of which: Total interest bearing liabilities attributable to operations abroad	25,234	95	0.38	24,818	254	1.02	25,196	502	1.99

For footnotes see page 439.

Appendix no. 1 – Rates of Financial Income and Expenses on a consolidated basis and analysis of the changes in interest and expenses (continued)

Part "C" – Average balances and interest rates – additional information regarding interest bearing assets and liabilities attributed to operations in Israel

	2021			2020			2019		
	Average balance[(2)]	Interest income (expense)	Rate of income (expense)	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 %	In NIS millions		In %
Non-linked shekels:									
Total interest bearing assets	202,133	5,160	2.55	178,220	5,077	2.85	151,397	5,024	3.32
Total interest bearing liabilities	(143,012)	(309)	(0.22)	(132,396)	(381)	(0.29)	(114,270)	(418)	(0.37)
Interest spread		**4,851**	**2.33**		**4,696**	**2.56**		**4,606**	**2.95**
CPI-linked shekels:									
Total interest bearing assets	21,909	1,055	4.82	19,733	413	2.09	18,675	575	3.08
Total interest bearing liabilities	(10,798)	(468)	(4.33)	(10,960)	(233)	(2.13)	(10,438)	(373)	(3.57)
Interest spread		**587**	**0.49**		**180**	**(0.04)**		**202**	**(0.49)**
Foreign Currency (including foreign currency-linked shekels):									
Total interest bearing assets	19,121	332	1.74	18,623	414	2.22	16,813	549	3.27
Total interest bearing liabilities	(19,732)	(90)	(0.46)	(22,275)	(221)	(0.99)	(21,021)	(381)	(1.81)
Interest spread		**242**	**1.28**		**193**	**1.23**		**168**	**1.46**
Total operations in Israel:									
Total interest bearing assets	243,163	6,547	2.69	216,576	5,904	2.73	186,885	6,148	3.29
Total interest bearing liabilities	(173,542)	(867)	(0.50)	(165,631)	(835)	(0.50)	(145,729)	(1,172)	(0.80)
Interest spread		**5,680**	**2.19**		**5,069**	**2.23**		**4,976**	**2.49**

For footnotes see next page.

Appendix no. 1 – Rates of Financial Income and Expenses on a consolidated basis and analysis of the changes in interest and expenses (continued)

Part "D" – Analysis of changes in interest income and expenses

	2021 Compared to 2020			2020 Compared to 2019		
	Increase (decrease) due to change[8]			Increase (decrease) due to change[8]		
	Quantity	Price	Net change	Quantity	Price	Net change
	In NIS millions					
Interest bearing assets:						
Credit to the public:						
In Israel	519	132	651	419	(555)	(136)
Abroad	31	(105)	(74)	12	(334)	(322)
Total credit to the public	**550**	**27**	**577**	**431**	**(889)**	**(458)**
Other interest bearing assets:						
In Israel	73	(81)	(8)	129	(237)	(108)
Abroad	5	(70)	(65)	14	(28)	(14)
Total other interest bearing assets	**78**	**(151)**	**(73)**	**143**	**(265)**	**(122)**
Total interest income	**628**	**(124)**	**504**	**574**	**(1,154)**	**(580)**
Interest bearing liabilities:						
Deposits from the public:						
In Israel	9	(100)	(91)	50	(288)	(238)
Abroad	5	(138)	(133)	4	(221)	(217)
Total deposits from the public	**14**	**(238)**	**(224)**	**54**	**(509)**	**(455)**
Other interest bearing liabilities:						
In Israel	92	31	123	97	(196)	(99)
Abroad	(8)	(18)	(26)	(12)	(19)	(31)
Total other interest bearing liabilities	**84**	**13**	**97**	**85**	**(215)**	**(130)**
Total interest expenses	**98**	**(225)**	**(127)**	**139**	**(724)**	**(585)**
Net interest income	**530**	**101**	**631**	**435**	**(430)**	**5**

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 382 million, respectively; 2020 – NIS 7 million and NIS 583 million respectively; 2019 – NIS 9 million and NIS 243 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 – Consolidated statement of profit and loss for each quarter – multi quarter data

Quarter	4	3	2	1
	In NIS millions			
	2021			
Interest income	1,871	1,912	1,997	1,711
Interest expenses	188	255	312	207
Net interest income	**1,683**	**1,657**	**1,685**	**1,504**
Credit loss expenses release	(10)	(126)	(410)	(147)
Net interest income after credit loss expenses	**1,693**	**1,783**	**2,095**	**1,651**
Non-interest Income				
Non-interest financing income	180	198	89	298
Fees and commissions	809	807	785	724
Other income	50	10	1	11
Total non-interest income	**1,039**	**1,015**	**875**	**1,033**
Operating and other Expenses				
Salaries and related expenses	970	867	830	801
Maintenance and depreciation of buildings and equipment	293	292	308	294
Other expenses	676	497	473	557
Total operating and other expenses	**1,939**	**1,656**	**1,611**	**1,652**
Profit before taxes	793	1,142	1,359	1,032
Provision for taxes on profit	269	401	493	353
Profit after taxes	**524**	**741**	**866**	**679**
Bank's share in profit of associates, net of tax effect	4	-	16	-
Net Profit:				
Before attribution to non-controlling interests in consolidated companies	528	741	882	679
Attributed to the non-controlling interests in consolidated companies	1	(19)	(22)	(17)
Net Profit attributed to bank's shareholders	**529**	**722**	**860**	**662**
	2020			
Interest income	1,724	1,730	1,742	1,791
Interest expenses	220	254	279	336
Net interest income	**1,504**	**1,476**	**1,463**	**1,455**
Credit loss expenses	200	330	532	656
Net interest income after credit loss expenses	**1,304**	**1,146**	**931**	**799**
Non-interest Income				
Non-interest financing income	148	301	276	417
Fees and commissions	739	698	650	739
Other income	24	7	8	-
Total non-interest income	**911**	**1,006**	**934**	**1,156**
Operating and other Expenses				
Salaries and related expenses	794	830	794	824
Maintenance and depreciation of buildings and equipment	337	289	274	285
Other expenses	689	628	515	422
Total operating and other expenses	**1,820**	**1,747**	**1,583**	**1,531**
Profit before taxes	395	405	282	424
Provision for taxes on profit	159	134	105	151
Profit after taxes	**236**	**271**	**177**	**273**
Bank's share in profit of associates, net of tax effect	36	6	4	4
Net Profit:				
Before attribution to non-controlling interests in consolidated companies	272	277	181	277
Attributed to the non-controlling interests in consolidated companies	(8)	(19)	(7)	2
Net Profit attributed to bank's shareholders	**264**	**258**	**174**	**279**

Appendix no. 3 – Condensed Consolidated balance sheet – multi quarter data

	2021				2020			
Quarter	4	3	2	1	4	3	2	1
	In NIS millions							
Assets								
Cash and deposits with banks	59,638	46,334	47,405	50,307	42,936	40,469	39,608	29,392
Securities	43,869	45,962	46,849	44,212	42,785	41,431	40,037	42,605
Securities borrowed or purchased under agreements to resell	1,207	1,142	1,377	1,135	1,074	679	832	488
Credit to the public	216,196	206,944	202,258	196,901	192,479	190,300	186,841	186,215
Provision for credit loss	(3,040)	(3,117)	(3,272)	(3,609)	(3,761)	(3,644)	(3,405)	(3,028)
Net credit to the public	**213,156**	**203,827**	**198,986**	**193,292**	**188,718**	**186,656**	**183,436**	**183,187**
Credit to Governments	2,664	3,127	3,217	3,520	3,473	4,276	4,219	4,406
Investments in associates	462	392	345	355	348	269	154	152
Buildings and equipment	3,401	3,203	3,117	3,012	2,995	2,805	2,648	2,641
Intangible assets and goodwill	163	163	164	164	164	164	164	164
Assets in respect of derivative instruments	5,522	4,367	4,670	5,099	6,400	5,451	5,856	7,757
Other assets	5,006	4,894	4,604	5,046	5,076	5,478	5,146	5,612
Total Assets	**335,088**	**313,411**	**310,734**	**306,142**	**293,969**	**287,678**	**282,100**	**276,404**
Liabilities and Equity								
Deposits from the public	260,907	245,393	240,691	240,787	226,118	225,108	222,048	213,667
Deposits from banks	12,534	13,635	15,291	12,241	13,107	9,384	7,717	7,339
Deposits from the Government	346	285	287	293	344	226	232	235
Securities loaned or sold under buy-back arrangements	-	-	-	-	161	-	174	892
Bonds and Subordinated debt notes	15,071	11,170	11,203	10,136	10,201	11,314	11,377	13,069
Liabilities in respect of derivative instruments	6,323	4,570	4,876	4,919	7,365	5,586	6,064	7,878
Other liabilities	17,759	16,352	17,040	17,368	16,946	16,361	14,965	13,880
Total liabilities	**312,940**	**291,405**	**289,388**	**285,744**	**274,242**	**267,979**	**262,577**	**256,960**
Equity capital attributed to the Bank's shareholders	21,483	21,346	20,704	19,836	19,182	19,160	19,004	18,929
Non-controlling rights in consolidated companies	665	660	642	562	545	539	519	515
Total equity	**22,148**	**22,006**	**21,346**	**20,398**	**19,727**	**19,699**	**19,523**	**19,444**
Total Liabilities and Equity	**335,088**	**313,411**	**310,734**	**306,142**	**293,969**	**287,678**	**282,100**	**276,404**

Appendix no. 4 – Consolidated statement of profit and loss for the last five years

	As at December 31				
	2021	2020	2019	2018	2017
	in NIS millions				
Interest income	7,491	6,987	7,567	7,053	6,213
Interest expenses	962	1,089	1,674	1,527	1,238
Net interest income	**6,529**	**5,898**	**5,893**	**5,526**	**4,975**
Credit loss expenses (expenses release)	(693)	1,718	690	540	574
Net interest income after credit loss expenses	**7,222**	**4,180**	**5,203**	**4,986**	**4,401**
Non-interest Income					
Non-interest financing income	765	1,142	742	586	595
Fees and commissions	3,125	2,826	2,972	2,851	2,676
Other income	72	39	57	57	87
Total non-interest income	**3,962**	**4,007**	**3,771**	**3,494**	**3,358**
Operating and other Expenses					
Salaries and related expenses	3,468	3,242	3,343	3,385	3,204
Maintenance and depreciation of buildings and equipment	1,187	1,185	1,098	1,039	1,044
Other expenses	2,203	2,254	1,858	1,724	1,446
Total operating and other expenses	**6,858**	**6,681**	**6,299**	**6,148**	**5,694**
Profit before taxes	4,326	1,506	2,675	2,332	2,065
Provision for taxes on profit	1,516	549	932	789	747
Profit after taxes	**2,810**	**957**	**1,743**	**1,543**	**1,318**
Bank’s share in profit of associates, net of tax effect	20	50	16	6	1
Net Profit :					
Before attribution to non-controlling interests in consolidated companies	2,830	1,007	1,759	1,549	1,319
Attributed to the non-controlling interests in consolidated companies	(57)	(32)	(57)	(44)	(60)
Net Profit attributed to bank's shareholders	**2,773**	**975**	**1,702**	**1,505**	**1,259**
Total earnings per share attributed to Bank's shareholders	**2.38**	**0.84**	**1.46**	**1.29**	**1.09**

Appendix no. 5 – Consolidated balance sheets as of the end of the last five years

	As at December 31				
	2021	2020	2019	2018	2017
	In NIS millions				
Assets					
Cash and deposits with banks	59,638	42,936	26,044	21,858	28,026
Securities	43,869	42,785	37,745	37,898	32,703
Securities borrowed or purchased under agreements to resell	1,207	1,074	531	774	954
Credit to the public	216,196	192,479	182,991	167,078	150,868
Provision for credit loss	(3,040)	(3,761)	(2,524)	(2,274)	(2,111)
Net credit to the public	**213,156**	**188,718**	**180,467**	**164,804**	**148,757**
Credit to Governments	2,664	3,473	3,515	3,336	1,493
Investments in associates	462	348	171	135	153
Buildings and equipment	3,401	2,995	2,577	2,437	2,366
Intangible assets and goodwill	163	164	164	160	160
Assets in respect of derivative instruments	5,522	6,400	4,545	3,726	2,953
Other assets	5,006	5,076	4,064	4,048	3,656
Total Assets	**335,088**	**293,969**	**259,823**	**239,176**	**221,221**
Liabilities and Equity					
Deposits from the public	260,907	226,118	201,450	188,916	175,170
Deposits from banks	12,534	13,107	6,419	6,886	4,804
Deposits from the Government	346	344	181	257	267
Securities loaned or sold under buy-back arrangements	-	161	346	1,126	1,943
Bonds and Subordinated debt notes	15,071	10,201	13,129	8,476	7,639
Liabilities in respect of derivative instruments	6,323	7,365	4,839	3,249	3,232
Other liabilities	17,759	16,946	14,266	12,597	12,098
Total liabilities	**312,940**	**274,242**	**240,630**	**221,507**	**205,153**
Equity capital attributed to the Bank's shareholders	21,483	19,182	18,678	17,151	15,594
Non-controlling rights in consolidated companies	665	545	515	518	474
Total equity	**22,148**	**19,727**	**19,193**	**17,669**	**16,068**
Total Liabilities and Equity	**335,088**	**293,969**	**259,823**	**239,176**	**221,221**

Appendix no. 6 – 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

	December 31 ,2021			
			Accumulated other comprehensive income	
	Amortized cost	Fair value	Gains	Losses
	In NIS millions			
Non goverment bonds				
Various sectors*	2,441	2,527	89	3
Financial services[(1)]	7,260	7,221	53	92
Total non government bonds	**9,701**	**9,748**	**142**	**95**
Government bonds				
U.S. government	3,273	3,270	7	10
Israel Government	17,501	17,747	307	61
Other Governments	258	262	4	-
Total government bonds	**21,032**	**21,279**	**318**	**71**
Total bond in the available-for-sale portfolio	**30,733**	**31,027**	**460**	**166**
	December 31 ,2020			
Total non governmental bonds and bills	**10,342**	**10,588**	**255**	**9**
Total government bonds and bills	**21,575**	**22,045**	**513**	**43**
Total available-for-sale bonds	**31,917**	**32,633**	**768**	**52**

* 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 100-154 million, each, in municipal bonds of Washington state, in bonds of the the New York state and City and in bonds of Texas state.

(1) Details regarding bonds in the financial services sector in the available-for-sale portfolio

	December 31 ,2021			
			Accumulated other comprehensive income	
	Amortized cost	Fair value	Gains	Losses
	In NIS millions			
Banks and banking holding companies[(2)]	465	474	10	1
Ginnie Mae	5,166	5,114	34	86
Freddie Mac	150	150	2	2
Fannie Mae	156	159	4	1
Other	1,323	1,324	3	2
Total financial services	**7,260**	**7,221**	**53**	**92**

Appendix no. 6 – 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

	December 31 ,2021			
			Accumulated other comprehensive income	
	Amortized cost	Fair value	Gains	Losses
	In NIS millions			
Western Europe[3]	233	233	1	1
Israel	102	106	4	-
Australia	130	135	5	-
Total banks and banking holding companies	**465**	**474**	**10**	**1**

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

Britain	20	20	-	-
Switzerland	33	32	-	1
France	164	165	1	-
Netherlands	16	16	-	-
Total	**233**	**233**	**1**	**1**

Appendix no. 6 – Additional details – securities portfolio (continued)

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

	December 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	90	94	4	-
Financial services*	1,587	1,579	3	11
Total non government bonds	**1,677**	**1,673**	**7**	**11**
Total Government bonds	**8,520**	**8,704**	**209**	**25**
Total bonds in the held-to-maturity portfolio	**10,197**	**10,377**	**216**	**36**
	December 31 ,2020			
Total non govermental bonds and bills	**329**	**338**	**12**	**3**
Total government bonds and bills	**7,594**	**7,895**	**301**	**-**
Total held-to-maturity bonds	**7,923**	**8,233**	**313**	**3**

*Following are details of Held-to-maturity bonds in the financial services sector:

Ginnie Mae	1,541	1,532	2	11
Freddie Mac	25	26	1	-
Fannie Mae	21	21	-	-
Total financial services	**1,587**	**1,579**	**3**	**11**

Appendix no. 6 – 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

	December 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	19	20	1	-
Financial services	21	21	-	-
Total non government bonds	**40**	**41**	**1**	**-**
Total government bonds	**986**	**985**	**2**	**3**
Total bonds in the trading portfolio	**1,026**	**1,026**	**3**	**3**
	December 31 ,2020			
Total non govermental bonds	**55**	**53**	**2**	**4**
Total government bonds	**1,075**	**1,083**	**8**	**-**
Total trading bonds in the trading portfolio	**1,130**	**1,136**	**10**	**4**

Appendix no. 7 – 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 28 to the financial statements presents details of operations in derivative instruments – scope, credit risk and maturities. Part 2 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 2 of the aforementioned Note.

(1) Details according to rating of balances of assets derived from transactions in derivative instruments where the counterparty is a bank

	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	154	117
With an A+ rating	1,542	1,670
With an A rating	172	236
With an A- rating	79	3
With a BBB+ rating	14	85
With a B+ rating	2	2
Not rated	70	94
Total against foreign banks	**2,033**	**2,207**
Total against Israeli banks	**403**	**594**
Total Balance-sheet balances of assets deriving from derivative instruments	**2,436**	**2,801**

Appendix no. 7 - 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 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	2
With an AA- rating	88	-
With an A+ rating	129	111
With an A rating	40	-
With an A- rating	-	-
With an BBB+ rating	-	1
With an B+ rating	1	1
Not rated	2	-
Total against foreign banks	**262**	**115**
Total against Israeli banks	**9**	**10**
Total Off Balance-sheet balances of assets deriving from derivative instruments	**271**	**125**

Appendix no. 7 - Additional details (continued)

1. Activity in derivative financial instruments (continued)

(3) Details of the column "Other" in Note 28 B to the financial statements according to the overall credit to the public risk per economic sectors

	As of December 30, 2021	As of December 31, 2020
	in NIS million	
Agriculture	2	1
Industry:		
Machines, electrical and electronic equipment	28	19
Mining, chemical industry and oil products	52	144
Other	36	62
Total industry	116	225
Construction and real estate:		
Acquisition of real estate for construction	79	123
Real estate holdings	194	426
Other	9	12
Total Construction and real estate	282	561
Electricity and water	489	346
Commerce	482	349
Hotels, hotel services and food	15	30
transportation and storage	42	28
Communications and computer services	17	46
Financial services:		
Financial institution (excluding banks)	873	1,048
Private customers active on the capital market	691	663
Financial holding institutions	827	664
Insurance and provident fund services	-	-
Total financial services	2,391	2,375
Business and other services	45	40
Public and community services	55	104
Private individuals - housing loans	-	-
Private individuals - other	8	8
Total credit risk in respect of derivative instruments	**3,944**	**4,113**
Credit risk mitigation in respect of financial instruments and in respect of a cash collateral received.	(1,302)	(1,878)
Total credit risk in respect of derivative instruments (after deduction of financial instuments and in respect of a cash collateral received)	**2,642**	**2,235**

Appendix no. 7 - Additional details (continued)

2. Credit levels in excess of NIS 800 million - additional details

Note 31 D presents details regarding composition of credit to the public and off-balance-sheet credit risk, by size of credit to individual borrower, in accordance with public reporting instructions published by the Supervisor of Banks.

General details regarding the largest borrowers included in the upper levels (over NIS 800 million) of the said Note(1) (Consolidated)

	As at December 31	
	2021	2020
	in NIS thousands	
Field of activity:		
Financial services(2)	6,672,999	6,385,485
Industry	1,527,396	2,121,503
Electricity and water	1,066,795	1,066,992
Financial services	2,359,543	1,286,294
Real estate	1,259,546	1,187,554
Real estate	1,470,985	1,037,644
Industry	507,385	1,202,941
Financial services	1,040,319	1,317,487
Real estate	903,607	764,557
Real estate	1,066,876	1,004,357
Public and Community Services	989,845	974,638
Commerce	943,010	1,029,288

Footnotes:
(1) The above data represent "indebtedness" data (also including unutilized credit facilities) and before allowance for credit losses.
(2) Including mortgage backed securities issued by GNMA.

Appendix no. 7 - Additional details (continued)

4. Details of the investment in government bonds

Note 12 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

	December 31, 2021		December 31, 2020	
	Book value	Fair value[(1)]	Book value	Fair value[(1)]
	In NIS millions			
Of the Israeli Government	27,204	27,388	29,860	30,161
U.S. government	3,318	3,318	797	797
Other governments	262	262	65	65
Total	**30,784**	**30,968**	**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. 8 – 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 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. 8 – 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. 9 - 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

Digital Wallet
PayBox

Subsidiary Bank Abroad

Israel Discount Bank of New York, USA
website: www.idbbank.com
Head office:
1114 Avenue of the Americas , New York, NY
Staten Island, NY Branch:
201 Edward Curry Avenue, Suite 204
Brooklyn, NY Branch:
705 Avenue U
Short Hills, NJ Branch:
150 JFK Parkway
Beverly Hills, CA Branch:
9401 Wilshire Boulevard, Suite 600
Downtown Los Angeles, CA Branch:
888 South Figueroa Street, Suite 550
Aventura, FL Branch:
Harbour Centre, 18851 NE 29th Avenue,
Suite 600

Representative Offices: Israel /
Chile / Uruguay / Local representative office
in Long Island